



SYNTHESIS ON THE EVOLUTION OF THE BANKING CREDIT IN ROMANIA

Assoc. prof. Anișoara Niculina APETRI^{1*}, Assoc. prof. Camelia Cătălina
MIHALCIUC¹

^[1] ”Ștefan cel Mare” University of Suceava, Universității Street, no. 13, Suceava,
Romania

Abstract

The credit has a special importance in the modern economic system, playing a vital role in business financing and thus the increase in welfare by mobilizing capital availability and redistribute them according to the requirements of the economy. Economic growth stimulates the development of the credit market in times of low inflation rates, encouraging risky investments in innovative products from domestic and foreign investors, which will lead to greater economic growth in the long term. Starting from these considerations, through this paper, the authors propose to analyze the evolution of credit in Romania during the last seven years, from 2010-2017, this analysis being carried out by types of credits and types of entities. Also, an important point of the paper focuses on the positive/negative aspects of the impact of monetary policy measures and the NBR regulations on the banking credit.

Keyword: NBR, government credits, non-governmental credits, bank credits.

JEL Classification: G20, G21

I. Introduction

The period of the global banking and financial crisis continues to have overwhelming implications in the current period, which requires careful research into monetary and financial phenomena at local and global level. An impediment to the development process of the banking sector in Romania was, apart the difficult macroeconomic environment, the low level of economic and financial-banking culture of the population (Apetri et al., 2015:116). Thus, the general objective of this paper starts

*Corresponding author: Anișoara Niculina APETRI, E-mail: anisoarad@seap.usv.ro



from the following pertinent question: *What were the main reasons why the Romanian population had contracted credits during 2010-2017?*

II. Literature Review

The role of credit in the economy is concretized by the results obtained from the manifestation of credit relations or by the contribution of credit to the fulfillment of certain economic policy objectives (Roșca, 1996: 114).

The importance of credit in the economy is highlighted by its functions, namely: the distributive function, the transformation function of savings in investments, the monetary issuance function, the function of ensuring the stability of prices (Manea, Postolache, 2009: 6-10).

Belgian Professor Fd. Baudhuin mentions the material aspect of the credit and associates it with a temporary transfer, defining credit as "renting a capital or purchasing power". The author points out that if credit is a "buying power" it is not effective from the start. Credit is an anticipation of a future production. Regarding the atrium of the lease, French economist Charles Gide argues that "the credit is the lent of money by the one who has too many to the one who has too few" (Iordachi, 1994: 64).

From a legal point of view, the Romanian Civil Code defines the credit facility as the contract by which a credit institution, a non-banking financial institution or any other entity authorized by law undertakes to keep at its disposal a sum of money for a period of determined or undetermined time.

The credit institutions may face many types of risks that can affect their work through some influences on the financial statements and the future of their profits. Credit risk is considered in the literature and basic risk represents the loss incurred by a financial institution, if the entry of default of a borrower or damage its ability to repay the loan, which is the time reduction credit quality. The diversification of the loan portfolio represents an optimal way to control the risk and increase the profitability (Cociș & Chirleşan, 2009).

III. The evolution of banking credit in Romania during 2010-2017

In order to avoid possible effects of financial crisis, the National Bank of Romania has consistently acting against the accumulation of risks in the banking system, mainly generated by the explosive growth of non-government credits, through a series of mitigation measures of lending activity, especially in currency. Thus, the emergence of rule changes on the classification of loans laid the groundwork to reduce currency risk

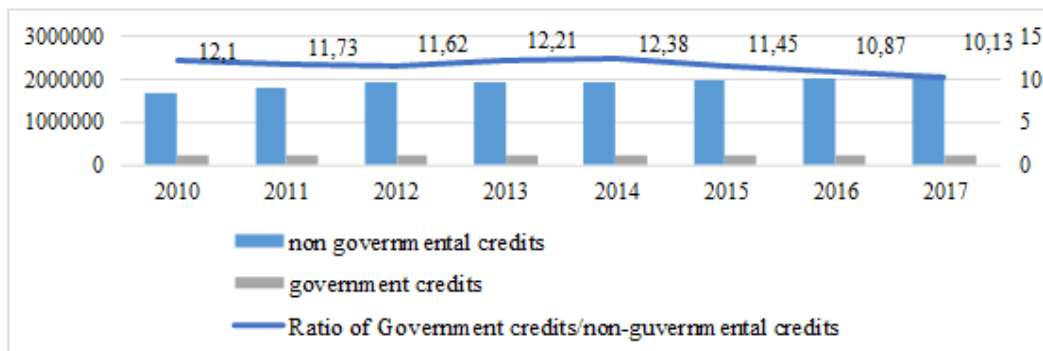


exposure of loans to individual customers in a currency other than where they carry out their income, but also generated an increase in the cost of this credit category and thus a deceleration of its dynamics (Apetri et al, 2010:117).

The evolution of the global crisis and the subsequent sovereign debt crisis in the euro area have clearly changed the business models of the banking sector from the Central and Eastern European countries. Thus, internal loans slowed, and foreign bank branches had to increasingly rely on local sources of finance, mainly on retail deposits and domestic debt instruments instead of financing parent banks.

The NBR tried to push through its monetary policy the resumption of crediting for the real economy on a sustainable basis, by lowering the interest monetary policy rate and the minimum requirements reserve ratio, and by ensuring liquidity in the money market. In Romania, the long-term fundamental objective of the monetary policy of NBR has been represented by ensuring the price stability in order to contribute at the stability of the national currency. NBR has pursued the realization of this objective implicitly with the help of intermediary targets. Starting 2004, according to the new statute of NBR; the unique objective of the monetary policy is represented by ensuring and maintaining the price stability (Apetri & Mihalciuc, 2009: 2) . At the end of 2010, the government credits ratio for non-government credits was 12.10%, unlike the end of 2017, when this ratio was 10.13%, as shown by the NBR lending reports, indicating a decrease of government financing by the banking sector in favor of the real economy (Figure 1).

Figure 1- Ratio of Government Credit/Non-Governmental Credits, 2010 – 2017



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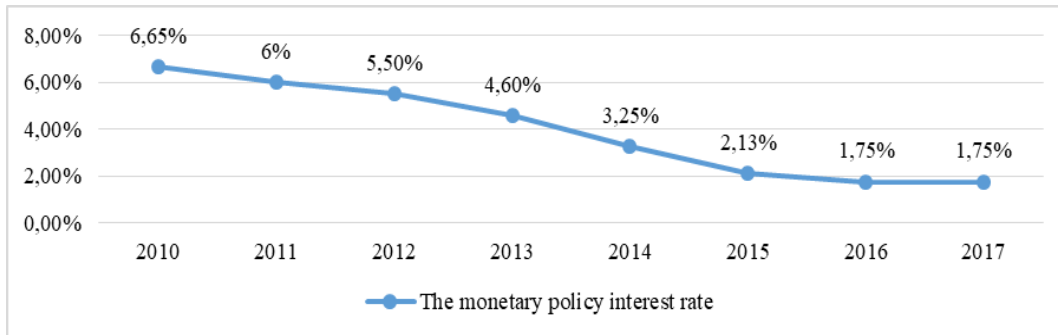
The monetary policy of the National Bank of Romania had a limited impact on the resumption of lending activity despite the fact that the interest monetary policy rate



gradually decreased from 6.65% in 2010 to a record 1.75% in May 2015 (Figure 2), in line with trends in the consumer price index and the anticipation of a low inflation rate.

At the same time, requirements on minimum reserves in RON were reduced from 15% in 2010 to 8% in 2017, while foreign reserve requirements in foreign currency decreased from 20% in 2010 to 8% in 2017, similar to those in lei.

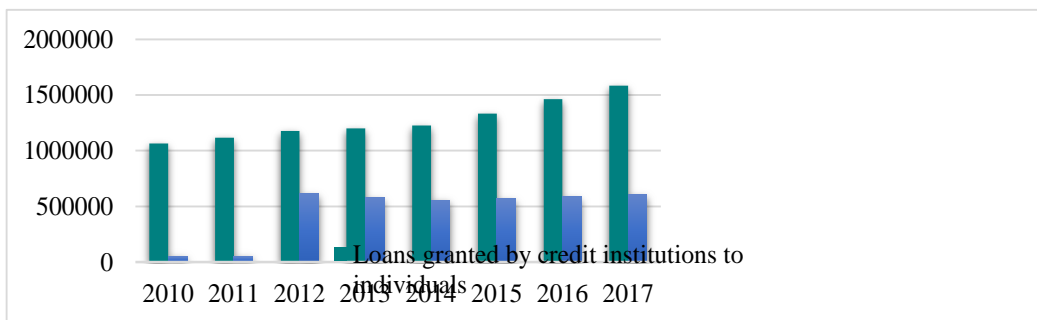
Figure 2- The evolution of the monetary policy interest rate, 2010 – 2017



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There were some peculiarities that marked the loans of the population during the analyzed period. The number of consumer credits has increased from 2010 to the present and they continue to account for approximately 40% of the total loans granted to individuals (Figure 3).

Figure 3- The evolution of consumer credits, 2010 – 2017

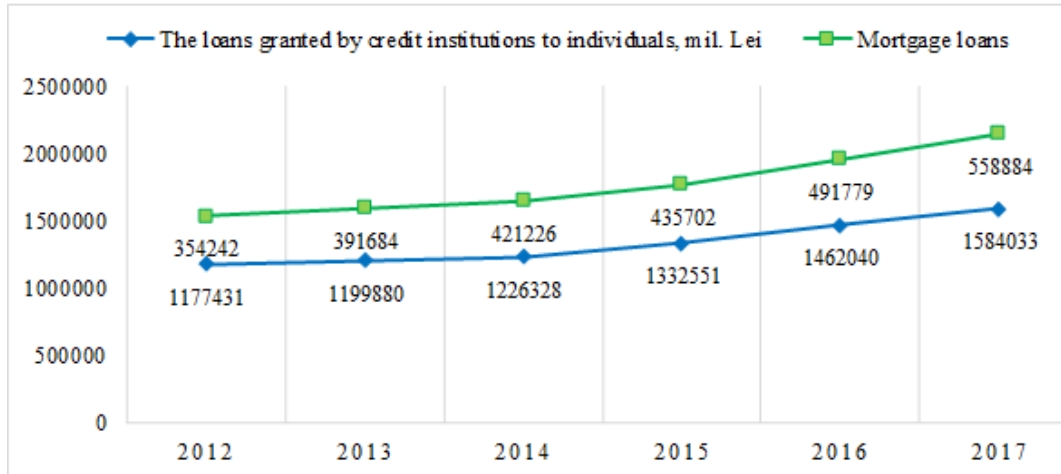


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There were major influences in obtaining mortgage loans to households, following developments in house prices which, adjusted for inflation, have increased by 57% between 2012 and 2017 (Figure 4).

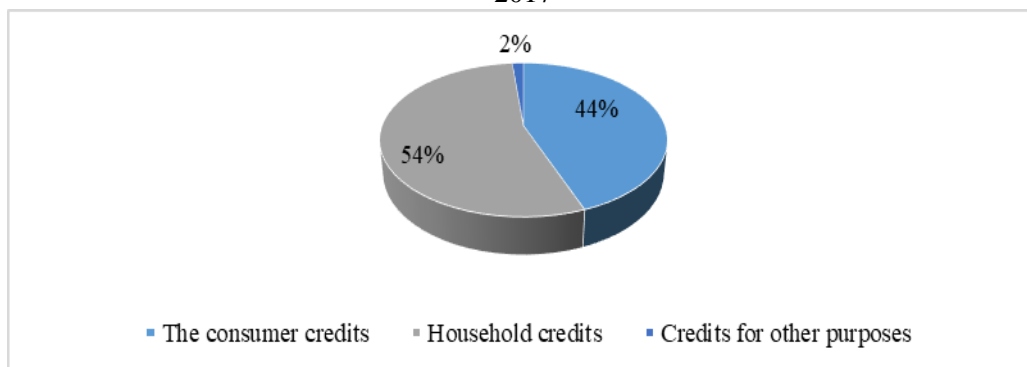
Figure 4- Mortgages granted to the population, 2012 – 2017



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It can be noticed that the share of household credits granted to the Romanian population in 2017 accounts for more than half (54%) of total loans, while consumer loans account for 44% (Figure 5).

Figure 5- Categories of credits granted to the population in 2017

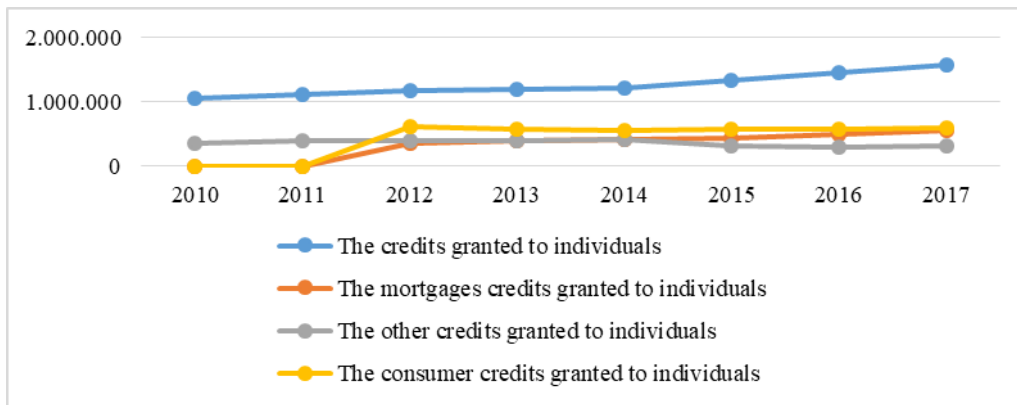


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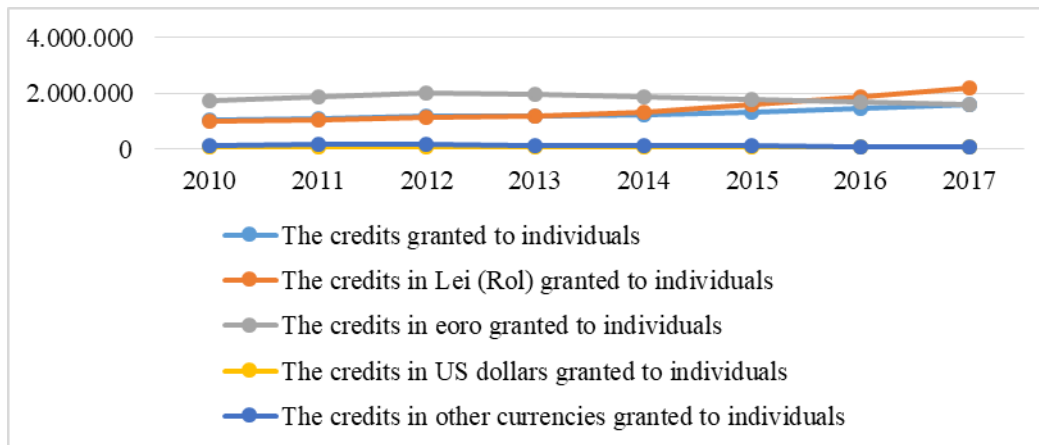
Regarding the evolution of the types of credits granted to the population, we can notice that the most pronounced increase was recorded in the case of mortgages, with 57% more in 2017 as compared to 2012, while consumer loans tended to decrease during the period 2013 - 2014, but rose by 3.4% in 2017 compared to 2016 (Figure 6).

Figure 6- The evolution of the types of credits granted to the population, 2010 – 2017



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Figure 7- The evolution of credits granted to individuals on different types of currencies



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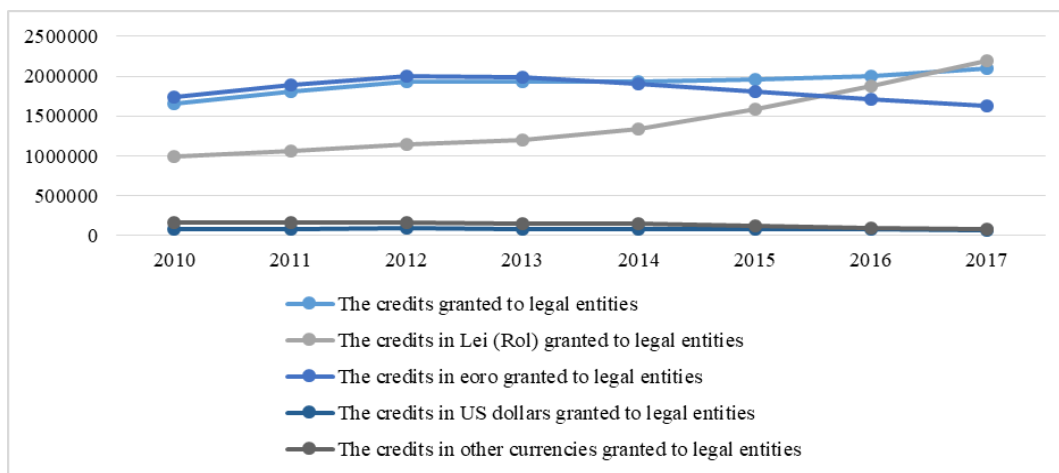
Between 2010 and 2017, credits in euro granted to households declined from 2013. Credits in US dollars and other currencies remained stable between 2010 and 2015,



with a slight decline in 2015. On the other hand, the credits in Lei (Rol) registered an increase of 83.13% in 2017 compared to 2013 (Figure 7).

Between 2012 and the end of 2014, the lending (credit) activity of legal entities registered a slight decrease, highlighting a major difference between foreign currency loans and loans in national currency. Loans in national currency recorded a positive development, while the credits in euro are declining (Figure 8).

Figure 8- The evolution of credits granted to the legal entities, 2010 – 2017



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The negative dynamics of private sector lending (-4.1% in real terms at the end of 2014 compared to 2013) was caused by: a decrease in credits in foreign currency, the elimination of bad loans in the banks' balance sheet, the persistent shortage of eligible demand, company indebtedness and number of companies in insolvency.

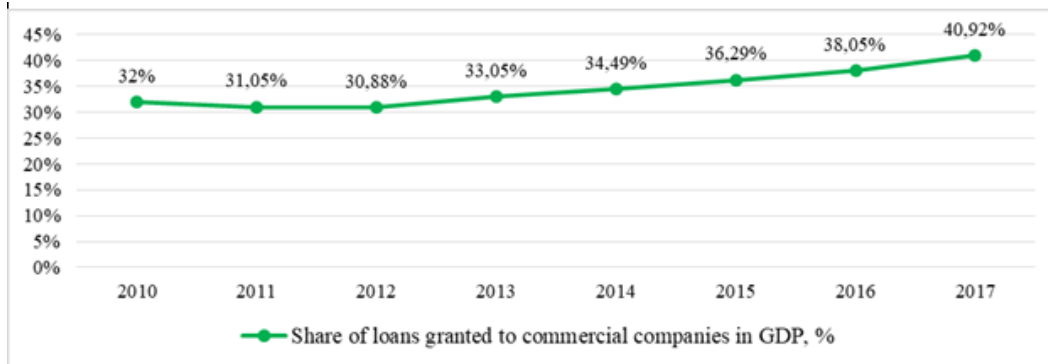
The main features of lending activities to non-financial corporations for the period 2010-2017 are highlighted by the issues presented below.

The share of credits granted to enterprises in GDP is relatively low (40.92% of GDP in 2017), but higher than in previous years (Figure 9).

Debt analysis depends on the size of the company so that the debt ratio of SMEs increased from 4.5% to 4.8% between 2012 and 2013, while large corporations reduced their debt as a result of increases of capital; large companies also reduced their debt to 1.14%, thus explaining the decrease in non-performing loans for that period.



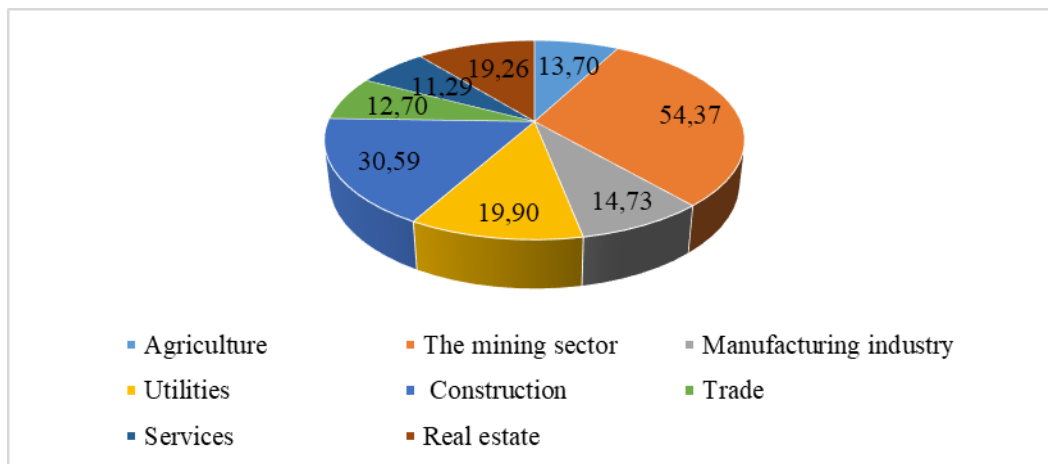
Figure 9- Share of loans granted to commercial companies in GDP, %



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The repayment of loans is influenced by the discipline of paying companies according to their size and activity. As a result, the mining sector had the highest level of non-performing loans (54.37% in 2017), followed by construction (30.59%), utilities (19.90%), real estate (19.26%), agriculture (13.70%), and trade (12.70%). Microenterprises and SMEs have a bad credit rate of over 20% of the total (Figure 10).

Figure 10- The bad credits (NPL) ratio for commercial companies, 2017



Source: processing by authors after www.bnro.ro

Bad credits (NPL non performances loans) from commercial companies was the result of insolvency or bankruptcy.



IV. Conclusion

Banking financial institutions make available to individuals, economic agents and state institutions a variety of lending solutions that can be classified according to several criteria starting from the repayment term of the loan to its destination.

During the period 2010- 2017, the Romanian banking system was characterized by adequate capitalization in relation to the volume of assets and the level of risk, as a result of the additional, capital participation, the net annual allocations of the profit and the conversion of the subordinated credits into equity.

The Loans/Deposits ratio is 78.87% in 2017, down from previous years.

The share of non-performing loans had a downward trend. In 2016, they recorded a 10.02 percentage point in total loans, while in 2017 there was a value of 7.59%.

At the end of 2010, the government credits ratio for non-government credits was 12.10%, unlike the end of 2017, when this ratio was 10.13%, as shown by the NBR lending reports, indicating a decline in government funding by the banking sector in favor of the real economy.

The monetary policy of the National Bank of Romania had a limited impact on the resumption of lending (credit) activity despite the fact that the monetary policy rate gradually decreased from 6.65% in 2010 to 1.75% in 2017.

The number of consumer credits has increased since 2010 to date and they continue to account for around 40% of total credits granted to individuals.

Household credits granted to the Romanian population in 2017 account for more than half (54%) of total loans, while consumer loans (credits) account for 44%.

The share of credits granted to enterprises in GDP is relatively low (40.92% of GDP in 2017), but higher than in previous years.

In 2017 commercial companies borrowed in particular to cover their liquidity needs for operating activities, cash credits with a share of 32.95% in total credits granted to enterprises. Companies also invested in the acquisition of equipment (18.20%) and real estate (17.45%). At the opposite end, there are credits for the financing of foreign trade operations, with a share of only 0,02%.

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