

THE EVOLUTION OF THE ROMANIAN BANKING SECTOR AFTER ROMANIA JOINED THE EUROPEAN UNION IN ADDITION TO THE GLOBAL FINANCIAL CRISIS

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The status of member state of European Union as well as Romania's assuming of economic and monetary adhesion at the horizon of the 2014 suppose certain mutations at the level of banking system as dominant component of romanian financial system, reason for which the present paper holds forth to offer a general view on its evolution, having as departure point our country's adhesion moment to European Union, the 1st of January 2007, presenting altogether its reactions under the present global economic-financial crisis impact.

Keywords: banking sector, credit, deposit, interest, global financial crisis

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1. Introduction

As a first step of the banking reforming process in Romania, the financial-banking process, designating the ensemble of the financial and credit institutions having estates or private assets that function at the level of an economy, is organized starting from December 1990 on two floors: *central bank*, respective the National Bank of Romania (NBR) as a basic system's component and altogether member of The European System of Central Banks (ESCB) at one time with Romania's adhesion to European Union and *commercial banks* (credit institutions) that are situated on a second level.

2. Some of romanian banking sector mutations after Romania's adhesion to European Union

The status of member state of the European Union from the 1st of January 2007 supposes that Romania will align the Economic and Monetary Union's requires in the frame of assuming the adopting of the European unique currency in 2014, and one of the sectors that will bear essential changes is the financial-banking one, characterized by a moderate and relative stable focusing degree.

One of the main characteristics of last years romanian banking system is constituted by competitiveness intensification, especially as consequence of the fact that our country became component of European Union. On one hand this aspect allowed an emphasis of foreign investors on the domestic banking market, the romanian banking system displaying in its structure (*Table 1*) new entities, at the level of small and medium banks, on the basis of authorizing new credit institutions and fusion of the existent banks, and on the other hand facilitates the performing of banking systems by foreign financial institutions directly on Romania's territory.

Therefore, at the level of the romanian banking sector certain structural changes occurred, on the basis of its capitalization increase, mainly on the banks segment with private major shareholdings, from which the bigger part has domestic private capital.

Tabel 1 – Romanian banking sector structure

	<i>number of credit institutions</i>				
	12.2006	06.2007	12.2007	06.2008	12.2008
Banks with fully or majority state-owned capital	2	2	2	2	2
Banks with domestic majority private capital	3	3	3	3	3
Banks with majority foreign capital	26	25	26	26	27
Foreign bank branche	7	7	10	9	10
TOTAL BANKING SYSTEM	38	37	41	40	42
CREDITCOOP	1	1	1	1	1

Source: NBR (National Bank of Romania)

Also, there should be emphasized that, in structure, at the level of romanian's banking system, the private component stabilized permanently the dominant position reaching to hold, at the end of the year 2008, 88,5 percentage points in total system (*Table 2*).

Tabel 2 – Romanian banking sector structure by share endowment capital

	<i>wight (%)</i>				
	12.2006	06.2007	12.2007	06.2008	12.2008
Banks with fully or majority state-owned capital	14,9	14,4	12,8	13,0	11,5
Banks with majority private capital (including foreign branche), of which:	85,1	85,6	87,2	87,0	88,5
Banks with majority foreign capital, of which:	78,8	78,6	79,4	75,5	77,9
Foreign bank branche	7,8	7,6	6,2	1,2	6,1
TOTAL BANKING SYSTEM	100,0	100,0	100,0	100,0	100,0

Source: NBR (National Bank of Romania)

The competition from the Romanian financial-banking system intensified during the last two years also as consequence of certain legislative changes, consisting of the elimination of administrative measures of tempering non-governmental credit dynamics, aspect that makes the content of NBR Settlement no.3/12.03.2007, valid from the 14th of March 2007, concerning the credit's value limitation for credits designed for natural persons and that led to a relaxation of crediting policy, the banks being stimulated to develop own credit granting policies, taking into consideration profit and their risk strategy.

Relative relaxation of credit condition stirred the loaning offer for credit institutions, and therefore, it can be discussed about an intensification of the non-governmental credit rhythm increase for the last years, in the frame that banks fought for the market quota increase and staked powerfully on operation expansion, that consisted among others from the territorial networks extension with approximately 1.000 units per year.

The non-governmental credit's expansion granted to non-banking clients, on the basis of population income's increase but also to the relative relaxed credit conditions, determined that the first position in the Romanian credit institutions placing to be taken by domestic market. Thus, the domestic actives represented at the level of 2007, 98,3% in the total of aggregated actives at the level of system, closing the year 2008 on the same first position with 92,5% from total actives, remaining the main component from the structure of aggregated active of Romanian banking system, sustained especially by debts on the domestic non-banking sector.

In what the credit's destination on institutional sectors is concerned, in 2007, the credit's growth rhythm granted to population maintained on high level, more over the one of the credit granted to non-financial societies, while at the level of the year 2008, the Romanian banking system represented a visible temperation of governmental credit's dynamics, both on the loaning towards population segment as a consequence of the validation of NBR Settlement no. 11/2008 for

modification and completion of NBR Settlement no. 3/2007 concerning the credit limitation risk for credits designed for natural persons, and on the one of credits towards companies. Non-currency financial institutions held in this two years a reduced percentage in the total volume of granted credits.

The non-governmental credit's structure registered in the subsequent period to Romania's adhesion to European Union certain mutations also at the level of its two components regarding the currency in which the credit was granted. Therefore, in 2007, the currency component characterised through a significant acceleration of the growth rhythm, placing the national currency on a second place, whose contribution diminished significantly as against the precedent year to our country's adhesion to European Union, 2006. Therefore, predominant in the structure of credits granted to population were the ones in foreign currency, and in the frame of the retail segment, the consumption credits were placed, representing 77,1%, while the credits for dwellings held an inferior percentage of 19,9% at the level of 2007, the last ones being mainly contracted in foreign currency.

From the perspective of non-governmental currency credit structure, its two components, both the one in foreign currency and the one in lei, continued its evolution in 2008 on a visible annual dynamics decreasing trajectory, but the lei/foreign currency composition of the non-governmental credit was not significantly changed in the analyzed period, the currency component maintaining its dominant position.

In the frame of retail component, in 2008, the credits' structure according their destination has not suffer major changes as against the year 2007, and the consumption credits remained dominants, holding 74,3% from the total, with a slight preference for the national currency superior to the foreign currency one, while this component is much more represented in the dwelling credits holding up to the end of 2008 a percentage of 92,1% from the total of dwelling credits.

Also, mutations at the level of domestic banking sector took place in what the credits' payment dates structure granted to private sector is concerned. Therefore, if during the first year after adhesion, 2007, during the whole period, an increase tendency of credits' payment dates manifested, the first place being taken by the long term non-governmental credit (52,2% from total), the second being taken by medium term credits (23,8% from total) and the last one being taken by short term credits (21,2%), the year 2008 recording significant rhythm variations on the long term credit segment (55,6% from total in December 2008), the other two categories, the medium and short time credits holding similar percentages 23,1%, respective 21,4% from the governmental credit sold.

3. Romanian banking sector reactions at the global financial crisis

The global economic-financial crisis extended and can be felt at the level of Romanian economy as well, and, implicitly, on the financial-banking system too, that, "from a direct impact point of view, was little affected because it was not exposed to toxic actives, and also due to the cautious and administrative measures adopted during time by National Bank of Romania"²⁹⁶.

Unlike the granted credits, that, as a consequence of the sustained increase rhythm, conferred in 2007, for the first time, to the resident banking clients (companies and population) the net debtor position against the Romanian banking system, the deposits attracted by the not-banking sector registered an increase rhythm inferior to the former ones, but this situation changed after the half of 2008, because the problems generated by global financial crisis affected the mother-banks too, these reducing gradually the financing for subsidiary. In comparison with the period precedent to Romania's adhesion to European Union, the credit institutions with foreign shareholding had in

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2007 as well as in the first half of 2008 a significant contribution to external passives percentage increase in the total passive of Romanian banking system, having the advantage offered by mother-banks by means of a more emphasized financing.

The credit's powerful increase tendency manifested not only at the beginning of 2007, but also in the former half of the following year, the situation on the local monetary market becoming a tensed one starting with the second half of 2008, especially in August, in the frame of United States of America problems' expansion at the level of global economy. From here on we assist both to a significant reduction of credit process, especially on retail segment, the credit becoming more difficult to obtain and to higher prices, as well as to deposits' constitution reducing rhythm. The credit diminishing for the latter semester of 2008, was, on one side, a reaction of the Romanian banking system to the uncertainties existent on the global financial market from that period that lead to a limitation of finances that the banks disposed of, but on the other side, was due to the implementation of new more severe settlements imposed by central bank concerning the credit granting for natural persons through NBR Settlement no. 11/2008.

Thus, credit institutions enjoyed until the half of 2008 liquidity excess, practicing very advantageous interests in credit granting and laying a reduced stress on the deposit attraction. After the half of 2008, however, Romanian inter-banking market dealt with a liquidity crisis, banks that until then, in their relationship with the central bank made appeal to the deposit facility in a greater extent than to the credit one, and became to be practically in need of orientating towards the credit facility given by NBR, and the competition between the credit companies manifested in this period by attracting resources from the population. As a cause for this phenomenon, the interests increase up to historic levels was considered, aspect that determined altogether the increase of new granted credits' costs, increase to which contributed on a great extent the diminishing of financial lines received from some subsidiaries from Romania from the outside mother-banks and on the other side the rises in price of these resources as a consequence for Romania's country's rating decrease.

In comparison to credit institutions of other central and East-European countries, the banks from Romania applied, during the beginning phase of the crisis, the highest interest increase percentage, having the most "prejudicially" calculation method for variable interests for clients. Also, at the end of 2008, year when the global financial crisis started to be felt strongly in the European countries with emergent economies as well, Romanian credit institutions had an atypical behaviour in comparison with other countries from the region, the average interest in Romania registering the most significant increase from the area, increasing in just four months with 5% for personal needs credits, both in lei and in euro, and with 4,5% respective 3% for mortgage credits in lei and euro, under the conditions when banks from Bulgaria and Hungary took reduction decisions concerning interests for loaning, even though there were situated under the level of those practised in our country.

In what the margins and the perceived commissions by the entities from the Romanian financial-banking sector are concerned, these, as in the case of interests are the biggest from the area, the Romanian credit institutions overtaxing the clients through commissions. If in Austria the only commission that the bank requires for personal needs credit has a fixed value of 10-20 Euros and is quarterly paid, in Czech Republic banks require a monthly administration commission on a value of 49 crowns, meaning approximately 2 Euros, in Hungary exists an anticipated reimbursing commission, but also a monthly commission of 0,25%, in Slovakia, the personal needs credit involves the payment of two commissions: a monthly one and another one, payable at the beginning, in Romania's case, taking into consideration only the example of one of the most permissive bank from this point of view, we find at least four commissions: analysis commission, granting commission (unique in Europe), administration commission and anticipated reimbursed commission, and under certain circumstances, also the foreign currency risk commission.

On the basis of expansion policy of credit activity promoted by banks until the half of 2008, as well as on the basis of credits' endearment by practicing some high interests rates and introducing of new commissions or significant increase of the already existent one in the second half of the year, a significant increase for unperformed credits took place, the credit risk manifesting a constant tendency during the last years as well as in 2008.

4. Conclusions

In conclusion, we can consider the mutations from the Romanian financial-banking sector as generated by global financial crisis, due to certain factors, such as: economic climate's damage on global level, the turbulences from domestic credit market (consumption, mortgage ones) caused on their turn by hardening the credit conditions, by reducing the real investments appetite by practicing of higher prices, as well as by worsening of economic and financial situation of population and corporative sector.

In the frame of the present global financial crisis and Romania's adhesion intention to Economic and Monetary Union, we consider that the best solution for our country and for Romanian's financial-banking system is the respecting of euro currency adoption programme, by maintaining the calendar announced by central bank and especially through disciplined implementation of adequate and competent economic policies.

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