

## REALITIES AND PROSPECTS OF LENDING ACTIVITY IN ROMANIA

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**Abstract:** In this paper are presented the actions of Romanian banks in granting loans to both individuals and legal entities, taking into account credit conditions imposed by the Central Bank, by reducing the key of the interest rate to 3.75%. The actions carried to cheapening credit continued reduction in reserve ratios on deposits in RON and in foreign currency.

**Keywords:** monetary policy, loans, Central Bank interest rates, financing

### 1. Introduction

The effects of the worldwide recession have also started to be experienced acutely in Romania, because the restricting operators had repercussions on the economic performance and consider reducing the negative impacts in terms of their liquidity level, which entailed difficulties in payment of interest and repayment of current loans at the time. Also as a result of the economic downturn and the contraction of the Romanian companies there was an increase in the unemployment rate, which again had negative effects in terms of debt repayment individuals had to the banks. As a direct consequence, we see that in 2009-2013 the volume of bad loans increased yearly reaching at the beginning of 2014, 22% of the portfolio of commercial banks operating in Romania. The direct effect of this situation is felt in the commercial banks by increasing provisioning nonperforming loans, which led to record losses for many of the local offices of banks (subsidiaries, branches, agencies).

Accordingly, all commercial banks that operate in Romania have limited activity in 2009-2013, both in number of units and the volume of bank loans.

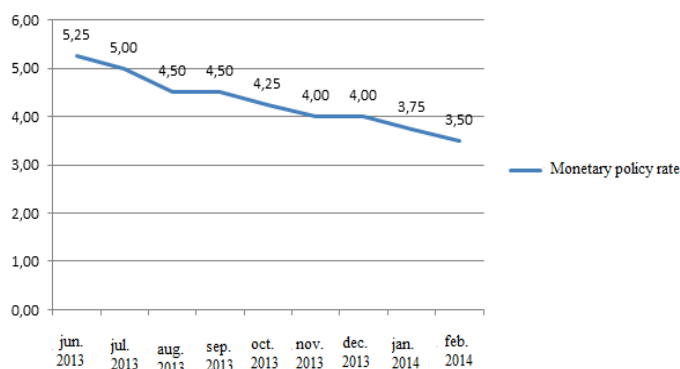
Reviving banking is a sensitive issue given the fact that they are dependent on the insurance of loan resources available for parent banks, banks which often belong to European areas, which still have not recovered from the recession as Greek-owned banks or Hungarian have. On the other hand, Romanian firms do not fulfill except in very few eligibility criteria in terms of economic performance required by commercial banks for lending. The lack of economic performance of firms brings low liquidity that reflects negatively on the level of banks liquidity. It is provided, however, that the time frame between 2014 and 2020, with increased access to European funds to return to the level of lending in 2007-2008 and in particular its first step referring to credits given to economic agents.

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.

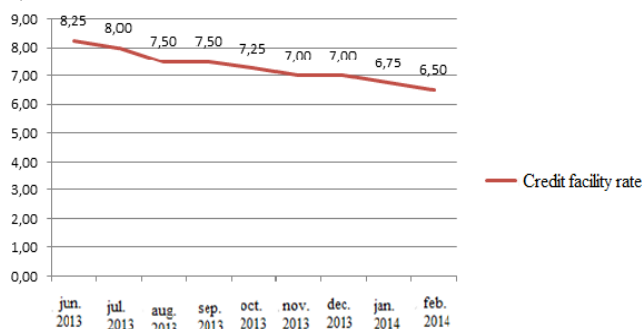
Decisions on credit recovery will primarily aim to domestic economic conditions being agreed that the economy needs large projects not only low interest.

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% (you see graph 1).



**Graph 1.** The interest rate monetary policy

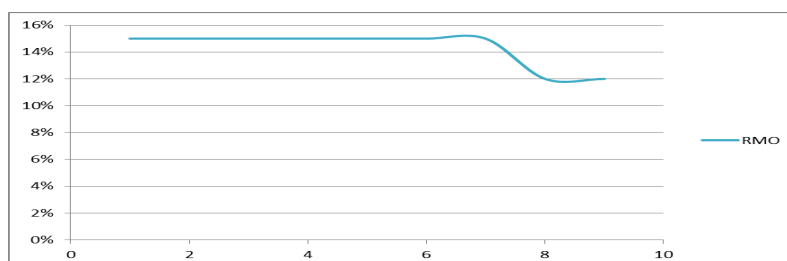
In this context, the central bank reduced the interest rate on the credit facility for the period June 2013 - February 2014 (you see graph 2).



**Graph 2.** The interest rate on lending facility (Lombard)

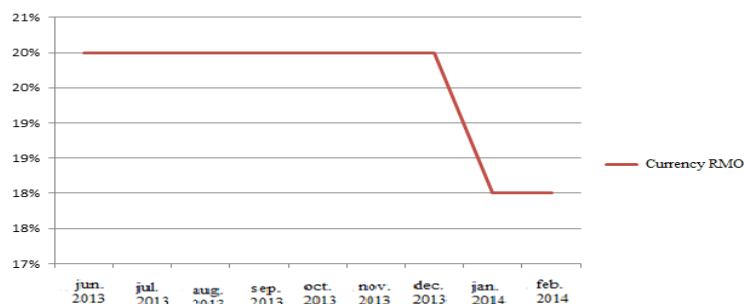
Source: *www.bnro.ro, Statistic report, the NBR interest rates - the monthly series, the graphic author*

NBR further action in this regard and reduced MMR rate in liabilities in lei and in the currency (you see graph 3 and 4), which leads to release amounts from reserve requirements, which will boost lending, leaving more resources for financing banks large term.



**Graph 3.** RMO LEI

Source: *www.bnro.ro, Monetary policy/minimum reserves/reserve ratio, the graphic author*



**Graph 4.** RMO FOREIGN CURRENCY

Source: *www.bnro.ro, Monetary policy/minimum reserves/The reserve ratio, the graphic author*

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 2016 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 lei in July has reached 900 lei, and in 2016 is expected to reach the threshold of 1,200 lei) and increasing the absorption of European funds.

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, being targeted companies that have passed the crisis and have growth potential. 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.

FNGCIMM granted approximately 126,200 guarantees, contracts for the period 2009-2014, the value of sustained funding of around 4.8 billion euros. This year, the number of securities issued under the program was approximately 20,500, with a number of affordable financing worth about 736 million euros. - In terms of volume of credits in lei, from August 2013 until mid-December 6500 were granted guarantees in the amount of 940 million lei. (you see tabel 1.).

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
2014	20.700	720 mil. euro
Total:	126.200	4,8 mld. Euro

\* Preliminary data, available by 2014

**Table 1.** Annual evolution of the number and volume of loans granted to date first house

Source: FNGCIMM, [www.guvernare.ro](http://www.guvernare.ro)

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.

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 2014, especially for companies that have crossed safely crisis and the potential development (you see tabel 2.).

- million lei -

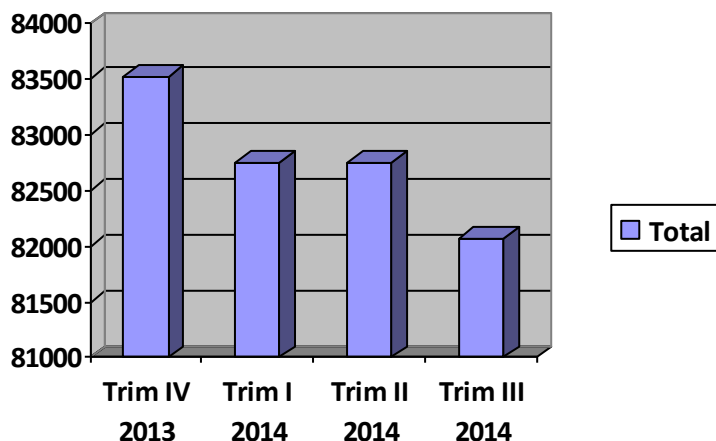
Period	Total amounts granted	Sector of activity						
		Industry	Services	Construcții	Agriculture, forestry, fishing	Activities of Intermediation financial and Insurance	Public administration and defense, compulsory social security, education, health and social	Individuals
Trim. IV 2013	83 522	13 255	40 752	9 909	10 486	324	1 3 72	7 421
Trim. I 2014	82 751	13 070	40 638	9 595	10 596	309	1 294	7247
Trim. II 2014	82 748	12 766	40 709	9 065	11 466	307	1 284	7 153

Trim. III 2014	82 072	12 484	40 384	8 573	11 928	300	1 272	7 132
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**Table 2.** Accessed credit situation in 2014 on categories of customers

Source: National Bank of Romania, Monthly Bulletin, 9/2014, page 62

Representing graphically previous data, we observe an increase in lending in the second half of last year (you see graph 5.).

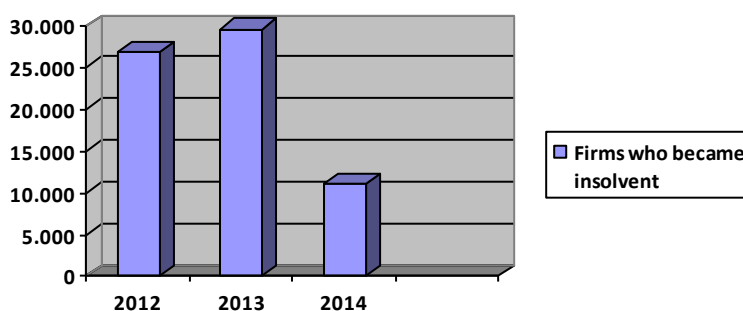
**Graph 5.** Crediting by sector in 2014 – total

Source: www.bnro.ro, Monthly Bulletin, 9/2014, Statistics Section, page 62, the graphic author

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

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, and in 2014 were 11,030 companies became insolvent, which means a decline of 13.47% compared to January-May 2013 (see chart 6).

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

**Graphic 6.** The evolution of the firms who became insolvent

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

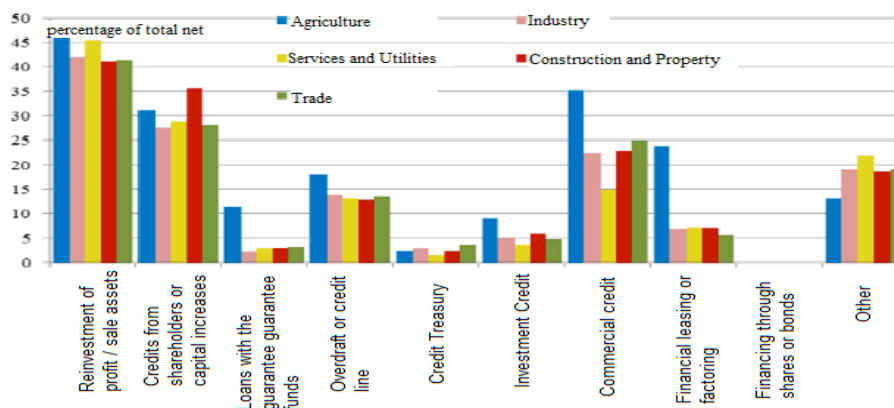
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Finding new sources of finance is a problem for companies that already have loans taken from various banks or certain IFNs. These companies have trouble being eligible loans ongoing as they have a high degree of leverage what creates problems to pay 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.

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 (you see graph 7.).



Graph 7. Development of funding sources used by the company

Source: [www.guvernare.ro](http://www.guvernare.ro)

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

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 the first half of 2014, 23,1% 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.

### Conclusions:

For 2014, the banking system must respond to the following challenges: the phenomenon of insolvency, bad loans management, finding directions of lending performance. For the first of these, the banking system can not act directly, can hope at most to recover a greater or smaller part of the total outstanding insolvent firms they have towards the banks, object hard enough to assess and quantify the value, taking into account the fact that the recovery of debts from insolvent firms is often made on account of capitalization of assets whose value is hard to assess until recovery.

Bad loans management issue is itself a sensitive issue that keeps both the domestic politics of each commercial bank, and the firmness that the National Bank of Romania will pay one of its obligations and that is to ensure the existence a "clean portfolio" commercial banks. The problem is quite delicate under this aspect because the tightening criteria on which loans are granted , can lead to some short-term restructuring of the reduction of economic activity, on the other hand it would lead to the rapid recovery of the banking system and would remove the long recovery time of lending. A simple and handy solution for banks is that they focus primarily lending in areas where government or the governments of Romania have adopted strategic strands for which there are or there will be in the

near future agreements with EU bodies materialized in contracts aimed at financing these EU domain sources. In such cases, banks may relaunch the credit by completing requirements for approved investment projects financed from EU funding programs, either by crediting the current business operators who fully secured financing investments. However, further lending by "rolling" for operators who already receive bad loans would not only result in a foreseeable future to the increase of volume of bad loans, which, due to losses caused in the system would only delay the time of resumption of lending.

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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