

Recent Developments of the Internal Credit in Romania

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Abstract

The article presents the structure of the Romanian banking system and the evolution of internal credit (governmental and non-governmental). Both aspects are analyzed from the point of view of their progress, retrospectively on the one hand, and potential systemic and macroeconomic risks on the other.

The banking system, through intermediation services, contributes to Romania's GDP (attracting deposits and placing loans), concretely by generating gross added value in the economy, its impact extending beyond economic aspects, as banks have an increased degree of responsibility towards the community.

Keywords: internal credit, banking system, bank

1.Introduction

Credit institutions operate in a complex and heavily regulated environment. Changes in the economic climate entail new regulatory requirements. [1]

The COVID-19 pandemic has led to an intensification of efforts to manage the economic effects, and brought new obstacles for credit institutions.

The purpose of the article is to identify the role of the banking system in Romania in the current economic and financial context and aspects related to the evolution of domestic credit. The research started from the role of the banking system, considered the pillar of the financial system in Romania.

The Romanian financial system has the following composition shown in figure 1. [2]

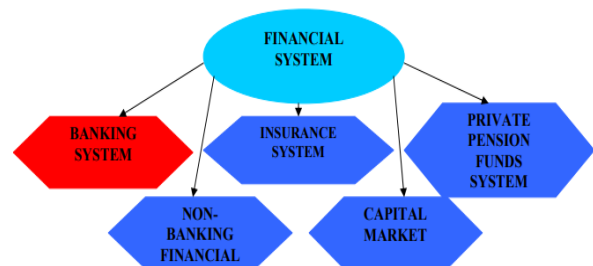


Figure 1. Financial system composition

The financial markets (monetary and capital) have the role of directing the surplus resources of creditors towards debtors, those who need them. Those who play the role of financial intermediaries (banks and insurance companies) are designed to facilitate the indirect meeting of creditors and debtors. However, in Romania, the banking system has a large share in the financial system, on which we will focus our analysis. Banks have the primary role in the banking system, so the difficulties or defaults of some banks may involve the interruption of the functioning of the financial system. [3-7]

Credit is recognized as an essential variable in the mechanism of monetary policy. [8,9] Attention to it has varied considerably over time between

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countries and political decision-makers, along with economists. [10]

2. Material and method

The authors of this article have studied the specialized literature, statistical data, publications and reports provided by the National Bank of Romania and specialized web pages.

As a methodology, standard research techniques and methods were combined, with the starting point being documentation, followed by analysis, making diagrams and drawing up conclusions.

Aspects regarding the structure of the Romanian banking system and the evolution of domestic credit and interest rates were taken into account.

3. Results and discussion

Throughout history, the Romanian banking system has gone through periods of consolidation, with the number of credit institutions decreasing spectacularly.

A peak in the number of banks was reached in 1998, namely 45 banks, and it subsequently decreased due to factors such as the liquidation of insolvent credit institutions or mergers with other banking entities. [11]

Analysis of the structure of the banking system in Romania (Table 1), the basic component of the Romanian financial system, in 2013 included 40 credit institutions, of which 8 were branches of foreign banks.

As a result of the involvement of several actors in the banking system consolidation activity, the number of banks in Romania (Table 1) decreased to 36 banks, of which 7 were branches of foreign banks in 2015.

The mergers and acquisitions of recent years have determined the change in the ranking of the major creditors in the Romanian banking system, reaching 32 banks, of which 8 were branches of foreign banks in 2022. [12]

Banking activity in Romania can also be followed through the lens of aggregated indicators regarding banks.

Table 1. Aggregate indicators regarding credit institutions

| Years | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Aggregate indicators | | | | | | | | | | |
| Number of credit institutions from which foreign bank branches | 40 9 | 40 9 | 36 7 | 37 8 | 35 7 | 35 7 | 35 7 | 34 8 | 34 8 | 32 8 |
| Total net assets (billion lei) | 362.2 | 364,1 | 377,1 | 393,6 | 427,7 | 451,1 | 495,2 | 560,0 | 639,8 | 701,4 |
| Assets of institutions with private capital (% of total assets) | 91.50 | 91.30 | 91.70 | 91.80 | 91,30 | 91,90 | 91,80 | 89,40 | 88,6 | 87,9 |
| Assets of institutions with foreign capital (% of total assets) | 90.0 | 89.90 | 90.40 | 91.30 | 77,00 | 75,00 | 73,70 | 70,50 | 68,2 | 68,1 |
| Solvency indicator (≥8%) (%) | 15.46 | 17.59 | 19.16 | 19.68 | 19,97 | 20,71 | 22,2 | 25,14 | 23,32 | 21,83 |
| Leverage (%) | 7.96 | 7.38 | 8.18 | 8.92 | 8,89 | 9,34 | 10,20 | 10,30 | 8,62 | 7,84 |
| Impaired receivables (% of total loans) | 11.64 | 9.39 | 7.04 | 4.89 | 3,02 | 1,96 | 1,63 | 1,30 | 1,13 | 0,93 |
| Impaired receivables (% of total assets) | 6.50 | 5.10 | 3.85 | 2.67 | 1,64 | 1,08 | 0,88 | 0,65 | 0,59 | 0,50 |
| Impaired receivables (% of total debts) | 7.25 | 5.65 | 4.29 | 2.98 | 1,83 | 1,21 | 0,99 | 0,73 | 0,66 | 0,55 |
| Rate of return on assets-ROA (%) | 0.01 | -1.32 | 1.24 | 1.08 | 1,30 | 1,55 | 1,34 | 0,95 | 1,36 | 1,52 |
| Return on equity-ROE (%) | 0.13 | -12.45 | 11.77 | 10.42 | 12,51 | 14,58 | 12,21 | 8,66 | 13,28 | 16,59 |
| Rate of return on the core business (%) | 176.85 | 180.19 | 171.31 | 188.57 | 181,62 | 188,07 | 184,09 | 185,74 | 185,48 | 192,65 |
| Loans granted / Deposits attracted (%) | 104.59 | 91.33 | 85.39 | 79.05 | 74,74 | 73,64 | 70,99 | 65,89 | 68,78 | 70,52 |
| Non-performing loan rate (%) | - | 20.71 | 13.51 | 9.62 | 6,41 | 4,96 | 4,09 | 3,83 | 3,35 | 2,65 |

Source: <http://www.bnro.ro> [16]

Table 2. Trends in the evolution of domestic loan by component

- millions of lei -

| | Internal loan | Government loan | Non-government loan |
|-------------|----------------------|------------------------|----------------------------|
| 2013 | 298,922.5 | 80,460.2 | 218,462.3 |
| 2014 | 296,710.8 | 85,546.6 | 211,164.2 |
| 2015 | 307,324.1 | 89,635.0 | 217,689.1 |
| 2016 | 313,358.6 | 93,258.1 | 220,100.5 |
| 2017 | 330,685.9 | 98,044.9 | 232,641.0 |
| 2018 | 356,616.5 | 105,516.4 | 251,100.1 |
| 2019 | 383,787.2 | 116,212.2 | 267,575.0 |
| 2020 | 427,961.6 | 145,591.1 | 282,370.5 |
| 2021 | 496,902.2 | 172,637.5 | 324,264.7 |
| 2022 | 533,707.9 | 170,099.7 | 363,608.2 |

Source: calculations based on data provided by the NBR [16]

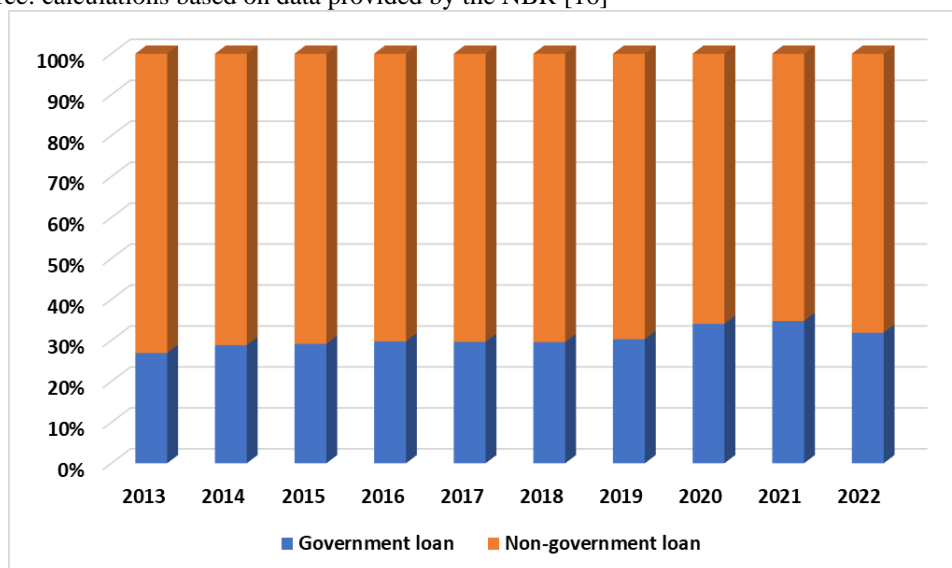


Figure 2. The evolution of non-governmental credit compared to government credit

Source: calculations based on data provided by the NBR [16]

Table 2. Interest rate for new loans

| | Monetary policy rate | ROBOR 3M | IRCC - benchmark index for loans to consumers | Consumer loans (quarterly average) | Mortgage loans (quarterly average) |
|-------------|-----------------------------|-----------------|--|---|---|
| 2013 | 3.75 | 2.58 | - | 13.49 | 6.46 |
| 2014 | 2.50 | 1.69 | - | 11.55 | 5.29 |
| 2015 | 1.75 | 1.03 | - | 10.67 | 4.19 |
| 2016 | 1.75 | 0.83 | - | 10.07 | 3.87 |
| 2017 | 2.00 | 2.13 | - | 10.12 | 4.44 |
| 2018 | 2.50 | 3.05 | - | 10.70 | 6.13 |
| 2019 | 2.50 | 3.12 | 2.36 | 10.40 | 5.68 |
| 2020 | 1.50 | 2.04 | 1.88 | 9.96 | 5.31 |
| 2021 | 1.75 | 2.83 | 1.17 | 9.22 | 4.02 |

Source: NBR [16]

Table 3. The evolution of new credit

| | Consumer loan | Standard mortgage loan | First House / New House | Loan New loan granted by IFNs (sc dr) |
|-------------------|----------------------|-------------------------------|--------------------------------|--|
| 2013 | 6,589,154,761 | 2,516,321,088 | 4,083,833,289 | 1,258,244,839 |
| 2014 | 8,963,202,556 | 2,621,444,126 | 4,113,712,075 | 1,255,707,002 |
| 2015 | 9,167,985,810 | 3,645,292,345 | 5,430,356,164 | 2,187,485,297 |
| 2016 | 11,083,982,908 | 5,269,486,230 | 4,908,232,666 | 3,278,187,073 |
| 2017 | 11,895,277,613 | 7,044,589,431 | 4,791,782,099 | 4,018,026,198 |
| 2018 | 13,659,498,400 | 7,999,260,097 | 4,184,602,890 | 3,814,712,938 |
| 2019 | 16,184,942,234 | 8,975,234,858 | 3,639,744,929 | 3,793,808,036 |
| 2020 | 13,726,709,644 | 10,732,120,631 | 2,793,640,433 | 3,200,596,241 |
| 2021 | 19,536,489,069 | 16,128,675,319 | 2,934,664,013 | 4,652,476,590 |
| March 2022 | 19,884,131,927 | 17,197,628,140 | 2,791,248,063 | 5,035,014,092 |

Source: <http://www.bnro.ro> [16]

The net assets of credit institutions had an upward trend, from 362.2 billion lei in 2013 to 701.4 billion lei in 2022, registering a decrease to 560.0 billion lei in 2020 as a result of the Covid 19 crisis. [13]

During the analyzed period, there was a decrease in the share of assets of institutions with foreign capital in total assets from 90.0% to 68.1%.

The domestic banking system, at the level of stability and liquidity indicators, is prepared to withstand the alert pace of lending. Regarding the loans/deposits ratio for the population and non-financial companies, it was 68.78% in December 2021, and increased by approximately two percentage points in 2022, reaching 70.52%, underlining the great potential of Romanian banks to support lending activity.

The profitability rate of the basic activity (the ratio between operating income and operating expenses) increased by 7.13 percentage points, from year to year, and recorded in 2022, 192.65 percentage points. [14]

The main developments of internal credit are presented in table 2 and figure 2, totaling 533,707.9 million lei in 2022, which exceeds by 43.9% the level of internal credit from 2013 (298,922.5 million lei).

Increases were also recorded at the level of government credit (table 2), which actually constitutes the financing granted to the state by the banks. It marked an advance in 2022, up to 170,099.7 million lei, however less by 2,538 million lei compared to 2021. The increases occurred as a result of the fact that the state borrows at an increasingly high cost level.

The reference level of investor confidence, the average long-term interest rate increased in June 2022 to 8.74% per annum, also the highest level since 2022, and decreased to 7.10% in April 2023. The analyzed data (table 2) also indicate an advance for non-governmental credit, with a percentage of 5.5%, in 2020, (282,370.5 million lei) compared to 2019, in the situation where the economy contracted by 3.9 percentage points in 2020. And in 2021, non-governmental credit advanced by 12.9% compared to the previous year, a trend that was maintained in 2022 as well. The decrease in the years 2013 and 2014, of the demand for credits both in the non-governmental component (non-financial companies and the population), but also in the offer of credits from the banks that had a selective behavior and restrictions determined the reduction of the internal credit to 296,710.8 million lei at the end of 2014, compared to 304,689.0 million lei as it was in 2012. On the two components, the evolution was the opposite: the government credit increased from 80,460.2 million lei in 2013 to over 85,546 million lei in 2014, and the non-government credit decreased from 218,462.3 million to 211,164.2 million lei in 2014. Analysis of internal credit by components in 2021 compared to 2020, the year of the Covid 1 health crisis 9 reveals an increase in both components: an increase of 27,046.4 million lei in government credit (172,637.5 million lei) in 2021, reflecting the increase in loans to the central administration to support health expenses, and by 41,8904.2 million lei in non-governmental credit, in the context of increased demand for the purchase of

larger homes, houses especially from the population and, against the background of the increase in institutions, created by resources population savings in 2020.

Regarding the new credit (table 3), there is an increase in its case as well. The analysis by components reveals the fact that in 2020 we witnessed a good increase in the mortgage loan, higher than in the case of the First House/New House loan, for the same reason, the population turned its attention to larger homes with a small yard and less to the apartments that could be purchased through the First House loan. The evolution on the real estate market was not what was expected, an evolution specific to a crisis, i.e. one that would have become very tough at some point. Housing prices fell slightly and even rose in some major cities.

Through the New House program, part of the population, with more modest incomes, benefited from better credit conditions in terms of costs. In 2020, the effective interest rate decreased at the end of the year by 0.45% to 5.1% and recorded the lowest level in the last two years. [16]

In the case of consumer credit, it was strongly affected by the pandemic and decreased compared to 2019 and 2021, the amount of loans being only 13.7 million lei. Banks also increased their interest margins (the difference between the interest charged on loans and the one offered on deposits), a situation due to the relaxed monetary policy of the BNR, combined with the "comfortable" degree of covering loans with deposits.

In 2021, new consumer and mortgage loans, in lei and euros taken by the population reached a record level and increased by 41% over the volume of 2020, reaching 48.4 billion lei. In 2021, mortgage loans reached a maximum of the last 15 years, a situation that will continue in 2022.

In 2021, the effective average annual interest rates on mortgage loans were between 3.94 percentage points and 5.14 percentage points, and on new consumer loans in lei between 9% and 9.82%.

In the first semester of 2022, the Romanian banking system recorded a record profit (4.8 billion lei), approximately 15% more than in 2021. It is also a European performance, Romania, ranking last in the European Union in terms of financial intermediation, but in terms of bank profitability, it is at the top.

Even in the conditions where the profit of the banking system in Romania does not result from a solid increase in financial intermediation, the local

market is still one of the most profitable in Europe, (the ratio between bank assets - mainly loans - and GDP, relevant for determining the footprint of the banking system at the level of an economy). [17]

4. Conclusions

The analysis carried out on the Romanian banking system supports the hypotheses according to which a series of indicators give us signals regarding the identification of pressure situations of the banking system on the economic one. Summarizing, it emerges that during the analyzed period the internal credit followed an upward trend, both in the case of governmental and non-governmental credit, otherwise it represents the main source of replenishment of resources. Also, for new credit, the trend was increasing on the consumer credit component, mortgage credit in lei and foreign currency, except for the pandemic year 2020, when there were decreases in both components. Another idea is that not all indicators give us useful signals, although significant indicators are calculated, in explaining situations of financial instability through the banking system, because some signals come late, and are of no use in the actions taken. The results of our research are useful in the sense that they provide an overview of credit developments during the analyzed period, as it is considered a main driver and important source of funding for the economic-social system.

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