

THE EVOLUTION AND PERFORMANCES OF ROMANIAN BANKING INDUSTRY

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Abstract: *Aggregate Indicators for Credit Institutions reflect the evolution and performances registered by Romanian banking industry. Although the number of credit institutions decreased in the period June 2015 - June 2016, from 40 to 36, their total assets increased from 363.3 billion Lei to 380.1 billion Lei. Banks register an increase in the operating income/operating expenses, from 165.91% to 197%. This indicator reflects total operating income/total operating expenses. The development of Romanian banking industry has allowed sustainable economic growth.*

Key words: *Romanian banking industry, performances, sustainable economic growth, credit institutions, indicators.*

JEL classification: G21, G28

INTRODUCTION

After the global financial crisis, appeared the necessity for the adoption of measures to strengthen the financial stability. In this context, the Romanian National Bank's role in implementing macro-prudential policies increased. A new legislative package was implemented at European level for creating the framework for macro-prudential policies. More and more European countries have introduced a number of instruments to effectively manage the risks that can affect financial stability. These regulations have been implemented into national law through the Regulation of the National Bank of Romania no. 5/ 2013 on prudential requirements for credit institutions.

Besides the intermediate objectives of macro-prudential policies recommended at European Union level, the National Bank of Romania has selected the following objectives:

- reducing and preventing the excessive growth of crediting and indebtedness;
- reducing and preventing the lack of correlation between maturities and lack of liquidity in the market;
- limiting direct and indirect exposure concentration;
- reducing moral hazard;
- strengthening the resilience of financial infrastructures;
- sustainable growth of financial intermediation;
- improving financial inclusion.

The last two objectives: sustainable growth of financial intermediation and improving financial inclusion are specific national objectives.

This research aims, in the context of macro-prudential policy priorities, to analyze the developments and performances registered in the Romanian banking industry. It is also analyzed the dynamic evolution over the period 2012-2015, and the composition of the Romanian banking system by forms of ownership. It is also presented the evolutions of the market shares of credit institutions, in dynamics and structure, as well as the aggregate indicators of these credit institutions operating in the Romanian banking system.

In the literature review, the issue regarding performance and systemic risks faced by the banking industry, as well as the contagion effects are treated in full. This paper analyzed in details the risk factors and symptoms faced by banks given the global financial crisis.

MATERIALS AND METHODS

In analyzing the evolution and performance of the Romanian banking industry, of their market shares and the main aggregate indicators registered by credit institutions, were used the indicators reported by the National Bank of Romania. The reports made by the central bank target both financial stability, as well as prudential supervision of the entire Romanian banking system.

The research methods used are: analysis, synthesis, induction and deduction, scientific abstraction, classification and comparison.

In this research we analyzed the Romanian banking system by ownership in dynamic and structure. In dynamic, the research horizon is the period of 2012-2015, according to the data provided by the National Bank of Romania. In structure, are highlighted credit institutions, Romanian legal entities, with majority state or private capital, as well as the branches of credit institutions, foreign legal entities. We have analyzed the market shares of credit institutions, depending on the net assets and their main aggregate indicators.

RESULTS AND DISCUSSION

By analyzing the composition of the banking system by ownership, during the years 2012-2015, it can be observed that the high share of credit institutions, Romanian legal entities, with majority private (foreign) capital of total credit institutions. This share increases from 72.5% in 2014, to 75% in 2015. Also, it can be noticed the low share of branches of credit institutions, foreign legal entities, in total credit institutions, respectively of approximately 20%.

The evolution of the banking system by ownership, during the years 2012-2015, is presented in the following table:

Table no. 1
Composition of the banking system by forms of ownership
- number of banks –

	2012	2013	2014	2015
A. Credit institutions, Romanian legal entities, of which:	32	31	31	29
- Credit institutions with wholly or majority state capital	2	2	2	2
- Credit institutions with majority private capital, of which:	30	29	29	27
• with majority domestic capital	4	4	4	4
• with majority foreign capital	26	25	25	23
B. Branches of credit institutions, foreign legal entities	8	9	9	7
Total credit institutions (A+B)	40	40	40	36

Source: National Bank of Romania - Annual Report 2012, p. 75; Annual Report 2014, p. 70; Annual Report 2015, p. 95.

The structure of the Romanian banking system was dominated in 2014-2015 by credit institutions with majority foreign capital. They held in the aggregate net asset a share of 89.9% at the end of 2014, and at the end of 2015 a share of 90.4%.

The structural developments of 2015 were marked by significant merger operations, but also by sales of portfolios and share packages of banks, which

contributed to a greater consolidation of the Romanian banking industry. Likewise, there have been changes in shareholding credit institutions, as was the case of UniCredit Ţiriac Bank, where the majority shareholder (the Italian Group UniCredit) has strengthened its position by acquiring a significant package of shares, the bank changing its name to UniCredit Bank.

The market shares of credit institutions, depending on net assets are presented in the table below:

Table no. 2
Market share of credit institutions
(Net assets)

	I 2014		I 2015	
	Million Lei	%	Million Lei	%
Credit institutions with Romanian capital, of which:	36 797,7	10,1	36 342,7	9,6
• with majority state capital	31 857,9	8,7	31 360,7	8,3
• with majority private capital	4 939,8	1,4	4 982,0	1,3
Credit institutions with majority foreign capital	291 801,9	80,1	300 204,8	79,6
I. Credit institutions, Romanian legal entities	328 599,6	90,2	336 547,5	89,2
II. Branches of credit institutions, foreign legal entities	35 543,7	9,8	40 639,7	10,8
Total credit institutions with majority private capital, including branches of credit institutions, foreign legal entities	332 285,4	91,3	345 826,5	91,7
Total credit institutions with majority foreign capital, including branches of credit institutions, foreign legal entities	327 345,6	89,9	340 844,5	90,4
Total credit institutions (I+II)	364 143,3	100,0	377 187,2	100,0

Source: National Bank of Romania – Annual Report 2015, p. 96

From the table above it is noted that the value of aggregate net assets grew slightly, by 3.6%, from 364 143.3 million Lei in December 2014, to 377 187.2 million Lei in December 2015. This growth is due to the revival of the lending activity to the private sector.

The Romanian banking system also demonstrated its structural stability during 2015. The optimization process of balance sheets, by cleaning the non-performing credit portfolios covered entirely by provisions, began in early 2014, and continued to extend to 2015. Banks continued to strengthen their stability using funding sources attracted from the domestic market, especially from population. The vulnerability of the Romanian banking system, associated to the dependency on external financial resource was significantly reduced. The efforts to balance the balance sheet structure have led to a significant improvement of the quality assessment indicators of banking assets. The evolution and performance of the Romanian banking industry is reflected in the aggregate indicators of credit institutions, presented in the following table (Table no.3):

Table no.3
Aggregate Indicators for Credit Institutions

	June 2015	December 2015	June 2016
Number of credit institution	40	36	36
Of which foreign bank's branches	9	7	7
Total net assets (RON Billions)	363,3	377,2	380,1
Assets of private-owned institutions (% in total assets)	91,6	91,7	91,4
Capital Adequacy Ratio (over 8 %)	18,07	19,16	19,10
Depreciated claims (% in total credits)	8,45	7,04	5,65
Depreciated claims (% in total assets)	4,72	3,85	3,14
Depreciated claims (% in total debts)	5,26	4,29	3,50
Return rate of core business (%)	165,91	171,31	197,00
Granted loans/ Attracted deposits (%)	93,56	85,39	83,66

Source: <http://www.bnr.ro/Indicatori-agregati-privind-institutiile-de-credit-3368.aspx>

During the period June 2015 - June 2016, the value of total net assets increased from 363.3 billion Lei to 380.1 billion Lei, representing an increase of 4.6%.

Another indicator that reflects the performances of the Romanian banking system is the indicator that aims the share of depreciated claims in total credits. This share decreased from 8.45% in June 2015, to 5.65% in June 2016, respectively by 2.8%. The same trend is registered regarding the indicators: share of depreciated claims in total assets, which decreased from 4.72% to 3.14%, as well as the share of depreciated claims in total debts, which decreased from 5.26% to 3.50%.

Although the number of credit institutions decreased in the period June 2015-June 2016, from 40 to 36, the return rate of core business increased from 165.91% in June 2015, to 197% in June 2016. The return rate of core business reflects operating income / operating expenses.

The results of the analysis performed in this research shows the evolution and performances registered by the Romanian banking industry during the period 2012-June 2016.

CONCLUSIONS

Given the development of the Romanian banking industry and the risks to which it is subject, the National Bank of Romania introduced as a monitoring instrument the Systemic risk damper. It is destined to mitigate the risks of structural nature, which can be transmitted through the following channels:

- common exposures;
- direct interconnectivity (through the interbank market) or indirect (through informational contagion);
- concentration of the financial system.

The adopted macro-prudential measures and instruments implemented by the National Bank of Romania allow the limitation of the vulnerabilities of the Romanian banking system and of the financial system.

In this research, the analysis of the evolution of the Romanian banking system, of the components of its forms of ownership, the evolution of market shares of credit institutions, as well as of the main aggregated performance indicators, highlights the

development of the Romanian banking industry, as well as its registered performances and vulnerabilities.

The development of the Romanian banking system allowed the sustainable economic growth.

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