MEASURING THE BANK MARKET CONCENTRATION IN ROMANIA IN THE PERIOD 2004-2013

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Abstract
In this paper I proposed to analyse the phenomenon of bank concentration on the bank market from Romania in the period 2004-2013, the measurement indicators, the causes that lead to its appearance, and the effects that it has on the bank system. The main motivation for the choosing of this theme is the fact that the Romanian bank system knew a strong evolution of the phenomenon of bank concentration and consolidation along this period, evolution that began with a process of reform and transition to the market economy in which an important role is that of the bank privatization. Afterwards, following our adherence to the European union, the competition in the Romanian bank system increased significantly, which determined modifications of structure in the bank system. It appeared foreign bank institutions that determined the increase of the quality of the products and services offered, due to the accentuation of the bank competition on the bank market from Romania. The Romanian bank system knew an accentuated diversification and dynamics determined by the development of the macro economic background from our country, the bank system being oriented to offer competitive products and services according to the European requests.

The financial crisis from 2008 placed its imprint on the bank system from Romania affecting in different forms all the participants of the Romanian bank market.

Keywords: bank market, concentration, consolidation, Herfindahl-Hirschmann index, coefficients of concentration

JEL classification: G21, G34, F65

1. Introduction

I considered important the approach of the process of concentration of bank market from Romania because in this period the Romanian bank system, as that of those of the occidental countries, is submitted to the process of concentration in which the great banks and the financial groups are united, are merging, dominating and controlling the entire activity in this field.

The bank concentration measures the degree in which a market is dominated by only a few companies. The increase of the degree of concentration has as an effect the decrease of the competition with negative effects on the consumers as would be greater taxes, greater rate of the interest on loans [4]. The level of concentration of the market offers an image of the degree of competition inside a market, the measure in which the great banks are capable to control the market [1]. The measurement of the bank concentration has problems because one of the attributes that delimit any market, a great part is the identification of the products and services commercialized and due to the significant transformation from the bank sector from the last period especially regarding the diversified portfolio of products and services it is very difficult to trace its limits. There is for example superpositioning in delimiting the activities of the commercial traditional banks and the services offered by entities that don’t activate necessarily in the financial field, non bank entities [6].

We agree with the positions of the researchers that consider that, apart from the aspects of a normal phenomenon, specific to the capitalist economy in search of the scale economies and of gamma and of the market domination, we assist also to exaggerated forms, often passionate, a so called mania of the mergers that often exceeds the reasoning of the market efficiency or of the maximization of the share value, being rather the result of the ambitions of the top management of the great corporations, caught in the illusion that the great ones, always are the strongest ones.

The methodology of research has at its basis the literature of specialty from the country and abroad, sources of information that include specialty books, articles and reports in the field, works of the economists and specialists and data collected from the reports of financial stability published by the National bank of Romania and of some data published by the European Central Bank, in order to see which was the evolution of the concentration but also the factors that determined the modification of the degree of concentration in Romania in the analyzed period.
2. The indicators of measurement of the bank concentration

The bank concentration is measured with the help of two indicators: Herfindahl-Hirschmann indicators (HHI) and the coefficients of concentration (RNC).

1. The index called Herfindahl-Hirschmann (HHI) is the percent of the sum of the squares of the individual market quota of the total participants in a market [4]. This index varies from zero to ten thousands and shows a greater concentration when HHI is greater. It is used to study the structure of the market, the relative quota of all the companies and compares the degree of concentration between the markets, the relative quota of all the companies and compares the degree of concentration between the markets. With all these, its applying in the countries in process of development is limited because there are no values of reference in these countries to indicate the to what value it is an indicator of the HHI concentration moderated or very concentrated [2].

The Herfindahl-Hirschmann index is used to measure the quota after the merge and the increase of market quota that results from the transaction. This index registers weak levels of concentration (under 1000), moderated concentration (between 1000 and 1800), great concentration (over 1800). This result is just a factor to consider [5].

It was used initially in the American bank practice and in that of other countries from the world. This index expresses the characteristics of the entire bank system considering that it includes the sum of the values of each bank in the bank system, respectively the square of the market quota of the banks, that determines the creating of great dimensions by the greater market quota and small dimensions by the smaller market quota.

In case the number of strong bank institutions, with significant market quota the Herfindahl-Hirschmann index will register a significant decrease and in case th differences between the market quota of the banks are great the Herfindahl-Hirschmann index will register an increase. In the hypothesis that the market quota of the banks from the bank system registers close values, the differences are reduced and the value of the index decreases.

2. Coefficients of concentration (RNC) measures the market quota of the greatest participants from the market, a greater value indicates a great concentration in the industry and, as a consequence, a greater power on the market of the greatest companies. This indicator is easily to be interpreted because its value reflects directly the portion of market controlled by the greatest companies [2].

The degree of concentration of the market quota can be accomplished for the first 5, 10, 50 or 100 banks and expresses the degree of concentration in the category of banks selected, namely the percentage of the first 5 banks, the first 10 banks, 50 or 100 banks. The choosing of the sample of 5, 10, 50, 100 banks depends on the number of banks from the market thus the category of the first 5 banks is representative for countries with over 100-150 banks from the market, the percentage of the first 10-20 banks is representative for 300-400 banks from the market and the percentage of the first 50 banks is used when in the market there are over 500 banks. This indicator, as Hurduc (2005) affirmed is oriented to the “peak” of the bank system and measures the degree of concentration and the succession of the bank units in the existent competition.

The rate of concentration of the first 5 banks or of the first 10 banks from the bank system is more often used in the European union for the appreciation of the performances registered by the banks from the bank system.

The coefficients of concentration are calculated as a percentage of the first 5 great banks, the first 10 great banks (number chosen depending on the number of banks existent in the bank system) in total bank assets of all the banks, in total capital, deposits attracted and credits given of the commercial banks. A correct expression of the degree and potential of concentration takes place when the appreciation is accomplished for a number of equivalent banks, number that is proportional with the number of effective banks [3]. In the present the method of evaluation of this index is unitary for all the national systems, is calculated mainly the percentage of the first 5 or 10 banks, without considering the degree of diversification of the national banks’ systems and of the number of bank institutions existent in these bank systems. This method of calculation is not equitable because in countries as USA, Germany, Japan, France, England this indicator presents a reduced degree of concentration due to the great number of existent banks and in the countries with a small number of banks the degree of concentration has high values. Along time, as Hurduc (2005) affirmed was advanced the idea of reconsidering the method of calculation of this indicator, a way that presupposed the considering of a proportional number of banks, the proposal being of 7% as a report between the banks that have a high degree of concentration and the rest of the banks.

3. The evolution of the bank concentration in Romania in the period 2004-2013

The degree of concentration of the bank system from Romania in the period 2004-2013 can be compared with that of the countries from the European Union, due to the percentage that the first 5 banks have in total balance sheet assets aggregates. As a tendency, we observe that all the indicators calculated (the percentage of the main 5 banks in total assets, credits, deposits or Herfindahl-Hirschman index) know a gradual decrease that, without registering dramatic tendencies, are accentuated after year 2008, once the crisis began.
Thus, in 2004, these first 5 banks cumulate a percentage of 59,2%, decreasing compared to 2003, when the percentage was of 63,9%. These banks are BCR, BRD Societe Generale, Raiffeisen Bank, CEC, ABN Amro Bank and they own 55,7% of the total credits given, 59,5% of the attracted deposits, 60,5% of their own capitals of the banks from the Romanian bank system and 61,5% of the total state titles. This diminishing of the percentage of the first five banks in total assets, credits and deposits attracted is determined mainly by the increase of the bank competition as a consequence of the appearance of some new bank institutions, and due to the mergers that took place, that determined the creating of new architectures of the banks system [8].

The first five banks in 2005, depending on the size of the assets are BCR, BRD-Groupe Societe Generale, Raiffeisen Bank, HVB Bank and Bancpost. These own 58,8% in total balance sheet assets, 61,2% of the total credits given by the commercial banks, 57% deposits attracted, 55,1% of the total capitals of the commercial banks and 60,1% in total state titles. We can observe an increase of the percentage of the credits given by these banks from 55,7% in 2004 to 61,2% in 2005 against the diversification of the portfolio of credits of the commercial banks and of the increase of appetite of the population for consumption and real estate credits, following the increase of their purchase power [8].

In 2006 BCR, BRD-Groupe Societe Generale, Raiffeisen Bank, HVB Țiriac and Transilvania bank have a percentage of 60,3% in total assets aggregates from the Romanian bank system, 63,5% in total given credits, 58,3% in deposits attracted, 53,3% in total capitals from the Romanian bank system and 34,9% in total state titles. The degree of concentration of the bank market from Romania is a moderate one, is smaller than of the countries in transition, but superior to that of the developed countries. This registers a small increase, due to the increase of the percentage of the banks with foreign capital, against the consolidation of the Romanian bank system.

The Herfindahl-Hirschman index registers a decrease from 1.251 points in 2003, to 1.165 points in 2006 against the increase of the banks with foreign capital and of the increase of competition in the Romanian bank system [8].

The first five banks from the system in 2007 - BCR, BRD-Groupe Societe Generale, Raiffeisen Bank, Transilvania bank and Bancpost own 56,4% in the total balance sheet assets in the Romanian bank system, 57,1% in the total credits given, 60,0% in the total deposits attracted, 50,1% in the total capitals of the bank institutions and 55,7% in the state titles, the bank system being characterized in this period by a relatively high degree of concentration [8].

The adherence of Romania to the European Union and the modifications in the legal provisions that had as an effect the moderated awarding of nongovernmental credits had as an effect the stimulation of the activity of crediting and the increase of competition. The increase of competition in the bank market was stimulated also by the foreign investors that entered on the bank market by the mergers and acquisitions accomplished mainly by the banks with small and average dimensions and by the foreign bank institutions that accomplished bank activities on the territory of Romania. The degree of concentration is moderate, the Herfindahl-Hirschman index registers a decrease from 1.165 points in 2006 to 1.041 points in 2007 [8]. Also we observe that, in this period, an ascension of the segment of small and average banks have an aggressive approach, mainly in the activity of crediting but also in that of attracting the resources.
In 2008, the first five banks from the system - BCR, BRD-Groupe Societe Generale, Volksbank, Raiffeisen Bank and Alpha Bank own over half of the assets of the bank system, of the credits and deposits existent in the system. Thus they had a percentage of 54,3% in the total balance sheet assets aggregates, 53,3% in the total credit and 54,0% in the total deposits attracted. It is observed a decrease of these percentages compared to the previous year as a consequence of the increase of the percentage of the non governmental credit in 2008, against an uncertain macroeconomic climate, that determined an increase of the antipathy of the banks towards the risk. The Herfindahl-Hirschman index registers a value of 920 points, value that is the mirror of a moderated degree of concentration, close to the average of the other states from the European union [8].

The percentage of the first five banks from the Romanian bank system in 2009 - BCR, BRD-Groupe Societe Generale, Volksbank, Alpha Bank and CEC Bank registers a decrease compared to 2008, thus they own a percentage of 52,4% in total balance sheet assets aggregates, 53,4% in total given credits in the bank system and 52,0% in bank deposits. The decrease of the market quota of these great banks was accomplished following the increase of competition in the activation of credit awarding, but also of the externalization of some credits from the balance sheet of these banks. The bank system is characterized in this period by a moderate degree of concentration compared to the previous years. The first nine banks with foreign capital come from the European Union and own two thirds from the Romanian bank system.

The Herfindahl-Hirschman index has a descendant trend, its value in this period is of 857 points and indicates a moderate degree of concentration under the average of 1.120 points registered on the level of the European union [8].

In 2010, the first five banks from the Romanian bank system - BCR, BRD-Groupe Societe Generale, Raiffeisen Bank, CEC and Alpha Bank have a percentage of 52,7% in total balance sheet assets from the bank system, 51,5% in total credits, 55,4% in total bank deposits, 51,5% in total capitals and 54,5% in total state titles [8].

We can observe the tendency of decreasing of the degree of concentration of the assets of the Romanian bank system until the year 2010, when the percentage of the first five banks in total balance sheet assets registers a small increase from 52,4% to 52,7% and the percentage of the five banks in total credits decreases from 53,4% to 51,5% against the prudence manifested by the banks in giving the credits. The Herfindahl-Hirschman index whose value is of 871 points presents a moderate degree of concentration.

BCR, BRD-Groupe Societe Generale, Raiffeisen Bank, CEC Bank and Transilvania bank own the first five positions in 2011 from the point of view of the assets owned and have a percentage of 54,6% in total balance sheet assets aggregates, 52,3% in the total volume credits given, 58% in total deposits attracted, 52,8 in total capitals and 59,7 in total state titles. The increase of the percentage of assets, credits and deposits of the first banks from the system shows the trust of the population in the great bank institution, perceived as stable. Also the Herfindahl-Hirschman index registers an increasing evolution, reaching the value of 878 points and presents a moderate degree of concentration, under the average of 1.103 points of the countries of the European union [8].

In 2012 the first five banks from the point of view of assets BCR, BRD-Groupe Societe Generale, Raiffeisen Bank, CEC Bank and Transilvania bank own the first five positions in 2011 from the point of view of the assets owned and have a percentage of 54,6% in total balance sheet assets aggregates, 52,3% in the total volume credits given, 58% in total deposits attracted, 52,8 in total capitals and 59,7 in total state titles. The degree of concentration registered a moderate level compared to other countries of the UE, the Herfindahl-Hirschman index has a value of 0.0852 compared to the average of the countries from EU that has a level of 0.1099.

Figure no. 2 The degree of concentration of the assets

Source: accomplished by the authoron the basis of BNR data, Statistics. Sets of data, different yearshttp://bnro.ro/Rapoarte-asupra-stabilitatii-financiare--7673.aspx
In 2013 BCR, BRD-Groupe societe Generale, Transilvania bank, Unicredit Țiriac Bank and CEC Bank have a percentage of 54,4% in the volume of aggregate asset, 52,9% in the total volume of credit given, 54,3% in that of the deposits and 54,8% in the total capitals, we can observe thus a decrease of the degree of concentration in the bank system. The Herfindahl-Hirschman index has a value of 0.821 inferior to the average of the countries from EU which has a value of 1.066 [8].

We can observe during the analyzed period a decrease of the bank concentration in Romania against the intrusion of the foreign capital, privatization of the state enterprises and the adherence of our country to the European Union. The Romanian bank system is characterized in this period by a monopolist competition with accents on competition.

During the analyzed period the leader of the bank market from Romania was The Romanian Commercial Bank Erste Bank which in 2013 has a market quota of 13,1% and bank assets of 63.498,8 mil lei. Until the moment of its privatization in 2005 it was used by BNR as a mean of influencing and intervention on the bank market, “market marker”.

4. Conclusions

In general terms, we can observe that, during the analyzed period, we register a decrease of the bank concentration in Romania. Against the intrusion of the foreign capital, the privatization of the state enterprises and our adherence to the European Union the Romanian bank system is characterized in this period by a monopolist competition with accents on competition.

The financial crisis from 2008 placed its imprint also on the bank institutions from our country. Different factors, as the difficulties of continuing to obtain some cheap resources from the mother bank, the increase of the unemployment and of uncertainties on the market of employment, the reducing of the income of the companies and of the population, that diminished the activity of crediting and intermediation, but affected also the recovery of the receivables towards the sector of the real economy, the decrease of exports and the decrease of investments, the reducing of the value of the assets from the real estate area (many of them collaterally to the given credits) and the risks of bank contagion, threw of balance, in different degrees, all the actors of the Romanian bank market. The first signs of the coming back of the bank activity, of the recovery of the support of the mother companies for the bank entities from Romania began to be seen from the end of the year 2011, but nor at the moment of finishing this paper, the recovery is not complete. It is another facet, more risky, less spectacular and, definitely, unwanted, of the processes of global expansion of the great players, of the negative influences diffused in the entire world economy by a crisis which had at its roots the exaggerated actions and behavior, avaricious, of development without measure of the great financial groups. It is a reality that Romania, as many other countries of the world can’t ignore, and the Romanian bank system, dominated by the foreign capital, has to find it, in a coincidence of the interests and respect towards the policies of balanced and cautious development, of control of the risks, the best way of development in the benefit of each participant: either we refer to the banks and their shareholders, to the state, to the economic sector or the society altogether.

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