

Bank Lending in Romania after the Covid 19 Pandemic

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Abstract

Bank lending is at the stage of financial intermediation in most countries with a poorly diversified money market. The credit market in Romania has been growing steadily since 2005 as a result of banks opening up to the public. After the advent of the first mortgages, credit took off and the volume of consumer credit reached a peak.

The unexpected Covid 19 pandemic has brought minor changes to the structure and volume of bank lending in Romania. The study reveals changes and trends in bank lending in Romania. Due to the fact that bank credit is the main form of financing in Romania, the study presented is important and relevant for analysts and the public.

Key words: loan, banks, consumer credit, banking strategy

J.E.L. classification: G01, G20, G21, G24, G30, E50

1. Introduction

Credit plays a very important role in the economic and social system. It is the source of funds for business investment, consumption and housing. Its role and importance are highlighted by its functions.

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2. Theoretical background

Credit in various forms is a financing tool, along with leasing, forfeiting, factoring, etc. In developed economies the forms of financing are diverse and the capital market active and strong. In less developed economies, banks play an important role in the financial intermediation process.

In the case of banks, capital is the safety net. The more diversified financial products and services are, the greater the credit risk. A study of a sample of public and private banks in the US shows that as credit volume increases, quality standards can fall. However, in banks with strong capital, the loan portfolio is of high quality. (Jin, Kanagaretnam, Liu, Liu (2019).

In many emerging countries, many banks are state-owned, in which case public policy is important. Dinc (2005) has also shown that in election years, lending to public banks increases.

In Romania, although the financial market is not very developed, the share of private capital in the banking system is more than 75%.

Kupiec, Lee and Rosenfeld (2017) bring attention to the link between bank policy strategy, the rating model used and monetary policy. They show that weak rating system has negative impact on bank credit growth. Moreover, in markets with illiquid assets, central bank lending regulations are important for financial stability.

In today's era of digitisation and social media, the online aspect of the bank-customer relationship cannot be ignored. Cerchia (2016) analyzed the impact of social media on a bank's customer management. For an increase in the customer portfolio and therefore in their lending, in recent years, banks like other companies are present on social networks attracting customers and retaining them.

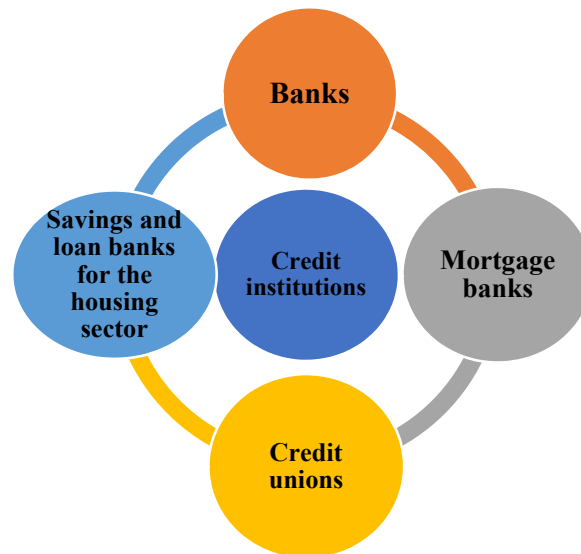
Credit facilitates the purchase of goods and services before you have sufficient equity. People can access credit to buy homes, cars, electronics and other goods, allowing them to satisfy their needs and wants now, instead of waiting years to save the money they need. Credit thus stimulates consumption and contributes to aggregate demand in the economy.

3. Research methodology

The banking system is a link in the financial system in Romania as in other countries. Within the credit institution sector, there are commercial banks. In the case of Romania, banking assets represent the largest share of total financial system assets.

The categories of credit institutions that can operate in Romania are shown in Figure 1. It can be seen that there is not a great diversity of such institutions. So if we study the volume of credit in Romania, it is predominantly banking.

Figure no. 1 Categories of credit institutions in Romania



Source: own conception

On 31 March 2023, a total of 32 credit institutions were registered as assets in Romania. Of these, 8 are branches of foreign banks. All these cover 712.6 billion RON - total assets.

In order to tailor the offer to the needs of customers, Romanian banks are interested in consumer behaviour and typology. A nation's culture also determines its financial behaviour. The study by Ianole-Călin, Francioni, Masili, Druica and Goschin (2020) provides a cultural understanding of the deeper mechanisms underlying attitudes and intentions associated with collaborative consumption.

Through analysis in structure and volume, a picture of credit in Romania pre and post Covid Pandemic 19 will be obtained.

4. Findings. Volume and structure of credit in Romania

Domestic credit is a relevant indicator for the study of financial intermediation, but it also shows trends in the economy, especially in countries where bank lending has a large share of total financing.

In the run-up to the Covid 19 pandemic, domestic credit showed a slight upward trend year-on-year, reaching RON 383,787.2 million in December 2019. The Covid 19 pandemic and the first measures adopted in Romania started at the end of March 2020. On 31 March 2020, the volume of domestic credit was RON 398 814.4 million.

Thus, at the beginning of April 2020, economic activity was restricted as a result of entering the state of isolation. However, the volume of domestic credit continued to increase month by month in 2020, with the exception of June: RON 401 214.4 million in April 2020, RON 405 344.2 million, RON 427 961 2 million in December.

Even at the height of the Pandemic, domestic credit continued to grow. The explanations are: at the beginning of the period there was inertia, and then part of the population turned to consumer credit or credit cards to cover temporary needs. The government came to the aid of those who could not pay their instalments when they fell due with a law allowing individuals to defer payments. However, in 2021, this led to interest rates rising against the background of the market and as a result of increased credit risk.

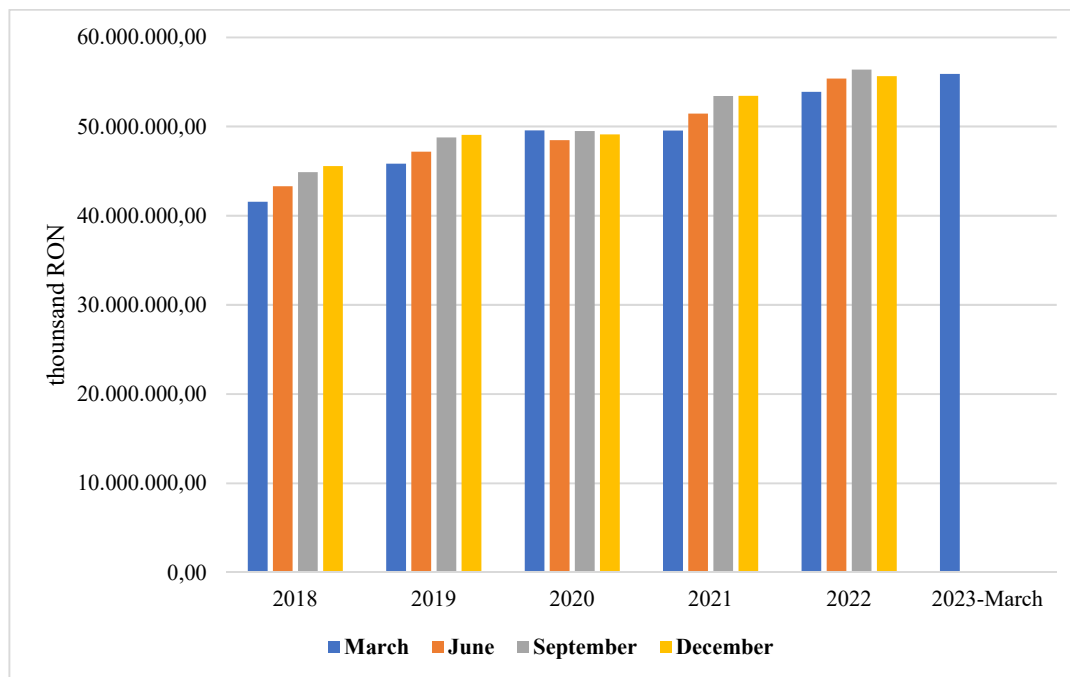
And after the end of the pandemic period, domestic credit continued to grow: RON 538 707.9 million in December 2022 and RON 549 918.5 million in March 2023.

The growth of domestic credit in 2018-March 2023 is based on some of its components, which will be analysed below.

One category influencing the dynamics is household credit with its two main components: consumer credit and housing credit.

Analysing the evolution of consumer credit, it can be seen that in the period 2018-March 2020, the volume increases quarterly. The pandemic stops this category only in the second quarter of 2020. In the following quarters we have growth again.

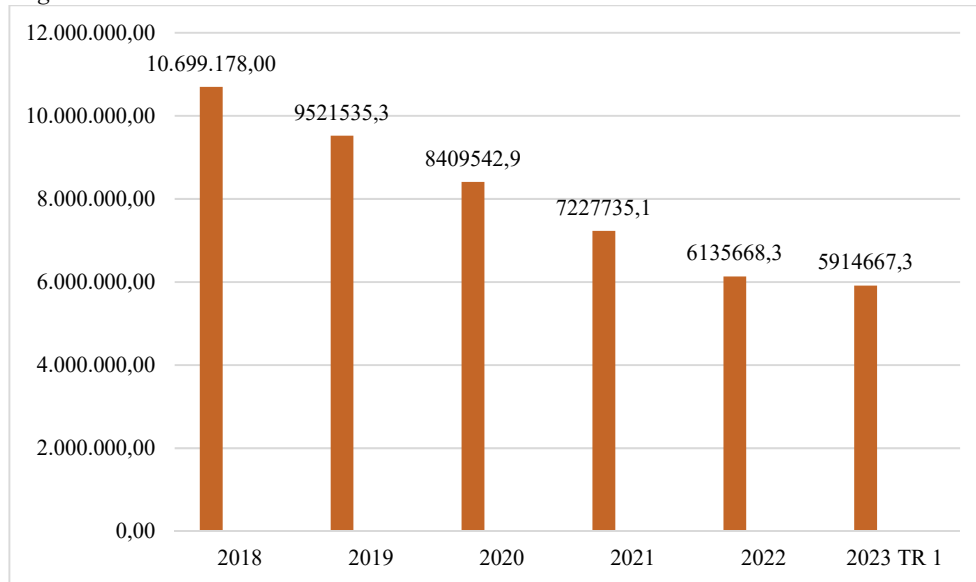
Figure no. 2 Volume of consumer credit in RON



Source: own conception based on data published at <https://bnr.ro/Credite-acordate-gospodariilor-populatiei-5771.aspx>

Thus, consumer credit in RON had the following annual evolution reported to the first quarter: RON 41,584,649.2 thousand in March 2018, RON 45,842,121.7 thousand in 2019, RON 49,574,556.9 thousand in 2020, RON 49,564,668.2 thousand in 2021, RON 53899509.8 thousand in 2022, and 2023 records a total volume of RON 55,899,451.7 thousand. From 2018 to 2023 the volume of loans granted to households increased by RON 10,057,330 thousand.

Figure no. 3 Consumer credit in euro



Source: own conception based on data published at
<https://bnr.ro/Credite-acordate-gospodariilor-populatiei-5771.aspx>

Consumer credit in euros has fallen considerably as interest rates have risen sharply, from 3.74% in December 2021 to 6% in December 2022. In addition to higher interest rates and higher inflation, the war in Ukraine was a new context for Romanians to switch away from personal loans in euros.

The year 2018 was marked by a rapid increase in loans granted to the population with a characteristic atypical of the developments of previous years, namely the increase in the share of mortgage loans over that of consumer loans in the context of an increase in lending of more than 13% compared to the previous year. At the same time, the increase in mortgage lending was accompanied by an increase in indebtedness due to both a 9% increase in the median value of loans contracted and a 1.6% increase in the interest rate compared to the previous year..

Anticipating the growing trend in the population's appetite for credit in conditions of increasing indebtedness and automatically significantly increased risk exposure, the NBR took the decision to amend NBR Regulation No 17/2012 on certain credit conditions. In this way it was decided to reduce the leverage ratio for consumer loans and mortgages in lei to 40% and 20% for those in foreign currency. The measure was taken in order to reduce the default risks to which low-income individuals were exposed, while also reducing the foreign exchange risk.

This resulted in the number of highly indebted borrowers falling from 50% of total loans in 2018 to 13% at the end of 2019 while the stock of mortgages increased by 10.5% at the end of the same period. We can therefore say that the quality and performance of lending products has increased (more forcibly).

A key issue in 2019 is the decrease in the number of loans granted through the First Home program by 13 percent compared to the previous year, while standard mortgage loans increased by 12 percent compared to 2018. It is worth mentioning that 2019 is the year in which the maximum number of completed new homes was reached, reaching approximately 65,000, thus increasing the supply on the real estate market by 13% compared to the previous year.

The downward trend for the demand for loans through the First Home programme continued in 2020 even though the number of new loans granted in 2020 was 7.2% higher than in 2019. This increase is mainly due to an increase in demand for the regular mortgage loan by 20 percent.

After the COVID 19 pandemic, demand for home loans was also influenced by the housing market. The evolution of this market in Romania has been extensively covered in the study by Cerchia, Zaif and Lipară (2021).

Table no. 1 Housing credit structure 2018-2022

Date		Household loans for housing	Household loans for housing in RON	Household loans for housing in euro	Household loans for housing in other valute
		Thousand RON	Thousand RON)	Thousand RON	Thousand RON
2022	T4	106.169.230,3	88.926.330,9	15.964.529,8	1.278.369,6
	T3	106.104.432,7	88.524.295,7	16.218.154,9	1.361.982,2
	T2	105.200.033,8	87.283.970,0	16.570.911,9	1.345.151,8
	T1	103.021.175,2	84.631.426,5	17.026.377,0	1.363.371,6
2021	T4	100.691.047,6	81.687.219,6	17.578.770,8	1.425.057,2
	T3	97.737.864,8	78.106.593,5	18.195.190,3	1.436.081,0
	T2	94.140.159,3	73.923.963,0	18.741.291,1	1.474.905,2
	T1	91.465.122,3	70.565.931,5	19.382.479,5	1.516.711,3
2020	T4	89.175.438,9	67.865.743,6	19.725.213,7	1.584.481,6
	T3	86.595.417,3	64.661.341,0	20.269.709,9	1.664.366,5
	T2	84.615.623,3	62.202.521,2	20.678.409,2	1.734.692,9
	T1	83.145.089,4	60.339.449,8	21.005.059,9	1.800.579,7
2019	T4	81.177.605,6	58.098.493,0	21.293.335,7	1.785.776,9
	T3	78.624.998,7	55.078.724,1	21.715.237,1	1.831.037,5
	T2	76.492.991,7	52.492.159,0	22.169.247,9	1.831.584,9
	T1	75.252.500,7	50.520.599,2	22.842.733,9	1.889.167,7
2018	T4	73.484.212,6	48.746.633,2	22.850.163,2	1.887.416,2
	T3	71.654.298,0	46.378.539,9	23.346.010,3	1.929.747,8
	T2	69.824.110,8	43.986.455,0	23.819.804,1	2.017.851,7
	T1	67.638.345,9	41.214.407,9	24.378.624,5	2.045.313,4

Source: National Bank of Romania's Statistics

The mortgage market remained at the same level in 2021 as in the previous year, with a share of 49% of total new loans granted to the population, compared to 50% in 2020. The volume of transactions in 2021 returned to the pre-pandemic level, reaching EUR 0.92 billion, compared to EUR 0.58 billion in 2020.

The year 2022 brought a record level of new loans to the population reaching 25 billion lei, an increase of 7.2% compared to the previous year. This increase is even more surprising if we take into account the unpredictable situation of the border war, post-pandemic economic measures and rising inflation.

5. Conclusions

Credit offers the possibility to diversify financial risk. By accessing credit, people and businesses can avoid concentrating all their equity in one business or investment. By borrowing funds from third parties, the risk is spread between the lender and the borrower, which reduces the impact of any financial failure or loss.

The study shows that consumer lending to households has grown considerably, but 2020 was a setback even for this type of banking product due to the Covid 19 pandemic.

Environmental concerns are present in the Romanian public as well as in banks. In recent years, more and more financial institutions are getting involved in sustainable projects to protect the environment. A new market is emerging - green loans. Although in its infancy, the sector is growing. However, according to a study by Marars, only two of the top ten banks in the Romanian banking market (by assets) have published a local sustainability report. Only 1/2 of the banks included in the study offer green loans. (Dănilă et al, 2022)

Romanians' appetite for credit depends on a number of factors related to financial education, but not only.

I consider useful for future research on the credit decision a study conducted in 2021 by Ianole-Călin Druică and others on a representative sample of the Romanian population in terms of income and education. They collected data on financial anxiety and security, financial saving behaviour (dependent variables), self-control, optimism, future orientation, deliberative thinking and financial education (independent variables).

Summing up the benefits, we can say that credit facilitates economic growth through investment and consumption. In an economy where credit is widely available, financial resources can be channelled quickly and efficiently into productive projects and activities, thereby generating sustainable economic growth.

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