The Role of the Romanian Deposits Guarantee Fund in the Romanian Banking System

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Abstract
The deposit guarantee scheme makes up an instrument of indirect support of bank supervision that contributes to ensuring the stability of the financial and banking system in Romania and to increasing public's confidence in the same time.
Ensuring the reliability and functioning of the banking system (preventing bank bankruptcies) is vital to any modern economy. Consequently, in some countries there is a means of protection against bank bankruptcies, namely the constitution of the deposit guarantee fund. If a major bank is on the verge of bankruptcy, the Fund may grant it a loan in order to maintain its functioning until the Fund performs its merger with another bank or finds another way to solve the problem.
This paper presents some features of the Romanian Fund for Deposits Guarantee, its activity, its implication in the liquidation processes of several Romanian bankrupt banks, its capacity of granting the population deposits and its financial resources. There is also presented the situation of the Romanian Fund comparative to the other European Guarantee Funds, in the context of the global financial crisis and the changes made in the latter period for ensuring the stability of the financial systems.

Keywords: deposits guarantee funds, banks liquidations, banks mergers.

JEL Classification: E44, G21, G33, G34.

The deposits guarantee scheme in EU's countries

The **US, European and other developed country governments** have provided extensive assurances to bank depositors and creditors (and, in a few cases, non-bank financial institutions such as mutual funds) prompted by systemic stability and (in a few cases) competitive concerns. Some of these arrangements include blanket guarantees on deposits and guarantees on new debt issues. The scale of these arrangements has no historic parallel and constitutes a paradigm shift (Spulbăr, C, 2005).

Some developed countries have announced that the guarantees on new debt issues will be extended for 18-36 months, but these arrangements may have to be maintained until financial stability is consolidated and credit flows resume on sustained basis, which may take longer in some cases. Some emerging countries are matching these arrangements in order to prevent capital outflows or a shift of deposits to state-owned banks, which are perceived to be safer. The state guarantee backing these arrangements may not be credible in countries where the state is already saddled with a large debt and the banking system is large (Luc Laeven and Fabian Valencia, 2008).

The introduction of special arrangements by emerging countries may be inevitable, but policy-makers should be advised to proceed gradually.

Thus, in addition to liquidity support, policy-makers may consider raising ceilings and eliminating co-insurance, before extending blanket guarantees on deposits and debt. For example, **Hungary** has introduced blanket guarantees, but other neighboring countries (**Czech Republic**, **Poland**, **Slovakia**) have not yet found it necessary to do so (World Bank, 2008).

In order to address moral hazard and reduce the incentives for excessive borrowing, it is important to ensure that any guarantees are properly priced. The UK approach of charging 50 basis points for the new debt guarantees merits consideration. The guarantees should be introduced in conjunction with credible policy measures to clean up the banking system, and should be phased out as stability returns.

There is a continuum of policy measures to enhance confidence and stem the risk of bank runs and capital outflows, of which the introduction of capital controls should be considered as instruments of last resort (Frank N. and Hesse H., 2009).

Some countries have also imposed deposit freezes in crises situations, but this measure may have long lasting negative effects on the domestic banking system, if it is not removed promptly and accompanied by a credible reform package. The freezing of deposits in Argentina in 2001 was one of the factors contributing to the poor deposit mobilization in the following years (as indicated by the declining ratio of bank deposits to GDP).

Some of the recent changes to the design of deposit insurance may become permanent. For example, regulators may find it hard to lower insurance ceilings to the levels prevailing before the reform. Several countries are also considering eliminating permanently the co-insurance component, because of the perception that it has not enhanced the incentives for ex-ante monitoring but has encouraged runs on troubled banks (illustrated by the case of Northern Rock in the UK)(IMF, 2009b).

The central question, however, is whether any safety net design will be credible after these arrangements are suspended. The lack of credibility and the associated moral hazard will impose a heavier burden on financial regulation and supervision. The discussion on narrow banking may be resuscitated, as in previous crisis episodes, although it is unlikely to gain prominence.

The crisis has also shown the need for much greater international policy coordination to avoid inefficient beggar thy neighbor outcomes (excessive subsidies in one country spilling over to other countries). An example of the potential competition between jurisdictions that might unintentionally result from such measures would be the decline in business of some offshore financial centers that are unable to match blanket guarantees (Cihák, M. and Fonteyne W., 2009a).

The coordination of crisis management measures has improved as time passed and as the EU institutions sought to limit competitive distortions; however, further improvements are needed. In October 2008, European finance ministers agreed that it would be desirable to harmonize deposit protection to the €50,000–100,000 range, with a €50,000 minimum. However, a number of countries remain above this range (IMF, 2009a, Table 1). These differences create incentives for potentially destabilizing outflows. Combined with the existing topping-up option, it allows banks with branches in several countries to offer better deposit guarantees in some countries than in others (or than their competitors). Improved coordination would require establishing not only a minimum, but also a clearer agreement on a maximum level of deposit guarantee coverage, defined to include both official schemes and de facto protection of creditors. A uniform coverage level might in principle be even better. However, this may not be optimal if policymakers in individual countries have different preferences regarding the profitability and stability of the banking sector (Jickling, M., 2009). In addition, individual countries' deposit guarantee schemes are still very diverse with respect to other basic parameters, such as the type of financing and the determination of premiums, and no clear consensus is in sight.

Table 1: Banking deposits guarantee scheme in EU's countries

Country	Deposits Covered up to (Thousands of euros): Before the crisis	After recent changes	Note
Austria	20	Unlimited	For private customers
Belgium	20	100	
Bulgaria	20	50	
Cyprus	20	100	
Czech Republic	25	50	
Denmark	40	Unlimited	October 2008 to September 2010
Estonia	20	50	
Finland	25	50	Until end of 2009
France	70	70	
Germany	20	Unlimited	All retail deposits in German banks
Greece	20	100	For three years; political guarantee of all bank deposits
Hungary	20	42	Ft 13 million—political guarantee of all bank deposits
Ireland	20	Unlimited	All retail and corporate deposits; valid for two years
Italy	103	103	
Latvia	20	50	
Lithuania	22	100	Valid for one year
Luxembourg	20	100	
Malta	20	100	
Netherlands	20	100	
Poland	23	50	
Portugal	25	100	Domestic nationals' deposits in domestic banks
Romania	20	50	
Slovak Rep.	20	Unlimited	Physical persons; some categories of legal persons
Slovenia	25	Unlimited	Temporary (until end of crisis)
Spain	20	100	
Sweden	28	46	SKr 500,000
Switzerland	20	66	SWF 100,000
United Kingdom	45	54	£50,000

Sources: IMF staff, based on data from the European Commission and country authorities.

The features of the Romanian Deposits Guarantee Fund's activity

The deposit guarantee scheme makes up an instrument of indirect support of bank supervision that contributes to ensuring the stability of the financial and banking system in Romania and to increasing public's confidence in the same time.

The deposit guarantee fund in the banking system (hereinafter referred to as the Fund) was created in 1996 by the Government Ordinance number 39/1996 as public law legal person.

The Fund aims at:

1 guaranteeing the redemption of deposits constituted with credit institutions by physical persons, by legal persons or by entities without legal personality, pursuant to the conditions and limits set forth by the law on functioning of the Fund;

2 carrying out activities as special receiver, interim receiver or liquidator of credit institutions, if it is appointed to act in one of these capacities.

All the credit institutions authorised by the *National Bank of Romania* to accept deposits from the public have the obligation to participate in the deposit guarantee scheme.

The participation in the deposit guarantee scheme in Romania is compulsory to all credit institutions authorised by the *National Bank of Romania* to accept deposits from the public. As member credit institutions of the deposit guarantee scheme, they must take part in the constitution of the financial resources of the Fund by means of contribution payments to the Fund (Table 2).

Table 2: Evolution of the number of participants in the guarantee scheme between 1997 and 2008

Year	Total number	Foreign bank branches	Romanian banks	CREDITCOOP SA Central Bank	Savings Bank – locative domain
1997	40	10	30	-	-
1998	44	11	33	-	-
1999	40	7	33	-	-
2000	40	8	32	-	-
2001	40	8	32	-	-
2002	38	8	29	1	-
2003	38	8	29	1	-
2004	39	7	30	1	1
2005	40	6	31	1	2
2006	39	7	32	1	2
2007	32	-	32	1	3
2008	33	-	33	1	3

Source: National Bank of Romania’s Reports, 2008.

Although in 2007 was announcing that the commercial banks wanted to stop paying the contributions to the Deposits’ Guarantee Fund as of 2008, arguing that the amounts already collected had reached an appropriate level with respect to the risks that the banking system might have come up against, there was only an informal request and the *RBA* (*Romanian Banking Association – ARB*) had the possibility to decide to send a formal request, but currently the banks are still paying the contributions and in addition to the banks’ contributions, the Fund is financed by means of a stand-by credit line, signed with the banks in the system (Rădulescu M., 2009).

Starting from Romania’s accession to the European Union, namely starting from 1st January 2007, the Romanian branches of foreign credit institutions that have their registered office in the other Member States of the European Union no longer have the obligation to participate in the constitution of the financial resources of the Fund, thus their capacity as members of the deposit guarantee scheme in Romania is terminated. In case of bankruptcy of such a branch, the indemnification of the guaranteed depositors will be performed by the deposit guarantee schemes in the countries of origin (Isarescu, M., 2008).

The exception is represented by the credit institutions for which the state guarantee is created for the deposits attracted (for example the C.E.C. – C.E.C. Bank – S.A. Savings Bank for the physical person deposits) and starting from Romania's accession to the European Union, by the Romanian branches of the credit institutions that have their registered office in Member States of the European Union.

The fund guarantees the deposits held by the resident and non-resident citizens, in lei or in convertible currency, including the due interest.

If a credit institutions initiates the bankruptcy procedure, the Fund pays indemnification to the guaranteed depositors of the institution concerned according to the guarantee threshold limit, irrespective of the currency in which the deposit is constituted or the number of deposits.

The payment of indemnification is made within three months from the date the bankruptcy procedure of the credit institution is initiated.

The Fund may pay indemnification after the expiry of this period, but not later than three years from the date the payments begin.

So far, the Fund has made payments amounting to 512,209.65 thousand RON for the indemnification of legal person depositors for a number of six banks that went bankrupt in the period comprised between 1999 and 2003 and the first payments were made in 1999 for the legal person depositors of the *Albina Bank*.

In 2006, the guarantee threshold per guaranteed depositor was equal to the equivalent in lei of the sum of 15,000 euros, threshold which had been increased to 20,000 euros starting from 1st January 2007. ***Starting from January 2007***, the Fund paid indemnification only to the guaranteed depositors (physical and legal persons) of *Nova Bank*, which went bankrupt in November 2006.

Starting from 15th October 2008, the guarantee threshold per physical person guaranteed depositor and per credit institution increased to the equivalent in lei of the sum of 50,000 euros, while the guarantee threshold per legal person guaranteed depositor and per credit institution remained the same, namely the equivalent in lei of the sum of 20,000 euros (Table 3).

Table 3: Evolution of the guarantee threshold (equivalent in euro)

Year	Amount
1997	1288
	2391
1998	2748
	2882
1999	2341
	2645
2000	2913
	3087
2001	3110
	3246
2002	3405
	3327

2003	3244
	3245
2004	3329
	6000
2005	1000
2006	15000
2007	20000
2008	50000

Source: [***www.fgdb.ro***](http://www.fgdb.ro)

The ***Deposit Guarantee Fund of the Romanian Banking System*** guarantees all the amounts deposited in any kind of bank account, according to the legal provisions.

The fund guarantees deposits held by resident and non-resident citizens, constituted both in the national currency, as well as in convertible currencies (euro, dollar, pound sterling, and Swiss franc) quoted by the *National Bank of Romania*.

The fund guarantees the redemption of the deposits constituted with banks by the physical persons, as well as by the legal persons or by the entities without legal personality, according to the legal provisions.

All banks constituted as Romanian legal persons are part of the guarantee scheme and are members of the Deposit Guarantee Fund of the banking system in Romania.

In the hypothetical case of a bank bankruptcy, the indemnification payment is made through appointed banks, within three months at the most from the opening date of the bankruptcy procedure. Currently discussions are taking place within the European Union in order to decrease this term by a few days.

The calculation of the amount to be compensated is carried out by taking into account both the amounts deposited, including the interested owed by the bank, as well as the credits or other debts that the depositor has with respect to the corresponding bank.

The guarantee threshold is applied individually for each separate depositor and for each separate bank.

There are certain situations when the deposits are not guaranteed, such as:

- The deposits belonging to managers, directors, auditors, financial auditors, major shareholders of the credit institution, families of the above-mentioned physical persons, spouses and first–degree relatives and in-laws, third parties that act on behalf of the above-mentioned depositors.
- The deposits belonging to those physical and legal persons who individually obtained interest rates and financial concessions that contributed to the worsening of the credit institution’s financial standing.
- The deposits resulting from transactions for which final court rulings have been passed for money laundry offence.

In 2002, the Fund acquired the capacity as legal liquidator of two banks in bankruptcy, namely of the *Romanian Discount Bank* as of 16th April 2002 and of the *Turkish – Romanian Bank*, as of 3rd July 2002. The main cause for going into bankruptcy for both banks is a fraudulent one, and the representatives of the Fund appointed for these banks saw themselves obligated to overcome many difficulties in applying the bankruptcy procedure to the banks. In the case of the *Romanian Discount Bank*, following the non-completion of investigations and the non-clarification of the phenomena, the criminal causes prevented the civil and commercial causes from advancing.

In the case of the *Turkish – Romanian Bank*, because of the legal procedures applied considering the fact that the shareholders were residents of Turkey, the bank's debts corresponding to the companies within the *Bayindir Holding* accounted for 99% of the total debt.

Fund's Liquidation activity

The activity performed by the Fund acting in its capacity as liquidator fitted the performance of the powers stipulated by the legislation on credit institution bankruptcy among which one may mention the application of bankruptcy procedure with a view to recovering debts from debtors, the sale of goods and other assets belonging to the banks, the distribution of amounts to the creditors of banks in bankruptcy, including to the Fund for the payment of indemnification paid by the same, the initiation and performance of legal proceedings with a view to recovering the debts from bank debtors, including the performance of criminal proceedings with a view to recovering the damages caused by fraudulent banking transactions, the representation and defence of legitimate interests in the court in civil and criminal cases, the drafting of the monthly reports on the progress of the bankruptcy procedure and on the stage of performing the powers as liquidator respectively, submitted for the approval of the receiver (Stoica, 2005).

Among the most famous bankruptcies that shook the banking system was that of the *Turkish – Romanian Bank* (*BTR*) and the liquidation thereof is far from being over. In October 2005, the *Bank Deposit Guarantee Fund* (*FGDB*), the *BTR* liquidator replaced its representative and then restructured the position. While the Fund accused its former employee of "faulty management", he argued that he was innocent and supported his assertions by means of the activity reports, which had the approval of the *FGDB* management itself (Table 4).

The *BTR* liquidator was the *Deposit Guarantee Fund of the Banking System* (*FGDB*). In June 2002, the *National Bank* was the first to decide to appoint the Fund as special receiver. At the end of January 2007, of the total balance assets of *BTR* existing on the opening date of the bankruptcy procedure, the recovery/exploitation degree accounted for a mere 5%. At that moment the *BTR* creditors had to receive approximately 953 billion lei more. The explanation for this situation is that the main debtor of the bank, the Bayindir Group of Turkey, accounted for 99% of the total bank debt. By the same day, 410 legal and extralegal cases had been filed for bringing proceedings against the *BTR* debtors, and of these cases 41 were criminal cases. Currently, only 60 cases are pending. The Fund's activity as BTR liquidator was carried out with difficulty considering the criminal aspects of the various transactions that had been previously undertaken before the banks went into bankruptcy.

In March 2003, the liquidator sued the *Bayindir Holding SA* companies (main *BTR* shareholder) and the *Bayindir Insaat Turizm Ticaret ve Sanayi AS* for the purpose of obtaining the joint compulsion to pay the amount of 58 million dollars and 11 million euros, adding the corresponding interest until the recovery of the damage caused to the bank. By the end of 2005, according to a *FGDB* report "the hearing of merits of the case was not carried out in consequence of the acceptance by the court of the exception of general incompetence of the Romanian courts, and the hearing of the merits of appeal was not carried out in consequence of the lack of proceedings with respect to the defendants in Turkey." Although the legal action was filed in April 2003, the hearing of the merits of the case has not taken place yet, in consequence of the lack of proceedings with respect to the physical and legal Turk defendants and the court establishes hearing dates every six months.

Table 4: Recovery level (millions of RON)

Number	Bankrupt bank	Year of going into bankruptcy	Compensations according to the payment list		Payments made	
			Number of depositors	Amount (mil. RON)	Number of depositors	Amount (mil. RON)
1	*Albina Bank*	1999	33,528	36,11	24,461	36,05
2	*Bankcoop*	2000	467,993	275,49	197,252	273,24
3	*International Bank of Religions*	2000	284,121	187,74	102,787	186,15
4	*Romanian Discount Bank*	2002	1,871	0,92	229	0,87
5	*Turkish – Romanian Bank*	2002	10,026	18,04	2,724	15,88
6	*Columna Bank*	2003	171	0,15	2	0,02
Total			797,710	518,45	327,455	512,21

Source: ***www.fgdb.ro***

Table 5: Payment of compensations corresponding to the bankrupt banks

Albina Bank	99.83%
Bankcoop	99.18%
International Bank of Religions	99.15%
Romanian Discount Bank	94.56%
Turkish – Romanian Bank	88.03%
Columna Bank	13.34%

Source: ***www.fgdb.ro***

Its implication as liquidator is also relevant for the following banks (Table 5):

1 *Albina Bank* – The payment of compensation was carried out during the period comprised between 15th September 1999 and 14th September 2002.
2 *Bankcoop* – The payment of compensation was carried out during the period comprised between 12th April 2000 and 11th April 2003.
3 *International Bank of Religions* – The payment of compensation was carried out during the period comprised between 09th October 2000 and 08th October 2003.

4 *Romanian Discount Bank* – The payment of compensation was carried out during the period comprised between 19th June 2002 and 19th July 2002 through *Banc Post S.A.* Subsequently, the payment was made directly by the Fund through its own pay office or through money order, by 18th June 2005.
5 *Turkish – Romanian Bank* – The payment of compensation was carried out during the period comprised between 28th October 2002 and 24th January 2003 through *Banc Post.* Subsequently, the payment was made directly by the Fund through its own pay office or through money order, by 27th October 2005.
6 *Columna Bank* – The payment of compensation was carried out directly by the Fund through its own pay office or through money order, by 25th May 2006.

By 31st December 2007, the Fund collected from the bankrupt banks debts in lei according to a percentage of 31.03%, compared to 30.78%, the percentage of collections carried out by 31st December 2006, and as far as the currency consolidated amounts are concerned, where both total debts as well as collections from debts were expressed in US dollar equivalent according to the exchange rate on the day the corresponding collections were made, the Fund collected debts according to a percentage of 21.89%, compared to 21.66%, the percentage of collections carried out by 31st December 2006 (Table 6).

The comparative situation of recovered debts compared to the total debts of the Fund is the following:

Table 6

Bankrupt bank	**Total debts**		**Recovered debts**		**Recovery degree**	
	Millions of lei	**Equivalent in thousands of USD (according to the exchange rate corresponding to each distribution)**	**Mil. of lei**	**Equivalent in thousands of USD (according to the exchange rate corresponding to each distribution)**	**Lei %**	**USD %**
0	**1**	**2**	**3**	**4**	**5 = 3/1**	**6 = 4/2**
Albina Bank	36.06	22,510.42	12.46	5,078.25	34.55	22.56
Bankcoop	273.64	136,236.27	70.34	22,828.54	25.71	16.76
International Bank of Religions	186.15	75,194.03	74.57	23,772.81	40.06	31.62
Romanian Discount Bank	0.87	262.17	0.87	280.31	100.00	106.92
Turkish – Romanian Bank	16.45	4,918.15	0.89	321.49	5.41	6.54
Columna	0.09	27.66	-	-	-	-

Bank						
Nova Bank	0.21	75.81	0.21	83.34	100.00	109.93
TOTAL	513.47	239,224.51	159.34	52,364.74	31.03	21.89

Source: www.fgdb.ro

In conclusion, the significant decrease of recoveries of the Fund's debts, from 1.60 million lei in 2006 to 1.36 million lei in 2007, following the major depletion of recovery sources of the debts or of the assets that were part of the bankrupt banks' patrimony, with the exception of the possible recoveries obtained through pending legal proceedings, bring the banks in question closer to the final stage of the liquidation activity.

The financial resources of the Fund are represented by:

- initial annual contributions, including increased contributions and special contributions of credits institutions;
- collections from the recovery of the Fund's debts;
- loans: from credit institutions, from financial companies and from other institution, with the exception of the National Bank of Romania;
- bond loans, by issuing securities of the Fund;
- other resources – donations, sponsoring, financial assistance;
- income yielded by investing available financial resources;
- other income, pursuant to legal provisions.

In addition to these, the Fund also has the possibility to contract loans and to benefit from other resources, according to the law. Credit line disbursements will be carried out only if the need to complete the Fund's own financial resources occurs in case of bankruptcy of a credit institution.

The Government Emergency Ordinance number 23 of 22nd March 2006, stipulated the decrease of rates of annual contribution made by the credit institutions that were part of the Fund, simultaneously with the supplementation of financial resources thereof by receiving annual stand-by credit lines from credit institutions so that its own resources and the above-mentioned credits were able to ensure an adequate level of the targeted degree of coverage of its exposure; this targeted degree is calculated as ratio of the volume of financial resources of the Fund and of the total amount of guaranteed deposits.

For 2006, considering the financial resources of the Fund and the need to meet a targeted degree of exposure coverage set at 2.3%, the emergency ordinance set forth the decrease of rates of annual contribution made by the credit institutions to the Fund from 0.4% to 0.2% and the completion of the finances thereof by means of stand-by credit lines amounting to the total sum of the equivalent in lei of 150 million euros.

In 2007, the annual contribution rate of credit institutions decreased to 0.1% and beginning from 2008 the annual contribution rate of credit institutions participating in the Fund was established by the latter, with the approval of the *National Bank of Romania* to 0.1% (compared to the 0.5% maximum limit) and the agreements for the stand-by credit lines were concluded for the total sum of the equivalent in lei of 190 million euros (Table 7).

Table 7: Evolution of the contribution rate of credit institutions during the period comprised between 1996 and 2007

	1996 - 1999	2000	2001 – 2004	2005	2006	2007	2008
Annual contributions (%)	0.3	0.8	0.8	0.5	0.2	0.1	0.1
Special contributions (%)	-	1.2	-	-	-	-	-

Source: ***www.fgdb.ro***

The financial resources of the Fund may be invested into Government bonds, guaranteed governments bond, certificates of deposit and other financial instruments of the credit institutions provided that the investment strategy approved by the Board of Directors of the *National Bank of Romania* is observed; this strategy has as main objectives the minimisation of risks and the liquidity of investments and as complementary objective the yield thereof. Starting from Romania's accession date to the European Union, the Fund may make investments in Government bonds issued by the Member States of the European Union, in bonds issued by the central banks thereof and in bonds issued by the Treasury of the United States of America.

Pursuant to the legal provisions, the investments of the Fund are made according to an annual exposure strategy established by the Board of Directors of the Fund and submitted for the approval of the *National Bank of Romania*, and the main objectives continue to be the minimisation of risks and the liquidity of investments, while the yield thereof represents a complementary objective. During 2007, the investments of the Fond were mainly made in term deposits.

The Fund is a member of the two large international organisations in the field, namely it has been a member of the *European Forum of Deposit Insurers* (EFDI) since 2003 and a member of the *International Association of Deposit Insurers* (IADI) since 2005.

The *Bank Deposit Guarantee Fund* (*FGDB*) noticed that the commercial banks failed to pay 3.8 million euro worth of contributions corresponding to the deposits attracted in 2004 because of the erroneous classification of some deposits as non-guaranteed deposits instead of guaranteed deposits.

Out of the 34 credit institutions investigated, the classification error applied to 94% of deposits belonging to small and medium-sized enterprises. Moreover, 29 banks failed to report deposits accounting for the equivalent of the sum of 702 million euros at the end of 2004. A number of 34 banks erroneously classified 829 million euros worth of deposits.

In other words, if one of the banks in questions had gone into suspension of payments, the clients whose deposits had no been reported or had been erroneously classified would not have been indemnified by the *Guarantee Fund* according to the 10,000 euro threshold corresponding to 2005 and according to the 15,000 euro threshold corresponding to 2006.

In addition, following a survey carried out in bank branches in Bucharest, *FGDB* noticed “a huge confusion in knowing and applying the Fund legislation, and in this case one may consider that these situations must be made known to the credit institutions by the Board of Directors of the RBA with a view to taking the necessary measures.”

For example, the banks’ failure to fill in the Depositor’s statement regarding the classification of deposits and to register some elements from the Statement in the account opening request constitutes a breach of the express provisions of the law on functioning of the Fund and of the regulations of the Fund issued according to the application of law.

At the same time, banks did not comply with the client information rules regarding the guarantee criteria of the deposits constituted. Under these circumstances, the Fund made a proposition to simplify the identification and classification modality of the deposits belonging to small and medium-sized enterprises and it is still waiting to be informed about the point of view of the banks.

Although the guarantee threshold of the deposits increased, the management of the *Deposit Guarantee Fund of the Banking System* believed that it was not necessary to increment the guarantee threshold that amounted to 20,000 euros in 2007. The reason was that Romania was not directly exposed to the financial crisis that affected a great deal of the world’s countries. The ***Businessmen Association*** was the one to request the increase of the guarantee threshold of bank deposits after a few countries in the Union had taken similar measures.

The representatives of the *Deposit Guarantee Bank of the Banking System* declared that the institution had available a consistent amount in order to be able to support the redemptions to the benefit of the depositors if problems occurred on the banking market. They also stated that the 20,000-euro guarantee threshold at the time was enough and that they did not believe that a possible increase was necessary.

Of course, the problem of increasing the guarantee threshold is one of the most important issues, because it means that in the case of a bankruptcy the depositor recovers up to the guarantee limit from the deposited amounted, that may sometimes exceed this guarantee threshold. The guarantee threshold of the FGDB is consistent.

According to the officials of the Fund, the average of the deposits belonging to physical persons with the banking system amounts to 1000 euros per deponent, while those belonging to companies amount to 10,000 euros. The percentage of clients who have more than 20,000 euros deposited barely reaches 0.8%.

As far as the financial crisis is concerned, the Deputy Chief Executive Officer of the Fund states that the approval of the Paulson plan to rescue the American banks will have a beneficial international effect. This effect will be felt in Romania as well. Romania is not directly affected, it is only indirectly affected by the world financial crisis triggered and, according to him the most affected by its turbulences is the capital market.

The capital of the *Deposit Guarantee Fund of the Banking System* increased by 16%, to 230 million euros.

Over 80% of the total guaranteed deposits are concentrated in 7 credit institutions participating in the Deposit Guarantee Fund and almost 1% of the deposit holders have in banks half of the amount deposited by the population, namely 34 billion lei.

A number of over 17 million deposits are guaranteed, but 170,000 holders may not recover their money in case of a crisis.

Thus Romania has increased the population bank deposit guarantee threshold to a minimum of 50,000 euros, following the fact that the Finance Ministers in the European Union agreed that all the Member States would offer a protection for the physical person deposits of at least 50,000 euros for an initial period of at least a year, considering the fact that many Member States were determined to increase their minimum level to 100,000 euros.

The European Union legislation established a minimum guarantee level of 20,000 euros, but numerous states decided to increase the threshold in order to appease the population's fears and to avoid massive withdrawals from banks.

There is a huge difference between the value of deposits in Romania and that of deposits in Germany or France, therefore Romania was against the decision to increase the guarantee threshold for a long time. Approximately 95% of the population deposits were below the 20,000 euro threshold, therefore they are totally guaranteed.

The RBA notes that the increase of threshold will entail larger costs for the banks, which will exert pressure on the return, but it will also reflect on the costs charged to clients. The guaranteed amount has been increased only in the crisis context.

At the end of the first semester, the medium guaranteed deposit for physical persons amounted to 1,100 euros and for legal persons amounted to 10,000 euros. As far as the physical persons are concerned, approximately 99% of the depositors, namely 17 million persons fit the threshold, while the percentage is minimal in the case of the legal persons. At the end of June 2008, the Fund had over 18 million guaranteed deposit holders, of which 17.4 million were physical persons.

On 30th June, the *FGDB*'s own capitals amounted to approximately 300 million euros, covering about 1.2% of the total guaranteed deposits. At the same time, the *FGDB* signed agreements for stand-by credit lines with the commercial banks within the system and on the basis thereof it might attract financing amounting to 190 million euros in case of a significant liquidity demand.

The total nominal value of the deposits in June 2008 was of 234.1 billion lei and the number of deposit holders in the banking system was of 19.4 million persons of which 95.10% were physical persons.

2009 Outlook for the Romanian Deposits Guarantee Fund

The Fund aims at playing an important role in the consolidation and maintenance of the stability of the banking system in Romania in 2009 as well by means of the protection given to physical and legal persons who have deposits with the credit institutions in the guarantee scheme thereof.[1]

For this purpose, the Fund will concentrate its activity on the following lines:

1 Continuing the actions regarding the drafting of specific regulations for establishing the coordinates of the Fund's financing policy, the targeted degree of exposure coverage, the annual contribution rate of credit institutions and the total amount corresponding to the stand-by credit lines.
2 Extending the information and public awareness-raising activities in connection with the problems of deposit guarantee with a view to increasing the depositors' confidence in the bank system, action that fits the trends internationally experienced in this respect.
3 Concluding stand-by credit lines agreements corresponding to the period comprised between March 2008 and February 2009 and amounting to the equivalent in lei of the sum of 190 million euros with the credit institutions participating in the Fund by the end of February 2008.
4 Investing the financial resources of the Fund provided that the objectives and the requirements of the strategy regarding Fund exposure, approved by the Board of Directors of the *National Bank of Romania*, are observed.
5 Continuing compensation payments owed to physical and legal person depositors of the bankrupt Nova Bank.
6 Investigating the way in which credit institutions participating in the *Deposit Guarantee Fund* establish the calculation basis of the annual contribution owed by them and paid to the Fund in 2007 and 2008, investigating their correct deposit classification according to the two categories, namely guaranteed and non-guaranteed deposits and investigating the way in which the depositors are informed regarding the deposit guarantee, pursuant to the provisions of article 41 of the law regarding the functioning of the Fund.
7 Continuing to monitor the activity carried out by the liquidators of the bankrupt banks within which the Fund acts in its capacity as unsecured creditor with a view to implementing measures that may lead to rendering the liquidation activity of these banks more efficient.
8 Drafting the quarterly bulletin of the Fund, that aims at presenting the evolution, the influencing factors and the outlooks corresponding to population savings and to deposit standing in the banking system.
9 Expanding the international activity carried out by the Fund within the *EFDI* and the *IADI* as well as the relations with other deposit guarantee schemes and with international entities in the field.

[1] www.fgdb.ro

Conclusions

The stability of the banking system is an objective of the macroeconomic stabilisation policy and makes up one of the most regulated fields. They have specific features consequently they need a special treatment, different from other sectors of the economy, although they are founded on the principles of the market economy.

The position held by banks in economy is characterised by the monetary creation as specific factor of the functionality of these institutions; this defining element gives them the possibility to put into circulation debts contracted on themselves, thus increasing the mass of the means of payment and the volume of the monetary circulation. The main feature of these intermediaries is the transformation of non-monetary assets into currency.

Ensuring the reliability and functioning of the banking system (preventing bank bankruptcies) is vital to any modern economy. Consequently, in some countries there is a means of protection against bank bankruptcies, namely the constitution of the deposit guarantee fund. If a major bank is on the verge of bankruptcy, the FED may grant it a loan in order to maintain its functioning until the Fund performs its merger with another bank or finds another way to solve the problem.

All the credit institutions authorised by the *National Bank of Romania* to accept deposits from the public have the obligation to participate in the deposit guarantee scheme.

If the bankruptcy procedure is initiated in relation to a bank, the Fund pays the deposits guaranteed in the national currency – the leu under the form of compensations within the limits of the guarantee threshold to the guaranteed depositors, irrespective of the currency in which the deposit was constituted or of the number of deposits.

Guaranteed depositors are both physical, as well as legal persons, including the entities without legal personality, different from the holders of the deposits included on the list of non-guaranteed deposits.

The total amount corresponding to the obligation that a bank has with respect to a depositor is established by summing up all the deposits held by the same, including the interest owed and not paid by the day the deposits become unavailable, except for the amount of obligations that the depositors must pay to the bank in question. The Fund pays the compensations to the depositors within three months from the date mentioned in the court ruling regarding the initiation of the bankruptcy procedure of the bank, but not later than three years from the beginning of payments thereof. The equivalent in lei of the guarantee threshold and of the foreign currency deposits is calculated on the day the deposits become unavailable, namely on the initiation date of the bankruptcy procedure, by using the exchange rates of the corresponding currency, communicated by the *National Bank of Romania* for that date. The total amount corresponding to the obligation that a credit institution has with respect to a depositor is established by summing up all the deposits held by the same, including the interest owed and not paid by the day the deposits become unavailable.

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