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Aspects Regarding the Romanian Banking System Capacity to Cope With the Fluctuations of the Global Economic and Financial System

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Abstract *In line with the opinion of the entitled institutions, Romanian Banking System is only apparently highly protected against the so called "normal" economic and financial shocks. Recent situations have demonstrated a proper "attitude" considering different negative variants. However, there are signals that should require for a more complex exploration of certain elements that are not necessarily comprised by the financial and accounting system. These elements are generated by the demand of financial and banking products as well as by the customer's attitude, with a major influence in certain contexts. From this point of view, my intention in this paper is to explore these aspects and their possible influence on the banking system.*

Key words:
Demand and supply; supply consolidation; behaviour; capacity

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G21

1. The intensification of the high unexpected movements on the banking markets

The banking system is a system with multiple special features under the regulated tightening rules, particularly the too *powerful supply in relation to demand*. However, beyond these aspects, we must highlight once again that the system itself works thanks to the market, *the ratio of supply and demand.* Recent events such as those listed below are coming to provide a new perspective on the customer acting on the banking market, which although it has a reduced strength as an individual entity, yet it has a high impact as a system.

- After finding out the information about the lack of liquidity, the banks of the United States have lost in the last quarter of 2008, 777,681 of holders of deposits for natural persons. More than half of those who have withdrawn the money used to have deposits of over €50,000 or were in special relationship with the Bank[1].
- In Romania, during the period of confidence decline regarding the banking system, the main deposits withdrawn from the banks were more than €100,000. The banks with significant market share, were most affected by the panic occurred in the fall of 2008. In October 2008, a sense of distrust among depositors showed up, generated by both the deepening financial crisis and the existence of some rumours that a major bank might face financial problems. "Withdrawals have been considerable: 4.7 billion dollars in one month (October 2008)," as the report of BNR underlines[2]. Although in case of the banking panic, clients try desperately to deposit money in large financial institutions, which gives more safety, in Romania, things happened conversely. Clients withdrew their money mainly to make up deposits abroad in order to place it either in government bonds or to keep it cash.[3]
- Over 10,000 people in Latvia withdrew deposits from Swedish Bank- Swedbank, after a rumour started on social media, according to which the institution would cope with financial difficulties[4]

[1] Source: article on Capital online publication, 2009, http://www.capital.ro/detalii-articole/stiri/marii-deponenti-s-au-retras-primii-la-inceputul-crizei-116550.html

[2]Source: online article by Marius Serban, 2009, http://www.conso.ro/citeste-comentariu/39/depo/Marii-deponenti-au-retras-primii-banii-din-banci-pe-timp-de-panica.html
[3]Source: online article 2009, by Marius Serban, http://www.conso.ro/citeste-comentariu/39/depo/Marii-deponenti-au-retras-primii-banii-din-banci-pe-timp-de-panica.html
[4]Source:online article 2011, http://suedia.se/index.php?c=3599

• Fears that Greece might leave the euro and return to the drachma have prompted the citizens of this country to withdraw their savings at the level of several billions of euros in recent years. In September 2012, UBS – the biggest Swiss banking group, estimated that in Europe customers would withdraw important amounts of money from the Swiss banks due to legislative amendments which do not allow foreigners to use secret bank accounts to avoid paying taxes.[5]

• In relation to the financial crisis at the beginning of 2013, the initial solution suggested by the Greek authorities to charge by 6.75% the deposits under the 100,000 euro although guaranteed by law, brought about a signal of no confidence on the market and due to the fact that the State interfered in relations projects created by supply and demand of the financial market and banking system. This option has significantly disrupted the market and created unpredictability regarding the behaviour of customers who would no longer be able to take decisions on which to rely. The effect was also felt in Romania, where companies withdrew from banks in the first three months of the year, 14.8 billion dollars, of which 14 billion were deposits with values above the limit of 100,000 euro guaranteed- in accordance with the Fund for Guaranteeing Bank Deposits. (FGDB)[6]

• In 2011 the more concerning the rumours in Greece were, the bigger number of Romanians began to withdraw their money from the massive deposits of the Romanian banks with Greek capital. The total amount of these withdrawals topped about 1.2 billion euros.[7]

2. Consolidation of the banking system by administrative measures versus market forces

For a while the system was considered to work thanks to *some solid structures* (financial and banking institutions) and its heavily regulated business. This hypothesis began to be ”dismantled” along with the outbreak of the financial crisis towards the end of 2007 and beginning of 2008 when there was a *liquidity crisis* in the global financial system due to American investors' *loss of confidence* in certain financial and banking products (secured mortgages).Basically we can say that the application (the client) has affected the supply (financial-banking system) through the behaviour or with getting some additional information related to the supply. This situation required a rethinking of the authorities' strategy in terms of financial and banking market. Apparently, *it is not enough to strengthen the supply* because the market mechanism works, and an *application that reacts sharply from different causes, can harman administratively regulated system (even very well).*

Thus, beyond the financial banking system deficiencies that gave rise to the international financial crisis we believe that *supply and demand ratio in terms of their capacity to influence each other* is another cause of this crisis.

Should *the demand have had sufficient capacity* (an active role and not the one of a passive/ trapped client) then the system would have at least partially corrected itself, without the intervention of the authorities. They acted indeed, but after finding out the effects and consequently, with a limit of action. Apparently, in the short term, the direct benefit of the financial banking institutions to retain profits is to keep its client passive/trapped but the reality has proved that the medium and long term losses for the whole system are major and will even affect each bank branch. In early 2013, in Greece, there occurred a new financial and banking crisis that continued to demonstrate that authorities through their singular administrative interventions could lead to adverse effects in the market.

The lack of liquidities in the system has generated panic again – unpredictable flounces among the clients and the solution was to control the variations through national laws, under the pressure of international financiers, but with *the effect of declining confidence* in the financial system. This situation had a positive impact, too, namely the “awake” of the passive/captive consumer (or partially passive). The Governor of the National Bank of Romania states that “*The financial world was built on trust.*[8]” The worldwide financial industry is “at a historical crossroads”, and having

[5]Source: Source: article by Dan Popa on Hotnewsonline publication, 2012, http://economie.hotnews.ro/stiri-finante_banci-12285076-banii-retrasi-din-bancile-grecesti-pleaca-bancile-din-londra-elvetia-restul-sunt-pusi-saltea-efg-eurobank-pierdut-12-mld-euro-iar-nbg-alpha-bank-piraeus-cate-8-9-miliarde.htm

[6]Source: article on Bancherul online publication, 2013,: http://www.bancherul.ro/efectele-crizei-din-cipru-firmele-au-retras-din-banci-depozite-negarantate-de-14-miliarde-lei.-populatia-a-retras-100-milioane-lei-din-sucusalele-bancilor-straine--11260

[7]Source: article on Gandul online publication, 2011,: http://www.gandul.info/financiar/cinteza-directia-de-supraveghere-bnr-romanii-au-retras-1-2-miliarde-de-euro-din-bancile-cu-capital-grecesc-9048009

[8]Source: article on Jurnalul online publication, 2011, http://jurnalul.ro/bani-afaceri/economia/isarescu-lumea-financiara-s-a-construit-pe-incredere-597302.html

confidence in the banking system and bankers is an essential element. It is correct but this system has had its shortcomings. In a system in which parties have mainly divergent interests (the supply-to obtain a price as high as possible and the demand- to pay a lower one) the too high confidence of the demand (customers) in the supply has resulted into a passive/captive consumer situation (or partially passive) *which did not make decisions on efficient allocation of resources* due to confidence in the system.

Thus, we reiterate the fact that one of the causes of the financial crisis can be the power ratio between the banking system and its client, who has been deprived of information and knowledge about products and financial-banking risks and had to adopt decisions on the basis of fragmentary information, while having a low ability to process the information available. Defective control system, the mistakes of individuals in a system are considered as key factors in the financial crisis that started in late 2007, but the system could be corrected if the *market mechanism worked better;* if the clients had had the information before making a decision, they could have understood, processed and integrated in their decision.

At the European level, the entitled authorities (The European Commission and The Central European Bank) have understood the fact that a financial banking system meant to cope with variations is determined not only by strong banking and financial institutions, but also *by a strong demand and more flexibility of the demand/supply ratio*.

At the beginning of 2008, the Directive 2008/48/EC was adopted by the European Parliament and the Council on 23 April 2008 regarding the credit agreements for consumers. The Act represented a more thorough transposition in the banking system of the principles of the internal market for which it was created the European Union, and of the increasing mobility of the banking services between the European Union member countries and multifarious banking institutions. The directive was transposed in the national legislation through the Ordinance 50/2010 concerning the credit agreements.

Bank customer's mobility was endorsed by this directive and as for the means of implementation, we have – increasing the customer's information particularly before concluding credit agreements; abetter assessment of the client's solvency, an improvement of the contractual relationship in terms of minimum provided information but also the reduction of constraints that used to block the client's interaction with the banking and financial institution. All these elements have led to *the strengthening of demand* but important steps should be taken in the next future.

In terms of the information provided to the client that the authorities agreed that a reasonable period of time before a consumer decides on a credit agreement or accepts a supply, the credit institution must offer the client, on the basis of its supply and eventually the client's preferences, the information necessary to enable consumers to compare several offers in order to take an informed decision on concluding a possible credit agreement.

Thus, increasing client's awareness is a first step to strengthen the demand of banking services. However, considering the *client's decision*, the system continues to pinpoint its three key areas – *the amount of information is much more above the client's ability to analyze information* (the effect of "*choking decision by volume*"), *the quality of the information* presented (although it is noticed improvements in this regard) and *the low capacity of the client to process information* (lack of knowledge is critical to understand the details and their impact on the client).

Such measures are necessary for the authorities concerned *to strengthen the banking system through market mechanisms* that lead to solving partially the key issues – the amount of information presented to the customer, the quality of the information and the client's ability to process information. Banking authorities put emphasis on strengthening the regulatory system which concerns in particular the supply but this are *administrative actions* which proved that in certain contexts, are *limited in terms of providing corrections*. Last but not least administrative intervention involves higher costs in terms of allocation of resources, such as the making financial provisions in order to guarantee the functioning of the system (at the National Bank, the Loan Guarantee Fund etc.)

Regarding the steps necessary to be taken in order to quit the relationship with a financial institution, Ordinance 50 forbids the levying of fees, rates, charges or any other bank charges if the customer wishes to change the maturity rate data and also prohibits the charging of fees in case that the consumer wants warranties change, given that the consumer pays all costs associated with the evaluation and establishment of new guarantees. Basically, it has started to improve *the ability of client's mobility*-a central element of the relationship between supply and demand on the financial banking market.

A strong demand on the financial and banking market, which implies a client a) *correctly informed*

b) *able to process information* c) *able to understand the risks* and consequences of a decision taken in relation to financial and banking institution d) *with a good standing* correctly assessed will determine pressure on supply to become more transparent, more correct in relation to the client and to get a higher added value in relation to the cost of the payment and, on the whole, to determine proactive adaptation of the system to potential risks. A proper relationship between client and bank financial institution will lead to diminishing the unexpected customers' behaviours generated by mistrust, lack and fear of unpredictable effects. The panic regarding the withdrawals in 2007-2008, as well as in the spring of 2013 is the consequence of an incorrect relationship between the customer and the financial institution.

The Governor of the National Bank of Romania said that „public confidence in the domestic banking system must be regained, and this can be achieved only through the transmission of all economic policies so that everybody may understand them. The transmission of policies that a Central Bank usually makes, cater for a more educated audience. On the other hand, they lead to increasing financial literacy of the population. We must strengthen public confidence in the banking system"[9]

This approach is quite complex – the trust is given both by the conduct of the banking and financial institutions, Central Bank policies and a strong demand (informed, educated, reliable) meant to establish a partnership relationship between the client and the banking financial institution. However, more actions need to be done in order *to strengthen the demand*. Most of them aim at the supply and regulatory policies of National Bank, but the actions taken to strengthen the demand, are apparently rather caused by crises on the market.

3. Conclusions

In conclusion, we can appreciate that *the financial banking system's capacity is determined* by the ability of the demand to establish solid relationships with the supply (of financial banking products) and in the context of the operation into a global system that induces variations too significant over the local market, *the market should become the main mechanism of strengthening the demand*. Obviously all the regulations and policies of the National Bank strongly empower the banking and financial institutions, but they will become, once with the increasing influences at the international level, complementary to the market mechanism.

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