RESTRUCTURING AT THE ADMINISTRATION LEVEL OF ROMANIAN BANKS

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Abstract:
Financial events of the past four years that shook the basis of the economic system, did not remain with no consequences, exuberance being replaced with prudence and economic libertinism of the mid first decade after 2000 was abandoned for ultraortodoxe behaviors. Banking restructuring of the years of crisis concerns: the position of banks in the market, the network, personnel, operations, management.

Key words:*banks, assets, liabilities, income, expenses*

JEL classification: *G21*

1. Introduction

The decline in economic activity in Romania after the outbreak of the financial and economic crisis also affected the banking system in our country. Thus, the net financial result calculated for the entire Romanian banking system goes from a profit of 4.5 billion in 2008 to loss of between 500 and 800 million in recent years (table no. 1). This aspect leads to negative rates of return. Specifically, return on equity decreased from the outstanding value of 17% in 2008 to -2, -3% in recent years and return on assets registers a decline from about 2% to -0.2% in the previously mentioned period.

Table no. 1. The evolution of net profit, return on assets (ROA) and return on equity (ROE) in the Romanian banking system

	Net profit / loss billion lei	Return on assets ROE percent	Return on equity ROA percent
Dec.2008	4,4	17,0	1,6
Dec.2009	0,8	2,9	0,3
Dec.2010	-0,5	-1,7	-0,2
Dec.2011	-0,8	-2,6	-0,2
June 2012	-0,2	-1,0	-0,1

Source: NBR

Performance deterioration in the Romanian banking system is observed in the entire banking system. Thus, the number of banks entering the negative zone profitability increases and others face decreases in profitability, without registering increases (table no. 2).

Table no. 2. Distribution of market share of credit institutions according to ROA (%)

	ROA<0	0<=ROA<1	1<=ROA<2	2<=ROA<3	ROA=>3
2008	9,9	22,8	32,2	6,7	28,3
2009	21,0	47,5	30,1	0,1	1,0
2010	21,9	53,6	21,7	2,8	0,0
2011	44,6	28,8	24,8	1,6	0,0

Source: NBR

From table no. 2 it can be seen that at the end of 2008 over 90% of credit institutions recorded positive rates of return on assets, or in other words had profit. Unfortunately, at the end of 2011, almost half of the banks in the system registered losses and only a quarter had more than 2% ROA, without going beyond 3% (while the average of the returns was 17% three years earlier).

Reasons for decreasing profitability in the Romanian banking system are explained by the decrease of operational activities and accounting of some losses, actual or only in accounting of credit operations previously initiated.

Banking system response to deteriorating results were on two levels. On the one hand, they tried to multiply their income sources or to increase existing income such as commission, and on the other hand to reduce costs.

An interesting position on the restructuring and profitability of European banks is found in the report of the Committee on Economic and Monetary Affairs Annual Conference of European Banking Federation of 20 March 2013 (1). Thus the European banks statistics show that between 1995 and 2007, return on equity (ROE) was, on average, the same for both the financial sector and for the non-financial, fluctuating around 12%. The crisis has hit the financial sector much more than non-financial, so by 2009, the profitability of the financial sector fell by nine percentage points, while those of non-financial decline was only three points. The report considers the main reasons for this deterioration were bank interest margins have eroded the few years of crisis, and costs were rising. Adapting banks to these developments will lead to major changes in the traditional way banks work and job losses in the European banking sector. The same report shows that banking regulation at European level (to reduce the risk in the system) will result offering by banks as standardized products. The report's findings about the health of EU banks are that, with increasing credit risk and low profitability levels, which could increase due to pessimistic projections of credit losses related to increased banking sector to diversify their sources of private funding on a sustainable basis, to be managed proactively by banks and the supervision must be adjusted accordingly [1].

Another interesting opinion about the structure of European banks and their robustness to the crisis is expressed in a material other European Banking Federation, EBF Liikanen Task Force Report entitled "Possible reform of the structure of the EU banking sector" and appeared in 2012 . He believes that one of the main implications common to both the Vickers report and the Volcker rule is that the banking regulatory submissions in Europe will occur in the structure of the banking model that has developed in Europe: that of universal banks (combining banking activities: investment banking, retail and corporate banking). The paradox is that the financial crisis has demonstrated just the weakness of universal banks and therefore it would be wrong to leave the considerate that universal banks are one of the main causes of the crisis. Rather, a balanced diversification of sources of income and funding is a clear advantage to maintain the stability of financial institutions, the capacity to absorb external shocks in a much more secure than a specialized bank [2].

Regarding the literature concerning the performance and profitability of banks noted that a number of studies have focused on factors that affect the ability of banking services, from economy of scale, mergers and acquisitions, management effectiveness, the impact of market structure, etc. Some examples are Berger and Humphrey (1994), which focuses on the U.S. financial market, Molyneux and Thornton (1992), Altunbas et al (2007) and Bos and Schmiedel (2007) which examines European banks and, more recently, Said & Tumini (2011) to banks in emerging markets. In the last decade, the focus has shifted to reflect the speed of globalization of financial markets, such as the impact and importance of international differences on bank performance (Berger, 2007), and interactions between domestic and foreign banks (Claessens, Demirguc-Kunt and Huizinga, 2001, Carbo et al, 2009, Hannan and Prager, 2009). Other studies have examined the profitability of the bank in terms of risk and may be grouped into three different categories. The first category includes traditional assets and their management.

For example, Staikouras (2003) study bank sensitivity to changes in interest rateloe. The second category includes studies on capital adequacy requirements (Altunbas et al, 2007). A third group studies, for example, Berger and Bouwman (2010) emphasize the importance of exposure to liquidity and capital adequacy [3,4].

2. The research method

The research methods used are: classification, synthesis, static and dynamic comparative analysis, methods of induction and deduction, the graphical representation of events and phenomena investigated. Partly were also used a series of mathematical and statistical tools, accompanied by deductive analytical analysis. However, the work is of a qualitative nature, rather it aims for an overview of the instrument and its results not to validate or criticize the dashboard. Statistic data used are for official nature, being taken from documents or databases of the National Bank of Romania.

Based on the decline in profitability in the Romanian banking system, this communication aims to identify: (a) the impact of restructuring banking income and expenses on bank profitability, (b) that changes in the trend of interest rates and intermediation margins occurred after 2008 the Romanian banking system and (c) identify the effects were large bank loan dynamics in our country until 2008 and then many of them have become bad on bank profitability.

3. Developments in income and bank charges

At the level of Banking income (Table 3), the last four years have brought a reversal of the structure of main categories of income. Thus, although until the beginning of the crisis interest income were the main category of income, the crisis transformed them into income without which Romanian bank could no longer survive, in the last two years those collecting about two-thirds of revenues.

Table no. 3. The evolution of banking income (share in total operating income)

	Net income from interest	Net income from commissions	Net income from financial assets	Other net income from operations	Other income from exploitation
Dec.2008	44,8	24,2	7,9	18,7	4,4
Dec.2009	44,1	20,8	0,5	21,7	12,9
Dec.2010	60,6	16,5	0,9	13,2	8,8
Dec.2011	63,7	17,4	0,2	11,3	7,4

Source: NBR

Fee income, although continued to be the second source of revenue for the banks, are in setback, losing a third of the structure from the beginning of the crisis, although banks' efforts to increase this income category appear, in 2012, to require a change of trend . The same decreasing trend makes itself felt in terms of income from financial assets and other earnings from operations. The dependence on revenue from interest also explains why our banks are reluctant to reduce interest rates on loans, while the central bank has reduced to historically low the intervention interests.

Table no. 4. Dynamics of bank charges (share in total operating expenses)

	salary costs	materials expenses and other services provided by third parties	Amortization expenses	Other expences of exploitation
Dec.2008	44,9	33,7	7,5	13,9
Dec.2009	34,8	21,9	6,7	36,6
Dec.2010	34,8	22,3	7,0	35,9
Dec.2011	34,6	22,1	7,2	36,1

Source: NBR

At the level of operating costs (Table 4) significant reductions of a fourth, respectively, a third, stands at the level of wage expenses (due to downsizing) and at those of materials expense and services provided by third parties (justified, result of reduced operations). Instead, maintaining a thick territorial network (compared with operations performed) made the share of expenses with depreciation to remain at similar levels to those before the crisis. There must be reported the tripling of the share of other operating expenses due to increased costs of a more rotten loan portfolio provisioning.

Table no. 5. The evolution of net interest income and bank profit (percent)

	Interest income	Interest expence	Net interest income	Operating income	Operating expence	Operating profit
Dec.09/Dec.08	16,3	21,5	7,8	9,4	25,5	-10,8
Dec.10/Dec.09	-19,0	-42,9	24,7	-9,3	-7,9	-11,7
Dec.11/Dec.10	-5,2	-5,3	-5,0	-7,1	-2,9	-14,9
June 12/June 11	-9,1	0,7	-17,1	-16,9	-26,1	2,2

Source: NBR

The analysis of income and interest expenditure dynamics (Table 5) indicates that the phenomena of adjustment, in terms of reduction, had a latent character, appearing much later in 2010, and the level of net interest income, in 2011. This, in conditions of comfort in the size of the first two indicators, at the beginning, in 2008 and 2009, when interest income was considerably higher in relation to expenditure, and in 2010, following a much larger contraction in interest expense line opposed to interest income.

Dynamics of revenues and operating expenses (Table 5) began to be increasingly negative since 2010, and statistics show that the income was more sensitive to the crisis, their decline being much more pronounced in relation to costs, they proving more resilient, banks being unable to print reduction rates to those higher than incomes to maintain themselves in the territory of operating profit. Operating profit had negative dynamics throughout the period, although it is possible that the process was stopped partially in mid 2012.

4. New sources of income of banks or strengthening existing ones. Impact of bad loans

Generalized decrease in bank earnings made them seek new sources to stop the decrease in profitability.

Thus, the analysis of interest rates and interest margins in the banking system (the difference between the interests charged on loans and paid on deposits) indicates two somewhat contradictory processes (table no. 6). As follows:

Table no. 6. Evolution of interest rates on new loans and interest margins on new loans and deposits *(%)*

	Loans interest at				Interest margin at			
	lei		euro		lei		euro	
	public	companies	public	companies	public	companies	public	companies
2008	17,6	19,5	8,1	7,6	2,4	3,5	1,7	1,3
2009	16,6	15,4	6,1	5,9	6,7	5,8	2,7	3,4
2010	11,7	9,4	5,9	5,0	4,1	4,0	2,5	2,6
2011	12,7	9,7	5,9	5,6	6,1	4,0	2,4	3,3
2012 June	12,4	9,8	4,3	4,6	5,5	4,6	1,6	2,9

Source: NBR

- on the one hand we notice a decrease in interest rates on new loans charged by the bank. The decrease is between 5 and 10 percent on new loans in lei granted to the population and to businesses and of 4 and 3% on new loans granted in euro or in other words a halving of interest rates in three years and a half (except loans in lei granted to population where the reduction was less than one third);

- on the other hand interest margin, that is the difference between the interest rates on loans and the interest from deposits, calculated for the new operations, are increasing. This means that: (1) interest rates on deposits decreased much faster in comparison with those of the loans, (2) banks tried to maintain their net interest income, given that new loans are increasingly fewer, (3) a surplus of resources (deposits) for which banks do not find beneficial placements, both for themselves and for depositors.

The second phenomenon affecting bank management turning banks into generators of loss are bad loans. Of these, loss credits are those that have the largest impact on the profitability, because they have to be provisioned 100% and gross.

Table no. 7 shows that bank loans that recorded overdues over 90 days reached about 17% in total loans and their value approached one billion euros.

Table no. 7. Loss loans *(overdue more than 90 days)*

	The share of overdue loans over 90 days (gross exposure) in total loans and interest - percent	Volume of overdue loans over 90 days (gross exposure) - billion lei
Mar.2008	1,7	4,9
Dec.2009	7,9	15,3
Dec.2010	11,9	24,4
Dec.2011	14,3	31,4
June 2012	16,8	36,8

Source: NBR

It should be remarked that the problem of credit loss (in arrears by more than 90%) is not only a problem of some banks (table no. 8), but is also affecting the entire Romanian banking system. Thus, all banks in Romania, regardless of their size, have loans overdue more than 90 days at the level of the system's average, except that the indicator is slightly higher (about one percent) in the medium banks. Note that this is a consequence of the economic crisis in general and of that generated by nonperforming credits. This because traditionally, the problem of non-performing loans, including those with large debts (for instance 90 days) generally affect small banks and, to a lesser extent, those of medium size (small and medium-sized banks in principle can riskly relax lending conditions to gain market share). Behold, the years of crisis has erased almost any difference between banks in terms of loans overdue more than 90 days.

Table no. 8. Nonperforming loans to groups of banks in terms of assets *(%)*

	The share of overdue loans over 90 days (gross exposure) to:			
	Banking system	Large banks	Medium sized banks	Small banks
Dec.2009	7,9	7,7	8,5	8,6
Dec.2010	11,9	11,3	13,1	15,8
Dec.2011	14,3	14,2	14,2	16,7
Iun.2012	16,8	16,2	18,0	16,9

Source: NBR

Nonperforming loans problem is a disease which affects all world economies, since the financial crisis, initially, and economic one, subsequently, left many people without jobs, closed businesses and signs of economic recovery do not appear to surpass modest rating, not to mention the "deepening of the recession" symptom that seems more to affect ever more European countries. However in this respect, Romania seems to be in the leading position, competing with countries such as Greece or Italy, to mention the ones with recognized financial problems, or Hungary or Bulgaria, among neighbors. In the other countries included in Table 9 percent can be observed that, although increasing, are below 5%, only Poland, exceeding this figure.

Table no. 9. Non-performing loans as a percentage of total loans in some EU countries -%

	2006	2007	2008	2009	2010	2011
Bulgaria	2,20	2,10	2,50	6,40	11,90	14,90
Czech Republic	3,60	2,70	2,80	4,60	5,40	5,50
Poland	7,40	5,20	4,50	8,00	8,80	8,20
Hungary	2,60	2,30	3,00	6,70	9,80	13,30
Romania	1,80	2,60	2,75	7,90	11,85	14,33
Austria	2,70	2,20	1,90	2,30	2,80	2,70
France	3,00	2,70	2,80	4,00	3,80	3,70
Italy	6,60	5,80	6,30	9,40	10,00	11,00
Greece	5,40	4,50	5,00	7,70	10,40	14,70
England	0,90	0,90	1,60	3,50	4,00	3,90

Source: NBR

5. Conclusions

Banking profitability is reflected in a negative slope, which seems to profoundly affect banking activity. Unfortunately, the reduction of bank profits still shows no sign of stopping.

Developments in income and bank charges indicate the start of their adjustment process, both globally and in the structure level. In relation to the start of the crisis in Romania, the adjustment process seems to have a latent character, delay of approximately two years, especially in revenue.

The main change in the structure of bank income covers interest vaniturile dependency banks, which represents less than two-thirds of bank revenues, given the dramatic drop in fee income and the financial assets. Adjustment of the bank charges for the wage bill, of those materials and those related to the network of territorial units.

Note that statistics indicate that the income was more sensitive to the crisis, their decline being more pronounced in relation to costs, they proved more resilient banks failed to impress their rates of reduction to upper income is maintained within operating profit.

Increasing amounts of bad loans were not without effect on bank management. Thus they have led to a large increase in the loan portfolio provisioning expenses (mainly due to overdue loans over 90 days) and that affected most bank profitability and, unfortunately, will continue to affect, diminish-it further.

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