

BANKING CREDIT IN ROMANIA IN THE MARKET ECONOMY

ABSTRACT

The economic mechanisms and their optimal functioning impose the existence of a modern and flexible credit system, correlated with its conditioning variable, the interest rate, in the framework of a banking system based on competitiveness and efficiency criteria.

The role and the connexions which the credit generates in the economy is a challenge and in the same time, an interesting study topic. For this purpose we analysed the evolutions and the trends of the banking and credit system in the period of transition which surpassed the anticipations regarding the complexity and the length of the necessary transformations.

The presentation in retrospective (the period 1990-2003) of the evolutions of the Romanian banking system proved their utility in order to establish the causes of the economic and monetary phenomenon but also the main objectives which should be imposed for the present and the future.

The road passed by the banking system was long and difficult, marked by many structural transformations, determined by the market economy evolution and by the global trends of the economy which should be included in the future transformation equation of our country.

The starting moment was the events from 1989. The liberalization process determined important changes in the Romanian banking system and the reform process became one of the main objectives of the macroeconomic policies. The debut of the reform was the transition to the banking system organized on two levels: the central bank and the commercial banks. With the heritages from the centralized planning period, the banking institutions confronted in a short time with many problems regarding the nonperforming credits (the high level of these could be explained by the decrease of the output level and the aggregate demand in the most part of the reform period), the weaknesses of the banking management and the relementation frame, the weaknesses in the internal governance of the state banks and the private banks.

In the first years of transition, the changes dealt with the formal side of the monetary phenomenon instead of the essence side which should have referred to the financial consolidation of the banks, the introduction of the economic market principles, the appearance of the competition on the banking system. This side more formal of conversion of the former banking structure and the lack of competition determined the maintenance of a part of the former practices characterized by immobility and non-performance. Thus, the deficiencies gathered in time and manifested by the private banks as well by the state banks (Bancorex and Banca Agricola). The compromise solutions were the mergers (for Bancorex), the privatisations (BRD, Banc Post, Banca Agricola) or, when it was the case, the bankruptcy. Through the banking consolidation from 1997-2000, it was avoided a systemic risk but the price of the state intervention along the transition period raised about 10 percent from GDP.

In Romania, the authorities tried along the analysed period different banking restructuring techniques. The recapitalise of the banks was applied with priority for the financial restructuring of the state banks, being utilised under the form of change of the government bonds against the nonperforming assets as well for the increase of the special funds through the direct capital flows. Starting with 1995, there were encouraged the decentralised techniques, when it was allowed the state banks to establish special department for recovering the nonperforming assets but the lack of the trained staff determined a low

efficiency of these departments. Finally, most part of the nonperforming credits were transferred to the Agency for Capitalization the Banking Assets which had the advantage to permit the centralisation of the resources in one entity which led to the achievement of savings and to the increase of the non-performance assets recovering.

Despite the deficiencies appeared, the transition years were characterised by some important progresses in the banking field. Thus, from the quantitative point of view, the number of banks increased from 12 in 1990 to 38 banking institution at present. But even with this quantitative increase, the banking system is characterised by a relative high concentration level. The concentration level should be analysed in direct connexion with the size of the economic system, with the level of the market development in comparison with the existent demand and the low competition on the banking market (which has as effects the lack of diversity of the banking products and services and the lack of specialisation of the banking and financial institutions). In fact, one of the main features of the credit institutions was and still is the universality of the banking operations. Anyway, it was made the first step on the field of banking specialisation in Romania through the opening of the first specialised bank (Raiffeisen - Banca pentru Locuințe) in 2004. The experience of other developed countries demonstrated that an important field where the specialised banks could develop their activity is the savings.

On other side, there were made important progresses in the legislative field through the delimiting of the legal and institutional frame for banking activity - by issuing the banking law and the law of National Bank of Romania in 1991. It should be mentioned that the banking system reform process (juridical and institutional), as well the consolidation system policy got the mark of the high dependence of the banking system on the real sector evolutions (the dynamic of production and the firms restructuring). On one hand, the reform measures were coordinated with the European standards regarding the banking supervision and reglementation. On the other hand, the effective implementation of the prudential rules constituted an evident weakness, toward the end of the 90's . The insufficient classification and provisioning of the credits (and the lack of provisioning against other risks besides the credit ones) revealed the real financial situation of the banks and permitted the increase of the nonperforming credits and the uncapitalisation of the banks.

The analyse of the banking system reform for about fourteen years reveals many juridical, institutional and structural changes. It can be underlined some important conclusions regarding the present situation of the Romanian banking system:

- ◆ the banking system insure the main part of the financial intermediation in Romania. In the same time, the financial intermediation (the money supply and the nongovernmental credit reported to GDP) is low (under 10% from GDP in 2003), reflecting the persistence of the high nominal interest rates and the critical financial situation of the state enterprises. The remonetisation, including the increase of the private credit, is a long process, associated with the macroeconomic restructuring and stabilisation and the consolidation of the banking system;

- ◆ the banking system get the financial intermediation at the rather high price, indicated by high interest rate. This fact can be explained mostly by the low assets performances (nonperforming credits) and by the high operational expenses, including the staff wages;

- ◆ in a broad sense it was created a modern juridical framework which regulate the banking activity and it was always followed the European cummunitary directives in order to get a high level of comparability with the European settlements and the best international

practices. Anyway, not in all circumstances, a legal framework means a proper system functioning, as the banking practice proved several times;

- ◆ the banking system has still small dimensions, evaluated through the report assets/GDP, which at the end of 2003 was only 32,6% compared with 200% in the European Union. Even there is not a high number of banks on the market, they became more and more efficient, fact based on the increase of the number of foreign banks and capitals on the banking system. The foreign banks brought not only capitals in Romania, but also technologies and performance and the improvement of the bank services quality;

- ◆ the movement of the weight centre of the banking system from the state banks to the private banks; after the privatisation of the Romanian Commercial Bank it is anticipated an increase of the private banking sector to over 80% of the Romanian banking system;

- ◆ the banking system tends to get its maturity, in term of competitiveness, faster than other economic sectors taking into consideration at least two aspects: on one hand, being practically a recent "creation", this sector has flexible structures, which permit to develop itself in the same time with the market; and on the other hand, the banking system is more accessible to the foreign capital;

- ◆ because of its specific activities, the banking sector is more exposed to the pressures the technical progress generates at the level of the offer and distribution of services and it is mostly dependent on the confidence of the public opinion, which impose high performances;

- ◆ accordingly with the law, the National Bank of Romania get a rather high independence of its decision on the monetary policy, its management being out of political influence. Established from the legislative point of view, the autonomy of the central bank is confirmed by the practice; the giving up of the policy of the sectorial credit is a sign that the National Bank of Romania got a pretty high autonomy in the last years;

- ◆ the improvement of the quality of the banking sector, mostly after 2001, it was achieved in the direction of capitalising and financial performances of the banks, the National Bank of Romania going on with the improvement of prudential rules in the supervision activity. Of course, it was not accomplished a well developed financial-banking system and was not removed the risk of a destabilisation of the banking system;

- ◆ the convergence of the financial-banking structures will lead to an increasing complexity of the banking products and services, which will underline the competitive advantages at the group structure level. In the same time with the increase of the financial intermediation level and the consolidation of the positive trends of the macroeconomic indicators, it will be increased the maturities of the deposits from the nonbanking clients, as well the financial support of some complex projects, through structural financing with longer and longer maturities. These are going to stimulate the investment environment in Romania;

- ◆ the increase of competition in the banking sector determines more and more banks to get their attention toward the opportunities offered by the capital market, insurances or leasing. In the last years, it was a increasing trend of placement of the capital investment in financial entities which operate on these markets, the bank using their brand in order to impose the created subsidiaries to the clients.

The development directions of the Romanian banking and credit system should take into consideration the major changes at the European and mondial level under the influence of the globalization and internationalisation trends. These trends means for the Romanian banks new challenges, as follows:

- financial instability on the emergent markets;

- the trend of gathering the economic interest in order to form the commercial blocks, characterised by the free circulation of goods, services and capitals;
- the concentration trend at the banking level through mergers, acquisitions and cooperation settlements;
- the internationalisation of the operations and territorial networks of the important banks;
- the disintermediation process which defines the possibility of economic operators to act directly on the financial markets without the banking intermediation in order to fulfil the credit operations;
- the dereglementation process through the central bank do not interfere directly on the activity of commercial banks through settlement of interest rates or the constraint of certain categories of operations, but indirectly, through the implementation of some monetary policy decisions which are going to determine the bank to make some corrections of their own strategies and policies.

We consider that the possible answers for the Romanian banking system against the trends which exist nowadays at the European and world level are the followings:

- the capital concentration and the consolidation of the existing entities;
- the impressive growing potential of the banking products and services on the base of the rather low financial intermediation level will lead to the increase of the competition in the banking system in order to get the new market segments which will determine new adjustments and even new strategies for the potential clients;
- the consolidation of the financial-banking group structures through mergers and acquisitions. The new created entities will try to get new market shares in the field with special perspectives as insurances, leasing, asset management, real estate credit, pension funds – activities which are based on relations type retail;
- the increase of the innovation level through the creation of new banking products and services (electronic Banking, Internet Banking, mobile-banking) with effects on the increase of the work productivity, as consequence of the increasing processed operations.

Anyway, it should have taking into consideration that the evolution towards the future bank is not the same for all world countries, the particularities of the banking system evolution from each country being connected with the dynamic and specificity of each economic system. The common element is represented only by the profoundness and the proportion of the change.

A small dimension illustration of the globalisation process is represented by the European Union and Romania wishes to be a part of the European concept of development. The banking system is not only an equilibrium factor and a development one but also a catalyser of integration in the European structures. Because of these, the consolidation process of the Romanian banking system will accelerate in the perspective of the integration in the European Union. Its activity has an external component because the of the partnership relations established with the foreign correspondent banks. This opening toward the international financial markets represents a real stimulus for the adjustment of the functional structures to the changes which occurs at the world level.

An important step towards the integration to the European Union was made through the finalisation of the legislation alignment in the credit institution field to the European Union directives by the adoption of the new banking law and the new National Bank status Law. The granted of the functional market economy status represent an favourable argument for our country integration perspectives.

In fact, the reform measures (legislative and institutional) in the banking field, get to the same objective having as deadline the year 2007: the integration to the European Union structures. In this integration context, we consider that it is important to be fulfilled some tasks, as follows:

a) The strengthen of the market discipline. In this regard, the supervision banking system should strengthen the market discipline not replace it, offering more stimulants than in the present. The monetary authorities should strengthen the market discipline through measures which regard the following aspects:

? the improvement of the quality, periodicity and the relevance of the used information by the market players in order to evaluate the performances and the financial situation of the banking institutions. Thus, it is recommended that the issuing of the financial reports to be made in conformity with the international accounting standards (IAS) and the Directive IV of the European Union;

? the central bank should encourage the private initiatives regarding the improvement of the financial transparency of the credit institutions through the agreements between the banks and the encouragement of the standard and definitions used for the information comparability;

? The National Bank of Romania should supervise permanently that the practices of the loans classification and provisions reflect correctly the estimations of the debts and the risks;

b) The safety device implemented in order to reduce the systemic risk should minimize the moral risk through the limiting of the protection or through the establishing a properly relation between the protection cost and the risk level. In this perspective we consider that the following measures should be taken:

? the limiting of the guaranteed interest rate. This measure should take into consideration the limiting of the guaranteed interest rate at the average interest rate. In this way, it will be discouraged the weak and small banks expansion which offer high interest rates in order to gather funds despite the big credit institutions;

? the introduction of the co-responsibility. Thus, it is necessary to establish a limit for the guarantees constituted at the Guarantee Fond of the Deposits in the Banking System and for the amounts which exceed this limit, should be introduced progressive coefficients for co-responsibility;

? the improvement of the variable contributions system in function of the risk. This system should reflect better the risk profile of the credit institutions. It is recommended to introduce, besides the quantitative factors used in present, a few qualitative factors (for instance, the examining ratings for the banks). Regarding the quantitative factors, the system could be improved through the introduction of a new risk categories which refers to the assets concentration or more solvability indicators;

? the conditioning of the emergency liquidity assistance. The emergency financial support should be always subordinated to certain conditions which could permit the avoiding of loss accumulation for the central bank;

c) The improvement of the supervision and prudential reglementation. For the banking supervision, the standards are established by the Basel Committee (Basel Core Principles). We consider that the main measures which should be implemented in order to insure the stability of the banking system are the followings:

→ the improvement of the banking authorisation system;

→ the improvement of the banking corporate governance, field in which should be delimited the frame regarding the shareholders control and the internal control systems of the banks;

→ the supervision authority should solicited the banks to have funds in order to correspond to the risk level assumed by those. The requirements regarding these funds should cover not only the credit and market risks, but also the operational risk and the interest rate risk;

→ the introduction of the consolidated supervision in order to know the risk which a bank member of a group could be exposed to.

The challenges generated by the globalisation and internationalisation in the banking field get new elements in the objectives framework imposed in order to insure the increase of the efficiency in the Romanian credit system.

The credit process has got the authorities attention because the deep implications which the credit activity could generate in the economy and because a proper administration of the credit could determine the development or the failure of the credit institutions. We considered that the analyse of the evolution (the period 1990-2003) of the credits granted by the banks will permit to get the most important tendencies in this field, the disfunctionalities occurred and, on this base, to determine the present and future objectives in the credit field.

In our country, it was had in view, in a first stage, the creation of a credit mechanism adaptable to the transforming conditions occurred in the national economy. Thus, there were imposed essence reconsiderations of the credit functions (the repartition function and the emission function) through the insurance of an optimal report between the character, nature and the period of using the monetary funds and the credit destinations. In this context, it appeared the necessity of banking capitalisation because the existence of the uninsured credits.

The functioning of the credit system in the market economy imposed also new measures regarding the credit negotiation activity through the rigorous limiting of the attributions of the creditors and debtors. As well, the period of transition imposed changes in the field of banking techniques and reconsideration regarding the ways of evaluation the financial situation of the banks' clients which were in discordance with the principle of the market economy.

Despite these evolutions, the credit system have not functioned at the requested parameters requested by the need of resources for the economy. The causes which influenced in a negative way the credit activity in the transition period are complex and should be analysed in correlation with the macroeconomic context and with the evolution of the banking system. So, the slow rhythm of economic restructuring, the delay of the privatisation and restructuring process of the commercial banks; the high costs of the credit; the presence of the arierates; the defective management of the banking risks; the high interest rates played the role of a brake for the investment and production activity, aspect which determined a priority of the short term credits and a modest place for the medium and long term credit, especially in the first part of the transition period.

Starting with the year 2000, the economic development trends, the consolidation of the macroeconomic equilibriums, the acceleration of the privatisation and a higher stability of the banking system led to an increase credit activity in the Romanian economy. The increase of the nongovernmental credit in the last years represent a favourable argument for this statement. But the upward evolution should take place in the condition of a real economic development, in a rhythm which should take over the increase rhythm of the GDP.

As well, we appreciate as significant the intensification of the National Bank of

Romania's actions on the prudential regulation field which got to the drain of the unperformant credits in the last years.

The positive evolutions from the economy were accompanied by a reduction of the active interest rates through disinflation, which represents the solution for the relaunching of the investment and production activities.

For an increase of the banking credit efficiency was necessary a new orientation towards the retail market, which presents the advantage that the population represents, in general, a safe and faithful client.

An important role in the increase of the efficiency process of the banking activity and the stimulation of the credit activity played the decrease of the interest rates in our economy. Only through this can be created the premises for a recovery of the banking activity, including the quality of the credits and the developments on the banking management.

We consider that, in parallel with an improvement of the Romanian economy situation and the acceleration of the privatisation process, for the increase of the credit activity efficiency should be taken the following measures:

- to establish a viable banking strategy regarding the promoted policies: the credit decisions; the credit administration; the banking risks; the behaviour on the competition field; the perspective development;

- to settle different interest rates for different clients in order to support the development of certain economy sectors;

- to simplify the procedures, to adopt flexible solutions regarding the credit guarantees taking into consideration the prudential rules;

- to increase of the credit portfolio quality;

- to decrease of the nonperforming credit in the portfolio credits;

- to introduce the credit syndicalisation for the high amounts;

- to decrease the rate interest as consequence of the increasing competition on the banking market;

- to consolidate the structure of financial-banking supermarket – which will contribute to the financial products diversification, the distribution channels diversification and the decrease of the number of market players; the increase of competition;

- to increase the complexity of integrated products and services offered to the population and the firms;

- to implement on a wide level the integrated informatics system which could lead to the analyse of the credit portfolio;

- to increase the service quality in the credit activity;

- to promote new and diversified banking products and services (e-banking, Internet-banking, phone-banking, m-banking).

The banks' performances are correlated with the risk which the banking operations could generate. Among the risk the bank are confronted with, an important position is got by the credit risk.

The approach of the credit risk management should be made on the base of the principles which insure taking into consideration of all financial or nonfinancial aspects with impact on the clients, their activity, the profit and the capacity to do the credit repayment. These principles are: the character, the capacity, the capital, the collateral, the conditions, the control.

The effort did in the period 1998-2000 for the consolidation of the banking system proved their utility in the following years and the Romanian banking system got closer to the integration standards from the prudential point of view. Thus, the analyse of the main

indicators for risk and prudentially evaluation indicate positive trends which reflect:

- ✓ a high capitalisation of the banking system;
- ✓ the expansion of the aggregate assets;
- ✓ the increase of the banking management quality;
- ✓ the diminish of the difference between the active and passive interest rates;
- ✓ a proper supervision activity.

The dynamic of the credit activity did not affect the solidity of the banking system, the prudential indicators as the high solvability rate (about 20%), the high liquidity (over 3%), the low level of the nonperforming credits (under 1% from the banks' credit portfolio) – indicate a considerable resistance against a possible crisis.

The National Bank of Romania, acted lately in order to insure an equilibrium between two objectives: on one hand, the maintaining of a rather high banking intermediation and on the other hand, the maintaining of the financial health of banking system. In this way, the priority orientation for the supervision authority are the followings:

- ! the identify of some possible weaknesses in the process of banking risk management (credit risk, liquidity risk, market risk, operational risk, reputation risk);
- ! the reglementation of the legal frame regarding the activity organisation and the internal control system of the banks; the banking risk management;
- ! the application of the reglementation regarding the clients standards as well the credit provisioning standards.

In the conditions that the risk management still represent a challenge for the Romanian banking system, we appreciate that the alignment of the credit institutions to the principles of Basel II became an important objective for the next period.

The main purpose for the credit institutions, as well as for any economic entity, is considered the profit. In this context, the measuring of the revenues and the management of the risks present a special importance for the appreciation of the assets quality and the bank's performances. The analyse of the performance indicators of the Romanian banks indicate the fact that the rentability on the banking system was high in the last years despite the high interest rates and the low competition on the market.

For the future, the predictions regarding the profitability in the banking system are favourable because there are anticipations regarding the development of the business filed through the foreign investment directed, in principal, by the European Union.

Nevertheless, the optimistically perspectives and the relative stability of the Romanian banking and credit system should not diminish the gather efforts concerning the restructuring, the reform and the privatisation. Moreover, a safe macroeconomic framework and the coherent legislative reglementation became conditions of a favourable background for this achievement.

In conclusion, we should admit that the multiple valences and the complexity of the credit activity confer to our opinions an hypothetical character and, of course, a perfectible one.