

THE IMPACT OF THE GLOBAL FINANCIAL CRISIS ON THE ROMANIAN BANKING INDUSTRY

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Abstract

The 2008 Global Financial Crisis significantly disrupted the international banking system, exposing vulnerabilities related to excessive risk-taking, inadequate regulation, and insufficient capital reserves. Although Romania's banking sector had limited direct exposure to toxic assets, it was deeply affected by spillover effects from Western financial markets. The crisis highlighted the fragility of foreign-funded credit expansion in Romania, which led to rising non-performing loans (NPLs), regulatory overhauls, and increased provisioning. In response, the National Bank of Romania implemented stricter loan-to-value requirements, enhanced supervision of non-bank financial institutions, and promoted domestic savings. Capital buffers were introduced following European guidelines, and banks shifted their focus toward government securities and portfolio restructuring. Interest rates on RON-denominated loans and deposits declined, reflecting monetary easing aimed at supporting lending in local currency. Over time, key indicators such as solvency ratios and domestic savings improved, reflecting the sector's gradual recovery and resilience. The paper offers a comprehensive analysis of the Romanian banking sector's transformation in the aftermath of the crisis and underscores the structural changes that fortified its stability against future shocks.

Keywords: Global Financial Crisis, banking industry, profitability, capital buffers

1. Introduction

The period preceding the Global Crisis from 2008 was distinguished by double-digit annual growth in lending in Romania, which exceeded local sources of financing and necessitated the provision of relatively inexpensive capital by foreign parent banks. However, when the crisis struck, the majority of borrowers were unable to repay their loans. Consequently, a phenomenon that emerged in the post-crisis period was the increase in the non-performing loan ratio in 2012, attributable to the introduction of IFRS. This led to the recognition in the balance sheet of receivables previously recorded in accounts excluded from the balance sheet. Consequently, the National Bank of Romania (NBR) intervened by introducing a series of regulations, including a maximum limit on the value of the loan and the asset declared as collateral. In 2012, the scope of this rule was expanded to encompass non-bank financial institutions. Capital buffers were also introduced in 2016, following European recommendations and practices, and the provisions requirements were increased. These reached 3.2 billion lei in 2014, with many credit institutions recording losses. However, Romania was among the first five countries not to use public funds to support financial institutions during and after the crisis.

This study makes a significant contribution to economic theory and practice by providing a focused, evidence-based analysis of how an emerging European economy – Romania – responded to the systemic pressures of the 2008 Global Financial Crisis. Theoretically, the research contributes to the existing body of knowledge regarding financial contagion and crisis transmission in semi-peripheral banking systems that are heavily reliant on foreign capital. It adds specificity to broader models of crisis response by illustrating how a banking sector with minimal direct exposure to toxic assets can still suffer substantial systemic repercussions. Moreover, it provides empirical insights into the practical implications of macroprudential regulations, including capital buffers, loan restructuring, and regulatory tightening, thereby extending theoretical frameworks concerning financial stability and regulatory feedback loops. From a pragmatic standpoint, the study offers significant policy recommendations by delineating specific measures—including enhanced

oversight of non-bank financial institutions, modifications in portfolio composition, and recalibration of interest rates—that contributed to Romania's post-crisis stabilization without the use of public funds. The findings presented herein provide a series of lessons for economies of a similar structure that are seeking to enhance their resilience against future financial shocks.

The paper is organized as follows: Section 2 provides a literature review of the impact of the global financial crisis on the banking industry. Section 3 illustrates the analysis of the Romanian banking sector. Section 4 contains the conclusions.

2. Literature review

The 2008 global financial crisis marked a severe economic downturn with far-reaching implications for the international banking system, often likened in scale and impact to the Great Depression. It originated with the collapse of the U.S. housing market and was intensified by the widespread use of complex financial instruments such as mortgage-backed securities and credit default swaps (Gorton, 2010; Reinhart & Rogoff, 2009). Financial institutions were central to the unfolding crisis. In both the U.S. and Europe, numerous major banks faced insolvency due to their significant exposure to subprime mortgage assets, which led to the collapse or government rescue of major entities like Lehman Brothers, AIG, and the Royal Bank of Scotland (Acharya et al., 2011). The interbank lending market seized up, and trust in the financial system deteriorated sharply. Scholarly analyses attribute the fragility of banks during this period to reckless risk-taking, weak regulatory oversight, and inadequate capital reserves (Brunnermeier, 2009). These vulnerabilities highlighted major deficiencies in financial regulation and spurred a comprehensive overhaul of banking oversight. In response, the Basel Committee (2010) introduced significant reforms, including Basel III, aimed at enhancing capital adequacy, limiting leverage, and improving liquidity coverage.

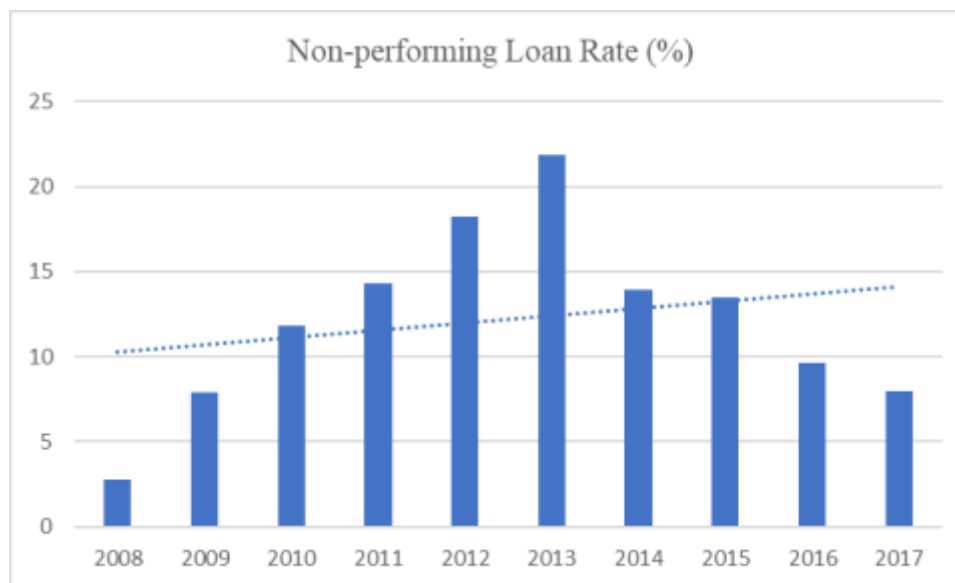
More recent literature (Allen et al., 2018; Beck, 2021) emphasized the importance of macroprudential tools in mitigating systemic risk and maintaining financial stability in the post-crisis era. Cerutti, Claessens, and Laeven (2017) show that targeted regulatory interventions—such as loan-to-value limits and countercyclical capital buffers—are increasingly vital in curbing excessive credit growth, especially in emerging markets. Furthermore, the COVID-19 pandemic renewed interest in financial fragility and bank resilience, highlighting how well-capitalized banking systems weather crises more effectively (BIS, 2020). Nevertheless, the COVID-19 pandemic catalyzed a significant acceleration in digital banking innovation (Duhnea and Moraru, 2024).

Several researchers (Demirgüç-Kunt et al., 2013; Laeven & Valencia, 2012; Dagher et al., 2016) argue that policy responses—such as bank recapitalizations, asset protection schemes, and central bank liquidity provisions—were vital in maintaining financial stability. However, these measures also sparked debates over moral hazard and the broader implications of sustained government intervention. The crisis also hastened digital innovation within the sector and prompted increased emphasis on ESG (Environmental, Social, and Governance) risk disclosures, although these were accompanied by heightened regulatory scrutiny (Brogi and Lagasio, 2021). In addition to risk mitigation and regulatory reform, a growing body of literature emphasizes the banking sector's role in advancing sustainability and green finance. Recent research by Cărbune (2024) analyzes the Romanian banking system's efforts to integrate environmentally sustainable practices into core banking operations.

3. Case study in Romania

As demonstrated in several studies (Croitoru, 2010), Romanian banks were not directly exposed to toxic assets; rather, they were significantly affected by spillover effects from Western European financial markets. This was due to a high degree of reliance on foreign-owned banks. The deterioration of global liquidity conditions resulted in a tightening of credit standards and a sharp contraction in lending activities. The rate of non-performing loans (NPLs) increased dramatically in the post-crisis period, reaching a peak of over 21% in 2013 according to Figure 1. This spike was driven by declining economic activity, rising unemployment, and the devaluation of the Romanian leu. As demonstrated in the research conducted by Nitu and Costache (2015), the increase in non-performing loans (NPLs) had a considerable impact on banks' balance sheets, leading to a significant number of loan portfolio restructurings.

Figure 1: Non-performing loan rate in Romanian banking sector over the period 2008-2017



The economic crisis of 2007 had a significant impact on the banking sector, prompting a shift in focus towards investments in government securities, which were regarded as the most secure option. Moreover, the post-crisis period was characterised by unprecedented phenomena. In July 2010, the balance of deposits underwent a decline, reaching negative values. This phenomenon was attributed to the elevated levels of household debt, declining incomes, and heightened interest in government securities. Conversely, banking institutions were compelled to augment their Tier 1 capital ratio from 4% to 6%. This regulation was established in the Basel III Agreement.

It is evident that several trends within the Romanian banking system manifested themselves during the period 2008-2014. These include, but are not limited to, a persistent aversion to lending, a marked enhancement in domestic savings, and a notable transition in investment towards foreign assets. This shift in investment has exerted a favourable influence on the cost of financing. The following indicators demonstrate these trends:

- Solvency ratio was sustained at a considerable level of 18.07% in June 2015, which is notably above the minimum threshold stipulated by European regulations, which is 8%.
- The level of financial intermediation increased by approximately 8% in 2014 when compared to 2011. This can be attributed to the restrictions imposed on the balance sheets of credit institutions. The level of financial intermediation was recorded at approximately 32% in 2014.
- In June 2015, the loan-to-deposit ratio attained 93.56%, a development that was influenced by stringent European regulations on lending and the restructuring of bank portfolios.
- Non-government loans decreased on an annual basis, whilst repayments and balance sheet clean-ups have exceeded the new lending. To enhance their financial stability, companies have endeavoured to reduce their debt levels.

During the same period, the main characteristics of corporate lending were as follows: firstly, the share of loans to companies in GDP is relatively low (48% of GDP in 2014); secondly, the debt ratio of entities is low due to balance sheet adjustments and restrictions imposed immediately after the crisis; thirdly, the debt ratio depends on the size of the company (in the case of SMEs, it increased from 4.5 to 4.8 between 2012 and 2013, while for large companies it decreased from 1.26 to 1.14 due to capital increases); and fourthly, loan repayment is influenced by the size and sector of the enterprise. Consequently, the construction and real estate sector accounted for the largest share of total non-performing loans (28% in August 2014), followed by trade (24%), industry (21%), services, and agriculture (18%). Furthermore, at the end of 2008, the ratio of government loans to non-government loans was 8.56%, compared to 36.92% in 2014, indicating that the banking sector focused on increasing government financing.

The post-crisis period was characterised by the influence of various factors on credit supply, including:

- The implications of asymmetric competition between the government and companies in terms of access to financing sources, precipitated by the rapid increase in public debt.
- The high level of non-performing loans has led to an increase in bank provisions.
- Improved credit standards for both individuals and legal entities; and
- Increased prudential measures by banks, motivated by worsening economic and financial conditions, increased adverse selection risk, and reassessment of customer risk profiles.

The demand for loans has also changed, influenced by the following factors: The following factors have been identified as key elements in the analysis:

- A decline in the lending capacity of companies;
- A deterioration in the creditworthiness of corporations, precipitated by restrictions operating within both domestic and international markets;
- A decline in corporate profitability and household income;
- A high level of household indebtedness;
- A high degree of volatility in the exchange rate of the national currency against major international currencies.

Another effect observed in the banking sector is related to the mergers and acquisitions. In the 2013-2014 period, BCR and BRD were the dominant players in the banking sector at that moment. However, following the acquisition of Volksbank by BT in 2015, these three credit institutions attained a market share of 41.4%, which exceeded the market share of the top 10 active banks by more than half. Concurrently, several key banking institutions experienced a decline in market share, with BCR, CEC Bank, Alpha Bank and Bancpost being notable examples. These institutions lost market share to their competitors, namely BT, 9 Raiffeisen Bank and ING Bank. In this particular context, it is evident that in 2015, the leading five banking institutions accumulated a market share of 71.5%, which is a notable increase from the 66.7% recorded in 2013. The combined market share of the three leading companies (BCR, BRD and BT) increased from 39.4% in 2013 to 41.4% in 2015.

With regard to average interest rates on loans and deposits, the downward trend in the interest margin on RON portfolios is particularly noteworthy, primarily due to the consistent decline in the base interest rate from 4% to a historic low of 1.75%, in contrast to euro-denominated portfolios, for which this rate increased by 1.5% for existing loans and deposits and by 3.4% for new ones. This initiative was spearheaded by the NBR, with the objective of stimulating lending in the national currency. Consequently, during the period 2013-2015, 96% of new loans were denominated in lei.

Table 1: Average interest rate on loans and deposits (percent)

Indicator	2013 January	2014 January	2015 January
Existing loans (RON) - Existing deposits (RON)	6.2	5.5	4.8
New loans (RON) - New deposits (RON)	5.1	4.8	4.7
Existing loans (EUR) - Existing deposits (EUR)	2.3	3	3.4
New loans (EUR) - New deposits (EUR)	1.8	3.3	3.3
Interest margin - Existing loans - Deposits for population (RON)	8	7.1	6.3
Interest margin - New loans - Deposits for population (RON)	6.8	5.1	4.8
Interest margin - Existing loans - Deposits for population (EUR)	2.5	3.2	3.6
Interest margin - New loans - Deposits for population (EUR)	1	2.7	4.1

The values of certain indicators underwent substantial alteration 10 years after the onset of the crisis. After 2017, the solvency ratio was recorded at 19.83%, a figure attributable to supplementary shareholder contributions. Concurrently, the non-performing loan ratio declined to 9.46% after 2016 and 8.32% in June 2017. Domestic savings reached EUR 61 billion, representing an increase of 60% between 2008 and 2016. However, capital transfers were less visible than in the pre-crisis period. As of the conclusion of 2016, the proportion of total banking sector assets in Gross Domestic Product (GDP) had decreased by 54.8%. Conversely, in 2017, as in previous years, efforts are being made to regain consumer confidence. Fortunately, banking institutions are receiving assistance from the Romanian Banking Association.

4. Conclusion

The 2008 financial crisis acted as a structural stress test for Romania's banking sector, revealing vulnerabilities associated with foreign capital dependence, loose credit standards, and insufficient regulatory coverage. Although Romanian banks were not directly exposed to subprime assets, the spillover effects from global financial markets led to a sharp contraction in credit activity and a surge in non-performing loans, peaking above 21% in 2013. The National Bank of Romania's timely regulatory measures—including stricter loan-to-value rules, increased provisioning, and the eventual introduction of capital buffers aligned with Basel III—were critical in restoring stability without resorting to public bailouts.

More recently, two parallel trends have reshaped the Romanian banking landscape: the acceleration of digital banking—especially during the COVID-19 pandemic—and the nascent integration of sustainability strategies. Digitalization efforts improved customer access and satisfaction but also highlighted disparities in trust and technological readiness among institutions. Meanwhile, the increasing focus on green finance, though still emerging, positions Romanian banks as potential enablers of sustainable economic transformation.

In sum, the evolution of the Romanian banking system since the global financial crisis reflects not only short-term resilience but also a gradual alignment with broader European regulatory, technological, and sustainability standards. These developments underscore the sector's growing maturity and its capacity to navigate future systemic shocks with greater preparedness and strategic foresight.

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