HOUSEHOLDS LENDING CRISIS FOR THE MOST IMPORTANT COUNTRIES OF CENTRAL AND EASTERN EUROPE

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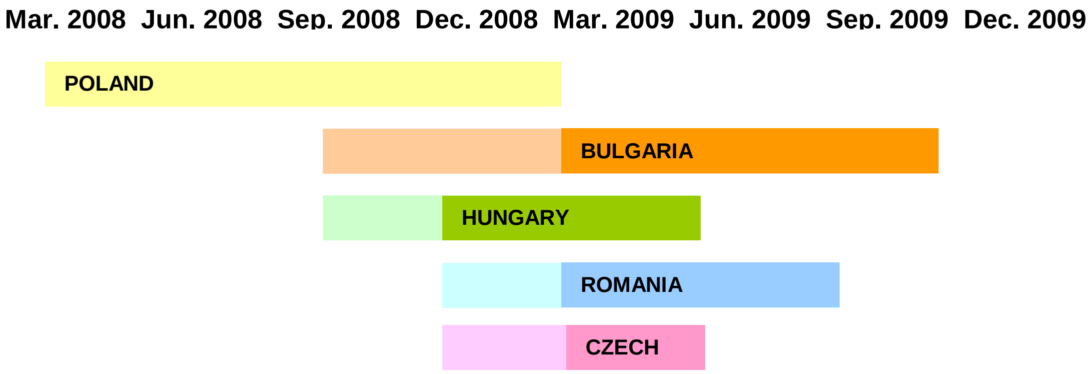
1. Introduction

Since 2008, after a few years of economic increasing, the economic activities of the countries in Eastern and Central Europe, members of European Union, have been affected by the financial and economic crisis.

Analyzing data for five countries like Poland, Bulgaria, Hungary, Romania and Czech Republic, concluded by each of their National Banks, regarding the real Gross Domestic Product, it is recorded a decreasing economic activity as for the same period of the prior year to 2008, for each of the countries

Figure no.1



Also, by analyzing and centralizing the data in figure 1, there are noted a few similar and particular features between the economies of those countries. So, it is noted that:

- most of the countries (except Poland) have been affected by crisis since July 2008;
- Poland is the sole country from the five ones priorly mentioned which did not have economic recession[1]; in Poland there was recorded only a lower level of the decreasing rate of GDP;
- Bulgaria is the country with the longest economic decline, for six quarters, including one year of economic recession; with one month difference between them, Hungary and Romania have the same period of crisis and recession (Romania started to be affected one quarter later than Hungary) ;
- Czech Republic is the country with the shortest period of crisis and recession.
- Therefore, Poland and Bulgaria were at opposite in respect of the Gross Domestic Product evolution; Poland and Czech Republic have not been affected too much by the economic and financial crisis in 2008, but in two different ways. The first country had a long period of

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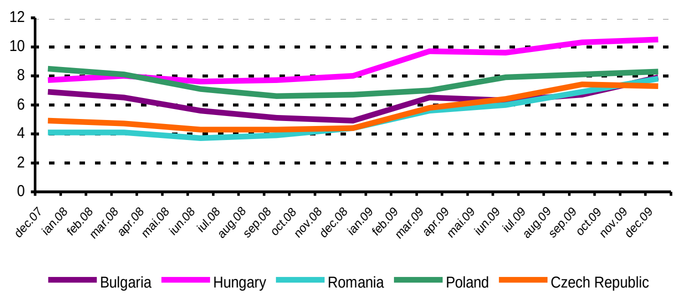
[1] Recession is a country where the economy recorded negative growth for two consecutive quarters.

time when the real GDP decreased, but not to a negative level, and the second one had the shortest period of decline, but with the lowest level of recession.

As a consequence of the negative impact which the recession and the economic crisis had towards the private sector, lending started to cease in the above mentioned countries. First of all, it happened because of the banking system, which became very cautious and wary in granting loans. The financing conditions started to be very restrictive, companies and individuals hardly applying for lending. Companies hardly applied for loans because they started already to meet difficulties in paying back prior loans. Individuals did not apply any more for loans because of unemployment and reduced incomes. Therefore, it is noted a general trend for all the analyzed countries in increasing the unemployment rate, which affected individuals in applying for loans.

Figure 2 - Unemployment rate (%)



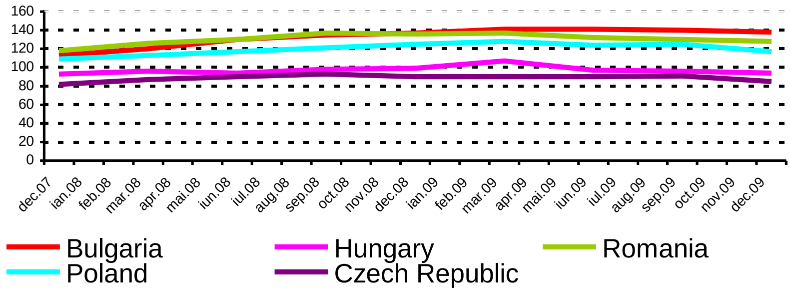
Source: National Bank of Poland, Bulgaria, Ungary, Romania, Czech Republic

2. Comparison between loans ratio-deposits

As for retail sector (companies and individuals), the evolution of the proportion between loans and bank deposits (figure 3) slowly decreased during all over 2009, which means that savings are favorite in periods of financial and economic crises. It is also seen that the level of loans in Bulgaria, Romania and Poland is lower than the deposits' one.

Poland was out of crisis in March 2009, when in Bulgaria and Romania the recession started. In Poland the crisis is felt by decreasing with 11p.p. the loans proportion to bank deposits, from 128% as per March to 119% as per December 2009. For Bulgaria the recession maintained an invariable level of that proportion, about 140%. In Romania it is noted a decrease of 9 p.p., from 137% in March to 128% in December 2009. The most favorable situation is recorded in Czech Republic, country which had the lowest level of the proportion, of 80%-90% all over the analyzed period of time. Speaking of Hungary, the first quarter of recession made the loans to increase, so they surpassed deposits, as per the second quarter in 2009 the proportion was about 106,7%.

Figure 3 - Evolution of the proportion between loans and bank deposits for private sector (%)



Source : National Statistical Institute of Bulgaria, Hungarian Central Statistical Office, Central Statistical Office of Poland, Czech Statistical Office

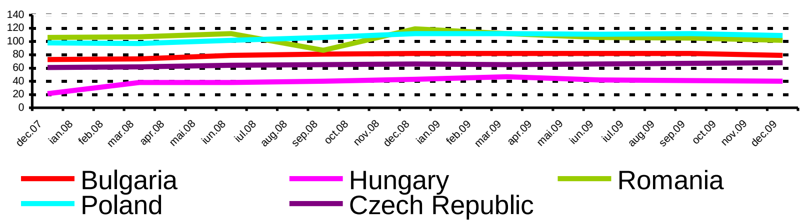
As regards the population, we can see (figure 4) that for Romania and Poland alone the amount of the loans was higher than that of the deposits, with the specification that in Romania during the 3rd quarter of 2008, the population saved very much, the level of the deposits being 16.4% higher than that of the loans (111,854.2 million RON compared to 96,047.4 million RON).

The enormous gap that existed between the loans given and the deposits attracted within the entire Bulgarian banking system (the largest for the whole of 2009, 140% approximately!) is not seen in the case of the population alone, where the respective ratio remains quite high, but subunitary (approximately 80%).

This reality shows that the population has reacted to the economic crisis by saving more, savings accounts growing by 10,9% between December 2008-December 2009, as opposed to the saving done by the companies, which dropped by 10,5% for the same period.

Hungary is the country where the loans contracted by the population are best covered by savings, such that out of the total savings accounts attracted approximately 40% is given as loans. Under these circumstances, households' highly savings-prone behavior could bridge the gap that existed between companies' savings and loans, thus the overall situation in the private sector was of around 1 to 1 loans versus savings.In the Czech Republic, the behavior of both the population and the non-financial companies was based all the time on contracting savings accounts to the detriment of giving loans.

Figure 4 - Evolution of the proportion between loans and bank deposits for Households (%)



Source : National Statistical Institute of Bulgaria, Hungarian Central Statistical Office, Central Statistical Office of Poland, Czech Statistical Office

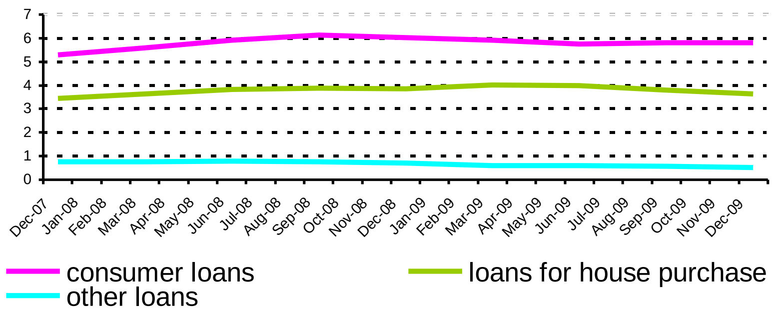
3. Comparison between types of credit

Households' financial debt is made up of consumer credit, housing credit and other types of loans. For the countries analyzed, these types of loans continue to be the main loans taken into account, both in each country's national currency and in foreign currency.

Figure 5 – Loans to households in national currency

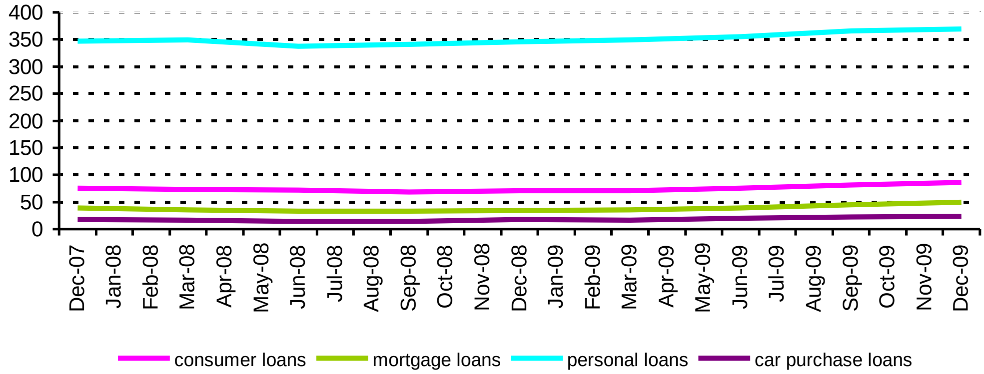
5a. - Loans to households in Bulgaria

Mld. BGN, end of period



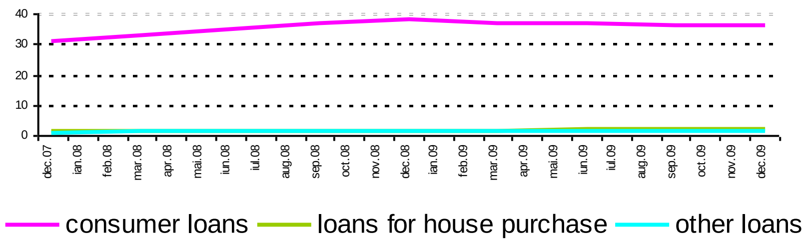
5b. - Loans to households in Hungary

Mld HUF, end of period



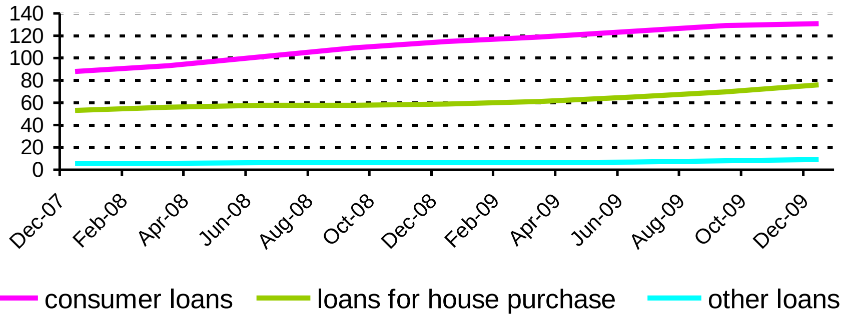
5c. - Loans to households in Romania

Mld. LEI, end of period



5d. - Loans to households in Poland

Mld. PLN, end of period



5e. - Loans to households in Czech Republic

Mld. CZK, end of period

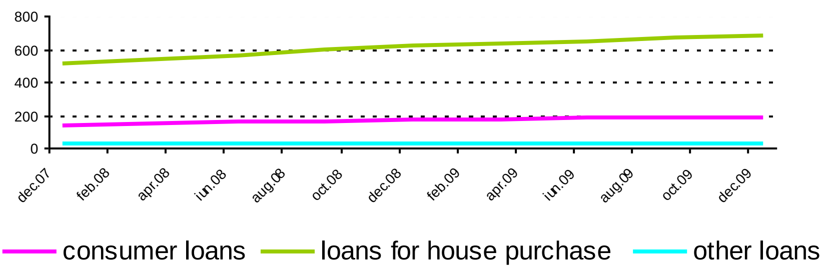
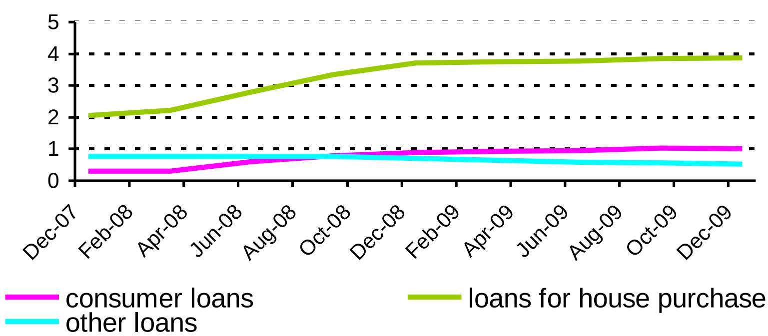


Figure 6 – Loans to households in foreign currency

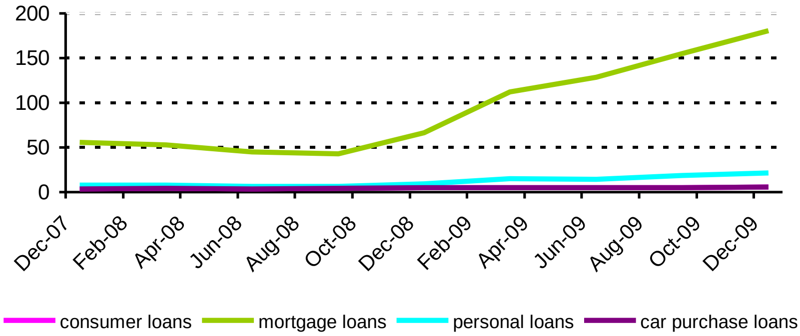
6a. - Loans to households in Bulgaria

Mld. BGN, end of period



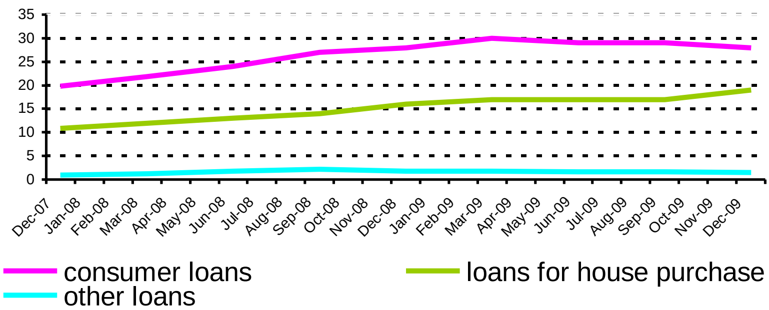
6b. - Loans to households in Hungary

Mld HUF, end of period



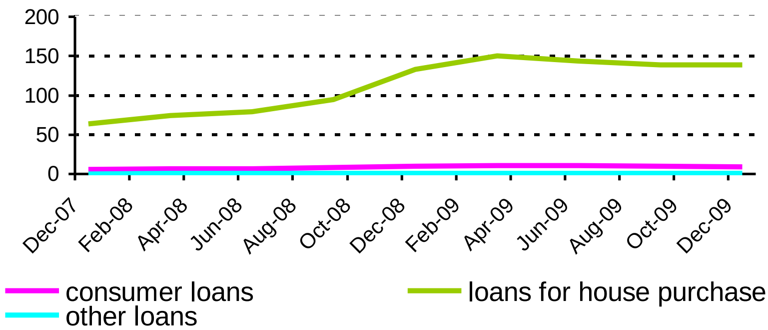
6c. - Loans to households in Romania

Mld. LEI, end of period



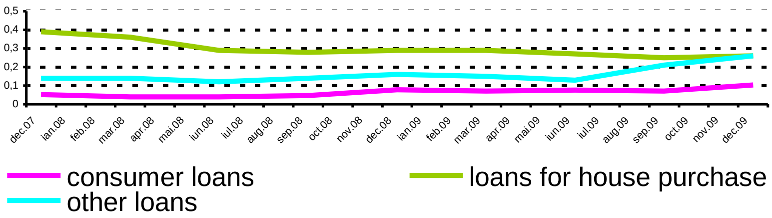
6d. - Loans to households in Poland

Mld. PLN, end of period



6e. – Loans to household in Czech

Mld. CZK, end of period



During the economic and financial crisis, the population reacted differently from one country to the other in some cases, while acting in similar ways in other cases.

For countries such as Bulgaria, Romania and Poland, consumer credit given in the national currency was preferred by the population, to the detriment of housing loans and other types of credit, with the mention that in Poland, after the country came out of the crisis, this type of credit saw a rise, unlike Bulgaria and Romania where the population lowered their appetite for this type of loan.

The highest gap between the consumer credit given in national currency and other types of loans given in national currency was seen in Romania. Also in Romania we see that consumer credit is the one preferred by the population when given in foreign currency as well. Nonetheless, during the crisis, it is obvious that this type of credit saw a decline in favor of the consumer credit in foreign currency which began to grow towards the end of 2009.

The Czech Republic is the only country where, during the crisis, the population showed their preference for the housing credit in natioanl currency, rather than in foreign currency.

We can see that in the case of most countries, the housing credit had the largest share in the total of loans given in foreign currency. We noticed the attitude of people in Hungary who contracted mortgage loans in foreign currency with high momentum starting with September 2008 and by the end of 2009. Actually, in this country, loans given in foreign currency are mostly mortgage loans, while loans given in the national currency are mostly personal loans.

4. Conclusions

The similar response that the population in the studied countries had to the economic and financial crisis, i.e. by saving more, shows a prudential behavior, which is seen in the decrease of consumption in general and especially in the decrease of the demand for credit. There are but a few types of credit, whether in national currency or in foreign currency that saw an increase during this time. We see that the consumer credit in national currency continued to be the most demanded, even if not to the same high extent, with Poland being the exception here.

As different response, we notice that, although in most countries housing loans in foreign currency were preferred, as opposed to those in national currency, for some countries, such as Bulgaria and Poland, their amount was constant during the crisis. In the Czech Republic the population forwent this type of credit, Hungary saw a high increase in its demand and in Romania it stagnated, with a slight increase towards the end of 2009.