A BRIEF OVERVIEW OF THE ACTIVITY EFFICIENCY OF THE BANKING SYSTEM IN ROMANIA WITHIN A EUROPEAN CONTEXT

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Abstract: *In the last two decades, the financial system of Romania has witnessed significant changes designed to transform it from a centralized system into a competitive, economic environment adapted one, capable to be integrated into the European financial system. The banking system was during this period the Romanian financial system turntable, since the capital market failed to have an upward trend. This paper aims to analyse the banking system in Romania in terms of its activity efficiency. To achieve this goal we used a number of indicators (consecrated by the literature as being characteristic for measuring these aspects of the banking system's activity). The analysis will be carried out in comparison with the development of other European banking systems, aiming thus to establishing the place of the Romanian banking system in the European context. The period of time considered for the analysis is of over ten years, from 2000 to 2011, for the comparative analysis, and form 2000 to 2012, regarding Romania's evolution, therefore including a part of the financial crisis period. At the end of the study we will focus our conclusions on answering two sets of questions: on the one hand how the efficiency of the Romanian banking system have evolved in the last decade, taking into account the impact of the financial crisis on these developments and, on the other hand, what is the place of the Romanian banking system in the European context, through the analysed aspects.*
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JEL Classification: G21

1. INTRODUCTORY REMARKS

The Romanian banking system has gone through various changes and mutations in the past two decades. Further, we will try to establish whether these transformations have led to an increased efficiency of this system. Therefore, two well-known indicators within specialised literature will be used (Beck *et al*., 2010): bank cost to income ratio and bank net interest rate margins. A dynamic analysis will be deployed, following the evolution of these two indicators in the Romanian context, covering a period of time that exceeds ten years. A comparative analysis will also be used in order to match these values with the ones registered within the European Union countries.

The values of the two indicators within the 28 countries members of EU, registered between the years 2000 and 2011 are presented in table 1. Using those data a comparative analysis will be deployed in order to identify the position occupied by the Romanian banking system within the European financial system.

Table 1 Indicators of banking system's efficiency for EU countries 2000-2011

Country Name	Bank cost to income r	Bank net interest margins (%)	Country Name	Bank cost to in ratio (%)	Bank net interest margins (%)
Austria	62,01174	1,645974	Italy	66,38622	2,038218
Belgium	64,21792	1,28088	Latvia	56,80824	2,985337
Bulgaria	53,59534	4,957026	Lithuania	65,33001	3,011012
Croatia	56,71284	3,703205	Luxembourg	43,9333	0,769827
Cyprus	56,54715	3,486173	Malta	48,21254	2,727782
Czech Republic	54,88682	3,039419	Netherlands	64,34056	0,974803
Denmark	60,72019	1,344533	Poland	62,85691	3,718768
Estonia	51,86295	2,968307	Portugal	55,25249	1,688394
Finland	45,66101	1,046345	Romania	58,06945	6,773834
France	67,58637	0,926091	Slovak Republic	68,21041	3,165869
Germany	77,88342	1,016142	Slovenia	57,93591	3,052888
Greece	67,44612	3,052565	Spain	54,32361	1,910052
Hungary	60,38499	4,424312	Sweden	64,68967	1,286934
Ireland	22,49908	0,6051	United Kingdom	59,58846	1,736632

Source: Authors' analysis of Global Financial Development Database (http://data.worldbank.org/data-catalog/global-financial-development

Further, a distinct subchapter of this paper will be dedicated to analyse each of these two indicators.

2. THE ANALYSIS OF THE ACTIVITY EFFICIENCY INDICATORS FOR THE ROMANIAN BANKING SYSTEM

2.1 Bank cost to income ratio

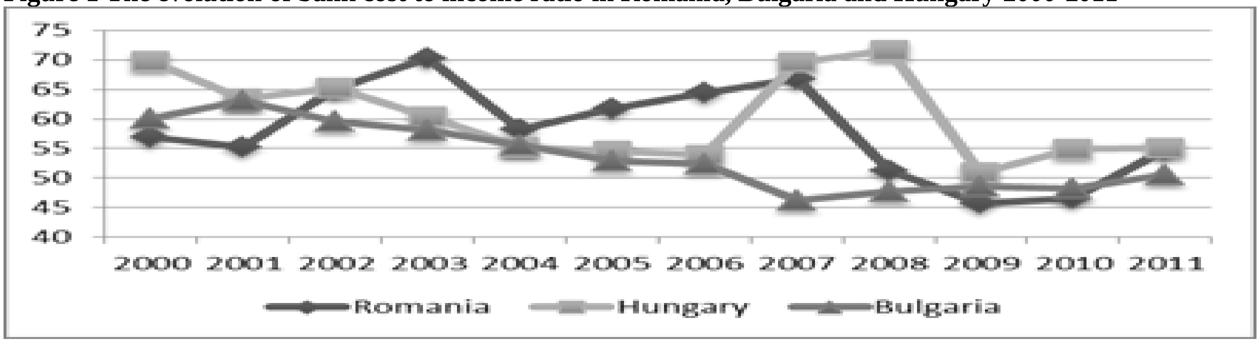
The first indicator that will be used in order to analyse the efficiency of the activity of the banking system is bank cost to income ratio. There are different opinions regarding the interpretation of this indicator, some authors considering that a smaller value proves an increased efficiency, meanwhile there others that submit the idea that such a value represents a consequence of an insufficient development of banking services (Demirguc-Kunt & Levine, 1999).

The mean value of this indicator covering the period 2000-2011 for the EU member states is presented in table 1. It can be noted that that the highest value was scored by Germany, thus we can argue that such a high value of the indicator suggest the existence of an efficient banking system, according to the first approach mentioned above. This opinion is invalidate by continuing the analysis, thus Slovakia is placed above the majority of developed countries, Hungary in front of UK and Romania registered a closer value to the one of UK.

The value registered in case of Ireland support the theory that a smaller value of this indicator proves an increased efficiency of the banking system.

Due to the fact that a lower value of the indicator can be consider as a result of superior dynamic of income in relation with the dynamic of costs and also as a results of smaller incomes and costs generated by a small scale activity, we consider that this indicator has to be analysed within the particular case of a country and this analysis has to be made in conjunction with other indicators. An analysis based only on this indicator cannot lead to a valid conclusion regarding the efficiency of the banking system.

Figure 1 The evolution of bank cost to income ratio in Romania, Bulgaria and Hungary 2000-2011



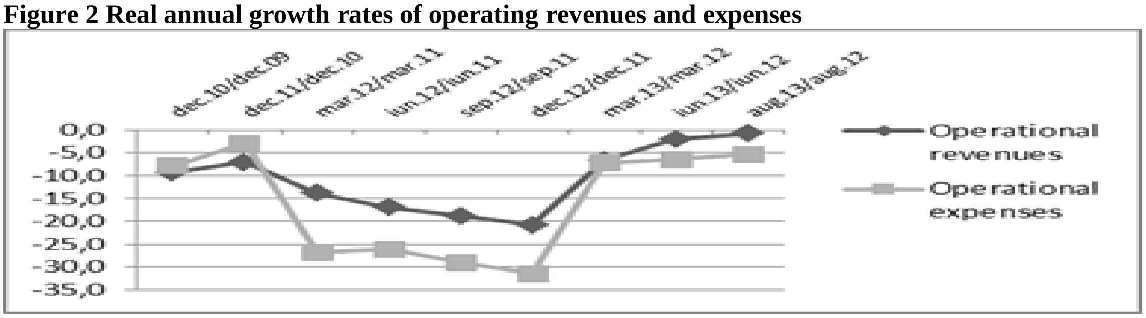
Source: Authors' analysis of Global Financial Development Database (http://data.worldbank.org/data-catalog/global-financial-development

In case of Romania, the evolution of the indicator bank cost to income ratio in the period considered, was a sinuous one (figure 1). Relative with the other two countries members of EU from the region, Hungary and Bulgaria, we can note a similar evolution and closer values of the indicator.

The indicator has reached the maximum value in 2003 and 2007, meanwhile the minimum values being reached in 2009-2010. Starting from 2011, the indicator has return to an upward trend, reaching by the end of 2013 56, 73%, a similar value to the one registered in 2000. As we previously pointed out a contextual analysis of this indicator is necessary. Thus, the high value registered in 2007 is due to an intense lending activity within the Romanian banking system, meanwhile the decrease registered in the next period of time was based on the restraining of the lending activity and also the reorganization of the banking system.

The analysis of the evolution registered by the real annual rates of operating revenues and expenses could provide an image upon the elements that affects the evolution of the indicator bank cost to income ratio (figure 2).

Figure 2 Real annual growth rates of operating revenues and expenses



Source: Authors' analysis of NBR Financial Stability Report http://bnr.ro/Regular-publications-2504.aspx

We can conclude that the decrease of the indicator bank cost to income ratio after 2009 was generated by a faster decreasing rate of incomes compared with the decreasing rate of expenses, creating, in our opinion, a false impression regarding a more efficient activity within the banking system.

2.2. Bank net interest rate margins

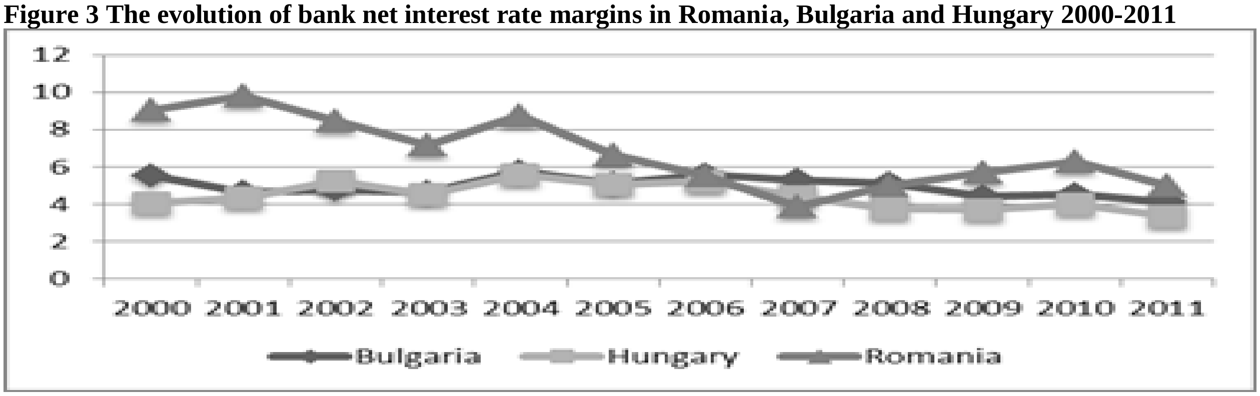
The second indicator related with the efficiency of the banking system that will be analysed is net interest rate margins. It is calculated as the accounting value of bank's net interest revenue as a share of its average interest-bearing (total earning) assets. Specialized literature states that a lower value of this indicator reflects an increased efficiency of the banking system. The mean values of this indicator for the member states of EU are presented in table 1.

Seen through this indicator, the Romanian banking system could be considered as the less efficient on in European Union. It can be also noticed the existence of direct correlation between income group and the indicator's value. Again, the most efficient banking system proves to be the one of Ireland. However, in our opinion, nor this indicator cannot be considered as an absolute measure for a banking system efficiency, due to the fact that establishment process of the interest rate used by bank is influenced by various internal or external elements.

Considering the indicator's evolution it can be noticed a decreasing of its value for Romania, in the period submitted to the analysis process, situation that indicates an increased efficiency of the banking sector's activity (figure 3).

At the beginning of the period considered the value of this indicator was far superior to the ones registered by the banking systems in Hungary and Bulgaria. At the end of period it could be noticed closer values for these three countries.

Figure 3 The evolution of bank net interest rate margins in Romania, Bulgaria and Hungary 2000-2011



Source: Authors' analysis of Global Financial Development Database http://data.worldbank.org/data-catalog/global-financial-development

An analysis of net interest rate margins used in the Romanian banking system during the financial crisis point out the attempt to improve its activity's efficiency through the reduction of the indicator's value. In the time of crisis the Romanian banking system has decreased the interest rate margins for new loans and deposits in case of its operations in domestic currency related with households, meanwhile keeping relatively constant the interest rate margins for outstanding loans and deposits. In case of loans and deposits for household, expressed in euro, the decrease was more pronounced; the system has tried to discourage the operations expressed in foreign currency made by households. For the companies it can be noticed an increase of the net interest rate margins applied to the euro expressed operations.

By the mid 2013 the mean value of net interest rate margins for the entire banking system was 4, 45 percent points, values that proves an increase of the efficiency of banking activity. Considering this indicator, the less efficient activities are still the operations in local currency related to households; meanwhile the operations in euro related to companies are the most efficient ones.

Before we assert that the Romanian banking system is set on a path of improving efficiency, related with this indicator, it should be noted that the decreasing of its value was based on the restrained lending activity related with households and theirs clear saving trend. Even we admit the fact that the main role of a banking system is the one of financing the economic activity, we should not ignore its importance as source of finance and a saving instrument for households.

3. CONCLUSIONS

Considering its evolution Romania could be placed in the trend of the countries from the same class of development (Bulgaria and Hungary). In our opinion, Romania has a banking system crossing a development process and a rising efficiency of its activity. We also consider that the development of the Romanian banking system has to take place at the same rate with the one of the real economy, situation that never occurred in the period submitted to our analysis.

Despite the contraction of the banking activity in the past years due to the financial crisis, the Romanian banking system has maintained the same trend with the ones of the banking systems in the countries from its proximity and aims to an efficient activity.

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