ISSUES IN ROMANIAN BANKING SYSTEM IN THE CONTEXT OF REORGANIZING ITS ADAPTATION TO THE REQUIREMENTS OF THE MARKET ECONOMY

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ABSTRACT: *Based on the concept that the banking system is the engine of economic development, the paper is intended as a blueprint for the banking system in Romania since 1989, stages and parts of its reorganizing process. In the article is also carried out an analysis of the Romanian banking system in terms of numerical development banks and through the two indicators considered fundamental in the banking system: market share, expressed in terms of net balance sheet asset, that social / endowment capital and are presented the conclusions that have been drawn from this analysis.*

KEY WORDS: *banking system; credit institution; banking reform; market share social/ endowment capital.*

JEL CLASSIFICATION: *G21.*

1. INTRODUCTION

More and more specialists consider the banking system in any economy, as economic development engine, an indispensable component on whose strength and proper functioning depends all economic activity. In the context of transition to market economy after 1989 and given the role that banks play in regard to the proper functioning of economic entities and the economy as a whole, in Romania, it was necessary to create a modern banking system, capable to provide a wide range of products and high quality services that meet the requirements of all customers in a market economy. Thus, this article wants to make a brief presentation of the changes that have occurred in the Romanian banking system after 1989, evolution in numbers, focusing on some more delicate moments that have marked this evolution.

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In the opinion of the Governor of National Bank of Romania - Mugur Isarescu, the central banking system transformation, with the state monopoly, feature of Romanian economy before 1989, in one that meets the requirements of market economy, has experienced two phases: the first involving the creation of the Romanian banking system , “as a modern structure in the context of imbalances emerging market economy"and the second represented by the “legislative and functional strengthening of the banking sector after the crisis of 1998-1999’’ (Isărescu, 2009, p.276).

2. THE STEPS OF THE REORGANIZATION OF THE ROMANIAN BANKING SYSTEM

The first stage of reorganization, which began on 1st December 1990 at the National Bank of Romania (the separation of commercial activities and its takeover of by the Romanian Commercial Bank, founded at that time), has resulted in developing the new legal framework, upon approval by Parliament of the Law no. 33 on banking, regarding the National Bank of Romania, namely Law no. 34, both entered into force on May 3, 1991. Under the new legislative framework, the Romanian banking system is structured on two levels (that are still maintained): the first is a single entity, the National Bank of Romania (it is the sole issuer of the state and establishes regulations in the monetary , credit, foreign exchange and payments, refinances the banks, provide liquidity to the banking system and supervision of all banking companies), and the second includes the banking companies (legal entities whose main activity is fundraising from individuals legal and physical form of deposits or negotiable instruments payable on demand or at term, and loans) (Law no.33/1991, art.3).

We can say about the new legal framework that encouraged the development of private banks liberalized the entry of foreign credit institutionson the autochtonous market. Once with Romania’s advancing on the market economy it was necessary that the Romanian banking system align to the principles of this type of economy, so that since 1997, **it moved to the second phase of banking reform (**web-site: www.bnro.ro - Romania – Banking system – present and future – June 2003)**,** characterized by improving and completing the legal framework by approving the new banking banking law (58/1998), Law No. 101/1998 on the National Bank of Romania and nr.83/1998 law on bank bankruptcy proceedings. On the same line of improving the banking system, is the adoption of Government Emergency Ordinance 97/2000, which created a new legislative framework necessary for the functioning of credit cooperatives.

Also in this stage, as an element in addition, aiming to contribute to the Romanian banking system reorganization and adaptation to the specific characteristics of market economy, was the takeover, within the internal regulations in the field, with the signing by Romania of the Accession Agreement to the European Union, **the communautaire acquis**, the objective contained in the medium term development strategy of the banking system as part of the National Strategy for Economic Development of Romania on Medium Term (Georgescu-Golosoi, p.8).

Among the objectives of the strategy which refer to the banking system we include: the creation of a sector composed of strong banks capable of providing financial intermediation based on efficiency and profitability, diversification and higher quality banking and financial services, whose purpose targets to be reflected in the increasing competitiveness of the Romanian banking system

The process of adjustment to EU requirements continued in 2005-2008, with special attention being paid to improving the primary legislation on the work of various kinds of credit institutions (commercial banks, credit unions, savings banks and lending for housing, mortgage banks and electronic money institutions), concern that has resulted in the issuance of Government Emergency Ordinance No.99/2006 on credit institutions and capital adequacy, approved and amended by Law 227/2007, bill that took the Directives nr.48/2006 nr.49/2006 and repealed the provisions which hitherto had reglemented the banking activity (it is Law No. 58/1998 on banking activity, GEO 97/2000 on credit co-operatives and others).

3. HIGHLIGHTS OF THE REORGANIZATION OF THE ROMANIAN BANKING SYSTEM

But the reorganization of the Romanian banking system is not manifested only in law but took also a physical form, whether we can call it this way, reflected on the one hand, in the recapitalization of banks with problems and removing the non-viableones from the system, and on the other, by privatization of state-owned banks. We recall here the delicate moment of 1998, when malfunctioning results of large state-owned banks (Agricultural Bank and Bancorex) had come to represent a real threat to the viability of the Romanian banking system. (Mugur Isărescu*,* 2009, pp.286). By the establishment, in 1998, of the Bank Asset Recovery Agency (BARA) and the assumption by the losses of the two banks, the delicate situation could be overcome in the case of the Agricultural Bank and its recovery, but this was not possible for Bancorex the definitive solution being adopted in 1999, as the fusion with the Romanian Commercial Bank by the absorption of the viable part of Bancorex.

Regarding the Agricultural Bank, after long efforts, which took place during the three years (1999-2001), succeeded in its privatization, the sale of the shareholdings held by the State Property Fund of consortium Raiffeisen Zentralbank Osterreich AG and Romanian-American Investment Fund. (Isărescu*,* 2009, pp.287).

Measures to remove from the Romanian banking system the problematic or non-viable banks targeted private banks, too. Thus, during 1999-2003, due to a deteriorating of the financial situation due to **mismanagement**, in the case of **Albina Bank, Bankcoop, Credit Bank, Banca Turco-Romanian Scont Romanian Bank, International Bank of Religions, Columna Bank, Bank of Investment and Development** (BID) and of the inability to achieve positive results for the purposes of their financial recovery, even after the special measures adopted by the National Bank of Romania, was initiated bankruptcy proceedings for all these banks.

Yet, reorganizing the banking system has not only put on bankruptcy *clothes* of some banks, (it is true in private equity with a low market share), but **was manifested through the privatization of two major state-owned banks, it is about the Romanian Development Bank and Bancpost SA**. Also, still under the reorganization are the changes that have occurred in the activities of the Savings Bank (the institution that was specialized in attracting savings from the public, it turned into a credit institution, having included in the scope of work also lending individuals and legal entities), specialization of the Romania Export-Import Bank SA as an agent of the state with a well defined role (that of supporting the exporting firms), and the triggering of a process of privatization, in the case of the largest banks in Romania (Romanian Commercial Bank), which was completed in 2006 by acquiring a majority stake by Erste Bank.

4. EVOLUTION OF THE ROMANIAN BANKING SYSTEM BY OWNERSHIP

The period of the profound changes occurring in the Romanian banking system, is identified not only by the failure of banks and reorganizing or privatization of others, but also by allowing the National Bank of Romania of relatively large number of banks, especially with foreign capital, and by opening on Romania's territory branches belonging to foreign banks.

Table 1. Banks operating in Romania, according to their capital

Year	1994	1998	2000	2003	2008	2009
I. Number of banks, Romanian legal persons of which:	20	36	33	30	32	31
I.1. a) Banks with integral or majority state capital of which:	7	7	4	3	2	2
- integral state-owned capital ;	1	1	1	1	1	1
- majority state-owned capital	6	6	3	2	1	1
I.2. b)Banks with private capital of which:	13	29	29	29	30	29
- with Romanian majority capital;	8	13	8	6	3	4
- with foreign majority capital	5	16	21	21	27	25
II. Branches of the foreign banks	7	9	8	8	10	10
Total banks and brabches of foreign banks (I + II)	27	45	41	38	42	41
III. CREDITCOOP				1	1	1
Total credit institutions (I + II + III)	27	45	41	39	43	42

Source: Annual reports of National Bank of Romania

Thus, until 31.12.2009, the Romanian National Bank has authorized a total of 50 Romanian legal persons that carry out banking activities, and 19 branches of foreign banks. By analyzing their evolution over the period 1994-2009 (Table no.1), in numerical terms we can say that by 1998 we witnessed a continuous increase in the number of banks, Romanian legal persons, so that at the end of the year there were 36 banks, after which, following the bankruptcy of some of them, their numbers began to fall steadily until 2003. In the years that followed, even if they have been authorized a total of six (6) Banks (ROMANIAN PORSCHE BANK SA BANK MILLENNIUM SA, GE GARANTI BANK SA, RAILWAY Commercial Bank SA, Raiffeisen Bank for Housing SA, BCR BANK FOR HOUSING SA) at the end of 2009, the number of banks, Romanian legal entities, which existed in Romania did not exceed 31, and following the merger of some of them (see the Commercial Bank, Ion Țiriac"SA, HVB Bank and UniCredit Bank).

Regarding banks' capital structure during the period analyzed, it can be said that this was a constant evolution, to the increase in the number of banks with foreign capital, along with a decrease in the number of state-owned banks, following the privatization of this segment of the Romanian banking system. Parallel with this phenomenon, and related private sector-owned Romanian bank, until 1998 it has grown steadily after that, the problems occurred in several such banks, led to the bankruptcy of some of them (the Commercial Bank,"ALBINA SA, Romanian Discount Bank, Investment and Development Bank-IDB SA, Bankcoop SA, Credit Bank, International Bank of Religions SA), which made their numbers continued to decrease, so that at the end of 2009 there were only four banks with majority Romanian private capital. It's about Banca Transilvania SA, Commercial Bank Carpathian SA, Libra Bank SA, Railway Commercial Bank S.A.

5. MARKET SHARE AND SOCIAL CAPITAL – BASIC INDICATORS CHARACTERIZING THE ROMANIAN BANKING SYSTEM

Next in this article are presented and analyzed in terms of their changes over time, two parameters that define an institution, it is about the market share expressed according to the net assets balance sheet (table 2) and the social capital / endowment (Table 3).

Table 2. Market share of credit institutions

	Balance net asset					
	1998		**2003**		**2009**	
	mil. lei	**%**	**mil. lei**	**%**	**mil. lei**	**%**
Banks with Romanian capital of which: - majority state capital -majority private capital	10668,39 9464,77 1203,62	80,05 71,02 9,03	25225,90 22655,37 2570,53	41,72 37,47 4,25	47922,4 24185,3 23737,1	14,51 7,32 7,19
Banks with foreign majority capital	1901,13	14,26	30547,65	50,53	257277,8	77,92
I. Total of commercial banks	12569,52	94,31	55773,55	92,25	305200,2	92,43
II. Branches of foreign banks	758,11	5,69	4684,50	7,75	24199,3	7,33
Total of banks with private majority capital, including the branches of the foreign banks	3862,86	28,98	37802,68	62,53	305214,2	92,44
Total of banks with foreign majority capital, including the branches of the foreign banks	2659,24	19,95	35232,15	58,27	281477,1	85,25
Total of banks and branches of foreign banks (I+II)	13327,63	100	60458,05	100	329399,5	99,76
CREDITCOOP					784,0	0,24
Total of credit institutions	**13327,63**	**100**	**60458,05**	**100**	**330 183,5**	**100**

Source: Annual reports of the National Bank of Romania

Table 3. Share of credit institutions in the aggregate volume of the capital

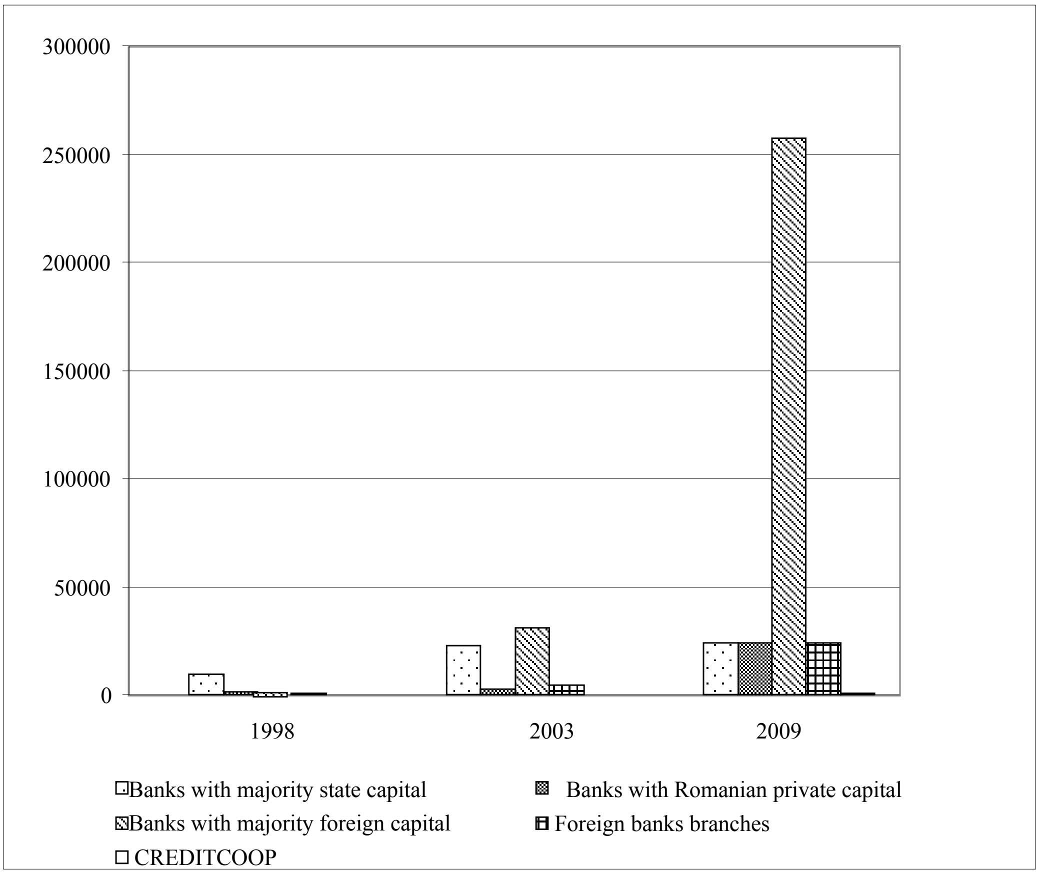
	Social /endowment capital					
	1998		2003		2009	
	mil. lei	%	mil. lei	%	mil. lei	%
Banks with Romanian capital of which: -majority state capital -majority private capital	369,37 299,98 69,39	64,21 52,15 12,06	1 347,70 1 027,30 320,40	33,72 25,70 8,02	3 263,50 1 750,00 1 513,50	22,69 12,16 10,52
Banks with foreign majority capital	139,89	24,32	2 327,07	58,22	10 448,80	72,63
I. Total of commercial banks	509,26	88,53	3 674,77	91,94	13 712,30	95,32
II. Branches of the foreign banks	66,00	11,47	322,24	8,06	551,60	3,83
Total of banks with private majority capital, including the branches of the foreign banks	275,28	47,85	2 969,71	74,30	12 513,90	86,99
Total of banks with foreign majority capital, including the branches of the foreign banks	205,89	35,79	2 649,31	66,28	11 000,40	76,50
Total of banks and of foreign banks (I+II)	575,26	100,00	3 997,01	100,00	14 263,90	99,15
CREDITCOOP					121,50	0,85
Total of credit institutions	575,26	100,00	3 997,01	100,00	14 385,40	100,0

Source: *Annual reports of the National Bank of Romania*

We chose 1998 and 2003 as beginners years, respectively, which meant the physical reorganization of the Romanian banking sector, i.e. the period during which, after a significant increase in the number of banks authorized by the National Bank of Romania (until 1998), there have been many cases of onset of bankruptcy proceedings, the current year and 2009 respectively. Also, in order to make a comparison of data at the three times I used the same measuring unit, namely new million Lei. From the data presented in Table 2 and the graph drawn on the basis of these data (Picture 1) there results that, in the period under review (1998-2009) foreign-owned banks recorded the biggest increase in market share, reaching by the end of 2009 to hold about 80% of the net assets of the banking side of our country.

If we take into account also the balance sheet net assets held by foreign corporate bank branches, it is reached a 85.2% share. This increase was due, on the one hand, to the strong getting in of foreign capital in the Romanian banking system, which took the form of new credit institutions authorized by the National Bank of Romania, on the other hand the banking sector following the privatization of state by taking over the majority package of shares of all banks with foreign capital. Regarding the state banking sector (which is the CEC Bank and Exim Bank.), even though it has increased somewhat in terms of nominal value of net asset side, however, as a share it experienced a dramatic decrease from 71.02% in 1998 to 7.32% in late 2009.

million lei



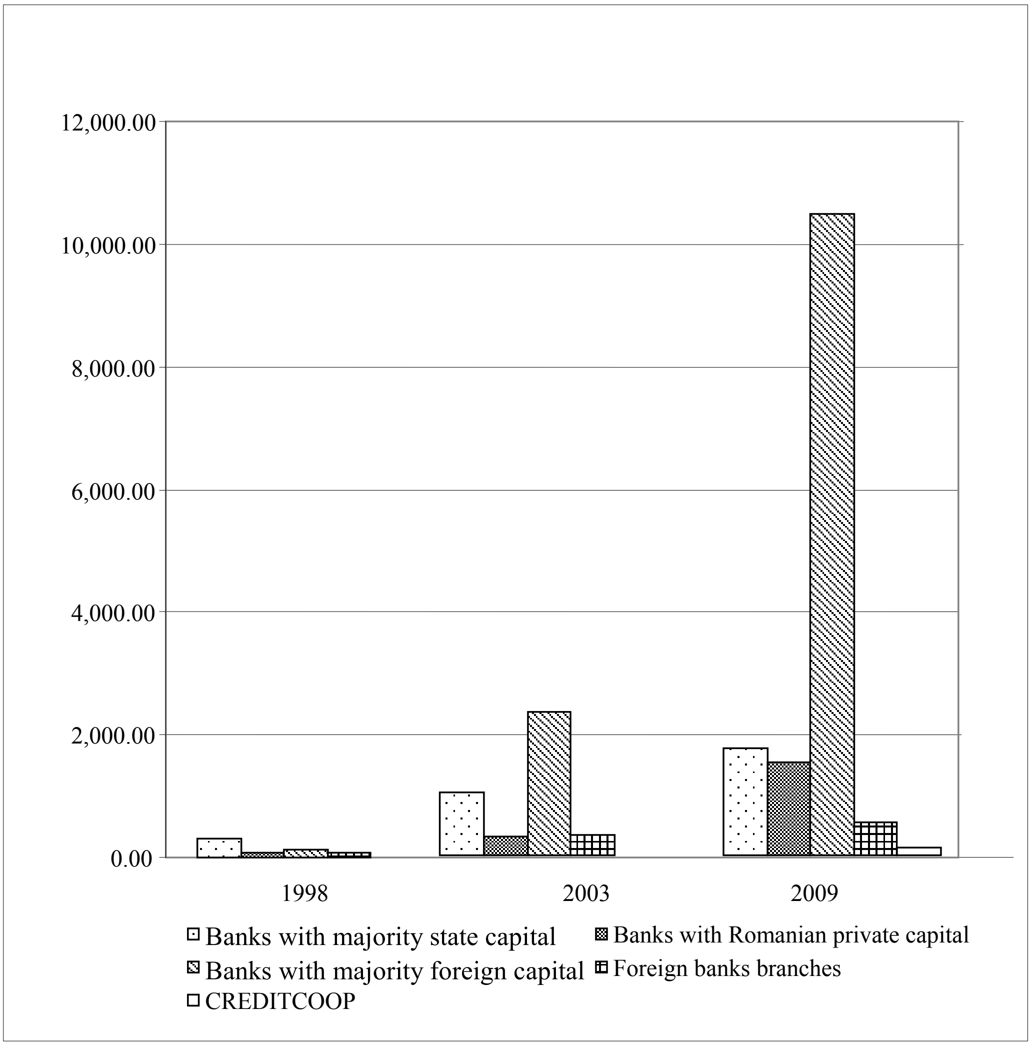
Source: *Annual reports of the National Bank of Romania*

Figure 1. Market share of the credit institutions in Romania

Regarding the Romanian private banking sector, we can say that it had an oscillating evolution, meaning that it dropped between 1998-2003 (when there occurred most bank failures), then began to increase slightly reaching by the end of 2009 to hold a market share of 7.19%, very close to the state-owned banking sector. Please note that this segment of the Romanian banking system is composed of a number of 4-credit institutions.

The same evolution presented for market share, we find in terms of social / endowment capital of banks in Romania (Table No. 3 and Picture No. 2), meaning that by 1998 the Romanian majority-owned banks state-owned share, with 52.15% at the end of 1998, while foreign capital, which had begun to get in the Romanian banking system, both having the form of banks and branches of foreign banks, no more than 35, 79%. Regarding the autochthonous private capital, it failed to impose on the banking market in our country, so that the share of banks with Romanian private capital, in terms of capital / endowment has not exceeded 13%.

million lei



Source: Annual reports of the National Bank of Romania

Figure 2. The level of social/endowment capital of credit institutions by ownership

After 1998, foreign capital began to be felt increasingly over the banking financial market in Romania, on the one hand by participating in the privatization of state-owned banks and the acquisition of the majority package of shares (as was the case with Bank Romanian Development SA, Bancpost SA Agricultural Bank SA, and the Romanian Commercial Bank SA), and secondly, by authorizing foreign banks. Thus, at the end of 2009 foreign majority capital -owned banks (including branches of foreign banks) had not less than 76.46% of total capital / endowment of the Romanian banking system, while the banks were fully or majority state (in number of two or CEC Bank and Exim Bank.) held at the same time, a weight of only 12.16%. Related to autochthonous private capital, as I mentioned, it failed to keep up with the foreign one, so its share in the total capital / endowment of the Romanian banking system was up only 10.52% until the end of 2009. Of those submitted in connection with the two fundamental indicators of the Romanian banking system, we can say that the banks with the largest market share are those that have a substantial capital.

6. CONCLUSIONS

Apparently contrary to the reality, the main feature of the Romanian banking system's development after 1989 was not a quantitative dimension of its evolution, but the coherence of structural and qualitative development of banking activity in the sense of an upward direction dictated by the adjustment to the market economy requirements.

The caution and qualitative criteria, which were the basis for the licensing policy conducted by the National Bank of Romania, have been reflected in the relatively small number of new banks which were created in our country, which made Romania to be characterized by a low degree of financial intermediation

Thus, in 1998, considered as the peak year of the Romanian banking system in terms of number of banks and branches of foreign banks which were active in Romania, with a total of 45 such institutions, to a commercial banks were attributed approximately 500 000 inhabitants, compared with the situation in the Czech Republic (195 thousand inhabitants in 1996) and Bulgaria (200 000 inhabitants in 1995), (Mugur Isărescu, 2009, p.278).

But although the National Bank policy concerning the authorization of commercial banks was characterized by prudence, however, during the reorganization of the Romanian banking system were established, and some gaps, which took the form of bankruptcy has no less than eight banks in the range between 1999 and 2003, but were not considered defining for the whole banking business in Romania.

Regarding the number evolution of banks in our country by the year 1998, increasing of their number was achieved mainly on account of autochthonous capital, the entry of large foreign banks knowing more rapidly rhythm thereafter, while accelerating the process of privatization of the Romanian banking sector.

The same evolution met two of the basic indicators characterizing the Romanian banking system, it is about the market share (expressed in terms of balance net asset) and social / endowment capital, meaning that by 1998 the share of the system Romanian banking sector had a majority state-owned banks and private Romanian, by which foreign capital has seized the banking sector in Romania. This was achieved by means of two levers, namely:

- acquiring the package of shares from majority state-owned banks, which have undergone privatization process that began with the Romanian Bank for Development and Bancpost, continued with the Agricultural Bank, the last Romanian bank was privatized Romanian Commercial Bank;
- licensing of foreign capital banks.

All these have led that by the end of 2009 the foreign capital-owned banks hold a market share of 85.25% (calculated based on balance net asset), and their social capital represent 76.50% of total capital endowment of the Romanian banking system.

Starting from those presented in this paper there can be said that the opening of the Romanian economy has left its mark on the current image of the banking system, which determined the need to develop and adapt its operating systems to the international requirements and practices. Also, competitive pressure on financial-banking market in our country, due to the infusion of foreign capital has created the prerequisites for the development and diversification of banking activities, reflected through new banking products and services, increase in speed and the instruments, settlement accounting and control system modernization and computerization of the data transmission systems such as accounting and from the transfer process. In addition, efforts for capitalization and the competitive pressure have caused banks to develop a network of local modern and which fully respond to *consumers* demand for products and services.

Finally, it has to be noted that the new requirements of the "Basel Committee" have imposed , to the European institutions in banking supervision field, the need for detailed provisions on the harmonization of the minimum liquidity that provide banks stability in times of financial crisis and to promote an elasticity of bank activities on long term. Recommendations on capital adequacy and liquidity have been the subject of numerous consultations with Member States' central banks and have also been established and developed new strategies that will be proposed as a new paradigm for management of the credit institutions. It remains to be seen which will be the strategic guidelines on management of bank contributions, by 2019, to provide social/ endowment capital and encourage the lending activities.

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