

THE TYPOLOGY OF BANK CREDIT FOR FINANCING THE POPULATION'S HOUSEHOLDS IN ROMANIA

SÎRBULESCU ELENA CLAUDIA*¹, PIRVULESCU LUMINITA¹, FEHER ANDREA¹,
ALDA LIANA MARIA², DINCU ANA-MARIANA¹

¹*Banat's University of Agricultural Sciences and Veterinary Medicine "King Michael I of Romania" from Timisoara, Faculty of Management and Rural Tourism, Romania*

²*Banat's University of Agricultural Sciences and Veterinary Medicine "King Michael I of Romania" from Timisoara, Faculty of Food Engineering, Romania*

*Corresponding author's e-mail: claudiasirbulescu@usab-tm.ro

***Abstract:** The paper presents the typology of credits granted to the population, in order to understand the evolution of lending in Romania, as well as new trends, capturing the economic and social influences induced by loans granted to the population under the impact of the global crisis. Bank loans are used to finance the needs of households, in particular to reduce the variability over time of their consumption pattern and help them invest in real estate. The methods used by the authors consisted in data collection, documentary analysis, synthesis, graphic representation. Understanding the behavior of regular customers and transforming them into sophisticated customers, forces banks to build their management policy to meet customer requirements in the relationship with the bank, using elements such as presentation, perspective, positioning, quality of services provided, and improving distribution. We can conclude that the evolution of loans granted to the population in Romania has an upward trend.*

Keywords: bank credit, banking system, customers

INTRODUCTION

Banks have a key role to play in supporting a strong economy by ensuring the access of citizens and businesses to the funds they need for savings and investment. Due to their special position in the economy, banks must also comply with certain rules to ensure that they are robust enough to deal with shocks [3,10,11,12,19].

The basic function of a bank is lending, which gives it major responsibilities to promote an economy based on efficiency and profitability [1,2,16].

First of all, some concepts, and the links established between them, must be clarified.

Population's households include individuals or groups of individuals at the same time as their function as consumers and entrepreneurs in some cases. The main sources of households come from their remuneration as employees, transfers made from other sectors, property income and revenues from the sale of production [7,9,20].

The consumer credit is the short-term, medium-term or long-term credit, granted to individuals with the destination of covering the cost of the goods and services they benefit by purchasing from the sales and services network, or for the crediting of contracted receivables [4,5,6,12].

The household credit is the real estate or mortgage loan that can be used: for the purchase or construction of a home, for the modernization/extension of a building, for the acquisition of a land and its viability, or for the refinancing of similar loans [13].

The real estate credit is the loan that is guaranteed with the property that is the object of the acquisition or with other properties. It is intended for the construction or acquisition of a building, a land or for renovation, modernization, expansion operations [8].

The mortgage credit is the loan guaranteed exclusively with the property that is the object of the acquisition. This type of loan is suitable for the purchase of properties, which have either a residential destination or another destination (investments) [7,9,20].

The category of loans for other purposes includes those loans, other than consumer loans, housing loans and business development loans (such as debt consolidation, education financing, etc.) [13,14].

Customer creditworthiness has an impact on the lending process, a method used by banks in assessing population performance, being the scoring grid that has a number of features and impact on the lending process, given the risks associated with lending [7,9,20].

MATERIALS AND METHODS

Without prioritizing, a hierarchy of studies and research with reference to lending to the population, especially since there are many criteria for selecting these topics, however, in solving this situation supports the bibliography of this paper, which finds part of the vastness of previous studies, with tangents to the present topic.

The research methodology is based on a rich bibliography by consulting the specialized literature from the country, which includes specialized books, articles and reports in the banking field, works of economists and specialists, annual reports, publications, statistical data provided by the National Bank of Romania.

The objective of the paper is to present and know the typology of loans granted to households, precisely to understand the evolution of lending in Romania, as well as new trends.

The research methodology combines standard techniques and methods: documentation, documentary analysis, synthesis, graphical representation of observed processes and phenomena and formulation of conclusions.

RESEARCH RESULTS

The analysis and granting of loans must take into account the influence of external factors on the projects advanced by clients, respectively the non-financial aspects that may have unforeseen effects on the conduct of business and the repayment of loans.

Credits granting must be advantageous both for the bank, as it can gain additional profit by expanding and diversifying its loan portfolio as well as for clients who can develop their business, earn profits and, on this basis, repay the loans and pay their interest.

The evolution of loans granted to non-governmental clients by banks in Romania is presented in Table 1. From the data analysis it results: credits in lei granted to households increased by 83,621.9 million lei (increase by 70.47% in 2020 compared to 2011) from 35,036.1 million lei in 2011 to 118,658.0 million lei in 2020; credits in lei granted to non-financial companies followed an upward trend also by approximately 29,229.1 million lei from 44,750.7 million lei in 2011, to 73,979.8 million lei, in 2020; the trend of the share of credit granted to the population in non-government credit in lei was increasing from 42.81% in 2011 to 60.24% in 2020 (Figure 1).

The population and companies requested in 2020 mainly credits in national currency in the proportion of 82.14%, followed by those in euro's, 14.65% and those in dollars, contracted exclusively by companies, with 3.21%.

In the second quarter of 2020, banks tightened lending standards for both categories of credits for the population (94.4% net percentage of banks in the case of consumer loans, respectively 65.5% net percentage of banks for real estate loans), the result being an increase in the third quarter of the share of rejected credit applications reported by credit institutions in the case of both categories of loans addressed to the population.

The main factors that contributed to the increase in restrictivity were: the deterioration of the economic outlook, the worsening of debtors' creditworthiness and expectations regarding the real estate market, as well as a lower tolerance for risk.

Table 1

Non-governmental credits granted in lei by destination in Romania
- lei million-

Years	Total Romania	Non-financial corporations	Households	Other institutional sectors
2011	81,825.00	44,750.7	35,036.1	2,038.2
2012	85,079.70	49,158.5	34,320.4	1,600.7
2013	85,431.10	49,051.6	34,594.1	1,789.5
2014	92,136.60	50,108.1	40,108.4	1,942.6
2015	110,246.10	54,363.2	52,592.8	3,290.1
2016	126,200.10	56,664.4	66,080.1	3,447.6
2017	146,238.90	61,803.7	80,160.1	4,074.5
2018	165,901.60	65,970.7	95,685.2	4,245.6
2019	181,228.10	68,696.9	108,767.6	3,763.6
2020	196,972.90	73,979.8	118,658.0	4,335.1

Source: Authors' table based on the data from <http://www.bnro.ro> [16]

During the state of emergency and the state of alert, in March-June 2020, the population received new credits of 9.8 billion lei. The distribution by coins shows that the population mainly accessed credits in lei, in proportion of 96%, leading to the elimination of currency risk. Loans in lei accessed by the population means a little over half of the total loans in lei [18].



Figure 1. The share of credit granted to the population in non-government credit in lei

Source: own calculations based on data from <http://www.bnro.ro> [16]

Credits in foreign currency being more and more expensive than those in lei, have become even more risky, being exposed to foreign exchange risk. The period of recent years has been characterized by large increases in the exchange rate, which have made it extremely expensive.

In the category of foreign currency credits (Table 2), we found a decrease in the analyzed period of loans granted to companies and the population, except for those granted to other institutional sectors, which increased by 76.4% in 2020 compared to 2011.

Foreign currency loans granted to non-financial corporations decreased by 29.03%, respectively 21006.5 million lei (from 72348.3 million lei in 2011, to 51341.8 million lei in

2020). Loans to households also decreased by 24,504.9 million lei (from 69495.3 million lei in 2011 to 31454.2 million lei in 2020).

The analysis of the weights of the credit granted to the population in the non-governmental credit in foreign currency reinforces its decreasing trend, as it results from Figure 2.

Table 2.
Non-governmental loans granted in foreign currency by destination in Romania
- lei million-

Years	Total Romania	Non-financial corporations	Households	Other institutional sectors
2011	143,340.30	72,348.3	69,495.3	1,496.6
2012	143,273.60	71,697.6	70,403.3	1,171.7
2013	134,660.00	64,429.2	68,946.0	1,284.9
2014	121,166.20	56,748.1	62,147.2	2,073.0
2015	109,829.90	52,562.0	54,495.0	1,772.9
2016	96,747.50	47,247.5	47,087.3	2,412.7
2017	89,059.50	44,152.1	41,787.7	3,053.4
2018	87,888.70	46,883.2	37,434.9	3,570.7
2019	88,576.30	50,571.0	34,474.6	3,530.7
2020	89,137.30	51,341.8	31,454.2	6,341.3

Source: Authors' table based on the data from <http://www.bnro.ro>[16]



Figure 2. Share of credit granted to the population in non-government credit in foreign currency

Source: own calculations based on data from <http://www.bnro.ro>[16]

Domestic banks continue to provide significant lending to the population sector, despite the existence of significant lending potential at the level of non-financial corporations.

The criteria for grouping loans granted to the population can be extended, the following remain essential as shown in Table 3.

Although in the analyzed period (2011-2020) consumer credits in lei (Table 3) have an important share, home loans registered an expansion, given that the general credit ceiling registered an increasing trend in 2020. Given that the population is facing an increasingly diminished level of purchasing power from inflation, it still manages to save and invest in property. Also, consumption has reached the saturation threshold in terms of retail lending, through the offers facilitated by the consumer market, as well as through the offers of banks specialized in consumer financing.

Table 3.
The structure of foreign currency loans granted to population's households
- lei millions-

Years	Consumer credits	Household credits	Credits for other purposes	Total
2011	25,733.5	1,515.4	7,221.6	35,036.1
2012	24,176.4	1,823.6	7,509.4	34,320.4
2013	23,108.6	3,470.3	7,175.3	34,594.1
2014	28,141.2	9,457.4	1,571.3	40,108.4
2015	31,354.3	18,693.6	1,453.1	52,592.8
2016	35,341.2	28,765.5	873.5	66,088.1
2017	39,521.0	39,122.3	464.9	80,183.1
2018	45,573.6	48,797.1	262.3	95,685.2
2019	49,076.3	58,154.5	239.5	108,767.6
2020	49,106.7	67,932.2	208.8	118,658.0

Source: Authors' table based on the data from <http://www.bnro.ro> [16]

Lately, as a result of a considerable demand for personal loans, many financial institutions have diversified their types of products.

In Table 3 and Figures 3, 4 and 5 we presented the main evolutions of loans in lei granted to households in Romania:

- home loans increased 44.8 times in 2020 compared to 2016;
- consumer loans doubled in 2020 compared to 2011, loans for other purposes decreased significantly.

Table 4.
Structure of foreign currency credits granted to households
- lei million-

Years	Consumer credits	Household credits	Credits for other purposes	Total
2011	36,387.0	31,974.1	784.3	69,495.3
2012	33,976.9	35,344.6	769.5	70,403.3
2013	30,499.1	37,483.7	659.7	68,946.0
2014	26,280.5	35,245.0	289.5	62,124.2
2015	21,649.7	33,399.2	143.3	55,495.0
2016	16,947.4	29,827.5	109.6	47,087.3
2017	14,369.7	27,146.0	90.3	41,786.9
2018	12,401.9	24,806.4	89.4	37,434.9
2019	11,093.3	23,183.7	63.6	34,474.6
2020	9,873.5	21,384.0	55.8	31,454.2

Source: Authors' table based on the data from <http://www.bnro.ro> [16]

Table 4 and Figures 3, 4 and 5 show the evolution of foreign currency credits granted to households in our country. Households' credit follows a decreasing trend by 33.12% in 2020 compared to 2016 (from 31,974.1 million lei in 2011, to 21,384.0 million lei in 2020). The situation of consumer loans is also declining: a decrease of 3.68 times in 2020 compared to 2011.

According to the NBR statistics, the most common credits granted in our country are consumer loans (Figure 3), this being achieved as a result of rapid approval, lack of guarantees and lower documentation required by most banks.

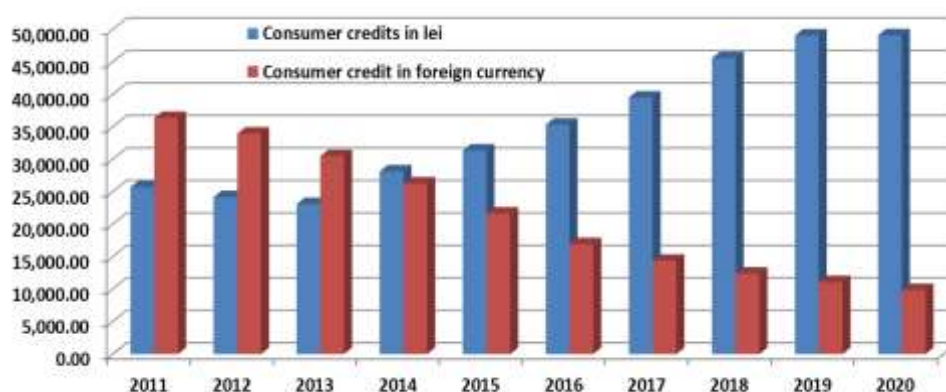


Figure 3. Evolution of credits granted to the population for consumption
 Source: <http://www.bnro.ro> [16]

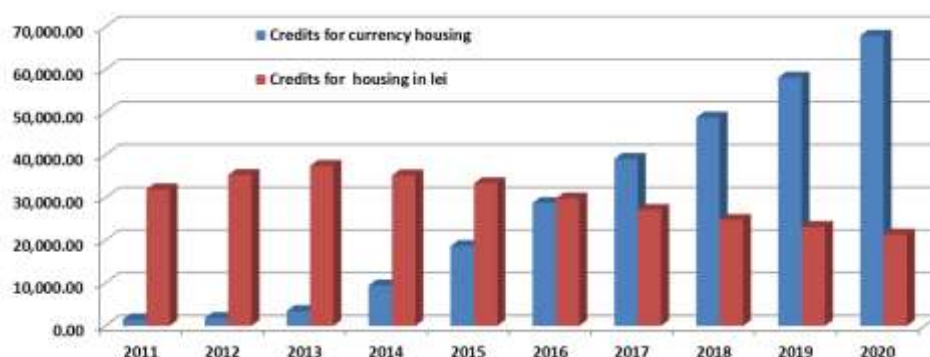


Figure 4. Evolution of credits granted to the population for housing
 Source: <http://www.bnro.ro> [16]

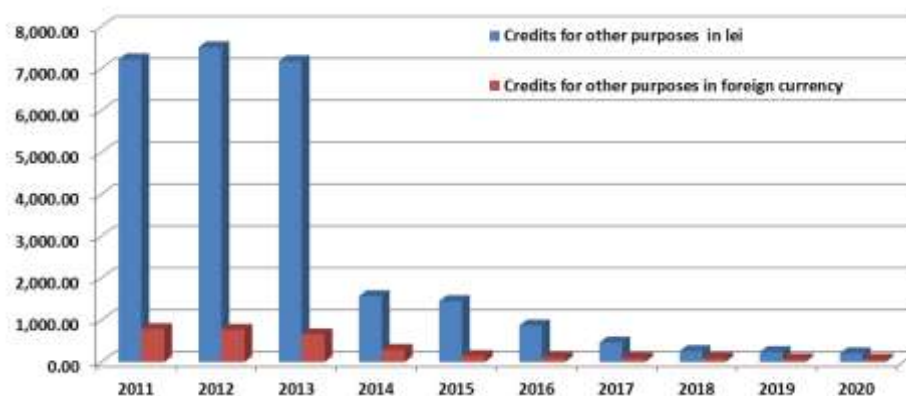


Figure 5. Evolution of credits granted to the population for other purposes
 Source: <http://www.bnro.ro> [16]

At the level of credits granted to households, there is a decrease in the volume of consumer loans by 20.25% (compared to 2011 and 2020) and an increase in loans for housing by 27.78% (Figures 6 and 7).

The upward trend in credit to the population indicates a possible accumulation of vulnerabilities in the banking sector. It is about the degree of indebtedness for borrowers who have contracted new credits that is increasing, and for mortgages is at an increased level. Also, an asymmetry persists of the degree of indebtedness persists because the debtors who receive a net salary below the average level have a significantly above average indebtedness, the situation being more nuanced in the case of mortgages.

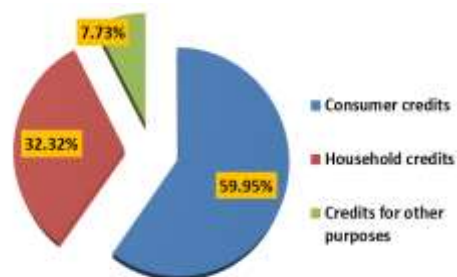


Figure 6. The structure of credits granted to households in 2011

Source: own calculations based on data from <http://www.bnro.ro>[16]

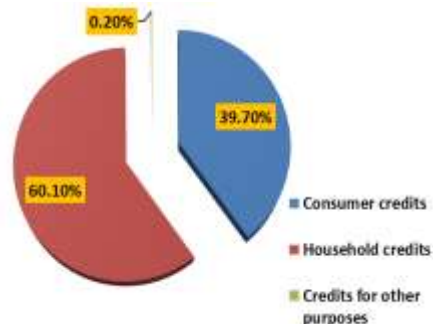


Figure 7. The structure of credits granted to households in 2020

Source: own calculations based on data from <http://www.bnro.ro>[16]

The regulatory framework at national and European level allowed in 2020 the postponement of the payment obligations of the debtors affected by the COVID-19 pandemic.

Romanian banks were able to resolve approximately 362,000 customer requests for the suspension of monthly payment obligations from credit agreements, in the first months since the onset of the COVID-19 pandemic. On June 15, 2020, more than 60% of the requests based on Emergency Ordinance 37/2020 and approximately 40% based on the support measures proactively adopted by banks, for customers affected by the effects of the pandemic, starting with March, were resolved [15].

Individual customers submitted more than 334,000 requests to suspend monthly payment obligations, which accounted for approximately 22% of ongoing credits granted to the population [17].

CONCLUSIONS

The credit is absolutely necessary for the economy, which is why the way it is granted has a significant importance, here intervening the bank's function of financial analyst for orienting the resources towards the most efficient investments.

The recovery of credit granted to the population to the detriment of non-financial companies is explained by: the orientation of new loans towards the real estate sector, the granting of loans in lei in most cases and less in foreign currency; persons accessing loans have been included in the category of those who apply for bank financing for the first time; the risk profile of people who have accessed loans is moderate: in general, people with lower incomes are also the most indebted.

We can say that the expansion of credit to the population has been the basis for the significant increase in non-government credit in recent years.

The current trend of rising indebtedness causes a more pronounced vulnerability of the population to changes in interest rates, disposable income and the prices of financial and non-financial assets.

The exaggerated dynamism of lending, especially of the population, in the absence of adequate support from domestic production, has caused the external vulnerability of the economy by increasing external debt.

We can appreciate the sinuous dynamics of the credits granted to the population on the entire analyzed interval, which followed the dynamics of the money incomes of the population.

The conclusion that emerges based on the analysis is that the banks are distinguished by their special status exercised in the economic and financial field, fulfilling their unique and fundamental role in financing Romania's market economy, so that the contemporary economy can function at optimum, on the basis of a interdependent structure with the banking system.

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