

## **GLOBALIZATION AND INTEGRATION INTO THE ECONOMIC AND MONETARY UNION-CHALLENGES FOR BANKS OPERATING IN ROMANIA**

**CORALIA EMILIA POPA \***

**ABSTRACT:** *This paper aims to present recent evolution, but also the consequences of globalization of the banking sector, considering different approaches of this phenomenon. Over time, the banking field has undergone important changes in both the applicable law of this area, and through the technologies used in satisfying the customers' needs. The development of international markets has led to new opportunities and challenges for banks that transformed the domestic financial market into an arena where only the best survive and grow. On these grounds and in strict relation to positive and negative effects of globalization, we can speak of a constant evolution of its most important subsystems - the financial subsystems of the global economy. In this paper special importance is given to the banking field, the article presenting arguments through which this complex phenomenon called globalization may have important consequences on financial supervision and regulation.*

**KEYWORDS:** *globalization; banking system; Economic and Monetary Union.*

**JEL CLASSIFICATION:** *F62; F33; E22.*

### **1. INTRODUCTION**

Worldwide, the barriers raised in the way of integration in the banking industry have been significantly reduced in the last decades. Among the factors that contribute to this freedom we mention: the lifting of regulatory restrictions on cross-border banking, technological progresses that allow better management of cross-border financial institutions, as well as increases in non-financial activities that create demands for international banking services. Despite these low barriers, the integration of banking industry in most developed countries is far below the level expected by many observers.

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\* *Ph.D. Candidate, University of Craiova, Romania, [coraliaemiliapopa@yahoo.com](mailto:coraliaemiliapopa@yahoo.com)*

One of the major objectives of European Union is to create a single market for financial-banking services and products. As the financial-banking system is defining for the allocation of resources in economy, a single market would be able to improve the efficiency of investments. An important aspect of the transition to a single market is the Economic and Monetary Union (EMU).

The role of EMU in an increasingly globalized world is rather a challenge from several points of view, among which is included the approach of a new element of international integration, namely "regionalization". The globalization phenomenon has become obvious. Its objectives go beyond the economic sphere, sometimes being politically motivated. The economic integration increases economic growth and through competitiveness, a representative feature of globalization, it will lead to high quality of services and products offered.

EU Member States, including Romania, are under simultaneous integration of two processes. Like all developing economies, they are integrated in the international economy as part of the general process of globalization. Globalization generally creates economic structures that limit the possibilities of Member States to take financial and economic decisions, without exerting a significant influence on partner countries. Globalization can be called one of the most controversial and analyzed phenomena of contemporary economic and social environment.

The academician Constantin Ionete, analyzing this concept, believed that it was not the result of studies, neither of politicians, nor of any of theorists, but it has emerged as a natural process, as a complex of specific mechanisms of modern society. "The phenomenon has progressed through economic performance and functional relationships of cooperation between economic agents with international openness. The economic environment favorable to strengthen global socio-economic processes ensures the free market, with its own potential for expansion." (Ionete, 2002, p. 4) The pedants of The International Monetary Fund see globalization as a "rapid process of integration of world economies through trade, capital flows, networks, technology transfer and cultural exchanges". (International Monetary Fund, 1997, p. 43)

Romanian practitioners and famous thinkers believe that "the essence of the phenomenon can be summarized through the following specific elements: information technologies which put us faster and more frequently in relation to each other; compression of time and space through new technologies, interconnection and interdependency growth; integration of financial and trade markets, internationalization of production by multinational companies, the emergence of problems which require global solutions: the spread of behaviors implies the rationality of a homo oeconomicus that knows no boundaries and local emotions - the emergence of a homo globalus, the development of transnational identities etc." (Daianu & Vrânceanu, 2002, p. 27)

In economic literature there are many definitions of the concept of globalization, but not even one of them is fully accepted. Professor Joseph Stiglitz considers globalization as it follows: "the phenomenon of globalization consists of the stronger integration of the countries and their populations, due to significantly reduced costs of transport and communication and by eliminating artificial boundaries on goods, capital and people movement between countries".

Practically globalization is a global network that brings together communities from the planet, forming "one world". There are voices that militate against the concept, considering that globalization is a "modern colonialism" which generates unemployment, leading to the lower living standards. The opponents of globalization are aware of the real opportunities offered by the phenomenon, but they consider that the degree of exploitation of these opportunities varies from country to country and depends heavily on the speed with which these opportunities can be capitalized.

The constant emphasis of the interdependence between individuals and countries is the component which highlights globalization, also being a result of the trade expansion, involving goods, services and capital, but also the transfer of ideas and know-how. Thus, the globalization of banking can be seen as a result of the multiple changes that appeared in various production processes, movement of goods and services worldwide.

## **2. THE EFFECTS OF GLOBALIZATION IN ROMANIA - CHALLENGES FOR THE BANKING SYSTEM**

Like any activity, the activity of banking systems was focused on maximizing the profit, under the conditions of a more severe competition. Thus, for the dispersion of risk, some specific activities of a bank were outsourced, being taken over by non-banking financial institutions. Moreover, strong banks from the European Union countries took advantage of the huge differences in the structure of wages and taxes from other neighboring countries, relocating on their territory certain activities or banking units. The events of the last years, increasing competition have led to the orientation of banks towards a policy of mergers and acquisitions.

In Europe, the mergers have materialized, among others we mention the purchase of Sanpaolo Bank by Intesa Bank, or the most important merger, with direct implications on the Romanian banking system, is the one between UniCredit and HVB.

The consequences in Romanian market were represented by the unification between HVB Bank Romania, "Ion Tiriac" Commercial Bank and UniCredit Romania. It should be noted that, although bank mergers and acquisitions have as primary purpose costs reducing, dispersion of banking risks and a more efficient use of resources, they can also generate dominant positions on the market. The largest banks that resulted from mergers may impose their own policies, even using anticompetitive means.

In Romania, the evolution of the financial system was determined by the changes in the global economy, changes imposed by globalization. The banking system in Romania offered products somehow standardized, products that could not satisfy in an absolute manner the requirements and expectations of the market. Thus, from this need to cover the whole range of customer needs, banks started to focus on expanding the market share of traditional products and towards their diversification.

The accession of Romania to the European Union allowed the penetration of foreign capital, with a significant weight in the current structure of the Romanian banking system. 2011 and the first half of 2012 haven't brought major changes regarding the structure of the Romanian banking system.

Significant changes have occurred in terms of market share, the group of banks with Greek capital was outrun by the group of banks with Romanian capital, ranking second, after the group of banks with Austrian capital.

**Table 1. Structural indicators of the Romanian banking system**

	end of period							
	2005	2006	2007	2008	2009	2010	2011	2012 S1
Number of credit institutions	40	39	42	43	42	42	41	41
Number of banks with majority private capital	38	37	40	41	40	40	39	39
Number of banks with majority foreign capital,	30	33	36	37	35	35	34	34
of which:	6	7	10	10	10	9	8	8
– foreign bank branches								
Assets of banks with majority private capital/Total assets (%)	94	94,5	94,7	94,6	92,5	92,4	91,6	90,7
Assets of banks with foreign capital/Total assets (%)	62,2	88,6	88	88,2	85,3	85,0	83	81,2
Assets of top five banks/ Total assets (%)	58,8	60,3	56,3	54,3	52,4	52,7	54,6	55,2
Herfindahl-Hirschmann index (points)	1.124	1.171	1.046	926	857	871	879	866

Source: NBR

In terms of the shareholders, the changes during 2011 and the first half of 2012 were not significant in the structure of Romanian banking sector. The number of credit institutions, compared to 2010, declined following the transfer of the Anglo-Romanian Bank branch to BCR, in the third trimester of 2011.

In 2011, the degree of financial intermediation calculated in nominal terms recorded a slightly downward trend, due to the reduction of the weight of foreign assets and of some categories of domestic assets, other than loans and securities. The degree of financial intermediation expressed in real terms and calculated by the volume of private sector credit reported to GDP (Gross Domestic Product) shows a slight increase compared to December 2010.

The Romanian banking system is currently represented by 40 active banks: 4 with majority domestic private capital, 26 with majority foreign private capital, 8 branches of foreign banks, to which we add a credit cooperative organization and 2 banks with majority or integral capital of state. A total of 18 credit institutions in the EU, during 2011, have notified to BNR their intention to directly provide financial services in Romania, based on the European passport.

In terms of assets, the market share of banks with majority foreign capital continued its downward trend from 2011, reaching 81.2 percent at the end of the first half of 2012. The reduction in market share was mainly due to the sales of fixed and bad assets in the context of restructuring balance sheet. The largest market share, as in previous years, is owned by the banks with major Austrian capital, holding 38% at 30.06.2012. The group of banks with major Greek capital has reduced its market share

from 16.3% to 12.9%, being surpassed by the group of banks with major Romanian capital, whose weight in aggregate assets increased to 18.3%.

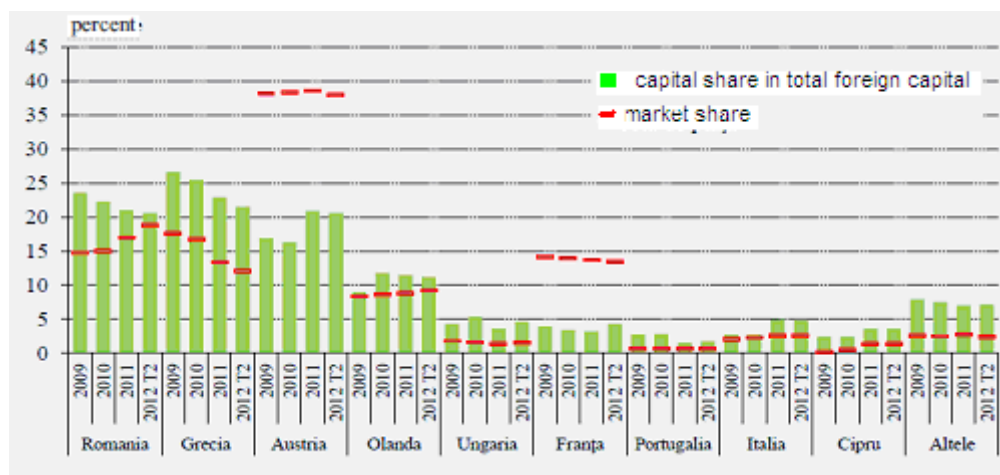


Figure 1. The weight of social capital of credit institutions in their total capital and market share by country of origin

Source: NBR

The increase of the social capital of the banking sector, by 42% in June 2011 - June 2012 was provided exclusively by the private sector, both through additional capital and through the adjustment of existing capital levels with inflation, as a result of the application of new accountant standards for reporting IFRS. However the Greek capital remains majoritary (21.5%) in the Romanian banking system, but continues the downward trend began in 2010 (Figure 1).

Regarding the weight of Austrian capital in the aggregate capital, it recorded a significant increase compared to 2010 (4.3%) reaching at the end of June 2012 the level of 20.6%, the cause being represented by the capital additions made by the Austrian banks.

Regarding the Romanian banking system in terms of the degree of connectivity to the European banking system, we can say that there is a close connection between them (Figure 2). The Romanian banking system is owned mostly by the foreign capital (34 credit institutions with major foreign capital held over 81.2% of the assets of banking system in June 2012).

The period 2009-2011 is represented by a tendency of reducing costs with the territorial branch and the number of employees, a tendency also shown in the first half of 2012, but with more intense speed. The number of units was reduced with 130 in 2011 and with 352 in the first 6 months of 2012. Regarding the number of employees in the banking system, this one decreased with 980 in 2011 and, by 3700 in the first half of 2012 (Figure 3).

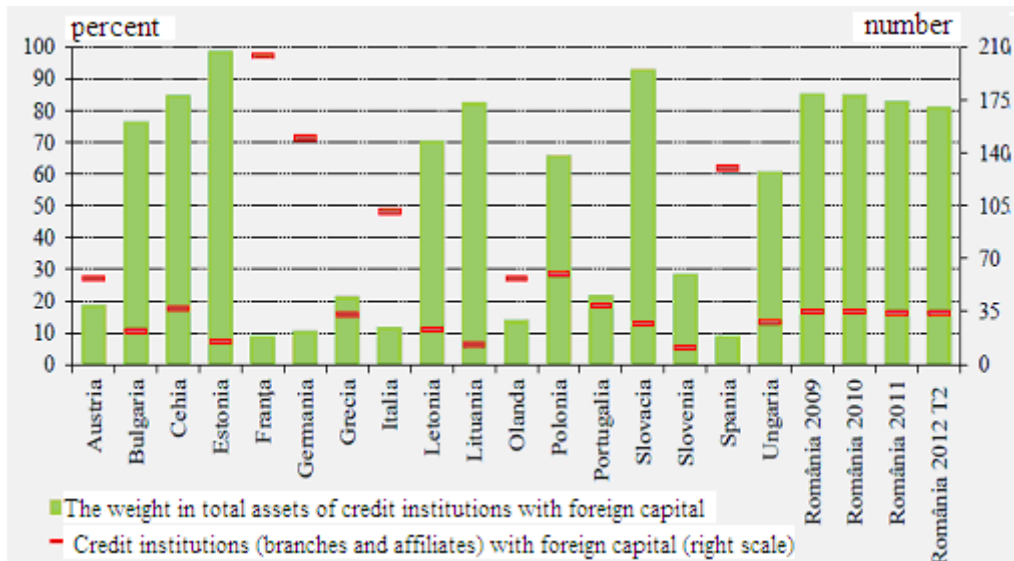


Figure 2. Market share and the number of credit institutions with foreign capital (international comparison)

Source: ECB – EU Banking Structures, NBR

The banking system of Romania continues to be below the European average in terms of number of credit institutions per 100 000 inhabitants and, respectively, the number of territorial units (Figure 4).

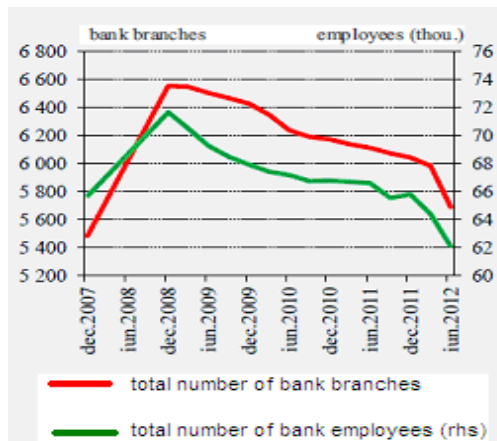


Figure 3. The number of bank branches and bank employees (percent)

Source: NBR

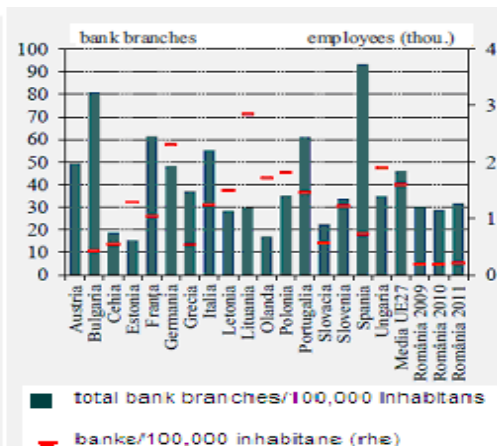


Figure 4. The number of banks and bank branches per 100,000 inhabitants (international comparisons)

Source: NBR, ECB-Statistical Data Warehouse

The degree of financial intermediation in nominal terms has recorded a slight downward trend (to 67.9% in December 2011) in the case when the nominal rate of growth of the gross asset was outrun by the one recorded by the nominal GDP. The degree of intermediation was calculated as a percentage of bank assets in GDP (at gross value).

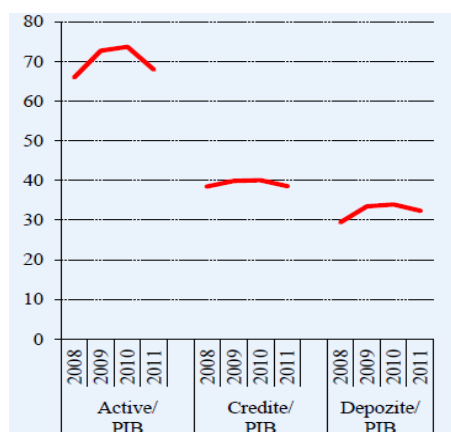


Figure 5. The degree of financial intermediation in Romania

Source: NBR

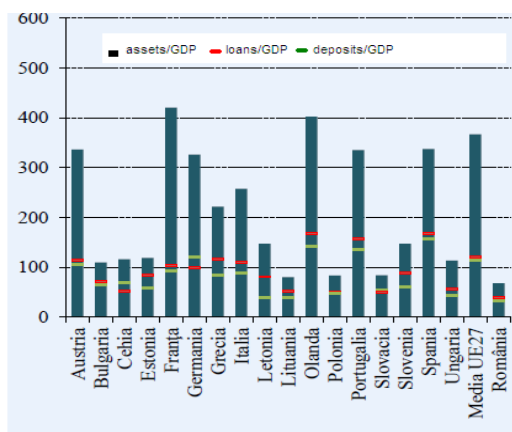


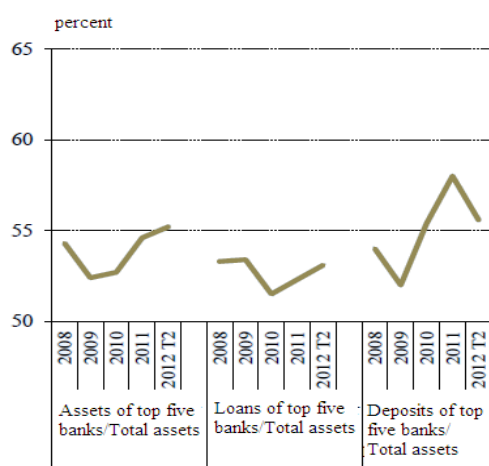
Figure 6. The degree of financial intermediation (international comparison)

Source: NBR, ECB-Statistical Data Warehouse

The degree of financial intermediation calculated by referring to GDP of credits given to the private sector shows an upward trend compared to December 2010 (approximately 0.8%), that in case when the other two presented indicators reflect a decreasing trend (-3.6 % for assets or -0.16% for deposits). Therefore, we can say that the degree of financial intermediation in Romania for the year 2011 is a lot below the EU27 average (Figure 6.)

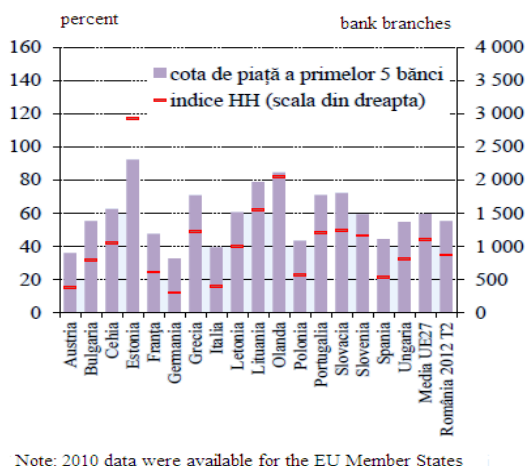
In terms of the degree of concentration of the Romanian banking system, reflected by the weight of assets held by the top five banks in aggregate assets, we can speak of a slight increase to the value of 55.2% (Figure 7) trend observed since 2010. This upward trend was also seen in credits, where the top 5 banks in the system (by size of assets) owned 53.1% of the Romanian banking system loans. Thus, both economic agents and the population begin to orient themselves to credit institutions with a positive image.

Herfindahl-Hirschman index (HH) reveals a lower degree of concentration in assets compared to deposits (983 points). HH values, calculated from the assets, at end of first semester of 2012, attest a moderate level of concentration. Also, in this case the Romanian banking system is below the EU27 average (Figure 8).



**Figure 7. The degree of concentration of the Romanian banking system**

Source: NBR



Note: 2010 data were available for the EU Member States

**Figure 8. The degree of concentration of the System (international comparison)**

Source: NBR, ECB –Statistical Data Warehouse

### 3. CONCLUSIONS

In the current economic climate, globalization is a phenomenon that cannot be avoided. It can lead either to an economic growth, if it is properly understood and applied, or to regression, if the participating institutions cannot cope with permanent and rapid developments. We foresee for the near future new measures of financial stability, measures with applicability also in the field of credit institutions.

The banking system has been and will remain a volatile environment favorable for risk and innovation. Only those banks that will know how to take advantages of the opportunities that will arise, in terms of keeping an acceptable level of risk, will survive and will develop practically absorbing other weaker institutions or poorly managed.

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