

ROMANIA IN THE CONTEXT OF INTERNATIONAL BANKING. AN HISTORICAL APPROACH¹

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Abstract:

In this study we assess the Romanian banking in the international framework from the beginning to nowadays. We try to underline the main implication of foreign capital on the Romanian banking system and economy. During the stage of the formation of the Romanian banking system, the foreign capital helped the emancipation of the Romanian economy. Subsequently it proved to have a negative impact. Nowadays, if before the experience of the effects of the international crisis, the foreign capital was helpful for the development and modernization of the domestic banking system, in the present times, its prevalence has a negative influence on the background of the reduction of the financing resources and of the interconnection with the western European banking systems, affected by the crisis.

Key words: international banking, banking history, financial crises, foreign capital

JEL classification: F30, E02, G01, G21, N23, N24

Introduction

Many financial institutions decide to run internationally. The main motives for overseas expansion are: customer-seeking strategies, obtaining a foothold strategy, follow the leader strategy, customer-following strategies, performance and efficiency advantages, managerial motives, government motives.

The growth of international banking has been a major factor of financial system development. Also, it has contributed to the globally economic development through a better allocation of financial resources and providing good quality banking products and services. The other face of international banking is the increasing of contagious effect in the perspective of financial crises.

In the economic literature there are significant preoccupations in dealing issues of international banking like Park and Zwick (1985), Cameron and Bovykin (1991), Mullineux and Murinde (2003), Hughes and MacDonald (2002), Slager (2006) etc.

In this study we assess the Romanian banking in the international framework from the beginning to nowadays. We try to underline the main implication of foreign capital on the Romanian banking system and economy.

Historical issues regarding international banking in Romania

The first banking operations run on the territory of the Romanian counties were done by *money changers*. They were dealing with the *coins' exchange*, in order to obtain gains, under the conditions in which various coins issued by other countries, especially deteriorated coins, were circulating and whose nominal value didn't correspond with the value of the precious metal they were made of. The first forms of credit were the *political credit* (to obtain the reign or other administrative positions) and the *consumption credit*. The capitals coming from *Turkey* or *Austria* were placed in the Principalities, under the form of credits, with higher interest rates and taking as a guarantee both valuable objects as a pledge and mortgages on lands.

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After the Russian-Turkish War (1828-1829), the Turkish economic monopoly over the Romanian Principalities was eliminated. Little by little, the usurers changed into real *bankers' houses*, combining trading activities with banking ones. During 1830-1860, there were 10 such houses in Brăila, 21 in Galați, 20 in Bucharest, 1 in Buzău, 1 in Craiova and 1 in Iași. Of the 63 owners of bankers' houses, only 14 were Romanians, the rest of them being foreigners subject to the consular jurisdiction (Pintea, Ruscanu, 20-21). The foreign houses were financed from abroad, with lower interest rates and they placed the capitals in the Romanian Principalities at much higher interest rates. *Michel Daniel from Iasi* had business relations with foreign financial institutions.

Of the first forms of regulation of the activity of these bankers' houses was the journal of the *Town Council* of December 22nd, 1836, which decided that in the town of Iași there should not be more than 10 money changers. They were to meet certain conditions related to their credibility and financial power. Among these ten persons, the "suditi" didn't have the right of practice – they were persons under foreign power with special jurisdiction right and fiscal privileges.

The 1848 Revolution brought about a strong feeling of opposition towards the foreign capital. After the revolution defeat, the vision about the capitals' origin changed, some of the boyars claiming that there wasn't any internal financial power that could support domestic banking institutions. Subsequently, in 1855, the English capital founded in Constantinople Banca Otomană, that would open in the same year a branch in Galați and in 1863, one in Bucharest.

In 1856, the prince Grigore Alexandru Ghica signed the concession document for the foundation of the *Banca Națională a Moldovei* by the German banker F. Nulandt. The bank had a prevalently foreign capital – German, English, and French. Even if it was supervised by the state, with the help of two commissioners, after less than a year since its first operations, the bank went bankrupt, in spite of the government's efforts to redress it.

In the following period, the interest of foreign banks in the Romanian markets increased. Most of them wanted concessions with a monopoly right in the area of credit and issuance in order to control the economies of the Principalities. In December 1864, *Banca Imperială Otomană*, the predecessor of Banca Otomană, requires the concession of a discount bank, and in the next year of an issuing bank. Alongside these demands, concessions requests for an issuing bank and of a land credit institution were made by diverse banking groups with French, Austrian or German capital.

The first banking institution with mixed capital was founded in 1874 and was called *Marmorosch-Blank & Co.*

During the period between the foundation of BNR and the outbreak of the World War I, in the Romanian counties there were 195 private banking institutions. The first nine Romanian banks were the following: banks with Romanian capital: *Banca Agricolă (1894)*, *Banca Comerțului din Craiova (1899)*, *Banca de Scont a României (1898)*, *Banca Românească (1911)*; banks with foreign capital: *Banca Generală Română (1897)*, *Banca de Credit Român (1904)*, *Banca Comercială Română (1906)*, *The Bank of Romania Limited (1904)*; banks with mixed capital: *Marmorosch-Blank & Co (Slăvescu, 205)*.

During the World War I, the banks with foreign capital showed an expectative and prudent attitude, by not changing their social capital. In the same period, the Romanian banks increased their social capital, contributing to the financing of the country's needs that was at war.

After the war, an important role from the perspective of the banking activity at international level was played by *Banca Românească*. It maintained banking relations with banking institutions on all the continents. After Great Britain, *Banca Marmorosch-*

Blank & Co became the first Romanian bank entering the banking market in Paris (1919) and New York (1920), by opening branch offices.

Until the great economic crisis, the foreign banks were oriented towards banking operations that would bring commission, incasso, estimates' exchange etc. The resources were obtained from the foreign markets under more favourable conditions than those existing on the Romanian market, fact that determined the appeal to a small extent to rediscount from Banca Națională a României. The profits obtained were greater than in the origin countries. For example, Bank of Romania Limited București obtained in 1925 net benefits of almost 20%, and in 1926 gains of 100% in comparison with the social capital (Sutescu, 564-571).

During this period, the entering of the foreign capital on the Romanian banking market was made in two ways: by the participation to the capital of the large banks of Romania (Societatea Bancară Română S.A. (1929), Banca Comercială Italiană și Română (1920)) and by the foundation of branch offices of the large banks (Dresdner Bank (1918), Banque Belge pour L'étranger (1921)). The inflow of foreign capital also materialized in deposits, bonds' acquisitions or credits given to the foreign headquarters or branches on the Romanian market. Thus, the British, French, French and Belgium, Italian, Swiss, Hungarian, Swedish, German, Austrian, Czech and Polish capitals increased from 13.2 billion lei in 1922 to 19.6 billion lei in 1927. During 1922-1928 profits of the foreign banks operating in Romania were transferred abroad, summing up 14.5 billion lei as well as interest rates and commissions to the allowed credits, 13.8 billion lei worth (Vijoli, 47-48). This phenomenon had an unfavorable effect on the economic development of our country.

The world economic crisis from 1928-1933 had also a strong influence on the Romanian banking system, a significant part of the small and medium banks going bankrupt or merging with more powerful ones. The hostile economic environment led to the withdrawal of the external credits and internal deposits. The fall of the bank *Oesterreichische Kredit-Anstalt* from Vienna caused a banking crisis in the Central Europe in 1931, which also affected Romania through the failure of three credit institutions: *Banca Generală a țării Românești* (June 1931), *Banca Berkovits* (July 1931) and *Banca Marmorosch, Blank & Co*. In order to save the banking system, Banca Națională a României interfered by means of rediscount credits and by leading a banking union constituted on the spur of the moment (Kirîțescu, 407). *Banca de Credit Român* took profit of these measures, becoming one of the largest monopolistic banks with foreign capital. It comes that after the period following the great crisis and after the purchase of *Banca de Devize* and *Lombard* and *Banca Chrissoveloni* as well as after the failure of the Bank *Marmorosch, Blank & Co* to be ranked the second in the system, after *Banca Românească*. Over 50% of the deposits made at this bank were owned by external capital. In time, it extended its influence on certain Romanian economic sectors by means of the shareholding to diverse companies.

During this period, the foreign capital increased more and more the supremacy over the banking capital from Romania. Even if new headquarters or office branches were not founded anymore, the foreign bankers increased their shares within the Romanian banking system by means of acquisitions and ventures. They also increased their influence by means of the financing allowed to some banks from the system. Thus, in 1937, of the 109 existing banking institutions in Bucharest, 8 banks had foreign capital and they owned 48.2% of the total owned funds and 56.68% of the total attracted funds. As regards the external financing, 18 banks in Romania, with a social capital higher than 60 billion lei, of which 17 had foreign capital, were holding 85% of the external financing (Pintea, Ruscanu, 83-89).

During the World War II, the foreign financing directed towards the Romanian banking system were limited, due to the sufferings and hardships that stroke the

Western Europe, as a consequence of the war. This way, the domestic banks were forced to sustain the war economy. Since 1938, the Romanian economy became more and more subordinated to the Nazi Germany. On 9th of August 1941, of the 410 banks, 273 had Romanian capital.

On 1st of January 1947, Banca Națională a României became state-owned. Gradually, the number of banks accepted for rediscount was reduced. This was the beginning of the passage towards a monetary socialist system. In the next year, three institutions were nationalized. One month later, the banks and capitalist credit institutions were dissolved and liquidated.

The Romanian banking system became a strictly specialized one, under the state ownership and founding new banking institutions. On 1st of July 1968, *Banca Română de Comerț Exterior (BRCE)* was founded, by reorganising the Department of external operations within Banca Națională a Republicii Socialiste România, bank that was to have responsibilities in supporting the exterior commerce of the country.

BRCE contributed to the foundation of some mixed banks with Romanian capital infusion: *Banque Franco-Roumaine* founded in Paris in 1971 together with Credit Lyonnais and Banque Nationale de Paris; *Anglo-Romanian Bank Ltd.*, registered in 1973 in London under the form of a consortium among Barclays Bank, JP Morgan Chase and BRCE; *Misr Romanian Bank*, headquartered in Cairo and constituted in 1977 together with Banque Misr; *Frankfurt Bucharest Bank*, founded in 1979 together with two large German banks:

BHF-Bank AG and DG Bank Deutsche Genossenschaftsbank headquartered in Frankfurt and then a branch in Bucharest in 1980; *Banca Italo Romena*, founded in 1980 in Milan, together with Italian banks.

Romania in the context of international banking after 1990

After the December 1989 events, the Romanian banking system was reorganised according to the market economy principles. The previously state-owned banks were transformed into commercial banks, with state and domestic private capital. Banks with private capital, both state-owned and foreign, were founded, as well as branch offices of some foreign banks. The modalities to enter the Romanian banking market can be very diverse: opening of branch offices or subsidiaries; shares to the social capital of the domestic banks; mergers or acquisitions of some Romanian banks.

In 1992 Banca de Export Import a României EximBank S.A. was founded, as a joint-stock company, having as a major shareholder the Romanian state and as a main goal the support of the exterior commerce of Romania.

During this period, a series of foreign banks opened branch offices in Romania: Chemical Bank (1992), ING Bank N.V. (1994), Chase Manhattan Bank (1992), National Bank of Greece (1996), United Garanti Bank International N.V. Amsterdam (1998), Banca di Roma SpA Italia (2000), Bank of Cyprus Public Company Limited Nicosia (2006).

In 1998 Bancorex became the shareholder of *Anglo-Romanian Bank Ltd. (ARBL)* in a proportion of 100%, and in September 1999, following the absorption process of Bancorex, Banca Comercială Română became the unique shareholder of ARBL. During 2004 ARBL purchased the European subsidiaries from Germany (Frankfurt Bukarest Bank) and France (Banque Franco Roumaine).

At the beginning of October 2005, the Blom bank took over from Banque MISR 12.53% of the MISR Romanian Bank titles. Subsequently, in December, this increased its share within the MISR Romanian Bank, after purchasing a package of 84.24% shares in exchange of 86.7 billion dollars.

The privatization process of the state-owned banks in Romania began with Banca Română pentru Dezvoltare, by the taking over of the majority package (51%) by the French group Société Générale, acquisition which ended in March 1999. Also in

1999, Fondul Proprietăți de Stat sold a package of 45% of the social capital of BancPost to General Electric Capital Corporation (35%) and Banco Portugues de Investimento (10%), with a total worth of 42.7 billion USD, to which added investments in the commercial activity of the bank of 50 billion USD.

In July 2001 RZB-Austria and Fondul Româno-American de Investiții (FRAI) took over from Autoritatea pentru Privatizare și Administrarea Participațiilor Statului (APAPS) over 98.84% of the shares of the third Romanian bank included in the privatization process, namely Banca Agricola.

In 2003 the privatization process of Banca Comercială Română went one step further by the purchase by BERD and CFI of 25% of the bank social capital. A package of at most 8% will be taken over, subsequently, by the BCR employees. At the end of October 2006 the completion of the privatization of Banca Comercială Română took place by means of the payment of the value of the majority package of shares by Erste Bank.

The more frequent presence of the private capital can be also confirmed at the level of capitalization of the banking system, the weight of the private segment for the aggregate capital reaching 47.9% by the end of the year 1998, while in 2006 it reached 85.1%. The result is due both to the consolidation phenomenon of the position of foreign banks on the Romanian market and to the measures taken by BNR regarding the gradual increase of the minimum limit pertaining to the social capital until the value of 370 billion old lei. As it can be noticed, the predominance of the foreign capital is also observed in the weight in total aggregate capital: it grew from 35.8% in 1998 to 78.8% in 2006.

Table no. 1. The weight of banks and foreign branch offices within the aggregate volume of capitals (%) – (1998-2010)

	Capital social (%)												
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 trim II
Banks with domestic capital:	64,2	58,3	46,2	39,4	35,1	33,7	30,7	31,1	21,2	20,4	21,9	22,7	n.a.
Banks with majority foreign capital	24,3	38,2	46,6	55,6	57,8	58,2	63,2	61,9	71,0	72,5	71,2	72,6	n.a.
Foreign bank branches	11,5	3,8	7,2	5,0	7,1	8,1	6,1	7,0	7,8	6,1	6,0	3,9	n.a.
Banks with majority foreign capital including foreign bank branches	35,8	41,8	53,8	60,6	64,9	66,3	69,3	68,9	78,8	78,6	77,2	76,5	86,1

Source: NBR Annual Report, 2000 - 2009

As regards the structure of the social capital of the credit institutions according to the origin country, at the end of 2001, the first three places were occupied by the banking capital from Greece (8.5%), France (6.8%) and Turkey (6.4%). In 2006, Austria was the leader (23.9%), followed by Greece (16.4%) and the Netherlands (7.4%).

Table no. 2. The foreign shares to the social capital of the banks in Romania – (2000-2006)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 Q II
Austria	3,2	21	24	21,5	24,6	21,8	23,9	22,0	18,4	16,9	21,89
Greece	8,5	6	8,2	11,1	10,1	12,4	16,4	21,7	22,4	26,6	33,79
Holland	3,1	8	3,5	4,5	5,9	8,2	7,4	7,7	9,2	9,0	14,0
Italy	0,4	1,1	2,7	4,6	8,4	5,8	6,7	3,9	4,8	2,7	n.a.
Hungary	n.a.	n.a.	n.a.	n.a.	1,7	2,6	4,7	4,9	4,3	4,3	5,6
France	6,8	3,4	5,7	5,9	5	5,6	4,4	5,0	4,2	3,9	4,5
US	4,6	4,3	3,88	3,3	2,8	1,9	1,6	1,3	1,4	0,6	n.a.

Turkey	6,4	4,0	1,9	1,3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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Source: NBR Annual Report, 2000 - 2007

In 2006, Banca Millennium, as the local branch office of the Portuguese from Millennium BCP was registered, represented the first example of *greenfield investment on the banking market* after many years when the market penetrations were mainly undertaken by means of acquisitions.

On January 1st, 2007, Romania adhered to the European Union. Along with the liberalization of the Romanian banking market and the implementation of the unique banking license, the foreign banks could more easily enter our country, while the increase of the concurrence in the domestic banking activity would also be determined by the possibility to deliver banking services without a direct implantation.

As the table no. 1 also highlights, during the second term of the year 2010, the weight of the foreign capital reached 86.1%. As for the structure of the social capital of the credit institutions according to the origin country, at the end of the second term 2010, the first three places were occupied by the banking capital from Greece (33.79%), Austria (21.89%) and the Netherlands (14%).

Until the end of 2009, 207 foreign institutions expressed their intention to develop their banking activity directly on the Romanian territory, of which 192 banking institutions, 3 non-banking financial institutions and 12 institutions issuing electronic money (NBR Annual Report 2008, 24).

Thus, some other foreign banks opened branch offices in Romania: Fortis Bank SA/NV, Caja de Ahorros Y Pensiones de Barcelona (LA CAIXA), Blom Bank France, Fincredito-Instituicao Financeira de Credito Portugalia (2007), The Royal Bank of Scotland NV (2008), Citibank Europe plc, Dublin (2009)

The international financial crisis began to show its effect also in the domestic banking system, especially starting from the autumn of the year 2008. A series of foreign capital banks did not benefit anymore from financing lines under the same conditions and to the same extent as before, creating activities to attract resources from the country by means of the saving products. The reduction of the opportunities to attract cheap exterior resources, corroborated with the new regulations in the area of crediting the individuals and with the accentuated depreciation of the national currency determined a decrease in the crediting activity on the retail segment.

On 26th of March 2009, nine large international banking groups, the mother groups of the main foreign capital banks in Romania - Erste Bank, Raiffeisen International, Eurobank EFG, National Bank of Greece, Unicredit, Societe Generale, Alpha Bank, Volksbank and Piraeus Bank – made a commitment in Vienna, following a meeting with FMI and BNR representatives, to supplement the capital of the Romanian subsidiaries, in case of need.

The Vienna agreement was followed, on the 19th of May, by a new meeting, in Brussels, where the same banking groups signed commitment letters with BNR, which convened the keeping of exposure of these banks on the Romanian market at the level of the end of March and the ongoing support of the Romanian banks, inclusively the maintenance of a solvability rate of over 10%. For the respective banks, any new subordinate loan allowed either by the shareholders, either by an international financial institution (IFI), will be excluded from the calculus base of the mandatory minimum reserves. The measure was available for all banks settled in Romania, no matter what the origin country of the main shareholder. Despite this, until the beginning of November, the exposure of those banks decreased by 0.7 billion euro.

In 2010, inflows of foreign capital took place, aiming at strengthening the solvability of the subsidiaries in Romania. Thus, until September, these received capital injections of 572 billion euro worth (inclusively the banks with domestic capital).

Table no. 3. The capital injections made by the mother banks towards their subsidiaries in Romania until September 2010

Rank	Institution	Capital injections (mld. euro)
1	GE Garanti Bank	162,15
2	Alpha Bank	71,75
3	MKB Romextera	45,7
4	Volksbank	39,2
5	Intesa Sanpaolo România	29,7
6	Emporiki Bank	24,8
7	Milenium Bank România	23,85
8	Piraeus Bank România	14,13
9	CR Firenze România	9,8
10	OTP Bank România	7,18
11	ProCredit Bank România	5,25
12	Marfin Bank	4,89

Source: Bancheri de Top, December 2010

Conclusion

During the stage of the formation of the Romanian banking system, the foreign capital helped the emancipation of the Romanian economy. Subsequently it proved to have a negative impact, as the foreign capital banks favoured the leakage of profits from industrial and commercial enterprises as well as the natural resources towards the exterior.

Nowadays, if before the experience of the effects of the international crisis, the foreign capital was helpful for the development and modernization of the domestic banking system, in the present times, its prevalence has a negative influence on the background of the reduction of the financing resources and of the interconnection with the western European banking systems, affected by the crisis. The Romanian banking system becomes under these circumstances, more vulnerable in the light of the contagion effect, which makes it an accentuating factor of the economic crisis in Romania, against the backdrop of the decrease of financing funds and financial instability.

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