THE RISK REPORTED TO THE CREDIT QUALITY FROM ROMANIAN BANKING SYSTEM

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Abstract: *Financial stability in the banking system is influenced by lending that fall as a share of first place in the banking investment.*
Also, the risk of lending occupy a significant place in the bank management. Credit risk is influenced by the quality of portfolios' credit representing a vulnerability of the Romanian banking system.
Keywords: *credit risk, credit quality, credit portfolio, financial stability, banking system.*
JEL Classification: *E52, E42*

Introduction

Financial stability amid the gap between the business cycle and financial lending activity is influenced by both supply side and the demand.

The National Bank of Romania continues to support the real sector lending by specific instruments of monetary policy.

Banks are trying to adapt continuously to new coordinates of the domestic macroeconomic environment, increasing the supply of RON credit, while the stock of foreign currency loans continued tightening trend.

Currently quality indicators of loan portfolios reflect a vulnerability into Romanian banking system but provides an improvement in these indicators together with the downward trend in costs and accelerate write off irrecoverable receivables fully or a very high proportion of allowances for impairment.

Provisions covering the banks' expected losses arising from credit risk; unexpected losses arising from any manifestation of adverse macroeconomic developments can be absorbed substantial capital reserves held by credit institutions in Romania over the mandatory minimum required capital adequacy indicators.

Credit quality

"The level of credit risk has an important role lending portfolio as part of formal policies established by the Board and implemented and managed by the banking system. Through these policies the bank should adopt a system for managing credit risk. "(C. & D., 2011)

The quality of the loan portfolio continues to be a weakness of the Romanian banking system, maintaining a consistent stock of bad loans in banks' balance sheets resulting allocation of additional operational resources for recovery and caution in granting new loans.

In the period since the last Financial Stability Report manifested a gap between the economic and financial cycle, while the economic recovery was not accompanied by a recovery in lending to the real sector.

The trend of rapid accumulation of bad loans was recorded in many European countries amid low growth or recession that followed the global financial crisis, further efforts to cover losses from lending putting pressure on banks' profitability.

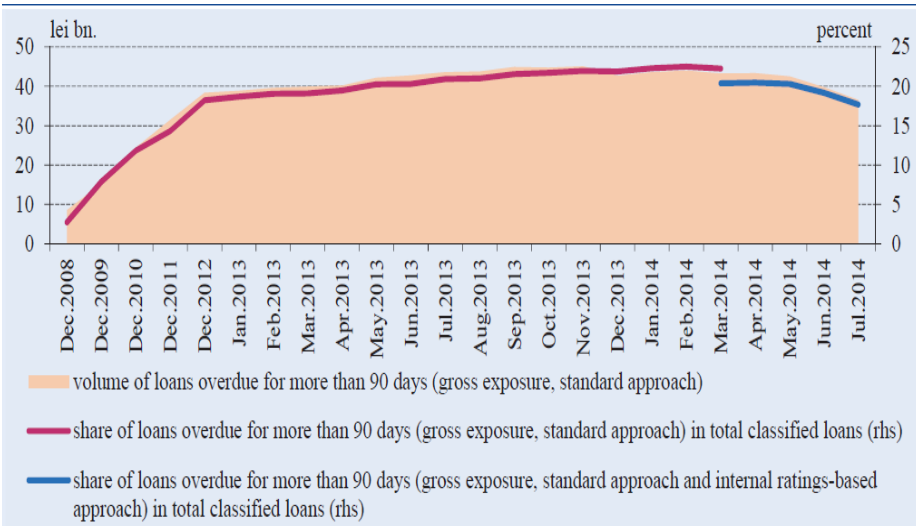
Developments related to the quality of banks' balance sheets are issues of national supervisory authorities and European bodies by their potential to slow resumption of lending process.

The vulnerability of the Romanian banking system will decrease by:

- Trend improvement recorded values of the variables that define the domestic macroeconomic (GDP, inflation, wage income, unemployment, etc.);
- Need to resize banks' balance sheets by increasing interest bearing assets to support their operational efficiency, under proper management of credit risk;
- Lowering the cost of credit in the context of embedding pulses transmitted through monetary policy instruments used by the Central Bank;
- Accelerate cleaning banks' balance sheets of bad loans fully or partially with adjustments for impairment.

The rate of loans non performing increased in the period under review from 20.3% in June 2013 to 21.9% in December 2013 and, respectively, to 22.3% in March 2014, mainly due to base effect manifestation total credits for capital requirement for credit risk is determined according to the standardized approach decreased from 210.5 billion RON in June 2013 to 195.1 billion RON in December 2013, respectively 194.2 billion RON in March 2014.

Non-performing loans at aggregate level

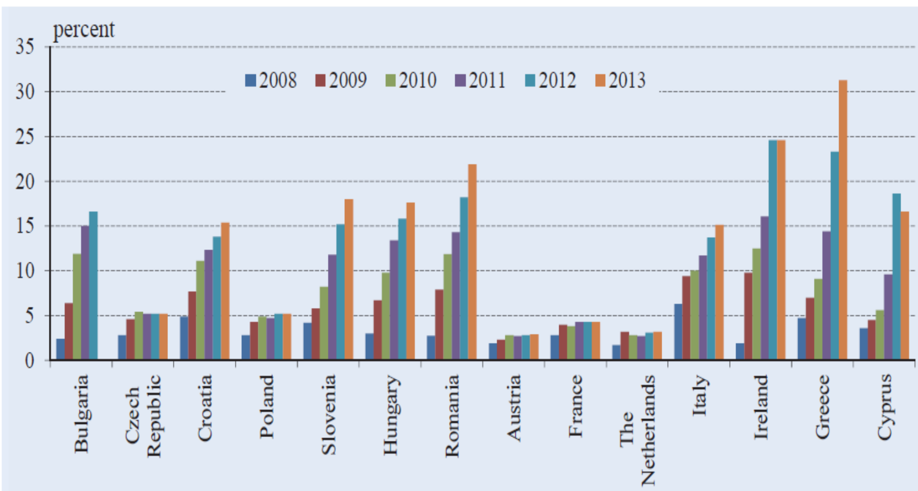


Source: NBR

Since March 2014, the Central Bank changed its methodology for calculating the rate of NPL portfolios by incorporating capital requirement for credit risk is determined according to the approach based on internal ratings.

Since the second quarter of 2014, the indicator has followed a downward trend, amounting to 20.4 percent in March 2014, respectively, from 17.7 percent in July 2014 as a result of operations carried out by a number of banks consisting of loans off the balance sheet sunk fully or in a very high proportion of adjustments for impairment.

Loan portfolio quality in selected EU Member States



Source: IMF, NBR calculations

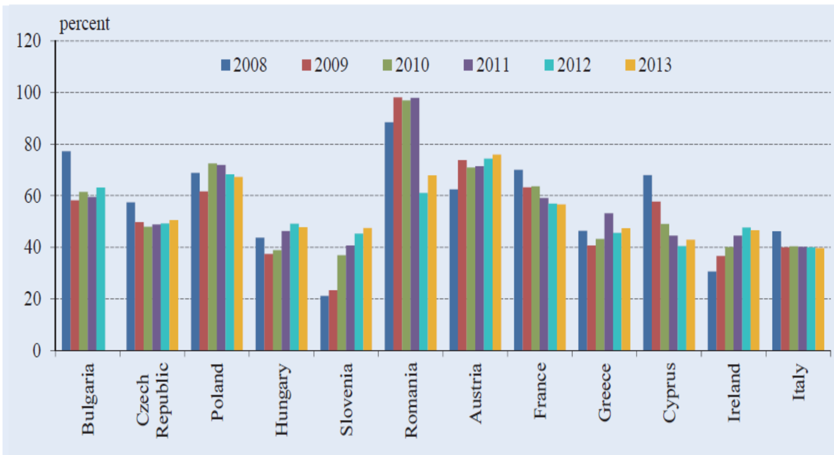
Credit risk is mitigated by higher provisioning of non-performing exposures, characterizing the Romanian banking system.

IFRS provisioning coverage of non-performing loans increased from 61% in December 2012 to 67.8% in December 2013 and, respectively, 66.2% in July 2014.

The levels are higher than those reported by other countries (Hungary, Czech Republic, Slovenia), as well as a number of Euro area countries that have subsidiaries in Romania (Greece, France, Italy, Ireland, Cyprus).

Among the countries of origin, only Austria reported a level of coverage with provisions of non-performing loans, 75.9% in September 2013, higher than that calculated on an aggregate Romanian banking system.

Converge ratio of non-performing loans in selected EU Member States



Source: IMF, NBR calculations

Conclusions

Credit policy must contain a description of the object and the allocation of bank credit facilities and how to manage the loan portfolio, is how they are granted, assessed, monitored and credits earned.

A good credit policy should not be very restrictive, but may be presented to the board of appropriations officers consider worthy of consideration but not within the parameters written instructions.

There must be flexibility for quick reactions and a possible adaptation to varying conditions on the mix of income and assets of a bank's market environment.

The current phenomena from economic environment have a strong impact on lending both supply side and the demand side.

The National Bank of Romania through monetary policies support the sustainable resumption of business credit and reduce credit risk by improving credit portfolio which currently represents a vulnerability of the Romanian banking system.

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