

STUDY ON BANKING SYSTEM IN ROMANIA

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Abstract: *The paper includes an analysis of the banking system in Romania. The banking sector in Romania financed mostly Romanian economy, providing the bulk of the total funding awarded by the Romanian financial system. The banking system has proven resilient during the crisis, continuing to provide financing of the Romanian economy. Growth prospects of attracting European funds generated by the stakes, financial intermediation and financial intermediation, make Romania an attractive destination for investors in the banking system.*

Key words: *Banking, credit institution, financing, banking and financial groups, the National Bank of Romania*

INTRODUCTION

Over the years we have witnessed the modernization and strengthening of the regulatory framework for the banking system; new regulations tendency of harmonization of institutional mechanisms and establishing best practice.

National Bank of Romania has had an intrinsic role in maintaining financial stability, given the responsibilities arising from the double position and prudent monetary authority. Duties subsumed financial stability objectives are pursued both through regulation and prudential supervision of institutions under its authority, and the formulation and effective transmission of monetary policy and supervision of the optimum functioning of payment and settlement systems of systemic importance. National Bank of Romania, the supervisory authority has responded to new threats by providing adequate liquidity, stricter monitoring of banks, measures to improve the prudential regulatory framework.

As instability became dominant feature of the environment in which banks operate, they were put in a position to face new challenges and deal with risk. These operating conditions have led to increased competition in the financial sector and increased vulnerability to adverse shocks successive banks.

MATERIALS AND METHODS

Documenting the work consisted in using data from publications, statistics, legislation and some authors, in association with research that formed the basis of their analysis, ideas raised in the paper.

BANKING SYSTEM IN ROMANIA

The banking system is a group of institutions authorized to conduct banking transactions within a country. These institutions are specialized economic entities comertul money as well as providing banking products and services, with the purpose of work undertaken for profit. The quality of the resulting system of relations established between the two systems in two ways: whether banks have sufficient surplus, the surplus can be taken by the central bank; if banks need additional resources to obtain them may call on the central bank to obtain credit.

Romanian banking system, like any modern banking system, is organized on two levels (sub) central bank and all banks (Figure 1).

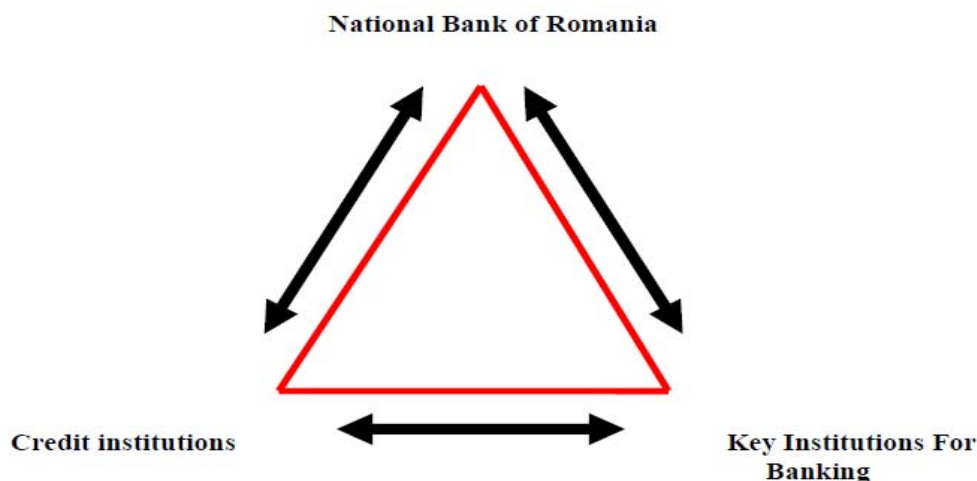


Figure 1. Structure Romanian banking system

The banking sector continues to be the most important component of the financial market. Romanian financial system relies on bank loans ("bank- oriented"), diversification of financial institutions is considerably delayed transition difficulties macro stabilization and restructuring of the real sector. Capital market and the insurance market lease - although favorable developments - still has a low degree of depth.

The banking sector in Romania, which includes 40 banks (Table 1) at the end of December 2013, financed mostly Romanian economy, providing about 92 % of total funding from the Romanian financial system. The banking system has proven resilient during the crisis, continuing to provide financing of the Romanian economy. Growth prospects of attracting European funds generated by the stakes, financial intermediation and financial intermediation, nearly 40 % and 57 %, made Romania an attractive destination for investors in the banking system

Table 1

Number of financial institutions operating in Romania

	2010	2011	2012	2013
Credit institutions	42	41	40	40
Insurance	43	43	39	37
Insurance brokers	567	584	584	586
Private pension funds	22	20	20	18
Investment funds	76	83	87	71
Investment companies	6	6	6	6
Financial investment services companies	55	52	46	45
NFIs (General Register)	210	203	187	168
NFIs (The Register)	5043	5286	5420	5636

Source: NBR, ASF

According to a report by the central bank, there were a number of changes in the Romanian banking system.

Number of financial institutions in the domestic financial system has seen slight variations from one year to another.

The private pension system in Romania are currently 18 active funds, of which 8 privately managed pension market - Pillar II and 10 voluntary pension segment - Pillar III. The number of insurance companies, the investment firms and the General Register IFN were decreased, while the number of investment funds and the IFN of Register of NBR increased (Tables 1 and 2).

Table 2

The banking system in Romania

Years	Romanian credit institutions				Branches of foreign banks	Total banking system
	Total	The state capital	Majority domestic private	Majority foreign private		
1998	36	7	13	16	9	45
1999	34	4	11	19	7	41
2000	33	4	8	21	8	41
2001	33	3	6	24	8	41
2002	31	3	4	24	8	39
2003	30	3	6	21	8	38
2004	32	2	7	23	7	39
2005	33	2	7	24	6	39
2006	31	2	3	26	7	38
2007	31	2	3	26	10	41
2008	32	2	3	27	10	42
2009	33	2	4	27	10	43
2010	33	2	4	27	9	42
2011	33	2	4	27	8	41
2012	31	2	3	26	8	40
2013	31	2	2	27	9	40

Source: NBR

Table 3

Structural indices of the Romanian banking system

	2006	2007	2008	2009	2010	2011	2012	2013
Share in total assets of banks with majority private capital	94,5	94,7	94,6	92,5	92,4	91,6	91,6	92
Share in total assets of banks with foreign capital	88,6	88,0	88,2	85,3	85,0	83,0	89,8	90,0
Share of top five banks in total assets	60,3	56,3	54,3	52,4	52,7	54,6	54,7	54
Herfindahl - Hirschman Index (points)	1171	1046	926	857	871	878	852	834

Source: NBR

Group owned Greek banks reduced market share from 16.3 % to 12.9 %, being surpassed by the Romanian -owned banks, whose share of aggregate assets increased to 18.3%.

Market share in total bank assets of banks with majority foreign capital has seen a significant increase in 2013, reaching 90.8 % at the end of August 2013. This increase is due to the reclassification of some banks in the Romanian group owned banks in the banks with majority foreign capital. Following these changes, the market share of banks with

majority Romanian halved (9.2% in August 2013 compared to 18.8% in June 2012), becoming lower share capital banks French and Greek (13.2% and 12.4%, August 2013). Owned Austrian banks hold, similar to previous years, the largest market share in the Romanian banking system (38% in August 2013).

During the period June 2012 - June 2013, the Romanian capital for the banking sector remained relatively stable, increasing by approximately 100 million (0.37%) the capital contributions made by the private sector. Greek capital share in total capital for the Romanian banking system remains in first place (20.6%), but continued the downward trend begun in 2010. Second position is occupied by Austrian capital (20.3%), while Romanian capital occupies third position (20.1%). Compared to 2011, increases were observed in the prominence of the French capital, Hungary and Cyprus, while Romanian and Greek capitals have been declining weights.

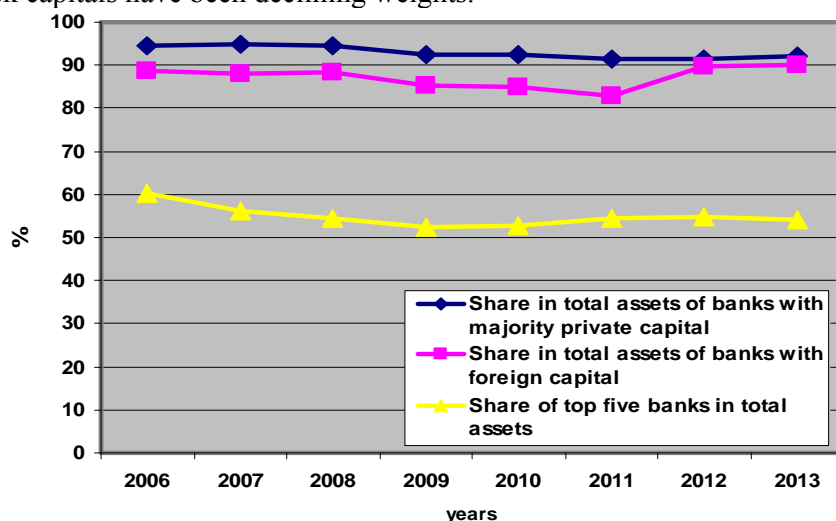


Figure 2. Structural indicators of the Romanian banking system

Concentration of the Romanian banking system, reflected in the share of assets held by the top five banks in aggregate assets decreased slightly to 54% value. The same trend was manifested in the case of deposits, where in August 2013, the top 5 banks in the system (in terms of assets) held 53.5% of deposits. Relative decrease in the concentration of the banking system in the first half of 2013 show the trend of increasing competition between credit institutions in terms of deposits. In the case of loans, the concentration increased slightly prior to the date of report (53.2% in August 2013). Herfindahl - Hirschman index calculated for the month of August 2013 shows a high degree of concentration in the credit (875 points) compared with the corresponding deposits (825 points), respectively, of assets (834 points). Herfindahl - Hirschman index calculated from the assets shows a moderate level of concentration and places Romanian banking system under the average of EU -27.

The trend of reducing costs territorial network and the number of employees, started in 2009, continued in 2012 and the first half of 2013.

Number of employees in the banking system declined by 980 in 2011 and with 3,700 in the first half of 2012.

In 2010, the Romanian banking system had gone 1,145 employees, and in 2009 the Romanian banks had given out 2,068 people.

The pace of reduction in both the number of units and the number of employees was more intense than in the previous period, in line with the process of balance sheet adjustment in both the real sector and the financial intermediaries. Branch network was

reduced by 323 units in 2012 and an additional 194 units in the first half of 2013. Number of employees in the banking system declined by 4003 in 2012 and 1946 in the first half of 2013. Consequently, the system bank of Romania continued to be below the European average in terms of number of territorial units and the number of credit institutions 100 000.

Concentration of the Romanian banking system, reflected in the share of assets held by the top five banks in aggregate assets increased slightly to EUR 55.2 %, continuing the trend started in 2010. Same trend was manifest in the credits, where the first 5 banks in the system (the amount of assets) held 53.1 % of the Romanian banking system loans. Bank assets amounted to 83 billion euros, the share in GDP is 62%. Romanian banking sector at the end of 2012 include two banks owned or majority state owned three local private institutions, 26 banks with majority foreign capital, eight branches of foreign banks and credit co-operative organization.

Institutions with foreign capital share of assets in total assets of the Romanian banking system rose from 83 % in December 2011 in 89.8% as of December, 2012. Regarding the origin of shareholders in terms of assets owned Austrian banks hold a market share of 37.7 %, followed by French banks with 13.6 % and 12.2% Greek. The share of the top five banks in total assets was 54.7 % at 54.4 % of loans, deposits at 54.9 % in the equity of 52.8% in the government securities by 56.3 %, according to NBR. Financial intermediation, calculated as the share of government credit in GDP was 38.4 % in 2012, similar to the value recorded in 2008 before the crisis, down compared to the maximum level recorded in 2011 40.1 % . Controlled deliberating occurs amid the credit crisis currency and consumer credit.

Table 4

Date	Bank asset		
	Total net assets (million)	Active private institutions (% Of total assets)	Active institutions with foreign capital (% Of total active)
2009	330.183,5	92,7	85,3
2010	341.946,3	92,6	85,1
2011	353.910,9	91,8	83,0
2012	365.618,1	91,6	89,8
2013	362.184,7	91,5	90,1

Sources: NBR

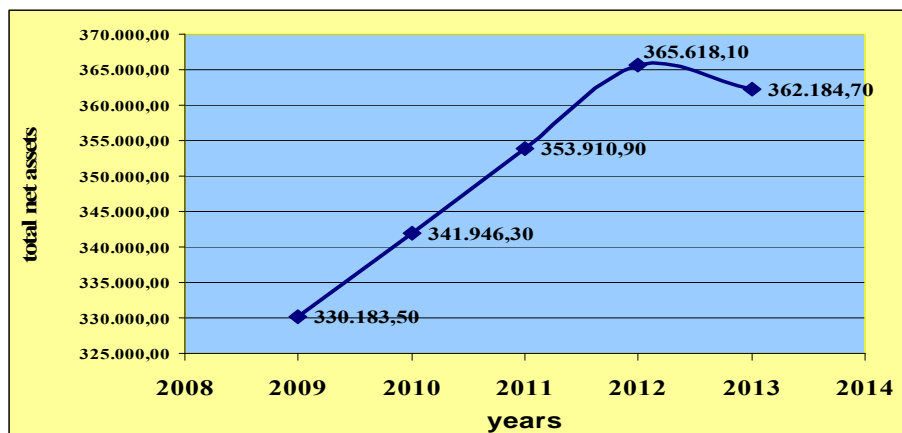


Figure 3 Evolution of the net assets of the banking system (million)

Moreover, the main challenges to financial stability are credit risk, especially the lending in foreign currency, and the risk of disorderly developments external financing. In Romania, the recommendations of the European Systemic Risk Board by all EU authorities on foreign currency lending were extended to companies.

Expectations regarding general economic situation of the banking adoption by the central bank prudential regulations to limit foreign currency lending growth and maintaining the high level of indebtedness of certain categories of borrowers contributed to restricting non-government loans by 3.5 % compared to end of 2011. Loans to credit institutions amount to about 64 billion euros, the government credit balance 51 billion at end- December 2012. Balance of deposits of banks amounted to 43 billion euros. Banks have shifted from rapid expansion to a determined strategy of prudence proceeding to adapt the network and the number of employees. The number of banks was approximately 5,700 at the end of December 2012, while the number of employees in the system was adjusted to 61.700.

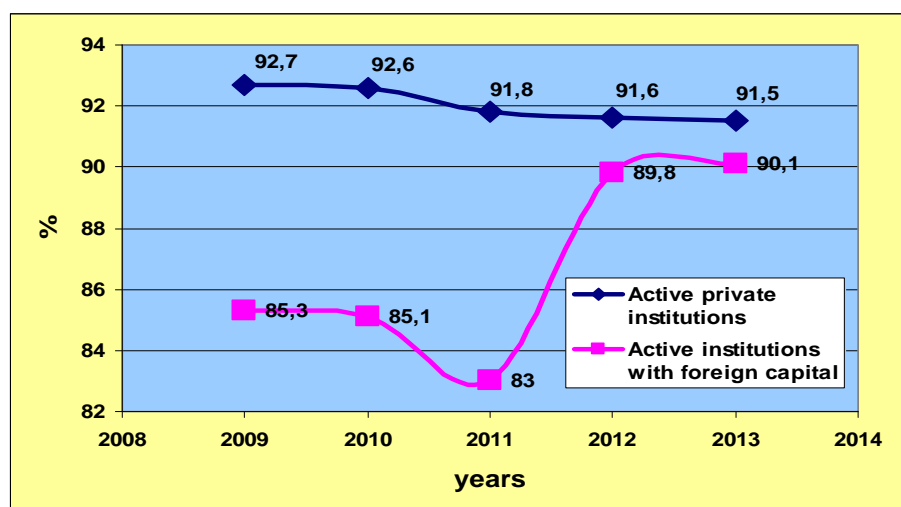


Figure 4. Share of assets of private institutions with foreign capital in total assets

Table 5

Structure of assets of credit institutions operating in Romania

	2008	2009	2010	2011	2012	2013
	-% in total active-					
Domestic assets of which:	98,0	96,6	96,8	97,7	97,2	96,8
Claims on central bank and credit institutions that:	23,8	18,6	16,5	15,3	13,4	13,5
-Claims on central bank	21,8	15,8	14,2	13,7	11,9	11,5
Claims on domestic non-bank sector in which:	63,4	67,6	70,1	74,5	75,2	74,5
-Claims on government	5,0	12,7	15,7	17,7	19,5	18,5
-Claims on corporations	29,2	27,4	27,9	30,3	30,0	29,9
-Claims on households	29,2	27,5	26,5	26,5	25,8	26,0
Other assets	10,8	10,3	10,3	7,9	8,6	8,9
Foreign assets	2,0	3,4	3,2	2,3	2,8	3,2

Sources: NBR

Table 6

Structure liabilities of credit institutions operating in Romania

-% Of total liabilities-

	2008	2009	2010	2011	2012	2013
Domestic liabilities	69,3	73,6	73,2	73,5	76,8	78,3
of which:						
-Inter bank Deposits	2,1	5,4	3,4	3,4	4,6	2,1
-Deposits from the Government	3,1	2,1	1,7	1,4	1,3	1,4
-Deposits from companies	20,2	19,3	19,0	19,0	18,5	19,5
-Deposits from the public	24,4	26,7	27,0	28,7	30,2	31,8
Capital and reserves	10,6	12,0	14,2	16,2	18,0	19,7
Other liabilities	8,9	8,1	7,9	4,8	4,2	4,3
Foreign liabilities	30,7	26,4	26,8	26,5	23,2	21,4

Sources: NBR

Local deposit base continues to provide most of the funding needs of bank assets (Table 6). The volumes of deposits from the public provide greater stability in terms of the degree of permanence of these sources. Since 2010, the population is maintained net creditor position of the banking sector.

Banking system ended the year 2013 with a cumulative profit of £ 497 million (first cumulative profit after three consecutive years of losses) while the 23 banks reported profits for 2013 and 17 banks had losses, according to a SIF Muntenia report .

Competition in high places keeps bank the largest bank by assets Romanian BCR, and top profits. BCR made net profit of 134 million euros, more than twice higher than Erste Bank, its majority shareholder. The second largest bank, BRD, a surprising disappointment and remained at a loss, when people expect profit. Third, BT continues its gallop health, with a net profit growth of 30 % over that of 2012. In 2014, the Romanian banking landscape will change a lot, and will be quite a few players presently existing and that will continue as before universal bank activity in the true sense of the word.

The levels of non-performing loans are among the priorities of banks in 2014. Many banks will try to find ways to cut back on this issue. There must be a mix finally between cost efficiency as priority, coupled with revenue generation.

CONCLUSION

National Bank of Romania is authorized to collect primary data and statistical information necessary for the fulfillment of its legal duties, ensuring data protection

measures that relate to individual subjects - natural or legal persons - obtained directly or indirectly from administrative sources or from other sources.

Romanian banking sector continued to be well protected against various unfavorable developments that have occurred both locally and internationally. First, the level and quality occurred both locally and internationally. First, the level and quality of own funds remained in the corresponding parameters: solvency ratio was maintained at an appropriate level (14.7 % in June 2013), significantly above the regulatory minimum (8%); own funds consist chiefly of items with good quality and very good (Tier 1 ratio was 13.6% in June 2013), and the central bank decided keeping prudential filters for own funds and prudential indicators during 2013 (thus de facto solvency indicators continue to be is about 4 percentage points higher compared with levels reported) and will gradually stop using these filters during the implementation of additional capital requirements of Basel III (the period 2014-2018) .

Year 2013 was good for resetting the Romanian banking system. The big banks have moved much better than in 2012, with the unit price resizing. Although the vast majority of banks reported high levels of overdue and doubtful loans, the overall quality of these portfolios fall favorably in the European context, the level of NPL provision coverage of Romania is higher than reported from many other countries in Europe, the situation due to the fact that the Romanian banks have toxic assets held in the portfolio.

The banking sector continued to financial health indicators positive spectrum, being well capitalized and having financial results. The efficiency of the banking system is directly linked to increased business volumes consistently, mainly based on the attractiveness of the products both in terms of cost and less on the conquest of new market segments. The persistence of the global crisis leads to lower economic activity so that domestic macroeconomic developments have a significant impact on the health of the financial system.

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