ROMANIAN BANKS: GROWTH AND ACHIEVEMENT

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Abstract
The banking system has emerged slowly and steadily over a period of time leading in front the economy of Romania. Many challenges have been obstacles to its development. Certain decisions have benefitted the banks in Romania. There are opportunities which must not be missed. International institutions like European Union, European Central Bank, World Bank and International Monetary Fund have played important roles in the promotion of banks. Still there are challenges and opportunists for the growth and development of banks in Romania.

Key words: *Financial system; Banking system; performance and failures; growth and development; privatization*

JEL Classification: *G21, G23, G24, G28*

I. CHALLENGES AND OPPORTUNITIES

Banks in Romania have played an important role in restructuring finance sector. At the same time during the euro crisis of 2007, Romania became member of European Union. The banks faced the challenges during 2008-2013. During the crisis the governments intervened with trillion dollars to save western banking sector. Romanian banks were the latest addition to western banking sector (Sebastian Vaduva (2016),

Legal Integration

European legal integration is not broader in perspective and it is limited to the regulatory framework. However it provides ample scope of harmonization with regional legal framework. In the process, it provides sufficient flexibility for compatibility rules (Kai Purhagen, Peter Rott (Eds) (2014). There are several models of legal integration in Romania. Romania has made legislations in consonant with globalization and liberalization. Democratic judicial system is to be integrated with Romanian legal system.

Procedures integration

There is no harmonization at all levels particularly in ‘lending, payments, saving, dispute resolution” (Romanian Banking Association (2017). The procedural differences are visible on the Principles of Directive 17/2014(Romanian Banking Association (2017).

Institutional Integration

The integration has to take place with new member countries without removing the administrative space of existing members of European Union (Sebastian Vaduva (2016).Every nation has established its administrative institutions with its own style and structure. Romania remained a communist state with centralized institution. After 1990 the democratic institutions came into existence within the shadow of earlier regime. In 2007 the democratic institutional values of European Union need to be integrated with Romania. The conflict values of institutions emerged particularly in banking sector.

Functional integration

Every member has its own priority of managing economy. The government of each member country has its limitation of governance. Rules and regulations are framed to the satisfaction of people as it is the sovereignty. No interference can affect the sovereignty. Therefore every sovereign nation has all the power to decide the case in accordance with the constitution. Sovereign functions are legitimate rights of a nation. When there is integration of two functions of two legal systems, there is conflict which can be resolved politically, economically through negotiation, legally or by arbitration. The European Court of Justice decided on 7 March 1964 on the dispute of application of law. The conflict is whether domestic law will decide the dispute between two nations or the provisions of Treaty will decide. European Court of Justice decided that Article 102 could be interpreted well by the Commission which could recommend the Member states for adopting suitable measures to remove distortion as it was apprehended that the Treaty would impose limitation on the sovereignty of the Member States. Similarly Article 93 was interpreted that the Commission would facilitate smooth functioning of the Common Market in cooperation with Member States. Article 53 was interpreted to progressively remove the restrictions on the establishment of nationals of one state in another Member State. Article was interpreted to reinforce the obligation of one Member State restricting any measures contrary to the principle under Article 37(1) of the Treaty (Costa v. ENEL (1964). In fact the European Commission must achieve effective coordination with Europe and other nations to achieve flexible integration (Sebastian Vaduva (2016).

The integration has become a challenge initially but banking system has grown with maturity. The functional decisions are most important factors of success. However there were strengths and shortcomings. The first problem is the structure of financial system. The financial intermediaries remained very low in 2003 at 36.3 % of GDP. The worst scenario was the credit institutions with 30.8 % in 2003. When it reached to 61.5% in 2007, the euro crisis was set in. Another important problem was the number of credit institutions of 41 in 1999 and the numbers stumbled to 39. The numbers of credit institutions increased to 42 in 2007. The net assets of Investment funds were mere 0.4% of GDP in 2003 and it increased to 1.5% of GDP in 2007. In the absence of investment funds the role of financial system came disappointing. Similarly other non-bank financial institutions had very small net assets of 0.4% of GDP in 2003 but it increased to 1.5% of GDP in 2007. The net assets of financial investment companies were 1.4% of GDP and in 2007 was increased to 2.8% of GDP. Thus the structure of the financial remained weak. The structure of banking system however has gained growth and development but the contribution to the financial system has been minimal. The net assets /total assets of banks with majority private capital increased continuously to 94.5% in 2007 from 53.2% in 2003. However the assets/ total assets of top five banks declined from 66.7% in 2003 to 56.3% in 2007.

II. GROWTH AND DEVELOPMENT

Earlier to 1998, banks were purely state owned and several financial institutions were subjected to insolvency and bankruptcy in 1997. Several banks failed between 1997 and 1999. Biggest investment fund failed in 2000 resulting to privatization (.European Central Bank (2006). Now it is private and foreign owned. The share of assets of foreign owned banks increased to 62.1% in 2004 from 20% in 1998. After privatization of several banks the net assets of foreign owned banks increased to 75% in 2011 with equity of 80.1% while the state owned net assets declined to 16.7% with equity of 15.2% in 2011(Radulescu Magdalena (2014). The foreign investors in banks are from Austrian, Greek and French in Romania. In 2012, the net assets and equity of foreign owned banks increased to 81.2% and 85.2% respectively while the net assets and equity of Romanian owned banks declined to 10% and 9.4% respectively (Radulescu Magdalena (2014).

The Romania Banking Association celebrated 25 years of its birth in 2016. In 1991 the banking sector emerged with different strategies and functions. During the euro crisis shareholders of banks increased their capital by Euro 2.2 billion. It indicates the growth development of banking sector in Romania. It survived crisis without government funds. The capital and domestic savings provide inputs for the banks to funding and it is known as financial intermediation. The financial intermediation increased to 40% during 2004 to 2008. But unfortunately it declined to 29% in 2015 which was the lowest in European Union.

The training is essential to the banking staff members and according the Romanian Banking Institute was established in 1991. The National Bank of Romania and Romania Banking Association has jointly established it. Now it offers more than 100 courses and seminars for both financial and banking industry. More than 65000 staff members have been benefitted through training till 2015. It joined European Banking & Financial Services Training Association(**EBTN**) in 2005 with a view to strengthening relationship with the European Union network of banking institutes and it has gained the access to **VEBS** Project(Virtual European Banking School), **CERTIFIED**(Certification& Accredition System for Financial Services Sector Education and Training), **EROBANQUA**(European Banking Network for Quality Assurance), **EQUALIFISE** (European Qualification Assurance League in Financial Services), and **FIRST** (Financial services EQF Translators in EU). It has started the training course of 'European Foundation Certificate in Banking'. Now it has 8 regional centers. It has developed IT Skills for the TICFIN project with European Social Fund in 2011 for promoting the use of new IT knowledge in financial sector and banking to the employees of banks.

National Bank of Romania and 23 commercial banks have adapted to the TransFonD, which is the Electronic Payment system of Romania compatible with modern payment system of Europe Union. It facilitates cashless payments in national currency towards clearing and settlements. The scheme of Bank Deposit Guarantee Fund came into practice in 1996 to protect the interest of depositors on bankruptcy. Romania implemented the Alternative Banking Dispute Resolution by Ordnance 38/2015. It aims to benefit both the consumers and the banking sector to resolve the dispute within 90 days.

There is growing awareness of Digital money among the new generation and the banks are preparing for it. It demands integration of new technologies into financial and banking services but there is the necessity of Cyber Security. The Banks are working on it and TICFIN project is one of the initiatives towards it.

The issuance of covered bonds is permitted from March 2016 through replacing the law no. 32/2006. The banks will gain the security over the mortgaged loans. Incidentally the European Union states have not found favourable results on issuance of covered bonds. The National Bank of Romania is aware of it.

European Union has issued several directives facilitating payment system in other member nations in 2020 irrespective of residence and Romania is preparing for the same with suitable legislations in due course. The banks are preparing for the same. It is an extraordinary of Romanian banks. In respect of SEPA-Single Euro Payments Area Romanian banks implemented in August 2014, in all respects even though the Romanian banks have adhered to it in 2008.

III. ACHIEVEMENTS OF BANKING SECTOR IN ROMANIA

The capital requirements regulation (CRR) of Europe Union is part of Basel III agreement. This is a single rule book regulation. According to this regulation the banks must hold enough capital to meet any unexpected contingency and losses in a crisis. There are two tiers to assess the capital requirements such as Tier 1 capital which allows banks to continue its normal banking and investment and Tier 2 capital which permits to repay depositors and senior creditors. These provisions applied from 1 January 2014 onwards (European Council (2013). Romanian banks have sustained structural stability with adequate solvency and liquidity ratios in 2015. Banks achieved solvency at 19.10% against 8% of The European regulatory framework CRD IV/CRR in June 2016. As per National Bank of Romania banks have maintained 90.2% of assets with foreign capital in June 2016. After crisis there are 37 banks after mergers and acquisitions of total 43 banks. It reveals that banking sector has the competence of good banking. Romania has reorganized its banking sector most viable and efficient into two banks with domestic capital, four credit institutions with majority domestic private capital, 23 banks with foreign capital and 7 branches of foreign banks. Romanian banks consolidated sound position 25.14 billion lie in December 2015. The lending money to the economy by Romanian banks has been much better than other nations. Romanian banks had lent 90% while European banks lent 85%. It was 20% in case of USA. Romanian banks could achieve loans and deposits at the ratio of 83.66% equaling European Union banking sector in June 2016. During the crisis of 2008-2013, Romanian banks achieved cost cuttings by 17% which is higher than Hungary of 6%, Czech Republic of 12% and Poland of 13%. Romanian banks have grown immensely. Banks increased net profits of 4.5 billion lire in 2015.

An effective monetary and fiscal policy led to achieve lower inflation to 9.3% in 2004 from 40.7% in December 2000. Inflation further declined to 8.6% in December, 2005. The inflation rate declined to 6.1% in 2010; 5.86% in 2011; 3.34% in 2012; 4% in 2013; 1.08% in 2014; -0.6% in 2015 and -1.52% in 2016(The Statistics Portal (2017). The inflation rate in February 2017 is -0.54%. (Trading Economics (2017). It is achievement of banking sector.

IV. CONCLUSION

The growth and development of banking system in Romania is visible. There are important decisions which have been made since 1991 that have improved the banks in Romania. First decision is the development legal framework of banking sector. Second decision is the liberalization and globalization of economy and banking sector. Third decision is the privatization of banks. Fourth decision is permitting foreign banks and foreign investment in the private banks. Fifth decision is joining European Union in 2007. Sixth is the decision of preferring financial stability to credit stability. The most important factor is the faith and confidence of the people of Romania accepting change. Despite all the facts given above the structure of financial sector and banking sector is worrying. When there is collapse in the economy which may not be ruled out over a period of time the foreign investors may desert. A strong structure of financial and banking sector is preferable in the long run. The corporate finance from the banks is merely less than 25%. It is not healthy trend. Non-banking financial institutions are weak and negligible. The Credit institutions have lower net assets to GDP and it is effective for sound fiscal policy.

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