

BANKING SYSTEM - PRESENT AND PERSPECTIVES. COMPARATIVE ANALYSIS REPUBLIC OF MOLDOVA AND ROMANIA

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Abstract

The development of the banking sector both in the Republic of Moldova and in Romania is one of the priorities of the sustainable development of the state in the conditions of a globalized economy. In this context, the evaluation of banking performance and banking risk indicators is one of the keys to settlement the problems faced by the banking sector today. The Republic of Moldova and Romania, being neighboring states, also has a banking system based on two levels: the Central Bank and the commercial banks, which also appear as leading actors in the development of the economy. Thus, a comparative analysis of the evolution of banking performance indicators and of banking risk indicators is of particular interest in establishing partnership relations, given that only one bank from Romania - the Romanian Commercial Bank is present on the Moldovan banking market.

Keywords: commercial bank, banking system, central bank, banking performance, banking risk.

JEL Classification: E44, E58, G21

Introduction

The post-crisis development of the economy imposes new requirements for the financial-credit system not only for the Republic of Moldova, but also for Romania. In this respect, research into the modernization of the banking system is becoming more and more relevant. Currently, key issues, trends and prospects for improving banking activity are actively discussed. However, existing developments require systematization, synthesis and identification of priority areas. Often, the proposals for modernization do not correspond to the realities of the economy of either the Republic of Moldova or Romania, because they represent a copy of the foreign experience. The main directions of further development should be established on the basis of a study of the development stages of the banking system in the Republic of Moldova and Romania. Thus, according to the literature, the banking sector of the Republic of Moldova and Romania crossed several stages, being influenced by the existence of legal norms regulating the banking activity.

Description of the Problem

The banking sector is in itself a dynamic, complex system and provides for strict regulation by the competent bodies, focusing on the favorable effects it generates for the economy. At the same time, the banking sector, both the Republic of Moldova and Romania, remains vulnerable to the effects of the global financial crisis due to existing partnership relations. In this context, we need to mention that in the future there is a need to minimize these effects by implementing anti-crisis measures.

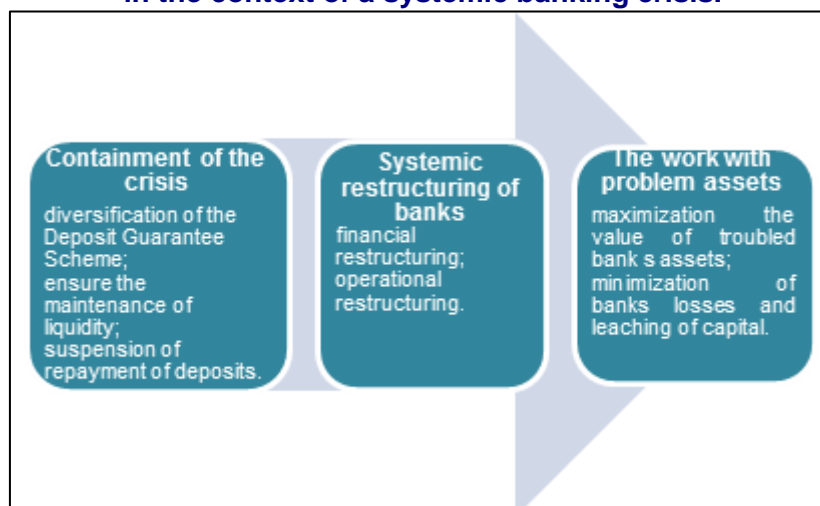
Thus, according to the specialists D. Hoelscher and M. Quintyn [1], **can be distinguished 3** phases in anti-crisis management, as reflected in the figure 1.

Thus, crisis management is the natural state of economic need, in which the analysis, evaluation, preventive forecasting and warning of possible negative trends is only possible norm of life.

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Figure 1 - The stages of state anti-crisis management in the context of a systemic banking crisis.



Source: adapted by the author after D. Hoelscher and M. Quintyn

The main directions for the development of the banking sector of the Republic of Moldova and Romania are aimed at creating the conditions for economic growth and strengthening the stability of the banking sector, increasing the banking sector's role in the economy, maintaining the efficiency, security and reliability of the banking system, creating conditions for increasing access to banking services and availability an additional level of financial growth mediation, as well as to prevent commercial banks from engaging in unhealthy and unsafe banking practices.

Methodology and Data Sources

The purpose of the banking system of the Republic of Moldova and Romania is to establish a stable and trustworthy system of financial institutions able to mobilize efficiently the domestic financial resources of the country and to provide banking services that meet the needs of their consumers (population, economic agents, state bodies).

The exposed ones indicate the need for an analysis of the macroeconomic indicators characteristic of the banking sector in the Republic of Moldova and Romania, in order to detect the correlations that exist at the banking system level and to notice the differences which are.

Table 1

The macroeconomic indicators of the banking sector of the Republic of Moldova and Romania

Indicators	Normative	2011	2012	2013	2014	2015	2016
Risk weighted capital adequacy	≥ 16%	30,1	24,4	23,02	13,92	26,16	29,77
Long-term liquidity	≤ 1 unit	0,7	0,7	0,71	1,54	0,7	0,64
Current liquidity	≥ 20 %	33,2	32,9	33,76	22,48	41,55	49,30
Solvency ratio	≥ 8%	14,87	14,94	15,46	17,6	19,2	19,7
Immediate liquidity	> 30%	37,17	35,88	41,49	41,1	40,8	40,3

Source: elaborate by the author

based on data from www.bnm.md/md/financial_indices_of_bank_system.

According to the data presented in table 1, we find that there is a discrepancy between the norms for the solvency ratio, because in the banking sector of Romania the BASEL III provisions were implemented more rapidly, whereas in the Republic of Moldova only the twining project implementation with the support of the ECB of the NBR.

Thus, for the banking sector of the Republic of Moldova there is a compliance with the norm imposed in the investigated years, with the exception of the year 2014 when the "theft of the century" took place. The values presented show a good capitalization of the banking sector and an increased capacity to cover risk-weighted assets.

In the banking sector of Romania there were no dangers in the chapter of the capital indicator, because for the whole analyzed period the obtained values are higher compared to the normative imposed by the NBR and indicates an increase from 14.87% to 19.7%. In the context of compliance with EU legislation, the NBR for 2016 introduced additional capital requirements, consisting of:

- the capital conservation buffer in the amount of 0,625% of the total value of the risk exposures of the Romanian legal entities;
- the anti-cyclic shock absorber in the amount of zero percent;
- the O-SII buffer in the amount of 1% of the total exposure value for credit institutions identified as systemically important [3].

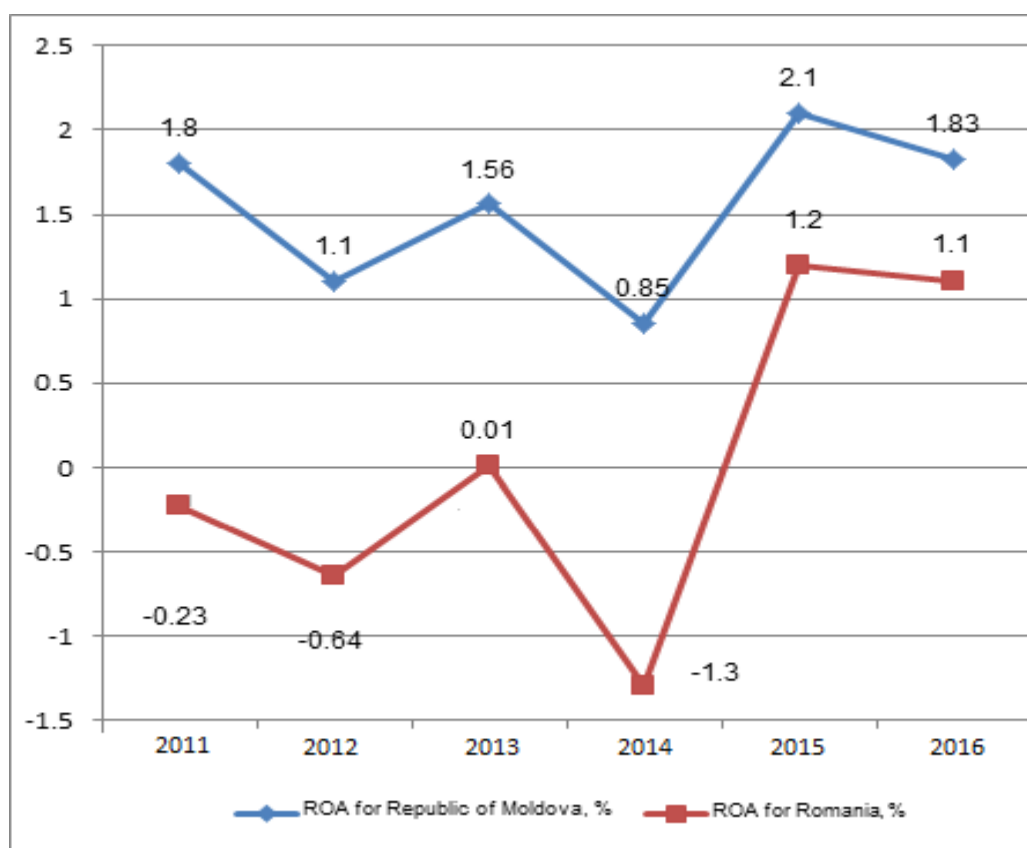
Long-term liquidity presents an identical trend for the years 2011 - 2013 and 2015 - 2016 by achieving equal results and complying with the norm imposed by the NBM and only in 2014 we notice a considerable deviation from the normative because of the liquidity supply that came from the NBM side at the end of the year.

The current liquidity for the banking sector of the Republic of Moldova takes values in strict compliance with the NBM recommendation for the entire analyzed period.

For the banking sector of Romania, we also see a positive evolution of the values for immediate liquidity, which are higher for the entire analyzed period compared to the normative imposed by the NBR.

At the next stage, of course, the assessment of bank profitability indicators is based on which it can be said or denied the existence of a performing banking sector.

Figure 2 - Evolution of asset profitability in the Republic of Moldova and Romania



Source: elaborated by the author based on data from www.bnm.md/md/financial_indices_of_bank_system and <http://www.bnr.ro/Publicatii-periodice>

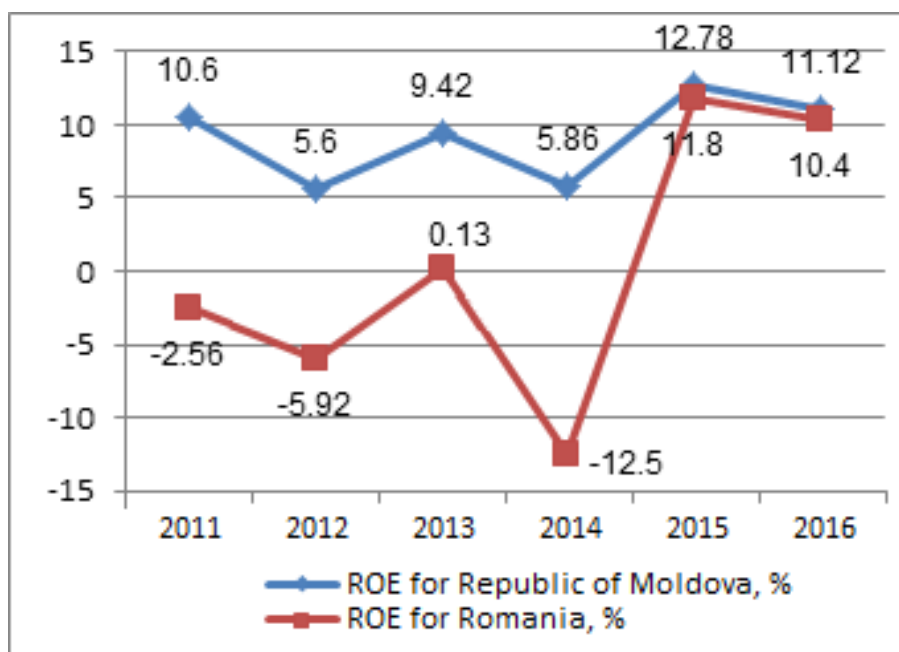
From the information shown in Figure 2, we note the following:

- the return on assets for the banking sector of the Republic of Moldova showed positive values during the assessed period ranging between 0.85% for 2014 and 2.1% in 2015. At the same time

in the period 2011 - 2012, 2013 - 2014 and 2015 - 2016 there was a reduction of the indicator under the influence of the events that took place in the Moldovan economy and of the changes applied in the prudential norms. For the years 2012 - 2013 and 2014-2015 there is a slight increase, which is explained by the increase in assets in the banking sector in the same proportion as the profit growth per banking sector;

- for Romania, the situation is less favorable, as for the years 2011, 2012 and 2014 the ROA values are negative, indicating deficiencies in the profitability per system. Thus, the highest value of -1.3% was obtained for 2014, as stated in the Financial Stability Report for 2014, the efforts made by credit institutions towards the clearance of balance sheets were reflected, on the one hand, in terms of improving the quality of assets, by recording the rate of non-performing loans on a downward slope and, on the other hand, in the profitability by setting up additional provisions. Thus, the cumulative loss amounted to ROL 4.7 billion at the end of 2014, driven by the increase in provisions for provisions, which exceeded the operational profit level, as banks had to assume the losses resulting from non-performing loans. ROA reached a level of 1.1% at the end of 2016, down slightly by 0.1 percentage points versus 2015, against a 6.6 percent increase in assets at average to ROL 361,536.8 million to ROL 385,417.6 million), together with a narrowing of the net profit of 2016 [3].

Figure 3 - Deviation of ROE in the Republic of Moldova and Romania



Source: elaborated by the author based on data from www.bnm.md/md/financial_indices_of_bank_system and <http://www.bnr.ro/Publicatii-periodice>

According to the data presented in figure 3, we note that in the banking sector of the Republic of Moldova for the years 2011-2016 there are positive values for the return on capital due to the net profit per banking sector. The ROE values vary from period to period, repeating ROA, with only higher results. Thus, the maximum value obtained is in the year 2015 in the amount of 12.78% and the minimum in 2012, ROE being 5.6%.

The Romanian banking sector's results are slightly lower due to the net loss in 2011, 2012 and 2014, generating negative ROE values of -2.56%, -5.92% and -12.5 %. Nevertheless, in the years 2015-2016 the situation in the banking sector of Romania improved and positive values for this indicator were recorded. Thus, the ROE reached 10.4 percent at the end of 2016 and showed a good result of the shareholder's investment compared to the European average of 3.3 percent. However, compared with 2015, the indicator reveals a slight reduction in the remuneration of bank capital as compared to the end of 2015 (by 1.4 percentage points), amid the reduction in net profit and, at the same time, the increase in equity to average 4.8 percent).

Results Obtained

The evaluation of the macroeconomic indicators allows us to realize that the successful completion of the Twining project and the modification of the banking legislation in the Republic of Moldova will create a favorable background for the more active integration of the Moldovan banking sector into the EU with the support of the NBR. For this, it is necessary to focus on implementing a macro-prudential policy in line with international provisions and focusing on a wide range of instruments recommended by the 30-nation group meetings.

Given a balanced macroeconomic situation, the achievement of macro-prudential regulatory and supervisory objectives will contribute to the achievement of monetary policy goals, but macroeconomic imbalances between macro-prudential and monetary policy may raise conflicts of interest. As a result, the regulator will be required to make a choice between supporting the real economy and the financial system. Depending on the characteristics of the financial system and its impact on the real segment of the economy, the specific choice of the regulator is currently optional.

Conclusions

Therefore, from the researched materials, we note the following deficiencies characteristic both for the banking sector of the Republic of Moldova and for that of Romania:

- the irresponsibility of the management of some banks when making managerial decisions;
- unsatisfactory state of the bank's management by the owners, including the orientation of banks, credit institutions to serve only the interests of a small group of bank owners;
- the existence of non-transparent forms of credit decision, the inaccuracy of the accounting documents and the reports provided;
- involvement of banks, credit institutions in illegal activities;
- insufficient technological and informational security evidence of banks, credit institutions.

All this affects the reputation of the banking sector and the level of confidence in banks, aggravating their ability to attract foreign investment. Therefore, switching to an intensive banking sector development model should become the most important for the entire banking community. This pattern of development requires a substantial increase in the level of protection of private property, the formation of legal mechanisms that protect the interests of creditors and the efficiency of the judiciary. Under conditions of high competition and difficult financial exposure, the natural way of survival is to strengthen bank assets by reducing banks, mergers and acquisitions.

The important directions for solving the problems of the banking sector would be the following:

- 1) improving the regulatory framework and linking it to CRD IV by taking over Romania's experience in this area, creating a regulatory and supervisory system in the field of financial services;
- 2) improving the quality of corporate governance and risk management in credit institutions;
- 3) the introduction of modern banking technologies;
- 4) expanding the opportunities and the quality of banking services consumption by the population and economic entities;
- 5) prevent the involvement of credit institutions in illegal activities.

The implementation of these measures by the NBM and the NBR will ensure a qualitative improvement in the banking services of the Moldovan and Romanian economy and contribute to a balanced growth, stable sustainable development of the economy.

Future Directions to Be Approached

Under current conditions, the banks in the Republic of Moldova and Romania are to promote a tough policy regarding bank risk management and to observe the prudential norms imposed by NBM and NBR. The correspondence of the results achieved by the big banks with the norms imposed by the NBM and NBR will determine the financial stability of the banking sector and will increase the confidence of the population in the banking sector. In the future, the points of tangency between prudential regulations of the Romanian banking sector and those of the banking sector of the Republic of Moldova will be identified in order to develop the bilateral relations of cooperation and opening up new acquisitions of banks.

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