Crediting analysis in Romania after accession

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Abstract: *In a time full of financial convulsions with deep repercussions on the world wide economies, crediting is one of the easiest and serious options in finding alternative solutions for economic recovery. Using Crediting as a tool for economic recovery must be supported by all decision-factors, but not in any circumstances. The perspective of economic development in the European Union also requires the observance of medium and long-term desiderates such as coagulated ones in the concept of sustainable development. The way in which crediting derives and its effects on sustainable development represents one of the followed ways in any market economy in order to obtain the desired effects, not only economic, but also social and environmental.*

Key words: development, credits, regulating, surveillance, financial market.

1. Motivation

The money dominance and the irresistible desire of their collecting led the world economy, in recent years, in the worst crisis in its history. Started as a financial crisis, it converted into something much larger, a generalized economic crisis, long-lasting, which will radically change the face of the world. The dimensions of the crisis are global. Past crises were geographically limited, affecting countries or regions, but never financial systems from most countries in the same time.

In fact, where this generalized crisis has started? Many authors consider (rightly) that financial institutions have the most important fault. And this starting from the introduction in market of new financial innovations irregular enough that caused major lack of balances in financial investment activities.

The severe financial crisis has shaken another paradigm of development in all domains - sustainable development. The strong need for financial resources in this period fits difficult in the broader context of sustainable development which assume an inclination also to the needs of others, especially future generations.

The sustainable development model suggest a long-term balance between the economic objective of enhancing welfare through economic growth and social and environmental objectives. This concept is an response to crisis resources.

As innovator element on international plan is introduced banking system is among structures that can influence the success of sustainable development. It is clear that banks have a pivotal role in economic performance and in all forms of commerce and industry.

Although initially banks have responded diffidence to the problems that sustainable development presented in the context of economic globalization and internationalization, banks have become increasingly aware of their role as intermediary, adapting dynamically internal policies and for crediting in order to create new products and services with sustainable component.

Is known that in economy the crediting has an essential role, especially in crisis period. Unfortunately the existing banks in Romanian banking system, majority with foreign capital (as is shown in this study) have been interested only of economical component from the triangle of sustainable development, accentuating exclusively increasing of banking performances and implicit the banking profit.

The last twenty four years have shown banks interest exclusively in increasing the number of the ones depended of credits, taking into consideration only economical performances criteria and not the social aspect or environmental one as is proceed in the basic countries.

Relaxed credit policy I could say that has been aggressively promoted in Romania in 2005-2009 (remember effervescence credits “with the bulletin”) despite clear signals from international markets which attracted the attention of specialists that will enter a period of decline, unfortunately not knowing or being known only in limited circles magnitude of this recession.

We must admit that the overwhelming share of foreign capital in credit institutions in Romania has made us vulnerable to the crisis. But, as I said previously taking into account that that the Romanian financial market was a classic market, focusing on traditional instruments, the crisis would have been much lower if we had a Romanian capital base much larger in financial institutions and much more strongly desire to come in market support not only in their own profits.

1.1. Market share and the number of credit institutions with foreign capital in Romania

If we analyze the market share and the number of credit institutions with foreign capital in Romania, as shown from the table no. 1 National Bank Financial Stability Report (2013), is observed clearly very high degree of dependence on foreign capital Romanian banking market, compared to other EU countries.

We do not have to be fine specialists in financial analysis to observe that the share of foreign capital in total assets is very high in the countries of Central and Eastern Europe, precisely those countries after 1990 chose any

Table 1. Market share and the number of credit institutions with foreign capital in Romania - 2013 period

Country	Percentage(%) in total active of credit institutions with foreign capital	Credit institutions (branches and subsidiaries) with foreign capital (number)
Austria	27,16	64
Bulgaria	73,58	22
Czech Republic	92,68	38
Estonia	96,40	13
France	3,33	204
Germany	4,09	145
Greece	15,42	27
Italy	8,66	102
Latvia	61,32	16
Lithuania	94,43	12
Netherlands	10,17	62
Poland	61,93	56
Portugal	22,49	35
Slovakia	88,36	26
Slovenia	29,48	10
Spain	7,44	128
Hungary	58,13	27
Romania	90,00	34

Source: BNR, Financial Stability Report 2013 Monthly Bulletin June 2014 price mirage opening domestic markets without have a long-term strategy to protect the domestic market. It is clear that the most stable countries on the European level are also the countries with the lowest share of foreign capital - Germany (4.09), France (3.33).

Certainly do not contest that these two superpowers have strong financial entities that have consolidated their place in the panoply of leading positions in the world when referring to banking. But we can conclude without risk of error that a balance between foreign capital and domestic capital can make you less vulnerable to the international financial convulsions. Instead a share of over 90% of foreign capital can only expose you to a greater extent to the vicissitudes of the financial markets when you do not back a healthy economy, stable, productive. We find high rates and in the Baltic countries (Estonia - 96%, Lithuania - 94%), but their economies are much stronger and can counterbalance the positive effects of the tsunami from the financial markets.

When we become partisans on equity through this not understand barriers to the foreign capital. As seen in the examples above, Germany has a total of 145 credit institutions with foreign capital, France - 204, but their share in total equity is reduced.

1.2. Structural indicators of the banking system in Romania

The stronger encourage of domestic owners could be a future solution to invest in local credit institutions to give a much stronger strength of the domestic banking system and therefore to the Romanian economy. In fact the structural indicators of the banking system in Romania (table no. 2) shows the same thing.

Table 2. Structural indicators of the banking system in Romania

Year	Number of credit institutions	Number of banks with major foreign capital	Percent (%) in total active of banks with foreign capital
2006	39	33	88,6
2007	62	36	88
2008	43	37	88,2
2009	42	35	85,3
2010	42	34	85
2011	41	34	83
2012	40	34	89,9
2013	40	34	90,0
2014*	40	34	90,2

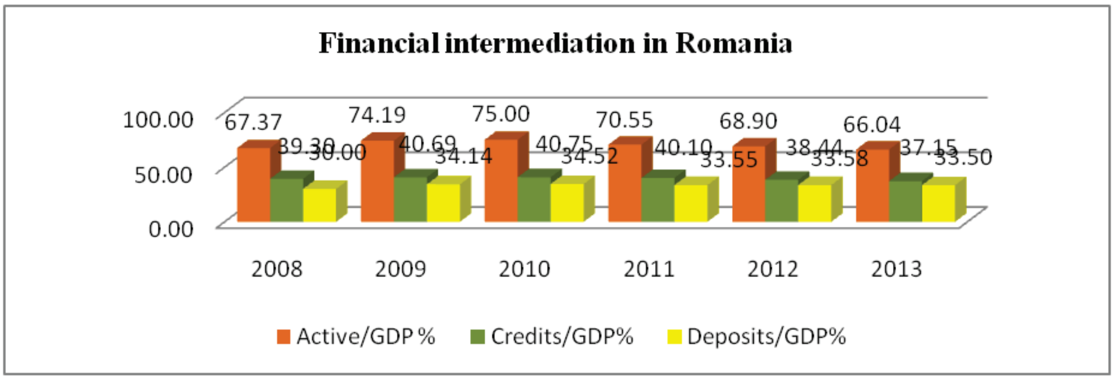
** jun. 2014*

Source: BNR, Financial Stability Report 2013 Monthly Bulletin June 2014

1.3. Financial intermediation in România

The accentuated crisis in recent years, as was natural, led to a decrease in the level of financial intermediation in Romania (chart. 1).

Fig. 1. The graph of financial intermediation in Romania



** jun. 2014*
Source: Own calculations based on BNR, Dec.2008-Monthly Bulletin July 2014

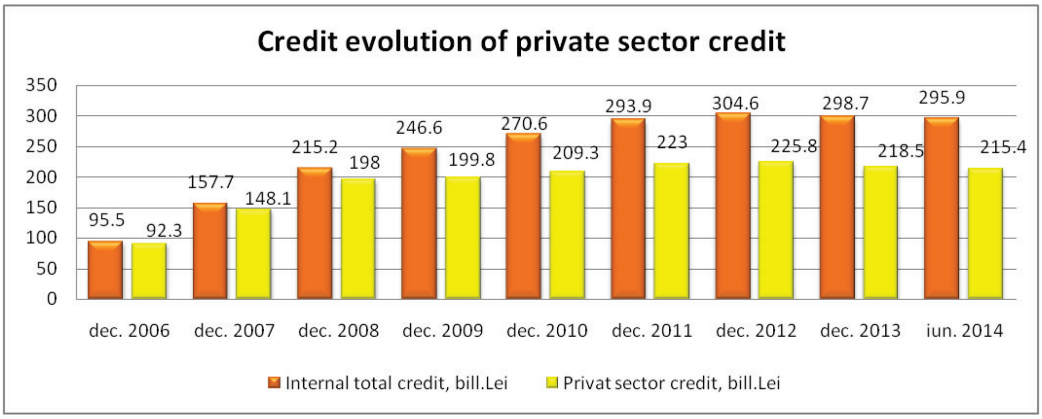
2. Credits

The involvement of banks in financial intermediation in Romania in recent years has become very shy, they prefer to focus more on portfolio management of existing credits of higher interest margins and fee and warrant transactions that do not involve substantial risks. There was no time showed a tendency to help a fragile economy, the economic agents are in temporary financial difficulties. In contrast, they were better and tougher filters that often lead including bankruptcy. We choose as an example for this afirmation transforming the majority of credit lines (a very attractive product market operators) in simple credit conditions more restrictive but much clearer timetable.

Interesting to follow when analyzing credit market in Romania is the evolution of private sector credit eventually that the most urgent needs of funds, knowing that the public sector is a sector that we perpetually searched to get rid during the transition to a market economy.

The share of private credit to total internal credit declined in recent years, although the amount they have registered a rising trend (For example, see Fig. no. 2).

Fig. 2. Credit evolution of private sector credit



* *jun. 2014*

Source: Own calculations based on BNR, Dec.2008-Monthly Bulletin July 2014

Unfortunately observe a decrease in the share of private sector credit. Financial firms have reacted in a selfish way I name the financial crisis, no longer fulfilling their traditional role of an entity to transfer a limited period amounts available to those who have financial surpluses to those who need the cash.

Against the background of excessive crediting period before they have provided for a very long time base of contributors, focusing only on the constraint during the crisis borrowers to pay off interest rates on time more often exorbitant and inconsistent with honorable market. We call these hazards in exorbitant interest.

It's enough to give the example of Provident, which provides market interest credits that are around 86% per year and is more than clear that Romania is made not very clear distinction between the regulators in financial intermediation and usury.

Not so gentle are regulators when it comes to those who have returned money to financial institutions. Physical persons Bankruptcy Law is waiting for a long time to be implemented as functions in any civilized country. This bill would ruin games but financial institutions during the crisis persisted and still survive in significant percentage of credits extended with high interest.

Currency used in the credit agreement is very important in running a credit agreement. The situation in Romania shows that credits extended were preferred in foreign currency products which carry a high risk due to the involvement besides credit risk and currency risk.

Table 3. The evolution of private sector crediting by destination currency denominated and destination - percent, end of period

Period	Total private credit, bil.. Lei	%	TOTAL CREDITS LEI								
			Short term			Medium term			Long term		
			Total	pop.	sc. nefin.	Total	pop.	sc. nefin.	Total	pop.	sc. nefin.
2006	92,3	52,7	19	2,4	16,1	15,2	8,9	5,9	18,5	13,5	3,8
2007	148,1	45,7	14	2,2	11,3	12,9	6,1	6,3	18,8	14,3	4,3
2008	198	42,2	12,9	2,1	10,4	11	4,9	5,7	18,3	13,6	4,6
2009	199,8	39,9	13,1	2,3	10,4	9,8	4,6	5	17,1	12,6	4,2
2010	209,2	37	12,3	2,2	9,8	9,2	4,1	4,8	15,4	10,9	4,4
2011	223	36,6	13,5	2	10,9	8,7	3,8	4,8	14,3	9,9	4,3
2012	225,8	37,5	14,8	2,2	12,2	9,8	4,6	5	12,9	8,4	4,3
2013	218,5	39	13,4	1,9	11,3	12,8	6,1	6,5	12,9	7,8	4,7
2014	215,9	42	14	1,8	11,9	14,7	7,1	7,3	13,3	8,2	4,9
Period	Total private credit, bil. Lei	%	TOTAL CREDITS FOREIGN CURRENCY								
			Short term			Medium term			Long term		
			Total	pop.	sc. nefin.	Total	pop.	sc. nefin.	Total	pop.	sc. nefin.
2006	92,3	47,3	12,7	0,8	11,4	12,5	2,6	9,1	22,2	14,1	7,5
2007	148,1	54,3	9,9	0,4	9,3	10,9	1,8	8,4	33,4	23,5	9,6
2008	198	57,8	10,2	0,4	9,6	10,4	1,6	8,1	37,2	27,5	9,3
2009	199,8	60,1	9,9	0,4	9,3	10,2	1,6	8,3	40	28,8	10,9
2010	209,2	63	9,6	0,4	9,1	11,1	1,4	9,5	42,3	29,8	12,2
2011	223	63,4	10,1	0,6	9,4	11,1	1,2	9,6	42,1	29,2	12,7
2012	225,8	62,5	9,4	0,2	9,2	10,9	1,6	9,1	42,1	29,3	12,6
2013	218,5	60,9	8,2	0,2	7,8	10,7	1,5	9	42,1	29,7	12,2
2014*	215,9	58	7,3	0,2	2,8	10,6	1,4	9	40,1	28,4	11,6

**jun 2014*

Source: Own calculations based on BNR, Dec.2007-Monthly Bulletin July 2014

The differences between weight of credits in foreign currency and the national currency for the years analyzed, reveals a rate of over 60% for credits in foreign currency. These currencies used (euro, dollar, Swiss franc, Japanese yen) recorded during major fluctuations of the most serious repercussions on the stability and soundness of borrowers.

Eloquent example of the Swiss franc is promoted with a suspect insistence a long time by financial institutions as one of the safest currencies that experienced devaluations burdensome for those who have accessed a credit product in that currency.

Local financial market responsible had no reaction to the many complaints of affected persons. In contrast to Romania, international institutions decided in favor of dissatisfaction Hungarian citizens who reported the same abuse. We wait to see if realistic position to affected consumers will be embraced by the financial authorities in Romania, in order to save the financial collapse of the many beneficiaries of such credits..

Financial institutions, with the indifference or absence of reaction weak of regulators acted exactly in the most vulnerable of the population. A population with a very low degree of economic culture, which was waved the illusion of a prosperous periods and was encouraged to into debt to the extreme, regulators are among those who increased the debt by reason of rallying international standards, but have not said a moment the truth.

Indebtedness in countries with stable economies and performance is backed by a respectable salary level that allows such coverage rate, while in Romania the salary often does not cover any basic needs of the population, not to mention living standards high. All the credits were supported by the overwhelming interest, combined with the credit agreements often overlooked unfair by control institutions and consumer market monitoring.

Until recently, protection of consumers in Romania was viewed as a factor of mice discovery in food not an instrument for control and monitoring of financial and banking market including market contracts perfidious much more bushy and full of clauses that would last a second in countries exhibiting normal care for citizens.

Table 4. The main issues of a financial nature complained to the Consumer Protection -

Year	The main suppliers of financial services advertising, the order number of complaints	Issues claimed
2009	BCR, RAIFFEISEN BANK, BRD, BANCA TRANSILVANIA, BANC POST, VOLKSBANK, OTP, PIRAEUS, ALPHA BANK, CEC BANK, ABN AMRO BANK	Charging fees that are not stipulated in the contract, interest rate hikes, lack of response to written request, issues the card transactions.
2010	BCR, VOLKSBANK, BANC POST, RAIFFEISEN, PIRAEUS, CEC BANK, BRD, ALPHA BANK, UNICREDIT, CARPATICA, BANCA TRANSILVANIA, EFG RETAIL, RBS BANK, PROVIDENT, CETELEM, TBI CREDIT, ING, MILLENIUM	Charging fees that are not stipulated in the contract, breach of OUG no. 50/2010, interest rate hikes, lack of response to written request, issues the card transactions, unfair terms in contracts, failure to issue money from the ATM, refuse to issue statements, contractual breach, failure currency displayed, account garnishment, imposition concluding insurance companies only agreed bank employee misconduct

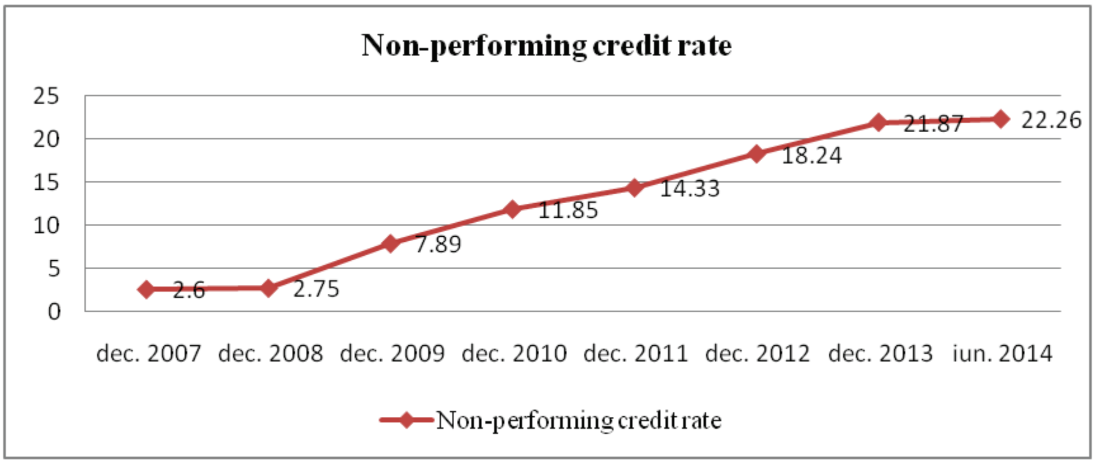
2011	BCR, VOLKSBANK, BRD, BANC POST, RAIFFEISEN, PIRAEUS, BANCA TRANSILVANIA, CEC BANK, BRD, ALPHA BANK, UNICREDIT	Interest rate hikes, unfair terms in contracts, no written response, calculating penalties for the account remained open after paying credit card transaction problems, card stuck in ATM breach enforcement procedures
2012	BCR, VOLKSBANK, RAIFFEISEN, BRD, BANK POST, BANCA TRANSILVANIA, EFG RETAIL	Interest rate hikes, unfair terms in contracts, calculating penalties for paying the loan account remained open after,
2013	BCR, VOLKSBANK, RAIFFEISEN, BRD, BANK POST, BANCA TRANSILVANIA, BANCA ROMANEASCA, EFG RETAIL, CETELEM	Charging fees that are not stipulated in the contract, interest rate hikes, lack of response to written request, issues the card transactions, unfair terms in contracts, failure to issue money from the ATM, refuse to issue statements, contractual breach, failure currency displayed , account garnishment, imposition conclusion only insurance companies approved by the bank employee misconduct, calculating penalties for the account remained open after paying the loan, communication of personal data to third parties, failure notification procedure established contractual refusals duplicate the contract

Source: County Office for Consumer Protection Iasi

Very few in number due to the high cost and involved legal action, these complaints played the role more to show the unseen face of the financial iceberg, an iceberg that swallowed without remorse to all those who have been provided to protect themselves when credit contracted. In fact, the Romanians have had too much confidence in institutional regulators, regulators, which unfortunately were not those who were entitled to receive support cause, in this case the citizens.

The natural consequence of human contracts promoted by financial institutions crediting was increasing the nonperformance, and implicitly foreclosures. As shown in the chart below (chart 3). Increased from one year to performing credit ratio and unfortunately it will further increase just because of the excessive use of long-term credit.

Fig. 3. Nonperforming credit rate



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Source: Monthly Bulletin December 2013 Financial Stability Report 2013, Bulletin Month June 2014

3. Conclusions

What we consider that is missing?

The existence of clear standards and rules of application precise and also absence of repressive measures discouraging financial firms violate any rights of the client and just looking to trick him latter. Precisely for these reasons foresee the need regulations as clear and concise financial services. Such regulations are designed to maintain a balance in the market and attract investors honest, to be and they also protected against competition.

Imposing regulations must be supported not only national but international general application.

It is important that these rules be followed and their application in each state and deviations when signals are set clear measures of redress, correction and penalty of that State. We must look at existing and applying rigorous regulations globally, not as a favor to consumers, but as a prerequisite for carrying out serious and honest investment, sustainable, to ensure proper functioning and development of both private entities and the economies in general and not least the personal welfare of each consumer.

However, supervisors' institutions should introduce standards for assessing the banking market and the role of banks binder and potential environmental and social components alongside existing component, the economic.

We can not sit idly by in ignorance, we say knowingly, from the banking institutions of the two components and focusing only on profit at any cost. We believe that through the efforts of Real EU to encourage green growth and protection of disadvantaged groups, and Romanian banking system should be regulated so that credits be made taking into account the development needs of the economy not only of financial interests behind banking institutions. Banks are not interested to act alone in favor of this goal, they having only one target - profitability. The lever regulators, Romania may require banking institutions to be guided by the same principles that function in countries of origin, destroying impression of a no man's land perpetual Romanian market of financial services.

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