THE DEVELOPMENT PREMISES OF THE BANKING SYSTEM IN ROMANIA

NICOLETA-GEORGETA PANAIT *

ABSTRACT: *The actual world economic crisis has proven once more that the banks are the primary force for an economic growth or for a recession. This major economic crisis has begun, in the first instance, at the banks level, there for in the banking system has developed a great void of banking liquidities. Many payments are done through banks and the lack of funds has slow down the payments, the loans, which led to a reduction of activity in the real economy for the companies, or even led to bankruptcy for one of them. The Romanian banks have their own liquidity strategies. Of course that the objective of all banks is maintaining and achieving a ratio and an optimum structure of assets and liabilities, so it may obtain a maximum value of incomes and a minimum value of negative effects of payments during rough situations.*

KEY WORDS: *resources, bank, liquidities, management, crisis*

1. THE RESOURCES MANAGEMENT IN THE ROMANIAN BANKING SYSTEM

The banking resources management shows some particularities depending of the level of economic growth, the geographical area, the level of culture and civilization. The banking resources management depends also, by the knowledge of the first steps in development of banks and knowing the primary bearings of integration in the European banking system. The close-up view of the resources takes in consideration the essential element that the banks are first of all financial intermediates. So, most of the resources are drawn from the banks costumers, from depositors and from financial market. The actual world economic crisis, who affected specially the banks, made the specialists to discover the credits offered by the international finance and banking institutions. With the help of these loans can be set in motion and also relax the credit market, which is on the one hand the primary form of financing the economy and on the other hand a form of financing the companies.

* *Assist.Prof., Ph.D., Romanian-American University of Bucharest, Romania,* nico.panait@gmail.com

In the year 2009 Romania receives from the International Monetary Fund a loan of about 20 billion Euros, from which 6 billion are for National Bank of Romania to support the banks with funds, and then, the banks can finance the companies especially for achieving the investments objective. In Romania, the banking resources management starts also with the idea that these resources are created and used on two types of financing: • *The direct financing*, which implies bilateral transaction of funds between the companies that have a capital surplus and the companies that are in need of that capital. This type of financing is rarely used in Romania. The main cause is the small capital transacted on the stock exchange market. The bearer securities are not used for financing but for speculative means. Few companies buy shares, the bonds are transacted rarely, that's because there is a lack of resources in economy. So, this type of direct financing of companies through shares is very less used in Romania. • *The indirect financing* is used much more, that is to say a financial intermediary - more over banks - is interposing between the debtor and creditor. It can be told that trough an efficient management, the banks succeed in transferring the debts and claims between companies. The banks can best manage to transform the due dates (financing on a large period of time started with liquidities) or to transfer the risk from investments to firms that have due resources and with a low level of risk, or even without risk.

The Romanian banking management pays attention to reduce the cost of transaction, because only in this way it may reach a low level of cost of the entire financing, so much at the bank level and at the credited company level also. This charge can be minimized mostly with having permanent banking liquidities in the banks (it is known that these have a low cost, because are drawn from resources on short term, actually from the companies' current bank accounts). The main objective of the management in the Romanian banking system is maintaining a good long term relationship with the costumers. To obtain this purpose, the banks must assure a heightened banking liquidity. The companies want to have business relations with banks, who would hold a high volume of liquid assets, which can be transformed into money rapidly. The banks achieve these liquidities primarily through money creation that can easily done through currency. This way the banks transform their debts into universal means of payment. The process of transforming assets into money has started in Romania also. In real terms, the banks convert claims, which have a low risk into means of payment with a high liquidity. This way, the banks have proven the ability of banking intermediary. The previous statement reckons on the fact that from one year to another the expenses with the means of payments grow in Romanian banks. So, these expenses were in the second place with the ratios: 11.6 % in 1995, 14.7 % in 2000 and 17.3 % in 2005, in the first place were the credit managing expenses. It could also be told that the banks succeed to diversify their activity, their products and services and the provenience of their incomes. Because of the new ways of financial intermediation development the banks' resources can be increased and managed more efficiently. Hereby, the banks carefully started transactions in the stock exchange. There for in Romania, the banks have started the process of training in banking intermediation. During the last years the transactions and the investments made by banks in securities have increased. Within this context the management of banking resources becomes more complex considering that the banks' results become more unstable (the price fluctuation of shares in the stock exchange and interest ratio). The resources management in Romanian banks is strong influenced by the capital structure. In 1991, when the banking reform started, the State of Romania was the only shareholder off all Romanian banks' authorised capital, in 2007, the first year after the Romania's adhesion to Europe Union, 88.2 % of the shares was own by investors, and not by the Romanian State, it also has a grow tendency. Obviously, because the authorised capital is the investors' hands, the Romanian banks have a large managing self-sufficiency, so the managing performance has increased. First of all the banking capital achieved a focusing unknown till nowadays. So, for a country with few financial resources like Romania, there are already two banks that each has the authorised capital bigger than 500 million USD.

The Romanian banks reduced the subprime credits so they achieved better performance in the resource management. There for, until the expansion of the actual economic crisis, non-prime loans achieved a value of 2.3 % from all the banking system, which sets Romania between the countries with a solid banking system. Considering that many of banks' resources are not "delivered" to Central Bank as Bank Reserves. This way, the non-prime loans ratio dropped and automatically it could start growing the loans given by banks, simultaneously, the banking assets ratio and solvability ratios has increased, and in the same time the general risk multiplier has been reduced. Regarding the risk issue, the management of Romanian banks has the primarily objective to assure the liquidity of resources of all types. In the banking resources management the first component of these resources must be the costumers' deposits. These deposits have increased 2.7 times in last 10 years, sometimes the growth from one year to another was spectacular., because of the incomes growing during the years 2007-2008 (they have doubled) taking to consideration that the investments made by the public didn't have the same trend of development.

The management of Romanian banking resources makes sizable efforts to draw the intermediate management balances in the active circuit and first of all it wants to draw the Earnings before Interest, Taxes, Depreciation, and Amortization and the Gross Profit also. From one year to another the banks' Net Income increased from 242.7 million RON (the home currency of Romania) in 2003 to 1.2 billion RON in 2007, almost 6 times. Also in the same period of time the banks' Net Profit increased from 21 million RON to 319.6 million RON. We are aware that in that period of time the Romanian banks made only profit, so without losses. The Return on-assets ratio increased from 0.6 % in 2003 to 2.0 % in 2007.

$$\left(ROA = \frac{Net\ \ Profit}{Total\ \ Asset} \times 100 \right) \tag{1}$$

The Return on equity ratio was 22.7 (in 2007) towards 9.1 % in the year 2003.

$$\left(ROE = \frac{Net\ \ Profit}{Total\ \ Capital} \times 100 \right) \tag{2}$$

2. THE ROMANIAN BANKING SYSTEM

The financial resources of banks were sizable reduced, which in the market economy could mean sometimes a disaster, considering that the banks have always been the main paymaster for the industry, services, agriculture, construction. The banking system, in Romania, had a positive evolution in the last years, the banking system advance rapidly to the standards required by The World Bank, by The Basel II Agreement (2004) and by The Europe Union adhesion. Could be told that the Romania had rigorous fulfilled the international financial standards, there for the Romanian banking system supported better the country economy, but couldn't avoid the world economy crisis. The adhesion of Romania at the Europe Union had developed an intense training for the Romanian banking system regarding the exigent standards of the European banking system. First of all the Romanian banks had to apply the capital allocation coefficient. So, there is not even a single Romanian bank that has a ratio between the authorized capital and total assets lower than 16 %, this value is double from the one from Basel II Agreement.

Also, there are Romanian banks that have a capital allocation coefficient between 28 and 32 percent. In this case are the first two Romanian banks that, together, hold over 40 % of the total assets in the banking system. Another opportunity for the Romanian banks, in the last decade, is that other powerful foreign banks bought-out the stock holdings. So, the first Romanian bank, The Commercial Bank of Romania, was bought thought acquisition by the Austrian bank ERSTE BANK, and the second Romanian bank, Romanian Bank for development, was bought by the French group Groupe Société Générale. Overall, the Romanian bank system is owned 80 % by the foreign banks.

The third favourable premise (that slows down the economic crisis) was the heedful policy of the National Bank of Romania. This central bank operated, not only with a prudent surveillance of commercial banks, but through many ways like maintaining a high level (10 %) of the monetary policy rate, and the required minimal reserves for the non-governmental loans offered by the banks were also risen (between 20 and 30 percent), all of these measures taken hold down the credit. A major and final premise that must be taken in consideration underneath the financial resources of banking management is the granting of the 20 billion Euros credit by the International Monetary Fund and Europe Union. With this occasion, the International Monetary Fund representative, whom negotiated the loan (between March and May 2009) said: "fortunately, Romania has a relative healthy and well capitalized banking system".

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