

ROMANIAN FINANCIAL SYSTEM AND HIS RISKS

SISTEMUL FINANCIAR DIN ROMÂNIA ȘI RISCURILE ACESTUIA

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Abstract: *The financial system has favourable evolved over the last two years leading to more financial depth and to gap reduction comparative to UE members. Banking sector has consolidated his dominant position in the system. Nonbanking financial institution with financing activity in the field of credit are now under prudential supervision of the central bank, the intention of the authorities being the reduction of the sector's risks and the increasing of the monitoring efficiency measures of the credit evolution. The main characteristics of the banking sector in the period took into consideration are: sustained performance of credit for private sector and keeping good indicatives of the financial stability, ensuring good resistance to external shocks. Throughout the year 2006 it have been kept supplementary administrative and prudential measures, these ones being eliminated in the first part of the current year. The accession of Romania to EU will determine the emphasis of domestic competition on the banking market, taking into account the higher profitability in the Romanian banking system, the low financial intermediary level and also the existence of a regulation framework harmonized with European standards. There are some trends that will consider a close watch to increasing population exposure and credit maturity rising. The risks generated by the nonfinancial banking institution are low and are tending to add to the existent ones in the banking sector. The concentration level and the exchange exposure are more higher in this sector but it is anticipated their reduction because of enclosing them in central bank monitoring. In 2006 it continued the positive process of Romanian capital market convergence with other European markets, open the evolution of market ratios but for infrastructure. Moreover, it have been enlarged a number of threats linked to the foreign markets sensitivity and to the stock exchange stabilisation in relative terms.*

Rezumat: *Sistemul financiar a evoluat – pe parcursul anilor 2006 și 2007 – favorabil, conducând la adâncirea intermedierei financiare și reducerea decalajului față de celelalte țări membre UE. Sectorul bancar și-a consolidat poziția dominantă în sistem. Instituțiile financiare nebancare cu activitate de finanțare de natura creditului au intrat în sfera de supraveghere prudențială a băncii centrale, intenția autorităților fiind reducerea riscurilor specifice sectorului respectiv și creșterea eficacității măsurilor de monitorizare a evoluției creditului. Caracteristicile principale ale sectorului bancar, pentru perioada analizată, sunt: dinamica susținută a creditului către sectorul privat și menținerea indicatorilor de stabilitate financiară la niveluri confortabile, asigurând inclusiv rezistența la șocuri externe deosebite. Pe parcursul anului 2006 au fost păstrate măsurile prudențiale și administrative suplimentare de limitare a expansiunii creditului; acestea au fost eliminate în prima parte a anului curent. În aceste condiții se impune creșterea exigenței supravegherii prudențiale. Aderarea României la Uniunea Europeană, va*

determina accentuarea competiției interne pe piața serviciilor bancare, ținând cont de profitabilitatea mai ridicată în sectorul bancar românesc, nivelul încă redus al intermedierei financiare precum și de existența unui cadru de reglementare și supraveghere armonizat cu standardele Uniunii. Se disting unele tendințe ce vor presupune monitorizare atentă a: creșterii expunerii față de populație și majorarea scadențelor la credite. Riscurile generate de instituțiile financiare nebankare sunt scăzute și tind să se suprapună celor existente în sectorul bancar. Gradul de concentrare și expunerea valutara sunt însă mai ridicate în acest sector, dar se anticipează reducerea lor ca urmare a includerii acestuia în perimetrul de supraveghere al băncii centrale. În 2006 a continuat procesul, pozitiv, de convergență a pieței de capital românești cu celelalte piețe europene, atât sub aspectul dinamicii indicatorilor de piață cât și al infrastructurii. Totodată, s-au amplificat o serie de vulnerabilități ce țin de creșterea sensibilității la piețele externe și de stabilizarea creșterii bursei în termeni relativi.

In 2006 the most important component of the financial market continued to be the banking system (with 83,3 % in total financial assets). Non banking financial institutions involved in credit activity are in undergoing process of notification and enrolling in NBR regulations. Although the financing sources are mostly from bank, their activity is not generating systemic shocks, due to their less weight in the system. The rate of financial deepening of the capital markets and insurance is still reduced, but the integration with international markets is rising. From the perspective of financial stability, the probability of a systemic shock generated by these markets is still low, because of the small role played in financing the real economy.

MATERIAL AND METHOD

The increasing evolution of the nongovernmental credit due to the positive predictions concerning the population's incomes was in 2006 the main factor of banking assets growth. Nevertheless, in Romania the financial intermediation is still low comparatively with other member state of UE. The favorable effects of financial development are accompanied with derivative risks from trade deficit extension, having in background finance through bank credits of the imported goods or from the pressure of demand on inflation.

In present, due to the new regulations, the non banking financial institutions involved in crediting activity are in full process of enrolling to the National Bank. The restrictive measures enforced in order to obtain the authorization are among the factors that have determined the position upon market share of these institutions.

The development of the insurance sector and the growth of the extent of the connection with banking market have strengthened the role of this activity in maintaining the financial stability. The capital rising made in order to respect the regulations regarding the insurer's solvency, the reevaluation of corporeal assets, establishing of new insurance companies, and increasing the volume of undersign insurance primes had led to the growth of total assets of the insurance companies with a pace of 34 % than previous year.

Because of a high volatility, the stock exchange indices continued to rise also in 2006. The high volatility represented in this period a feature of the most stock exchanges in the regions. Superior yields offered by the Romanian stock exchange were favored by the trend of national currency appreciation over euro. It can be

obvious that the developments registered on financial markets in the region are tending to become more correlated, and this is reflected on stock exchange markets.

RESULTS AND DISCUSSIONS

The modifications registered in 2006 at the level of shareholders in the banking sector have produced important mutations in the structure of the Romanian banking sector. In 2006 entered on domestic banking market a large sum of foreign capital, derived from well known credit institutions.

The market shares owned by domestic banks have diminished significantly in favor of foreign investors. The development of the competitive environment in the context of EU accession of Romania will require important changes in the strategy of the small and medium banks in order to improve their financing capacity.

In Romania, the banks are continuing to be financed mostly from deposits attracted from resident population. The year 2006 is confirming the trend of increasing of the external liabilities contribution, represented by the loans and deposits from banks and nonresident financial institutions.

The investments of the Romanian credit institutions are headed to domestic market, mostly as nongovernmental credit, which in 2006 registered a good evolution from population side. In the same time, it took place a severe shrinkage of the net creditor position regarding the operations with non banking clientele. It is pointed out the high level of liquidity, attested by the great volumes of investment to Central bank.

Although in 2006 the descending trend of solvency indices continued, determined by the expansion of the nongovernmental credit, the Romanian banking system remains well capitalized. Moreover, the results of the stress test analysis are revealing the fact that the system is capable to resist at severe extern shocks. For next period is anticipated the prolonged descended trend of the solvency ratio, but maintaining important increased crediting. On the other hand, on short time the level of solvency will not be a problem, because of a good margin of this comparative with the level regulated.

Because of a good banks capitalization and consistent liquidity, the stress test analysis revealed the fact that the Romanian banking system has the capacity to absorb the negative effect of the shocks.

CONCLUSIONS

It's remarkable that the level of capitalization of the Romanian banking system, being already on a descendent trend, which is permitting to continue the financial deepening. On short term it is estimated that the impact of possibly extern shocks will be absorbed by banks, these ones couldn't be an amenity for banking system stability.

The credit risk remain the main risk at are Romanian banks exposed. On short term, it is anticipated an increased of this, in the context of maintaining on high pace of crediting and forwarding along the economic cycle. The quality of credit portfolio has preserved, taking into account the restrictive policy imposed by the Central Bank.

The liquidity of the Romanian banking system has maintained on a high level in 2006, although the banks have allocated more and more funds for credit activity.

The liquidity, although situated on a descendent trend, whiles the increasing the weight of assets on long term, remain over the level enforced by regulations. For the next period the liquidity of the banking system will not create major problems from the risk perspective, in the context of short term credit upon Central Bank continue to represent an important part of the assets portfolio.

At the Romanian banking system, the market risk continues to be, in general, the main trend. There are no signs concerning the possible systemic implications determinate by market risk.

The interest risk remains the most important source of vulnerability from the market risk category which is confronting the Romanian banking system. The weight of net revenue from interest in average asset, but the net revenue from other activities than those generating interests is tending to decrease.

Within the non banking financial system the insurance market continued to develop, because of increasing demand for insurance products and the advance of the financial intermediation in economy as a whole. The structuring of the capital taking into account the type of activity and the competition increasing on market has led to a strengthening of the insurance sector.

The risks generated by the non banking institution are adding, more and more, to those existent to the level of credit institution. The expansion of leasing into a high pace is partially explained by the measure of limiting the credit took b the Central Bank in the past two years.

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