

# THE PERFORMANCE OF THE ROMANIAN BANKING SYSTEM

**Daniela HARANGUS**

*"Tibiscus" University of Timisoara*

*Economics Department, Romania*

**Abstract:** *The performance of the Romanian banking system is due mainly to its modernization. The dimension of the modernization process is related to: restructuring of the banking system, recapitalization of banks, elimination of non-viable banks, and privatization of large state banks. Legislative and regulatory measures implemented by the Romanian National Bank have also led to performances in the banking business. The commercial banks have diversified their portfolio of banking products and services and have developed retail banking and corporate banking. Banks, as large financial intermediaries in the economy, have contributed to maintain the financial stability.*

**Keywords:** *banking system, commercial banks, financial performance.*

## **Introduction**

In the context of current international financial crisis, one of the important problems that each country is faced with is the capacity of the system to find solutions to ensure financial stability.

The banks are able to develop procedures and instruments for managing financial crises. The recorded performances of the banking systems represent the basis of the economic and financial prosperity of nations as the banks are considered to be the real locomotives that pull the economies in which they activate.

The globalization of the world economy has brought new dimensions in the process of banking modernization. The issues regarding the performance of the banking systems are a priority, both in the banking literature, and in the international banking practice.

## **Problem definition**

In Romania, the reform of the banking system began after 1990, when it moved from a mono-banking system, specific for centralised commanding economy, to a modern and efficient banking system, structured on two levels (two tier banking system), specific for market economies.

The reorganization of the Romanian banking system on two levels implies: on the one hand, the central bank (i.e. the National Bank of Romania), and on the other hand, the commercial banks, established as joint stock companies according to the principle of maximum profitability.

The National Bank of Romania as the sole institution vested with the power to issue notes and coins, has responsibilities regarding the following:

- establishment and management of monetary and credit policy;
- licensing, regulating and supervising the activity of the banks;
- ensuring financial stability;
- development of procedures and tools to manage financial crises in conformity with its legal responsibility;
- participation and collaboration with international financial organizations.

The organization of the two tier Romanian banking system has led to its modernization. The modernization process implied the following: the restructuring of the banking system, its improvement and the privatization of state-owned banks. The restructuring took place between the years 1996-2004, and it had three components

- recapitalization of banks with problems;
- improvement of the banking system, by eliminating all non-viable banks from the system, those that were in cessation of payments;
- the privatization of state-owned banks.

The performance registered by the Romanian banking system is due, mainly, to its modernization. The dimensions of the modernization are given in figure below:

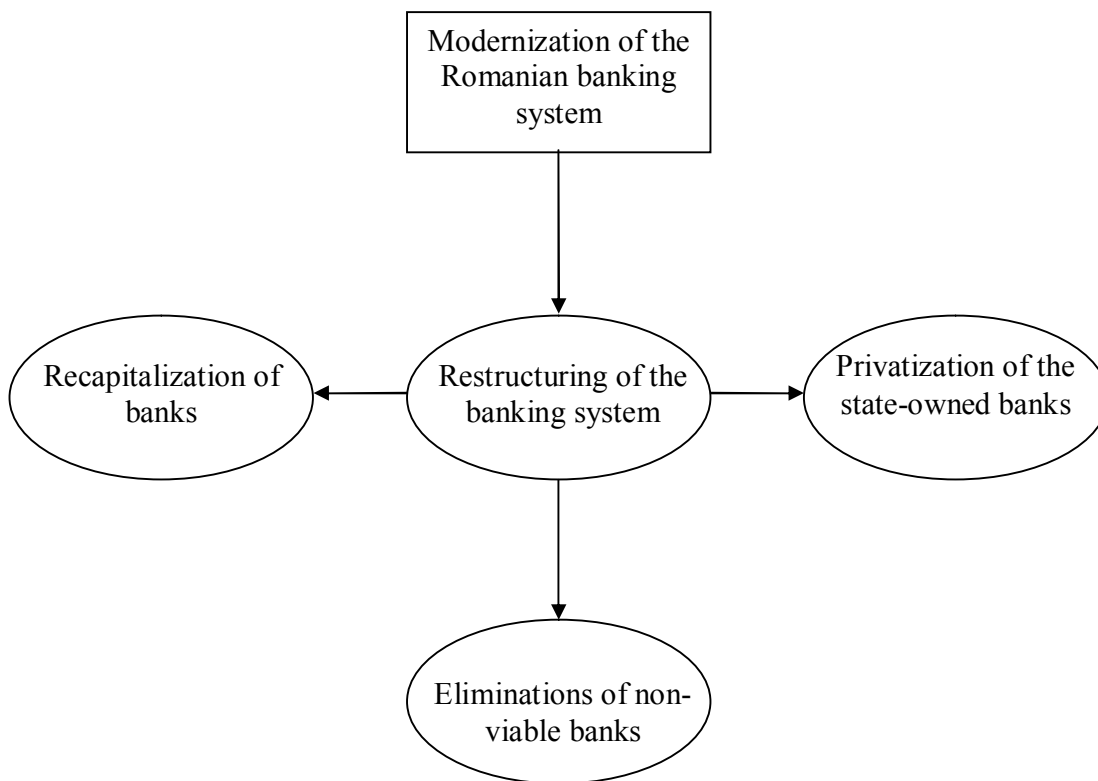


Fig. 1. *The dimensions of the modernization of the Romanian banking system.*

Measures to improve and consolidate the Romanian banking system were applied at the same time to the banks from the private sector. For the banks that have failed to obtain positive results, in the sense of financial recovery, bankruptcy proceedings were launched, in accordance with the legislation.

The positive trend of the Romanian banking system led to its placement on modern and performing principles specific to market economies. The efforts to harmonize the Romanian banking legislation with the provisions of the EU directives in the field were also intensified.

Following the accession of Romania to the European Union and the liberalization of services market, a total of 190 foreign institutions have notified their intention to perform direct banking activity in Romania by the end of 2009, out of which:

- 174 are banking institutions;
- 3 non-banking financial institutions;

- 13 electronic money issuing institutions.

Although Romania has also been affected by the current international financial crisis, the Romanian banking system can be characterised as generally stable, with levels of capitalization, solvency and liquidity in accordance with the requirements of prudential banking.

### Results

The structural changes occurring in the Romanian banking system component, by the end of 2008 have led to the following structure regarding its property forms:

The Romanian banking system component by type of property

Table 1.

Banks	2007	2008
I Banks - Romanian legal persons, of which	31	32
- Banks with majority state capital	2	2
- Banks with majority private capital	29	30
II Foreign banks branches	10	10
Total banks (I + II)	41	42
Creditcoop	1	1
Total lending institutions	42	43

Source: *The National Bank of Romania, Annual Report 2008 p. 65*

The development of the banking activity in Romania has led to the increase of the number of banks, out of which those with private capital are holding an important share. Of the total of 43 credit institutions present in the Romanian economy at the end of 2008, a total of 30 banks are majority privately owned and 10 are foreign banks branches that are active on the Romanian market. The banking competition imposed by the foreign banks that have entered the Romanian market has triggered a new

performance outlook for the Romanian banks as well. They have diversified their portfolio of banking products and services offered to both retail and corporate customers.

The efforts to improve and modernize the banking system were accompanied by significant structural changes. Thus, the banking segment accounted for majority foreign-owned banks has registered a spectacular evolution of their market share, reaching 82.6% at the end of 2008.

The evolution of market shares of the credit institutions in Romania, during the years 2007-2008 is presented in the table below:

The evolution of market shares of the credit institutions

Table 2.

Banks	2007 (%)	2008 (%)
Banks with Romanina capital	12,1	11,6
Banks with majority foreign capital	82,7	82,6
I Totalcommercial banks	94,8	94,2
II Foreign banks branches	5,0	5,6
III Creditcoop	0,2	0,2
Total credit institutions (I + II + III)	100,0	100,0

Source: *National Bank of Romania, Annual Report 2008, p. 66.*

The analysis shows a significant increase in market share of majority foreign-owned banks to the detriment of Romanian banks. The results of the analysis lead us to conclude that the legislative and regulatory measures implemented by the banking regulatory authority (the National Bank of Romania) have led to performances in the Romanian banking system.

## Summary

The Romanian banking system subject to modernization and restructuring after 1990 has witnessed a dramatic development, joining a new performance vista imposed by foreign banks that have entered the Romanian market. The commercial banks have developed retail banking activities and corporate banking. They have also diversified their portfolio of the banking products and services offered to customers and especially the global banking type of products (cards, Internet banking, home banking, etc.) specific to the digital economy of the beginning of the third millennium.

The performance registered by the Romanian banking system represents the basis of financial stability and economic prosperity. The banks as the major financial intermediaries in the economy may generate or manage financial crises specific for the global economy.

## Sources

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