SOME ASPECTS ABOUT THE BROAD MEASURE OF FOREIGN BANKS' INTERNATIONAL AND LOCAL CLAIMS

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Romanian banking system experienced, especially after 1996, a constant growth of foreign capital's involvement, either directly, in the form of banks located in Romania, or indirectly, in the form of foreign claims. We will compute the broad penetration measure, that shows the share of the cross-border and local claims in the total credit, both cross-border and local from foreign and domestic banks.It's main advantage is that it takes into consideration the fact that multinational banks can participate in one country even without having subsidiaries and branches implanted, just by extending the cross-border credit. For Romania, the broad penetration measure reveals that 58% of the total stock of credit was provided by multinational banks in 1994, e.g. 6% of the GDP. The multinationals' credit was almost totally cross-border credit, while subsidiaries were almost absent, as it results from the narrow penetration measure.

Key words: Romania, foreign banks, broad and narrow measure

JEL code: G21

1. Introduction and methodology

Romanian banking system experienced, especially after 1996, a constant growth of foreign capital's involvement, either directly, in the form of banks located in Romania, or indirectly, in the form of foreign claims. We will analyse in this paper the development of the banks' foreign claims on Romania.

In order to analyse the extension of the presence and involvement of foreign capital in Romanian bank system, we will start with the analysis of the evolution of foreign claims of BIS reporting banks on Romania in the period 1998-2005, based on Consolidated Banking Statistics of the Bank of International Settlements.

We will divide these claims into two components, namely:

- international claims (column A in the tables corresponding to the reporting banks' claims on each country) – which is composed by the cross-border lending plus local claims denominated in foreign currency;
- claims of the local (Romanian) branches of the reporting banks denominated in local currency (column L), composed by the lending granted to Romania, in lei, by the Romanian branches of the BIS reporting banks[255].

2. The Romanian case: situation of foreign, international and local claims

The data obtained from the Consolidated Banking Statistics published by BIS and from the quarterly statistics about Romania are presented in the next table:

255 See: Wachtel, P., Role of Foreign Banks in Central Europe Economies in Transition, în: J. Bonin, K. Mizsei, I. Szekely şi P. Wachtel (ed.), „Banking in Transition Economies: Developing Market Oriented Banking Sectors in Eastern Europe", Edward Elgar Ed., 1998, for the importance of distinguishing between cross-border bank activities and activities of local subsidiaries and branches in host countries

Table 1. Claims of BIS reporting banks on Romania, 1998-2005 (million USD)

Year	Foreign claims (A+L)	International claims, total (A)	From which on:			Local claims denominated in lei (L)	Local liabilities denominated in lei (M)
			Bank sector (F)	Public sector (G)	Non-bank private sector (H)		
1998	3434	3159	917	290	1927	295	272
1999	3175	2905	732	180	1990	270	277
2000	3727	3084	600	333	2151	643	451
2001	4708	3773	587	523	2655	935	1154
2002	6184	4761	732	752	3275	1423	1613
2003	10015	7797	1306	1911	4506	2218	3063
2004	17159	13186	2880	2656	7648	3973	4267
2005	31984	22240	5851	4358	11749	9744	6608

Source: C*onsolidated Banking Statistics*, BIS, 1998-2004 and *BIS Quarterly Review* June 2006, www.bis.org

To have a clearer picture about the evolution of these claims, we will figure on the same graph (Chart 1) the international claims, local claims of the foreign branches and the total of foreign claims:

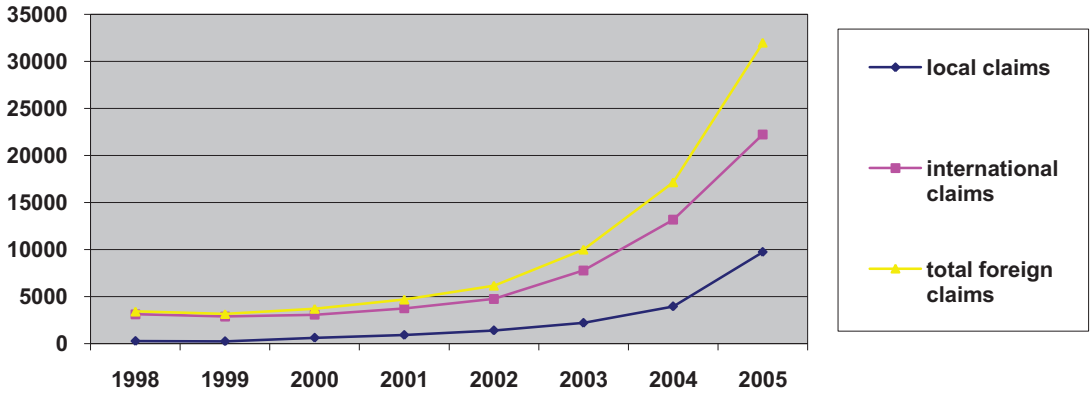

Chart 1. Foreign claims of reporting BIS banks to Romania, 1998-2005 (in million dollars)
Source: as table 1

We can notice that, in the period 1998-2005, foreign claims grew 7 times. Their increase was achieved more and more on the basis of local claims and less on the basis of international claims. Indeed, local claims grew 33 times, while the international claims grew only 9.3 times. Thus, the share of local claims in the total foreign claims rose from 9% in 1998 to 30.5% in 2005. This means that the foreign capital's penetration was realized more and more by lending granted by branches and subsidiaries locally implanted, which practically exploded after 1998. The *global* aspect of the financing gains a more and more importance compared to the international aspect of the financing.

A more detailed analysis of these time series shows different intensities in the periods 1998-2001, respectively 2001-2005. We opted for the division in these two sub-series because the year 2000 is the mark of the end of the two periods of bank crisis in Romania (1996-1997 and 1999-

2000), so that after 2001 the level of financial stability of the Romanian bank system improved considerably. If between 1998 and 2001 international claims grew 1.19 times, in 2001-2005 these grew 5.9 times, Practically, the period marking the "take off" of international claims (and of the external ones', out of which the international claims are part) is 2001-2002, with an obvious acceleration after 2002.

Concerning the local claims denominated in lei, if between 1998 and 2001 these grew 3.17 times, between 2001 and 2005 they grew 10.42 times. The "take off" took place here in 2000 (earlier than in the case of international claims, probably because of the fact that the branches physically implanted in Romania have a more direct and rapid contact – compared to the creditor banks non-implanted – with the new realities, such as the stabilisation of the bank system and policies of RNB about the a more healthy bank system), visibly accelerating after 2002. The growth is not as spectacular, however, because the multinational banks' branches have a preference for lending in foreign currency, from at least two motives: on one hand, the great demand for such loans, especially in a high inflation environment, that makes loans in foreign currency more attractive because of lower interest rates; on the other hand, because of the comparative advantage that multinationals has over the domestic banks about the lending resources. By reallocation at group level, the branches in Romania (as from other emerging economies, in fact) are benefiting from their parent bank from cheaper resources in foreign currency, that can be provided as loans with more competitive interest rates compared both with what parent banks and branches from developed and over-bancarised countries could obtain and with what domestic banks could offer to Romanian clients. A comparison between the local claims and local liabilities denominated in lei can be interesting and it shows, as expected from the statements we already made, the prevalence of local involvement of multinational banks moreover in lending and other local claims that in deposit collection (see Chart 2). However, we can remark the period 2001-2004, when deposits exceeded loans (in lei), on the basis of the good reputation of these banks among the deponents (who wanted to beneficiate from the certainty offered by these banks), but also on the basis of the interest of many foreign banks in the last years in involving in *retail* activities, for which the need for resources in lei is greater.

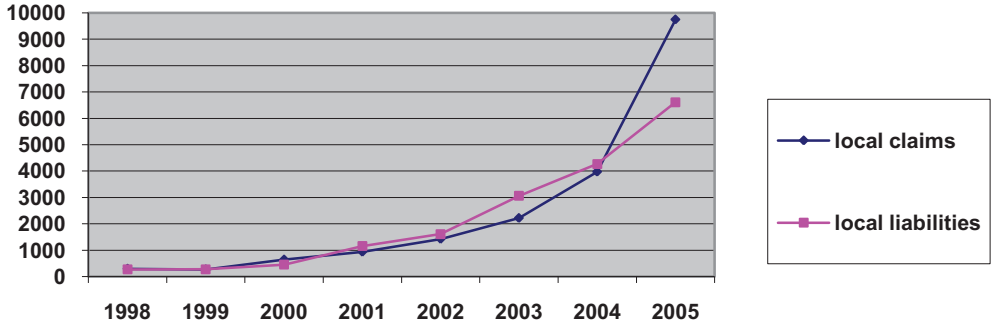

Chart 2. Evolution of local claims, respectively liabilities, denominated in lei, of the subsidiaries and branches of BIS reporting banks in Romania, 19980-2005 (million dollars)
Source: as table 1

In the same time, the distribution of foreign claims by the lender bank nationality is as follows:

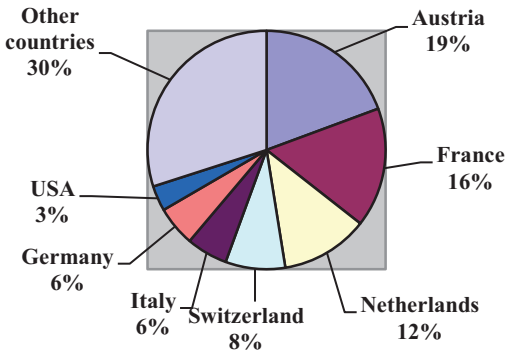

Chart 3. The distribution of foreign claims, by lender nationality, December 31, 2005
Source: idem as table 1

The main lenders are banks from, in the importance order, Austria, France, Netherlands, Switzerland, Italy, Germany, and USA. It is important to notice that 82% of the foreign claims are from European banks, and the first three countries (Austria, France and Netherlands) concentrate almost half of the total foreign claims. The evolution of the banks from different countries is very different: the case of Austria is interesting, in only one year (2005 compared to 2004) the claims on Romania of the banks from Austria increasing 6 times. If until the claims' "explosion" in 2001 all reporting banks had a slow and relatively non-differentiated growth, after 2002 it is recorded a much differentiated evolution: while the banks from Austria, France and Italy recorded a rapid growth, Netherlands and USA increased their involvement in a relatively lower pace.

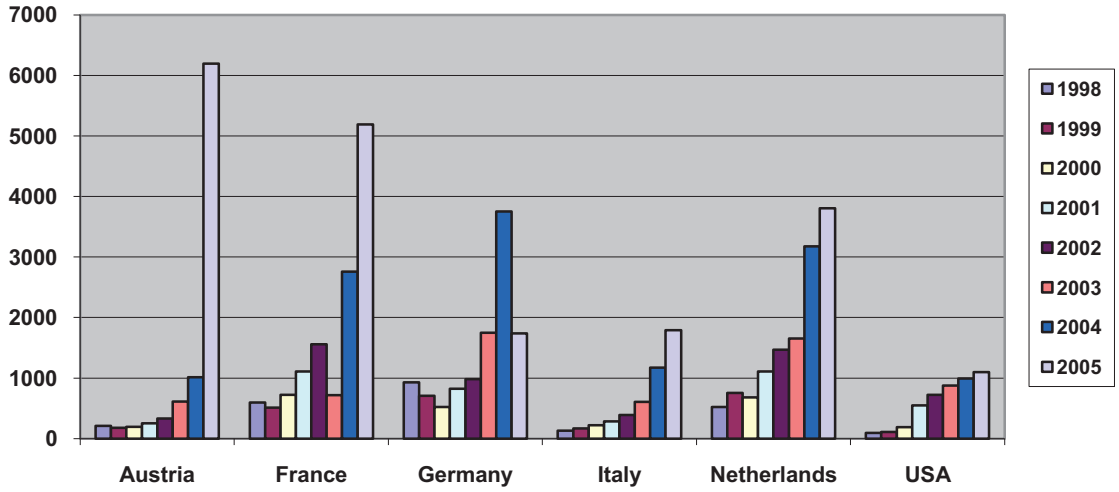

Chart 4. The evolution of foreign claims to Romania of the BIS reporting banks from the main lender countries, 1998-2005 (million dollars)
Source: idem as table 1

Another analysis we can made related to the international claims this time regards their sectoral distribution (see chart 5):

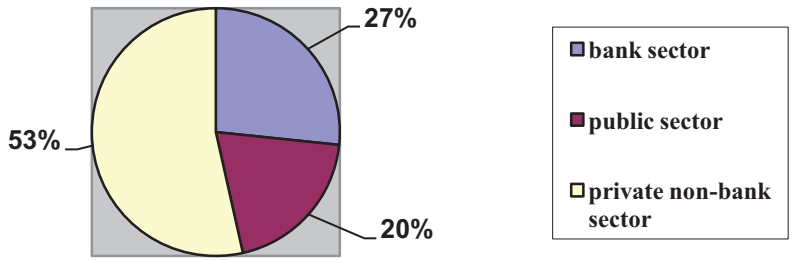

Chart 5. Sectoral distribution of the international claims of BIS reporting banks to Romania, December 31, 2005

Source: idem as table 1

In the present, almost half of the international claims (cross-border plus local denominated in foreign currency) are toward the private non-bank sector, but the situation changed over the time. Thus, from 1998 to 2005, the share of non-bank sector in the total of claims decreased from 62% to 53%, the share of the bank sector remained relatively unchanged (decreasing with only 2 points) and the share of the public sector increased from 9.4% to 20%. As the main component of the international claims is the cross-border loan, we can explain the decreasing share of the private non-bank sector by the fact that this sector accessed local credit, as the gradually increase of the foreign banks' implantation in Romania. Romanian big companies preferred to borrow locally than cross-border. The statement can be sustained also if we analyse the sectoral orientation of foreign loans, where the share of private non-bank sector reduced constantly, reaching from three quarts some years ago to 52% in the present[256].

A more comprehensive measure of the degree of foreign capital penetration is the measure that takes into consideration both the cross-border lending and the direct penetration, in the form of foreign banks locally implanted.

Indeed, as we saw in the other countries in Central and Eastern Europe, the simple measures of the multinational banks' penetration, such as the number of banks and the share of multinational banks in total assets, underestimate the real activity of the multinationals in the area. The cross-border credit must be also taken into consideration.

3. The broad and narrow penetration measures

We will use the standard methodology, used by Peek and Rosengren to the case of Latin America[257], in order to compute the broad penetration measure as follows: first we compute the total credit of multinational banks as total BIS claims plus the credit from the subsidiaries of non-reporting BIS banks. Second, we divide the result obtained by the sum of the BIS claims plus credit from the subsidiaries of non-reporting BIS banks plus the credit from local banks. This broad penetration measure shows the share of the cross-border and local claims in the total credit (foreign and domestic), both cross-border and local from foreign and domestic banks. The

256 Calculations made on the basis of the data in: Consolidated Banking Statistics, BIS, 1998-2004 and BIS Quarterly Review June 2006, www.bis.org

257 Peek, J. şi Rosengren, E., Implications of the Globalization on the banking sector: The Latin American Experience, în "New England Economic Review", sept.-oct. 2000, pp. 45-63

main advantage of this measure is that it takes into consideration the fact that multinational banks can
participate in one country even without having subsidiaries and branches implanted, just by extending the cross-border credit[258].
The narrow penetration measure concentrates only on the credit granted by subsidiaries and branches, by ignoring the cross-border lending. This measure can be compute by dividing the credit from the foreign subsidiaries to the total domestic credit (granted by domestic banks and subsidiaries).
The difference between the two measures (broad penetration measure and narrow penetration measure) shows the importance of the cross-border credit in the total credit of multinational banks.
In the case of Romania, the two measures are presented as follows:

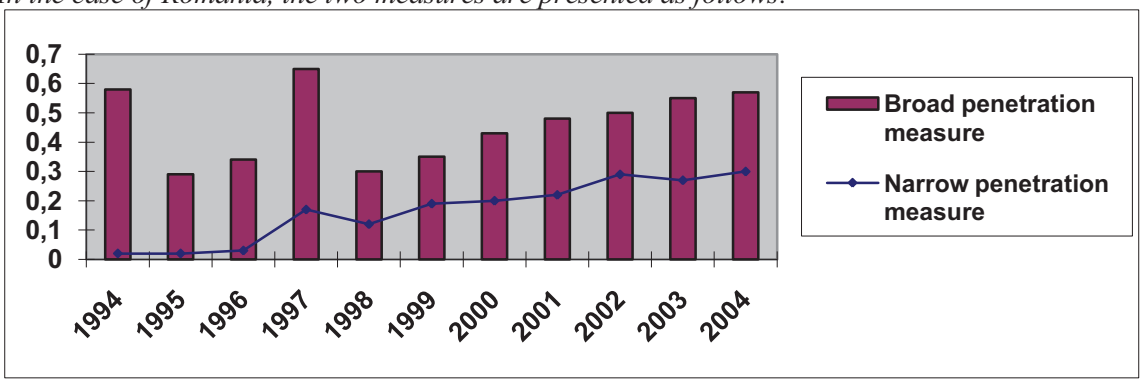

Chart 6. The measure of the foreign capital penetration in Romania
Source: calculations based on data in BIS Consolidated Banking Statistics and BankScope
The chart above reveals some interesting issues. Multinational banks were important players in Romania since the early stage of transition age. Some of them have financing relations even from 1989, the main activities being related to foreign trade and it's financing.
Indeed, the broad penetration measure reveals that 58% of the total stock of credit was provided by multinational banks in 1994[259], which is 6% of the GDP. The multinationals' credit was almost totally cross/border credit, while subsidiaries were almost absent, as it results from the narrow penetration measure. The 1999 year marks a big change, in the sense that, especially after the privatisations made, multinational banks started to be more active in lending; the credit began to be provided relatively less by the way of cross-border credit ant more and more locally, by the implanted banks. The growth of the credit provided by multinational banks continued also after the privatisations, organically, and the trend was accelerated after 2006, after BCR was privatised. The trend is also confirmed by the evolution of Romanian private debt and of the credit granted by the foreign banks' subsidiaries and branches in Romania, as their entrance on the Romanian bank market goes on.

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2. Peek, J. şi Rosengren, E., Implications of the Globalization on the banking sector: The Latin American Experience, în "New England Economic Review", sept.-oct. 2000, pp. 45-63

258 also until now big companies granted credit from banks not phisically implanted in Romania, and after EU accesion the phenomenon has been amplified, because foreign banks do not need anymore special license to operate in Romania
259 De Haas, R. T., Multinational Banks and Credit growth in Transition Economies, Universiteit Utrecht, 2006

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