

# The Banking System in Romania in the Current Period

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## Abstract

*The financial system and its components are of interest to economists, researchers and practitioners in the field of banking finance. In Romania more than 77% of the total assets of the financial system are represented by the banking component. Based on this evidence, the paper is an empirical analysis of the evolution of the volume and structure of banking assets in Romania in the period 2020-2023. By analysing the share of foreign versus domestic capital, we also wanted to draw attention to a possible risk of contagion, as external factors have emerged in recent years and are currently affecting the economic and financial balance.*

*The motivation for this paper comes from the fact that the structure and share of foreign capital in the Romanian banking system shows how sensitive the system is to contagion risk. In the current period, when international events are happening rapidly, the study is timely.*

**Key words:** commercial banks, banking system, banking assets, contagion risk

**J.E.L. classification:** G01, G20, G21, G24, G30, E50

## 1. Introduction

After joining the EU, the financial and monetary reality in Romania was closely correlated with international events and changes. The free movement of capital opened the way for foreign-owned banks to all EU countries and implicitly to Romania. Thus banks with domestic capital have come out of the limelight and international financial institutions have gained market share. Competition intensified, which led to the refinement of banking products and services.

*What types of banks still exist in the Romanian landscape?*

*What is the contribution of foreign capital to the banking system today?*

These are two of the questions this research will answer.

The analysis will identify the features of the Romanian banking system in the current period, as well as market trends.

## 2. Theoretical background

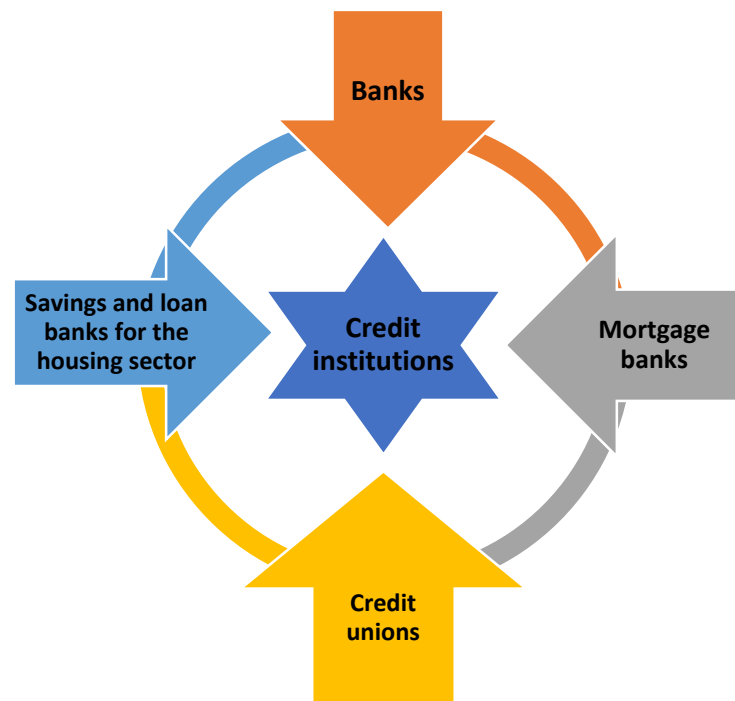
The evolution of countries' economies is often correlated with the state of the banking system. Yet the economy and the banking system do not go hand in hand. In some cases, the development of a region's economy has outpaced the development of banking instruments and the financial system as a whole. In other cases, the modernisation of the banking system and the variety of financing, lending and payment techniques made available to the business community has led to economic growth. It can be said that in these countries, banks acted as real locomotives that pulled the economy along (Apetri, 2007).

Until 1998, the banking system in Romania was overwhelmingly state-owned (Barisitz, 2005). Most of the banks' assets were made up of state loans. In many cases these loans turned into losses. (Bonin, Hasan & Wachtel, 2014) In the pre-accession period to the EU and after the actual accession the situation changed.

The characteristics of a banking system are general to the types of credit institutions operating in the financial market. Within the European Union there are the following categories of banks: corporate banks, deposit banks, electronic money institutions, banks specialised by industry. In the literature there are different models of banks. There is the classic (universal) bank model, the virtual bank model, the investment bank model and the remote bank model.

In Romania, the current model is the universal bank, and the main categories of activities are: retail, SME and corporate. It involves the division of banking institutions according to the predominant field in which they operate. Thus we have banks that specialise in retail operations, i.e. they carry out operations on the current accounts of smaller customers, e.g. individuals, banks that specialise in operations aimed at larger, corporate customers and banks whose main area of activity is financial investment banking.

Figure no. 1. Categories of credit institutions in ROMANIA



Source: own conception

In Romania, the legislation in force on banking institutions, we distinguish the following main categories of credit institutions: commercial banks, mortgage banks, savings and credit banks in collective system for the housing sector and credit cooperatives. Electronic money institutions are also active in this market. As we will show, most of these credit institutions are primarily engaged in attracting deposits and granting loans.

### 3. Research methodology

In Romania, the banking system has a major share in the financial system. A study by the Black Sea Trade Bank shows that in 2020, more than 75% of total assets in the financial system will be covered by the assets of commercial banks. Non-bank financial institutions have short-term products and services. Although private pension funds have been increasing their assets in recent years, their share in the system is around 8%. Financial investment alternatives are quite small and manage about 5 percent of financial system assets (BSTB, 2020).

The research method focuses on the study of the volume of bank assets between December 2020 and March 2023. By analyzing the data published by the NBR I will study the share of assets of foreign and domestic banks in the total.

A picture of the banking system will also be given by the capital structure present in the Romanian banking market. The conclusions are interesting especially as there are biunivocal links between the banking system, monetary policy and the fiscal system (Lipară & Dănilă, 2015).

A relevant study on contagion risk in the Romanian banking system was conducted by Vogiazas and Nikolaidou. (2011).

It is well known that the efficiency and profitability of a banking system is also influenced by the evolution of the monetary policy interest rate. Central bank decisions generate changes or adaptations in the systems used by commercial banks (Cerchia & Zaif, 2019).

As a benefit, I believe that the empirical model of the analysis of the structure of the Romanian banking system is relevant for future financial policies.

#### 4. Findings

Due to the importance of the banking system in the Romanian financial system we have highlighted the number of credit institutions banks present on the market.

Thus it can be seen that in 2020-2021 there were 34 banks in the system, and in 2022 and 2023 there are only 32 more.

Figure no. 2. Number of banks and net banking assets

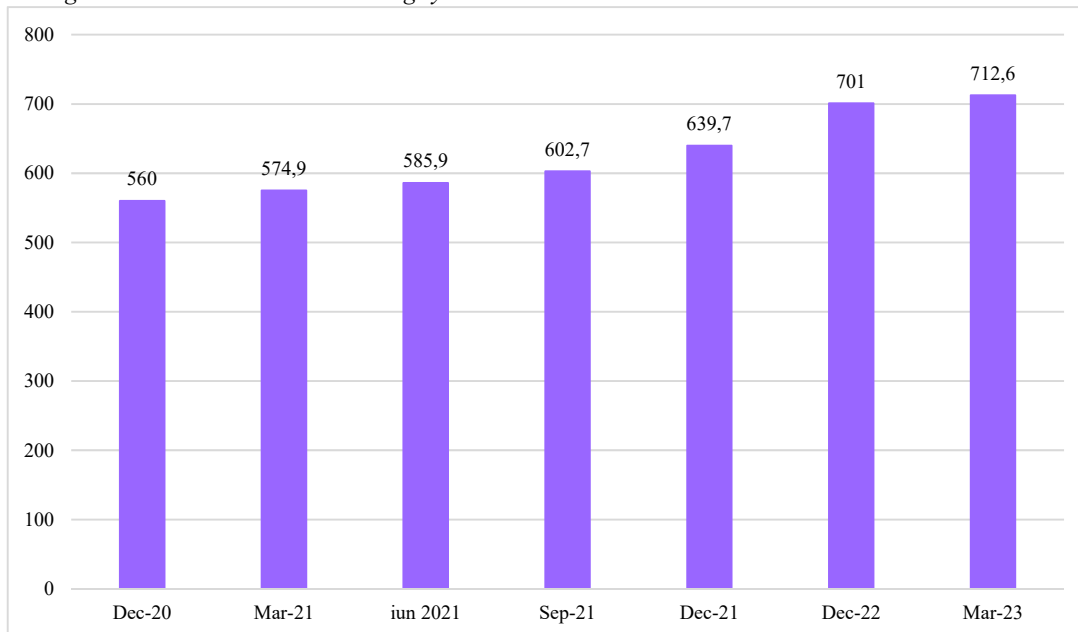
	2020 December	2021 March	2021 June	2021 December	2022 December	2023 March
Credit institutions	34	34	34	34	32	32
- foreign banks	8	8	8	8	8	8
Total net assets, expressed in RON billion	560,0	574,9	585,9	639,7	701,0	712,6
Total assets of privately owned institutions - percentage of total assets	89,4	89,1	88,7	88,9	88,6	87,8
Total assets of foreign-owned institutions - percentage of total assets	70,5	70,2	69,4	69,7	68,2	68,1

Source: National Bank of Romania

In the years 2020-2023, net banking assets - total values - increased by 27.25%, rising from 560 billion RON at 31.12.2020 to 712.6 on 31.03.2023).

The evolution of total assets per Romanian banking system is shown in the Fig. 3

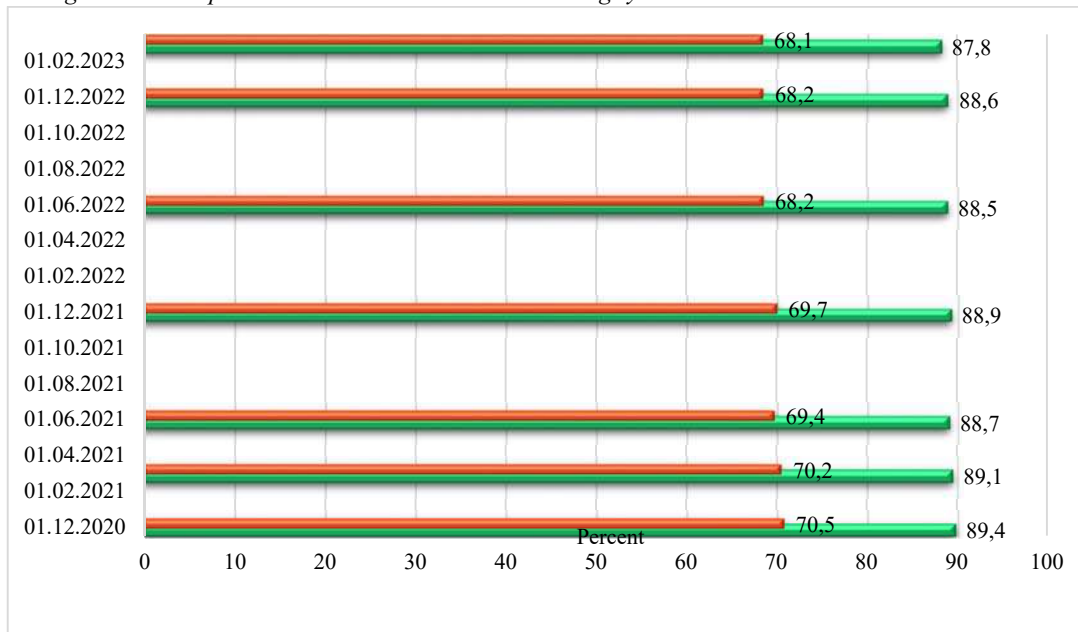
Figure no. 3. Total Assets in banking system- Romania



Source: own processing of data published by National Bank of Romania

Another characteristic of the Romanian banking system is the major share of private and foreign capital. It can be seen from Fig 4. that the share of private capital in total banking assets is almost 90%.

Figure no. 4. Capital structure in the Romanian banking system



Source: own processing of data published by National Bank of Romania

The percentage of foreign capital in total assets has changed as follows: 89.4% in December 2020, 87.8% in March 2023. One reason would be the inclusion of Banca Românească in Eximbank.

Analyses show that foreign capital is the dominant player in the Romanian banking system. The banking system in Romania is characterized by a high degree of concentration. The top 5 banks in the system hold over 60 percent of the total and the top 10 cover 80 percent of total net banking assets.

Romania's banking system is the major link in the financial system. Private pension schemes and financial assets cover less than 17 percent of the total between 2020 and 2023. Banks as financial intermediaries are the most important players in the system, especially as financial assets in Romania

While until the 2000s, banks in Romania were majority state-owned, after EU accession, their share decreased year by year. In the first quarter of 2023, more than 90 percent of bank capital was privately owned and 68 percent was foreign capital.

A positive fact is the increase in the volume of bank assets in the period studied from 560 billion lei in the last month of 2020 to over 712 billion lei in the first quarter of 2023, i.e. by 27.11 percent. Financial intermediation is mainly supported by net banking assets.

## 5. Conclusions

In the history of human society, money, banks and financial institutions have been a subject of interest. Sometimes controversial, but so useful and useful, their operations have nevertheless supported the economy and the development of society.

Today we can no longer conceive of life without money and its forms. Moreover, in the century of speed, whether we are talking about cars, trains, planes, the internet, applications dedicated to any service - people want everything as fast as possible.

Banks, being the main financial intermediaries, have diversified their business and responded to customer demand with modern, fast and sometimes amazing financial services. Instant fund transfers, access to markets of all kinds, varied financing, loans obtained through computer applications or with the help of robots have been made possible because financial institutions are constantly updating their offerings. But let's not forget that with technology comes a range of risks, and they are becoming increasingly varied.

The lending component is dominant in net banking assets. The increase in their volume must also be seen in the light of interest rate developments. In the current and immediate future period the bank interest rate is on a downward trend, amidst the decline in the monetary policy interest rate.

Lower interest rates lead to an increase in the money supply in circulation by increasing the volume of credit. This has implications for financial intermediation (Munteanu & Dobre, 2021).

The dependence of a banking system on foreign capital can bring risks into the system. A study that reveals the risk of contagion in the case of the existence of non-permanent credit was conducted by Sofoklis Vogiazas, Nikolaidou in 2011. The authors showed that after the financial crisis of 2008-2009, there are correlations between the NPL rates in Romania and Greece. Given significant presence of Greek banks in Romania, the model used consisted of introducing variables representing the Greek crisis. I believe that the model can be adapted to the current situation. I intend to address the issue of contagion risk and the study of non-performing loans in the Romanian banking system in the future.

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