REFORM, ORGANISATION AND CONSOLIDATION OF THE ROMANIAN BANKING SYSTEM

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ABSTRACT: *Banking system, making the economic environment and the resources it provides, the subsystem consists of macro economic and social. He is in continuous interaction with the economic environment, which takes "input" in various forms - human, financial, information they process into "outputs" - products and banking services, financial derivatives used in banking, financial and banking information, etc. In other words, and the banking system is now an open system. What is specific to open systems, and hence the banking system is that it regulates activity by reverse connection (feed back), so they are capable of self.*

KEY WORDS: *banking system; input; output; National Bank; banking reform; money.*

JEL CLASSIFICATION: *E58; O52; P11.*

1. BANKING SYSTEM IN THE ECONOMY AREA

Market economy implies a banking system able to ensure the mobilization of economic and monetary cash orientation for conducting efficient business. In a market economy, the banking system serves as the attraction and concentration of company savings and channeling them through an objective and impartial allocation of credit, the most effective investment. In carrying out this first function, the banks, that link the base system, watch how borrowers use borrowed resources. Banks provide and facilitate payments, provide risk management services and are the main channel of monetary policy transmission.

Through the collection of financial resources, while placing on the market, through loans, discount operations and other financial market operations, banks serve as intermediaries between owners and users of capital.

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In exercising its diversity of operations, banks acting on their behalf, on their own account, depositors and borrowers have no legal ties between them. In fact, bank deposits and managing means of payment in the economy. Thus, collecting deposits, banks are responsible for their efficient management, with maximum efficiency, for their own benefit and depositors. In order to achieve the final objectives, the Central Bank aims to establish internal and external value of domestic currency, while making available the national economy of optimal quantity of money, need growth.

2. INTEGRATION OF THE ROMANIAN BANKING SYSTEM IN COORDINATES, STRUCTURE AND FEATURES EUROPEAN BANKIHG SYSTEM

Due to the history and the peculiarities of the transition to a market economy, the Romanian banking system has some issues and common problems with state banking systems of other countries. In Romania was created a banking system on two levels: National Bank of Romania, the central bank and commercial banks (Cernea, 1994, p. 6). The evolution and transformation, the Romanian banking system has gone through many stages of evolution.

3. THE FIRST PHASE OF BANKING REFORM

The first phase of banking reform was the specialization and division, conducted between 1991-1996. Specialization - in terms of savers, is limiting production of certain products or in other words, producing a limited range of products. In this context, specialized bank may be regarded as the policy of the various banks, only to certain services, operations, bank products.

The notion of sector can be defined as a special type of specialization that is the policy of the bank to certain areas of the economy - sectors of the economy. Romania has a higher potential growth and development of banking, both in customers, corporate and long term in individuals. Thus, since 1990, the Romanian banking have produced a series of key changes, outlined the main stages of development banking.

Restructuring and development of the Romanian banking system is a vast and complex process, conducted mainly on two aspects: institutional and functional. Thus, institutional restructuring of the banking system included, on the one hand, the reorganization of the National Bank and transform it into a true central bank, on the other hand, developing a network of commercial banks. This was done both through the modernization of existing banks and by establishing new state-owned banks, private or mixed, but also with foreign capital participation.

According to Law 33/1991, banking in Romania is organized and conducted by:

- National Bank - the role of central bank; (Pîrvu, 2005, p. 173)
- The banks - up as companies. (Monitorul Oficial, nr. 70, 1991)

Currently, the National Bank Act nr.101/1998 operating under the Statute entered into force on July 1, 1998.

The new banking legislation, the National Bank was relieved of all the functions of commercial banks, which are taken at the time mentioned, a newly established bank, Romanian Commercial Bank.

Functions of the National Bank, currently consisting of "control of issuing money and interest rates, preventing bank failures, authorization and supervision of operator duties as banking and credit, banking, foreign exchange policy and administration of international monetary reserves". (Pîrvu, 2004, p. 32)

Banks such as "Romanian Foreign Trade Bank, Agricultural Bank, Investment Bank, based on government decisions, have been transformed into commercial banks, state-owned and domestic private, approving them the statutes and the new organization and operation.

“Banks were established domestic and foreign private capital and branches of foreign banks". (Constantinescu, 1997, p. 83) Banks were obliged to open up correspondent accounts at National Bank and other accounts and to refinance at this, in such conditions.

Creation of private banks contributed both to a better coverage of capital needs and to develop competitive process, with benefits for economic, national economy as a whole.

“The main objective of the Romanian banking system reform was to create a network of banks, modern and functional systemic appropriate international standards, which directly contribute to development and stability of Romania”. (Caprio Jr. & Ross, 1992, p. 32) This objective could be achieved through concentrated activity NBR and commercial banks. The banking sector has identified a number of objectives on short, medium and long term that would strengthen and develop the financial infrastructure.

National Bank of Romania established by regulation, the minimum level of liquidity of commercial banks and the calculation of the degree of liquidation of a commercial bank.

“In a market economy, the banking system serves as the attraction and concentration of company savings and channeling them through an objective and impartial allocation of credit, the most effective investment”. (Pîrvu, 2005, p. 174)
Banks provide and facilitate payments, provide risk management services and are the main channel of transmission and monetary policy implementation.

As the market economy synthetic indicator reflecting economic efficiency in banking business is profit, banks in the former period of transition and have organized activities so they can attract a large number of customers to ensure their achievement proposed. For the customers, banks must take account of the competitive market is buyer.

4. THE SECOND STAGE OH BANKING REFORM

Between 1997-2000, ran the second stage of banking reform was to:

- Improving and completing the banking law by approving laws: bank privatization law (Law no. 83/1997) Banking Law (Law no. 83/1998) Statute Law (Law no. 101/1998);

- Creating new legal operation of credit cooperatives: Emergency Government Ordinance no. 97/2000, as amended by GEO. 272/2000, amended and approved by Law no. 200/2002;
- "Defining the fundamental objective of the NBR national currency stability is to contribute to price stability". (Pîrvu, 2005, p. 174).

"Intervention tooling was upgraded by removing old directed credit lines and the introduction of open market operations". (BNR, 2003)

Since the banking system requires effective decentralization and competition, the National Bank sought to stimulate the formation of a system of commercial banks, universal type, which were authorized to perform the full range of banking operations and operate in the country, in compliance framework banking Supervision imposed by the central bank.

Thus, the Romanian banks, with the legal basis for a government decision, were transformed into state-owned commercial banks and domestic private and structure of foreign banks. When the first date in January 2007, when Romania joined the EU in economic structures, the Romanian banking system is composed of several banks.

At this stage, the banking sector consists of state-owned agents, cooperatives, private foreign capital and population, which will develop further, which require a wide range of banking products and services of good quality, in accordance with requirements and characteristics of each group of clients.

Creating new banking system to pursue a modern network of banks, cash balancing solutions for operators and population, existing banks with the necessary credits, required the banking market. Over the years, banking in Romania has improved continuously since 1990. Banks, with some exceptions, still serve customers in these sectors, as before 1989. Just have acted, and then to meet the requirements and demands of the transition to market economy.

Traditional specialization (division) on political and economic was lost, in the current legal basis. Banks are not entitled now, by law, to carry only certain types of operations, the wide range of banking operations. This does not mean that banks can not choose certain operations specializing in certain areas. What should be considered is that, in this case, the choice is bank based on its operational status, shall establish the types of operations that will take place, according to banking and financial market developments and the strategy adopted.

Although legislation has opened the competition for the financial system and established a banking-oriented market requirements, the position of traditional banks, continues to be dominant.

"Development operations and services and specifically to allowed appliance, while the diversification of banking" (BNR, 2003, p. 20).

This resulted in increased competition, division old being replaced by a real banking expertise will depend on the nature and extent of operations performed, the category of clients that each bank is addressed, not least, the quality of customer service.

Following the legal framework created in a short time, with existing banks, banks appeared in November. Whatever the origin of funds, banks engaged in the same range of services for both businesses State, as well as private ones. Notice that private banks supports privatization process priority. State banks still tend to focus on areas that have monopoly in banking.

Banks carrying us have the opportunity, since the beginning of modern banking, computer and attract the most profitable start-up companies as customers. Finally had a chance to decide, based on established legal framework, the specific conditions existing in the economy and marketing studies, such as banking operations that wish to pay particular attention in the overall activity the bank.

5. THE THIRD STAGE OF BANKING REFORM

Between 2001 and 2004, held the third stage of banking reform was to:

- Complete alignment with the regulatory framework in credit institutions in the EU directives and basic principles of the Basel Committee on Effective Banking Supervision (between 2001 and 2002);
- It occurred amending Law no. 101/1998, Law no. 58/1998 and Law no. 83/1998;
- The higher the authorization of the directors and major shareholders of a bank;
- Investing NBR with some powers which gives more powers in pursuing transfer ownership of banks;
- NBR's ability to identify groups acting together, to a bank;
- Increased legal protection for those involved in banking supervision and establishing the legal framework enabling collaboration with other central bank supervisory authorities in the country and abroad;
- Application of L. no. 83/1998, when bankruptcy and credit cooperative FGDSB invested with power to act as a liquidator for banks and credit co-operative networks, went bankrupt;
- Adopt the principles of regulation, licensing and prudential supervision of credit cooperatives.

Also in this stage have been developed regulations for: licensing, minimum capital, own funds, solvency, large exposures, loans to persons in special relations, classification of loans. These regulations refer specifically to: improve access rules for banks in the banking, prudential rules and accounting rules on derivatives, rules on customer due diligence standards.

During 2003-2004, resolved issues related to the final form of the Banking Law and Law on the Statute, as commitments in the EU negotiation chapters (Cap. 3 & Cap. 11). (Monitorul Oficial, Partea I, nr. 78, 2005)

Regarding "the Statute, the content is found to define the fundamental objective of the NBR" (Monitorul Oficial, nr. 528, 2004) - pricing, consolidation institutional independence of central bank financing of the public sector, eliminating privileged access of public sector financial institutions.

Also during this period, the Banking Act contained specific elements relating to:

- Harmonization of the legislation on credit institutions with EU directives related to the regulation, authorization and supervision of credit institutions, the central bank and remove all restrictions on establishment in credit institutions;
- Setting tasks BNR supervision on a consolidated basis of credit institutions;
- Establishing mandatory that all credit institutions, which have been operating license withdrawn, to be liquidated.

Until 2006, Romania concluded negotiations to take over the community accession in all 31 chapters. In this process, the central bank was directly involved in the negotiation and completion of three chapters: Chapter 3 - Freedom to provide services, Chapter 4 - Free movement of capital, Chapter 11 - Economic and Monetary Union.

6. FREE MOVEMENT OF CAPITAL

With regard to Chapter 4 "Free movement of capital" can be appreciated that while a few decades ago the international movement of capital was relatively unimportant in relation to trade in goods and services and often served only to finance imbalances current account balance, capital movements is today known type of cross-border transaction, still the fastest growing. In addition, the interaction was modified progressive and international distribution of capital causes increasingly more international exchange and interest rates which, in turn, influence the evolution and structure of international trade.

“European Union liberalized capital movements in several stages. First, a first directive, adopted in 1960, which liberate most of the long-term capital movements, was completed in 1962, a second directive for operations with securities. (Pîrvu, 2005, p. 96)

“During the 70's and early 1980, when Member States react differently to the oil shock and other economic issues with complex problem, important cross-border capital movements have proved increasingly more able to threaten the internal balance of savings. However, attempts to control cross-border capital flows have proven not only inefficient, but also increasingly counterproductive”. (Pîrvu, 2005, p. 96)

Once these imbalances corrected, liberalizing all capital movements, medium and long term, ended in 1986 and then, in 1988, there is liberalization of capital movements of short-term, which ended, of course, with positive results. Not only that it has not generated any serious imbalance in the countries concerned, but after liberalization, countries have taken measures that have been generally a net entry of capital, international capital markets unhesitating commitments to enter these markets and distribution of capital has increased overall efficiency in the EU.

This experience led to the confidence in the Union to liberalize capital movements in relation to third countries under the Treaty establishing the European Union and Article G-14, amending the Treaty Commission.

Community unlegislative action in this matter based on some general principles:

- The effective abolition of capital movements and payments control refers not only to those restrictions, in exchange, and administrative regulations of any kind, which generates an effective discrimination based on origin or destination of capital;
- The right to freely make transactions of this nature was given with priority to residents and not citizens;
- Establishment of this freedom has resulted in the exclusion of all general prohibitions and any express or implied authorization procedures;
- There were some general exceptions to this freedom, they refer, in particular national security policies and public order, but were extended to more general aspects of economic policy and national monetary policy or the rate interest.

However, the European Union's experience should be viewed in light of changes that have occurred and appear on the international financial scene. In the last 20-25 years has grown to capital movements unprecedented transaction costs fell, and attracting capital is subject to international competition, becoming more intense. Since then, measures have become more indispensable to attract foreign capital, to ensure integration into the international economy and to promote the development of a competitive financial sector. This is demonstrated clearly has the experience of a number of countries outside the EU, which have liberalized, in turn, capital movements in the late '80s and early '90s.

Romania opened this chapter in spring 2001 and closed in April 2003 during the Greek EU presidency and pledged to implement the accession by 2007.

In the accession negotiations of Romania occurred second transitional period:

- Seven years for the purchase of farmland, forests and forestry land by EU citizens and those of the European Economic Area;
- Five years for the acquisition of land for secondary residences by EU citizens.

Romania has imposed restrictions affecting capital movements, but a program of liberalization and appropriate implementation Money Laundering Directive was monitored.

When its policy in the free movement of capital, was developed, it was applied to the following institutions, while they supported some changes to adapt to market conditions and integration in European Union: Ministry of Finance, National Bank, Ministry of Development and Prognosis, Department for Relations with Foreign Investors, the Authority for Privatization and Management's participation in State, National Securities Commission, the Office for Supervision of Insurance and Reinsurance, National Office for Prevention and combating Money Laundering, the Bucharest Stock Exchange, the National Securities Clearing, Settlement and Depository - TRANSFOND.

7. CONSOLIDATION ROMANIAN BANKING SYSTEM

Romanian banking system consolidation continued in 2004, achieving important steps, especially in the banking privatization and alignment requirements of European legislation.

The main events that marked the banking sector were: (Rotaru, 2002, p. 22)

- Shift in category banks with private capital, Romanian Commercial Bank (BCR), the largest commercial bank in Romania; - Purchase the entire share RoBank by OTP important Hungarian banking market operator;
- Establishing a new financial institution, specialized in housing, Raiffeisen Housing Bank, the result of association with a specialized bank group Raiffeisen in Germany:
- Entry of new banks - Porsche Bank Romania, which is a subsidiary of the importer Porsche Romania;
- Merging banks Frankfurt-Chennai Bank, Banque Franco Roumaine and Anglo-Romanian Bank Limited, resulting Anglo-Romanian Bank Limited Branch Bucharest.

In early 2007, the Romanian banking system includes 40 banks, of which 38 were fully, or majority private and two state-owned. Developments in the year led to an increasing share of foreign capital by 21% to 95.2%.

Table no. 1 Calculated based on the "Financial Yearbook 2006"

Types of banks	*Number of banks*
State-owned banks increased	**2**
Banks with majority private capital (including foreign bank branches Credit Coop	**38**
Total (1 + 2)	**40**
Banks with Romanian majority capital	**6**
Banks with foreign capital	**34**
Ofwhich Branches of foreign banks	**8**

Source: Mediafax, Bucharest, 2007, p. 89

The capitalization of the banking system in 2005 and 2006 recorded a positive development.

8. HARMONIZATION OF THE ROMANIAN BANKING SYSTEM AND FUNCTIONALITY AS INTEGRATED AND INTERNATIONALIZED

According to opinions expressed in the literature, *elements of the banking system are:*

- *Entries in the banking system*, accounting for this factor that determines the existence and operation of other system components, but that is a close inter-relationship of mutual.

In turn, the entries are the following:

- Human resources;
- The economic environment;

- Financial resources - deposits, interbank resources, other resources attracted;
  - Information
- *Structure transformation*, which is the bank with its organizational structure;

Outputs-banking products and services, ie the result of the first two, the quality of this action depends on the final set of output value.

Outputs are bank interface are:

Banking services: exchange transactions, money market arbitrage operations on behalf of the bank or customer support services for financial, legal and patrimonial;
- *Banking products:* instruments of payment and settlement, transfer checks with and without limit of amount, to raise cash checks, security checks issued, the loan contract, bank statements - on operations made in accounts of clients;
- "*The governance structure* of the bank - which aims to organize, plan and control the above elements, in furtherance of the bank". (Alexandru & Berea, 2003, p. 18)

Overall evolution of the banking system can not be detached from the overall situation of national economy has experienced major disruptions at both micro and macro.

Since 2000 when the first achievements in the Romanian banking system:
- Further restructuring and privatization;
- Increase quality services and public education;
- Stimulate economies attract businesses and people in the banking system;
- Modernization of payment systems by developing an electronic payment system;
- Increasing capital market operations;
- Development of specialized financial institutions for leasing activities, brokerage, insurance, investment banking, investment funds, pension funds.

Evolution of the European banking system contribution factor highlights the integration of banking legislation. In these actions groups of factors regulators, competent (European Commission and Council of Ministers), in five stages:
- Deregulation of domestic markets, between 1957 and 1973, during which "the fixed charges was provided by a European monetary fund that coordinated monetary policies of the banks";
- Various attempts to harmonize banking regulations between 1973 and 1983.

Directive on a single authorization, internal control, mutual recognition and liberalization of banking services - 1992, when he marched on "essential parallelism between economic, social and monetary irrevocable link between the last phase in currencies, joint management of certain policies and abandoning sovereignty that result of these ... " (Dellors, 1992)
- Creating a single currency - in 1999;
- Financial Services Action Plan - (2001-2005). (www.primet.ro, 2012)

The first stage began in 1957 and corresponded to the objective of the Treaty of Rome which aimed at transforming national markets into a single common market, during which "the fixed charges was provided by a European monetary fund that coordinated monetary policies banks". (Coşea, 2004, p. 301)

- *The next step* for the harmonization of banking regulations more specifically began in 1977 with the adoption of the First Banking Directive (Directive 77/780/EEC) on the coordination of laws, regulations and legislative provisions of credit institutions.

- *The third stage* corresponds to the process of finalizing the Internal Market (1983-1992).

- *The fourth* stage corresponds to creating a single currency.

By 1980 the banking system is the image of a fragmented system, although in 1973, by Directive 73/183/EEC, were abolished restrictions on the organization and delivery of services and banking activities. In fact, the banking systems of most countries were restricted to a broad set of constraints, especially those aimed at controlling capital flows.

Jean Dermine's study highlighted the most important restrictions induced as follows:

- Control of interest rates;
- Capital control
- Regulations regarding the participation of banks in securities brokerage activities through stock exchanges;
- Restrictions on opening branches abroad;
- Restrictions on new banks entering the market;
- Capping credit mandatory investment requirements;
- Restrictions on the insurance.

The restriction applied was aimed at controlling the interest rate applied in all countries surveyed except the Netherlands and Great Britain. Control of capital flows was practiced by most European countries (among which the most significant such as France, Italy, Spain, Ireland) liberalization of capital is effective only in Germany, Luxembourg, Netherlands and United Kingdom.

Banks also had limitations in conducting brokerage activities in securities in Denmark, Spain, France, Italy, Britain and Portugal and insurance activities were restricted in Germany, Denmark, Spain, France, Italy, Netherlands and Portugal.

Limit the credit was used in Denmark, Spain, France, Italy and Portugal and the market entry of new banks was discouraged in Spain, Greece and Italy. We observe that countries acting most restrictions were Denmark, Spain, France, Italy and Portugal, and most liberal were Belgium, Luxembourg, Germany, United Kingdom and the Netherlands, which dominates the banking industry and today.

9. CONCLUSIONS

Given the trends and international standards and the need to improve the structure and functioning of the international banking system, integrated in the continental bank has imposed and Romanian banks as national banking structure to include the following: (Berea, 1999)

- Competitive large banks with national networks well developed and supported by strategic partners who will carry out operations in our country in the EU as well as abroad. It will reach these major players have ended the repair of the Romanian banking system, when there will be acquisitions, mergers and exits from the market of commercial banks The big banks can be called community banks;

- - Medium-sized banks (national banks) working with priority banking market in Romania, they can be universal or specialized;

  - Small regional banks, which are mainly universal banks, as the name implies they will work on smaller markets in the country;

  - Local banks, very small, mainly with the universal bank and will act in a village and its surrounding areas at most.

This possible pyramidal structure of the Romanian banking system has disadvantages, but advantages. The main disadvantage is the fact that slowing down transfers and benefits of regulatory activity and control concerning the financial and banking organizations will be much easier to perform. The possible configuration of the Romanian banking system structure is the same as in European countries, which in its turn is quite similar to the U.S. banking system.

Banks are an important component of the Romanian economy capitalist, it takes into account the turnover and that the outcome of their application, the main financier of its economy and circulatory system. They can not operate independently of their customers.

A direction of development of a bank depends on the quality financial and economic power and its customers and also the economic characteristics of the area. The bank can be seen as an economic, financial dependency in relationship with other traders who are clients. The efficiency and the stability of a bank is determined by the quality customers. Of their income they attract resources and then placed in the area, making real income to the extent that clients' financial results lend support repayment and interest payment.

With the integration of Romanian banks in the European banking system, in the context of participation in the European single market, and other operational changes be made to promote development and diversification of modern banking products and services at European standards. “Moreover, even in the medium term development strategy of the banking system, developed under the National Strategy for Romania's economic development over the medium term, one of the objectives pursued diversification and increase quality banking and financial services”. (Iordache & Şeitan, 2001). Mainly aims at “integrating [banking], to those of [financial] market operators and also creating conditions for development of products and services, according to market requirements and to implement modern products and services” (Nenciu, 2009) such as hybrid financing instruments, tools and derivatives such as e-banking services).

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