EKONOMİ

journal homepage: https://dergipark.org.tr/ekonomi

Romanian rebound after the crisis and the re-launch of the banking credit

Magdalena Radulescu[a],* Dita Sandra[b]

aFaculty of Economic Studies and Law, University of Pitesti, Pitesti, Romania; bFaculty of Economic Studies and Law, University of Pitesti, Pitesti, Romania

ARTICLE INFO

Keywords:
Economic crisis
Banking credit
Macroeconomic environment
Romania

ABSTRACT

During the 2007 crisis, Romania faced many economic challenges: a rise of inflation, large exchange rate fluctuations, drop of the banking credits, a high share of non-performing loans, drop of the banking profitability ratios. Starting with 2014, the Romanian economy has rebounded. The banking system relaunched its increasing trend of banking loans, mainly for consumption, the wages increased and the economic growth reached the highest level in the European Union (EU) area. The public debt and current account deficit largely increased, public deficit is higher than 3%, the inflation re-surged at high levels and the economic growth is mainly based on consumption which couldn't be sustainable in the long-run.

1. Introduction

In the fall of 2008, when the first signs of the financial crisis were felt in the USA, the highest administrative officials in Romania were declaring that our country would be bypassed by this financial crisis. Thus, the state authorities did not take into account the signs of the crisis visible in the last months of the year, namely the considerable reduction of liquidities and of direct foreign investments, the decrease in the state budget revenues, etc.

The decline of education in Europe was anticipated by specialists as an effect of the relaxation intervened within the shift towards postmodernism. The specialists consider the decline of the European professional training as one of the most significant issues of the period following 2006 that the old continent has ever faced. In the case of Romania, things are worse than in the rest of Europe, as Romania slipped faster to the path of professional training decline, where our country has not only lost the troop of technological innovation training but also faced weakened professionalism in several areas (Young, 2014).

The general causes of the financial crisis triggered in October 2008 in Romania are as follows: relaxation of the credit standards, the artificial increase in the real estate price, as well as the expansion of lending. In addition to these general causes, there are several specific causes, such as the shortage of highly qualified workforce, internal economic and financial imbalances, the inconsistency between the real and the nominal economy, the volatility of foreign capital, the prevalence of consumption in relation to savings and investments but also the poor development of the capital market contributing to the internal financing with a volume of funds 10 times lower than the banking system, being unable to carry out the financing function, being favourable to speculations.

The outbreak of the financial crisis in Romania was caused by the collapse of the listed stock exchange quotations, the slowdown in production, restricting access to credit by raising interest rates and tightening the lending conditions, rising inflation, the increase in the budget deficit and, last but not least, the exchange rate volatility. The effects of the financial crisis in Romania were most strongly felt by the people on low incomes and by the low-capitalized companies (Isarescu, 2009).

At the international level, the crisis particularly manifested in the banking system. However in Romania, the banking system was not severely affected due to lack of exposure to the toxic assets as well as due to the prudential policies implemented and consistently maintained by the National Bank of Romania which consistently opted for counter-cyclical measures to avoid the creation of speculative bubbles and destabilization of the financial system during the economic expansion periods and favouring of the monetary circulation in critical times (Ahmed, Barkley and Uppal, 2017).

* Corresponding author.
E-mail address: magdalena.radulescu@upit.ro (M. Radulescu).
Receieved: 9 May 2019; Received in revised from 13 June 2019; Accepted

2. Romania's recovery after the crisis

Quickly analysing the crisis years undergone by Romania, we notice a dramatic decline in the country's economy, then a cumbersome recovery, then between 2013 and 2015 we witnessed a new, consistent growth of the economy. The paradox created by the Romanian economy is given by the fact that the Gross Domestic Product (GDP) in 2015 was 200 billion RON higher than the level set in 2008, given the fact that the working population was reduced by 800,000 people, the number of employees being 2.8 million lower, and the national currency was significantly depreciated against the major currencies.

Four years after the economic crisis was imported into Romania, the country's economy underwent major changes that indirectly affected all the major areas. Some changes were made due to the need to correct imbalances, such as the current account deficit, which reached 14% of GDP in 2008, the budget deficit or the real estate prices accumulated in the crisis years. Other changes were made due to the external stimuli, thus the reduction in exports was due to the decrease in the external demand. There were also inherent changes that did not have causes related to specific economic policy measures.

The economic crisis penetrated Romania through several channels which influenced the real economy through the labour market and economic growth (Peicuti, 2011):

- Commercial channel, namely the decline in export demand due to the low consumption in partner countries for export. However, Romania displayed relatively good performances in the period 2009-2011, due to the economic support programmes from some countries such as Germany or France.
- Through the banking channel, by reducing the number of credits provided by the financial institutions.
- Financial channel, by withdrawing the capital inflows and through the significant decrease in the foreign direct investments.

Recession worsened the prospects for economic growth, affected the potential for GDP growth, most studies showing a loss of 1.5-2% of the potential GDP, the banks were more prudent in lending, and in the market labour, the prolonged unemployment generally lead to the discouragement of jobseekers.

In general terms, the year 2012 was characterized by an internal political crisis, poor agricultural production, the decline in the foreign investments and low absorption of European funds, which, added to the recessions of the European economies, led to a major deterioration of the Romanian economy. However, in 2012 the Romanian economy remained on a positive level due to the domestic consumption, also helped by the increase of the salaries in the public sector. Also in 2012, the euro area economy entered a technical recession for the second time in 2010-2013, which significantly reduced the external export demand (Marga, 2012).

Table 1. Romanian indicators in 2012 against 2008

Indicators		June 2008	June 2012
GDP nominal (billions lei)		195,71	109,4
Annual growth rate for real GDP (%)		9,3	1,7
Exports (billions Euro)		17,03	22,3
Imports (billions Euro)		26	26,8
Current account deficit (billions Euro)		12,4	2,4
FDI (billions Euro)		7,13	0,621
Total employees (millions)		4,827	4,301
Unemployed workers		337 100	409 900
Unemployment rate (%)		3,7	4,56
Average gross wage		1738,5	2140
CPI (%)		8,56	2,04
Reference interest rate (%)		10	5,25
Exchange rate EUR/RON		3,6557	4,4603
Exchange rate USD/RON		2,3507	3,5570
Public budget deficit (% GDP)		1,18	1,12
Public revenues (% GDP)		18,2	15,3
Public spending (% GDP)		19,4	16,4
Public debt (% GDP)		13,4	34,6
External debt (billions Euro)		44,7	77,7
Credits (billions Lei)	Foreign currency	98,13	144,6
	Lei	80	82,4
Default credits (millions lei)		702,9	8 300
Defaulted debtors (thousands)		392,8	730
Deposits (billions lei)	Foreign currency	48	65,1
	Lei	92,7	125,8

Source: https://economie.hotnews.ro/stiri-finante_banci-13032759-analiza-cum-evoluat-economia-romaniei-declansarea-crizei-din-2008-vezi-diferentele-majore.htm

According to Table 1, in June 2008 the nominal Gross Domestic Product was at the level of 195.71 billion RON. In real terms, the GDP expansion was 9.3% in relation to the same period of the previous year. In June 2012, the nominal Gross Domestic Product was 109.4 billion RON, thus in the period 2008-2012, we had a 44% decrease, which represented 86.31 billion RON.

With regard to the total number of employees in the economy, according to Table 1, in 2008 there were 4.827 million employees, while the unemployment rate reached the 3.7% threshold, accounting for 337,100 unemployed. The average gross salary in June 2008 was 1738.5 RON and the average net salary was 1,273 RON. Against the backdrop of the recession and the slowdown in the economic activity, the number of employees steadily declined, and in June 2012, Romania reached the threshold of 4.301 million workers, with an unemployment rate of 4.56%, accounting for 409.9 thousand people. In 2012, the gross average salary reached 2,140 RON and the net average salary 1,552 RON.

During the first months of 2018, there was enthusiasm about the record economic growth displayed in 2017 which ranked Romania first in the European Union from this point of view.

In spite of this favourable economic period traversed by our country, spending remained at a higher level compared to the budget revenues, which meant we were resorting to borrowings.

The first alarm sign is that in 2017 compared to 2008, the public debt increased by about 3.5 times, which means an increase of over 45 billion euros in this period. From the point of view of the rapid growth of the public debt in the post-crisis period, within the European Union Romania is overcome only by Slovenia.

Another problem of the Romanian economy related to the economic growth in the last period is given by the fact that all this economic growth was based on consumption, which made it impossible to be reflected in the revenues as well.

According to Table 2, the gross average salary in 2018 was increased to 4,162 RON, and the net one varies depending on several factors; however, it is around 2,400 RON. We can notice a gradual increase in the gross and net salaries over the three significant years, thus since 2008, when the financial crisis broke out, to 2012 when it was over, we had a growth by 23% in the gross salary, that is 401.5 RON, respectively 22% in the net salary, that is 279 RON.

Table 2. Gross and net wages in Romania

Year	Gross wage	Net wage
2008	1738,5	1273
2009	1845	1361
2010	1902	1391
2011	1980	1444
2012	2140	1552
2013	2263	1579
2014	2328	1697
2015	2555	1859
2016	2809	2046
2017	3131	2196
2018	4162	2400

Source: Elaborated by the author according to data released by the National Institute of Statistics www.insse.ro

On paper, this salary increase seems very positive, with almost double the net salary, that is the one that employees use for their daily living. In spite of this increase, the Romanians' standard of living could not be felt because of the inflation which cancelled this salary increase.

The 2017 salary increase proves to be unsustainable, therefore Romania, instead of exceeding its 3% budget deficit target, due to the increase in salaries and pensions, will go up to 4%. In order to pay pensions and salaries, Romania is in debt because it already exceeded the level of tax revenue collected by the State from taxes and duties. Because of these issues, any economic downturn that Romania will face is going to jeopardize the unitary wage law, thus the state will have difficulties in maintaining salaries and pensions at the level they reached.

3. The anti-crisis policies promoted in Romania for the economic recovery

Trying to resuscitate the financial system, Romania accessed loans from the European Union, the International Monetary Fund (IMF), the European Bank for Reconstruction and Development and the World Bank. Following the agreement signed with the IMF, Romania took action regarding the value-added tax (VAT) by raising this tax from 19% to 24%, having a direct effect on the rise in inflation and the reduction of wage expenses for the employees in the public sector. This immediately led to an increase of non-performing loans among the employees in the public sector. In practice, the lack of correlation of the fiscal and budgetary policies with the economic rescue measures imposed by the National Bank of Romania (NBR) led to instability and mistrust in the entrepreneurial environment.

In Romania, anti-crisis policies began to emerge along with the emergence of the global financial crisis effects, which brought several anti-crisis measures:

- Reduction of the single tax rate to 10%, which led to the reduction of the fiscal pressure of the companies and individual taxpayers. Thus, by broadening the tax base, the collection rate and therefore the budget revenues are automatically increased.
- Reducing the VAT rate to 15%, from the initial value of 19%. This reduction stimulates consumption; therefore, it automatically helps to reduce the economic bottleneck by engaging production and investments.
- Banks intervene in the payment circuit of the tax liabilities so that the lack of state efficiency could be overcome. Thus, banks operate by a clear and timely collection of taxes and duties through credit instruments, such as bank guarantee letters, promissory notes and others.
- There has to be a balance with regard to the treatment towards the state on the one hand and the taxpayers on the other, with regard to the non-repayment or default of payment.
- The state has to reduce the involvement in managing the money the company produces as much as possible, because the state means a lack of efficiency and corruption.
- Stimulating the accumulation and circulation of capital, by reasonably deregulating the financial and banking market, in order to stimulate the emergence of savings banks and of other non-banking financial institutions.

4. Dynamics of the bank lending

The sustainable growth of the financial intermediation, in particular by widening the lending sphere to the corporate sector, continues to remain a challenge for the banking sector although progress has been made in this direction lately. The new flows of loans granted to the non-financial corporations displayed more rapid dynamics compared to those granted to the population, while, in the case of loans granted to the population sector, an important part (one third) was made through the "First Home" programme (Figure 1).

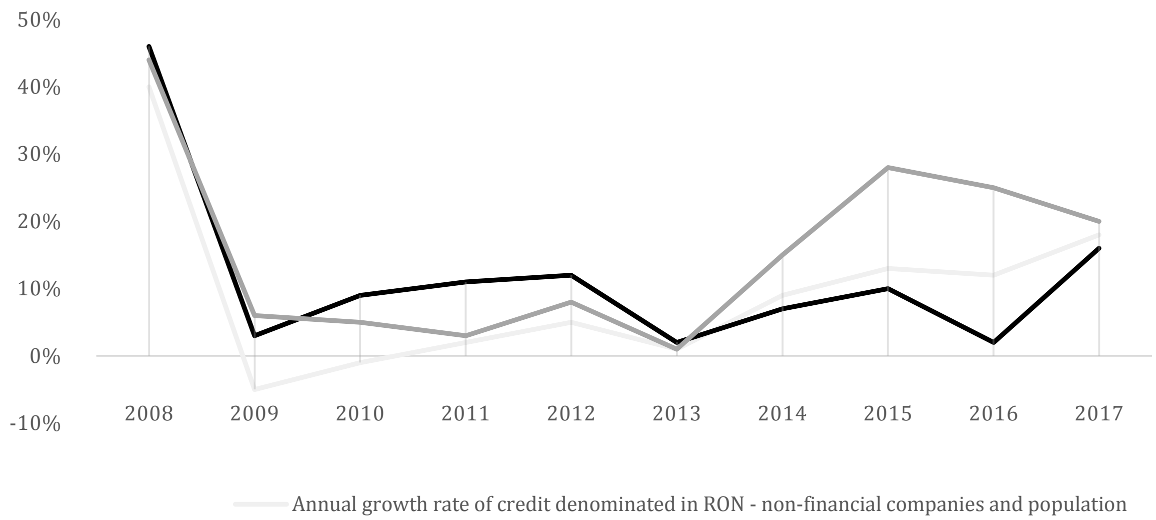

Figure 1. Banking credit developments during 2008 - 2017
Source: elaborated by the author according to data released by Council of the Romanian Banking Unions, « Banks and Economic Growth», November 2014 (updated in 2017).

The modest evolutions of the companies' financing by banks are influenced by a series of structural features both in the nature of demand and supply. The main elements limiting the solvable credit demand are represented by:

- the high number of companies with negative equity or which do not perform an activity;
- the high degree of indebtedness of certain categories of companies, especially micro-enterprises;
- deficiencies in the insolvency framework of the legal entities

As regards the credit supply, potential problems are related to the training degree of the banking staff involved in the lending activity, to the supply of financing products that do not address the specific problems of the non-financial companies, also due to the limited lending competences at local and even national level, and the preponderance of real estate loans.

Bank lending within the non-financial sector is low, as other financing sources are preferred, such as commercial credit, loans from shareholders or affiliated entities, respectively non-resident financial institutions. Historically, bank financing has been little used by the Romanian companies. For example, over the period 2004-2017, no more than 15 per cent of the companies active in the economy resorted to such loans. The major difficulties faced by companies in accessing financing from banks and / or NBFI (non-bank financial institution) are represented by the excessive interest and commission rate, the requirements regarding the value or the type of guarantee, and the bureaucracy.

Corporations increasingly resort to credits from the credit institutions; also banks are more inclined to large companies, with significant cash flows and higher asset holdings. Thus, about 56 per cent of the large-sized companies had a bank credit in September 2017, compared with only 11 per cent for small and medium-sized enterprises (SMEs). Moreover, in 2017 a more pronounced increase in the credit flow newly granted to corporations was observed, while the one granted to SMEs diminished compared to the previous year (Figure 2).

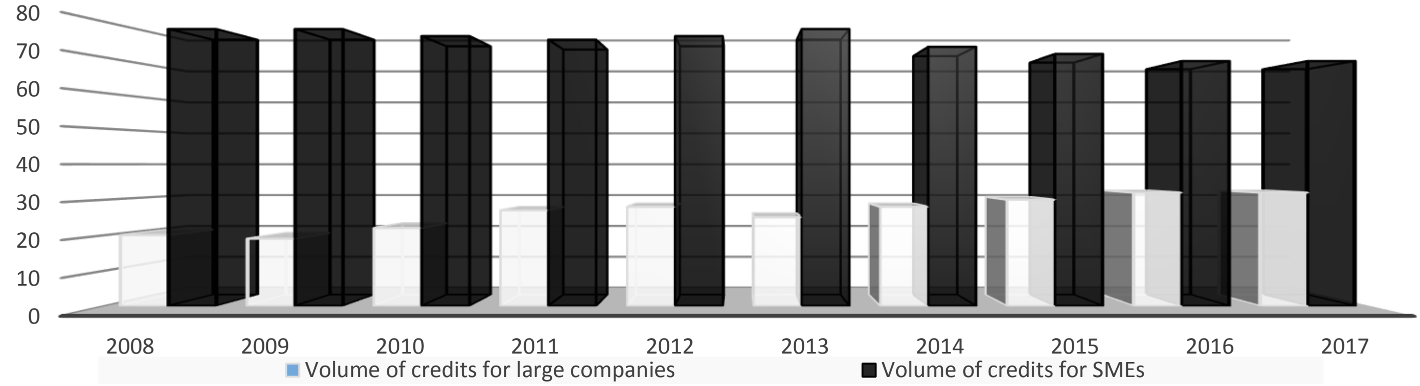

Figure 2. Share of the banking credits according to the companies'dimension
Source: elaborated by the author according to data released by Council of the Romanian Banking Unions, « Banks and Economic Growth», November 2014 (updated in 2017).

In addition, the credit use for investments is modest, most of the new loans in 2017 were directed to financing current corporate operations (60 per cent of the new credit volume without considering treasury credit). Credits for investments were allocated both to the purchase of equipment (about 29 per cent of the new credit total) and to real estate investments (11 per cent).

The number of the newly-credited companies almost doubled during 2016 compared to 2009, although it remained close to half the level during the pre-crisis period before 2007.

In the first part of 2016, after the temporary tightening of the credit standards for mortgage loans to the population, against the backdrop of the changes determined by Law no. 77/2016, banks again tightened the credit conditions for the public sector in the first six months of 2017. By the end of 2017, the credit institutions moderately relaxed lending standards for housing and land purchase loans granted to the public, and tightened those for consumer credits. The credit standards applied by banks to the non-financial companies sector remained relatively unchanged.

The assessment of the companies' borrowing capacity at the end of 2016 indicates the existence of a sustainable lending potential which can be exploited over time by the domestic banks (Figure 3). More than two-thirds of the additional financing volume may be absorbed by the private sector, while the rest by the state-owned sector. The most important amounts could be directed to areas of activity such as industry (26.3 per cent) or services (14.2 per cent).

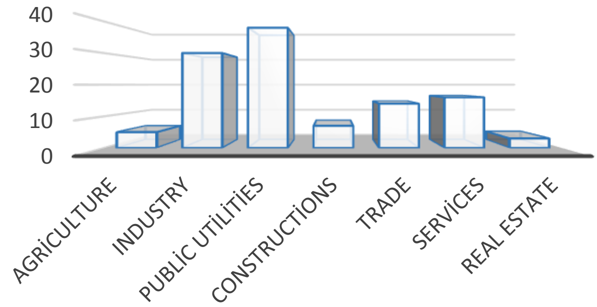

Figure 3 Credit potential according to the companies' economic area in 2017 (billions lei)
Source: elaborated by the author according to data released by Council of the Romanian Banking Unions, « Banks and Economic Growth», November 2014 (updated in 2017).

Increasing financial intermediation for companies could be an alternative drive for the economic growth, on condition that the payment discipline improves, the uncertainties are reduced and the market returns to a positive sense. The current account deficit, although rising, is significantly lower than at the onset of the 2008 crisis. However, Romania currently displays one of the largest current account deficits in the EU. The current account deficit related to GDP deepened after the financial crisis.

As a result of re-launching the banking credit, the profitability ratios of the Romanian banking system significantly improved after the crisis. The net profit of the banking system even surpassed its pre-crisis level, although the return on equity (ROE) is lower than its pre-crisis level (Figure 4). The return on assets (ROA) is quite similar to the pre-crisis levels. However, the number of credit institutions facing losses represents around 25% of the total credit institutions on the Romanian market. The solvency ratio of the Romanian banking system stays high (around 20%), while the non-performing credit ratio decreased during the last years from 10% to 7,9%.

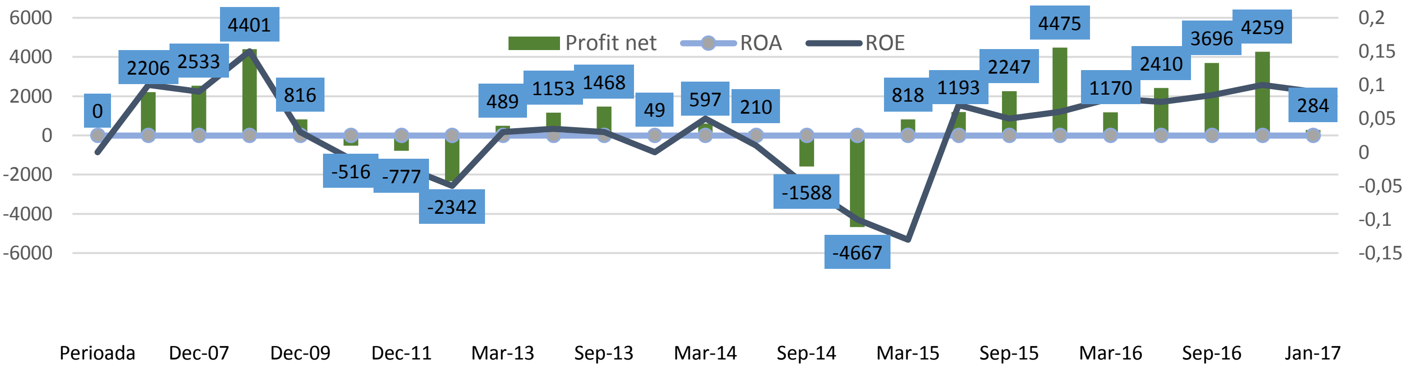

Figure 4. Profitability of the Romanian banking system during 2007-2017
Source: www.bnro.ro

5. Conclusions

The credit boom in the expanding economies within Eastern Europe originates in the permissive monetary policy of Federal Reserve (FED), Japan and of the European countries in the early 2000s. According to statistical data, since mid-1997, when the subprime panic began, the deposit dynamics ceased to keep pace with credit developments, the banking sector suddenly accumulating large debts, the majority in the short term. It is estimated that 90% of these debts were held by the European banks. The effects of the monetary expansion policy have been exacerbated by the distortion of incentives that shape the behaviours of the economic agents, mainly those of financial-banking institutions.

The legislative measures adopted by the American government to stimulate home purchasing have distorted the allocation of credit, by stimulating the expansion of housing construction and increasing the share of non-performing loans.

The interest rate of the monetary policy and that of the minimum statutory reserves, as well as the need for corporate equity in relation to borrowed funds above the EU average, as well as the supervision described as "excessive" even by the executives of some credit institutions carrying out activities in the domestic market allowed the banking system to avoid slippage. In spite of the measures adopted by the National Bank of Romania, both the internal imbalances as well as the foreign influence contributed to Romania in entering the recession, the lack of confidence in the economic recovery mechanisms ultimately leading to the limitation of lending, with direct effects on the real economy, despite the proper capitalization of the banking system.

At present, the Romanian economy is displaying a significant growth; therefore, in 2017 it had the highest level of economic growth in the post-crisis period. With this GDP, Romania ranks 16th in the EU. If the economic growth remains at least at the same level as in the previous year, Romania will overtake Portugal and the Czech Republic and thus reach the 14th position out of 28 member countries of the European Union. Although the Gross Domestic Product has increased in recent years, the GDP per capita remains very low, which places Romania on the penultimate position within the European Union, being followed by Bulgaria.

References

Ehsan, A., Rosser, B. and Uppal, J. (2017) Financialization and speculative bubbles – International evidence, *CAMA Working Paper, Nr. 6/2017.* ,2-17.

Isărescu, M. (2009) International financial crisis and challenges for the Romanian monetary policy, NBR analysis, pp. 9.

Marga, A. (2012) Crisis after crisis. World change. 3rd Edition, Eikon Publishing House, Cluj-Napoca.

Peicuţi, C. (2011) World in crisis. Systems errors, Polirom Publishing House, Iaşi.

Young, B. (2014) Financial crisis: causes, policy responses, future challenges, European Commission, Nr. 26554, available online at https://publications.europa.eu/en/publication-detail/-/publication/aad9777e-2960-4b11-b8b4-afd6832d76b2.

Council of the Romanian Banking Unions, « Banks and Economic Growth», November 2014 available online at https://www.cpbr.ro/uploads/fisiere/f62_deloitte%20banking%20study%202015%20ro-small.pdf.pdf

https://economie.hotnews.ro (HotNews site)

https://www.insse.ro (National Institute of Statistics site)

www.bnro.ro (National Bank of Romania)

Magdalena Radulescu

1995-1999 Academy of Economic Studies, Bucharest, Faculty of Finance and Banks, bachelor studies

2001-2005 Academy of Economic Studies, Bucharest, Faculty of Economics, doctoral studies

2010-2012 Romanian Academy, Institute of Economic Research, post-doctoral studies

2017- Habilitation for PH.D Students' Supervising in Economics

Associate Professor, Faculty of Economics and Law, University of Pitesti, Bd. Republicii, No.71, Pitesti, Arges, Romania; youmagdar@yahoo.com;

Scientific interests: Banking Management, Monetary Macroeconomics.

Dita Sandra

2006-2010 Academy of Economic Studies, Faculty of Finance, Banking and Insurance, Bucharest

2012-2014 University of Pitesti, European Banking Systems Master, Faculty of Economic Studies, Pitesti

2019- Ph.D. Candidate University "Lucian Blaga" Sibiu, Faculty of Economics