

Bank lending in Romania in 2014: between optimism and reality

Assoc. Prof. Lavinia Maria Nețoiu
University of Craiova
Faculty Of Economics and Business Administration
Craiova, Romania
Lect. Titu Nețoiu
University of Craiova
Faculty Of Economics and Business Administration
Craiova, Romania
Ph.D Student Nela Loredana Meîță
University of Craiova
Faculty Of Economics and Business Administration
Craiova, Romania

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.

JEL classification: G 28, G 29

Keywords: loan, monetary policy, crisis, performance

1. Introduction

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

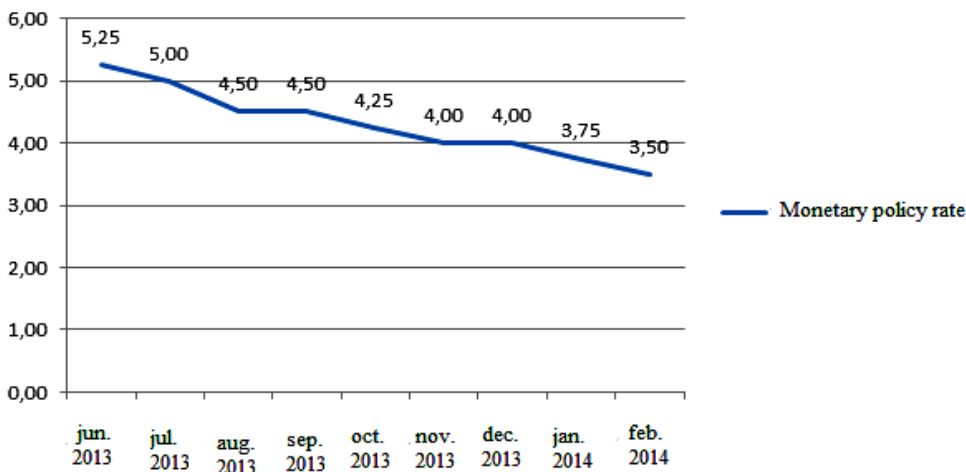
Credit recovery should take place on the re-launch economic activity amid a stable socio-political climate, amid increasing domestic consumption and not least the need to revive lending and, cleansing "of bank balance sheets, encumbered by loans bad.

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,

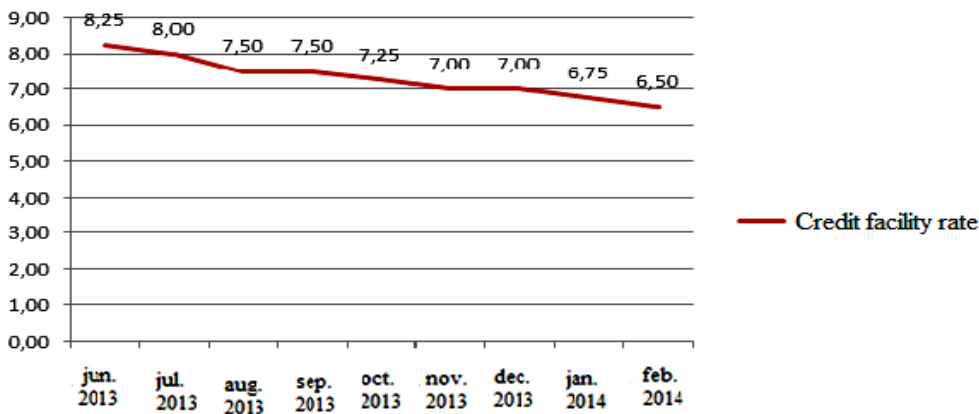
September and November, the action continued in January 2014, which means money cheaper for banks. graphic one which led to the location of such interest to a historical low of 3.75%.



Source: NBR data, the graphic authors

Figure no. 1 The interest rate monetary policy

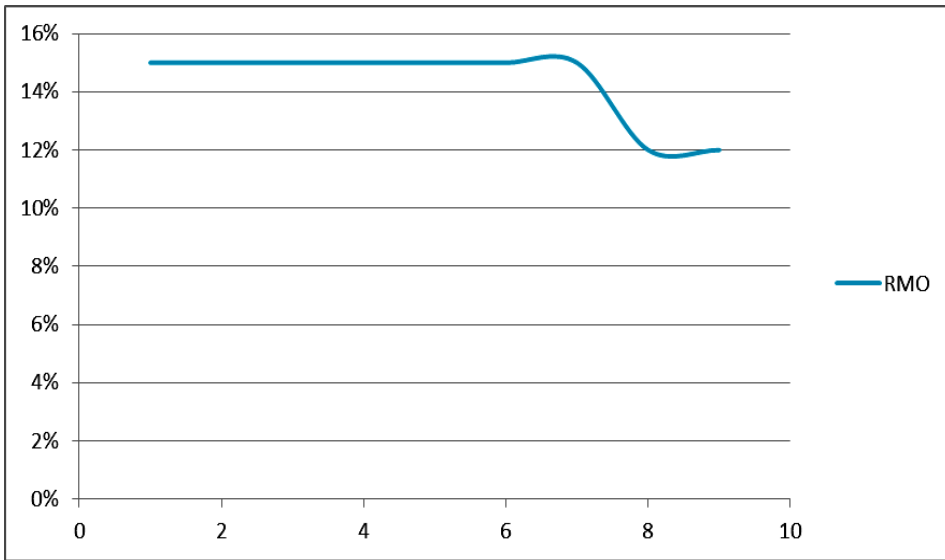
In this context, the central bank reduced the interest rate on the credit facility for the period June 2013 - February 2014.



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.

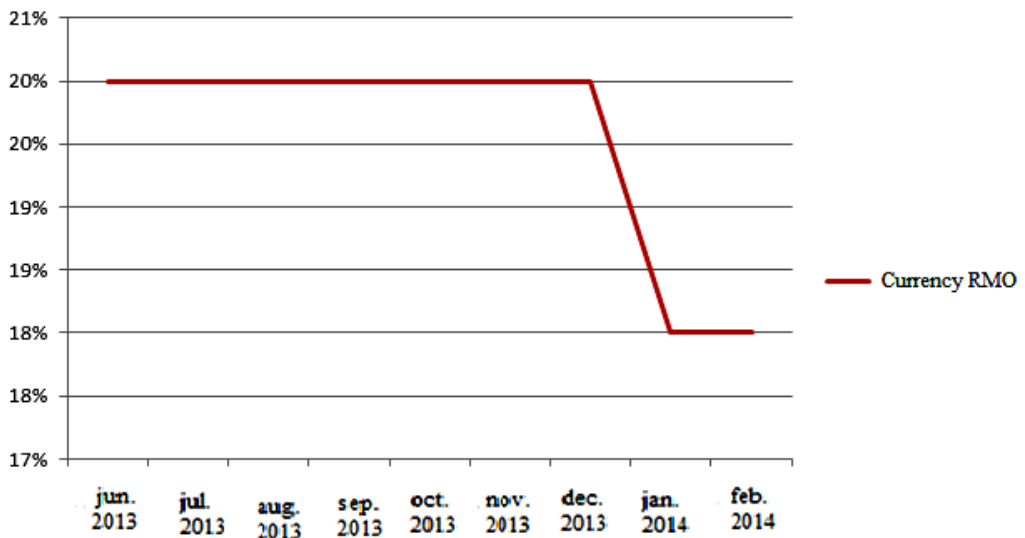


Source: NBR data, the graphic authors

Figure no. 3 RMO LEI

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.



Source: NBR data, the graphic authors

Figure no. 4 RMO FOREIGN CURRENCY

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.

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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 60.000euro, and for more than the minimum down payment is 3000 euro + (purchase price - 60.000euro).

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: 3500euro + (value of construction - 70.000euro).

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

Year	Number of securities	Funding
2009	12.000	495 mil. euro
2010	23.000	935 mil. euro
2011	19.000	740 mil. euro
2012	27.000	1,01 mld. euro
2013*	24.500	900 mil. euro
Total:	105.500	4,08 mld. Euro

* 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

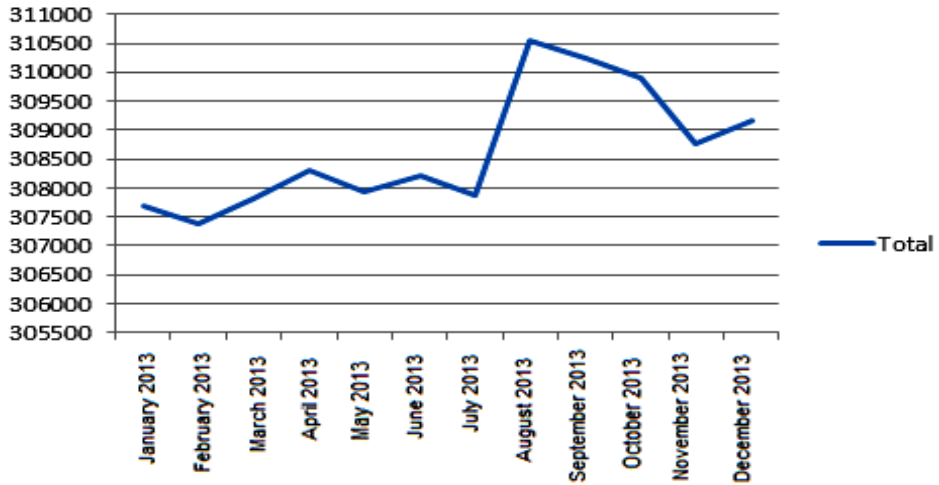
Period	Total amounts granted	Sector of activity						
		Industry	Services	Construcții	Agriculture, forestry, fishing	Activities of Intermediation financial and Insurance	Public administration and defense, compulsory social security, education, health and social	Individuals
January 2013	307 675	57 010	83 690	33 878	11 339	6 686	16 402	98 670
February 2013	307 390	57 294	83 295	33 906	11 411	6 374	16 439	98 670
March 2013	307 821	57 773	83 057	33 954	11 215	6 408	16 527	98 886
April 2013	308 293	56 865	83 331	34 376	11 263	7 171	16 303	98 984
May 2013	307 941	56 916	82 985	34 180	11 113	7 263	16 252	99 232
June 2013	308 219	57 064	83 188	34 004	11 046	7 329	16 171	99 416
July 2013	307 886	57 673	82 774	33 845	10 633	7 290	16 280	99 390
August 2013	310 545	58 851	82 928	34 245	10 889	7 374	16 468	99 790
September 2013	310 234	57 852	83 191	34 426	11 059	7 426	16 467	99 814
October 2013	309 900	58 132	83 068	33 838	11 138	7 504	16 306	99 915
November 2013	308 752	58 224	82 564	33 510	11 181	6 967	16 125	100 181
December 2013	309 152	59 200	82 192	33 239	11 166	6 944	16 428	99 983

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.

Crediting by sector in 2013 – total

Graph 5

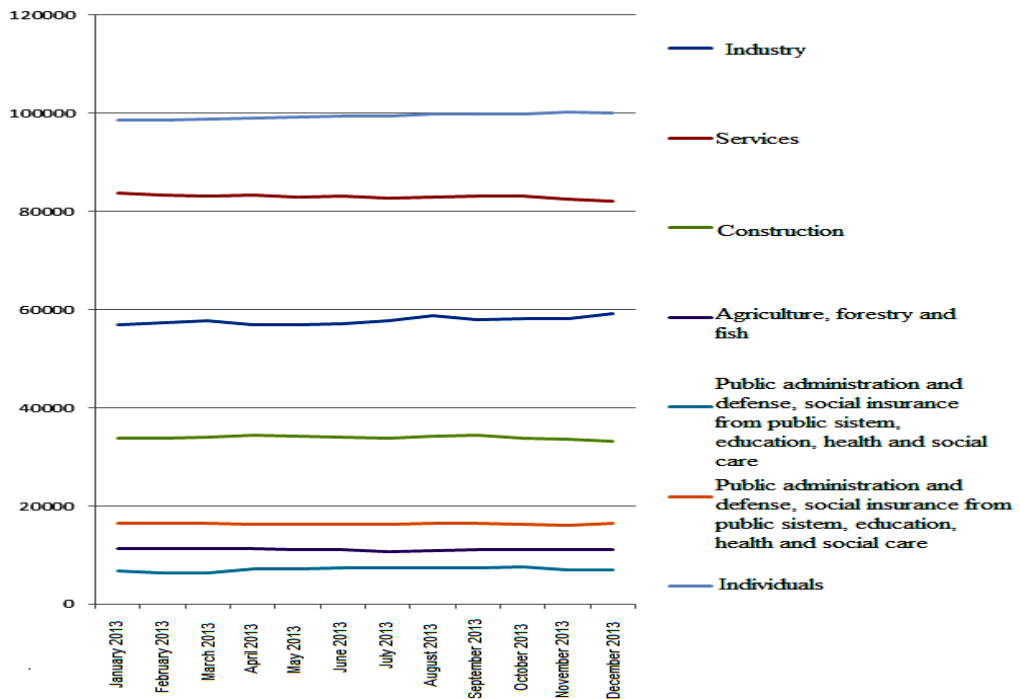


Source: NBR data, the graphic authors

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.

Crediting by sector in 2013

Graph 6



Source: NBR data, the graphic authors

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.

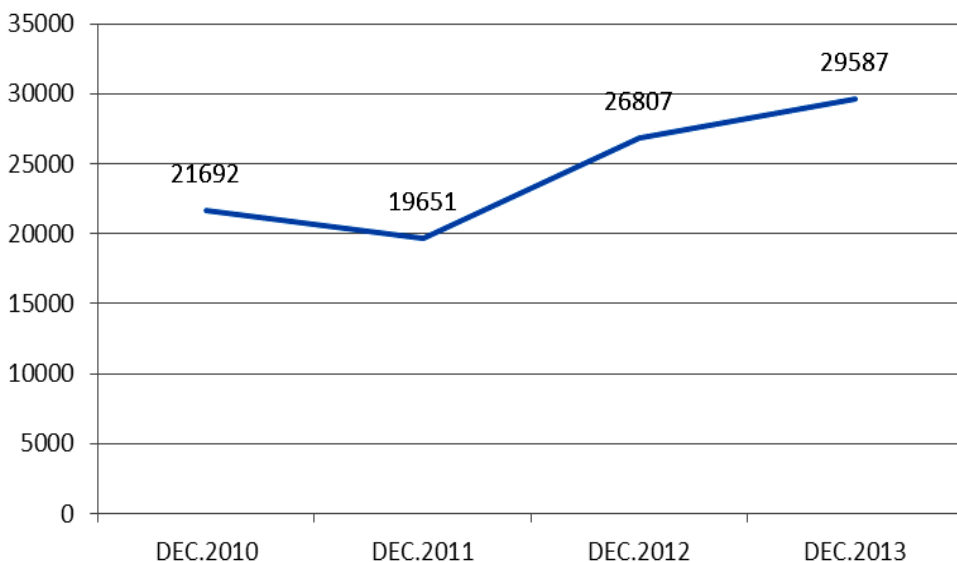
3.What happens in the economy?

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

Graph 7



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.

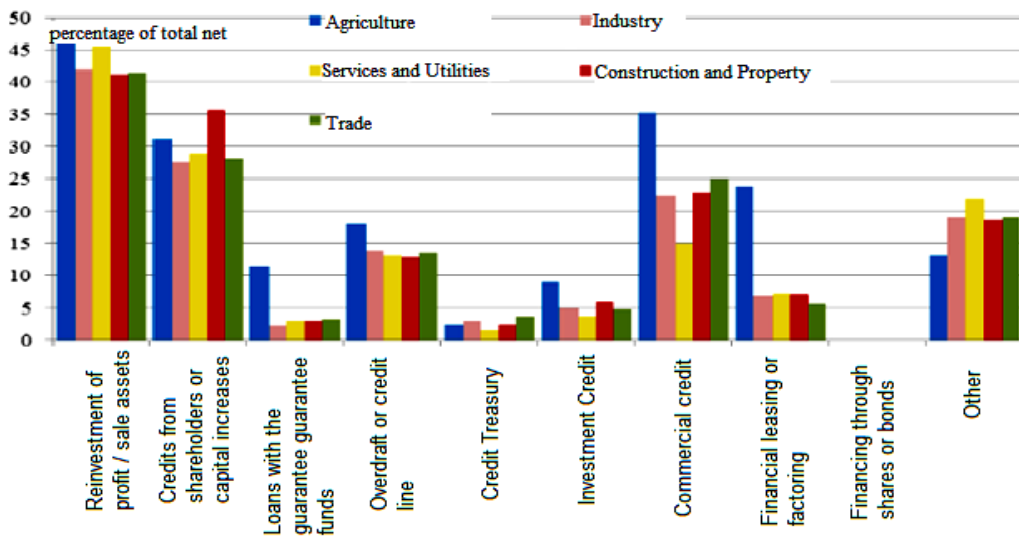
In these conditions, where firms take money?

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 provisionan 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 procent 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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