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THE EVOLUTION OF THE ROMANIAN BANKING SECTOR IN THE CONTEXT OF COVID-19

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Abstract
Economic activity was completely disrupted by the emergence and persistence of the COVID-19 pandemic. All sectors of activity have suffered more or less. This paper examines how the banking system "managed" during this period. The purpose of this paper is to show the extent to which banking activity has been influenced by the pandemic. It will be seen if the banking system has been influenced more than economic activity. Basically, the analysis refers to the period 2018-2020. According to the available data, the analysis refers to the year 2017 and can extend to the year 2021. As shown above, economic life is affected by the pandemic, so the banking system should suffer. If so, we will discover from the analysis of data on the financial health of Romanian banks. The paper includes the following chapters: Introduction, in which we will review the evolution of the economy in 2018-2020. Aspects characteristic of the Romanian banking sector, in which we will present the basic parameters of the banking financial system, Evolution of banks' activity before and during the pandemic it will analyze the main benchmarks of banking, the level of lending and profitability and Conclusions. The analysis is mainly based on data extracted from the annual reports and financial stability reports prepared by the NBR. The data provided by the main banks in Romania, also found in their annual reports, were also used. less than other economic sectors, such as tourism or transport.

Key words: *COVID-19; banks; banking sector; profitability; loans*

JEL Classification: G21, G32

I. INTRODUCTION

We will further present aspects of the evolution of the economy and the financial system between 2018 and 2020 in order to compare these developments with banking.

At the end of 2018 we can say that Romania registered an economic growth of 4.4%, 2.9% less than in 2017 when the highest growth was recorded after the financial crisis started in 2007. However, the main problems of the economy Romanians persisted.

We refer here to: GDP growth fueled mainly by consumption rather than capital accumulation, growth at a faster rate than exports, leading to a deepening of the current account deficit, net foreign direct investment flows, although relatively stable, in 2018, their share in the financing structure of the Romanian economy decreased, and the deficit of the consolidated general budget was at 2.9% of GDP. At the end of the year, there was an annual inflation rate of 3.3% and an unemployment rate of 4.2%.

Financially, we are witnessing a slight depreciation of the national currency, a good evolution of the profitability of the banking system in the context of the reduction of expenses with the depreciation of assets, as well as the maintenance of the growth rate of lending, especially in national currency.

Credit institutions have a high level of liquidity, as evidenced by the "*ratio between loans and deposits (76.2 percent in 2018; 76.9 percent in 2017, and the volume of exposures to general government remains at a high level, registering a one of the highest values in the European Union. The business model of local banks continues to be a traditional one, largely focused on the relationship with the population sector*" (BNR, 2018b, p.108).

Since 2019, global and domestic economic and social life has changed fundamentally with the rapid spread of the COVID-19 pandemic. We are witnessing a reversal of the trade liberalization process that began in the United States before the onset of the pandemic, and is now accentuated by the slowdown in economic activity in some sectors dramatically. In the context of the measures taken to slow down the spread of the COVID-19 pandemic, there is a sharp drop in the price of raw materials, the most affected being the prices of energy goods, as a result of the drastic reduction in transport activity.

Romania, in 2019, recorded an economic growth of 4.1%, 0.3% lower than in 2018. This was influenced by the slight advance of investments, especially in the field of construction**.**

The public deficit is growing sharply: "*it stood at 4.3 percent of GDP, the highest level in the European Union*" (NBR, 2019, p.9). This was possible because: "*The total revenues of the general consolidated budget expressed as a share in GDP decreased marginally, from 31.9 percent to 31.7 percent. In contrast, the share of*

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total consolidated budget expenditure in GDP increased by 1.2 percentage points, from 34.8 percent to 36 percent" (BNR, 2019, p. 62).

The annual inflation rate started to increase reaching 4%, the leu recorded a nominal depreciation against the euro of 2% and the unemployment rate stood at 3.9%.

As far as the banking system is concerned, the solvency and liquidity indicators are higher than the European average. The profitability of the sector, measured by the return on assets (1.4%) and the financial return (12.3%) registered slight decreases compared to the previous year.

After the installation of the COVID-19 pandemic, a series of shocks are felt in the economy generated by the measures of isolation and social distancing materialized in the appearance of some asynchronizations in the supply-production-sales chains that determine changes in the behavior of economic agents. There are major changes in the field of work, starting with the low level of new employment, low level of pay, the emergence of technical unemployment and ending with the emergence of new ways of working (work at home, telework, part-time or flexible work).

At the level of public policies, there are expenditures of large budgetary resources in order to fight the pandemic, especially in the health field but also to cover the social and support needs of the economic agents affected by tourism, transport, trade and some productive branches. So "*the lockdown effect",”generates high economic and financial costs*" (BNR, 2019, p. 36). As a result of the above, we note that the budget deficit has increased, reaching 4.3% of GDP, the share of public debt in GDP being 35.2%.

The year 2020 is exacerbated by the public health crisis, which has generated a strong global economic contraction. This is also felt in Romania, where GDP decreased by 3.9% compared to 2019.

As a consequence of the economic context deteriorated by the COVID-19 pandemic, the public budget deficit in GDP was 9.2%. The share of public debt in GDP also increased, reaching 47.3%. This can be explained by the high volume of deferred taxes but also by the slowdown in economic activity.

The main causes of the widening deficit remain the same, are accumulated over time and are mainly due to the structural problems of the Romanian economy, the dysfunctions in public policies in the field of state expenditures and revenues, still unresolved. Inflation fell to 2.1% in 2020 but the unemployment rate reached 5.0%, given that there are "*about 1.3 million people who were or are still technically unemployed*" (Anghelache, Cioacă & Grigorescu, 2020) their situation is still uncertain.

In October 2021, the inflation rate reached 7.9% due to the sharp rise in commodity prices, especially oil and gas, the continued disruption of supply chains and the rapid rise in public debt.

For Romania, the outbreak and persistence of the COVID-19 pandemic has led to a worsening of macroeconomic imbalances and a drastic slowdown in economic growth with strong negative social consequences. The Romanian state has implemented various measures to reduce the effects of the pandemic, among which we mention: payments for parental assistance during school closures, aid to support companies, aid to support salaries, deferred taxes for companies and households (Romanian Academy, 2020, p.23).

II. Characteristic Aspects Of The Romanian Banking Sector

We have presented above a brief evolution of the economic and social life in Romania in the years 2018, 2019, 2020 and partially 2021. We will direct the analysis to the financial system and the banking sector to analyze how they behaved during this period and which have were the effects of the pandemic on them.

It is known that for a long time the Romanian financial system has been dominated by the banking sector. However, Romania has a lower value of the banking sector's assets in GDP compared to the countries in the region and the EU (49.5%). We present in the table the evolution of the financial system from 2015 to the present.

Table 1. Distribution of assets and liabilities within the Romanian financial system

Years	Credit institutions	Non-bank financial institutions	Insurance companies	Private pension funds	Investment funds
2015	77.6%	5.8%	3.9%	4.8%	8.0%
2016	76.3%	5.9%	4.2%	5.9%	7.7%
2017	75.6%	6.0%	4.1%	6.8%	7.4%
09.2018	75.5%	6.1%	3.9%	7.7%	6.8%
09.2019	74.1%	6.2%	4.1%	8.9%	6.7%
03.2020	76.1%	6.0%	3.9%	8.5%	5.5%

Source: processing by NBR, Financial Stability Report 2018-2021

Apart from the negative aspects, this small size is a stabilizing factor during crises. It is known that along with Estonia, Malta, Poland and Slovakia, Romania is part of the group of 5 EU countries that did not require

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government intervention in the financial system, during the crisis that broke out in 2007. We are carefully looking at whether this finding will be valid. and after the COVID-19 crisis.

The small size of the banking sector also has negative aspects due to the fact that loans are more expensive (because economic agents, including banks, when they do not have a high volume of activity, resist in that market by charging higher prices, even in competitive conditions). The NBR estimates show that "*a doubling of the volume of loans would be needed in order for all Romanian banks to be able to cover the fixed and variable costs of their lending activity*" (BNR, 2020, p. 28).

In this case, the ability of banks to finance large economic agents, large projects or the public sector will also be small. Romanian banks have high exposures to the state (over 20% of banking assets). As a result, they no longer have enough resources to continue financing the state or large companies**.**

The ESRB's Advisory Scientific Committee has published a report showing that countries with a predominantly bank-based financial system, such as Romania, will experience moderate long-term growth and bank lending is more volatile than other sources of financing (from the capital market, for example), amplifying financial and economic instability. "*Universal-type banks have become more widespread in recent years at EU level, being large in size, with higher systemic risk than smaller banks, and more specialized activity*" (Advisory Scientific Committee, 2014). In this context, the Romanian financial system, like the EU financial system, depends to a very large extent on the functioning of the banking sector.

The Romanian banking sector, compared to the size of the economy, is one of the smallest in the EU. This can be demonstrated by comparative indicators, including: the share of banking sector assets in GDP, the ratio of non-government credit to GDP or the number of banking units per 1,000 inhabitants.

The ratio between non-government credit and GDP shows a constantly decreasing evolution, the trend starting with 2012. It results that Romania's GDP has increased much more than the volume of loans granted to the real economy. The banking system participates through lending, in small proportions to GDP growth.

Table 2. Evolution of financial intermediation (% non-government credit/GDP)

Explanations	2015	2016	2017	2018	2019	2020
Financial intermediation	30,5	28,8	27,1	26,4	25,3	26,8

Source: processing by NBR, Annual reports 2016-2020

And the size of the territorial network is small and continues to shrink. (Moroșan, 2020) "*The territorial network of credit institutions continued to shrink in 2020, with 191 branches and bank branches closed, while the number of employees in the system decreased by 456 people*" (BNR, 2020, p. 179).

The most active in reducing the number of units were: BRD, BCR, Raiffeisen Bank and CEC Bank. In the case of CEC Bank, we are considering a resizing imposed by the large number of units inherited from the period before 1989, in the case of BCR, restructuring was required in order to reduce costs and make a profit. The two banks have given up about 429 units in the last 9 years.

On the other hand, we find Banca Transilvania and OTP Bank, banks that have a slightly decreasing evolution of the units at the end of 2020 compared to 2015. At OTP Bank, the additional agencies in the portfolio are due to the acquisition of Millennium Bank.

BRD, the credit institution that had the strongest growth in the territory in the period 2006 - 2008, has diminished its network in the last 9 years with 353 agencies, the resizing being accentuated especially in the last two years.

Taking stock, we find that compared to 2008, more than 25% of banking units disappeared after the onset of the economic crisis. The banking industry's infrastructure peaked in 2008, when territorial networks reached a record 6,552 branches and agencies employing more than 71,600 people. The causes are many, but two are obvious: accelerating restructuring and adapting to new market conditions.

The trend observed in the following table is of continuous decrease from 2010 to the present, both in the number of banking units and in the banking staff. Compared to 2010, more than 37% of banking units were closed and 21% of employees were fired.

Regarding the evolution 2019-2020, the banking sector remained at a number of 34 credit institutions. The main events in 2020 were: "*completion of the acquisition transaction by Eximbank S.A. of the majority stake of Banca Românească S.A., the acquired bank changing its name to Banca Românească S.A., the merger between Bank Leumi România S.A. (absorbed bank) and First Bank S.A. (absorbing bank), completed at the end of April 2020 and the operational opening of the Bank of China (Central and Eastern Europe) Limited branch*" (BNR, 2020).

The Romanian banking sector, at the end of 2020, was composed of six banks with full or majority Romanian capital, 20 banks with mostly foreign capital and 8 branches of some foreign banks, as shown in the following table.

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Table 3. Evolution of the number of credit institutions during the period 2015 – 2020

Explanations/ Years	2015	2016	2017	2018	2019	2020
Number of credit institutions: of which:	36	37	35	34	34	34
- banks with majority foreign capital	23	24	22	21	21	20
- branches of foreign banks	7	8	7	7	7	8
Number of branches and agencies	4.947	4.798	4.596	4.382	4.059	3.871
Number of employees	55.928	55.396	55.044	53.737	53.106	52.650
Herfindahl / Hirschmann index	861	903	915	962	971	997

Source: processing by NBR, Annual reports 2016-2020

It seems that the reduction in the number of units and staff will continue - not only due to cost reductions, but also due to the introduction of digitization, a distribution channel that becomes important in the context of the pandemic and in the shortest possible time in interaction with banks.

Along with the changes that took place in the shareholding structure, the market share according to the share capital of the banks, at the end of 2020, according to the table below, is as follows: credit institutions with Romanian capital - 38.1%, institutions credit with majority foreign capital - 59.9%, branches of some credit institutions, foreign legal entities - 2.0%.

Table 4. Evolution of the capitalization of the banking system in the period 2015 - 2020 (% of total capital)

Explanations/Years	2015	2016	2017	2018	2019	2020
Banks with Romanian majority capital	14,1	13,3	29,4	31,3	33,2	38,1
Banks with majority foreign capital	84,6	85,3	69,3	66,9	65,2	59,9
Branches of foreign banks	1,3	1,4	1,3	1,8	1,6	2,0

Source: processing by NBR, Annual reports 2016 -2020

Approximately 58% of the assets of the banking sector are held by banks with foreign capital, according to data presented by the NBR at the end of 2020, presented in the table below.

Table 5. Evolution of the structure of the net balance sheet assets in the period 2015 - 2020 (% of total assets)

Explanations/Years	2015	2016	2017	2018	2019	2020
Banks with Romanian majority capital	9,6	8,7	23,0	25,0	26,3	29,4
Banks with majority foreign capital	79,6	80,4	66,0	63,6	61,5	58,0
Branches of foreign banks	10,8	10,9	11,0	11,4	12,2	12,6

Source: processing by NBR, Annual reports 2016 -2020

And the ranking of banks by asset value has undergone significant changes compared to the period 2002-2009. Although the financial crisis started in 2007 did not directly "hit" the Romanian banking system, in particular, some banks were deeply affected.

In this sense, Volksbank Romania registered large losses, finally being absorbed on 31.12.2015 by Banca Transilvania. Alpha Bank and BancPost record decreases in activity, the latter, as shown, being acquired by Banca Transilvania.

CEC Bank, a credit institution with fully Romanian capital, is constantly evolving, as is UniCreditBank and Raiffeisen Bank.

It can be noticed the continuous decrease of the share of assets in total assets registered by BCR (lost the first place) and the spectacular increase of Banca Transilvania which overtook BRD-GSG and, starting with 2018, took the first place from BCR.

Table 6. Top 10 Banks by Asset Value (% of Total Assets)

No.	The banks	2015	2016	2017	2018	2019	2020
1	Banca Transilvania	12,6	13,2	13,9	16,5	17,7	18,5
2	BCR	15,8	16,3	15,8	15,1	14,4	14,2
3	BRD-GSG	13,0	12,9	12,5	12,0	11,3	11,0
4	ING Bank	6,3	7,1	7,9	8,5	9,0	9,6
5	Raiffeisen Bank	8,4	8,5	8,4	8,9	8,7	9,2
6	UniCredit Bank	8,1	8,3	8,8	9,2	9,0	8,1
7	CEC Bank	7,3	7,2	7,4	6,5	6,6	7,4
8	Alpha Bank	4.0	3,7	3,7	3,8	3,6	3,2

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No.	The banks	2015	2016	2017	2018	2019	2020
1	Banca Transilvania	12,6	13,2	13,9	16,5	17,7	18,5
9	BancPost*/OTP**	3,0	3,0	2,6	2,5	2,7	2,7
10	Garanti Bank	2,5	2,3	2,3	2,3	2,2	1,9

* On 31.12.2018 Bancpost (absorbed bank) merged by absorption with Banca Transilvania
** Starting with 2019

Source: processing by NBR, Annual reports 2016-2020

III. EVOLUTION OF BANKING ACTIVITY BEFORE AND DURING THE PANDEMIC

At the beginning of the COVID-19 pandemic, the Romanian banking sector was solid compared to the EU average in terms of liquidity, capital adequacy or the provision of non-performing exposures with provisions. Non-performing loans were also at an appropriate level.

The following table shows that the main activity of banks is lending, including the government sector, 70.7% of assets being composed of loans.

Table 7. Structure of bank assets and liabilities (%)

Explanations/ Years	2015	2016	2017	03. 2018	09. 2019	04. 2020	03. 2021
Loans to the population	25.9	26.4	26.5	26.8	27.6	25.8	24.4
Loans to non-financial corporations	25.1	23.7	22.6	22.6	23.0	20.9	20.8
Claims on the NBR	11.6	10.6	10.8	9.8	7.2	7.5	6.5
Claims on the government sector	21.5	21.7	21.3	21.3	21.0	27.8	24.0
External assets	4.8	5.5	6.4	7.3	7.4	9.8	11.2
Other assets	11.1	12.1	12.4	12.2	13.8	13.2	13.1
TOTAL	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Deposits attracted from the population	35.2	38.1	38.8	39.2	41.6	42.2	42.4
Deposits attracted from non-financial companies	25.6	25.8	23.1	22.2	22.7	22.1	23.9
Capital and reserves	17.4	15.7	14.5	14.9	14.6	13.9	14.1
External liabilities	15.5	11.7	9.9	9.9	7.5	6.6	5.6
Other liabilities	6.5	8.7	13.7	13.8	13.6	15.2	13.0
TOTAL	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: processing by NBR, Financial Stability Report 2018-2021

Regarding the way of procuring resources, it is found that the main way was to attract the amounts available from the population (over 40% of total liabilities), followed by the amounts available from companies, share capital and reserves.

Another feature is the fact that gradually, the deposits set up by the Romanian economic agents started to replace the deposits or other external sources, which leads to a reduction of the risk of contagion.

This is somewhat surprising given the steady decline in the interest rate on deposits, amid a decline in the inflation rate over the period 2015-2017. The only explanations remain the confidence of the population in banks against the background of guaranteeing deposits within the limit of 100,000 Euros, the possibilities of limited placement of savings (for example a stock market with low activity) and in the poor financial culture of the population.

Regarding lending, we find that after 2011 a decrease in lending to both the population sector and companies. As shown in the table below, there were two years (2013 and 2014) when banks granted fewer and fewer loans.

The main causes were the difficulties in recovering the loans already granted, the high credit risk perceived by the banks, the increase in the restrictivity of lending standards but also the decrease in the demand for loans from companies.

"*The real annual growth rate of credit granted to the private sector was in negative territory between 2012-2014, becoming positive again since 2015, a year in which another notable evolution was recorded - the component in lei became dominant in the credit structure, after 8 years in which the foreign currency loan held the majority position. From the perspective of bank financing beneficiaries, credit for the population has been a more dynamic component in recent years, reaching to take over in 2016 the supremacy in the structure of the credit stock, a more robust resumption of sustainable lending to the non-financial companies sector remaining a challenge for banks. in the context of which many SMEs are not eligible for lending, while many corporations prefer to use intra-group loans.*" (BNR, 2017, p.13)

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According to the NBR, "*the financing of the population remained consistent (the stock of loans increasing by 9.4% in March 2018, annual variation) and focused mainly on real estate loans in lei. In fact, the amounts of new housing loans in the last three years have reached higher values than in the pre-crisis period, compared to new consumer loans which remained at a net level below this reference period. Regarding 2017, the volume of new loans (amounting to 23.7 billion lei) was directed in relatively equal proportions between the two main destinations. The share of loans granted to the population consolidated around 53% of the total loans granted to the private sector in March 2018* " (BNR, 2018a, p. 65).

In 2020, the situation is described by the NBR as follows: "*From the perspective of annual average values, the growth of credit granted to the population remained robust, moderating only slightly (to 6.1 percent, from 7.8 percent in 2019) , while the dynamics of loans to non-financial corporations decreased considerably (to 3.6 percent, from 7.0 percent in 2019), mainly due to the decline in the change in the currency component (to 2.3 percent, from 8 , 3 percent in 2019, based on balances expressed in euros)*" (BNR, 2020, p.113).

However, in 2020 "*The annual dynamics of credit to the private sector thus visibly decreased for the whole year - to 5.1%, from 7.6% in 2019 (maximum of the last 10 years) -, but remained significant from the perspective of the last decade, ranking second in the region for the third year in a row*" (BNR, 2020, p.110).

Therefore, we are witnessing a timid increase in credit in the private sector, especially at the level of individuals. The First House and New House programs are the "*spearhead* " of these growths. Therefore, a measure taken by the state determines the increase of lending, not the involvement of the banking sector. Loans in lei are predominantly granted in recent years.

We also see a continuous and very high exposure on the government sector. "*Of the total claims on the public sector (amounting to about 99 billion lei, March 2018) 90% are securities issued by the central government, of which 71% in lei, about 27% in euros and 2% in other currencies*" (BNR, 2018, p. 65).

In nominal terms, the balance of loans to the private sector increased by only 35% between 2010 and 2020, while loans to the state sector increased by 165%. In the last three years, if we move on to an in-depth analysis of the balance sheets of Romanian banks, we will find that they have focused on lending to individuals and less to legal entities. The total share of credit granted to the population remained relatively unchanged for the whole of 2020, ie (53.1%).

Regarding the component of foreign currency lending, it is noted that since 2013 it has a sharp downward trend due to restrictions imposed by the NBR. "*The share of the lei component in credit to the private sector continued to increase, reaching 69.5 percent in December 2020 - a new high for the post-1996 period - from 67.6 percent at the end of the previous year*" (BNR, 2020, p.112).

This has led to a significant decrease in banks' exposure to currency risk over time.

And in 2020 "*the share of loans in lei is dominant in the population segment, reaching the record of the last over 18 years (79.2 percent at the end of 2020, from 76.0 percent in December 2019), and that of non-financial companies, it resumed its growth (59.7 percent in December 2020 - the peak of the last two years - from 58.3 percent at the end of the previous year)*" (BNR, 2020, p.113).

Table 8. The evolution of loans in Romania during 2012-30.09.2021

Years	**Loan total** (mil. lei)	of which:			
		Privat sector (mil.lei)	of which:		**Public sector** (mil.lei)
			Lei (mil.)	**Other** (mil)	
2012	304.689,0	225.836,2	84.722,8	141.113,4	78.852,8
2013	298.922,5	218.462,3	85.354,0	133.108,3	80.460,2
2014	296.710,8	211.164,1	92.100,0	119.064,1	85.546,6
2015	307.034,1	217.399,2	110.157,4	107.241,8	89.635,0
2016	313.358,6	220.100,5	125.945,8	94.154,8	93.258,1
2017	330.677,4	232.603,3	146.024,5	86.578,8	98.074,1
2018	356.616,5	251.100,1	165.668,4	85.431,6	105.516,4
2019	383.787,2	267.575,0	180.993,1	86.581,9	116.212,2
2020	427.961,6	282.370,5	196.322,0	86.048,5	145.591,1
30.09.2021	477.245,3	314.569,8	225.288,6	89.281,2	162.675,5

Source: processing by NBR, Interactive-database

If we refer to maturities, we can see (see table below) that long-term loans are dominant, followed by medium-term loans. This has positive effects on banking, banks have long-term sources of income, but also negative, related to increased credit risk (it is known that the longer the maturity, the greater the risk of lending and the interest rate is higher).

In 2020, "*in view of the maturity structure, the large dynamic decrease in the stock of loans to non-financial corporations came from the segment of short-term loans, intended to cover the need to finance the current activity. On the other hand, medium- and long-term loans continued to grow at a rapid pace, only slightly lower*

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than in the previous year, as a result of their considerable revitalization in the second half of the year, most likely in association with increased investment activity, and including the contribution of the "SME Invest Romania" program. In the case of loans to households, a slight slowdown in growth has been fully reflected in consumer and other loans, with housing fluctuations remaining virtually unchanged" (BNR, 2020, p.113).

Table 9. Evolution of credit granted to the private sector, by maturity

Years	**Credit to the private sector** (% of total private credit)		
	TS	**TM**	**TL**
2012	24,46	20,56	54,98
2013	21,61	23,44	54,95
2014	19,49	25,93	54,58
2015	18,79	26,69	54,52
2016	17,62	27,93	54,45
2017	17,52	28,29	54,19
2018	12,75	31,70	55,55
2019	14,63	30,94	54,43
2020	12,52	30,10	57,38
30.09.2021	12,75	31,70	55,55

Source: processing by NBR, Interactive-database

Banks in Romania, after 2010, recorded a high level of non-performing loans, which reached 31.5% of total loans in 2013. High values were also recorded in 2011, 2012, 2014 and even in 2015. In the last period (2016 - 2021) non-performing loans registered a low level, reaching 3.9% of total loans, on March 31, 2021. In the following table we present an evolution of this indicator of banking activity:

Table 10. Evolution of non-performing loans in the period 2012-03.2021

Explanations/Years	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**03. 2021**
Non-performing loans (non-performing loans and advances /loans and advances) (%)	27,6	31,5	20,7	13,5	9,6	6,4	5,0	4,1	3,8	3,9

Source: processing by NBR, Financial Stability Report 2018-2021, Annual reports 2016-2020

The Romanian banking sector recorded periods of profit (2008-2009, 2013, 2015 - 2020), marked by years of losses, mainly due to expenses with depreciation of assets, amid reduced activity and therefore income from commissions and foreign exchange.

The tables below show the evolution over time of significant indicators of bank profitability. Banks in Romania recorded a net profit of 5.0 billion lei at the end of 2020, 20 of the 34, registering a profit (23 in 2019), amid declining expenses with depreciation adjustments, a low level of cost access to financing sources and maintaining the low rate of granting credit in national currency.

Table 11. The evolution of the profitability of the banking sector in the period 2010-2020 (%)

Explanations/Years	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
ROA (net profit / total assets)	-0,16	-0,23	-0,64	0,01	-1,3	1,2	1,1	1,3	1,6	1,4	1,0
ROE (net profit / equity)	-1,73	-2,56	-5,92	0,13	-12,5	11,8	10,4	12,5	14,6	12,2	8.7
Solvency ratio (> 8%)	15,0	14,9	14,9	15,5	17,6	19,2	19,7	20,0	19,7	20,0	23,2
Profit (millions lei)	-516	-777	-2.300	49	-4.700	4.878	4.259	5.336	6.893	6.392	5.025

Source: processing by NBR, Annual reports 2010-2020

Starting with 2015 and until now, Romanian banks are continuously making a profit. Even in the pandemic, the volume of profit did not decrease much. The banks with the best results are: Banca Transilvania, Raiffeisen, ING Romania, all with a high return on capital and increasing market share. UniCredit and CEC also remained profitable and gained market share, but the analysis of asset quality shows that they have above-average non-performing shares and below-average provisioning coverage (Moroșan, 2018).

Interest income is the most important part of bank income, with over 60% of total income. These revenues increase in the second half of 2017. One of the factors of this evolution is the fact that banks practice a very high

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level of profit margin calculated as the difference between the interest charged on new loans in lei and the interest paid on new deposits in the same currency. In the case of individuals, it was between 0.92 and 7.67 percentage points in October 2021 (calculations according to BNR, Interactive Database, 2020).

We cannot also notice the fact that the banks do not reimburse the interest for the sight deposits, having permanently a free source of conducting business. In addition, the interest rate on new deposits of 1.15% and a maximum of 2.66%, given that the inflation rate is 7.9%, reflects a dominant position and discretionary behavior lacking solidarity with customers.

The high profit margins, the low level of non-performing loans, the low credit risk due to state loans and the low volume of loans, especially in the area of companies, are defining features of the functioning model of the Romanian banking sector.

Net commission income, the second largest share of operating income (16.7%), decreased since 2018.

The "*negative exchange rate differences*" had the same negative dynamics, due to the reduction of the foreign exchange market turnover. This element ranks third as a share of banks' revenues (about 7.4% in 2020).

Revenues from available-for-sale financial assets (2.7%), the fourth largest share of total bank revenues, continued to decline compared to previous years.

Table 12. Breakdown of profit at the end of 2017, 2018, 2019, 2020

Explanations/Years	**2017**		**2018**		**2019**		**2020**	
	mil.lei	**% în total**	**mil.lei**	**% în total**	**mil.lei**	**% în total**	**mil.lei**	**% în total**
Net interest income	11.280	58,8	13.816	65,4	15.236	66,0	15.425	67,2
Net commission income	3.912	20,4	4.118	19,5	4.162	18,0	3.842	16,7
Exchange rate differences	1.901	9,9	1.883	8,9	1.938	8,5	1.698	7,4
Gains / losses on assets and financial liabilities	1.470	7,7	209	1,0	505	2,2	628	2,7
Trading income	353	1,8	711	3,4	723	3,1	859	3,7
Other incomes	276	1,4	389	1,8	506	2,2	491	2,3
TOTAL INCOME	**19.192**	**100**	**21.126**	**100**	**23.070**	**100**	**22.943**	**100**
Staff costs	5.005	36,1	5.412	38,0	5.624	33,7	5.927	33,1
Administrative costs	4.737	34,2	4.978	35,0	5.098	30,6	4.626	25,8
Other expenses (especially depreciation)	825	6,0	966	6,8	1.718	10,3	1.800	10,0
TOTAL OPERATING EXPENDITURE	**10.567**		**11.356**		**12.440**		**12.353**	
Operational profit	**8.625**		**9.770**		**10.630**		**10.590**	
Provisions					888	5,3	374	2,1
Impairment of financial assets	1.839	13,3	885	6,2	1.115	6,7	3.835	21,4
Other	1.450	10,4	1.992	14,0	2.235	13,4	1.356	7,6
TOTAL EXPENSES	**13.856**	**100**	**14.233**	**100**	**16.678**	**100**	**17.918**	**100**
Profit / Loss	**5.336**		**6.893**		**6.392**		**5.025**	

Source: processing by NBR, Financial Stability Report 2018-2021

Banks' expenditures increase annually due to the slight increase in the average salary, given that large sums are spent on the purchase of computer applications in the context of the digitalization and modification of distribution channels.

Banks' profits remain relatively constant over the years under review as risk has slowed due to slow lending, massive government lending and tightening lending conditions. As a result, the level of non-performing loans has decreased substantially. We need to look at the future effects of the pandemic on banking.

V. CONCLUSION

In the previous chapters we analyzed some aspects of economic and financial life in Romania during 2017-2020, ie from the beginning of the pandemic until now.

From the above, we can conclude that the economy was affected by the pandemic, which can be seen from the following:
- the health crisis has worsened,
- economic growth has slowed, GDP in 2020 has fallen by 3.9% compared to 2019,
- the public deficit reached 9.2% of GDP,
- public debt is close to 50% of GDP,
- inflation reached 7.9% (not only due to the pandemic),
- the unemployment rate is rising to 5%, with 1.3 million people technically unemployed, and their situation is uncertain,
- supply-production-sales chains are suffering,

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- some economic branches are deeply affected - tourism, cars, transport.

On the other hand, we find that the banking sector is not as affected as the economy as a whole. This statement is based on the following:

- banks rigorously follow their cost-cutting program by dismantling units and reducing staff according to the programs,
- the level of capitalization is good, so is solvency and liquidity,
- the lending activity is carried out in the same parameters, ie a weak increase in lending, especially of companies, and a consistently high lending of the state,
- the level of non-performing loans is low, remaining low in the last five years,
- the activity model based on the establishment of deposits from which loans are granted works perfectly, banks have gains due to the very high level of profit margin calculated as the difference between interest charged on new loans in lei and interest on new deposits,
- the level of profitability is good, banks have consistently recorded over the last six years a profit of over 5 billion lei per year.

Banks need to contribute to economic growth and reduce social and financial exclusion in the country. Under these conditions, it is the duty of banks to create a friendly financial environment, especially in times of crisis.

Instead, we find that they make a profit even in times of crisis, grant very few loans which shows the decoupling of banking from economic activity. We find that banks have a growing role in meeting the needs of individuals, so in boosting demand, consumption and less in stimulating the development of the economy by lending to companies, which would mean stimulating supply and investment.

In addition, high profit margins and high interest rates on deposits well below inflation can discourage local savings with long-term negative effects on investment and therefore economic development.

The Romanian state came to support the customers of the banks through measures to postpone the rates (not all banks appreciated this), so it got involved in supporting the banks. Few customer support actions have been taken by banks.

We need to be well understood. The banking sector must be solid, it must operate in normal parameters. We are pleased to see that this is happening. However, given the solidarity that economic actors must show in the face of the pandemic, we find that banks have not shown solidarity and empathy, carrying out their activity unperturbed, perhaps even sometimes taking advantage of the pandemic.

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