

ANALYSIS OF THE AGGREGATE INDICATORS OF CREDIT INSTITUTIONS

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Abstract: *This research aims to identify the evolution of the main aggregate indicators of credit institutions within the Romanian banking system. The paper also presents the evolution of these indicators in dynamics, during the years 2019-2021, in the Pandemic period. The indicators analyzed refer to: total net assets, assets of privately-owned institutions and of foreign-owned institution, capital adequacy ratio, ROA and ROE, operating income per operating expenses, non-performing loans ratio and other significant indicators. These are reported by the National Bank of Romania, according to the regulations in the European monetary area. This analysis allows the evaluation of banking performance. It also identifies priorities in prudential supervision of credit institutions.*

Key words: *aggregate indicators, credit institutions, banking performance, prudential supervision, Pandemic period*

INTRODUCTION

In the current pandemic context and the triple health, financial and energy crisis, the role of banks has significantly increased in national economies within the European monetary area [6]. The contagion effects on the financial and banking markets have also imposed an increase in the role of central banks as regulators and supervisors of banking activity [1]. In Romania too, both the central bank and commercial banks have constantly pursued the prevention and monitoring of risks.

The National Bank of Romania ensures the prudential supervision of credit institutions by establishing banking prudential rules and indicators [5]. In order to prevent risks specific to banking activity, these indicators of banking prudence are monitored both individually, as well as at consolidated or sub-consolidated level [4]. In order to achieve effective supervision, the National Bank of Romania, as the authority responsible for supervision on a consolidated and individual basis, has concluded written coordination and cooperation agreements with the competent authorities of other States. These agreements in the field of banking supervision relate to [11]:

- The Multilateral agreement between the European Central Bank and the national authorities responsible for monitoring the risks of money laundering and terrorist financing [2];
- The Cooperation agreement between financial supervisory authorities, central banks, and finance ministries of the European Union on cross-border financial stability [9];
- The Agreement between the Commission Bancaire and the National Bank of Romania on the exchange of information for the conduct of banking and prudential supervision;
- The Cooperation agreement between the National Bank of Romania and the National Bank of Moldova in the field of banking supervision;
- The Cooperation agreement between the National Bank of Romania and the Deposit Guarantee Fund in the banking system.

The National Bank of Romania, as the supervisory authority for the banking activity within the Romanian banking system, reports and monitors the aggregated indicators of credit institutions. By the Order of the National Bank of Romania no. 6/2014,

non-performing exposures from loans and advances of credit institutions are defined. These non-performing exposures must meet one of the following criteria [10]:

- Significant exposures with a maturity of more than 90 days,
- It is unlikely that the debtor will be able to pay the full amount of the credit obligations without the collateral being executed, regardless of the existence of any outstanding amount or the number of days of delay in payment.

This research aims to analyze the evolution of the main aggregate indicators of credit institutions. The paper presents the evolution in structure and dynamics of these indicators during 2019-2021. The analysis allows an assessment of banking performance and identification of priorities in the prudential supervision of credit institutions.

MATERIALS AND METHODS

The indicators reported by the National Bank of Romania were used in the analysis of the evolution of aggregated indicators of credit institutions. These indicators can be found in the interactive database, which allows access to the monetary and financial statistics of the National Bank of Romania. The aggregated indicators refer to all credit institutions in Romania, respectively: commercial banks, branches of foreign banks and Creditcoop. Starting with 2012, the indicators are calculated on the basis of reports prepared in accordance with International Financial Reporting Standards (IFRS) [13]. These aggregated indicators were reported at the end of 2021 by a number of 34 credit institutions and 8 branches of foreign banks, operating in Romania.

Aggregated indicators on credit institutions have been reported since June 2014, on the basis of the information submitted by banks in accordance with the provisions of Implementing Regulation (EU) no 680/2014 of the European Commission laying down implementing technical standards on the reporting of credit institutions for supervisory purposes [15].

The scientific research methods used in this analysis were: identification and collection of data, selection of statistical indicators, systematization, classification according to the identified criteria, comparison, definition of concepts, analysis and synthesis, induction and deduction, generalization, scientific abstraction, professional reasoning, and the development and testing of hypotheses.

In this research, the structural and dynamic evolutions of the main aggregated indicators of credit institutions were identified and analyzed, for the period 2019-2021, in the context of the Covid-19 pandemic [3].

RESEARCH RESULTS

The 34 credit institutions in Romania report to the National Bank of Romania a series of indicators of banking prudence, risk, performance, and financial stability, etc. The commercial banks within the Romanian banking system are constantly aiming to prevent and mitigate risks from their own activity, as well as to maximize the profit obtained.

The evolution of the main aggregated indicators reported by the National Bank of Romania is presented in the Table 1.

From the above table it can be noted that during the analyzed period, the total net banking assets registered a substantial increase, respectively from 495.2 billion RON in 2019 to 639.7 billion RON in 2021. The bank solvency indicators are also maintained at positive values, respectively over 22%.

Return on Assets (ROA) is an indicator that shows how profitable a bank's business is in relation to its total assets. The indicator is calculated as the ratio of annualized net profit and the total assets at average value. During the analyzed period, the

indicator shows a slight increase, from 1.34% in 2019 to 1.38% in 2021. This signifies an increase in the profitability of bank assets in 2021 compared to 2019.

Table 1.**Evolution of aggregate indicators of credit institutions**

Aggregate Indicators for Credit Institutions	Dec. 2019	Dec. 2020	Dec. 2021
Number of credit institutions (No.)	34	34	34
Total net assets (RON mil.)	495,214.22	560,034.17	639,663.01
Assets of privately-owned institutions (% in total)	91.80	89.40	88.60
Assets of foreign-owned institutions (% in total)	73.70	70.50	68.20
Capital Adequacy Ratio (> 8%) (%)	22.00	25.14	22.26
ROA (%)	1.34	0.95	1.38
ROE (%)	12.21	8.66	13.45
Operating income / operating expenses (%)	184.09	185.74	185.87
Clients' Loans-to-Deposits Ratio (%)	70.99	65.89	68.79
Non-performing Loans Ratio (%)	4.09	3.83	3.35

Source: <https://www.bnr.ro/Statistics-report-1124.aspx>, 2022 [14].

Return on Equity (ROE) is one of the most important indicators that measure the performance of banking activity. This indicator is calculated as the ratio between annualized net profit and average equity. The indicator allows the estimation of gains obtained on a unit of capital invested in shares. During the period under review, there is a significant decrease in capital profitability in December 2020 compared to December 2019, from 12.21% in 2019 to 8.66% in 2020. In December 2021 there was a significant increase in capital profitability to 13.45%, compared to 8.66% in December 2020. A high return on equity basically expresses the way and efficiency with which money was invested.

Another important aspect to note is the decrease of the non-performing loans rate, respectively from 4.09% in 2019 to 3.35% in 2021.

The evolution of the aggregated indicators of credit institutions in Romania, during the years 2019 – 2021, defines and characterizes the financial stability of the Romanian banking system.

According to the Global Financial Stability Report from October 2021, issued by the International Monetary Fund, the main vulnerabilities that can affect financial stability involve [8]:

- inflationary pressures and the prospect of a longer-term manifestation;
- overvaluation of assets;
- high financing needs in emerging and frontier markets;
- non-uniform recovery of non-financial firms;
- restrictive credit standards in the banking sector, with effects on lending prospects.

All these vulnerabilities are analyzed and monitored permanently by the National Bank of Romania and by the commercial banks within the Romanian banking system.

CONCLUSIONS

The European Banking Authority (EBA) has as its main objective to ensure an effective level of prudential regulation and supervision throughout the EU banking sector [12].

Globally, rising energy prices and fossil fuels have led to increased risks. The pandemic, as well as the triple financial, energy and health crisis have boosted

vulnerabilities and risks in the economy and in the financial-banking sector [7]. In this context, banks have had to adapt and continuously monitor the risks in their activity.

The National Bank of Romania, in its capacity as the supervisory authority for banking activity within the Romanian banking system, reports and monitors the aggregated indicators of credit institutions. The evolution of these indicators, during the years 2019 – 2021, defines and characterizes the financial stability of the Romanian banking system.

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