Bank lending in Romania in 2014: between optimism and reality

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Abstract: In 2014 lending forecasts are especially optimistic that the Central Bank has reduced last year from July to August, September and November and most recently in January 2014, the key interest rate to a historical low of 3.75%. The actions carried to cheapening credit continued reduction in reserve ratios on deposits in RON and in foreign currency. From the theoretical point of view there are advantageous credit conditions; it remains to be seen to what extent customers of banks, individuals, and legal entities will appreciate the effort of Monetary Authority. The external environment is the bank that will determine the decision to enter a new credit or ability to repay a loan in progress.

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1. Introduction

After nearly four years of stagnation in lending while stagnating consumption and investment banks in 2014 come with tempting offers regarding lending.

Credit recovery should take place on the re-launch economic activity amid a stable socio-political climate, amid increasing domestic consumption and not least the need to revive lending and, cleansing "of bank balance sheets, encumbered by loans bad.

Decisions on credit recovery will primarily aim to domestic economic conditions being agreed that the economy needs large projects not only low interest.

2. Economic developments optimistic for 2014

The renewal of the crediting was created in the second half of 2013, the central bank lowered the key interest rate in five consecutive sessions, in July, August,
September and November, the action continued in January 2014, which means money cheaper for banks. graphic one which led to the location of such interest to a historical low of 3.75%.

Source: NBR data, the graphic authors

Figure no. 1 The interest rate monetary policy

In this context, the central bank reduced the interest rate on the credit facility for the period June 2013 - February 2014.

Source: NBR data, the graphic authors

Figure no. 2 The interest rate on lending facility (Lombard

NBR further action in this regard and reduced MMR rate in liabilities in lei and in the currency, which leads to release amounts from reserve requirements, which will boost lending, leaving more resources for financing banks large term.
From the point of view of the authorities, the renewal of the crediting is generous and banks began to make loans cheaper, both companies and individuals, but the problem is not only related the crediting costs, interest rates are at a competitive level, but rather one related to loan demand.

Banking system is expected to increase by 4-5% in 2014 of new loans, from the previous year and in particular is projected to keep rising trend of domestic currency loans contracted.
Another good news is that the 2014 is anticipated and increased household consumption and investment, together with a slight increase in wages (in 2014 the minimum wage increased in January from £ 800-850, followed in July to reach £ 900) and increased absorption of EU funds. Consumption could increase by 1% because 2014 is an election year.

Corporate lending will rise on agriculture and related areas and in areas that bring added value to the economy, such as construction and horizontal industries related to the sector, health services, food and manufacturing, IT, transport.

Obviously, the increase of credit for agriculture, although starting from a very low base, has a positive connotation, good for farm capitalization or by increasing direct investment in agriculture by financing inputs (intermediate consumption) growth assumption yields and farm profitability.

Should not be omitted, however, optimistic tone with all the problems in the industry institutions such as the level of capital and liquidity, structural reforms, some painful.

Regarding individuals is expected to increase mortgage lending and refinancing but the big problem banks in dealing with these customers is the so-called unfair terms that create damage to the image banks.

The retail sector lending, particularly important is the First house which, according to GD 5/2014, shall be allocated a maximum of collateral that may be emitted 1,200 million. It offers easy access to mortgages for those interested. The state guarantees 50% of the bank loan is charged a minimum down payment of 5% of the dwelling, for values up to 60,000 euro, and for more than the minimum down payment is 3000 euro + (purchase price - 60,000 euro).

To build a home with a value of up to 70,000 euros, will be charged a deposit of 5% advance constructions above this value is calculated as: 3500 euro + (value of construction - 70,000 euro).

Loans under this program have the maximum 30-year repayment guarantees are granted and paid only in national currency and interest rate will not exceed £ ROBOR 3 months plus 2.5 percentage points.

It seems that this program is a success. According to statistics, 24,500 Romanians have accessed loans through the program from January 2013 to mid-December 2014 with a total value of 900 million euros.

In terms of volume of credits in lei, from August 2013 until mid-December 6500 guarantees were given amounting to 940 million lei.

New for 2014 related to this program is that they have allowed bank loans with government guarantees for complete rehabilitation of residential buildings. This program is designed for individuals but stimulate business growth by unlocking funding mechanisms, while the construction market recovery, with positive impact on the number of jobs.
Table no. 1 Annual evolution of the number and volume of loans granted to date first house

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of securities</th>
<th>Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>12,000</td>
<td>495 mil. euro</td>
</tr>
<tr>
<td>2010</td>
<td>23,000</td>
<td>935 mil. euro</td>
</tr>
<tr>
<td>2011</td>
<td>19,000</td>
<td>740 mil. euro</td>
</tr>
<tr>
<td>2012</td>
<td>27,000</td>
<td>1,01 mld. euro</td>
</tr>
<tr>
<td>2013*</td>
<td>24,500</td>
<td>900 mil. euro</td>
</tr>
<tr>
<td>Total:</td>
<td>105,500</td>
<td>4,08 mld. Euro</td>
</tr>
</tbody>
</table>

*Preliminary data, available by mid-December 2013
Source: FNGCIMM

The program was launched in 2010 by the Ministry of Regional Development and Public Administration (MDRAP) and the state has granted 100,000 guarantee with a total value exceeding 4 billion.

There are currently 16 participants in the program funders and expect this year to increase their number more of the two IFNs (CreditCoop and IMOCREDIT) required to enter the program.

In conclusion, the current year will continue the process of stimulating the economy by lending to support the efforts of 2013, especially for companies that have crossed safely crisis and the potential development.

Table no. 2 Accessed credit situation in 2013 on categories of customers

<table>
<thead>
<tr>
<th>Period</th>
<th>Total amounts granted</th>
<th>Industry</th>
<th>Services</th>
<th>Construcții</th>
<th>Agriculture, forestry, fishing</th>
<th>Activities of intermediation, financial and insurance</th>
<th>Public administration and defense, compulsory social security, education, health and social</th>
<th>Individuals</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2013</td>
<td>307,675</td>
<td>57,010</td>
<td>83,690</td>
<td>33,878</td>
<td>11,339</td>
<td>6,686</td>
<td>16,402</td>
<td>98,670</td>
</tr>
<tr>
<td>February 2013</td>
<td>307,390</td>
<td>57,294</td>
<td>83,295</td>
<td>33,906</td>
<td>11,411</td>
<td>6,374</td>
<td>16,439</td>
<td>98,670</td>
</tr>
<tr>
<td>March 2013</td>
<td>307,821</td>
<td>57,773</td>
<td>83,057</td>
<td>33,954</td>
<td>11,215</td>
<td>6,408</td>
<td>16,527</td>
<td>98,886</td>
</tr>
<tr>
<td>April 2013</td>
<td>308,293</td>
<td>56,865</td>
<td>83,331</td>
<td>34,376</td>
<td>11,263</td>
<td>7,171</td>
<td>16,303</td>
<td>98,984</td>
</tr>
<tr>
<td>May 2013</td>
<td>307,941</td>
<td>56,916</td>
<td>82,985</td>
<td>34,180</td>
<td>11,113</td>
<td>7,263</td>
<td>16,252</td>
<td>99,232</td>
</tr>
<tr>
<td>June 2013</td>
<td>308,219</td>
<td>57,064</td>
<td>83,188</td>
<td>34,004</td>
<td>11,046</td>
<td>7,329</td>
<td>16,171</td>
<td>99,416</td>
</tr>
<tr>
<td>July 2013</td>
<td>307,886</td>
<td>57,673</td>
<td>82,774</td>
<td>33,845</td>
<td>10,633</td>
<td>7,290</td>
<td>16,280</td>
<td>99,390</td>
</tr>
<tr>
<td>August 2013</td>
<td>310,545</td>
<td>58,851</td>
<td>82,928</td>
<td>34,245</td>
<td>10,889</td>
<td>7,374</td>
<td>16,468</td>
<td>99,790</td>
</tr>
<tr>
<td>September 2013</td>
<td>310,234</td>
<td>57,852</td>
<td>83,191</td>
<td>34,426</td>
<td>11,059</td>
<td>7,426</td>
<td>16,467</td>
<td>99,814</td>
</tr>
<tr>
<td>November 2013</td>
<td>308,752</td>
<td>58,224</td>
<td>82,564</td>
<td>33,510</td>
<td>11,181</td>
<td>6,967</td>
<td>16,125</td>
<td>100,181</td>
</tr>
<tr>
<td>December 2013</td>
<td>309,152</td>
<td>59,200</td>
<td>82,192</td>
<td>33,239</td>
<td>11,166</td>
<td>6,944</td>
<td>16,428</td>
<td>99,983</td>
</tr>
</tbody>
</table>

Source: National Bank of Romania, Monthly Bulletin, 12/2013, page 60

Representing graphically previous data, we observe an increase in lending in the second half of last year.
By sectors, we see that the industry benefited mainly by loans with a rate of 6.928% of total loans, while the agricultural sector to access credit at the rate of 1.334% of total loans.
Optimistic tone about the crediting recovery is not just in Romania. Signals coming from, good people "shows that the global economy is on track and finally starting to feel the economic recovery period, with the crisis of the euro area economies and the UK.

Banks are required to meet customer needs, will focus on innovation in new products and expanding channels to attract new customers.

3. What happens in the economy?

But what is the reality on the field "? According to data from the National Trade Register Office, in 2013, became insolvent companies 29 587, with an increase of 10.37% compared to 2012 when 26 807 company organize insolvencies.

It is easy to understand that resulted and a new non-performing loans and bank credit is impossible for these companies.

**Evolution of the firms entered in the solvency**

<table>
<thead>
<tr>
<th>Year</th>
<th>Insolvent Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEC.2010</td>
<td>21692</td>
</tr>
<tr>
<td>DEC.2011</td>
<td>19651</td>
</tr>
<tr>
<td>DEC.2012</td>
<td>26807</td>
</tr>
<tr>
<td>DEC.2013</td>
<td>29587</td>
</tr>
</tbody>
</table>

Source: National Office of Trade Register / statistical situations / companies became insolvent, graphic authors

According to data published by the Central Credit risk, in January of this year, overdue bank loans have increased by 650 million compared to December 2013 levels reaching 32.2 billion lei. Only loans exceeding £ 20,000 have a rate of 10.35% of total loans granted.

Finding new sources of finance is a problem for companies that already have loans taken from various banks or certain IFNs. These companies have trouble being eligible loans ongoing as they have a high degree of leverage what creates problems to pay the debts and accordingly access to a credit more difficult again.
For example, in agriculture, in addition to the disadvantages arising from the low level crediting in this sector, an equally unfavorable Romanian farms is determined by the cost of bank credit in lei, which is much higher in Romania than in developed countries of the Union European. Interest rate requested by banks, which are added various additional costs (mainly the nature of charges) induces a real cost of bank credit in lei triple the cost of financing sources of the other developed countries of the EU.

In these conditions, where firms take money?

Sources of funding are internal ones, since it was reinvesting profit capital increases crediting to shareholders and not least, the sale of certain of their heritage actives.

Taking the example agriculture, companies in this sector, they provide 29% funding from bank loans, 35% comes from commercial loans, financial leasing type products 24%, the rest being covered by EU funding or grants.

**Development of funding sources used by the company**

![Graph 8]

Source: www.guvernare.ro

Reasons for which firms resort to funding sources outside the company are paying suppliers, formation working capital, development of investment projects.

Why not European funds? Although 7 years have elapsed since Romania joined the EU, we find that a small percentage of firms, 2%, accessing European funds, 92% of firms stating that they have no experience with European funds.

In reality require measures to support the economy to compensate firms easy access not just to new loans by reducing taxes, reducing the employer's Cas, not least, political climate, economic and legislative stable.

With regard to individuals at the end of last year, about 700,000 Romanian recorded outstanding loans, worth £ 32.7 billion, which represents approximately 15% of total loans. For currency loans at the end of December 2013, a record level of 19.7
billion lei, and for credits in lei, in the same period, registering a volume of 13 billion lei.

It would be useful reprieve for debtors, as the government wants? From this provision would benefit nearly one million Romanian who have high rates but low income and who fulfilling the certain eligibility conditions will only pay half of monthly rate principal over a period of 2 years. In this way, those who would benefit from such a facility, which would redirect not give the bank, for consumption, which would stimulate its revival.

Under the proposal, this reprieve candidates are people with incomes below the national average of 1,600 lei, with difficulties in payment rates, but not beyond the maturity of more than 90 days, the reduction may not exceed 500 lei.

Practically the application of this provision an amount of nearly 4 billion lei would be made available by banks to individuals. The state will support a tax credit on the income tax difference. At the end of two years, the client will resume payment, including the reduction.

The news was not received with enthusiasm by specialists draw your attention that such a reduction would discourage those corrections that make efforts to pay their installments on time banks.

On the whole loans granted by the Romanian banking system, in December 2013, 22% being the percent of non-performing loans.

Banks must follow that order of priority:

- restructuring of non-performing loans, which are a, ballast 'credit portfolios;
- attracting deposit activity, especially if banks do not receive money "from abroad ";
- restructuring of internal activities, by giving up operational units that are not profitable;
- once solved the three problems mentioned above, will be able to talk about credit recovery on performance.

4. Conclusions

For 2014, the banking system must respond the following challenges: the phenomenon of insolvency, NPL management, finding directions lending performance.

Another challenge for banks is to get rid of the image, "guilty of Service " who created the economic problems and social crisis which has generated optimism, the authors say that we exceeded it. At the same time felt the effects of the banking system and the banks and their shareholders have juggled large sums of money to survive.

The Romanian economy can not live forever in agriculture or foreign loans taken by the state. It requires domestic consumption and credit recovery but performance conditions.

Banks argue, as is natural, eligible individuals and businesses that need financing, although the reality does not announce a revival of lending before 2015.
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