CHANGES INSIDE THE ROMANIAN BANKING SYSTEM IN THE FRAME OF THE FINANCIAL AND BANKING CRISIS

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Abstract:
After the year 1990, bashfully at first, but then more and more prominently, the countries of Central and Eastern Europe have become major loan recipients from foreign banks, either cross-border, or local through open subsidiaries in the emerging European countries. The Romanian banking system continues to be among the most dynamic economic areas in Romania. Further on characterized by a relatively low level of financial intermediation, the Romanian banking market is considered to have potential for the possible buyers, especially in the crisis period when many small banks looked for a merger with another small or medium bank for consolidation reasons. Although the Romanian banking system faced crisis pretty well comparative with the rest of the world countries, if we consider its equity, its profits kept on decreasing every year and the rate of the non-performing loans increased.

Key words: *banking system consolidation, market share, profitability, Romania.*

JEL Classification: *F33, F36, G01, G18.*

1. Introduction

Central and Eastern Europe has overcome the phase of involvement of the banks by means of financial flows, leading to direct investment (locally implemented branches and subsidiaries), which means of course a greater financial stability and the expression of long-term intention regarding the involvement in the region's activity (Burciu et al., 1999).

A total of five countries (Poland, Hungary, Russia, Turkey and the Czech Republic) have accumulated over two thirds of the foreign claims of the emerging European countries, reflecting a sharp focus towards the most advanced countries, or as in the case of Russia, the most interested in perspective rather than the present situation (Daianu, 2001).

In countries such as Estonia, Slovakia and Croatia, domestic banks are basically owned by foreigners, in the Czech Republic, Lithuania, Romania[1] and Hungary the foreign capital share is over 80%. The only notable exception is represented by Slovenia, with a rather small share of foreign banks. The dominant presence of foreign capital is linked to the privatization of former state-owned banks and the preferred means of entry is the establishment of subsidiaries by purchasing local banks rather than establishing new branches (Radulescu and Popescu, 2009).

The most interested countries in mergers and acquisitions are the Czech Republic, Hungary and Poland the dominant acquiring banks being those in the European Union (Citibank is a notable exception, but its involvement does not exceed 8% market share in the total assets in any country in Central and Eastern Europe), probably due to the considerations related to the scale economies and limitation of the expansion opportunities in their own markets. The purchased banks most often operate under the brand of their parent bank in order to benefit from the transfer of reputation. The entry of foreign banks on the banking market in Central and Eastern Europe was more difficult in the early 1990s, when only a few of them have penetrated by establishing banks from scratch (greenfield investment), due to both the lack of interest shown by the host countries and to the lack of attractiveness of these countries before the implementation of structural reforms. At first, Greenfield banks have followed their customers who have made regional investments, and then purchased large domestic banks, as the privatization process progressed (Spiridon et al., 2002).

The entry of foreign banks has generally been associated with the improved quality of regulations and transparency, especially when the entry of foreign bank is accompanied by the introduction of international accounting and auditing standards. The major advantages of the presence of foreign banks are related to the increased economic efficiency induced in the entire banking sector, by improving the financial intermediation due to the "import" of reputable financial institutions. This leads to increased confidence in the banking sector, to reduced

[1] Including the purchase of the RCB by Erste Bank

transaction costs through efficient risk management systems and to improved regulatory regime across the banking sector (Engerer and Schrooten, 2004).

This paper aims to analyze the transformations in recent years on the Romanian market, the attempts to consolidate mergers and acquisitions during crisis conditions and the instability of Greek banks, the recorded changes in the market share of the banks operating in the Romanian banking market and the evolution of the profitability of the Romanian banking system in these conditions in recent years.

2. Mergers and acquisitions in the Romanian banking system in recent years

The Romanian banking system continues to be among the most dynamic economic areas in Romania. If, for NBR, the robust growth in lending is a concern, for foreign banking groups this dynamic is a point of interest. Further on characterized by a relatively low level of financial intermediation, the Romanian banking market is considered to have potential for the possible buyers (Ionescu, 2001). After a relatively calm period that followed the privatization of RCB, the sector of bank acquisitions in Romania began to show signs of action.

On 1 October 2012, Intesa Sanpaolo Group has completed the merger of banking subsidiaries in Romania - Intesa Sanpaolo Bank and CR Firenze. Intesa Sanpaolo Bank is the entity that will continue to act in the market following the takeover by absorption of the assets of CR Firenze Romania. Following this merger, the first in the local market in the past 5 years, Intesa Sanpaolo Bank will operate through a national network of 90 units, with about 1,000 employees and total assets of over 5 billion lei.

Intesa Sanpaolo Bank will continue to operate in the local market as a universal bank with products and services addressing the retail, SME and corporate segments.

Alpha Bank and EFG Eurobank, the two major Greek banks wish to announce a proposed merger and the consolidation action would lead to a third bank by assets in the Romanian market. Discussions about potential mergers in the Greek banking system have constantly taken place over the past two years, especially since Greece has been facing an unprecedented economic crisis.

In the first quarter of this year, the National Bank of Greece has made a merger proposal to its rival, Alpha Bank, but the project failed despite the governmental support. This time, Alpha Bank established a combination with Eurobank, which holds Bancpost in Romania. In Romania, the consolidation would lead to the establishment of a bank with a share of 9.2%, 450 units and about 6,000 employees.

Ever since Bancpost got under the control of EFG Eurobank in 2003, it has followed an oscillating trajectory, marked by several rounds of restructuring and frequent management changes. If in the past it was in the 5-7 positions in the assets rank, today is preparing to enter merge with Alpha, hoping for the ninth position. Even if it has been longer on the market, Bancpost is surpassed by Alpha based on assets, thus ranking 8th.

Greeks from EFG did not have courage to change the name Bancpost, although at the time they flirted with the idea of promoting the brand Eurobank. Finally, after weighing the cost of rebranding operations for a large network they decided to keep the name Bancpost. Now one of the best known names in the banking market will disappear willingly or nor, following the merger.

Alpha shareholders will hold 57.5% of the new group, while the Eurobank shareholders only have 42.5%, so that even in the local market, Alpha is expected to have an upward trend in the merging process of the two banks.

Both Alpha and Bancpost were following a downward trend in the ranking of the largest banks in the market, but the consolidation decided at Athens brings them directly on the third position, where not of them hoped to be placed individually.

At the same time it is good news because even in this formula a dream of the year 2003 is fulfilled, so that Bancpost reached the third position in the market. Moreover, it needs to increase the quality of the new banks in order to be able to keep this position in time.

Another merger is represented by the one between Alpha and Eurobank.

Bancpost was established 20 years ago. The bank was partly privatized in 1999 by a consortium led by the General Electric Capital Corporation. Eurobank became the majority shareholder in 2003, and in the process has consolidated its holdings through the acquisition of FIS assets.

The mergers and acquisitions market in the banking sector has been quite busy in recent years, especially in the American space which felt the consequences of the current economic crisis. Last year there were two such major European transactions announced: Volksbank acquisition by Sberbank.

Two of the largest banks in Greece, National Bank of Greece[2] (NBG) and EFG Eurobank may merge, resulting in the largest credit institution in the Greek market. Such a transaction would have the consent of the government in Athens and that of the Bank of Greece.

[2] http://www.business24.ro

Greek banks are under pressure to consolidate, so that they can better withstand the crisis, which left them dependent on the liquidity supplied by the central bank, as access to interbank markets and to the European Central Bank remains blocked.

Earlier this week, the French group Credit Agricole announced that it carries on exclusive negotiations with Alpha Bank in order to sell the Greek subsidiary Emporiki at the symbolic price of one euro.

Another possibility is the merger of Alpha Bank and Emporiki, Alpha Bank could buy Emporiki Bank by the end of the year. Price: one euro.

Societe Generale also informed, that is conducting exclusive negotiations with Piraeus Bank for the selling of the Geniki branch in Greece.

Piraeus Bank wants to buy the Greek division of Societe Generale. NBG, EFG Eurobank and Piraeus Bank discussed in the first part of the year a plan to form a single credit institution, but the debates ceased before the parliamentary elections in early May.

Banks in Greece want to unite against the crisis. Meanwhile, among the amendments recorded by the Greek banking system is the acquisition by Piraeus of the viable assets of ATEbank.

Last year, EFG Eurobank and Alpha Bank wanted to form the largest Greek bank through an exchange of shares. The purpose of the merger was to better withstand the financial crisis that has led to increased non-performing loan portfolios and to deposit decline.

The merger agreement fell after it became clear that the restructuring of the Greek state debt, through which debts of about 100 billion were erased, was to seriously affect both banks, but much stronger EFG, a credit institution with a greater exposure to government bonds.

In May, Alpha Bank shareholders decided to abandon the merger with Eurobank EFG.

EFG Eurobank owns Bancpost in Romania and NBG Bank is represented by the Romanian Bank. It is expected that the Greek banks NBG and Eurobank to be nationalized, and that the merger will be suspended.

The international news agencies transmitted that the merger plan of Greek banks NBG, the leading shareholder at the Romanian Bank and Eurobank, which controls Bancpost will be suspended, and a final decision in this regard will be taken by the Hellenic Financial Stability Fund (HFSF), which will become the main shareholder of the two banks that must be recapitalized after they have failed to sell enough bonds to attract private investors.

The shares of both NBG and Eurobank have plunged by 30% after the banks have confirmed the suspension of the merger and announced that they cannot attract enough private capital to avoid the dominant control of Greek rescue fund, which is the equivalent of nationalization. The two Greek banks need additional capital of 15.6 billion euros to meet the minimum solvency indicators.

But because they do not manage to sell bonds to attract private capital, most of the necessary funds will be provided by the state rescue fund (HFSF), which will take instead the stocks and bonds of the two banks. This means that the state will eventually hold around 40% of Greek banks' capital. In order to remain private, the banks would have to sell at least 10% of the issued bonds to the private investors.

The Greek rescue authority will proceed to separately recapitalize each bank and will eventually decide whether or not the fusion will be performed.

In February, NBG took 84.3% of Eurobank through an exchange of shares, part of a plan to strengthen the banking system in Greece. NBG's stake in Eurobank but will drop substantially, to below 10% after the recapitalization made by the rescue fund. The NBG merger with Eurobank EFG has been suspended, following the decision of the Bank of Greece which forced the two credit institutions to separately run their processes of recapitalization the Hellenic Financial Stability Fund would need to decide whether the transaction will take place in the end.

The Bank of Greece announced that the procedures and deadlines for recapitalization of NBG and Eurobank EFG and Alpha Bank and Piraeus Bank will proceed as planned. All four systemically important banks must be recapitalized by the end of April. EFG Eurobank in Romania controls Bancpost and NBG holds Romanian Bank. Alpha Bank and Piraeus Bank perform financial activities in Romania under their own name.[3]

The Greek Financial Stability Fund announced that Piraeus Bank was chosen to take over the banks' Greek Cypriot units to be sold as part of the bailout of Cyprus from bankruptcy by the European Union.

The Fund's representatives also mentioned in a statement that the transaction will be subject to approval by the European competition authorities, but gave no other details about the conditions in which the assets of the Cypriot banks will be taken.

Piraeus Bank has won thus this battle with Alpha Bank to take over the largest Cypriot banks - Bank of Cyprus and Cyprus Popular, both also present in Romania through Bank of Cyprus, holding the status of branch, respectively Marfin Bank, with the status of financial and supervised institution by the National Bank of Romania.

[3] http://www.wall-street.ro

In 2013 in Bucharest the first two units of TBI Bank EA - Bucharest Branch Bank of TBI Bank Bulgaria were opened, a credit institution controlled by the Israeli group Kardan. The bank is to open other two units in the capital this summer and a few others in the country.

Basically it is about transforming into a bank the non-financial consumer credit companies TBI Credit, specialized in consumer loans and credit cards, and that of leasing, TBI Leasing, which has been operating in Romania since 2002.

Former TBI Credit, as well as other specialized non-banking financial institutions specialized in consumer loans practice much higher interest rates than banks which focus on loans and credit cards, the effective annual interest rate reaching close to 50%.

With the change of these products and services non-banking financial institutions type in lending banking products that will compete with other cards or loans in the market, the bank will operate a cost reduction. For example, the interest on credit cards will drop from about 40% to 26%.

The new bank will offer also other products and services characteristic to universal banks such as current accounts or deposits. Thus, TBI Bank becomes the second bank in Romania after the crisis broke open after Bank Railway, while on the other hand we are witnessing a process of mergers initiated mainly by the foreign subsidiaries groups which are reconsidering their strategies during the crisis period.

3. Trends in banking activity in Romania

The two largest banks controlled by Austria's Erste (BCR) and France's Societe Generale (BRD), lost in 2012 from the market share of assets in favor of the two Romanian banks that took advantage of the crisis to strengthen their market position: the state-owned bank CEC and the bank with majority domestic private capital: Transilvania Bank.

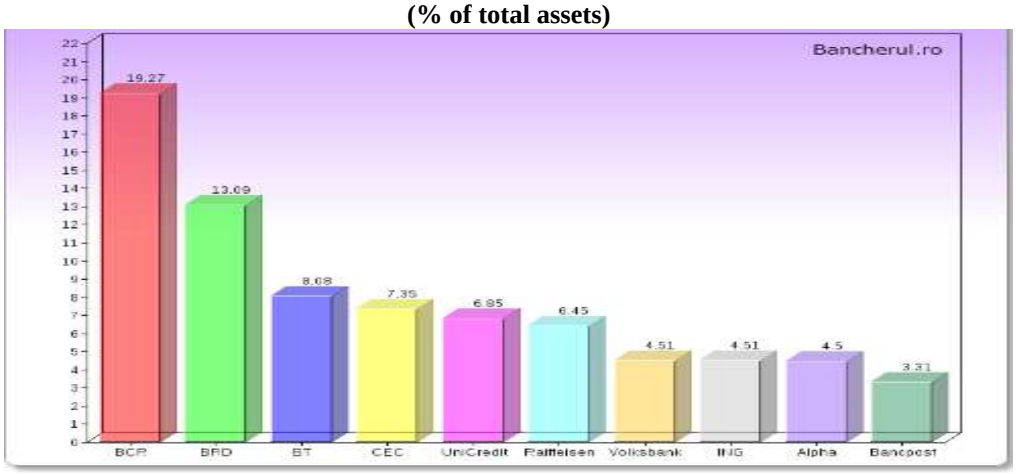
Moreover, foreign banks reduced in 2012 by 1.3 percentage points the share of assets in total banking assets, up to 81.7%. In the last 4 years of the crisis, the share of foreign banks in total has decreased by 6.5 points from 88.2%, in 2008.

The Romanian banks increased their assets in 2012 to almost 12 billion lei, up to a total of 365.9 billion lei.

Last year, RCB recorded the biggest loss of assets among the top 10 banks, of 1.53 points, decreasing below 20% of total banking assets, while BRD lost 0.49 points, up to 13%.

In a different position is Transilvania bank with 8% of assets, which won 0.81 points in 2012, followed by CEC and UniCredit, both in ascent. Raiffeisen, however, continued to lose ground, reaching number six after being placed for a long period on the 3rd position in the banking system.

Graph 1. Top ten banks (according to their assets)
(% of total assets)



Source: www.bancherul.ro

Table no. 1. Changes in the market Share

Banks that gained market share in 2012:	Banks that lost market share in 2012:

Bank Transilvania	BCR
CEC	BRD
UniCredit	Raiffeisen
ING	Volksbank
Garanti	Alpha
Citi	Bancpost
Credit Europe	Piraeus
Intesa	Romaneasca
Carpatica	RBS
OTP	Eximbank
Italo-Romena	

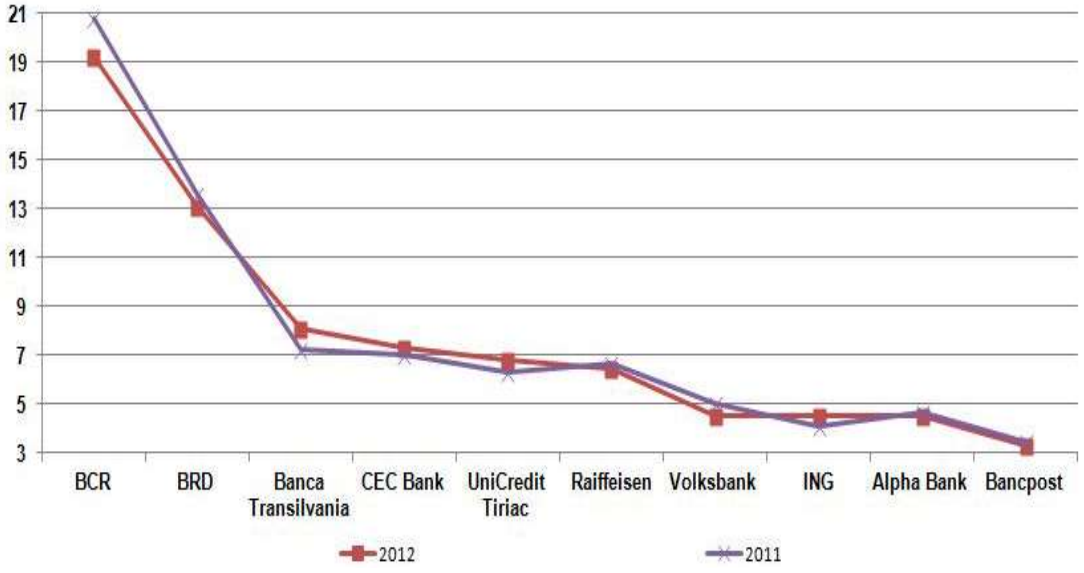
Source: www.bancherul.ro

Table no. 2. Banks' market Share on the Romanian market

Banks' market share	2012	2011
BCR	19,27%	20,8%
BRD	13,09%	13,58%
Bank Transilvania	8,08%	7,27%
CEC Bank	7,35%	7,01%
UniCredit Tiriac	6,85%	6,30%
Raiffeisen	6,45%	6,70%
Volksbank	4,51%	5,01%
ING	4,51%	4,10%
Alpha Bank	4,50%	4,66%
Bancpost	3,31%	3,47%

Source: www.bancherul.ro

Graph 2. Evolution of the banks' market share



Source: www.bancherul.ro

Banking industry in Romania, Hungary and Slovenia will continue to register losses even in 2013, according to the analysts from Moody's Investors Service. Lenders in Hungary and Romania are affected by addiction to funding from parent banks. Unlike the previously mentioned countries, banks in the Czech Republic, Slovakia and Poland have as main source of financing their own deposits, so they will be able to maintain their profitability. The largest lenders in Eastern European Union, including UniCredit, Raiffeisen Bank International and Erste Group Bank have significantly reduced their costs to offset the cost of provisions for bad loans and in order to meet the capital requirements.

4. Conclusions

In spite of all these movements and consolidations, the banking sector in Romania has made public the losses for the past three years while the increasing non-performing loans in Slovenia caused speculations that this country will need a bailout.

The operating environment for banks in Central and Eastern Europe will likely remain challenging and continue to be exposed to external risks, mainly related to the developments in the euro area.

In 2012, 40 banks in the local market accounted for a net loss of about 2.1 billion lei (476 million euros), a three-time increase compared to the negative results registered in 2011. It is the biggest loss recorded by the banking system at the beginning of the crisis, which is the result of bad loans explosion, which reached a share of over 18% at the end of 2012.

In these conditions, the system ended 2012 with a negative return on equity of 5.4%. In 2011 the losses amounted to 777 million lei, and in 2010 to about 516 million lei. The banking system is also facing a worsening loan portfolio given that approximately 20% of the loans have become non-performing loans in recent years. According to the National Bank of Romania, in 2012 the ratio of non-performing loans rose by almost 4 percentage points to 18.2% at the system level, this increase was unfortunately accompanied by a negative evolution of the balance of new loans.[4]

As a general conclusion, although we faced many mergers and acquisitions that consolidated the banks' solvency and generated funds inflows from the parent banks abroad, the profitability decreased dramatically for the entire banking system. This is because of the strong and prelonged economic crisis that affected all the economic sectors. The credit process stoped, but also the other banking products and services dropped significantly. As long as we won't have an economic recovery, the non-performing loans will acumulate and the banking system can't recover. Still, the consolidation of the Romanian bankig system through mergers and acquisitions helped it not to face some banks collapse as it happened in other countries.

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