

RESTRUCTURING IN THE ROMANIAN BANKING SYSTEM

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Abstract:

Financial events of the past four years that shook the basis of the economic system were not left without consequence, exuberance being replaced with prudence and economic libertinism in the mid first decade after 2000 was abandoned for ultraorthodox behaviors. Restructuring of banking during the years of crisis concerns: banks position on the market, network, personnel, operations, management.

Key words: bank assets, liabilities, income, expenses

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Romanian financial system has had and has as the primary characteristic bank dominance, meaning that banks and non-bank financial institutions (NBFIs) are the majority. The financial crisis started in 2007 in the world and in 2008, in Romania, have expanded this feature. Thus, banks strengthened their position in the system, their operations share in GDP rose by about 2 percent, on account of other financial structures' setbacks, while the latter occupied modest positions. The only non-bank structure that has grown in recent years has been private pension funds, due to their semi-mandatory nature (Table 1).

Table 1. Financial system structure

GDP share of net assets	2003	2007	2008	2009	2010	2011
Credit institutions	30,8	61,5	61,1	72,7	73,7	67,9
NFIs	2,2	6,5	8,3	8,1	6,9	5,8
Insurance companies	1,8	3,0	2,9	3,3	3,2	3,0
Private pension funds	0,0	0,0	0,2	0,5	0,9	1,2
Investment funds and investment companies	1,5	3,1	1,3	2,2	2,5	2,4
Total	36,3	74,1	73,8	86,9	87,2	80,3
share in total financial system	2003	2007	2008	2009	2010	2011
Credit institutions	84,8	83,0	82,8	83,7	84,5	84,5
NFIs	6,1	8,8	11,2	9,3	7,9	7,2
Insurance companies	5,0	4,0	4,0	3,8	3,7	3,7
Private pension funds	0,0	0,0	0,2	0,6	1,0	1,5
Investment funds and investment companies	4,1	4,2	1,8	2,6	2,9	3,0

Source: NBR, NSC, ISC, CSSPP

However, even at the level of the Romanian banking system, financial events of the past four years that shook the basis of the economic system, were not left without consequence, exuberance being replaced with prudence and the economic libertinism in the mid first decade after 2000 was abandoned for ultraorthodox behaviors. A first finding, according to Table 2, is that Romanian banks have fired 10,000 employees by the end of 2008 until mid-2012 and nothing makes us believe that the phenomenon died as long as in banking units, for several days, no customer opens their doors. In fact, the number of bank offices are currently less than 1,000 units over the end of 2007. Thus, on average bank unit lost an employee, the average number of employees of a bank office decreased from about 12 to 10.91 people and certainly remote elements of bank

(card, internet banking, mobile banking) will enhance the process in terms of flattening demand for traditional banking services, reducing the number of occasional banking customers, familiarizing loyal bank customers with new technologies and, not least, the alleged infrastructure of lower fees for virtual banking.

Table 2. Evolution of the number of units and the number of employees in the banking system

	Employees (thousands)	Total units	Average no. of employees per banking unit
31.12.2007	66	5.482	11,98
31.12.2008	72	6.552	10,93
02.12.2009	68	6.425	10,57
31.12.2010	67	6.170	10,82
30.12.2011	66	6.040	10,89
30.03.2012	64	5.981	10,76
30.06.2012	62	5.688	10,91

Source: NBR

As antagonistic factors to the scaling process (downward) network of banking offices in Romania (Table 3), we include:

a) the modest position occupied by our country in a potential ranking of the bank agencies per one hundred thousand inhabitants, where Romania is situated on the 21st spot. Stating that however, behind us lie economically more advanced countries, such as the Netherlands and the Czech Republic, which shows that this indicator is not argumentative enough for banking development potential. In addition, it was also found that about three million Romanian people work across borders, and about half of the country's working population are not active banking customers;

Table 3. Credit institutions and territorial units per 100 000 inhabitants (*units*)

Agencies 100,000 inhabitants		Credit institutions 100,000 inhabitants	
Spain	93,4	Austria	9,1
Bulgaria	80,9	Lithuania	2,9
France	61,4	Germany	2,3
Portugal	61,2	Hungary	1,9
Italy	55,4	Poland	1,8
Austria	49,3	Holland	1,7
Germany	48,3	EU27 average	1,6
EU27 average	46,0	Latvia	1,5
Greece	37,1	Portugal	1,5
Poland	35,1	Estonia	1,3
Hungary	35,0	Italy	1,2
Slovenia	33,7	Slovenia	1,2
Lithuania	29,8	France	1,0
Latvia	28,4	Spain	0,7
Slovakia	22,5	Slovakia	0,6
Czech	18,9	Czech	0,5
Holland	17,1	Greece	0,5
Estonia	15,3	Bulgaria	0,4
Romania 2009	29,9	Romania 2009	0,2
Romania 2010	28,8	Romania 2010	0,2
Romania 2011	31,7	Romania 2011	0,2

Source: NBR

b) the number of banks (credit institutions) per one hundred thousand inhabitants, indicator in which our country ranks last (being pushed back even by Bulgaria). This would mean that the number of banks registered in Romania, being Romanian unincorporated or branches of foreign banks should increase. Doubts of such a process

are important because for more than a decade, the number of Romanian banks seem more than stable, the new entries into the market are counterveiled by equivalent withdrawals, and in addition, past competitors have modest or negligible positions, at most unnecessary role of cluttering the statistics than activation of banking.

Table 4. Concentration of the Romanian banking system (*percent*)

Share of top 5 banks assets	Total assets	Total loans	Total deposits
2002	63	56	63
2003	64	57	65
2004	59	56	60
2005	59	61	57
2006	60	64	58
2007	56	57	60
2008	54	53	54
2009	52	53	52
2010	53	52	55
2011	55	52	58
2012 T2	55	53	56

Source: NBR

The same conclusion can be drawn from the analysis of the concentration of the Romanian banking system (Table 4), of which it is observed that five banks have between 50 and 60% of system operations: assets, loans and deposits, and the remaining 36 institutions between 40 and 50% of the system. Furthermore, the years of crisis seem to have amplified banking concentration process in Romania. All these aspects lead us to the idea that in our country we should rather expect an increase in the concentration process or even recall, as long as many credit institutions do not exceed levels of 1% of the market, and new rules for banking supervision and regulation will require additional capital and operational barriers that will increase costs and hence prices of banking products.

Table 5. Structure of assets of credit institutions operating in Romania (*% of assets*)

	2008	2009	2010	2011	June 2012
Domestic assets, of which:	98,5	96,9	97,3	98,1	98,2
Claims on central bank and credit institutions	23,8	18,6	16,5	15,3	13,9
of which claims on NBR	21,8	15,7	14,2	13,7	12,3
Claims on non-banks, of which	63,4	67,5	70,4	74,5	75,6
claims on the government sector	5,0	12,7	15,8	17,7	19,8
claims on corporations	29,2	27,3	28,0	30,3	29,9
Claims on households	29,2	27,5	26,6	26,5	25,9
Other assets	11,3	10,8	10,4	8,3	8,6
Foreign assets	1,5	3,1	2,7	1,9	1,8

Source: NBR - aggregate monetary balance sheet of credit institutions

Domestic assets continued to be relevant for the Romanian banks, under negligible external exposure. At the level of the domestic asset the liquidity crisis, which occurred in the system at the beginning of the crisis, resulted in a reduction in central bank exposures, including as a result of reducing reserve requirements. Claims on population, under a low demand for loans of this category of customers, fell to fourth. Offsetting these two reductions was achieved by strong increases of exposure to the government sector, segment, which was devastated in 2009 and 2010 by a financial deficit of Greek proportions. Thus, the share governmental claims rose more than four times, being a bank investment that brings certain revenues and minimum expenses and provides some breaths of air to the banking system without much imagination when it comes to sources of profit. Claims on companies, after a reported decline in the first years of crisis, seem to increase, but the

growth is of Lilliputian size, this segment would be possible to give a great deal of bank gain in the near future, given that the need to finance remains sensitive and external financing (preferred by the companies before the crisis) is more difficult to obtain in terms of perpetuating international financial tensions.

Table 6. Structure liabilities of credit institutions operating in Romania (*% of liabilities*)

	2008	2009	2010	2011	June 2012
Domestic liabilities, of which	69,3	73,7	73,1	73,5	75,2
Interbank deposits	2,1	5,4	3,4	3,4	5,0
Deposits from the government sector	3,1	2,1	1,7	1,4	1,5
Deposits from companies	20,2	19,3	19,1	19,0	17,7
Deposits from the public	24,4	26,7	27,1	28,7	29,2
Capital and reserves	10,7	12,1	14,3	16,2	16,9
Other liabilities	8,8	8,1	7,5	4,8	4,9
Foreign liabilities	30,7	26,3	26,9	26,5	24,8

Source: NBR - aggregate monetary balance sheet of credit institutions

At the level of banks' funding sources is observed (Table 6) a slight tendency of autonomy in relation to the international financial environment, the share of domestic assets increased at the expense of foreign ones. Within domestic funding sources, is notable:

- a) increasing the share of equity;
- b) an increase in deposits from the public, source cheaper compared to others, but intensified by banks and stimulated by relatively high interest rates to compensate for the migration of foreign liabilities, which did not remain without consequences in terms bank profits;
- c) a reduction in corporate deposits, many of them suffering from market problems and access to alternative funding sources was aggravated by the crisis;
- d) halving the government deposits.

Table 7. Share in passive deposits from companies and households and by maturity (%)

	From non-residents Short term	From non-residents Medium and long term	From residents Short-term	From residents Medium and long term
dec.2008	12,4	18,0	42,8	1,8
dec.2009	7,2	19,0	44,3	1,7
dec.2010	7,9	18,7	44,1	1,9
dec.2011	8,1	18,4	45,3	2,4
June 2012	6,4	18,5	44,3	2,7

Source: NBR - monetary balance sheet of credit institutions

Table 7 shows some mutations even to the deposits' structure attracted by Romanian credit institutions. Thus, on the one hand, note that the share of non-resident holders has lost 6 percentages in the four years of crisis, compensated by growth in deposits from residents, which can be interpreted as a decreased dependency of Romanian banks on foreign funding. On the other hand, we see a slight increase in deposits with terms longer than one year, growth being of about 2%, which means a tendency of correlation with maturities of deposits and therefore a decrease of risks.

At the level of banking income (Table 8), the last four years have brought a reversal of the structure of main categories of income. Thus, although until the beginning of the crisis income from interest were the main category of banking income, the crisis has turned them into income without which Romanian bank could no longer live, in the last two years collecting about two-thirds of revenues.

Table 8. The evolution of banking income (share in total operating income)

	Net income from interest	Net commission income	Net income from financial assets	Other income from operations	Other income from operating
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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 having 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, even though banks' efforts to increase the income categories seem, in 2012, to require changing of tendency. Same decreasing trend makes itself felt in terms of income from financial assets and other earnings from operations. Dependence on revenue from interest explains why our banks are reluctant to reduce interest rates on loans, while the central bank has reduced to historically low rates the intervention interest.

Table 9. Dynamics of bank charges (share in total operating expenses)

	salary costs	materials expenses and other services provided by third parties	amortization expenses	Other operating expenses
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 9) significant decreases of a fourth, respectively, a third, stands in the wage bill (due to downsizing) and at the expense of the materials 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 depreciation expenses to remain at similar levels to those of before the crisis. There must be, however, pointed out the tripling of the share of other operating expenses due to increased costs with provisioning of a loan portfolio more and more rotten.

Table 10. The evolution of net interest income and bank profit (percent)

	Interest income	Interest expense	Net interest income	Operating income	Operating expenses	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
june12/june11	-9,1	0,7	-17,1	-16,9	-26,1	2,2

Source: NBR

The analysis of income and interest expenditure (Table 10) indicates that the phenomena of adjustment, in the way of down warding, have had a latent character, appearing much later in 2010, and at the level of net income from interest in 2011. Those, in conditions of comfort in the size of the first two indicators, at the beginning, in 2008 and 2009, when income from interest was considerably higher in relation to expenditure, and in 2010, following a much larger contraction in interest expense line corresponding to the interest income.

Dynamics of revenues and operating expenses (Table 10) began to be 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 proved more resilient banks unable to print their reduction rates higher incomes to maintain in the territory of

operating profit. Operating profit has had negative dynamics throughout the period, although it is possible that the process has been partially stopped in mid-2012.

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