

THE ECONOMIC SIZE OF THE BANKS IN ROMANIA IN TIMES OF RECESSION

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ABSTRACT

Financial crises no matter what period we talk about, had a tremendous impact heavily on the banking companies, with major implications in the national economy. This paper analyzes the characteristics that has defined the crisis of 1929 compared with those of the current crisis, their impact on banking companies and its dimension. Banking Companies of Romania represent the core of this analysis because they operate in an immature socio-banking area, constantly changing, strongly affected by international financial turbulences. In this context, we considered of paramount importance the identification of the causes that led to the crisis broke out, the effects on the banking companies and thus over the entire economy.

KEYWORDS: *banking company, financial crisis, economy, causes*

The first part presents the banking system during 1918-1929 and an overview of the events that were the crisis breakout premises. Are also detailed the expressions of financial crisis in public finance, monetary circulation and credit and legislative measures taken to overcome crisis. In the second part is made a detailed presentation of what is considered the starting point of the current financial crisis, it analyzes its typology, whether or not, fall into a pattern.

1. Banking Companies and the crisis of 1929, "United Recession"- causes, effects and mitigation measures and the elimination of crisis effects

Strengthening the unity of the state, the single internal market training, rehabilitation and development of national economy have resulted in postwar development credit and banking system. In this period there has been a process of concentration and centralization of capital, the cooperation of industrial and banking capital, which took to increasing the number of banks and their capital. Between 1919-1921, the number of bank liability anonymous companies has grew from 487 to 556, and their capital has increased from 1010.1 millions to 2406.4 millions.¹ It grew especially the number of large banks, which occupying, through investing, major economic sectors.

¹ Mircea Mușat, Ion Ardeleanu, *Romania after the Great Unification*, Vol II, Part I, p.3988

The Credit system was built around the central bank, which covered most of the loans received by the large industry and big Romanian banks and it was dominated by nine large banks: Romanian Bank, Bank Marmorosch-Blank, Romanian Credit Bank, the Romanian Commercial Bank, Chrisoveloni Bank, General Bank of Romanian Country Scont Bank, Commerce Bank and Agricultural Bank of Craiova.

Following the significant gains achieved by banks in this period due to the permanent support of National Bank by maintaining a 6% discount just by NBR and the practice of interest of loans issued by up to 30%. Banking capital has entered the industry in 1925, 12 large banks participating with capital into 380 industrial enterprises. By merging the banking capital with the industrial capital were created monopolistic positions of large capital, both in industry and into the banking system with negative consequences for the development of the country, especially in generating and deepening of an economic and even political rivalries between the two large banks: Bank Romanian - liberal banking center, the promoters of the political line "by ourselves" - and Marmorosch Bank & Blank - banking center of the promoters of the "open door" policy.¹ In our country the crisis began with the agrarian crisis and through the financial sphere (taxes, budgets, public debt) was propagated in all other sectors of economic life and is influencing each other, causing additional problems of industry, agriculture and trade. General economic recession had as an adjacent effect the destabilization of and credit system, primarily by the economic units impossibility (farmers, commercial and industrial enterprises, etc.) of respecting payment engagement, as a result of the production crisis and reduction of consumption goods.

Insolvency of debtors was a consequence of the credit policy applied immediately after the war when there was a "credit inflation" by granting loans with great easyness based on monetary inflation. Beeing into impossibility of the asset realization, banking enterprises have not been able to fulfill their commitments to the third parties.²

Depositors, in the general economic crisis and of the speculation on its bases, panicked it self and in great number requested the withdrawal of deposits, which led to the worsening situation of banks.

Foreign capital in banking, took full advantage from the crisis in Romania, during the recession a capital of about 18 billion being withdrawn from banks in Romania and deposited abroad.

On public finances, the economic crisis has had negative effects mainly by state intervention to support banks and big capitalists, increasing external debt as a result of contracting external loans, military spending, made over budgetary possibilities etc. Governmental measures taken to overcome the financial crisis have generated additional hardship for most people: raising taxes or cutting wages.

¹ Stephen Zeletin, "National Finance and State Policy" in *Social Justice*, Year I (1923), no. 7, April 15

² Elena Cristea, „*Economic crisis of 1929 and 1933 in Romania*”, ASE, Bucharest, 2007

Through the smaller and smaller incomes - the taxes collected from taxpayers - the state was forced to reduce spending. Internally, the government decision was the progressive reduction of wages, through a series of so-called "curve of sacrifice." Another wrong measure of government, with direct consequences over state finances, was the contraction, abroad, of big loans, in unfavorable conditions, and concessions granted to foreign monopolies. The conditions in which Romania has obtained loans from foreign markets was very hard, leading to greater dependency of the national economy of foreign monopoly. Crisis period was characterized by a permanent and substantial depreciation of the national coin in the vast hinterland relatively hidden from declining prices. Therefore, we can estimate that stabilize the national coin in 1929 was poor, and depreciation was further made worse by problems in industry and agriculture, to "export" of capital in the country illegally, the depletion of foreign exchange reserves of National Bank Romania, the granting of credit by the State National Bank to balance the budget. In order to alleviate and eliminate global economic crisis in the period 1929-1933, succeeding governments in power have promoted a policy of encouraging domestic industry by adopting measures of protectionist policy and massive investment, especially in agriculture.

As a result, the following took place during an increase in commercial firms, but also balancing commercial. For exchange, foreign trade, customs protection was lifted for some products at rates that were hardly accessible to foreign imports of similar products produced.

Borrowers and banks benefit from reduced delays to banks and the banks benefited from the same treatment to creditors and depositors.

2. Current financial crisis: End market growth of loans and real estate

Current financial crisis, triggered in the U.S., emerged in 2007 amid creating favorable legal framework of housing and building personal and financial framework relaxed, which allowed access to credit for housing low-income population. In this regulatory context, more banks, investment funds, insurance companies, have given substantial loans to buy homes of customers who were unable to pay loans.

There is an excessive availability of credit funds through the financial system and banking companies, financial firms shed a wide range of financial products on the market: loans for individual houses, buildings, land, cars, credit cards. He followed the housing market crisis and credit crunch, triggered as a result of loss of capital by banks, but also because application of prudential policy, protection of assets.

In his work, a new paradigm of financial markets credit crisis of 2008 and its implications", George Soros stated that we are in the midst of the worst financial crisis in 1930 invoice. In some ways it resembles other crises occurred in last twenty-five years, but net and differentiate them: the current crisis marks the end of an era of credit expansion, with the dollar as international currency referent.

Crazily previous regular process were part of a larger advance-decline, the current crisis represents the culmination of a huge economic boom that has lasted over twenty-five years. " ¹

Commercial banks have expanded strongly after 2000, and in recent years many new names have entered the Romanian banking market. System was in 2008, one of the most profitable in Eastern and Central Europe that the banks are were in a period extending fulminous. The new economic conditions caused by the crisis have not only credit but excessive brake, but also including the work of small banks, which, for now, have given up investing in the development of new sedii. In 2009, profitability fell eight times and Romania became the second most profitable country for bankers and things could be worse for financial institutions in Romania.

Since 2010 we have witnessed the gradual recovery of credit. Banks have implemented a series of measures to reduce costs, achieved through measures to reduce expenditures on personnel and other administrative expenses. He watched as the indicator to reduce costs / venture. In same time, we saw increased net cost of risk, due to deteriorating quality of loan portfolios, in the context of adverse macroeconomic climate.

The question arises: what are the prospects, but the banking sector in Romania?

Our answer is changing and maturing of those who operate in the banking system, meaning that we must guide action to strengthen the Romanian banking system, to be sustainable in the medium and long term.

In a comment, Andrei Radulescu, senior analyst at brokerage firm Target Capital stated, "In other words, would be to see a business model in restructuring the banking system. Moreover, the repositioning of the banking sector is an important issue for national economic recovery. A small open economy (and the case of Romania) needs a competitive banking system. Especially in the context of the role of reduced domestic capital market (Nobel Laureate in Economics, P. Samuelson said that money is the blood that irrigates the economy)."

Creating a strengthened banking system increases its competitiveness with immediate and direct implications on cost reduction and access to cheaper financing.

Conclusions

But modern economic theories reject the idea that economic crises - financial, can be included in a general model valid in a pattern, considering that each financial crisis is unique. Periodic crises are inevitable in an economy, boosted by the existence of developed financial and banking systems, representing in fact a historical accident, caused by specific factors in a particular social situation - economic and political. Crazily can not be anticipated, preventing as

¹ George Soros, *New Paradigm of the financial markets credit crisis of 2008 and its implications*, Publisher, "Point International" Bucharest, 2008

their negative effects. However, history shows that although the economic crisis - and not financial effects do not appear in identical parameters, they are closely related to the cyclical nature of economic processes.

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