



A Cross-Country Analysis Regarding the Impact of the Recent Global Crisis on the Banking Sector

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ARTICLE INFO

Article history:

Accepted 1 June 2011

Available online 30 June 2011

JEL Classification

G21, E44, E51

Keywords:

Banking sector, New EU member countries, Credit growth, Recent global crisis, Indicators of banking sector soundness

ABSTRACT

The current global crisis has had tremendous effects on the banking sectors from the new EU member countries. In this context it becomes important to analyse how the crisis has affected these banking systems and also how the monetary authorities from these countries have reacted in such an adverse situation in order to ensure the macro-stability and the re-launch of the lending process. In order to achieve this, firstly we have reviewed the academic literature on this subject, in order to avoid any overlap in our research and to ensure the originality of our undertaking. Secondly, using a quantitative approach, we have comparatively analysed the effects of the economic and financial crisis on the banking systems from our panel.

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1. Introduction

In the last decades the world economy has gone through a series of deep financial and banking crisis, which have put into discussion the global financial stability, especially taking into account the enhanced interdependencies between countries and their financial and banking systems. Despite these, the current financial and economic crisis is by far the most sever regarding both its amplitude, but especially its negative effects on the global economy.

In this context, the **purpose** of our research is to comparatively analyse the implications of the current crises on the banking systems from the new EU member countries, namely Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Romania. Our study highlights the significant particularities of the banking sector from the analysed countries for the period previous to the current crisis, particularly from the point of view of the bank lending activity, and the implications of the crisis in terms of capital outflows, significant contraction of credit flows for the real economy and deterioration of the indicators of banking sector soundness quality. The extremely negative effects of the crisis on most of the examined countries led to unprecedented reactions from the part of the national and international authorities, materialized through the adoption of a series of measures which are summarized in the last part of our research.

In order to achieve this purpose the research is structured in **five parts**: *the first part* contains introduction remarks regarding the importance and relevance of the approached theme; *the second part* is dedicated to a literature review which summarises the main researches undertaken so far on this theme; *the third part* of our research highlights some common features of the banking systems from the analysed countries, and underlines their particularities, especially from the point of view of the bank lending activity, in the period previous to the current crisis; *the forth part* of our research aims to underling the effects that the crisis had on the analyzed countries banking sector activities and performances and the measures that the authorities from the panel countries have undertaken in order to re-establish the macroeconomic stability and the rehabilitee of the banking sector; while *part five* provides the concluding remarks of the research.

The **methodological approach** used starts with a literature review, which establishes the role and the place of this research, and continues with a cross-country analysis, underlining the central importance of a healthy functioning of the banking sector and of the credit market for the economic and financial stability. In order to obtain our data, we have used mediate techniques for data gathering, like the official statistics of the central banks, ECB, IMF, different reports and researches.

2. Literature review

The financial crisis has had a devastating impact on the banking sectors of most of the developed and emerging economies, disrupting the functionality of the interbank markets and spurring an economic depression, thus catching a considerable attention from academics, policy makers and other interested

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parties. In regard to the causes of the crisis several experts and academics suggested that it was originated as a result of an extended period of time in which banks lending standards have been lowered, as a result of three factors: the existence of low interest rates, an intensive securitisation activity and relatively weak and outdated supervision and regulation frameworks [1; 7; 6; 8; 30]. Thus, despite the fact that the financial crisis seemed to have started in the US subprime mortgage market, it can be argued that its proliferation may be the effect of deep-rooted structural problems present in all developed and emerging economies to some degree. Moreover, these structural problems seem to be internationally interrelated and mutually amplifying [27].

In general, most of the studies undertaken on this subject tend to be focused on the US or the European Union as a whole, and to a lesser extent taking into consideration the particular case of the states from Central and Eastern Europe, an exception to this being the studies of Gardó and Martin [18] and Gallego et al [17]. In their research Gardó and Martin [18] are first underling the main factors of growth and convergence in the case of Central, Eastern and South Eastern states since 2000, assessing the strengths and vulnerabilities of banking sectors from this region before the beginning of the financial crisis. Afterwards, the paper finds that, since the crisis has started to impact the CESEE, the developments in this region have been rather heterogeneous, the countries with the largest economic imbalances tending to be the most affected. In a different approach, Gallego et al [17] undertake a comparative analysis regarding the impact of the global financial crisis between CESEE states and the ones from Latin America underling that even if initially both regions were surprisingly resilient to the crisis, afterwards both were severally affected by the sharp retrenchment in capital inflows and the decline of the global demand. The effect of these developments was the plunge of most of the economies from these regions into a major economical recession in 2009.

Therefore, taking into consideration the reduced number of studies regarding the effects of the crisis on the CEE states, our research provides a great added value throughout enriching the literature written on this very important subject, using a pragmatic and original methodological approach in order to achieve this.

3. Stylised facts about the banking sectors and the banking lending activity in the New EU Member Countries

In the last fifteen years the banking sectors from the analysed countries have registered major structural transformations, marked by the privatisation process of most of the state owned banks and also by the consolidation and enhanced presence of foreign banks.

The significant changes registered by these sectors can be underlined through an index of the banking reforms and the liberalisation of the interest rates, calculated by EBRD. This index underlines the state of the banking reform achieved in a banking sector taking into account the degree of interest rates liberalisation, the process of credit allocation in the economy, the volume of credits granted to the private sector, the percentage of privately owned banks in an economy, the degree of existent competition in that banking sector, the solvency of the banks and the existence and implementation of a regulatory and prudential framework [10]. In the case of the analysed countries (see table 1) this index underlines the achievement of major progresses in the banking reform process.

Table 1. The evaluation of the banking sector reform based on the EBRD* index in the case of the analysed countries

Country	1990	1995	2000	2005	2007	2008	2009	2010
Bulgaria	1.0	2.0	3.0	3.7	3.7	3.7	3.7	3.7
Czech Republic	1.0	3.0	3.3	4.0	4.0	NA	NA	NA
Estonia	1.0	3.0	3.7	4.0	4.0	4.0	4.0	4.0
Hungary	1.0	3.0	4.0	4.0	4.0	4.0	4.0	3.7
Latvia	1.0	3.0	3.0	3.7	4.0	4.0	3.7	3.7
Lithuania	1.0	3.0	3.0	3.7	3.7	3.7	3.7	3.7
Poland	2.0	3.0	3.3	3.7	3.7	3.7	3.7	3.7
Romania	1.0	3.0	2.67	3.0	3.3	3.3	3.3	3.3

* The values of this index are between 1 and 4+ where a value of 1 underlines reduced progresses in the reform process and a value of 4+ reflects a total convergence with the practices and standards of the developed economies.

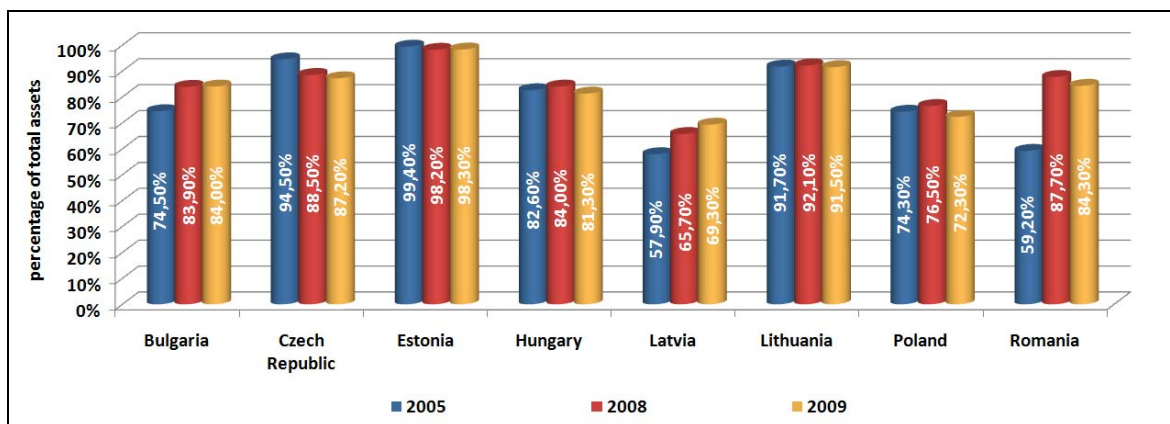
Source: EBRD: 2009, EBRD: 2010

In 2010 the EBRD index has not registered any changes despite the fact that the banking sectors from most of the analysed countries have been confronted with major problems, especially related to the decline of the lending activities, the depreciation of the loans portfolios and the diminishing of the overall banking performances. A special situation was in the case of Hungary which has registered a downgrade in 2010 (see table 1) as a result of the adoption by the Hungarian government of a “*financial activities tax*” on financial and banking activities. Such a measure can have negative impacts on the financial deepening and the European

and international financial integration process, exactly the factors which have helped Hungary in the context of the current crisis [12].

A significant characteristic of the analyzed banking sectors is represented by the presence of a high number of foreign owned banks which have contributed to the enhancement of the financial integration process of these countries. The quick liberalisation of the internal market and the opening of the capital accounts have attracted important capital flows and a rapid growth of the foreign banks presence, which now have a dominant position on these national markets, especially in the case of Estonia, Lithuania, the Czech Republic, Romania and Bulgaria (see figure 1).

Figure 1. Market share of foreign owned banks (% of total assets)**

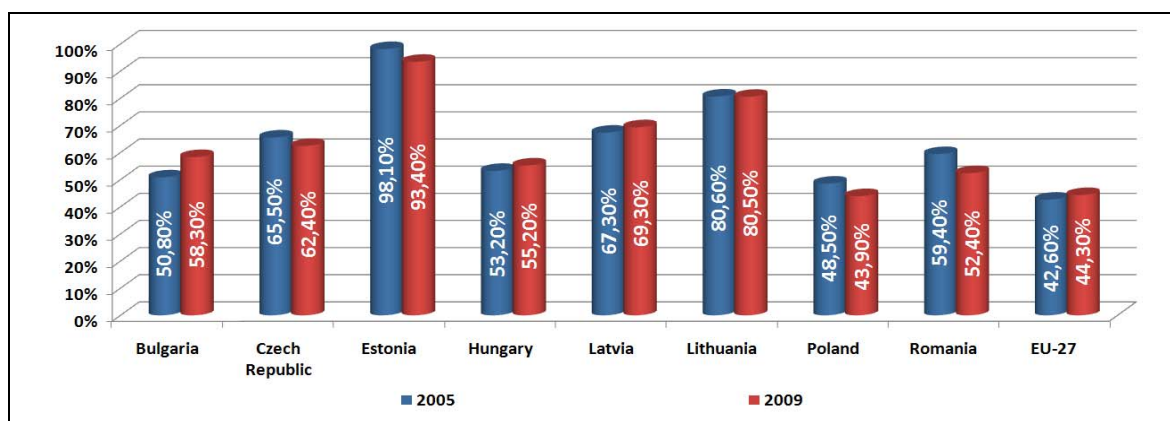


**Share of total bank sector assets in banks with foreign ownership exceeding 50 per cent, end-of-year.
Source: Own simulation based on data provided by EBRD and Raiffeisen Research

The presence of foreign banks has brought a series of advantages for the host countries, through the diversification of the product lines offered and the raise of their quality, the significant expansion of the lending process focused especially on the private sector of the host country, a better management of the banking risks, an efficiency enhancement of the banking activity and nevertheless the facilitation of the access of enterprises and individuals to external financing options. But, alongside these advantages, the presence of foreign banks poses a significant risks for contagion, proven by the current international crisis. We take into consideration here the turbulences that arouse on the foreign developed bank markets and which were propagated also in the banking sectors of the analysed countries.

Another feature of the examined countries banking market is the concentration level measured by the share of total assets of the five largest credit institutions (see figure 2). In all countries surveyed with the exception of Poland, the first five credit institutions hold more than 50% of total banking assets. In Poland's case the degree of concentration is significantly lower which means a higher competition among banks, while a opposite situation is found in Estonia where, due to the much smaller size of the banking market, the degree of concentration is over 90%.

Figure 2. Competition measures by share of total assets of the five largest credit institutions



Source: ECB (2010)

The structural changes which have been registered in the banking systems of the analysed countries have determined a fast financial development of these states. Thus, if we take a look at the financial intermediation index, we can see a significant raise of this indicator in the analyzed countries in 2008 from 2005, despite the

fact that these values are still below the EU-27 and the euro zone average (see table 2). Such a development underlines the growth potential that these banking markets had. Taking into account the period prior to the financial crisis, between 2005 and 2008, we can see that the sharpest growth of this index, with over 30%, was obtained by Romania, Bulgaria, Hungary and Lithuania. Two digits growth rates have been registered also by Estonia and Latvia, while in the case of the Czech Republic and Poland the growth was more moderate, with an increase of 4,08%, respectively 8,37%. In 2009 the increase of the banks actives in GDP can be attributed to the strong contraction of the GDP as a result of the economic recession that characterized most of the analyzed countries.

Table 2. Evolution of the financial intermediation in the analyzed countries

Country	Bank assets/GDP(%)				Loans granted to the economy*/GDP(%)			
	2005	2008	2009	Change in 2008 to 2005 (%)	2005	2008	2009	Change in 2008 to 2005 (%)
Bulgaria	79.73	107.93	112.02	35.37	42.39	72.82	75.89	71.78
Czech Republic	100.71	104.82	116.74	4.08	33.20	44.84	50.30	35.08
Estonia	106.21	137.29	155.29	29.26	57.05	93.24	104.84	63.45
Hungary	88.32	118.13	135.53	33.76	43.00	57.08	63.22	32.75
Latvia	120.87	139.99	161.41	15.82	60.54	85.64	100.40	41.44
Lithuania	63.07	82.42	98.24	30.69	35.21	59.53	66.90	69.04
Poland	66.86	72.46	88.43	8.37	28.27	40.38	50.68	42.83
Romania	44.36	60.49	74.55	36.37	19.11	34.49	40.12	80.43
MU16	279.78	330.60	333.62	18.16	93.63	105.16	107.56	12.32
EU27	275.91	337.48	357.26	22.32	93.30	100.37	107.69	7.59

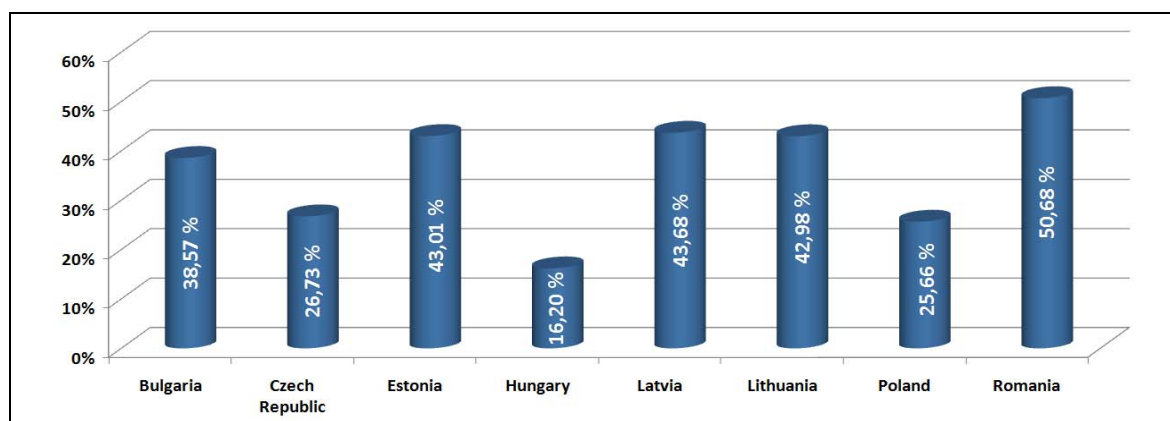
* Non-financial corporations and households.

Source: Own simulation based on the data provided by ECB: 2010

The significant expansion of the financial intermediation process in the analyzed countries can be underlined also through the ratio of the loans granted to the economy in GDP. Thus, in all the countries from our panel, this indicator has registered two digits growth rates, when we compared the values from 2008 with the ones from 2005 (see table 2). Within the countries of the analyzed sample, there has been recorded an atypical situation in the case of Romania, which has the smallest rate of the loans granted to the economy in GDP, being thus required significant progresses regarding the convergence process. On the other hand, we can notice the rapid growth reported in 2008 compared to 2005, expressed by two digits, of the ratio of the loans granted to the economy in GDP, in all the analysed countries, with some significant differences, as follows: the most increased rhythm of growth, by over 63%, was recorded in Romania (80.43%), Bulgaria (71.78%), Lithuania (69%) and Estonia (63.45%) while in the other countries the growth rate was moderate (see table 2). With the exception of Estonia, the other three countries that have experienced high levels of growth, held in 2005 a ratio of the loans granted to the economy in GDP well below the EU average (93.30%).

One of the most significant events that marked the analyzed country's banking sector is the extremely high dynamic (expressed by two digits) of the loans granted to the economy (see figure 3). A particular situation has been registered in Romania and the Baltic countries, where the growth of the credit granted to the economy was on average of more than 50%, respectively over 42%, during 2005-2008.

Figure 3. The evolution of the loans granted by credit institutions to the economy (non-financial corporations and households), between 2005 and 2008*

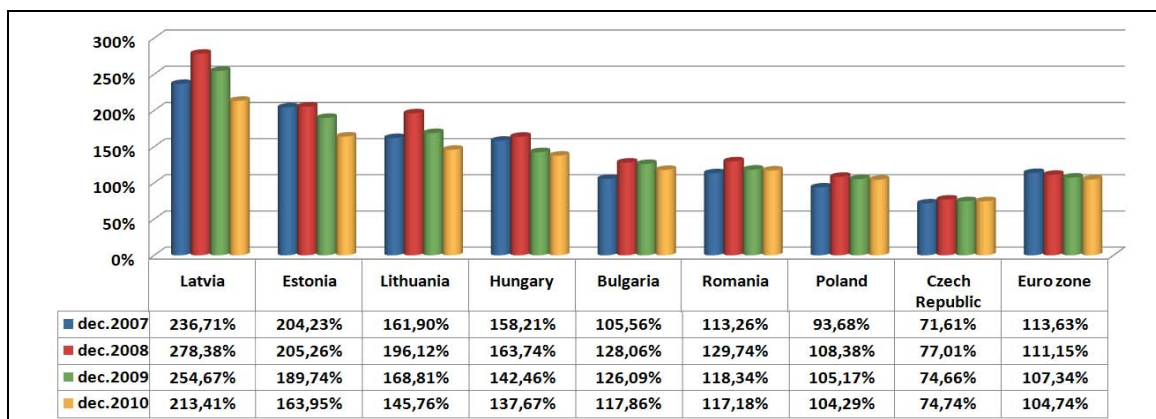


* average yearly growth rate in 2005-2008

Source: Own simulation based on the data provided by ECB (2008, 2010)

On the background of a low level of domestic saving in most of the countries under study, the rapid growth of the loans granted to the economy has been realised at the expense of external financing purchased at a low interest rate, given that the international markets were characterized by abundant liquidity at that moment. This issue may be highlighted through the loan-to-deposit ratio, which in 2008 stood at a level of over 100% in all the countries, except the Czech Republic (see Figure 4). By comparison, in the case of the Czech Republic, this ratio is well below 100%, which underlines a financing strategy of the banks present in this country based on the attraction of deposits. As a result of this, the Czech banks had a lending policy which didn't depend very much on their ability to obtain foreign financial resources.

Figure 4. Evolution of the loan-to-deposit ratios* between 2007 and 2010

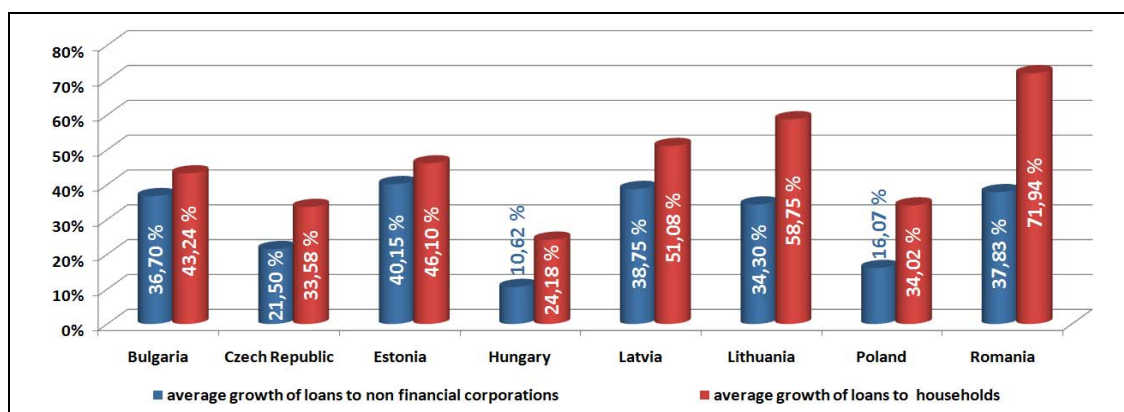


*Total loans as a percentage of total deposits

Source: National Bank of Hungary (2011)

In most of the analyzed countries, the significant increase of the loans granted to economy was the result of a very pronounced increase of the loans granted to households (see figure 5), especially in Romania, the Baltic countries and Bulgaria. In the case of these countries, the increase was on average of more than 70%, 46% and 43.24% during 2005-2008. In this context, the loans granted to households were the main driver of the accelerated dynamic of the loans granted to economy. It is also noteworthy that in the case of most countries, the loans granted to households have increased more rapidly than the ones granted to non-financial corporations.

Figure 5. The evolution of the loans granted to non-financial corporations and households, between 2005 and 2008*

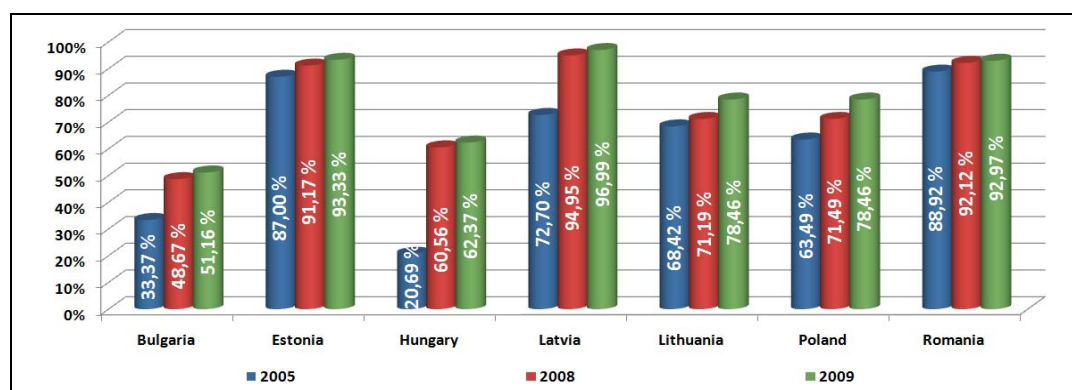


*average yearly growth rate in 2005-2008

Source: Own simulation based on the data provided by ECB (2008, 2010)

A significant characteristic of the loans granted to households is given by the high share of foreign currency-denominated loans in housing loan portfolio (see figure 6). In all the analyzed countries, except for Bulgaria, the share of these loans is over 60%. In this respect, extremely high shares, namely over 90% were registered in Latvia, Romania and Estonia, thus increasing significantly the exposure of the households to the national currency depreciation risk. By contrast, in Czech Republic the foreign currency lending of households is almost inexistent (below 1%) and is therefore not reflected in the figure below. The high share of the foreign currency-denominated loans in the housing loan portfolio and the risks involved determined certain reactions of the authorities. For example, in Hungary, in August 2010, the Parliament adopted a regulation that has banned the granting of this type of loan.

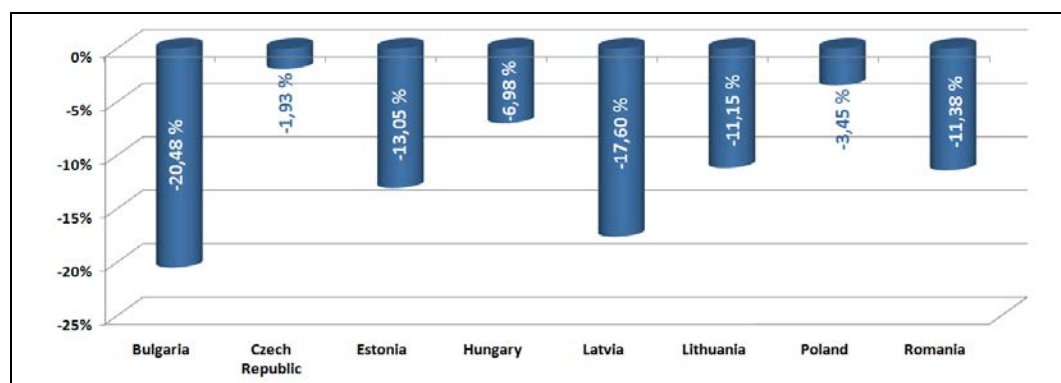
Figure 6. Share of foreign currency-denominated loans in housing loan portfolio in the analyzed countries, between 2005 and 2009



Source: ECRI (2010)

The extremely accelerated dynamic of the loans granted to the economy, and especially of the loans granted to households, has driven major imbalances materialized especially in the huge growth of the housing price, increased consumption and sharp deterioration of the current account balance (see figure 7). Also, in most of the analyzed countries were recorded extremely high ratios (expressed by two digits) of the current account deficit in GDP. Thus, in 2005-2008, the average ratio of the current account deficit in GDP stood at more than 20% in Bulgaria, over 17% in Latvia, more than 13% in Estonia and over 11% in Lithuania and Romania.

Figure 7. The evolution of the current account balance, between 2005 and 2008* (as percentage in GDP)



* average yearly growth rate in 2005-2008

Source: Own simulation based on the data provided by IMF (2010a)

The extremely rapid growth of the granted loans and the financial and macroeconomic imbalances involved had determined a series of reactions from the supervisory authorities and the central banks, embodied mainly in the adoption of monetary policy measures, a series of measures for the improvement and enhancement of the regulatory and supervision framework, as well as administrative measures in order to reduce the rapid growth of credits. In addition to these measures, were adopted also a series of measures included in the category of "moral suasion", which have been materialized in an improved communication by central banks of the risks related to rapid loans growth, especially through Financial Stability Reports and recommendations made by prudential supervisors aiming to increase banks' risk awareness [25]. However, the impact of these measures has been limited, mainly due to the banks possibility to obtain financing resources from the external markets, as well as due to the non-financial corporation's possibility to borrow directly from abroad and from non-bank financial institutions.

4. The effects of the recent crisis on the banking sector

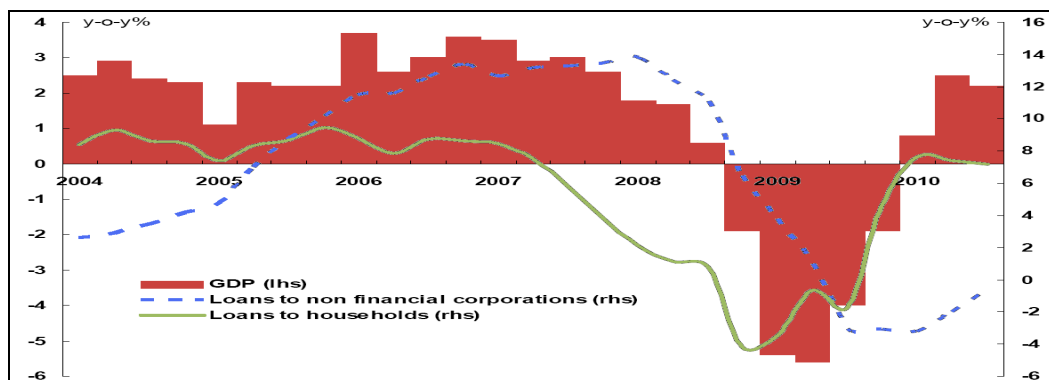
In most of the analysed countries, it can be remarked that the current crisis has stopped the accelerated dynamic of loans, expressed through two digits growth rates. Also, taking into account the economic development registered in 2008 and 2009 we can see that the countries that had recorded an unsustainable growth of the loans have been the ones most affected by the crisis.

The diminishing of the loans granted to the economy in the case of the analyzed countries has been determined by a rapid and significant contraction of the supply and the demand of credits. The reduction of the supply was determined by liquidity issues that existed on the international financial markets and which have affected the foreign banks that had subsidiaries opened in the analyzed countries and also by the increased risk aversion of the banks, which have raised their standards and terms in regard to credit operations. The diminishing of the demand for loans was determined especially by the increase of the credit

costs, the depreciation of the national currencies from the analyzed countries and the high volatility of the rates of exchange and also by the negative perspectives regarding the economic development and the evolution of the unemployment rate.

Since the start of the current economical and financial crisis, the growth rates of the loans granted to the economy at EU level have declined especially in the case of the ones granted to non-financial institutions (see figure 8), as a result of the tightening of the credit standards by the banks but also as a result of the diminished demand for loans from the firms in the context of negative economic perspectives. Since the start of 2010, there are some signs of a re-launch of the lending operations, as some EU states have registered a small economical growth. According to a survey regarding the lending operations of banks undertaken by the ECB published in October 2010, the European banks have stopped the tightening of the credit standards for firms and there is an expectation for a relaxation of the standards also in the case of the households [15].

Figure 8: The evolution of the banking loans in the European Union between 2004 and 2010



Source: Own simulation based on data provided by the European Commission: 2011

The remarks made previous in regard to the EU average are also true in the case of the countries in our panel. Thus, in 2009, the growth rate of the loans granted to non-financial corporation was lower than in the case of the loans granted to households (see figure 9) in most of the analyzed countries, except Romania where as a result of the raise of the unemployment rate and the diminishing of the households incomes, the banks have become more restrictive in lending to this segment.

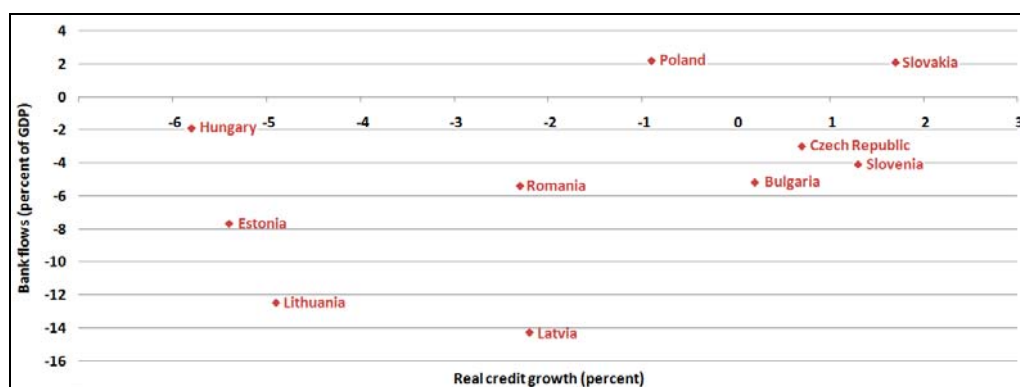
Figure 9. The increase of the loans to non-financial corporations and households in 2009



Source: Own simulation based on the data provided by ECB: 2010

The significant diminishing of the bank's lending operations in the majority of the analysed countries has come as a result of some significant cross-border capital out-flows (see figure 10), which reflect the diminishing of the Western Europe home banks exposure in these countries. Such an evolution was possible as a result of the diminishing of the demand for loans, of growing sovereign concerns regarding the analysed countries and also of concern from the monetary authorities regarding the adequacy of the banks capitals and nevertheless, because of the intra-group financial flows that exist in the case of the international banks present in these markets [20]. Also, we can remark that the cross-border capital out-flows were more severe in the states where the foreign banks subsidiaries depended significantly on the financing which they received from their home banks, like in the case of the Baltic states (see figure 10). A special situation has been registered in Poland where, in the first months of 2010 the loans granted to the private sector have risen. Such an evolution can be explained by the fact that the polish banking sector is characterised by a higher ratio of native capital that in the case of the other analysed countries, thus the dependency to external financing sources is much lower.

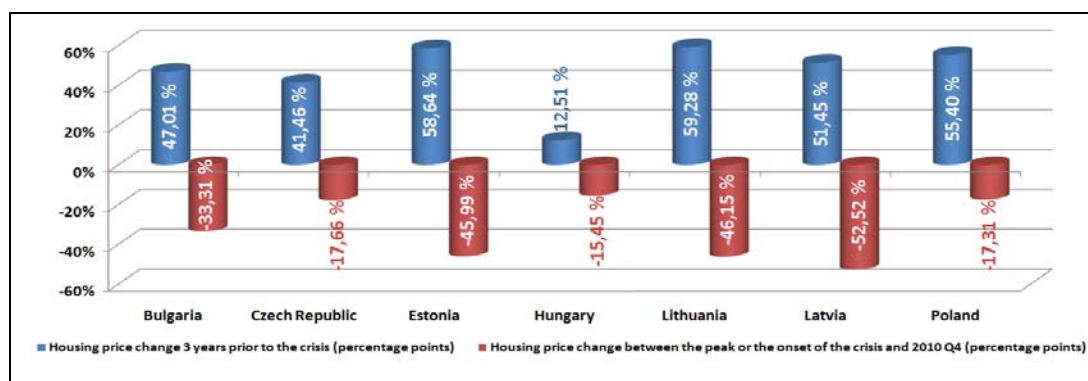
Figure 10. The cross-border capital flows and the growth of the granted loans between Q3 2009 and Q1 2010



Source: Own simulation based on data provided by IMF: 2010a

The pronounced reduction of the bank lending activity has had significant implications for the housing market, leading to a dramatic decrease in housing prices, especially in the Baltic countries (see figure 11). In this context, the value of the real estate's put as collateral for the already granted credits has dropped, leading to an accumulation of risks which could affect the stability of the financial system.

Figure 11. Variation of housing price before and after the crisis (percentage points)



Source: National Bank of Hungary (2011)

Another direct consequence of the current severe crisis on the banking lending activity from the analyzed countries is represented by the significant deterioration of the quality of the banks credits portfolio starting with 2009. As a result of the economic downturn, the raise of the unemployment rate, the diminishing of the households incomes and the depreciation of some national currency from the analyzed states, the banks have registered an increase in the ratio of non-performing loans (see table 3), especially in Latvia, Lithuania and Romania. In this context the banks being forced to create additional provisions which had an important impact on their profitability. Thus, the profitability indicators were substantially depreciated, especially in the Baltic States. It is remarkably that, despite these evolutions, the capital adequacy index has registered a value above the minimal requirements of the European and international regulations (of 8%) in all the analyzed states.

Table 3. Capital adequacy index and the indicators of banking sector soundness¹

	Bank non-performing loans to total loans			ROA			ROE			Capital adequacy (% of risk weighted assets)		
	2008	2009	2010	2008	2009	2010	2008	2009	2010	2008	2009	2010
BG	2.5	6.4	11.9	2.1	1.1	0.9	23.1	10.2	7.9	14.9	17.0	17.5
CZ	3.3	5.4	6.6	1.2	1.5	1.4	21.7	25.8	23.1	12.3	14.1	15.6
EE	1.9	5.2	5.4	1.2	-2.8	0.3	13.4	-24.6	2.1	18.8	22.2	22.1
HU	3.0	6.7	9.1	0.8	0.7	0.1	11.6	9.4	1.3	11.2	13.1	14.1
LV	3.6	16.4	19.0	0.3	-3.5	-1.6	4.6	-41.6	-20.4	11.8	14.6	14.6
LT	4.6	19.3	19.7	1.0	-4.2	-0.3	13.5	-48.4	-4.7	12.9	14.2	15.6
PL	4.5	8.0	8.8	1.5	0.8	1.1	20.5	10.4	12.7	11.2	13.3	13.8
RO	2.8	7.9	11.9	1.6	0.2	-0.1	17.0	2.9	-1.0	13.8	14.7	14.7

¹BG, EE, HU, LV, LT, PL, RO – December; CZ – September
Source: IMF (2011)

The severe implications of the global economic crisis on the European economies and financial sectors have determined the European Commission to adopt in November 2008 the European Economic Recovery Plan. In regard to the banking lending activity and the role of the banks in the national economies the European Economic Recovery Plan emphasises the necessity that the European Union member states will financially support the banking sector in order to ensure that the real economy can access its credit facilities.

An important role in the re-establishment of the trust in the banking sector of the analysed countries and the prevention of the possible redrawing of the foreign banks from these markets was attributed to the initiative of the IMF, the EBRD and the EU which created the "Vienna Initiative" also known as "the European Bank Coordination Initiative", through which the parent banks engage themselves to refinance their subsidiaries from CEE.

The major implications of the current economical and financial crisis have led to an intensification of the efforts from the national monetary and governmental authorities in order to prevent the collapse of their banking systems and to re-launch the bank's credit activities. Thus, unele bănci centrale din țările analizate (the National Bank of Czech Republic, the National Bank of Hungary, the National Bank of Latvia, the National Bank of Poland and the National Bank of Romania) have adopted a relaxed monetary policy, which was materialised in a prudential reduction of the monetary policy interest rate without discouraging capital inflows and avoiding fluctuation of the rate of exchange. Also, the analysed states have adopted a series of extraordinary measures which aimed at limiting the effects of the crisis on their national economies and ensuring the overall financial stability. Several central banks from these states have signed currency swap arrangements with the ECB (e.g. Hungary and Poland), Sveriges Riksbank (Estonia and Latvia) or Danmarks Nationalbank (Latvia).

Regarding the governmental measures adopted by the analysed countries the most important one was the raise of the minimum guaranteed level for deposits, in order to prevent mass panic and to re-establish the trust of the depositors in banks (see table 4).

Overall, all the measures adopted at EU level and also by each member state have contributed to avoid the collapse of the financial systems and the stabilisation of the financial markets. In the current state, the challenge for the European and national authorities is represented by the implementation of strategies which will allow them to abandon the exceptional measures undertaken (e.g. currency swap arrangements with the ECB), as the bank's lending activity of the real economy is re-launched and the financial markets start to function normal again.

Table 4. The governmental measures undertaken in the analyzed countries*, between October 2008 and May 2010

	Capital injection		Liability guarantees		Asset support		Total commitment as % 2008 GDP	Deposit insurance EUR
	Within Schemes	Outside Schemes	Guaranteed issuance of bonds	Other guarantees loans	Within Schemes	Outside Schemes		
BG	- (-)	-	- (-)	0 (-)	- (-)	-	-	50.000
CZ	- (-)	-	- (-)	0 (-)	- (-)	-	-	50.000
EE	- (-)	-	- (-)	0 (-)	- (-)	-	-	50.000
HU	0.1 (1)	-	- (-)	2.3 (5)	- (-)	-	7%	45.252
LV	- (-)	0.3	- (6)	0 (-)	- (-)	-	27%	50.000
LT	- (-)	-	- (-)	0 (-)	- (-)	-	-	100.000
PL	- (5)	-	- (-)	0 (5)	- (-)	-	3%	50.000
RO	- (-)	-	- (-)	0 (-)	- (-)	-	-	50.000

*billions of EUR unless stated otherwise.

Source: Data centralisation based on Stolz, Wedow (2010)

The macroeconomic and financial imbalances recorded by the countries that in the years previous to the outbreak of the current global crisis have registered a rapid and unsustainable growth of the loans, as well as the extreme negative effects of the crisis on the banking sector, emphasizes the international financial system major gaps regarding the institutional and regulatory framework. In this context, the efforts in order to reform the financial system have been enhanced. From the regulatory point of view, the adoption of the Basel III accord by The Basel Committee on Banking Supervision has a major importance, which in terms of the banking lending activity makes reference to an important macro-prudential tool, namely "countercyclical capital buffer", meant to, especially, prevent excessive lending periods and banking systems crashes (Basel Committee on Banking Supervision, 2010). Regarding the institutional framework, for example, at the EU level, came into operation on 1 January 2011 the European System of Financial Supervision, which major objective is the macro-prudential supervision of the EU financial system.

At the level of the whole banking sector, in order to prevent a future unsustainable growth of bank loans, the main challenge according to the officials of the National Bank of Romania is represented by the change of the business model of the banking sector [24].

5. Conclusion

The global crisis has had a tremendous impact on the banking systems of the analysed countries starting with the last trimester of 2008. On the one hand, the impact of the crisis has determined the diminishing of

the capital flows and the start of an economic recession in the developed European countries which represent major commercial partners for most of the analysed countries. On the other hand, the effects of the global crisis have been amplified by the macroeconomic and financial imbalances accumulated in the years previous to the crisis (mainly in the Baltic States, Bulgaria and Romania), which in turn were caused by the increased bank indebtedness of the private sector, especially of the households.

Overall, the major effects of the current financial and economic crisis on the analysed banking sectors have been materialised in the significant diminishing of the loans granted to the real economy, the raise of the costs of the financing resources, the depreciation of the loans portfolio and that of the bank's profitability indexes.

The deep implications that the current financial crisis had on the analysed banking sectors have determined an unprecedented reaction from the national and international authorities, materialised in the adoption of measures, rules and reform projects which aimed to restore the confidence in the banking sector, to re-launch the bank's lending activities, as well as to prevent future periods of excessive lending and banking crash.

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