

The Architecture of the Romanian Banking System – premise of maximizing the performances

Jenica Popescu

Department of Finance, Economics and Business Administration Faculty
University of Craiova
e-mail: jenica_popescu@yahoo.com

Abstract

The work presents aspects regarding the ascendant evolution of the banking activity in Romania from the point of view of performances, during the period 2003-2006. The dynamism of the Romanian bank market was preponderantly sustained by the non governmental credit, and within this, the credit granted to the population constituted the most dynamic segment.

The level of the financial result in 2003 was superior to that registered in the previous period, the main source being represented by the net incomes from interests.

The year 2004 registered a consolidation of the efficiency of the banking sector, quantified by means of the indicators of financial and economic profitableness. More rapid increments at the level of the profitableness registered especially the banks which increased their share on the credit market.

The year 2005 brought in Romania a series of elements of novelty but also of risk, like the adoption of the strategy of directly throwing down the inflation, the continuation of the liberalization percentage of the capital account, the implementation of the national currency denomination, the entering into function of the electronic system of payments, the increment of the flexibility of the regime of exchange course, the transposition and implementation of the European requests regarding the new capital agreement. The year 2005 brought about the reduction of profits, which has its cause in the dramatic fall of bank interests.

At the end of the year 2006, the capitalization level of the banking system knew an important increment toward the year 2005, and from the point of view of the structure no significant modifications were registered.

Based on the level of the main indicators of evaluation of the solidity of the banking system, I drew the conclusion that it presents a good capitalization, disposes of high liquidity and is well supervised, it is resistant to the potential risks of the market and of the crediting, the exposure to the currency risk and of interest registering a low level.

Keywords: profitability, banking performances, retail, financial mediation, solvability, liquidity

Profitability – fundamentals of the bank management

The profitability represent one of the key sources in generating capital, a significant indicator of the competitive position of a bank on the bank markets and of its management quality, which allows a bank to maintain a certain risk profile, by offering protection against the short-term problems, well known being the fact that a healthy bank system is build up on profitable and proper capitalized banks.

From the managerial point of view, it can be determined a profitability of the bank territorial units, a profitability of the bank's clients, each of these segments being considered to be profit centers; in this case the profitability of the bank is a result of summing up the clients profitability and the product and services profitability, promoted by the bank.

Taking into account that a series of decentralization elements (such as the increase of the crediting platforms for the operative units) have been introduced in the banking field, the marketing strategies, the Romanian banks organized in activity centers, respectively territorial and sub-territorial units, that dispose of resources and involves costs, analyze the efficiency and the inefficiency of certain operative units. In specialty studies (Berea, 1999, p. 72), it is considered that a special domain to which it is necessary to give a major importance, is the profitability determination - as precise as possible - at the level of the central and of the territorial units, by the use of some indicators that would allow establishing a hierarchy of the units, according to their efficiency, liquidity, solvability and risk, in order to supervise the bank units evolution and the evolution of their re-conversion, by taking into consideration the existing competitive environment, the potential clients basis, the products and services volume, as well as the size of the results to be drawn.

By the extrapolation of the terminology in the management administration in bank activity, it takes place the split of the costs on cost carriers and places for the expenses, names cost centers, which represent business units that do not register any profit; still they are active consumers; furthermore, the bank units are also organized as profit centers that represent independent business entities, by which incomes are registered.

According to the managerial objectives, a profit center may take the form of a bank subsidiary or of a department of the central bank, which, by means of its activity, does not generate incomes (Netoiu, 2006, p. 129).

The profit centers are quarterly analyzed from the profitability point of view, on the basis of the results obtained, and in the unprofitable centers it is determined the cause of the lack of profitability for the capitalization and, depending on the strategic short-term objectives, at the same time looking for the necessary measures the bank may maintain in use the non-profitable units if it desires to maintain a certain market segment; it can also implement products and services that address to a special category of clients, assuming costs that overpass the incomes or accept relations with unprofitable clients, but with a certain strategic statute on the local market, due to the fact that the bank units, registering exceeding resources, support the ones with deficit, supplying the necessary resources so that they could cover the excess of placements.

The unfavorable situations of the territorial bank units may be remedied by the following measures: passing the unity to an inferior organizational rang, intensifying the banking debts recovery actions, attracting the resources, the possibility of increasing the incomes, diminishing the functioning expenses, elaborating and implementing strategies to attract the new clients, and, if after 1-2 years, it cannot be observed a straightening of the situation, it is compulsory to begin a fond analysis of the respective bank unit, which demonstrates if the improper development of the activity is due to the economic environment, to the bank competition or to some deficiencies of the managerial behavior, in which situation it can be decided the

reorganization of the activity, by merge or liquidation, according to the results of the analysis.

The main distinction between the two concepts of profit and profitability lays in the fact that the profit represents (Rotaru, 2001, p. 103) the accounting result of the bank efforts, put across in attaining incomes from which the expenses are deducted, while the profitability (which obviously is centered on the accounting profit) includes a range of elements that belong to the bookkeeping, including the strategic or provisional component or the competitive aspect concretized in the profit determination, as a central element of the income and expenses budget.

The bank profitability must be considered a strategic element, which influences the existence, development and the integration of the future bank, being needed the promotion of a politics of the evaluation of the bank units performances, for the bank direction to adopt radical decisions in order to appreciate the evolution and the possibilities of dimensioning its own network. The methods of valuing the performances are related to the strategic decision concerning the subsidiaries organization, the evaluation based on the performance criteria contributes to the quantitative analysis of each subsidiary's results for the incomes, costs and the results obtained in comparison with the other subsidiaries' activity.

With regard to the determination of the profitability of the territorial units, as profit centers, it departures from the idea according to which the bank societies must cover its placements from its own resources; by own resources one can understand the resources mainly obtained from the clients' deposits, that is, attracted by the bank from the non-banking market, thus being able to affirm the basic equation of the long-term banking profitability and balance:

$$R \pm I = P$$

where:

R = bank's own resources, achieved mainly from the non-banking clients' deposits

I = resources attracted from the inter-banking market

P = the banking society's placements, definite as income producing actives - the inter-banking deposits and the loans given to the banks, the portfolio titles and the credits.

The resources attracted from the inter-banking market have the role to assure the bank's equilibrium in deficit situations (when the bank is achieving resources) or of excess (when the bank is achieving placements) in order to maintain the solvability of the bank and the increase of its incomes.

Lately, it can be observed the competition, bigger every day, on the resources market, phenomena that has as a result the increase of the passive interest rate above the inflation level and the reduction of the interest differential level, finally leading to the orientation towards politics that concern the deduction of the indirect expenses, including the end of the resource utilization in proper investments, under the conditions that, until recently, the banks have been considered the main investor in the construction field.

The banks' efforts, concretized in the increase of the resource volume attracted from the non-banking market, have as primordial motivation the need for development, and the equilibrium between resources and placement, as a balance equation at the level of the bank society: it finds its justification within the fundamental equilibrium elements of the bank activity, which is reflected in the profit achievement.

The main task of the central bank management resides in choosing the most efficient methods of profitability, which refers to the possibilities to cover the placements by means of proper resources, at the level of each bank, organized as profit center, existing, at any time, banking units with a resource excess (with its own placements lower than the attracted resources) and units that presents a resource deficit (the placements overpass the resources); the unities presenting the resource excess initiates the selling of the resource surplus to the units with a deficit, so that the necessity for proper resources of the entire bank system was covered.

In the case of the unities with resource deficit, the managers should direct the policies of the bank towards attracting new clients, and, in the case of the unities presenting resource surplus, depending on the local economical conditions, the activity should be oriented towards performing placements, especially to confer credits. It is necessary that the bank profitability patterns offered the most efficient solutions for orienting the bank unities towards different activity areas and to quantify each bank unit efforts in order to achieve the profit, including the distribution of the incomes and costs afferent to the internal traffic of the resources; the central element of such a pattern is represented by the price of the re-distributed resources (Gust, 2003, p. 113). This price must prove sufficient for the units with the surplus to cover the costs of the additional resources acquisition and, as a stimulant in the case of the units with a deficit, so that they could direct mainly towards attracting resources by proper means and not towards the acquisition from the inter-banking market.

So that the entire profit center would fairly evaluate their profitability, there are elaborated profitability patterns permanently perfectible; in this frame are included all the expenses that are the responsibility of every profit center, determining the resource cost being the most important element within the pattern.

The bank organization does not allows a managerial decentralization; thus the banking units need to perform the decisions adopted by the bank direction, which sometimes ignores the possibilities offered by the area in which the unit activates. That is why, the management decentralization is considered by certain specialists as one of the growing factors of the managerial efficiency in the banks (Stoica, 1999, p. 202).

If the territorial bank units do not succeed to assure all the credit requests from its own resources, in order to balance the resources and the territorial units' placements, it is necessary that the bank central intervenes, influencing the crediting activity of the banking unit by means of: crediting norms, credit limits, competence in the approval of certain credit categories, the interest and commissions level, the completion of its own resources by supplying the necessary liquidities

The crediting activity capitalization is appreciated according to the indicator of the "net income rate derived from the interests", calculated according to the formula:

$$\text{Net income rate derived from the interests} = \frac{\text{Income from interests} - \text{Expenses with interests}}{\text{Placements}} \times 100$$

This methods efficiency becomes obvious under the conditions of often changes of the interest rate, fact that allows allotting the resources according to the profit and also a decentralization of the bank

management by well underlined decisions, adopted on basis of an analysis by the unit's direction.

Dynamic Analysis of the Romanian Bank System Performance

As a result of the measures of the bank department reconstruction, undertaken by the Romanian National Bank since 1999 and of the micro-economical climate improvement, the bank activity registered an ascendant evolution from the performance point of view. The dynamism of the Romanian bank market was mainly supported by the non-governmental credit, and, as a part of this, the credit granted to the population represented the most dynamic segment, its development rhythm being higher than the one registered in the corporative sector. Though the credit granted to the population had a major contribution to the extension of the credit market, the remained sums afferent to the physical entities detain an insignificant share in the non-governmental credit volume.

The amazingly fast increase of the credits granted to the population had positive consequences over the bank system, especially with respect to the risk diversification and the perception increase of the large-public, who began more and more to consider banks as a real partner (Nitu, 2000, p. 72). The transition to a new credit distribution bearing was imposed by the necessity of creating a medium and long term credit infrastructure on the bank market. The dominance of the short-term credits had an impact on the configuration of the balance sheet active from the point of view of the liquidation level, its largest part being concentrated in liquid actives for a long time. The intensification of the crediting activity could also be found in the supplementary volume of the financial results. Thus, in 2003, the financial result was superior to the one registered the previous year, the main source being represented by the net incomes proceeding from interest. The reduced dynamics of the net profit in 2003 (+6.3 per cent) comparative to the previous year (+18.7 per cent) was determined by the diminution of the interest spread at the operations with the non-banking non-governmental clients (from 17.6 percentage points to 14.7 percentage points, on the background of the competitiveness acceleration on the credit market), by most of the expenses with the commissions (50.6 per cent higher than the previous year, as a result of the entrance in effect, on 1st January, 2003, of the new credit commissioning methodology), but also by the investments in the infrastructure realized by most of the banks.

The year 2004 registered a consolidation of the bank sector efficiency, quantified by means of the financial and economic capitalization indicators, depositing levels of 15.6 per cent and, respectively, 2 per cent. The net profit aggregated at the end of the year 2004 increased with 33.6 per cent in nominal terms compared to the previous year, respectively 22.2 per cent in real terms, exclusively due to the supplementation with 47.2 per cents of the net interest incomes. A major contribution to the registration of such a dynamics had the net incomes afferent to the crediting activity of the non-banking clientele whose expansion was 67.5 per cent compared to the previous year. More rapid growths at the profitability level have registered especially the banks that have increased the credit market quota. The relatively high financial and economic capitalization indicators, as well as the solvability and liquidity indicators, calculated for the first five banks of the system reflect the progress in the macro-economic level and the lack of major shocks.

2005 brought a series of novelty elements to Romania, but also the risk associated to it, such as adopting the strategies of pointing directly to the inflation, the continuation of the capital fund liberalization, the implementation of the national currency denomination, the commission of the Electronic Payment System, as well as the increase of the flexibility of the currency exchange regime. Moreover, an extremely important moment for the credit institutions' activity was, and still is, the transfer and implementation of the European demands concerning the New Fund Agreement. Furthermore, a series of progresses has been registered in the sense of accomplishing a competitive and stable bank department, made of banks that assure a financial intermediation on efficiency criteria. The uninterrupted development of the bank capitalization level and the high quality of the actives contributed to the strengthening of their capacity for managing the risks.

The adequacy of the capital is the most important of the three reasons (Dimon, Jan. 2004): first of all, the demand for capital influences the cost and the availability of the credit for all the bank clients, having thus a great influence over the efficiency of the financial systems around the world; secondly, the capital is a determinant factor of the bank system competitiveness; thirdly, the adequacy of the capital influences the support of the entire area of international manifestation.

The bank sector reconstruction, the diversification of the portfolio for the bank products and the increase of the purchasing power of the population lead to the development of the GIP actives of the credit sector institutions - the most important segment of the Romanian financial system - from 36.6 per cent of the end of 2004 at approximately 44.8 per cent in 2005, as well as the expansion of the bank actives in 2005, compared to 2004 (with 42.6 per cent in nominal terms, respectively 31.3 per cent in real terms). The dynamics of the financial-accounting and prudential indicators were influenced by the crediting activity moderation, under the conditions of maintaining certain sub-unitary values of the indicators concerning the residual and doubtful credits, by the increase of the proper fund volume, by the maintenance of a high level of solvability, liquidity and financial performance indicators.

In 2005, the bank system continued its activity extension, mainly on the retail sector, which contributed decisively to the majority of the financial mediation.

In all this time, the banks have proven that they represent the strongest sector of the economy and that they are among the few Romanian companies capable to compete almost as the equal of international market participants.

With a slight subsidence in terms of global profitability, in 2005 the bank sector repeated the performances since 2004 with respect to the active development rhythm, being registered an important crediting evolution. This bank dynamics coincided with time when the central bank acted decisively by limiting the credit by means of administrative regulations that have introduced new restrictions at the credit for the population and at the currency financing.

The outstanding event of the year 2005 was the privatization of the Romanian Commercial Bank, Erste Bank being declared the bidding winner, after a contest in which have registered great names of the bank European system, such as: Deutsche Bank, BNP Paribas or Intesa.

On the whole, the bank system distinguished itself by a spectacular growth of approximately 50% of the capitalization; more than 2/3 of the banks beginning to increase their registered capital. Thus, at the

end of 2005, the cumulate statutory capitals overtaken over 2 milliard euro.

At the end of 2005, the aggregated balance sheet active reached over 36 milliard euro, approximately 43% more, comparative to December 2004, 31.4% in real terms. The GIP actives share increased from 37.5% in 2004 to 45.56% in 2005. With regard to the structure, there was registered a slight increase of the market quota detained by the banks with mainly private fund, in the detriment of the state assets, while the banks with mainly with just 0.1 percentage points, up to 62.2%. The concentration degree of the bank actives at the level of the first 5 commercial banks diminished from 59% to 58.8%.

Moreover, the large majority of the actives is supported by the intensification of the crediting activity to the non-banking clients, that had a 33.7% progress in real terms, as well as inter-banking operations, growing with 15.7%. The firm and population's financing represented 47.3% of the total of actives, and the inter-banking operations detained 31.8%.

In 2005, the first 10 banks classification, in terms of the level of the actives suffered a few changes, without affecting though the first three positions. Thus, BCR (Romanian Commercial Bank) maintained the first position, with over 9 milliard euro actives, growing with 41.2%, under the whole bank system dynamics. As a change, BRD (Romanian Development Bank) Groupe Société Générale consolidated the second position, with an increase of actives of 64%, up to 5.3 milliard euro. A less impressive evolution was registered by Raiffeisen Bank, whose actives have increased with 36%, to over 3 milliard euro. From the 4th place, there appear the first changes of classification, ING Bank ascending one position, replacing CEC, which went down three positions, to the seventh position.

The fifth position was occupied by HVB Bank, with 1.75 milliard euro actives, followed up by Bancpost, that outmatched ABN AMRO and CEC, in order to reach the sixth position.

Transilvania Bank ascended two levels, up to the eighth. The last two positions of the Top 10 are detained by Alpha Bank and respectively, ABN AMRO.

In the following table and diagram, there is presented the top 10 banks in Romania from the point of view of the actives detained at the end of 2005.

In 2005, in real terms, the banks increment almost remained at the level registered the previous year. With a total over 555 million euro, the general profit of the bank system increased with 15.26%, respectively 6% in real terms. Calculated in euro, the global net profit of the bank system increased with 22%. One could say that the crediting institutions had abundantly „profit” of the introduction of the uniform profit tax quota.

Table 1: TOP 10 Actives at 31st December, 2005

| Bank's name | Actives value in million euro |
|--|-------------------------------|
| Romanian Commercial Bank | 8963.96 |
| BRD Groupe Société Générale | 5227.30 |
| Raiffeisen Bank | 3003.01 |
| ING Bank NV Amsterdam | 1844.82 |
| HVB Bank | 1716.42 |
| Bankpost | 1553.49 |
| Casa de Economii și Consemnațiuni (Savings and Commissions House) | 1524.68 |

| | |
|--------------------|---------|
| Banca Transilvania | 1341.31 |
| Alpha Bank | 1328.42 |
| ABN AMRO Bank | 1318.58 |

Source: Mediafax Annual Report 2006

With regard to the profitability indicators, ROA descended to 1.6% compared to 2% in December 2004, while ROE diminished to 12.7%, from 15.6% in the previous year. The situation can also be explained by a more stressed dynamics of the actives and of the capitalization. On the one hand, in 2005 it was observed a significant increase of the bank expenses, which registered a growth of 157%, while the global incomes indicated a progress of only.

The reduction of profit is also the cause of the dramatic reduction of the bank interests, as a result of the reductions applied by the National Bank at the interest quota of the monetary policy. The dynamics of the costs and incomes, along with that of the actives, indicated a redirection of the current bank activity that followed an important growth of the hauling time, in order to compensate the loss generated by the reduction of the interest differences. At this category too, the top 10 banks does not present any modifications for the first 3 positions, compared to the previous year.

Table 2: TOP 10 Net Profit at 31st December, 2005

| Bank's name | Net profit in million euro |
|------------------------------|----------------------------|
| Romanian Commercial Bank | 201.88 |
| BRD Groupe Société Générale | 150.46 |
| Raiffeisen Bank | 43.37 |
| HVB Bank | 39.91 |
| Alpha Bank | 27.89 |
| Transilvania Bank | 27.11 |
| Commercial Bank „Ion Țiriac“ | 16.58 |
| ING Bank NV Amsterdam | 15.08 |
| ABN AMRO Bank | 9.83 |
| Citibank Romania | 6.60 |

Source: Mediafax Annual Report 2006

Just as it can be observed from the table and diagram above, BCR strengthened its top position in profitability with a record result of 205 million euro, growing with 16% compared to the previous year, representing approximately 37% of the global system income.

A favorable evolution also registered BRD, whose profit reaches 153 million euro, 54% higher than the results in 2004.

A powerful profit dynamics was also observed in the case of Raiffeisen, with a 74% plus, which led the banks profit to 44.4 million euro.

HVB Bank kept its fourth position, with a 41 million euro, growing 62% compared to the previous year.

In the fifth position ascended Alpha Bank, with a 28.6 million euro profit, replacing ABN AMRO, which went down on the ninth place, with only 10 million euro profit.

In 2005, Bancpost and CEC left this top classification. During the analyzed period of time, the bank belonging to EFG Eurobank accomplished a large volume of investments and performed the costs afferent to the reorganization of the personnel of 12 million euro. In addition to that, Bancpost's profitability was affected by the increase of the BNR's demands, concerning the minimal obligatory

reserve of currency, a central bank administrative measure that could not have been anticipated.

In its turn, CEC had to face the drastic interest changes performed by BNR, when the majority of the placements were at the central bank, the credit institutions functioning after the legislation specific until 2005.

In the following table, there is presented the evolution of an indicator set relevant for the appreciation of the Romanian bank system profitability during 2004-2005:

Table 3: Evolution of relevant indicators

| Indicator | 31.12.2004 | 31.12.2005 |
|---------------------------|--------------|------------|
| | million euro | |
| Total actives (net value) | 22634.27 | 34834.41 |
| Total income | 6027.83 | 16047.59 |
| Total costs | 5580.31 | 15490.96 |
| Net profit | 447.55 | 556.63 |
| | % | % |
| Solvability | 20.55 | 20.97 |
| ROA | 1.98 | 1.60 |
| ROE | 15.67 | 12.69 |

Source: Mediafax Annual Report 2006

At the end of 2006, the level of the bank system capitalization was approximately 2.78 milliard euro, compared to 2.01 milliard euro at the end of the year 2005, which represents a 28.2 per cent increase (22.2 per cent in real terms). The public capital share in the bank system increased 2.9 percentage points (up to 14.9 per cent) while the private capital share reached 85.1 per cent of the total; the participation of the currency capital banks increased 10 percentage points (up to 78.8 per cent).

At the end of 2006, the aggregated level of the net balance sheet active reached 50.92 milliard euro, 34.4 per cent higher comparative to December 2005 (28.2 per cent in real terms). From the structure point of view, there were not any significant changes registered, as the state capital banks reduced their share with 0.5 percentage points in favor of those with private capital (88.6 per cent).

The evolution of principal financial and banking prudence indicators (see table 4) shows, in my opinion, following aspects:

- regarding the profitability indicators ROA and ROE, their levels reduced with 0.3 percentage points (reaching at 1.35 per cent) and, respectively, with 2 percentage points (up to 10.83 per cent) in 2006 comparative with 2005;
- in 2004 and 2005 the profitableness of assets was more smaller than last years, profit has been generated by an hexogen factor, the rate of National Bank's intervention interest;
- the solvability knew a little decrease beginning on 2002 year, process which, I suppose, doesn't hinder credit;
- in 2001 - 2006 period nonperforming credits on total assets were maintaining at normal levels, under 1.0 value;
- Romanian banks' liquidity was high, much above minimum obligatory levels.

An analysis in the ROA and ROE dynamics, during 1998-2006, is exposed in the table and diagram below:

Table 4: Evolution of relevant indicators

| | Indicators | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|----|--|------|------|------|------|------|------|
| 1 | Solvency report 1 (>12%) | 28.8 | 25.0 | 21.0 | 20.5 | 20.9 | 17.2 |
| 2 | Solvency report 2 (>8%) | 26.2 | 22.9 | 18.1 | - | - | - |
| 3 | Rate of personal capital | 12.1 | 11.6 | 10.8 | 8.88 | 9.13 | 8.26 |
| 4 | General risk rate | 39.7 | 42.9 | 50.5 | 46.8 | 47.4 | 52.7 |
| 5 | Residual credits / Total portfolio credits | 0.72 | 0.43 | 0.31 | 0.29 | 0.20 | 0.18 |
| 6 | Residual credits / Total asset | 0.32 | 0.23 | 0.22 | 0.18 | 0.12 | 0.14 |
| 7 | Residual credits / Own capital | 2.66 | 1.97 | 2.04 | 2.05 | 1.35 | 1.64 |
| 8 | Rate of credit risk | 2.54 | 1.10 | 3.37 | 2.87 | 2.62 | 2.82 |
| 9 | ROA | 3.10 | 2.64 | 2.21 | 2.04 | 1.65 | 1.35 |
| 10 | ROE | 21.8 | 18.3 | 15.6 | 15.6 | 12.6 | 10.8 |

ROA - Net profit /Total actives;

ROE - Net profit/Proper funds.

Source: Romanian National Bank - Romanian Banking System 2006, p. 83.

Conclusions

The tendencies registered by the main indicators of the bank system solidity were appreciated as favorable by the representatives of the World Bank, International Monetary Fund, respectively the European Commission within reports performed with the occasion of the collective missions for the bank system evaluation. According to these, the bank system represents a good capitalization, disposes of a high liquidity and is well supervised, the supervision authority being the beneficiary of the corresponding administrative capacity, qualified personnel and a qualitative management. Moreover, according to the valuations performed with the occasion of this mission by the specialized of the World Bank and of the International Monetary Fund, by the pattern stress test - which is performed according to the risk characteristics of each bank and has as objective the provision of the information referring to the banks' max vulnerability situations, making it necessary that the banks took into account some drastic changes (The World Bank, 2003, p. 152) of the general level of the interest rates and of the potential modifications of the volatility and/or liquidity all over the markets where the bank is active - the bank system was considered resistant to the potential market and crediting risks, the exposure to the currency risk and to the interest registering a reduced level, under conditions in which the bank balances its net currency position and the interest rate practiced at the credits is variable (Brendea, 2001, p. 32).

The bank market in Romania has a high development potential generated by the still low intermediation rate and the reduced level of population's running into debts, fact that transforms the Romanian market in a very attractive target for the large foreign banks.

In my opinion, the European integration will re-orientate the activity and the management of the large Romanian banks, as they will have to cope with the competition with the large financial European groups. With regard to the small banks, it will be necessary that they fused or were acquired, being liable including for insolvency if they would not direct towards a market with a very specified clientele.

As a result of the increase of the competition, it is therefore necessary to find out a solution for consolidating the small banks

capital, whose assets do not overpass 1% of the Romanian bank system assets. It is thought that, at a general level of the bank assets at the level of the 4th trimester of 2006 of approx. 51.468 millions EUR, the number of the banks in the Romanian bank system is way too large, many authors considering the optimum between 20 and 30. Still, in my personal opinion, the solution is not the reduction of the banks number, but the increase of their assets.

In the future, the best solution the Romanian bank system' managers should adopt, within the context of the economic integration in the European Union, is represented by the concentration of the current resources by processes of fusions and acquisitions, or by increasing the bank capitals, as a result of attracting some very powerful investors in the share holding process.

In conclusion, the consolidation of the bank system will go on and the Romanian commercial bank strategies must take into consideration the nature and the major transformations that come up in the international bank department, as a result of the bank activity globalization.

References

- Berea, A.O., 1999, "Orientations in the Contemporary Banking Activity", *Expert Printing House*, Bucharest;
- Brendea, C., 2001, "Risk and banking credit performance in Romania", *Coresi Printing House*, Bucharest;
- Dimon, J., January 2004, "Banking needs a New Basel Accord", *Financial Times*, New York;
- Gust, M., 2003, "Banking Management", *Independenta economica Printing House*, Pitesti, p. 113;
- Netoiu, L.M., 2006, "Banking Management", *Universitaria Printing House*, Craiova;
- Nitu, I., 2000, "Banking risk's management", *Expert Printing House*, Bucharest;
- Rotaru, C., 2001, „Banking Performance Management”, *Expert Printing House*, Bucharest;
- Stoica, M., 1999, „Banking management”, *Economic Printing House*, Bucharest;
- The World Bank, 2003, "Analyzing and Managing Banking Risk", *Irecson Institute*, Bucharest, p. 152.

Curriculum vitae



Contact information

First Name & Surname: Popescu, Jenica
Mailing address: Cristian Tell st., 11, Craiova, Dolj, Romania
E-mail: jenica_popescu@yahoo.com

Education:

Period: 1984 to 1988
Name and type of institution: University of Craiova, Economics and Business Administration Faculty
Qualification: Economist / Finance and accountancy specialist
Period: 1990 to 1996
Name and type of institution: University of Craiova, Economics and Business Administration Faculty
Qualification: Doctor in economic sciences

Professional Experience:

Period: 1990 to present
Name and type of institution: University of Craiova, Economics and Business Administration Faculty
Principal Area of study: Marketing of financial banking services
Money and credit
Inflation and monetary systems

Aptitude for:

English: Good level

Relevant scientific activity: 27 edited school books and scientific works
127 scientific communications at national and international symposiums, articles and studies
15 scientific-research contracts (4 contracts Grand type)