Considerations on the Role of Foreign Banks in the Improvement of Romanian Bank System's Performance

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Abstract. *On the general background of restructuring and privatization processes in Romanian banking system, the presence of foreign capital recorded an increasingly trend after 1996, especially in the form of banks located in Romania. The foreign banks involved in Romania, especially multinational banks' affiliates, proved to be remarkable about capital adequacy and profitability. All these developments are driven both by the access to cheaper resources from their parent bank or other banks in the group and by a more pronounced propensity to risk, as they are fully covered.*

Key words: Romania; foreign banks; financial intermediation; capital adequacy; profitability.

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JEL classification: G21, G32

1. Introduction and literature review

The researches conducted till now on the effects of the foreign banks' entry in Central and Eastern Europe economies focus on its contribution to the stability and the efficiency in the host country. A lot of studies concluded that foreign bank entry has positive efficiency effects (Claessens et al., 2001, Lensink and Hermes, 2004). However, as efficiency gains may be (partly) offset if a trade-off between banking efficiency and banking stability is present. On the positive side, this parent bank may act as a ''back-up facility'' or lender of last resort during crisis periods (de Haas and van Lelyveld, 2006). It may also manage an internal capital market and centralized treasury operations to allocate capital and liquidity over its subsidiaries (Stein, 1997). This may translate into a more stable credit supply of the foreign based subsidiary. More specifically, a supportive parent bank and abundant funding sources may make foreign bank subsidiaries less prone to the adverse effects of a host country bank capital shock. Foreign bank subsidiaries may be able to recover relatively fast and keep up their credit supply relatively well (when compared to domestic banks).

Contrary to this potentially positive role of foreign bank subsidiaries, it can be argued that foreign banks' credit supply may be less stable than credit granted by domestic banks. This will be the case if foreign banks react more procyclically to changes in the host country macroeconomic environment (Morgan, D., Strahan, P.E., 2004). A reason for such behaviour could be that the parent bank reallocates capital over different geographical regions on the basis of expected risks and returns. When economic growth in a particular host country declines, the activities of the subsidiaries in this country may be scaled down in favour of other regions. Domestic banks may not have such foreign alternative investment opportunities and may therefore be less sensitive to host country macroeconomic conditions. In this line of reasoning, there will thus be a positive relationship between the host country business cycle and the foreign subsidiary's credit supply. Moreover, greenfield foreign banks have had a positive stability effect on total credit supply in CEE countries (de Haas, van Lelyveld, 2006).

The studies of Bonin et al. (2005a) and Grigorian and Manole (2002) investigate a number of countries in Central and Eastern Europe and the Commonwealth of Independent States. Additionally, the banking markets of Hungary (Hasan and Marton, 2003), Croatia (Kraft, Tirtiroglu, 1998), Poland (Opiela, 2001), Ukraine (Mertens, Urga, 2001), Czech Republic (Weill, 2003) and Poland (Havrylchyk, 2003) were studied.

The comparison of efficiency between foreign and domestic banks revealed that foreign banks in developing and transition countries have succeeded in capitalizing on their advantages and show a higher level of efficiency than their domestic peers (Bonin et al., 2005, Isik, Hassan, 2002, Hasan, Marton, 2003, Bhattacharyya et al., 1997).

On the other hand, foreign banks' conduct is driven by the motives of their entry (Konopielko, J., 1999) and the form of penetration (Havrylchyk, Jurzyk, 2005). Thus, the banks *de novo* created have a better ROA (return on assets) the domestic banks and takeovers, the last two being quite similar. The way and time of banks' privatization have also an influence on profitability: the banks being sold to strategic investors earlier report less cost and greater profits than the banks privatized later, so the positive impact of privatization is not immediate (Bonin, J. et. al., 2005b). Moreover, because the return on assets in the case of subsidiaries open in Central and Eastern Europe is greater than the ROA reported by the parent bank in their origin country, the affiliates located in this area lead to a better profitability of the whole group (Havrylchyk, Jurzyk, 2005).

In the majority of cases, foreign banks contributed to enhance the competitiveness and efficiency of domestic banks, the efficiency gains being visible in less operating costs and less margins between interest rates for loans and deposits, both for foreign banks and for domestic ones (Mathieson, Roldos, 2001).

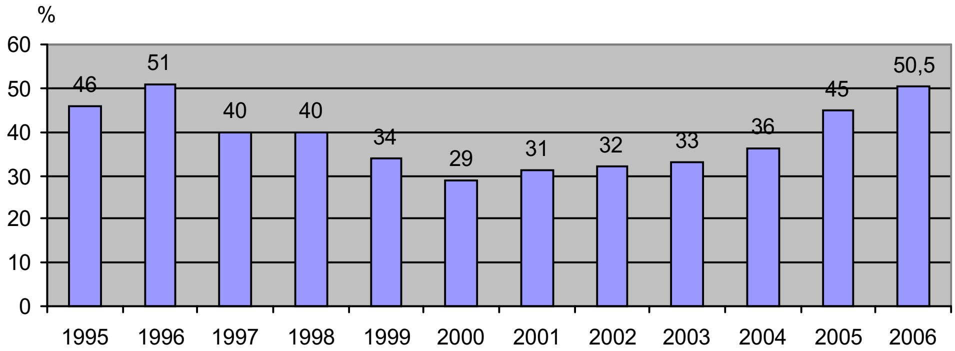
It is interesting to notice that, even there is a cost reduction and an improvement in productivity (Claessens et al., 2001, Claessens, Laeven, 2003, Martinez Peria et al., 2003, Kim, Lee, 2004), the profits do not increase, or do not increase with the same rate, the possible causes being either a greater provisioning or a decline in income due to margins' narrowing.

The enhancement of efficiency in host countries would finally conduct to a better allocation of credit. Indeed, foreign banks will allocate financial resources based on standard evaluation criteria, being more "immune" from subjective criteria or political pressures (Cardim de Carvalho, 2000, mention that foreign banks may be more independent toward local government and could have less unfair relationship with national firms), reducing the subsidies to non-viable activities. In Central and Eastern Europe, foreign banks' presence was accompanied by the declining of non-performing loans, so that the privatization and foreign banks' entry can be appreciated having positive effects on the banking system's performance (Engerer, Schrooten, 2004). Moreover, it appears that if the institutional distance between the host and the home country governance becomes smaller, foreign banks operate more efficiently (Lensink et al., 2007).

2. Foreign banks and the financial intermediation

Despite progress achieved in the last years, Romanian banking market may be still considered as underdeveloped, both in comparison with the average of the EU and the average of the Central and Eastern Europe. The market penetration of banking services is still low: only 40% of the population aged 15 or older had some business relationship with a bank, 28% had a bank account and 17% had a bank card at the end of 2004 (BA-CA Report, 2005, p. 49).

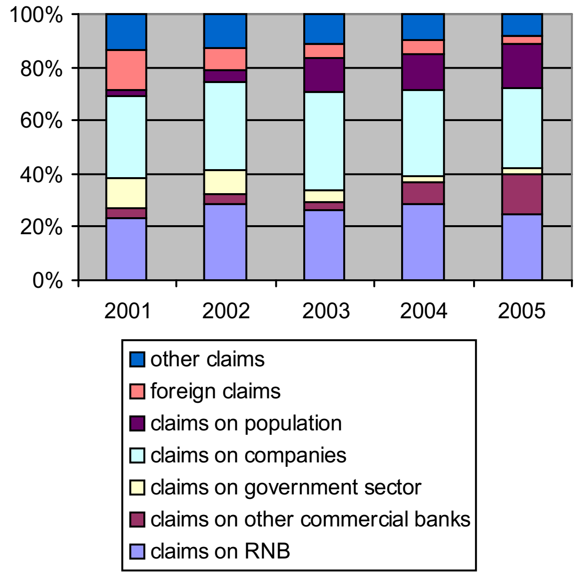
The underdevelopment is also reflected in the main efficiency indicators, although significant and systematic progresses were achieved. Financial intermediation (the banking sector's total assets to GDP) remains low and it's downward trend between 1996 and 2000 witnesses the lag of banking sector behind the aggregate macroeconomic expansion. In the last years, more specific after 2000-2001, the Romanian banking system experienced the real restructuring and recover, facts conducting to systematic increases of the financial intermediation degree (ratio of bank assets to GDP), to 50.5% in 2006 (NBR, 2006a, 2006b, 2007) (figure 1).



Source: NBR Annual Reports, 1995-2006.

Figure 1. *Financial intermediation degree in Romania, 1995-2006*

About the structure of the commercial banks' assets, in figure 2 it can be seen the development of its components:



Source: NBR Annual Reports, 2001-2005.

Figure 2. *The structure of balance-sheet assets of commercial banks*

The share of non-government credit in GDP (ratio of private sector loans to GDP) is relatively low, but increasingly: 9.3% in 2000, 10.1% in 2001, 11.8% in 2002, 15.3% in 2003, 17% in 2004 and 21.1% in 2005 (1) (comparatively, in Poland was 30%, in the Czech Republic 33%, in Hungary 42%, in Croatia 62%, and on Euro area 102%) (BA-CA Report, 2005, p. 50). This low level can be attributed, first, to the very cautious approach of banks to lending in the first years after the banking crisis, attitude not surprising given the difficulties in enforcing creditors' rights, uncertainties in gathering information on potential borrowers' financial status and the hesitant reforms in the corporate sector. The low-risk businesses for the banks, such as: foreign exchange and inter-bank transactions, purchasing government bonds etc. are preferred, which leaded not only to a slow development of private sector, but also leaved the banks very exposed to unexpected fluctuations of the exchange rates. More, half of the overall loans to the private sector are on short term, and the transformation (expansion) of their maturity will have much importance, because long run projects, with positive macro-economic impact, are sustained by long term credit.

The contribution of foreign banks to the expansion of non-government credit is certain. If in 2004 the foreign-owned banks had got 60.4% of the assets of the bank system, their contribution to the non-government credit was greater, e.g. 67.4%. The most reticent (or less competitive) about financing non-government sector proved to be the state banks (which had, in the same year, 7.4% of the assets and only 2.55 in non-government credit) but also, in a less measure, the domestic private banks (32.3% in assets and only 30.1% in non-government credit). More, for April 2006, according to NBR data, the trend is still the same: the foreign banks have, compared to their position in the overall assets of the banking system, a bigger contribution to non-government credit and a lower one to deposit collection (see table 1):

Banks' position in assets, non-government credit and non-bank clients' deposits, by the nature of the capital, in %

Table 1

	Total assets		Non-government credit		Non-bank clients' deposits	
	2004	April 2006	2004	April 2006	2004	April 2006
Banks with majority foreign equity (including BCR, for 2006)	60.4	87.8	67.4	88.7	55.4	85.4
Banks with majority domestic private equity	32.3	6.4	30.1	7.7	35.9	7.7
Banks with majority domestic state-owned equity	7.3	5.8	2.5	3.6	8.7	6.9

Source: based on data in: Bozga, M., *The Romanian Banking System Catching up on Europe*, presentation made in London, 2004 and Georgescu, F., *Evoluția sistemului bancar românesc*, June 2006, available on www.bnro.ro

It can be seen that including BCR in the calculations for April 2006 is diminishing the contribution of foreign banks to the expansion of non-government credit, BCR being from too little time with foreign capital.

Let us notice the declining trend of foreign assets among total assets, meaning that the majority of the banks are channeled to household lending, raking advantage from the market opportunities.

Indeed, after 2003, the strong real wage growth and the powerful growth in private consumption led to a pick-up in lending; total lending to households rose almost three-fold over 2003, with corporate loans following suit with impressive growth of 45%. In 2004, loan expansion continued, but slower. In order to counter the burgeoning current account deficit, NBR, in the frame of more restrictive monetary measures, raised the policy rate in several steps (in 2002) from 14.4% to 21.5% (BA-CA Report, 2005, p. 50). This measure has a limited effect and determined NBR to continue temperating the credit, by setting up more difficult conditions to access loans (since February 2004).

Starting with 2001, foreign banks were more active than the other banks in lending, fact proved by the analysis of loan granting to the clients by several banks, comparative with the average and with the largest bank in the system, BCR.

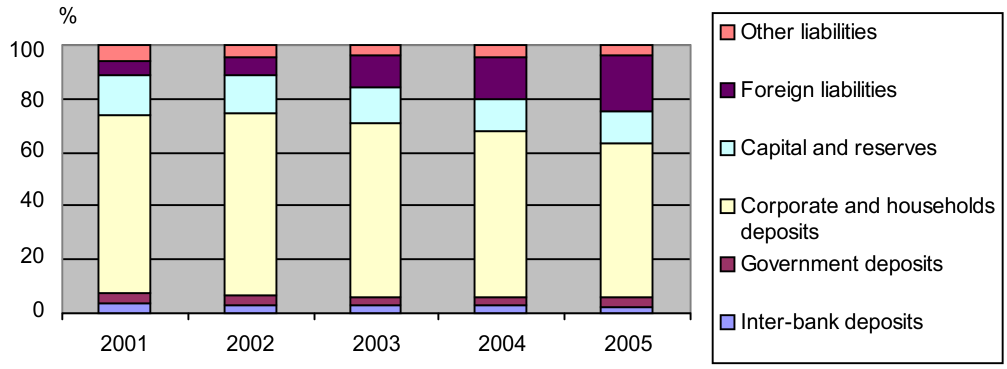
Loans and advances to clients, 2001-2005, on selected banks

Table 2

Bank	Annual growth			
	2001-2002	2002-2003	2003-2004	2004-2005
BRD-GSG	1.42 times	1.63 times	1.38 times	1.49 times
Raiffeisen	n.a.	2.62 times	1.63 times	1.1 times
HVB Bank	1.41 times	2.41 times	1.75 times	1.44 times
Alpha Bank	1.2 times	1.73 times	1.27 times	1.36 times
Internal credit	*1.42 times*	*1.49 times*	*1.33 times*	*1.44 times*
BCR	1.28 times	1.42 times	1.23 times	1.51 times

Source: balance sheets of commercial banks and Monthly Bulletin NBR June 2006.

The consumption growth was accompanied by a moderate growth of savings (deposits). As a result, after two years of increasing share of private deposits in GDP, the deposits started to decrease again in 2003. More specific, the development of balance-sheet liabilities' structure is as follows:



Source: same as figure 2.

Figure 3. *Banks balance-sheet liabilities' structure*

It can be noticed that deposits of non-bank sector, especially corporate and household deposits, are the main source in financing loans. However, its share is decreasing (from 66.7% in 2001 to 57.5% in 2005), on the general background of population savings contraction in the last years. In exchange, foreign liabilities consistently increased (from 5.9% in 2001 to 20.9% in 2005), driven by the expansion of foreign currency-denominated loans, which asks foreign currency resources from outside the country.

As in the case of non-government credit, the role of foreign banks was to stimulate it's expansion, the case of non-bank clients' deposits is different. State owned banks (mainly CEC) are leaders in household deposits' collection(2), while foreign banks are the less interested in collecting these deposits.

The differences between various types of banks have, in our opinion, several explanations:

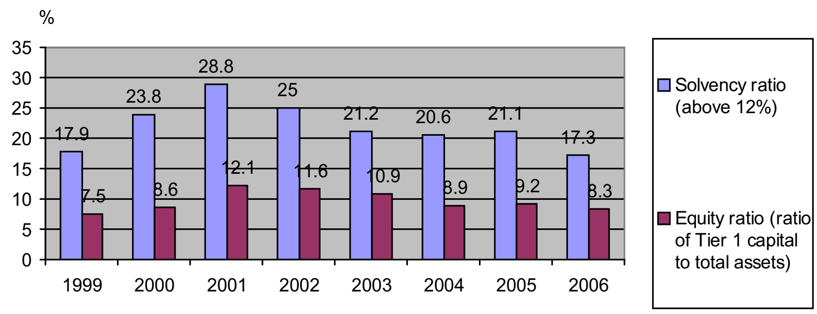
▪ The bigger interest and capacity of foreign banks to be involved in financing the non-government credit, due to better interest rates that can be offered; this fact is more obvious as it can be correlated with the increasing share of foreign currency- denominated loans, where foreign banks are more competitive, due to the access to cheaper resources denominated in foreign currency;

▪ The less interest of foreign banks to attract household deposits, fact that can be attributed to these banks' behaviour: first, many of the multinationals were – till recent times – very little involved (or even not involved at all) in retail activities, activities requiring a much numerous network and involving higher operational costs; on the other hand, the access to cheap foreign currency resources in the context of great demand for foreign currency-denominated loan makes no necessary collection of household deposits, denominated in most cases in lei. Indeed, foreign currency-denominated loans is about 54% of all credit, despite of NBR efforts to discourage by all means their expansion (some results were however obtained, but the share of foreign currency lending in overall non-government lending changed from 60% in 2001 to 63% in 2002, 55% in 2003, 61% in 2004, 54% in 2005 [3], as result of NBR measures to reduce that and the inventive counter-reactions of commercial banks).

- It cannot be ignored the preferences on corporate and household sectors, interested in taking advantage from loan expansion at lower interest rates and, on other hand, were discouraged to save and make deposits by the same low interest rates. Moreover, the preference for foreign currency-denominated loans is due to the lower interest rates in euro-denominated loans. This situation is potential risky for the system, especially in the context of high expansion of household lending (the great majority of households are obtaining incomes in ROL).

3. Prudentiality

The main indicator of prudentiality in bank sector, e.g. solvency ratio[4], notably improved during the last years, especially because of privatization of state banks and the level of reserve requirements. This is a very important step, leading to consolidating Tier 1 capital of credit institution. In the same time, however, the high solvency ratio proves the above-mentioned risk aversion of banks (to the credit supply), that have a slowing effect on lending to private sector and adverse effects on the efficiency of financial intermediation. Although, in the last years, loan expansion seems to indicate that credit institutions, in the fight for market share, are increasingly refraining from maintaining liquid assets. At the end of 2005, solvency ratio was 21.1% (NBR 2005, 2006b), above the legal requirement of 12% and the international benchmark of 8% (Cooke ratio).

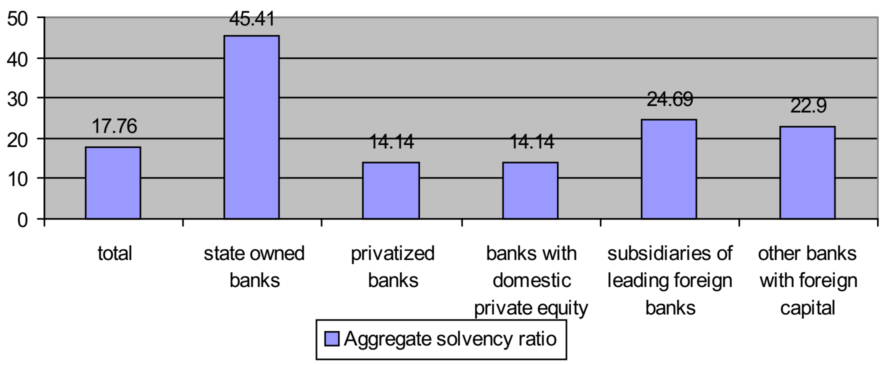


Source: NBR, Annual Report 2005, 2006.

Figure 4. *Some prudentiality indicators, 1999-2006*

How did foreign banks contribute to a better capital adequacy?

The solvency ratio calculated by NBR for different groups of banks was – at June 30, 2006 – between 14.14% (privatized banks and banks with domestic private equity) and 45.413% (state banks), the average of bank system being 17.76%.



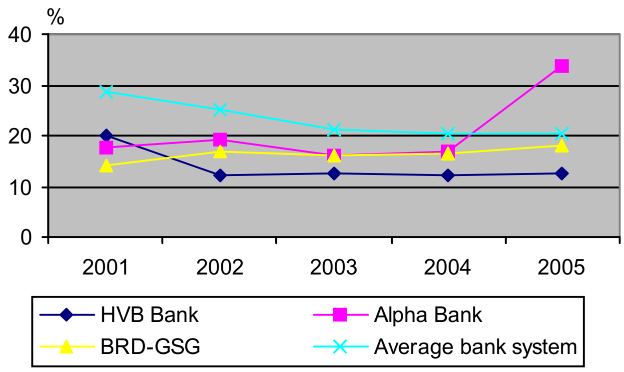
Source: NBR, *Report on financial stability*, 2007, p. 26.

Figure 5. *Aggregate solvency ratio, by type of banks, June 30, 2006 (in %)*

If we exclude the state-owned banks (mainly CEC), where the capital adequacy is due to less exposure on credit, the local branches of multinational banks have the best capital adequacy ratio, followed by private domestic capital-owned banks and the other foreign banks, all of them indicating a capital adequacy ratio above the average of bank system.

If we analyse the foreign banks annual reports, the results are not concluding: some foreign banks indicate a capital adequacy ratio more than the average, other less; however, all of them exceed the legal requirement of 12%, the average of euro area (11.5%) and Cooke ratio (8%).

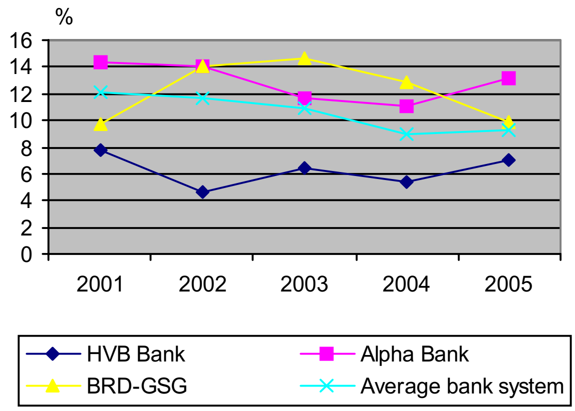
It is important not to exaggerate looking for a higher capital adequacy ratio, because a great value can prove a less involvement in credit supply; if the assets are low, capital adequacy ratio is high. Its level has to be seen also in the context of banks' contribution, especially the foreign banks' contribution as we saw, to the growth of credit and financial intermediation.



Source: balance sheets of selected banks.

Figure 6. *Solvency ratio on selected foreign banks, compared with the average of bank system, 2001-2005*

The same evolution is noticed in the case of own capital ratio. Some foreign banks are below the average, some of them under. A lower own capital ratio (reasonable, of course) can be the result, on one hand, of a greater involvement in credit supply (making the assets growing), and, on the other hand, can be the consequence of a smaller need for own resources, proof of a better mobilization of resources from other sides than own funds. Resources mobilization (others than the own resources) could reflect the availability of the parent bank to sustain its subsidiary with capitals, result of a re-allocation of funds at group level, searching the opportunities and the best placements.



Source: balance sheets of selected banks.

Figure 7. *Equity ratio (ratio of Tier 1 capital to total assets) on selected foreign banks, compared to bank system average, 2001-2005*

Important is that the prudentiality indicators (mainly the solvency) have reasonable levels, but without affecting the healthy expansion of credit, as necessary in an economy in full growth and transformation as Romania. It is also important that these indicators not to suffer deterioration in the case of eventually shocks in the economy.

In this idea, NBR built (NBR 2006a), on the basis of data available on June 30, 2006, a *stress test* simulation on the bank system behaviour in case of a exogenous shock (scenario envisaging a 19.1 percent depreciation of the domestic currency and a 6.1 percent point decline in interest rate, on the backdrop of a null growth over a two-year period, as an extreme, yet plausible assumption) and the effects of this shock on the level of own funds and solvency ratio. As banks still enjoy adequate capitalization and a high level of liquidity, the stress test has revealed that the Romanian banking system is capable of absorbing the negative effects of shocks considered in the scenario. The solvency ratio after the shock, calculated at aggregate level, shows a 14.91 percent level, higher than the 12 percent minimum level laid down in the Romanian prudential regulations in force as at 30 June 2006. The impact of the above-mentioned exogenous shocks is differently felt by the groups of banks under scrutiny. Therefore, in the case of privatised banks and domestic banks, which post lower levels of solvency ratio (14.4 percent) as compared to the average calculated at aggregate level, impact of the shocks considered in the scenario is reflected in the decline of this indicator to 11.19 percent and 10.94 percent, respectively.

As regards the estimated effect of the said shocks on the aggregate level of banks' own funds, it entailed the contraction of these funds by 19 percent. The analysis of own funds by group of banks shows that privatised banks and domestic banks might be most affected. In the case of these banks, the stress test has revealed a decrease in own funds by 23 percent and 25 percent, respectively (NBR 2007, p. 26).

Even for 2006 NBR did not provide detailed data about the impact of simulated exogenous shock on commercial banks, we can analyze the same date available for 2005. The results of this simulation are presented below:

The impact of simulated exogenous shock on commercial banks (%)

Table 3

	Total	Banks with state owned capital	Privatized banks	Banks with domestic private capital	Subsidiaries of leading foreign banks	Other banks with foreign capital
Direct effect	-8.1	-2.5	-13.4	-1.3	-0.9	-0.8
-exchange rate	-0.04	0.3	-0.1	0.7	-1.3	0.1
-interest rate	-8.0	-2.8	-13.3	-2	0.4	-0.9
Indirect effect	-1.4	-0.1	-1.8	-0.2	-3.7	-1.0
-credit risk (gross exposure)	-46.0	-1.0	-59.7	-7.2	-81.7	-35.9
-credit risk mitigated by collateral	-1.4	-0.1	-1.8	-0.2	-3.7	-1.0
Total impact	-9.5	-2.6	-15.2	-1.5	-4.6	-1.8

Source: NBR, *Report on financial stability*, 2006, p. 58.

Some remarks:

1. About the direct effect

The direct effect of the depreciation of the domestic currency is very small, on all banks, a little greater in case of foreign branches, due to a greater share of foreign currency-denominated lending. However, the direct effect of the interest rate decline is strongly felt by the privatized banks. This fact confirms that, in some of these banks, the restructuring process has not been fully assessed yet, and also their sensitivity to the lower spreads reported in the last two years. If we aggregate the two effects, the only more vulnerable banks to direct effect are the privatized ones.

2. About the indirect effect

The indirect effect of the depreciation of the domestic currency is highly affecting all foreign banks (more affected are multinationals' branches, followed by privatized banks and greenfield settlements). This fact is due to credit risk and it is the consequence of much greater exposure to lending, loans being the main part of their assets). As we noticed above, loans have a greater share in total assets in the case of foreign branches, compared with the domestic ones. Certainly, loan exposure provides higher profits, but is much riskier. Fortunately, and in the same time prove of foreign banks' capability to provide health lending and with the lowest risks, net exposure to credit risk (mitigated by collateral) is minimum, so that the indirect effect is, overall, very low.

3. About the total effect

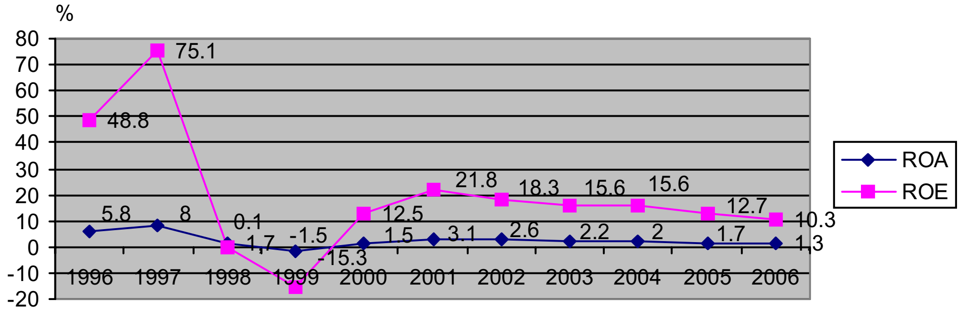
Total impact (direct and indirect) of the two simulated shocks is considerably greater in the case of privatized banks than in the case of all other banks. The greater elasticity to this shock results more from the interest rate decline than from spread narrowing. Indeed, in the last two years, when the net interest spread considerably declined, the profitability of privatized banks was the most affected[(5)].

4. Profitability

The efficiency and profitability of bank sector were negatively affected during the crisis time. In the last years, together with the growing stability of the macroeconomic background and the process of restructuring and privatization, slow but determined privatization of state-owned credit institutions were accomplished significant improvements. The shut down of the greatest commercial bank, Bancorex (former Banca Română de Comerț Exterior) and the restructuring and successful privatization of Banca Agricola played an essential role in this matter.

The consolidation policy taken generated, in a first phase, a significant decrease of non-performing loans (gross value) in overall loan portfolio, from 58.5% in 1998 to 2.8% in 2002 (NBR 2003). The implementation of a strict regulation about classifying loans at the beginning of 2003 generated, however, a new increase of the part of non-performing loans (gross value) in overall loans, to 8.2% (NBR 2003). In order to enhance the efficiency of the process of loan verifying and the continue decrease of non-performing loans, NBR launched in 2000 The Loan Bureau (Biroul de Credit), with the role of supplying information about the composition of loans and payment behaviour of potential debtors.

In the same time, the profitability of bank sector has been improved after the crisis episode 1997-1999, both on what concerns the return on assets (ROA) and return on equity (ROE) – see figure 8:



Source: NBR, Annual Reports, 1998-2006.

Figure 8. *Bank profitability in Romania, 1996-2006*

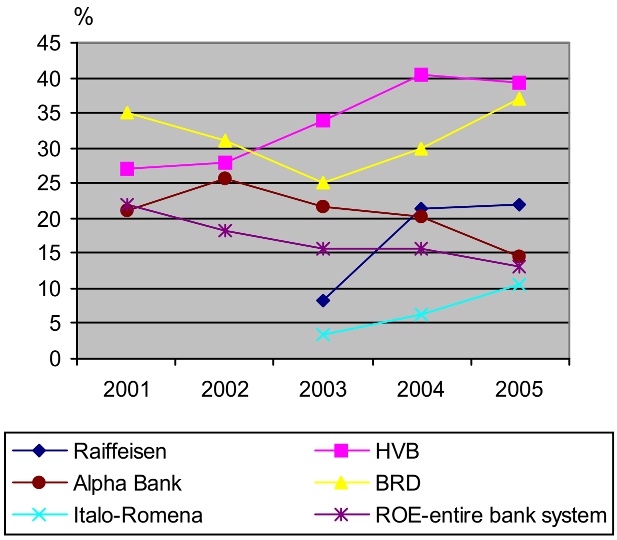
After 1999, due to progress made in the field of bank restructuring and privatization and clean-up measures, credit institutions with majority foreign equity gained importance, with consequences on improving performance indicators. ROA (return on assets) rose from –1.5% in 1999 to 3.11% at the end of 2002. Likewise, over the same period return on equity increased from –15.3% to 18.3% (NBR 2003). Moreover, the presence of foreign banks intensified competition and caused a downward trend in spreads. The gradual decrease of spreads is attributed also to disinflation trend in last years and to lower need to provision non-performing loans.

Available data on selected foreign banks shows that, generally, foreign banks are more profitable. However, several issues must be taken into consideration.

First, foreign banks are actively involved in Romanian economy from not enough time to draw final conclusions. Not to forget that major greenfield bank investments are still in the stage of network building (it is about those banks willing to build an extended network, because some multinational banks, like Citibank or even ING and ABN Amro are not intending to do so, given their involvement more likely in wholesale than retail) or recently accomplished their network. Much of them have a very recent entry on market (e.g. those banks entering the market via acquisition, like National Bank of Greece), therefore some of them are confronted with the inefficiency of overtaken bank (case of OTP), and they cannot be charged with it. In any case, empirical observations about foreign banks profitability in Central and Eastern Europe(6) seem to be valid also for Romania: foreign banks are, generally, more profitable than the domestic ones, especially that the state owned banks, and greenfield investments are more profitable than acquisitions and takeovers. It must be mentioned that, in order to finally conclude if foreign banks are more profitable than the domestic ones, the time is not sufficient yet. The issue is that when the time will be sufficient to make such comparisons (let's say 10 years) there will be no more domestic banks in Romania. Actually, now there are only two domestic owned banks over the banks with more than 1% market share, e.g. CEC and Banca Transilvania, which will be probably sold in the next 2-3 years, when it will reach the critical weight for such process.

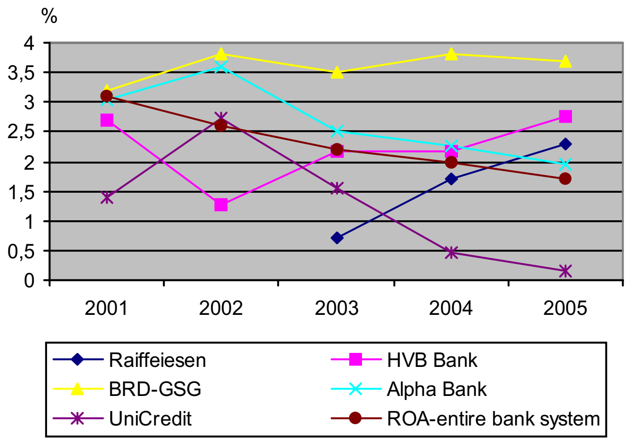
Second, foreign banks present in Romania are very heterogeneous as financial strength. Near prestigious multinationals (Société Générale, HVB, UniCredit, ING, ABN Amro, Citi) there are a lot of exclusively regional banks (from Greece, Hungary etc.) which took over small banks, with less than 1-2% market share.

However, for several foreign banks for which are available more extended and consistent data, it can be noticed, generally, a profitability above the average of bank system (see charts below).



Source: balance sheets of selected banks.

Figure 9. *ROE on selected foreign banks, compared with the average bank system, 2001-2005*



Source: balance sheets of selected banks.

Figure 10. *ROA on selected foreign banks, compared with the average bank system, 2001-2005*

It is interesting that foreign banks has a much better ROE (compared with the average of the system) than ROA, meaning that they are more capable to make more profit with less own funds, by using other types of resources, attracted from the market or from the head-office.

5. Summary and conclusions

The researches we conducted about the foreign banks' contribution in improving the performance of the Romanian banking system show their more consistent dynamism in comparison with domestic banks, reflected in a stronger involvement in lending. This fact is driven both by the easier access to cheaper resources from the parent banks or other banks in the group and by a less risk aversion. The good reputation enjoyed by multinational banks exercises an important attraction for the clients and, together with the quality of banking products and services and competitive interest rates contributed to the gains recorder in terms of market share and profitability.

The main benefits for the banking system as a whole result from the experience of great multinational banks (meaning more qualified and well trained personnel, IT software, new products and services, a client-oriented even aggressive attitude, but also prudential and risk management good practice) and also from the direct affiliation to the group (access to cheaper financial resources for the clients, lower interest rates). Domestic banks are "pushed" by to competition, benefiting indirectly from the "learning by doing" process. Moreover, foreign banks proved to be, generally, more profitable, because of the involvement in the more profitable activities: corporate and government lending, asset management, international trade financing etc.

Notes

(1) calculated on the basis of data provided by NBR and INSSE

(2) CEC counted, in 2004, for 6% of the banking system total assets and 16% of household deposits (cf. Bozga, M., *The Romanian Banking System Catching up on Europe*, presentation available on www.bnro.ro)

(3) calculated on the basis of data from monthly bulletins of NBR

(4) the solvency ratio shows the own funds calculated as a share of total risk weighted assets and off-balance sheet items, net of provisions (cf. NBR, *Raport asupra stabilității financiare*, 2007, p. 21)

(5) it is interesting that the simulation made by NBR in June 2005 was followed by the margins' narrowing from 20 p.p. at the beginning of 2005 to 11.9 in June 2006, fact that, in addition with the restructuring efforts and network expansion, ended in the reduction on some banks' profits, such as Raiffeisen and Bancpost, in June 2006 compared to the same period of 2005 (cf. *Ziarul financiar,* August 30, 2006)

(6) see Badulescu, D., *Globalizarea si bancile. Cu o privire specială asupra Europei Centrale și de Est și asupra României*, Editura Economica, Bucuresti, 2007

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