

Lending Population - New Challenges of the Banking System Amid the Persistent Global Crisis

Ramona-Ioana Vlada, Ilie Banu, and Dragos Mihai Ungureanu

Abstract—Lending represents the main flow for financing the economy and the credit forms and instruments are diversifying and adapting to the customer requirements, technology transformations and competition in an environment characterized by uncertainty and risk. Starting from the theories according to which, on one hand, consumer credit ensures that essential component of bank lending, as well as an adequate organizational structure, while in Romania the mortgage market is underdeveloped, in terms of potential and instruments and institutions involved, we aim at analyzing population lending, in the conditions of the current global crisis, highlighting its impact on business and banking performance.

Keywords— credit, crisis, financing, population.

I. INTRODUCTION

ACCORDING to its activity, the banking sector may confer trust to certain sectors and industries through lending, which can lead to encouraging access to assets pertaining to the priority sectors and areas and, implicitly, to the stabilization of the sensitive level of prices born by them. Thus, one may consider the premise that the basis for growth in the following economic cycle is made possible through financing, by banks, of segments with an economic impact (manufacturing, agriculture, IT, etc.), based on which reallocation of resources between assets, and implicitly, resizing prices can be ensured.

II. THE EFFECTS OF GLOBAL CRISIS ON THE FINANCING OF ECONOMY AT NATIONAL LEVEL

At the origin of the international financial crisis there are fundamental macroeconomic and microeconomic causes. Out of these, the abundant liquidity created by major central banks of the world is considered as a deep cause of the crisis, to which other causes may be added, such as causes supersaturating with savings of certain countries that have experienced an upward integration into the global economy.

CEC Bank S.A. – Branch Ramnicu Valcea.

Ramona-Ioana Vlada, PhD student, Faculty of Economic Sciences, Lucian Blaga University of Sibiu, Romania, +04-0742458598, ramonaioanavlada@yahoo.com

Ilie Banu, Ph.D, Ec. Faculty of Economic Sciences, Lucian Blaga University of Sibiu, Romania, ilie.banu@ulbsibiu.ro

Dragos Mihai Ungureanu, Ph.D, University Lecturer, dragos.ungureanu@yahoo.com

These two essential causes have generated sufficient resources available for investment, including the sophisticated financial instruments (derivatives). Among the effects of these acts, the interest rates charged by the banking system at a low level and their reduced volatility manifested, ingredients that combined speculations in holding assets with large gains, while underestimating the risk and losing alertness. Hence, the danger of crisis occurrence was imminent; the economy of each country being therefore affected differently depending on the development level existing at the moment of the impact. In Romania, the banking system is not considered to be strongly affected, especially because it was not exposed to toxic assets. However, the economic situation affected by the financial crisis meant primarily the decrease in consumption, which entailed also a falling trend in credit demand. Consequently, decreased asset prices were recorded. All these trends were reflected in the decline in households' net wealth.

This, the crisis effects expanded on the Romanian economy at several levels, including:

- The commercial one supports a reduction of exports: - Decrease of foreign investors' confidence led to moments of panic and speculation, while the wealth of the population was affected, involving retrained expenditures. We are assisting thus to the image of a country exposed to inflation, to the situation of an economy facing failure to register other rhythms for activities, better than slowing down.

- The financial year: - We witness the limitation of access to external financing, which involved reduction of lending volume; the result of reduced external financing was reflected in the depreciation of the national currency.

Also, Leu depreciation in the conditions of reduced external financing and the existence of external imbalances is influencing the inflation, in its turn, and imposes high interest rates. Debtors in other currencies than the Leu are directly affected by currency depreciation, generating significant additional costs that contribute to the destabilizing of the financial and economic system. Inevitably, there occurs a compromise aimed at monetary policy objectives: assets price stability versus financial stability of the banking system. Meanwhile, on long-term, the incapacity to maintain financial stability generates inevitably the inflationary phenomenon.

III. POPULATION LENDING IN A CRISIS ECONOMY

From the structural point of view, the effects of the economic crisis started in the Romanian banking system in 2009-2010 (first quarter), by the measure undertaken by credit institutions to cut costs by closing unprofitable units and by the reduction of employees number, although in 2009, 18 foreign credit institutions notified NBR on their intention to provide financial services on the Romanian territory.

This banking prudence for restructuring activity was materialized in the following period in the adjustment of disposable income of the population [1], reaching the average level of 1,337.30 lei / person recorded in the third quarter of 2010, increasing by 12.0% as compared to the average level of the same period in the previous year [2]. However, staff layoffs imposed their influence, leading to a new real contraction of wages.

Although between April-May 2010 population lending recorded an increase, especially based the ongoing funding program "First House", and on improvement of the downward trend of loan supply, however, the demand for loans maintained its the slightly diminished trend, recording a favorable dynamics only for the segment of unsecured consumer loans (i.e. low value), up to 65% as compared to the same period of the previous year when it recorded the level of 55% [3]. Specialists consider that the main inhibitor factors were represented by the further deterioration of consumer's perspective on income and employment, and the fall in the value of real estates owned by the population.

At the same time, the supply of bank loans reflected that banks were leaning towards a relaxation of lending conditions imposed, especially in the first months of the year.

Currently, we may notice that the activity of consumption lending bears the imprint of a restrictive regime in the second half of 2013, especially under the risk influence related to customer creditworthiness and under the expectations related to their financial potential, although in euro banks area one may already talk about an improvement in the restrictions in this segment [4].

Some economists launch the theory that, in the near future, the population is no longer the predominant market for credit, if we consider the impediments mentioned above and the fact that current leverage recorded a relatively high level in the population [5].

The solution of these "visionaries" comes from the area of economic agents towards which banks should channel their investments, although this perspective may mean for some of the banks the incapacity to cover loan repayments by the new ones conferred, as we talk either of a low level of demand in this segment, or increased risk of insolvency of many companies.

We could encourage the practice mentioned above, to make corporate financing more dynamic, among banks that are active on the national market, if we exemplify the success of EXIMBANK, entity that increased the volume of loans in this segment by 40 percent in the first three quarters of 2013, as

compared with the financial year 2012, surpassing 1.5 billion lei, while the total exposure of the bank has tripled since 2009, reaching 4.4 billion lei in the same period of the first three quarters of 2013 [6].

However, banks may turn into value the financing opportunities aimed at the population, while lending to this segment may increase even more as lending seems to be encouraged in the last quarter of 2013, if we consider revitalization of granting loans through the "First House" program, as it was already outlined at UniCredit Tirioc Bank, for example. This is possible starting from the bank orientation to customer needs, but also by supporting the guarantee ceiling relating to homes purchased through the "First House", which reaches 1.2 billion lei, out of which 500 million ceiling is for dwellings constructed by ANL, being recently increased by a Governmental decision [7].

Another bank that supports lending and profitable activity during the same unfavorable economic period is represented by BRD - Groupe Societe Generale, invoking a continuity of the positive evolution registered on the natural persons market, also based on "First House" program.

There are also entities controlled mainly by the Romanian state, such as CEC Bank S.A., which are recommended to give priority to financing those projects considered sustainable and effective by the state. At the same time, financing of natural persons in the unfavorable economic conditions may represent "desperate situations", given the significant level of risk posed by population lending in instability conditions generated by job pressure [8].

At the same time, the NBR informs in a natural characterized note about recording, in the banking system in the first three quarters of this year, of a slightly more than 320 loans granted to natural persons, whose individual value exceeds 1 million of euro [9].

Beyond all these, if in the optimistic opinion of the President of Raiffeisen Bank, Steven van Groningen, all sectors would contribute in the sense of increasing the ceiling of loans granted to population, either in national currency or in other currencies, primarily encouraging manufacturers, agriculture, IT services and exporters, then we might consider that the banking activity would fulfill its role of financing the economy at a time of challenges caused by the current crisis.

However, excepting the involvement of banks, this solution takes time and "complicity" for occurring, involving the entire economic, financial and political system. And without driving away the chance to achieve this goal, we find ourselves facing other priorities governed by the need to implement those projects with quick application and immediate effects, neglecting the vision of an opened horizon.

IV. CASE STUDY – CEC BANK S.A. BRANCH OF RAMNICU VALCEA

In order to materialize the theory of prioritizing financing granted by CEC Bank SA, we underline the evolution and

dynamics of its business in the first 3 quarters of 2013, as follows:

	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13
ATTRACTED SOURCES	355,977	358,207	365,723	364,307	361,621	363,781	364,955	366,751	375,341
- Natural Persons	322,079	322,717	329,154	326,754	325,622	326,429	326,535	328,886	334,882
- Legal Persons	26,178	27,240	27,293	27,733	27,987	28,784	30,275	29,914	32,080
LOANS GRANTED	397,255	397,909	398,349	390,820	405,164	410,237	405,913	404,956	403,238
- Natural Persons	154,576	153,613	153,726	152,070	151,933	152,765	151,627	151,521	151,552
- Legal Persons	238,623	240,336	240,594	234,907	249,202	253,723	250,598	249,752	247,974

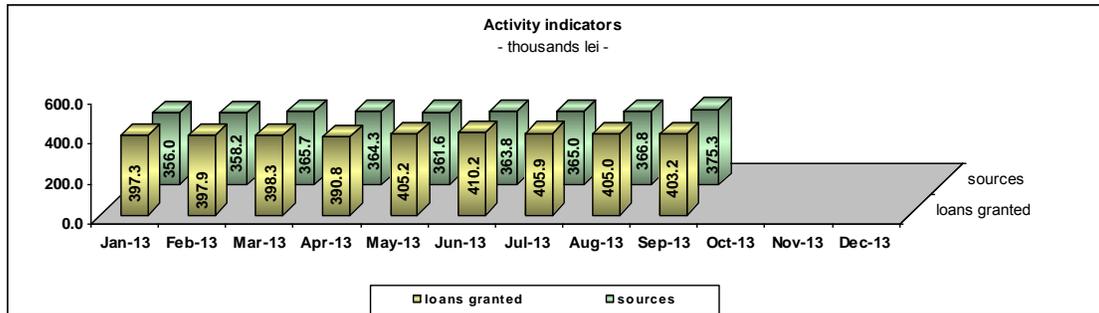


Fig.1 The volume of loans and deposits contracted by CEC Bank SA Branch of Rm. Valcea
 Source: Author data, according to NBR statistical reporting "Monetary Balance" and internal reporting

The activity of CEC Bank S.A. registers parameters in a relatively normal trend as compared to its expectations, considering the unfavorable economic situation from Romania in this period. Thus, at 30.09.2013 Rm. Valcea Branch recorded a loan balance in the amount of 403.2 thousands lei, decreasing in the past five consecutive months, while sources have experienced an increase at 30.09.2013 up to the level of 375.3 thousands lei, superior to all other months of the year.

We understand that the indicators highlighted above revealed the fact that the loan balance financing the population records lower values as compared to the balance of loans granted to legal persons. This situation highlights one of the consequences of the declining living standards of the population affected by the crisis and implicitly, of declining consumption. Meanwhile, the management policy of the branch succeeds in compensating the diminishing ceiling for population loans by encouraging legal persons, leaning toward

financing those projects that are sustainable for the economy in this period, as we have seen the example of EXIMBANK, which ensured its efficiency.

In the same time, one of the basic principles for the functioning of the banking system invokes the need for the policy pursued by the bank's management to ensure a stable balance between funding sources attracted and investments that the bank makes. Only in such a situation, the bank profit of optimized and as the loan / deposit ratio increases or decreases as compared to unit level, in the same measure there will be recorded a negative impact on bank efficiency indicators and not only. Below, the evolution of the ratio between loans and deposits by Valcea Branch is highlighted, as well as its average value on total bank activity, underlying the bank activity towards placement of sources at the level of this entity, as compared to the average level on the network.

Loan/Deposit Ratio (%)	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13
Branch	111.6%	111.1%	108.9%	107.3%	112.0%	112.8%	111.2%	110.4%	107.4%
Network average value	59.8%	60.0%	57.4%	56.4%	57.6%	56.8%	57.2%	57.5%	58.5%

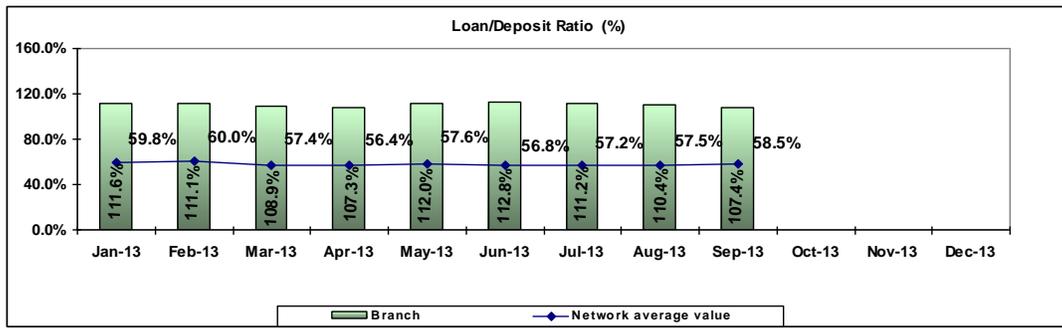


Fig. 2 Loan/Deposit Ratio as compared to deposits contracted by CEC Bank S.A. Branch of Rm. Valcea
Source: Author data, according to NBR statistical reporting "Monetary Balance" and internal reporting

On 30.09.2013, the indicator highlights the scarcity of sources existing in the branch, in terms of a loan balance by 7.4% higher than attracted sources.

foreign sources, increasing its costs, reflected in the decrease of revenues earned until the recording of negative values, as the evolution is shown below:

The evolution of this indicator during Jan. – Sept. 2013 is an unfavorable one for the branch, which turned towards

Branch	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13
Total Revenues	5,597.7	6,115.6	5,617.1	5,517.8	6,093.8	5,558.1	7,058.5	11,257.8	5,649.3
Total Expenses	9,077.6	5,852.6	5,031.3	8,020.3	8,006.2	6,026.1	8,273.1	15,442.3	8,264.1
Accounting Result	-3,479.9	262.9	585.9	-2,502.5	-1,912.4	-468.0	-1,214.6	-4,184.5	-2,614.9

Fig.3 The result of the activity of CEC Bank S.A. Branch of Rm. Valcea
Source: Author data, according to NBR statistical reporting "Monetary Balance" and internal reporting

V. CONCLUSIONS

We propose and encourage the continuation of all those measures already undertaken in the banking activity in the sense of re-launching and financing purposes the economy by stimulating agriculture, exporters, but also legal persons that support economic development through projects they carry out in the priority economic sectors, especially if we refer to those who ensure absorption of Structural Funds.

We believe that the regime of the unfavorable economic conditions that the banking system is subject to has to be considered as one of the challenges, in order to overpass those limits and patterns by which each bank has met its degree of insufficiency/inefficiency. And this fact shall be possible primarily through the optimal correlation of deposits and loans, allowing the continuation of lending to those customers considered viable, requiring those solutions applied by banks that replace linearity of financing and ensure them minimization of risks taken, in the same extent as the economy is guaranteed by the reevaluation of risks.

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Ramona-Ioana Vlada, Corabia, Romania, 05 Jan 1982, graduate of high school at Al. I. Cuza National College of Corabia, Romania, profile Mathematics - Physics, in year 2000; graduate of university studies at Lucian Blaga University of Sibiu, Faculty of Economic Sciences, Major in Finances - Insurances, bachelor in Economics in 2004; graduate of Master studies at Pitesti University of Romania – Faculty of Economic, Political and Administrative Studies, major in Public Administration in the Context of European Integration, in 2006; graduate of post-graduate studies at Romanian Banking Institute - European Banking & Financial Services Training Association Asbl – obtaining the certificate „The European Foundation

Certificate In Banking” (2008); doctor student of Doctoral School, field Finances, at Lucian Blaga University of Sibiu, Romania, in the present.

The professional activity is carried out at CEC Bank SA Branch of Rm. since 2006 and up to date, as follows: in 2006-2009 in quality of loan administrator, PR officer for corporate clients, from 2009 up to present as credit analyst. Articles recently published in doctoral studies: "BASEL III – Implications Of The New Agreement On Banking (article agreed to be published by the representatives of the evaluation committee of the International Conference in Targu Jiu, Romania from 22-23 Nov. 2013); "Efficient Public Procurement System - A Way To Improve Attracting European Funds" (article agreed to be published by the representatives of the evaluation committee of the International Conference in Sibiu, Romania from 22-23 Nov. 2013).