

Using Financial Soundness Indicators enhanced with descriptive statistics in an overview of vulnerabilities of the Romanian banking system

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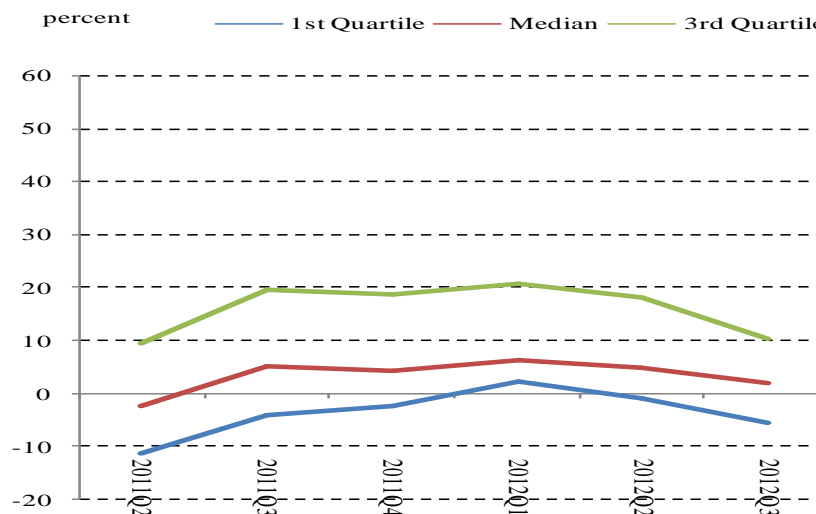
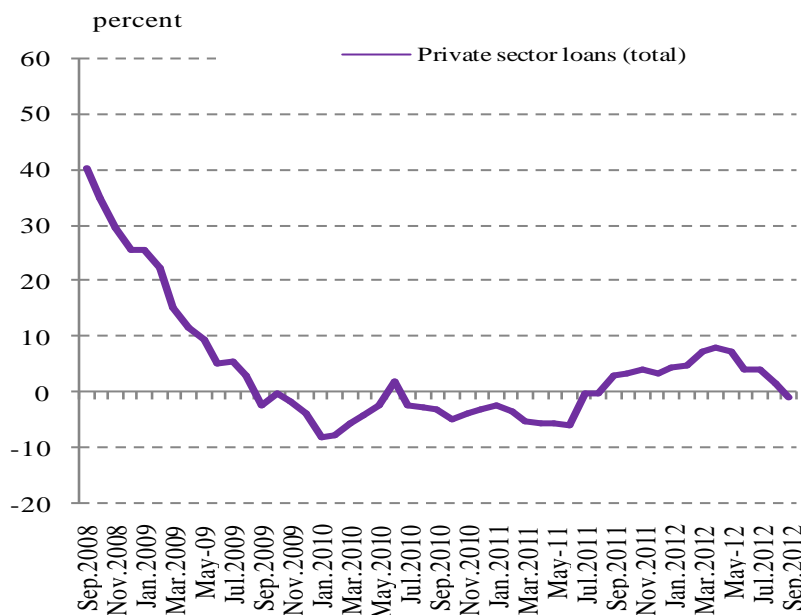
National Bank of Romania



A risk dashboard of the Romanian banking sector

- One goal of the financial stability analyses is the assessment of imbalances in the financial sector. Financial Soundness Indicators (FSIs) have been developed to assess the vulnerability of the financial sector to shocks.
- The IMF FSIs' Compilation Guide contemplates various measures of dispersion which would enhance the analysis of peer group FSIs. The calculation of dispersion requires information on each individual institution, although results can be disseminated without revealing specific institutions data (*FSI Reference Group meeting –Issues Paper, 2011*).
- In the overview of the vulnerabilities of the Romanian banking system that follows, with focus on the last part of 2011 and the nine months of 2012, the FSIs assessing credit, funding liquidity risks, as well as profitability and solvency were enhanced with the median, 1st and 3rd quartile data of the last six quarters of the series.
- The aim of this presentation is a basic risk dashboard of the Romanian banking sector, in a search for a better (more adequate) way to use the FSIs in the financial stability analyses.

The expansion in lending to the private sector (since September 2011) has further weakened. The median real credit growth was 2 percent as at September 2012 (5 percent in the same year ago period). Among the group of large banks, those with majority Romanian capital had credit dynamics above the median



Note

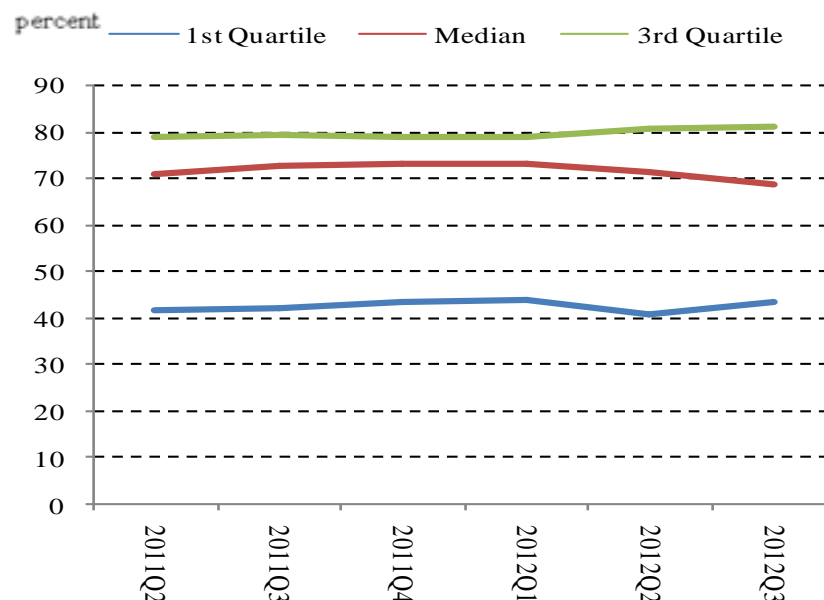
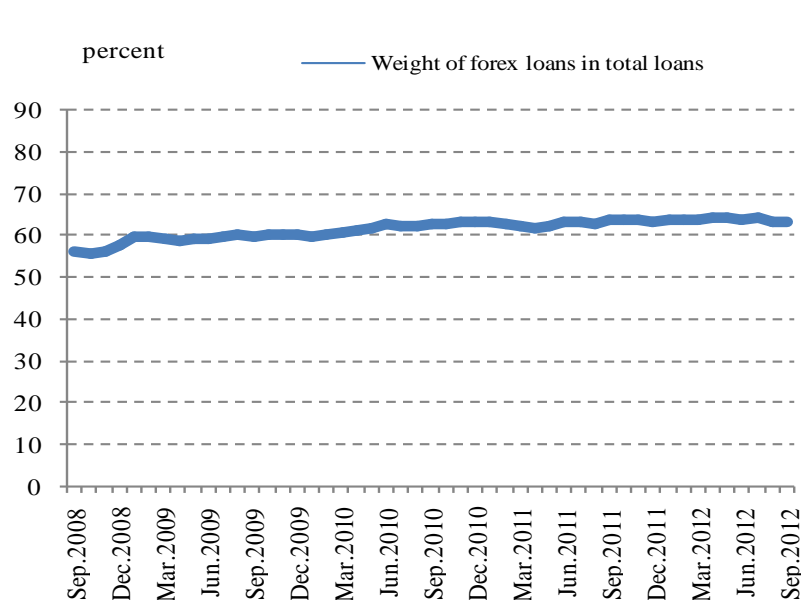
-left hand graph depicts the evolution of the loans to private sector, annual growth, real terms

-right hand graph depicts the 1st quartile, median and 3rd quartile of the loans to private sector, annual growth, real terms

Large banks have asset holdings of over 5 percent of total.

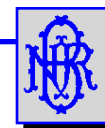


The large weight of forex loans indicates that the banking sector remains vulnerable to currency shocks. However, just one of the large banks exceeded the banking sector median value (which was diminishing with 4 percentage points year on year at end-September 2012), but was under the 3rd quartile

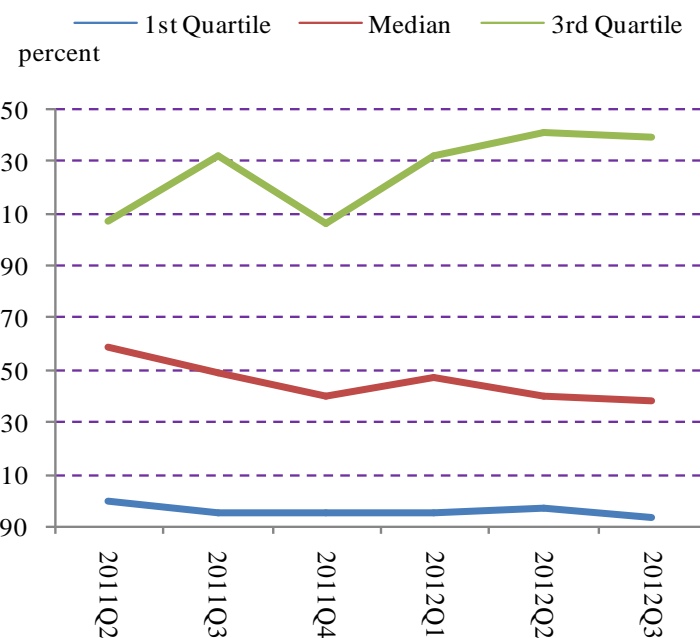
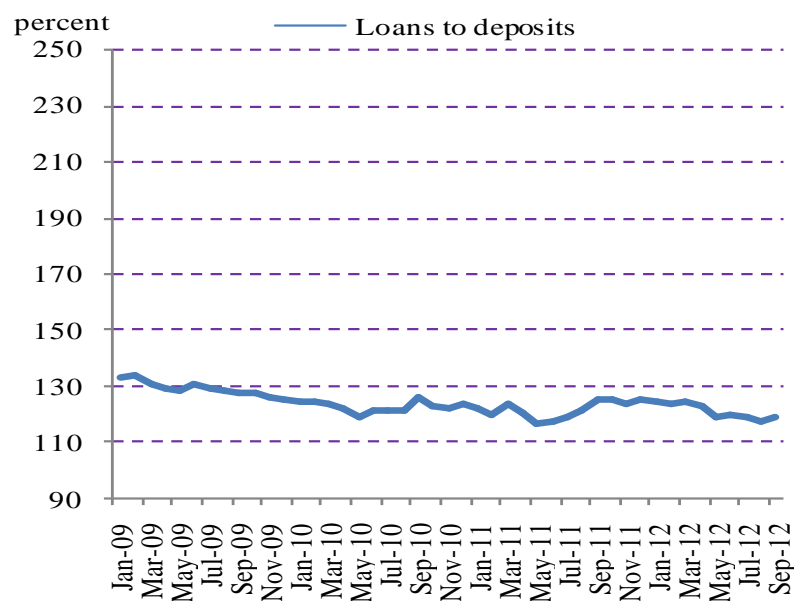


Note:

- left hand graph depicts the weight of the foreign currency loans granted to private sector to total loans
- right hand graph depicts the 1st quartile, median and 3rd quartile of the foreign currency loans to total loans



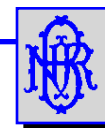
The disequilibrium between the loans granted to the private sector and the attracted financing sources from non bank customers slightly amplified in the last part of 2011, in the context of the larger growth of the loan granting activity. From January 2012 the trend was reversed. The median of this ratio was 11.4 percentage points smaller year on year at end-September 2012. At the same date, among the group of large banks, just one exceeded the median value, while the banks with majority Romanian capital were under the 1st quartile



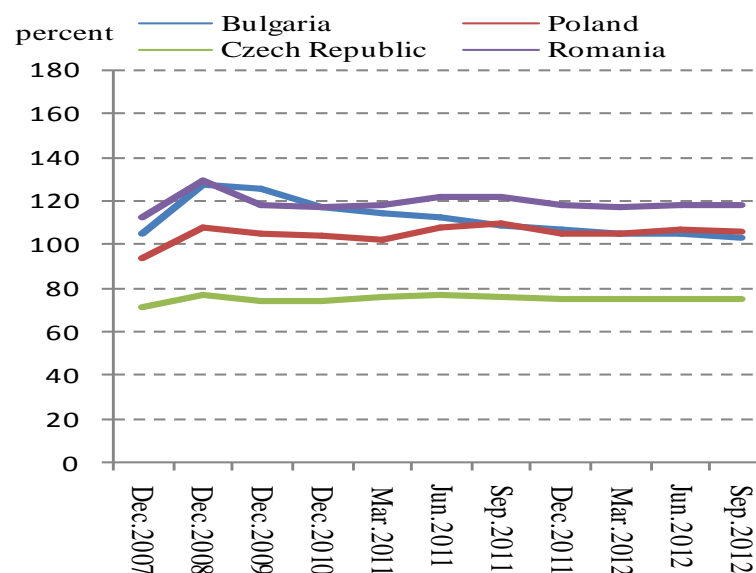
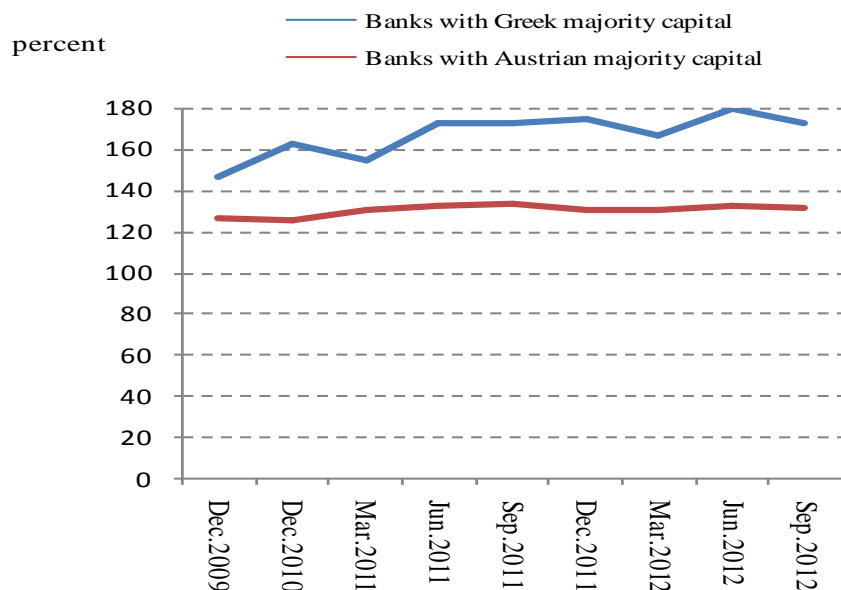
Note:

-left hand graph depicts the loans to deposits ratio

-right hand graph depicts the 1st quartile, median and 3rd quartile of the loans to deposits ratio

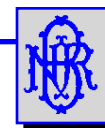


The largest part of the banks with majority Greek capital recorded a deterioration of the loans to deposits ratio. In regional comparisons, the level of this ratio for the whole Romanian banking sector remains relatively high

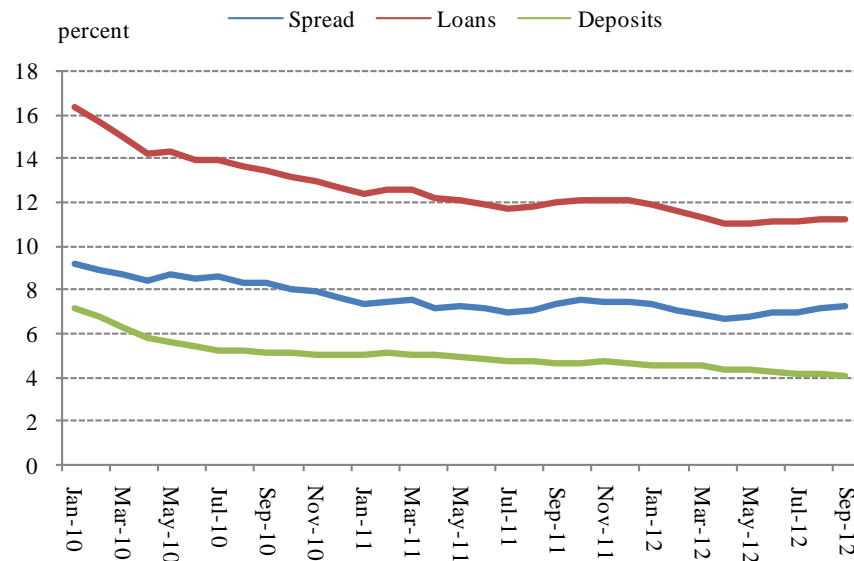
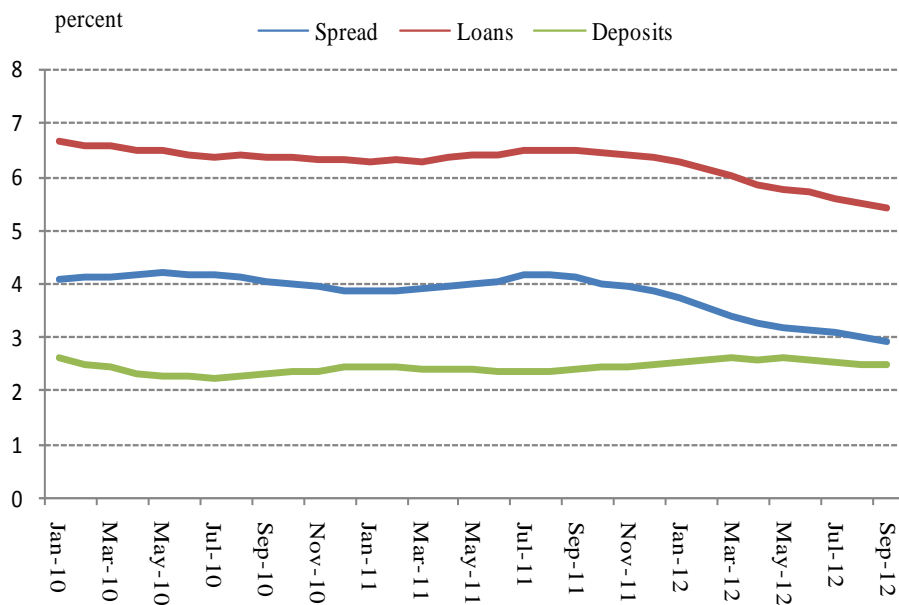


Note:

- left hand graph depicts the loans to deposits ratios of banks with Greek and Austrian majority capital
- right hand graph depicts the loans to deposits ratio in the banking sectors of Bulgaria, Czech Republic, Poland and Romania (aside from corporate and households deposits, the denominator also includes other general government deposits).

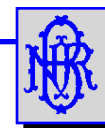


The funding costs from the deposits attracted locally were rather constant for the euro denominated liabilities, while for the RON sources they have decreased as compared to last year

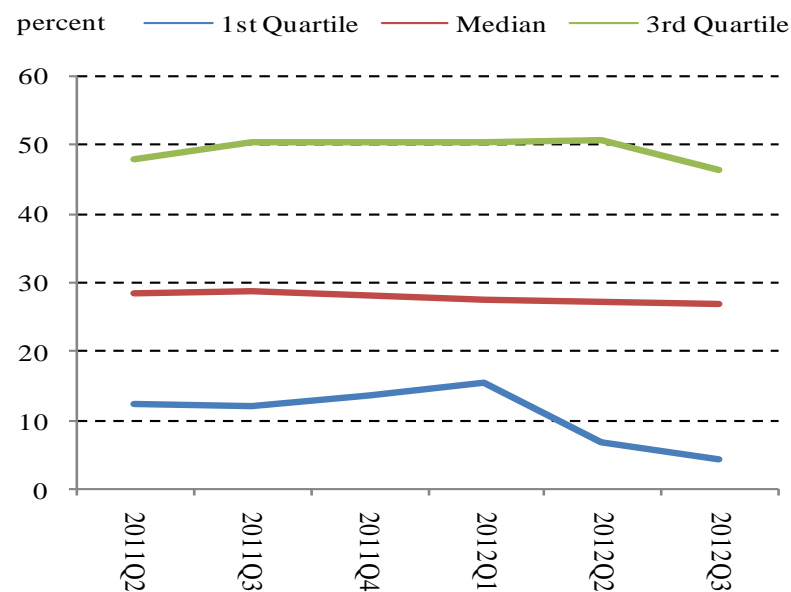
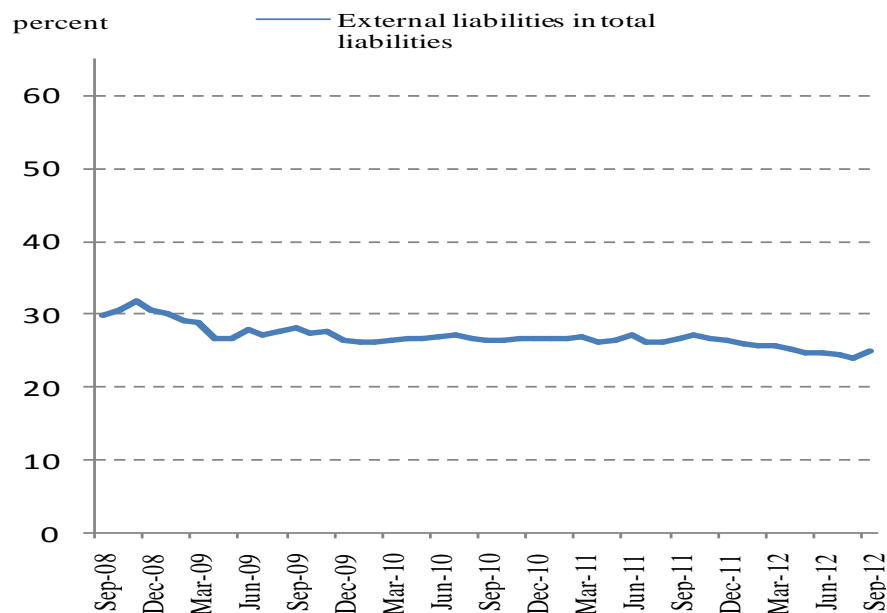


Note:

- left hand graph depicts the weighted interest rate for EUR spreads, loans and deposits
- right hand graph depicts the weighted interest rate for RON spreads, loans and deposits



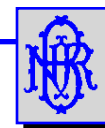
Banks' funding liquidity risk was limited, as funding provided by parent banks (making up the largest share of external financing) witnessed until now an orderly adjustment, amid an ongoing gradual reduction in Romanian credit institutions' reliance on external funds. The median of the external liabilities in total liabilities was 1.9 percentage points smaller year on year at end-September 2012. At the same date, among the group of large banks, two banks exceeded the median value (but were under the 3rd quartile)



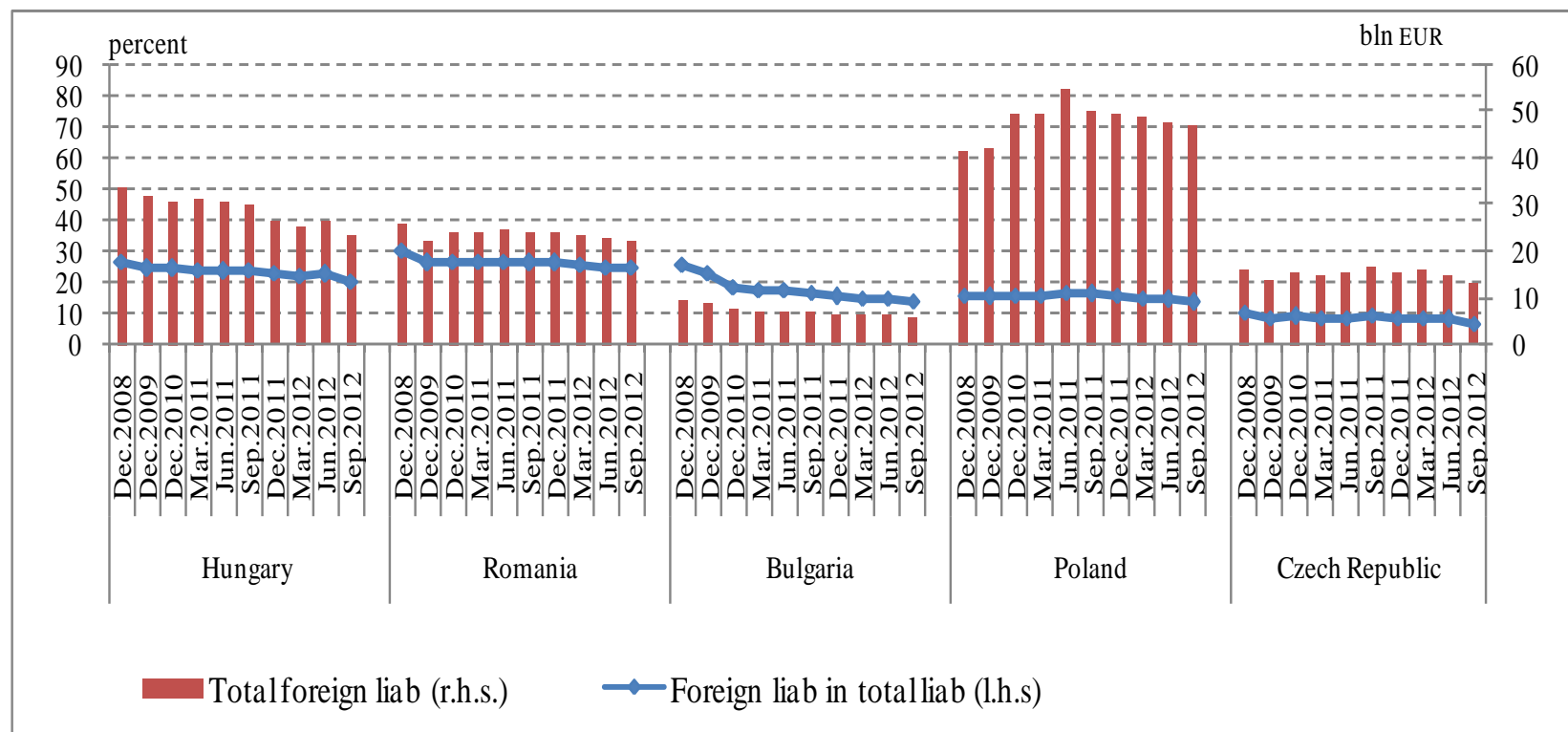
Note:

-left hand graph depicts the external liabilities in total liabilities

-right hand graph depicts the 1st quartile, median and 3rd quartile of the external liabilities in total liabilities



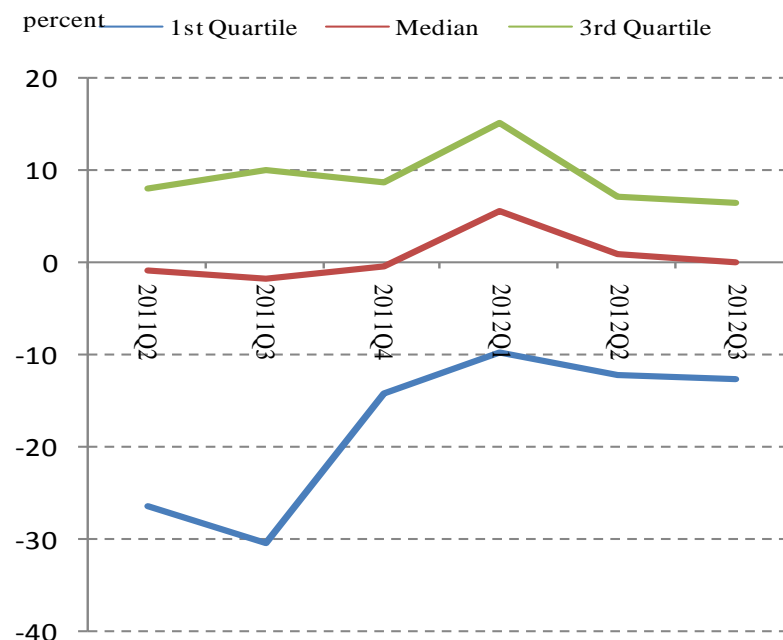
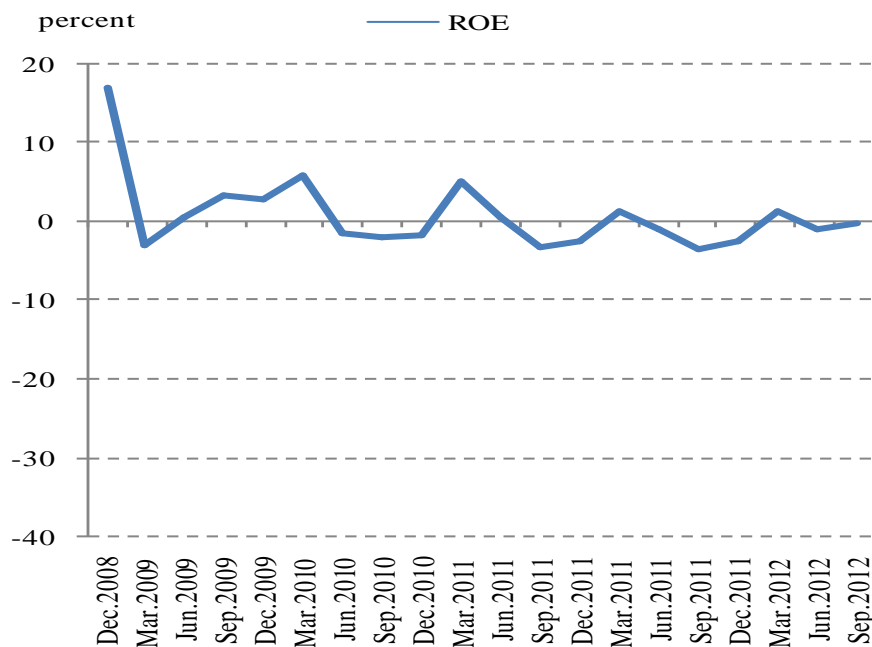
The foreign dependence of the Romanian banking sector is above the regional average, but on a decreasing trend, in the context of the slight increase of the local financing sources. The share of medium- and long-term funding from parent banks in total funding increased by 2 percentage points in September 2012 as against the same year ago period to stand at 69.3 percent



Source: ECB



The end-September 2012 financial results remained negative, similarly to the previous year, but the median ROE (0.1%) increased with 1.8 percentage points year on year. Large banks generally reported positive financial results, three of them (from a total of six) having their ROE above the 3rd quartile at the same date

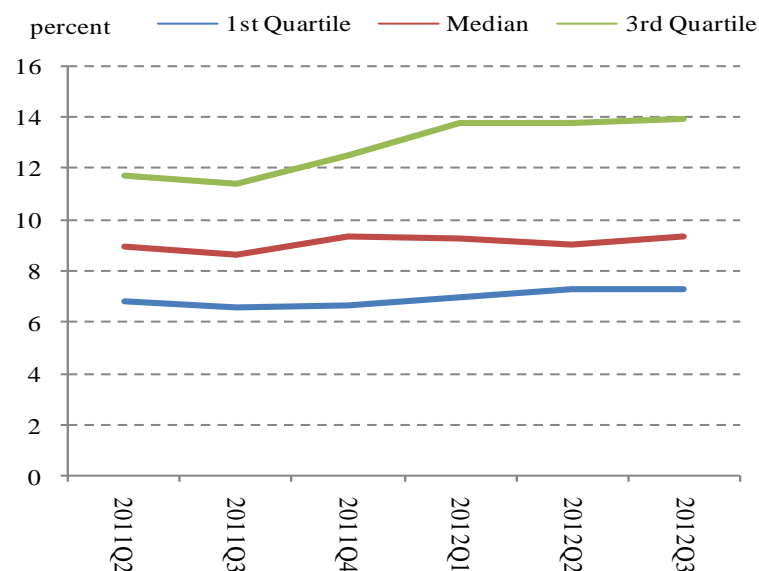
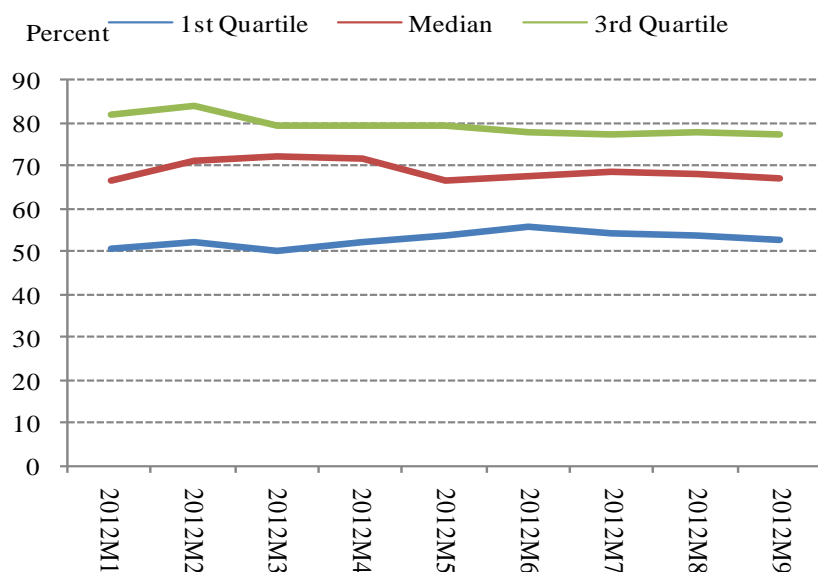


Note:

-left hand graph depicts the ROE

-right hand graph depicts the 1st quartile, median and 3rd quartile of the ROE

As at end-September 2012, two of the large banks have their net interest income to operating income above the median (67.3%), while other two have their ratios below the 1st quartile. At the same date, all the large banks have their cost/income ratio below the median (63.3%)

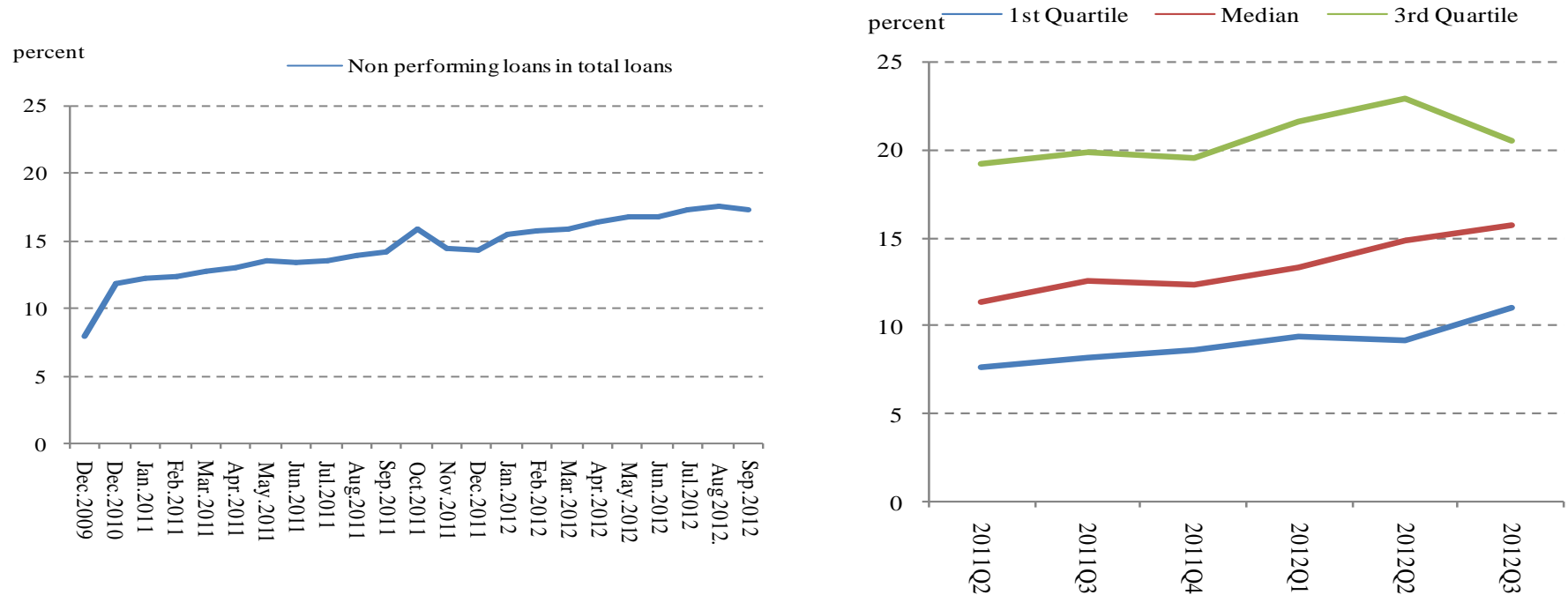


Note:

-left hand graph depicts the 1st quartile, median and 3rd quartile of the net interest income to operating income

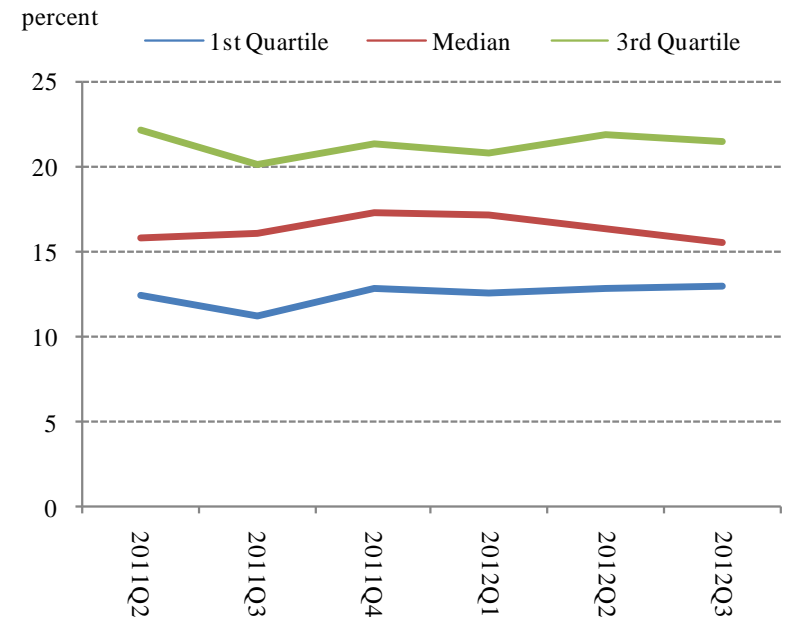
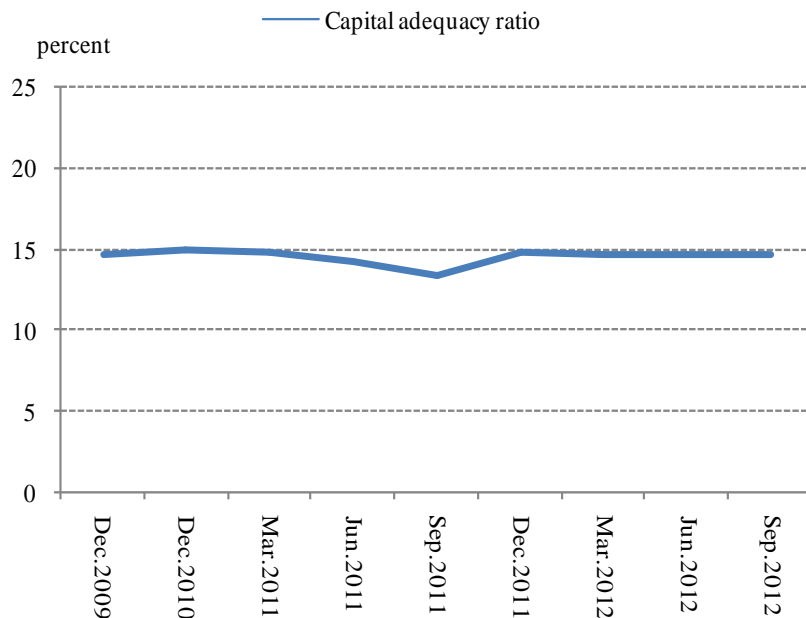
-right hand graph depicts the 1st quartile, median and 3rd quartile of the cost to income

Further constraints on customers' financial standing, against the background of still fragile economic growth, were associated with the ongoing worsening quality of banks' loan portfolio, albeit at a slower pace. As at end-September 2012, three of the large banks have their nonperforming loan ratio above the median, but not exceeding the 3rd quartile



Note: The NPL ratio takes into consideration loans and interest overdue for over 90 days and/or in which case legal proceedings were initiated against the operation or the debtor as a share in total classified loans and interest.

Despite the deterioration of the loan portfolio, the capital adequacy ratio remained at a comfortable level, due to consistent recapitalizations performed by the own shareholders of the banks. The median of the ratio was almost unchanged year on year as at end-September 2012 (15.5%). At the same date, the majority of the large banks had this ratio between the 1st quartile and the median



Note:

-left hand graph depicts the capital adequacy ratio

-right hand graph depicts the 1st quartile, median and 3rd quartile of the capital adequacy ratio

How vulnerable is the Romanian banking system to shocks as seen through the evolution of FSIs? (1)

- The expansion in lending to the private sector (since September 2011) has further weakened. The median real credit growth was 2 percent as at September 2012 (5 percent in the same year ago period). Among the group of large banks, those with majority Romanian capital had credit dynamics above the median;
- Credit risk remains the major vulnerability of the Romanian banking sector; during 2012, the loan portfolio continued to deteriorate, but with reduced growth. As at end-September 2012, three of the large banks have their nonperforming loan ratio above the median, but not exceeding the 3rd quartile;
- The large weight of forex loans indicates that the banking sector remains vulnerable to currency shocks. However, just one of the large banks exceeded the banking sector median value (which was diminishing with 4 percentage points year on year at end-September 2012), but was under the 3rd quartile;
- Despite the deterioration of the loan portfolio, the capital adequacy ratio remained at a comfortable level, due to consistent recapitalizations performed by the own shareholders of the banks. The median of the ratio was almost unchanged year on year as at end-September 2012 (15.5%). At the same date, the majority of the large banks had this ratio between the 1st quartile and the median;

How vulnerable is the Romanian banking system to shocks as seen through the evolution of FSIs? (2)

- The end-September 2012 financial results remained negative, similarly to the previous year, but the median ROE (0.1%) increased with 1.8 percentage points year on year. Large banks generally reported positive financial results, three of them (from a total of six) having their ROE above the 3rd quartile;
- The disequilibrium between non-government loans and deposits slightly amplified in the last part of 2011, in the context of the larger growth of the loan granting activity. From January 2012 the trend was reversed. The median of this ratio was 11.4 percentage points smaller year on year at end-September 2012;
- Banks' funding liquidity risk was limited, as funding provided by parent banks (making up the largest share of external financing) witnessed until now an orderly adjustment, amid an ongoing gradual reduction in Romanian credit institutions' reliance on external funds. The median of the external liabilities in total liabilities was 1.9 percentage points smaller year on year at end-September 2012. At the same date, among the group of large banks, two banks exceeded the median value (but were under the 3rd quartile);
- The external financing remained above the regional average, but this vulnerability is mitigated by the medium and long term tenure of the funds supplied by the parent banks to their Romanian subsidiaries
- The funding costs from the deposits attracted locally were rather constant for the euro denominated liabilities, while for the RON sources they have decreased as compared to last year.

Thank you !

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