

ROMANIAN BANKING INDUSTRY IN THE GLOBAL CONTEXT

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Abstract

In a context characterized by global uncertainties, the role of central banks in implementing macro-prudential policies has increased. After the global financial crisis, appeared the necessity for the adoption of measures to strengthen the financial stability. The high degree of uncertainty was represented by: the measures to strengthen the monetary policy in the USA, the coordinates of the international trade, the dynamics of the Chinese economy, and also by the progress of Brexit. In the international context of the year 2018, the world economy moderated its growth by 0.2 percentage points, up to 3.6%.

This research aims, in the context of macro-prudential policy priorities, to analyze the developments and performances registered in the Romanian banking industry. It is also analyzed the dynamic evolution over the period 2017-2019, and the composition of the Romanian banking system by forms of ownership. It is also presented the evolutions of the market shares of credit institutions, in dynamics and structure, as well as the aggregate indicators of these credit institutions operating in the Romanian banking system. The development of the Romanian banking industry allowed the sustainable economic growth.

Keywords: Romanian banking industry, global context, credit institutions, financial stability

JEL Classification: G21, G28

1. Introduction

The globalization of the world economy has increased the role and importance of credit institutions. European dynamics in a changing world are also reflected by the development of the banking industry in the European monetary area. After the global financial crisis, appeared the necessity for the adoption of measures to strengthen the financial stability.

In 2018, the world economy moderated its growth by 0.2 percentage points to 3.6 %.

The international context was characterized by the increase of uncertainty on a global level.

The main determinants of the higher degree of uncertainty were represented by:

- the measures to strengthen the monetary policy in the USA;
- the coordinates of the international trade;
- the dynamics of the Chinese economy;
- the progress of Brexit.

In this global context, International Monetary Fund, based on the Financial Sector Assessment Program (FSAP), implemented during 2017-2018, has introduced a series of requirements regarding the monitoring of the net stable financing indicator on the components specific to the significant currencies (lei and euro), as well as the liquidity indicator differentiated according to the denomination currency.

According to the prudential framework, available in European Union and directly applicable at national level, credit institutions must have the following minimum own funds requirements:

- 8 percent for total capital ratio;
- 6 percent for Tier 1 capital ratio;
- 4.5 percent for Common Equity Tier 1 capital ratio.

The requirements are in accordance with 92 article of UE Regulation no. 575/2013, of the European Parliament and of the Council. These prudential requirements for credit institutions and investment companies change UE Regulation no. 648/2012.

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In 2018, the credit institutions registered an adequate level of solvency indicators, located above the capital requirements. Total own funds of the credit institutions, Romanian legal entities, registered at the end of 2018, an increase of 10.9% compared to the same period of the previous year. The main indicators of analysis of the banking system show the performances registered in the Romanian banking industry.

The general prudential requirements for credit institutions are supplemented by individual measures that the National Bank of Romania, as competent authority, can establish.

The prudential indicators registered by Romanian banking industry had a positive overall evolution in 2018, the levels registered by them could be considered adequate from the perspective of the regulated requirements.

Implementation of the new accounting standard IFRS 9, from January 2018, generated an increase in banks' pro-activity in recognizing expected losses for the performing loans category. The quality of assets improved in 2018 and the main indicators were located within the ranges set by the European Banking Authority, which did not concern a high risk.

Expected credit losses are classified into three different stages of impairment (NBR, Annual Report 2018, p. 135):

- ▶ *Stage 1* – expected losses for the next 12 months, when the financial instrument is initially recognised or when its credit risk is low;
- ▶ *Stage 2* – expected losses for the entire life of the financial instrument whose credit risk has significantly increased, but does not have objective evidence of impairment;
- ▶ *Stage 3* – expected losses for the entire life of the financial instrument which has objective evidence of impairment.

As a result of this approach, the share of provisions for non-performing loans has diminished, especially as a result of the write-off or sale of the loans.

This research aims, in the context of macro-prudential policy priorities, to analyze the developments and performances registered in the Romanian banking industry. It is also analyzed the dynamic evolution over the period 2017-2019, and the composition of the Romanian banking system by forms of ownership. It is also presented the evolutions of the market shares of credit institutions, in dynamics and structure, as well as the aggregate indicators of these credit institutions operating in the Romanian banking system. The development of the Romanian banking industry allowed the sustainable economic growth.

In the literature review, the issue regarding performance and systemic risks faced by the banking industry, as well as the contagion effects are treated in full. The literature shows various conclusions on the banking risks in the Romanian banking system. For instance, Imbierowicz and Rauch (2014), analyze a large number of studies revealing the relationship between liquidity risk and credit risk in banks. Hainz and Kleimeier (2012), analyse the relationship between political risk, project finance, and the participation of development banks in syndicated lending.

This paper analyzed in details the aggregate indicators for credit institutions, especially the indicators of bank profitability.

2. Materials and methods

In analyzing the Romanian banking industry in the global context, the evolution and performance of the Romanian banking system, of their market shares and the main aggregate indicators registered by credit institutions, were used the indicators reported by the National Bank of Romania. The reports made by the National Bank of Romania target both financial stability, as well as prudential supervision of the entire Romanian banking system.

The research methods used are: classification, comparison, definition and scientific observation, description, analysis, synthesis, induction and deduction, conceptualization, scientific generalization and abstraction.

In this research we analyzed the composition of the banking system by forms of ownership, in dynamic and structure. In dynamic, the research horizon is the period of 2017-2018, according to the data provided by the National Bank of Romania. In structure, are highlighted credit institutions, Romanian legal entities, with fully or majority state capital, or private capital, as well as the branches of credit institutions, foreign legal entities. We have analyzed the market shares of credit institutions, depending on the net assets and their main aggregate indicators.

In this research it is also presented the dimension and evolution of credit institutions as a share in aggregate capital (share/endowment capital), in the period of 2017-2018.

The main source of the banking indicators presented is the Annual Report for 2018, of National Bank of Romania.

3. Results and discussions

The financing of the Romanian banking sector continues to be provided mainly by the sources attracted from the internal market. The territorial network of credit institutions continued to shrink even in 2018, with a number of 215 branches and banking agencies being closed, while the number of employees in the system decreased by 1,307 persons.

The structure of the Romanian banking system was dominated in 2017-2018 by credit institutions with majority private foreign capital.

By analyzing the composition of the banking system by ownership, during the years 2017-2018, it can be observed the high share of credit institutions, Romanian legal entities, with majority private (foreign) capital of total credit institutions. This share is 62.9% in 2017 and 61.8% in 2018. Also, it can be noticed the low share of branches of foreign credit institutions (foreign legal entities), in total credit institutions, respectively of approximately 20%. It is interesting to note that, during the period 2012-2014 the total number of credit institutions was 40. In 2017-2018 the number of credit institution was 34, so it has decreased with 15%.

The composition and evolution of the banking system by ownership, during the years 2017-2018, are presented in the following table:

Table no. 1
Composition of the banking system by forms of ownership

Credit institutions	- number of banks, end of period -	
	2017	2018
A. Credit institutions, Romanian legal entities, of which:	28	27
- Credit institutions with fully or majority state capital	2	2
- Credit institutions with majority private capital, of which:	26	25
• with majority domestic capital	4	4
• with majority foreign capital	22	21
B. Branches of foreign credit institutions	7	7
Total credit institutions (A+B)	35	34

Source: National Bank of Romania - Annual Report 2018, p. 129.

At the end of 2018, the number of credit institutions with majority foreign private capital dropped from 22 to 21, following the merger by absorption between Banca Transilvania S.A. (the absorbing entity) and Bancpost S.A. (the absorbed entity). Size and structure of the banking sector were marked by significant merger operations, but also by sales of portfolios and share packages of banks, which contributed to a greater consolidation of the Romanian banking industry.

The market shares of credit institutions, depending on net assets are presented in the table below:

Table no. 2**Market share of credit institutions (Net assets)**

- End of period -

Credit institutions	2017		2018	
	Million Lei	%	Million Lei	%
Credit institutions with domestic capital, of which:	98,477.5	23.0	112,892.7	25.0
– with majority state-owned capital	37,244.3	8.7	36,548.7	8.1
– with majority private capital	61,233.2	14.3	76,344.0	16.9
Credit institutions with majority foreign capital	282,459.4	66.0	287,044.8	63.6
I. Credit institutions, Romanian legal entities	380,936.9	89.0	399,937.5	88.6
II. Branches of foreign credit institutions	46,855.7	11.0	51,232.2	11.4
Total credit institutions with majority private capital, including branches of foreign credit institutions	390,548.3	91.3	414,621.0	91.9
Total credit institutions with majority foreign capital, including branches of foreign credit institutions	329,315.1	77.0	338,277.0	75.0
Total credit institutions (I+II)	427,792.6	100.0	451,169.7	100.0

Source: National Bank of Romania – Annual Report 2018, p. 130.

From the table above it is noted that the value of aggregate net assets grew slightly, by 5.5%, from 427,792.6 million Lei in December 2017, to 451,169.7 million Lei in December 2018. The market share of credit institutions with majority foreign capital narrowed from 66.0 % in 2017, to 63.6 % at the end of 2018. At the same time, the market share of credit institutions with majority domestic private capital widened from 14.3 % at 31 December 2017 to 16.9 % at the end of 2018. In this period, Marfin Bank S.A. made significant changes in its shareholding following the acquisition, in July 2018, of a direct holding of 99.54 % by the Cypriot company Barniveld Enterprises Limited. At the end of May 2019, Marfin Bank S.A. became Vista Bank S.A. At the same time, similar changes affected Piraeus Bank Romania S.A. J. C. Flowers group acquired, in June 2018, a 99.99 % holding of its share capital. Since October 2018, Piraeus Bank Romania S.A. has operated under the name First Bank S.A. The Romanian banking system also demonstrated its structural stability during 2018.

The structure and evolution of credit institutions as a share in aggregate capital (Share/Endowment capital) are presented in the following table:

Table no. 3**Credit institutions as a share in aggregate capital (Share/Endowment capital)**

- End of period -

Credit institutions	2017		2018	
	Million Lei	%	Million Lei	%
Credit institutions with domestic capital, of which:	7,816.0	29.4	8,439.7	31.3
– with majority state-owned capital	3,081.0	11.6	3,261.2	12.1
– with majority private capital	4,735.0	17.8	5,178.5	19.2
Credit institutions with majority foreign capital	18,406.4	69.3	18,012.9	66.9
I. Credit institutions, Romanian legal entities	26,222.4	98.7	26,452.6	98.2
II. Branches of foreign credit institutions	336.5	1.3	472.7	1.8
Total credit institutions with majority private capital, including branches of foreign credit institutions	23,477.9	88.4	23,664.1	87.9
Total credit institutions with majority foreign capital, including branches of foreign credit institutions	18,742.9	70.6	18,485.6	68.7
Total credit institutions (I+II)	26,558.9	100.0	26,925.3	100.0

Source: National Bank of Romania – Annual Report 2018, p. 130.

The share of credit institutions, Romanian legal entities, in total credit institutions is 98.7 % in 2017 and 98.2 % in 2018 (as a share in aggregate capital). The branches of foreign credit institutions have a very small share, of approximately 1.8% in 2018.

The share of credit institutions with majority foreign capital in aggregate capital of the banking sector dropped from 69.3 % at 31 December 2017 to 66.9 % at 31 December 2018.

Dimension of credit institutions as a share in aggregate capital and the indicators presented in the table above, reflect the size and potential of the Romanian banking industry.

The evolution and performance of the Romanian banking industry is reflected in the aggregate indicators of credit institutions, presented in the following table (Table no.4):

Table no.4

Aggregate Indicators for Credit Institutions

	June 2018	December 2018	June 2019
Number of credit institution	35	34	34
Of which foreign bank's branches	7	7	7
Total net assets (RON Billions)	434.6	451.2	458.8
Assets of private-owned institutions (% in total assets)	91.7	91.9	91.9
Capital Adequacy Ratio (over 8 %)	20.09	20.71	19.60
Impaired loans (% in total loans)	2.42	1.96	1.89
Impaired loans (% in total assets)	1.34	1.08	1.07
Impaired loans (% in total debts)	1.49	1.21	1.19
Return on assets - ROA (%)	1.66	1.55	1.21
Return on equity – ROE (%)	15.71	14.58	11.28
Loan-to-Deposit Ratio (%)	75.22	73.64	74.69

Source: <https://www.bnr.ro/Aggregate-Indicators-for-Credit-Institutions-3369.aspx>
(available on 15.11.2019).

Profitability is an important indicator of banks' competitiveness level and management quality. In terms of profitability, the financial result was higher than in the previous year, given that approximately 74 percent of the credit institutions ended 2018 with positive financial results. Banks conduct their business based on the profitability criterion. Commercial banks in Romania make a net profit depending on the specific risks they take, the restrictions imposed by the legislative framework, the general economic developments, their portfolio of banking products and services, the market share they hold etc.

The main indicators of bank profitability shown in Table no.4 are:

- ROA - Return on assets (Annualized net profit / Total average assets);
- ROE - Return on equity (Annualized net profit / Average own capital);
- Loan-to-Deposit Ratio, represents Loans granted to clients (gross value) / Deposits from clients, in %.

Total assets and Own capital for Leverage Ratio, ROA and ROE are calculated as averages.

From the table above it is noted that the value of total net assets grew from 434.6 RON Billions in June 2018, to 458.8 RON Billions in June 2019, with 5.6%. In 2018, the Romanian banking system reported a net profit of 6,827.5 million lei. In this year, 25 out of all 34 credit institutions recording positive net financial results. The financial performance at the system level was better than in the previous year, due to the increase of the operating profit and the reduction of the expenses with the adjustments for the depreciation. The structural analysis of the operating income, shows the prevalence of net interest income, which reached a 65.4 % at

the end of 2018. From the perspective of the determinants, the improvement of the remuneration of the bank capital was due to a more alert increase of the profit compared to that of the own equity at average value.

4. Conclusions

After the global financial crisis, appeared the necessity for the adoption of measures to strengthen the financial stability. In this context, the Romanian National Bank's role in implementing macro-prudential policies increased.

In 2018 financial stability remained solid and no severe systemic risk was identified.

The major high systemic risks were of external origin, referring mainly to the uncertainties regarding the economic activity in the European Union, i.e. Brexit and the sovereign debt situation in the euro area.

Return on assets and return on equity (ROA and ROE) also ended in 2018 at adequate, yet not excessive, levels of 1.6 % and 14.6 % respectively.

A substantial contribution to securing Romania's external credibility comes from the comfortable level of its international reserves, (i.e. EUR 36.8 billion at the end of 2018) and the gold stock (at around 104 tones).

In the global context, the reserve adequacy indicators staying within recommendable limits has enhanced the capacity of the Romanian economy to absorb potential adverse shocks on financial markets.

In this research, the analysis of the evolution of the Romanian banking system, of the components of its forms of ownership, the evolution of market shares of credit institutions, as well as of the main aggregated performance indicators, highlights the development of the Romanian banking industry, as well as its registered performances and vulnerabilities.

The development of the Romanian banking industry in the global context allowed the sustainable economic growth.

5. References

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