

THE ADJUSTMENT OF BANKING SYSTEMS TO THE DEMANDS OF CONTEMPORARY ECONOMIES

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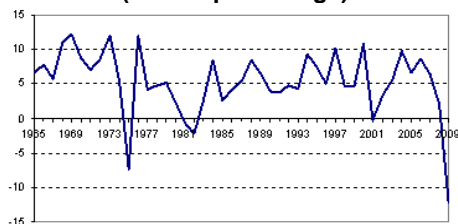
1. General considerations

Contemporary economies are facing a financial and economic crisis which appears to be unprecedented in the last half century. It is well known that international financial market turmoil was triggered by the mortgage market crisis with high risk (subprime) in the U.S. This has disturbed the entire U.S. financial system, and much of the international financial markets. It seems that the current financial crisis has roots well established because it dates from 1977, when the American state approved the federal law, "Community Reinvestment Act" in order to support needy people who could not buy a house. The current crisis has caught the attention of the entire world and exceeds the boundaries of the sectors initially affected by it. Recent analysis of the impact of the crisis all converge on the following point: after it hit the advanced and emerging economies, the "third wave" of the crisis is now affecting developing countries. (IMF - implications of global financial crisis on low-income countries, March 2009). In this context, we can say that events that have occurred since the second half of 2007 and up to now, have shown that interdependencies and correlations between financial markets, banking and real world economies are much stronger than estimated by specialists.

2. Effects of the ongoing crisis on the contemporary economies

The economic crisis has affected the volume of world merchandise exports. As can be seen in Chart No. 1, the decrease of trading volume was the highest in the last 40 years.

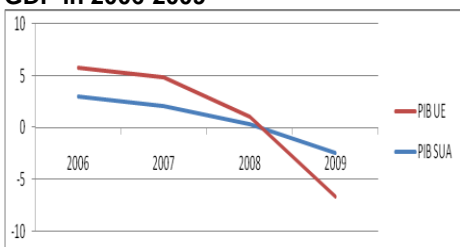
Chart number 1. The evolution in global volume of exports of goods in the period 1965-2009 (annual percentage)



Source: WTO: 2010 Press Releases

Major effect of the crisis was truly felt in 2009, when U.S. GDP decreased by 2.4%, while the U.E. GDP decreased by 4.2%. From Chart No.2 presented below it can be noticed that since 2008, also as an effect of the crisis, economic growth declined and the GDP in both major economic regions slipped on a downward slope compared with 2006.

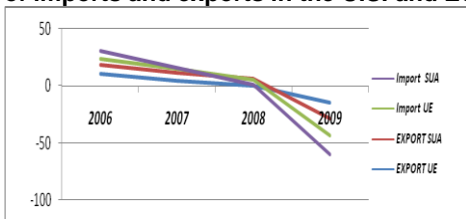
Chart number 2 Evolution of U.S. and EU GDP in 2006-2009



Source: WTO: 2010 Press Releases

Also, the two largest economic areas were affected in their export rates: U.S. export value began to drop significantly reaching a decrease of 13.9% in 2009 compared to 2007 and in the European Union the decrease was of 14.8%. The decrease was also felt to imports in both regions. Thus the fall in imports came in late 2009 versus 2006 to 14.5% for EU and 16.5% for S.U.A. These downward trends may be observed in chart number 3.

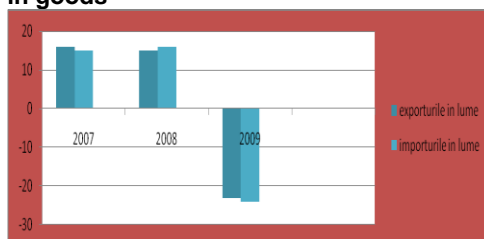
Chart number 3. Evolution of the volume of imports and exports in the U.S. and EU



Source: WTO: 2010 Press Releases

World trade of goods has increased in both U.S. and EU by 2008. In 2009, both world trade and the U.S.' and U.E's declined sharply. With one common aspect: all reductions were over 20% in the U.S: in late 2009 the export value reached -18%, imports reached -26% and in the EU, in the same period, exports reached -23% and imports reached -25%. Decreasing evolution of world trade in goods in 2007-2009 is illustrated in chart number 4.

Chart number 4. Evolution of world trade in goods



Source: WTO: 2010 Press Releases

The crisis has left its mark in terms of trade in services as well. Thus, in 2009, there were significant decreases compared with 2008: at global level, the decrease was 13% for providing services exports and 12% for imports, given that, until the crisis, the growth of exports of transport services was an alert one. For example, in the EU in 2008 it was registered an increase of 88% compared with 2003.

In my approach I presented only a few issues that I considered significant, aspects that, in my opinion, highlight broadly the state of contemporary economies in the context of economic and financial crisis that Romania is currently undergoing as well.

3. Implications for global banking

Turmoil in international market, led primarily to customers' state of panic and distrust in the banking system manifested mainly by withdrawing their deposits held by banks, and secondly to freezing lending activity, which led automatically to contraction in real savings.

Also due to bad loans at a global level, losses of commercial banks are huge. According to recent estimates of the Goldman Sachs Investments bank, the financial industry losses amounted to 705 billion euro. International banking system has experienced resounding failures of banking giants, nationalizations, or even the selling of banks for modest sums. For this, we have the following examples:

- U.S. bank failures and takeovers of financial institutions by state or by competition have succeeded rapidly. (Washington Mutual was taken over by JPMorgan)

- the example of banking giant Fortis, which has assets exceeding 440 billion euro, and the governments of Belgium, Netherlands and Luxembourg agreed to buy 49% of bank assets for 11 billion euro to save it from bankruptcy.

- Dexia, second Belgian bank, seems to be hit by financial crisis as well: its shares fell by 30%, despite assurances by officials that the bank's situation is good.

- Germany also would be obliged to consider the nationalization of some banks, if the turmoil continues on global markets, said recently the German Finance Minister Peer Steinbrueck.

To adapt to the demands of contemporary economies and to counter the effects of the crisis on international banking system, banks became more reluctant to face the risk, reducing both lending to non-financial institutions and transactions in the interbank market. Interest rates on the interbank market have met significant changes, affecting the normal course of exchange of cash between banks and increasing funding costs. Also in order to adapt to global economic situation, efforts are sustained by banks to stimulate lending and remove uncertainty as loss of confidence in global financial system has led the international economy towards recession. Banks currently suffer most from loss of mutual trust, thus creating an artificial shortage of liquidity. In Romania, the profitability of the banking system during 2009 was positive, although banks profit declined. No bank in the Romanian banking system has been in default although lending decreased in intensity and variation in non-governmental balance registered negative values for several months. Cost of credit also increased significantly due to worsening of the economic environment and due to

attraction of financial resources rarer and more expensive. The number of banking establishments fell by over 90 branches in 2009 and over 3,000 bank employees have lost their jobs. Relatively positive financial results and high degree of capitalization of banks supported the Romanian banking system to withstand shocks induced by this period marked of turbulence and uncertainty.

4. Conclusions

In conclusion, late awareness of the financial crisis by governments of major countries or economic areas affected by major crises has created confusion and fear in financial markets. Loss of confidence is now observed globally, particularly in marketable real estate securities but also in the entire lending process, given that the exposures calculated for normal economic circumstances seem affected by interest's market volatility, and especially by the volatility of market values of real estates guarantees.

Therefore, financial and economic environment is constantly changing and the banking system, both internationally and within countries of the world is now under the impact of deep changes, caused primarily by extended global economic downturn, secondly by increased economic integration processes (the case of Romania) and not least by the improvement of information technology.

Currently it can be said that the role of banks should be compared with a spearhead, which is available for the monetary authorities in order to ensure liquidity in economy and the financial resources that support economic development of each country through the lending process. Economically, credit is a real institution, being the most important financing source of economic growth. Through credit, one can obtain financial resources not available to the investor, thus anticipating an investment potential

that he could materialize somewhere in the future. Anticipating investment translates into obtaining profit faster, leading to a growth process which, nationally, is evidenced by accelerated economic growth. On the other hand, by lending you stimulate consumption, which in turn generates economic growth through early recovery of production results.

The main objective of national governments should be the concern to direct most credit towards business generating growth directly, correlated with credit of consumption of business'

results whether they are products, goods or services.

In this unstable world economic context, it is difficult to establish the clear trends in the evolution of banking systems worldwide and at a national level, and secondly to establish the development of interdependence of states of the world, especially in view of Romania, which is in the process of EU integration and adaptation, having to adjust its economic and monetary policies to the policies and directives of the European Union.

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