

Economic and Banking Environment in Romania and E.U.

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Abstract: - The study presents the overall picture of Europe's economic prospects, strained relations within the European area. Also presents the evolution of the banking system in Romania in the context of situations in Europe, which returned to profit and record high levels of solvency and liquidity, while the NPL ratio continued to decline. Due to the difficulty of forecasting medium business, and to the macroeconomic context, banks avoid risk taking associated finance investment projects in the long term, preferring financing in the medium term, so that more than half of home loans granted in Romania are for term funding short and medium.

Keywords: - world economy, lending, banking risks, financial corporations.

1 European economic outlook

A high degree of uncertainty is hanging over the whole of Europe. Risks related to the global economic outlook have increased. A lower growth of emerging markets, especially more accurate adjustment interfering in China, and the effects of normalization of expected monetary policy of the US on emerging markets could have a greater negative impact on investment and economic activity in Europe than currently expected.

Uncertainty related to geopolitical tensions remains ample and its negative impact on European economies may be less marked than currently expected. Sudden changes in oil prices and turmoil in the financial market could also affect European growth. Moreover, risks remain considerable internal developments in the EU, for example in terms of the pace of implementation of structural reforms and uncertainty linked to the outcome of the referendum in the UK on remaining in the EU.

According to the forecasts of the European Commission, Euro zone GDP will reach 1.6% in 2016 and 1.8% in 2017, according to the amount of 1.7% reached in 2015. It is estimated that GDP growth in the EU will slow down from 2.0% last year to 1.8% in 2016 to reach 1.9% in 2017 (winter forecast: 1.9% in 2015 1.9% in 2016 and 2.0% in 2017).

Monetary policy which is very accommodative paved the way for increased investment by facilitating and cheaper access to finance. The market expects fiscal policy to support growth in the region this year. However, although oil prices fell again in early 2016 and had a positive effect on real disposable income is expected to reduce the intensity of that support gradually with increasing oil prices. Similarly, although exports from the Euro zone advantage still, to some extent, from the past depreciation of the euro, the recent appreciation of the currency could make the euro zone more sensitive to the effects of slower external growth.

Russian geopolitical tensions and falling oil prices also contributed to the deterioration of expectations for growth internationally. Russia has entered a recession in 2015, forecast negative growth being maintained for 2016 in the context of geopolitical risks conflict with Ukraine, which could lead to new sanctions. Romania has not been affected by the economic and geopolitical situation in Russia due to commercial and financial relations bilateral relatively low. In recent years, Romania has diminished progressively and significantly dependence on natural gas imports, from 15.3 percent in 2013 to 4.3 percent in November, 2015.

However, severe deterioration of economic and political environment in this region can have a significant impact on Romania, including through the prism exposures to regional countries of European banking groups with a notable presence in Romania. Geopolitical situation in the Middle East is another systemic risk at a moderate level, which could have consequences for the European single market and consequently on the domestic economy.

Refugee crisis has negative implications in the short term on the economies of the countries of transit and destination of flows of refugees as a result of increased public spending (receiving and their accommodation, social, security costs), and the medium and long term, structural changes in the labor market.

This crisis can generate significant effects on other countries in the European Union by increasing competition in the labor market between different categories of migrants and the return of some of them, rising unemployment and public spending on social assistance, reduced remittances from abroad. It is possible that the influx of immigrants also have long-term benefits to the country of destination in the European Union, as potential GDP growth, disinflationary pressures due to lower labor costs. For all countries, the costs are in fact highlighted opportunity costs in terms of hard budget constraints and high levels of public debt.

Other risk factors to the economic situation in our country could come from a possible deterioration of economic and financial situation in some European countries such as Greece. In Romania are present four credit institutions with Greek capital, with moderate role within the system. They own about 10.7 percent of total assets of the banking sector at the end of 2015. Prudential situation of these institutions is at an appropriate level, and most indicators continued to improve in the last year. According to the analyses of stress testing banks with Greek capital have the means to face the shock withdrawal of funding from foreign financial institutions.

A possible Brexit from the EU can bring significant economic and social consequences rather on Member States and indirectly on Romania. Direct effects on the domestic economy are reduced in the Romanian banking system are not present credit institutions with capital coming from the United Kingdom; British-owned companies play a small role in the economy in terms of contribution to value added, number of employees or total assets; the British market are targeted only 4.6 percent of total exports of goods and services, and UK had 2.5 percent of the total stock of foreign direct investment (FDI) at the end of 2014.

The drop in oil prices was mainly positive effects on economic growth in Romania, through the channel to reduce production costs and transportation, as well as increasing disposable income for consumption channel. On the other hand, falling commodity prices on international financial markets has affected the extractive industry sector by reducing revenues, increased expenses with value adjustments for impairment and prices fall when the stock market listed companies

2 The evolution of the banking sector in Romania

The banking sector in Romania recorded a slight strengthening in early 2016. In 2015, it returned to profit has registered high rates of solvency and liquidity, while the NPL ratio continued to decline. The risk of contagion has also continued to decline, by reducing dependence on banks in Romania funding from parent banks. In Romania, banks provide about 90% of financing the economy. At European level, the banks represent about 75-80% of the entire financial system of the EU. In the US, companies are financed through a bank loan at a rate of only 15%.

An objective of the prudential banks would be to identify the risks associated with various banking products and solutions to find the time needed to counter these risks, thus avoiding possible major problems.

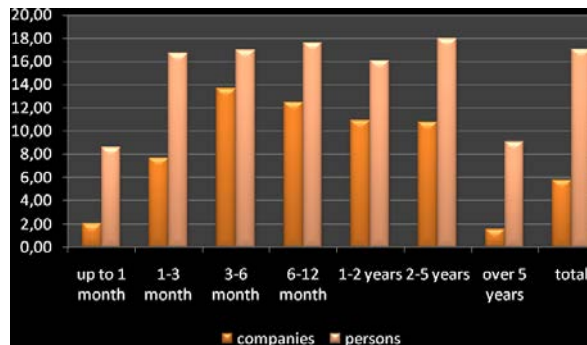
Due to the difficulty of forecasting the evolution of business for seeking loans, banks avoid risk taking associated finance investment projects in the long term, preferring financing in the medium term, so that more than half of home loans are for financing the short and medium term. Banks prefer this type of lending on the one hand due to the risks low, and because of the advantage of maintaining a higher level of liquidity.

Macroeconomic instability is hindering long-term evaluations of the results that will be generated by investments that are required credits, so reducing the possibility of granting loans for investment in safer and encourage lending to medium term.

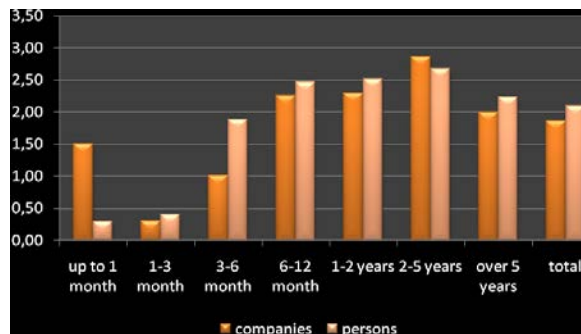
Investment portfolio structure by economic sectors reflects the trend spread risk by focusing on all areas of activity, the predominant lending for investment projects in the industry with over 50% and services 30%.

Loans in lei prevail in outstanding credit risk, currency risk, interest rate is replaced, because the interest rate risk to be kept under control in the coming period, it is essential to ensure an appropriate mix of macroeconomic policies; fiscal policy should not limit the options of monetary policy.

Graphic no.1 Interest rates on deposits in national currency



Graphic no.2 Interest rates on deposits in foreign currency



Credit standards remained constant in 2015 for loans and consumer loans to households, while in the case of housing loans they were moderately relaxed. For 2016, credit institutions estimate unchanged keeping credit conditions for companies and consumer loans to households, while for housing loans is expected tightening to some extent standards. It is estimated an increase in loan demand from companies and reduce it if consumer credit to households.

3 Lending to non-financial private sector

Corporate and household borrowing volume from financial institutions increased from December 2014 to December 2015 to €72.4 billion. For the next period of credit market conditions indicate a revival in demand for loans from non-financial companies, along with a stabilization of credit standards for this sector. An analysis of economic, financial performance and management firm indicates potential for significant sustainable lending of non-financial corporation's sector. Corporate and household borrowing structure has undergone some significant structural developments. First, lending to non-resident financial institutions was low, with favorable effects on reducing dependence on funding from non-residents and the reduction in private external debt of the country. Secondly, borrowing in local currency continued to rise, so the vulnerability caused by the high share of foreign currency loans continued to decrease.

Non-financial private sector external debt stock financing attracted from foreign financial institutions shrank during the period December 2014 - December 2015 10.7 percent (or 2 billion), but continues to be at a significant level (23 percent of total indebtedness). Reducing of external indebtedness is the result of balance sheet adjustments of the diversion of domestic banks and non-financial companies by not lending domestically. Thus, on the one hand, some banks have decided to restore the balance of significant loans previously sold by foreign financial institutions, members of the group to which they belong. Purchases of credit by banks during 2015 totaled 1.6 billion Euros, representing mostly loans to the population (about 80 percent). On the other hand, banks have continued cleaning the balance, developments in 2015 were marked by the sale of large portfolios of loans (1.7 billion Euros during January-December 2015), mostly bad, more than a quarter by foreign financial institutions.

This process of assignment of claims is widely practiced internationally, to manage prudential constraints, cleaning of balance sheets of bad loans to restart lending etc. The evolution of lending, considered in the broader perspective of economic positioning relative to the credit cycle, not borrowing highlights the urgent pressure to justify activating the private sector damper countercyclical capital.

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Total indebtedness of the population and non-financial corporations to GDP ratio remains below the long-term. On the other hand, history reduced data (period March 2000 - December 2015) and structural changes recorded in the late 1990s shows, in Romania's case, the constraints of an evaluation based strictly on the indicator deviation loan (broadly) in GDP the long-term trend (as recommended by the ESRB Chart 1.8). In this regard, the central bank continuously developed and improved analyzes on the evolution of risks from lending and lending to companies and households to financial stability.

In the period January to December 2015, new loans related to non-financial companies were awarded at a rate of about 67 percent in local currency and the level of households, the share of new loans denominated in the total financing granted by banks was 90 percent. Orientation to lending to credit institutions in local currency (is based on structural factors: reducing the cost of financing in lei at a level below that currency due to lower monetary policy rate to 1,75 percent from 2,75 percent in 2015; macro prudential measures on restricting foreign currency lending and credit of the "First Home" only in national currency from 2013; Banks conversion programs (into lei) previously granted credits in foreign currency, and maintaining the upward trend in deposits in lei at the expense of external financing and adjustment of correlating currency assets and liabilities of credit institutions.

The share of bank loans in foreign currency to non-financial corporations decreased from 52.5 percent in December 2014 to 48.2 percent in December 2015, while for the population was one more significant adjustment (from 60.7 percent to 51.3 percent the same period). The trend of credit growth is driven by both supply-side factors and demand. The main changes are: the resumption of demand for loans from non-financial companies since the second half of 2015 amid the stabilization of credit standards and the estimate by the banks of the difficulty of credit standards for house purchase due to fears caused by unpredictability framework legislative loans to households.

Amid these uncertainties legislative, banks continued to finance a significant proportion of the low income population categories. Borrowers with a monthly income below the minimum wage received in 2015 approximately 30% of new lending flows, followed by those with income between minimum wage and minimum wage (23% of new loans).

4 Evolution of non-financial companies sector

A more robust resumption of sustainable lending to non-financial corporate sector remains a challenge to domestic banks. In this regard, it is necessary and the companies with potential debt conviction that partnership with a bank may have beneficial effects on their business.

The trend of improvement in the economic performance of firms continued. Structural analysis reveals, however, that asymmetries in the distribution of firm-level performance and their polarization remain among the main features of the domestic economy. In June 2015, the total sector non-financial companies recorded profitability indicators, liquidity and solvency increase compared to the same period of 2014.

Developments regarding corporate financing by domestic banks have been largely favorable. Sectors that can contribute to economic growth geared more towards innovation and high added value growth have received funding from banks. Credit to companies in industries with high-tech (high-tech and medium high-tech) increased in 2015 by 12.7 percent (compared to 3.9 percent for credit to low-tech industries). Also, loans to companies that provide services based on intensive use of knowledge (knowledge intensive services) increased by 2.8 percent in 2015 (compared to 0.35 percent for credit to companies that provide services based on the use less intensive use of knowledge (less knowledge intensive services).

Newly established companies (start-up) received funding increase (by 43.8 percent in 2015, from 0.98 billion lei to 1.38 billion lei). On the other hand, most newly granted loans were directed towards larger companies (about 31 per cent of these loans were to midsize companies and 27 percent by corporations). This orientation will contribute to further improving the quality of loan portfolio companies (NPL for the two categories of companies is lower than average).

These are arguments in favor of the resumption of lending on a sustainable basis by non-financial corporations sector, noting that at the individual level and on different types of companies to maintain a high degree of heterogeneity of economic and financial performance. After size, health corporations is significantly more robust than SMEs, companies in the second category is characterized, however, by a dynamism higher (increase of gross value added and turnover for SMEs was more alert than companies large period June 2014 -

June 2015, for the second consecutive year). The heterogeneity and concentration, however, remain important characteristics of non-financial corporations sector.

5 Conclusion

Solvency indicators remain at adequate levels significantly above the thresholds covered. The capital of banks reserves remains consistent: ensure a high capacity to absorb any unexpected losses; can easily accommodate existing demand for credit in the real economy and dampers allow the implementation of capital since 2016 without requiring additional contributions from shareholders.

The liquidity of the banking sector is consistent. Banks in Romania is in a favorable position regarding the fulfillment of international standards related to adequacy and liquidity indicators to ensure stable financing. Bank asset quality has improved in 2015: non-performance rate was declining, the net provisioning costs and the volume was significantly reduced. These developments have had a significant and positive impact on the profitability of the Romanian banking sector. Resumption of lending was done dominant in national currency. In the context of the favorable macroeconomic activity nonbank financial system was maintained an upward trend, the highest increases were observed in the segment of pension funds and investment funds.

Given the structure of prudent portfolio, focused primarily on holdings of government securities and bank deposits, persistence environment characterized by low interest rates represent a vulnerability to the return on investment activity in this sector and can generate a change in behavior in order to orient towards riskier assets.

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