THE INFLUENCE OF ENVIRONMENTAL FACTORS ON THE ROMANIAN BANKING MANAGEMENT IN CURRENT CONDITIONS

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Abstract:
In the context of the financial crisis, the imbalance on the maturity of loans and financing resources and default dependence on foreign sources, ensuring the liquidity of the banking system in Romania has depended to a significant measure of confidence of domestic depositors and foreign investors in the banks and their willingness to renew funding to maturity.
Despite the presence of corporate companies, banks as credit institutions is insufficiently developed, the complex mechanisms of the lacks. The current major challenges of the banking system are determined by: the legal framework; innovation of technology, economic volatility, changing expectations of clients and staff, as well as the adoption of new technologies make it increasingly difficult for banks to discover technological alternatives, strategy and prioritization of investments in technology; globalization.

Key words: *the financial crisis, performance management and banking risks, financial and banking regulation, financial stability, banking system.*

JEL classification: E58, F6

The impact of the global financial crisis on the banking sector was relatively limited, which is affected, in particular, of increased costs of external financing. However, the Romanian banking system faced and are facing some major vulnerabilities, such as:

- the sharp volatility of the exchange rate,
- increased volatility of external financing,
- the contraction in lending activity strong,
- damaging the quality of the credit portfolio.

Banks operate under the impact of environmental factors such as economic, banking, competition rules, which may influence the decisive psychological profitability and efficiency of banking activity.

The first category of factors of environment, acting on the Bank's management, is the ***economic policy of the state***, whose epic crafting is carried out through: financial policy, monetary, fiscal, credit and currency in order to achieve the proposed goals.

With the help of *financial and economic levers*, the state fulfils the objectives of economic policy. Taxes, economic-financial leverage, influencing the banking business through imposing quotas and their calculation, influencing the real incomes of employees and the level of net profit remained at the disposal of the Bank, and in this manner, the size of the dividends payable to shareholders. Through the influence of the employees ' income, they directly influence their motivation and the quality of services rendered, which may lead to the customer.

Through *monetary policy*, led by National Bank of Romania, the state intervenes in the economy to ensure control of the liquidity of the economy in order to contribute to the stability of prices and exchange rates, to achieve the objectives of economic policy of the state.

The fundamental objective of the National Bank of Romania remain the stability of the national currency. The tools used by the National Bank of Romania to achieve the objective proposed were: the discount fee, open-market policy, reserve requirements, interest refinancing and acceptance of deposits from commercial banks.

The second category of environmental factors with direct action on the bank's activities are ***banking regulations.***

The competitive environment has an aggressive influence performance. For banks, competition can be systematized as follows (Figure No.1):

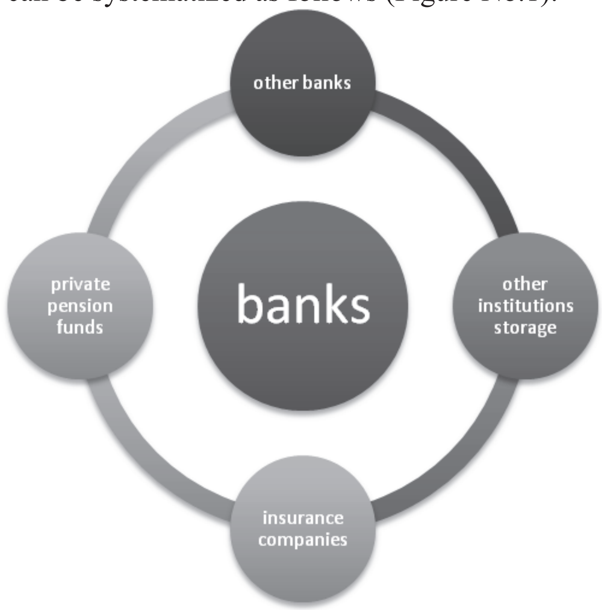

Figure no 1 „Banking competition"

Currently, the Bank's activities are conducted in a highly competitive environment. The phenomena of deregulation, liberalization, globalization and the introduction of high technologies in the banking business has led to the increasing pressure of competition in banking markets. Thus, from the perspective of banking competition, these phenomena have changed banking environment at the international level, acting upon him by the following *factors*:

- financial innovation;
- mergers and acquisitions;
- banking consolidation.

Financial innovation is the process of creating and implementing new tools, techniques, financial institutions and markets. Effects of financial innovation are (Figure no. 2):

Figure no. 2 „The effects of financial innovation"

Through *acquisitions and mergers* in the banking and finance is the process of combining two or more financial institutions into one. The purchases include the process by which a financial institution, usually for larger sizes, takes on another financial institution, less, finally creating a new entity.Mergers involving the combination of two financial institutions, usually of the same size, into one.

Due to the phenomenon of globalization and deregulation, mergers and acquisitions occur not just at national level but also at the international level, across borders. Thus, in recent decades, it can be seen an intensification of the phenomenon of mergers and acquisitions at the international level, many banks became the domestic banks, international banks. In this context, the process of acquisitions and mergers lead to an increase in Bank environment competitive pressures.

Banking *consolidation process* involves the formation of financial conglomerates. Financial conglomerates or financial groups are made up of different types of financial institutions operating in the different segments of the financial markets. Thus, within a financial conglomerate may be banks, capital market intermediation, insurance companies etc. As a rule, banks are the ones that initiates the formation of financial conglomerates, the desire to enter into other sectors of activity. In this context, is an accentuation of the universalization of banking operations and an increase in the competitiveness of the market.

Factors of influence on the environment above and discuss your banking competition banking markets there is a relationship of type double determination cause-and-effect, efficiency, each other. Thus, financial innovation, acquisitions and mergers and financial consolidation to occur as a result of competition in the banking sector, but will also lead to the amplification.

Studies show that between banking concentration and competition in banking markets there is a correlation. Thus, in order to assess the level of competition in banking are using a series of indicators which measure the degree of concentration of banking activity, such as:

- Herfindahl-Hirschman index;
- market share of banks in the system;
- the number of credit institutions.

Concentrating on the banking market has increased at the onset of the financial crisis, mainly due to the removal from the market of certain competitors.

According to the Monthly Report December 2012, issued by the National Bank of Romania, in 2012 the number of credit institutions dropped to 40 units, from 41 in 2011(Tabel no. 1):

Credit institutions

number

	Dec. 2011	Dec. 2012
Banks with fully or majority state-owned capital	2	2
Banks with domestic majority private capital	4	4
Banks with majority foreign capital	26	25
Foreign bank branches	8	8
Banking system	**40**	**39**
Creditcoop	1	1
Total credit institutions	**41**	**40**

Source: National Bank of Romania, Monthly Bulletin December 2012

The Romanian banking system further featured adequate capitalisation in 2012, the solvency indicator equalling 14,6% at year-end (from 14,9% a year earlier), both as a result of the shareholders' capital injections and the significant share of government securities (considered riskfree) in the banks' portfolio. The banks' permanent concern to improve asset quality (bias towards low-risk assets coupled with the disposal of non performing assets) was also reflected by the persistent downtrend of the overall general risk ratio.

The quality of the loan portfolio continued to worsen in 2012 as well, the non-performing loan ratio going up to 18,2%, mainly on account of the reassessment of the quality of some previously restructured loans and of the constraints on the debtors' financial standing(table no. 2):

Tabel no. 2

Key prudential indicators

precent

	Dec. 2011	Dec. 2012
Capital risk		
Solvency ratio (≥8%)	14.9	14.6
Leverage ratio[1]	8.1	7.9
Credit risk		
Impaired loans granted to non-bank clients (net value)/Total non-banking loans portofolio (net value)	x	11.87
Impaired lonas granted to non-bank clients (net value)/Total assets (net value)	x	6.98
Credit risk ratio[2]	23.3	29.9
General risk ratio	42.7	38.9
Non-performing loans ratio	14.3	18.2
Liquidity risk		
Liquidity ratio[3]	1.4	1.4
Profitability[4]		
ROA (Net income/Total assets)	-0.2	-0.6
ROE (Net income/Tier-1 capital)	-2.6	-5.4

Source: National Bank of Romania, Monthly Bulletin December 2012

Under these conditions, the recognition of losses in holdings of financial assets, in conjunction with the evolution of credit granted to the private sector, have resulted in negative territory to maintain profi tabilităţii total banking sector.

Conclusions:

Although the current crisis has brought to everyone's attention the need to reform certain aspects of the regulatory and supervisory activities, it is important that this process should be proactive, not to be just a rigid reaction to the causes that triggered the financial crisis and must not inhibit the further development of the financial markets and the financial and economic integration at the european level.

In implementing measures to mitigate the impact of the crisis, there are many nuances from one country to another, imposed by the financial system vulnerabilities and macroeconomic imbalances, which restricts the room for manoeuvre of monetary and fiscal policy. The unanimous opinion is to deploy a mix of policy measures and, in the short term and long term, in concert, international cooperation is essential in order to achieve the expected result, to stabilize the global financial system and to restore investor confidence.

With the global economic crisis among European countries, the Romanian banking system is exposed and it's direct or indirect reactions of the crisis. So that credit institutions in the Romanian banking system does not have a major role to play in lending to companies, but remain the main source for the population. Lending was geared to SME s and the companies working in the field of trade and services.

Romania needs to adjust macroeconomic policies to the new context created by the international financial crisis, so that the vulnerability of the Romanian economy towards international financial turmoil implies recalibrării of the mix of economic policies in line with the challenges generated by them. Such a rebalancing of the macroeconomic policy package aimed primarily the progressive reduction of the current account deficit, external imbalance, representing the main source of vulnerability of the economy to collapse and deterioration of the liquidity of the financial market international.

A strong, stable economy and viable automatically lead to the existence of a solid and efficient banking system.

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