



NATIONAL BANK OF ROMANIA

Sinaia, October 2015

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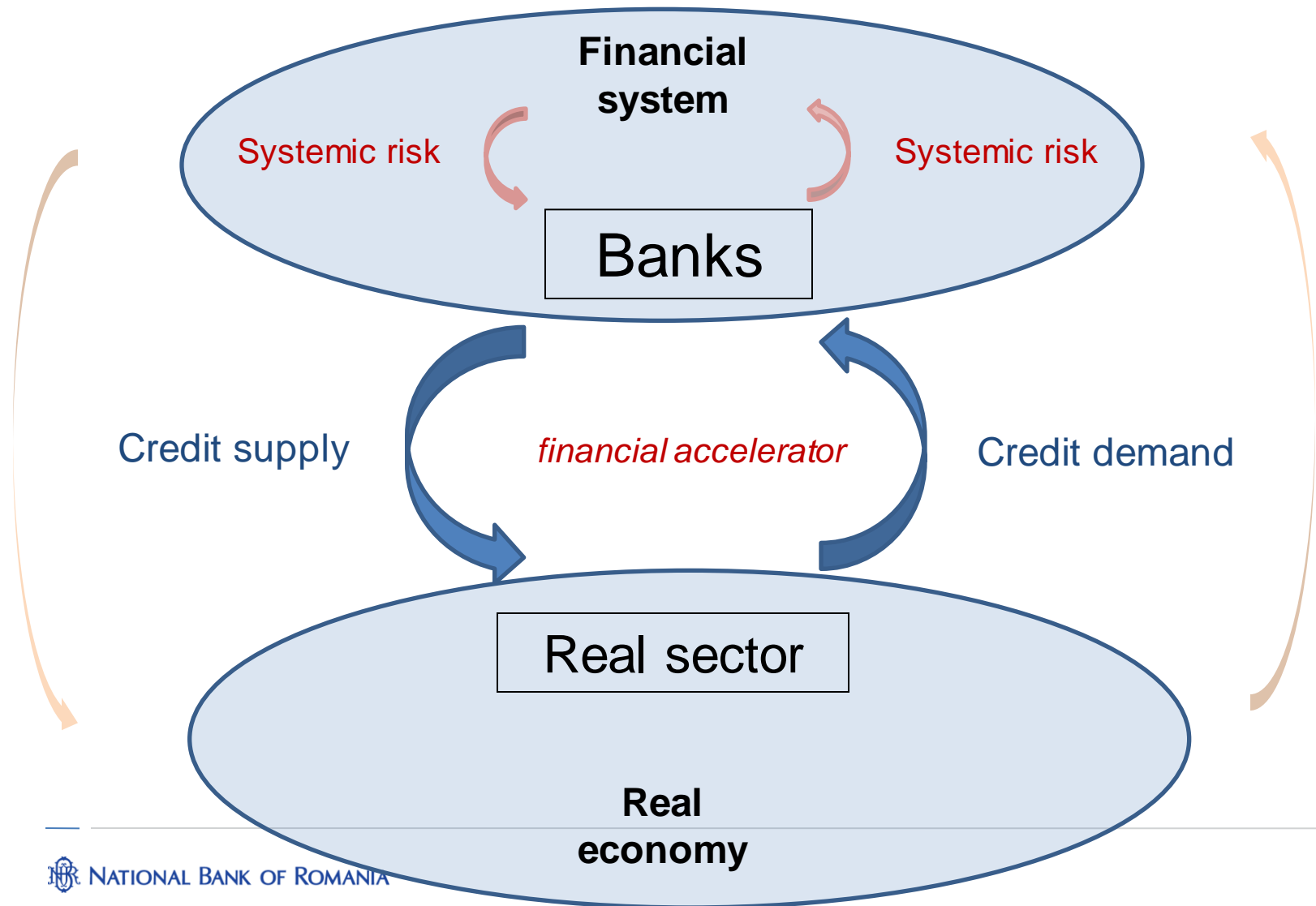
# NBR experience with surveys to identify credit market conditions and systemic risk

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The opinions expressed in this presentation are those of the author and do not necessarily reflect the views of the National Bank of Romania

# Interaction between the financial sector and the real sector



# Central bank role in safeguarding financial stability

**Credit cycles** stem from frictions in either

credit supply

or

credit demand

**Systemic risk**

shock in the financial system ➡

materialization of imbalances ➡ impairment of financial system ➡ negative effect on real economy

**Surveys** - complement hard data as tools to identify deterioration in credit conditions or build-up of systemic risk

# 1. Credit supply

## Bank Lending Survey (BLS)

# BLS overview

Launched in Q4/2007

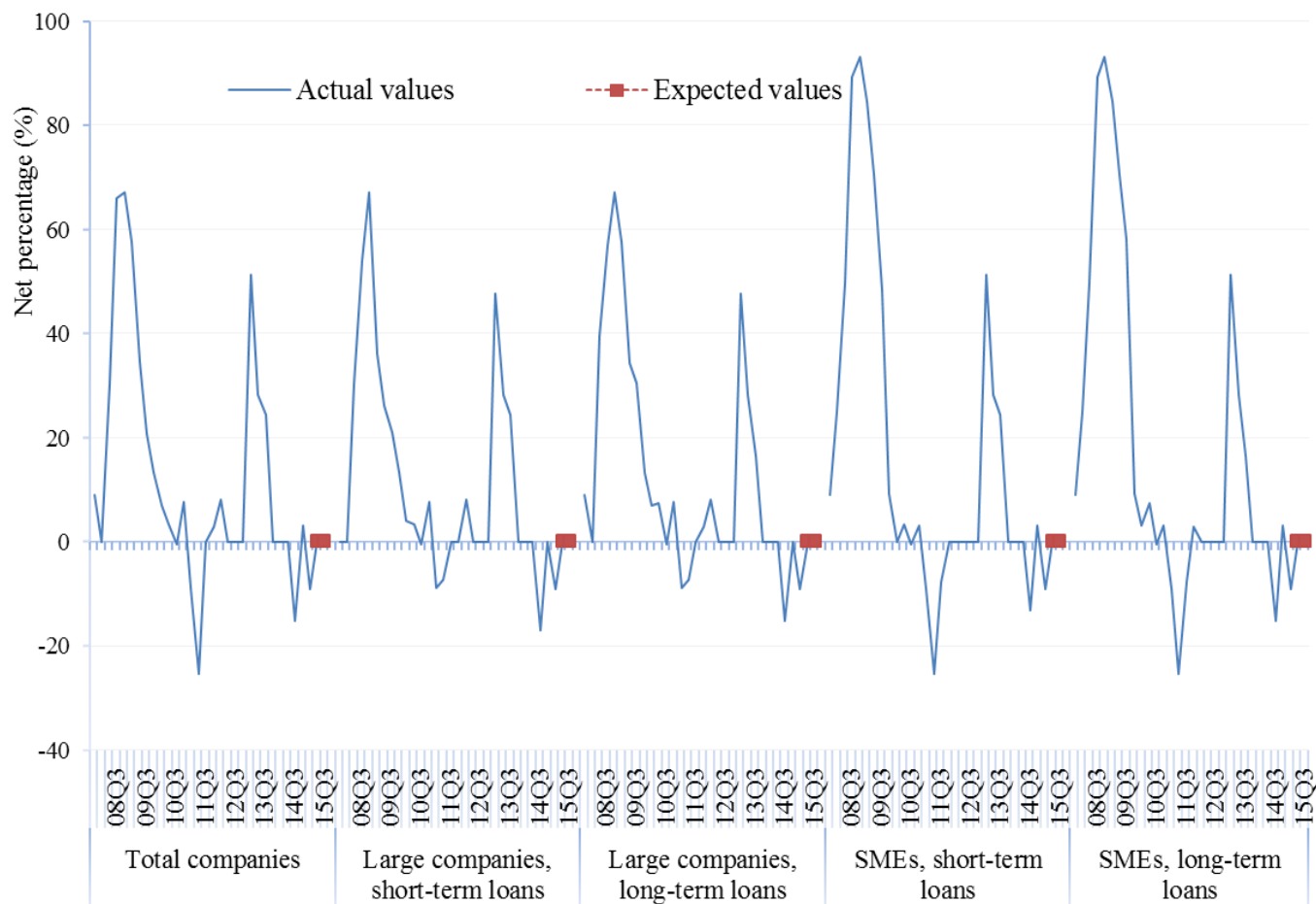
Quarterly frequency

Sent to the top 10 largest banks (by asset size)

Covers non-financial companies (NFC) and household (HH) sectors

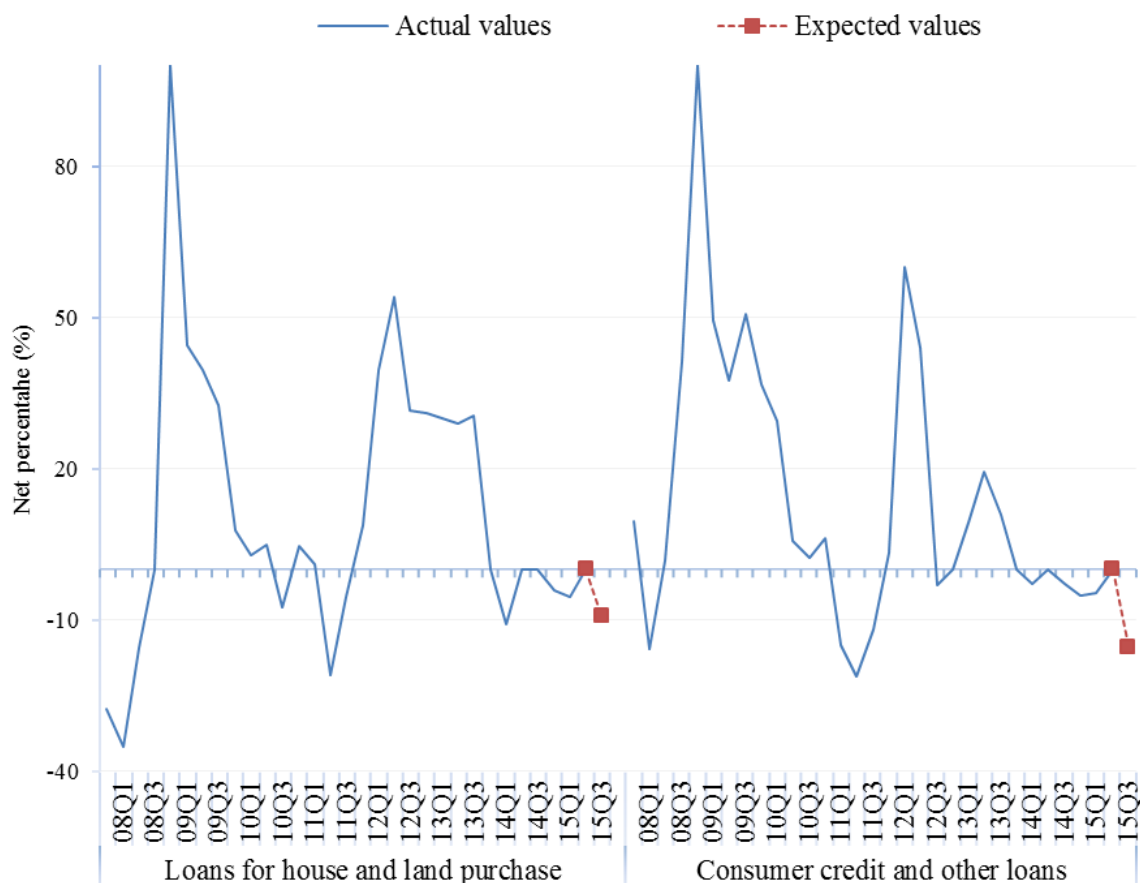
Similar questionnaire structure and same frequency as the ECB BLS for the euro area

# Credit standards – NFC sector



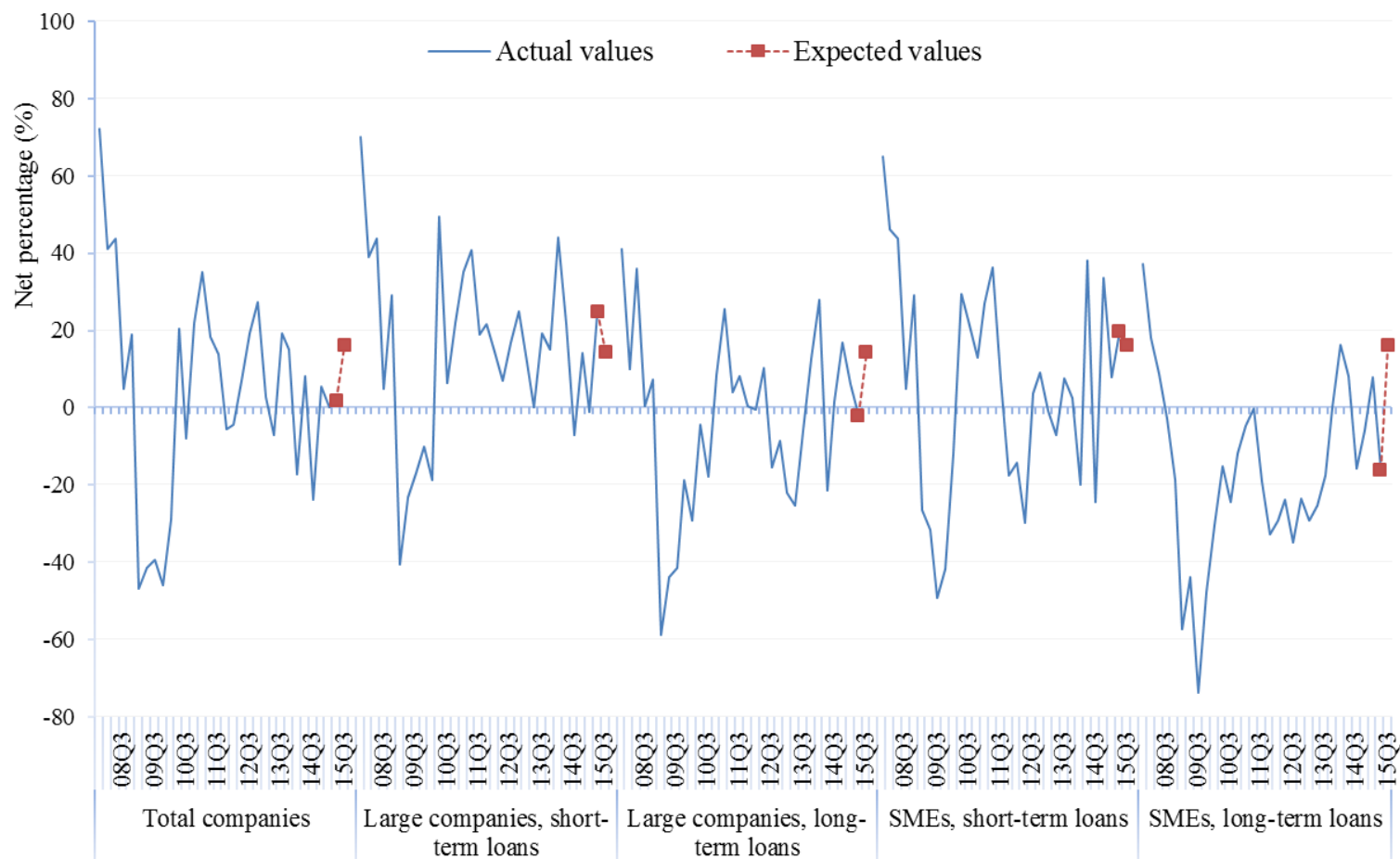
Source: NBR – Bank Lending Survey, August 2015

# Credit standards – HH sector



Source: NBR – Bank Lending Survey, August 2015

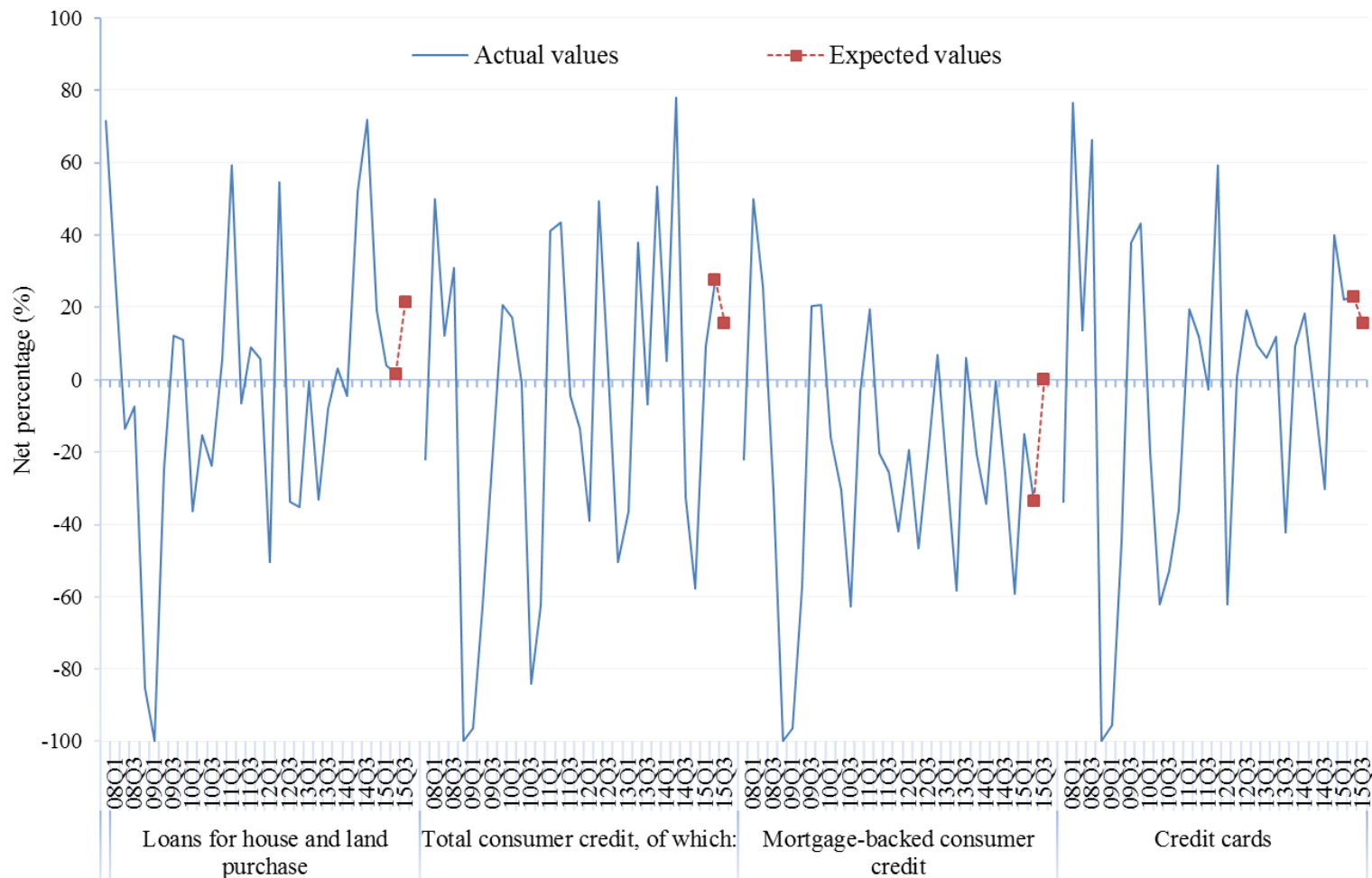
# Credit demand – NFC sector



Source: NBR – Bank Lending Survey, August 2015

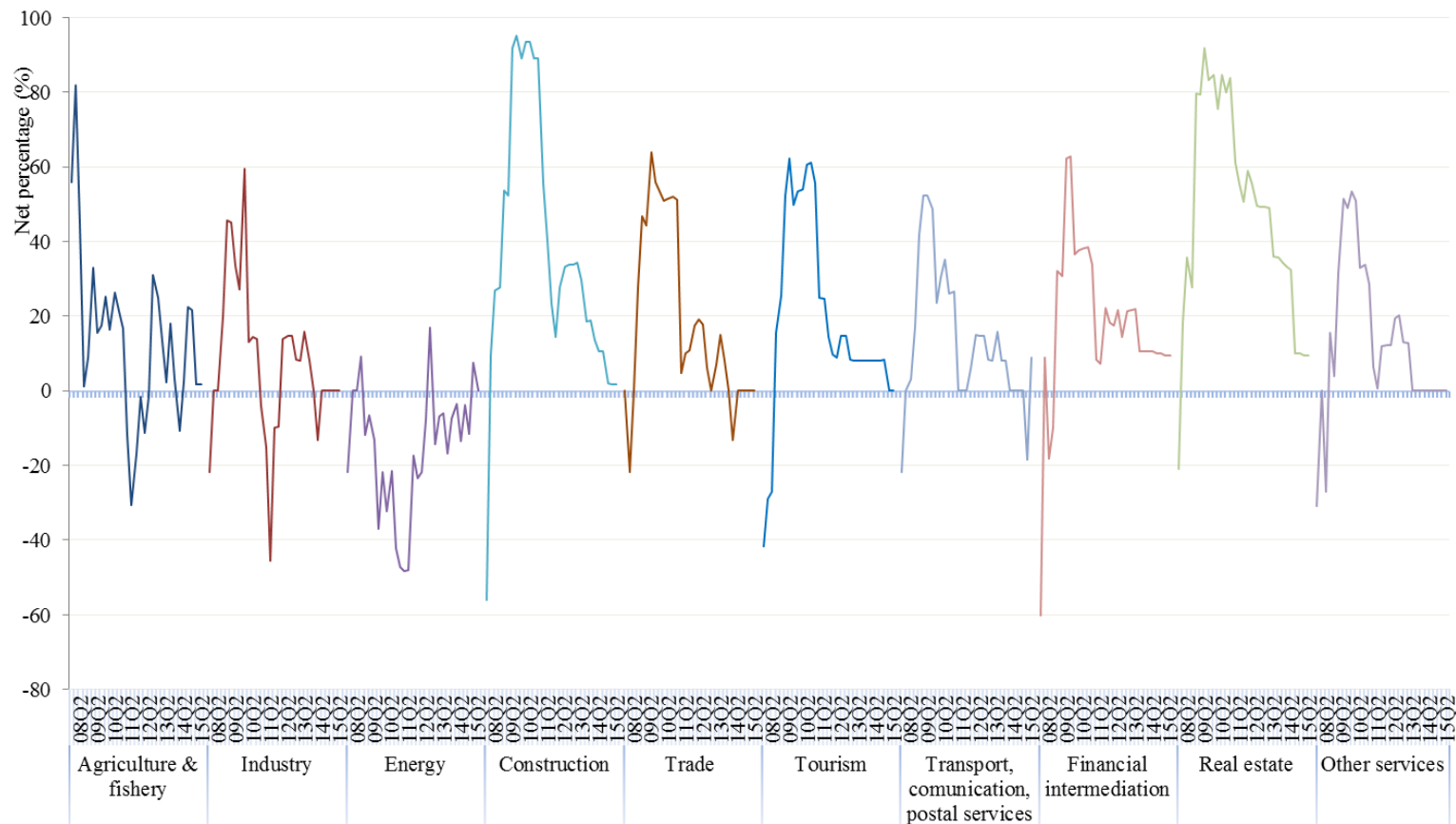


# Credit demand – HH sector



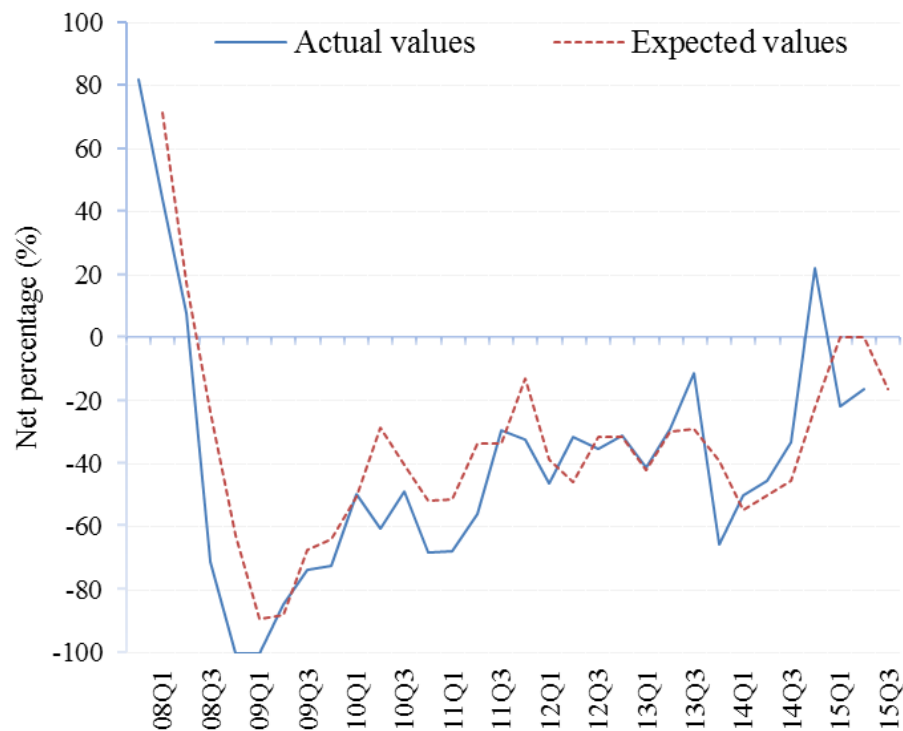
Source: NBR – Bank Lending Survey, August 2015

# NFC credit risk by economic sector



Source: NBR – Bank Lending Survey, August 2015

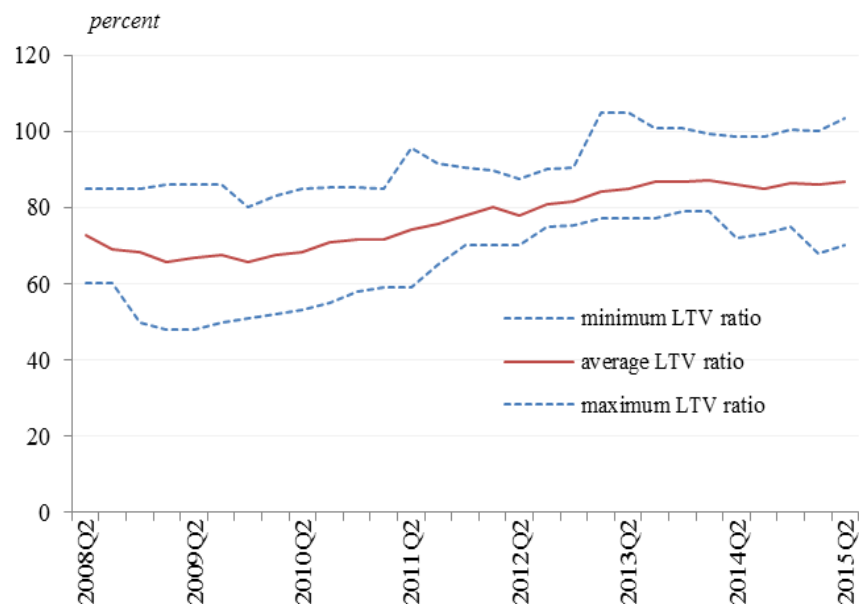
# Residential property prices



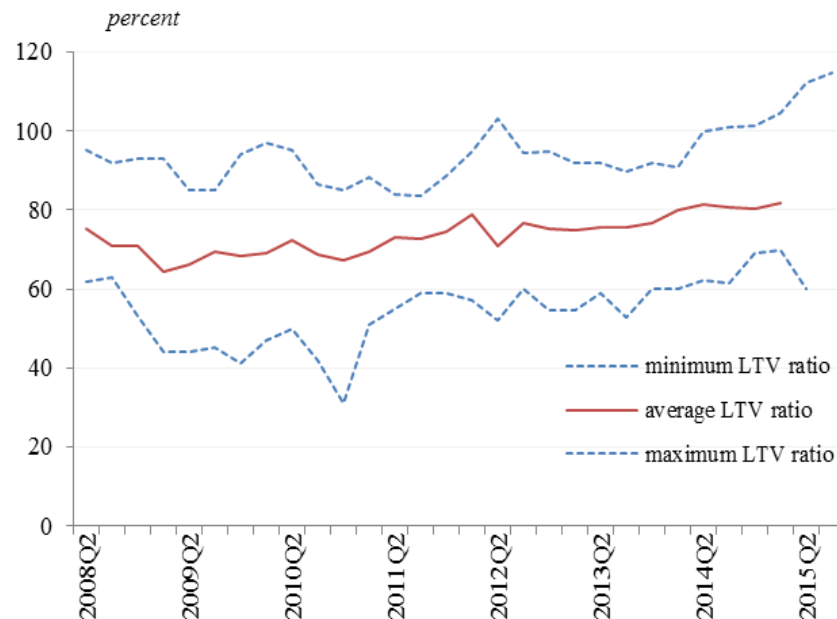
Source: NBR – Bank Lending Survey, August 2015

# LTV ratio – HH sector

## LTV for mortgage loans in stock



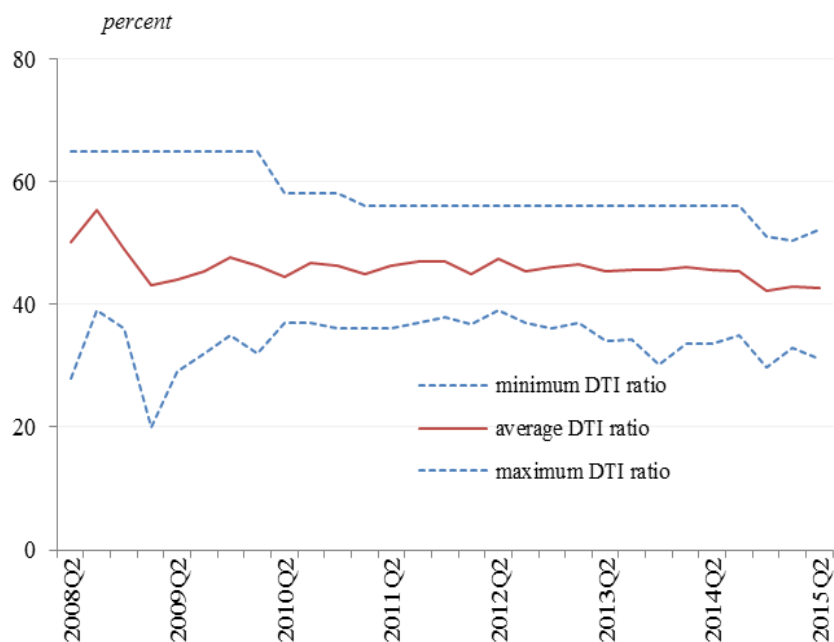
## LTV for mortgage loans granted every quarter



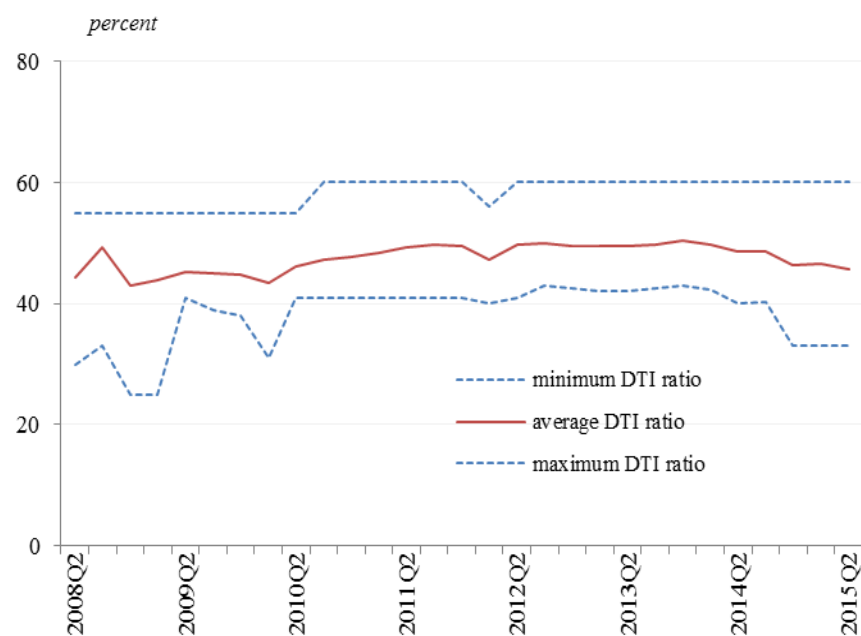
Source: NBR – Bank Lending Survey, August 2015

# DSTI ratio – HH sector

## DSTI for loans in stock



## DSTI for loans granted every quarter



Source: NBR – Bank Lending Survey, August 2015

## 2. Credit demand

Survey on the Access to Finance of  
Non-financial Corporations in  
Romania and their Capacity to  
Withstand Adverse Financial  
Conditions (FCNEF)

# FCNEF overview

Launched in S2/2013

Bi-annual frequency

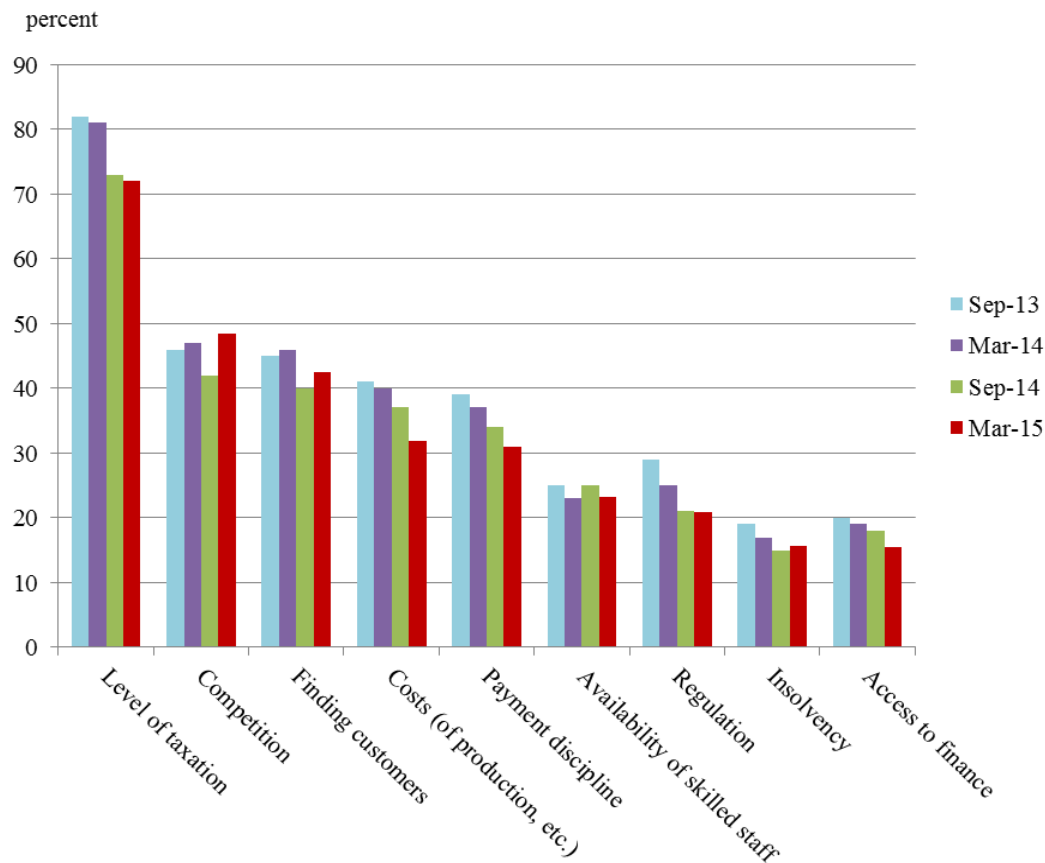
Sent to approx. 10 500 non-financial companies (NFC) in Romania, out of which nearly 85 percent are SMEs (including micro-enterprises)

Structured in two main parts, focused on: (A) access to finance, and (B) resilience to financial shocks

Part A of the survey similar to ECB SAFE structure, while part B is a NBR innovation

Same frequency as the ECB SAFE

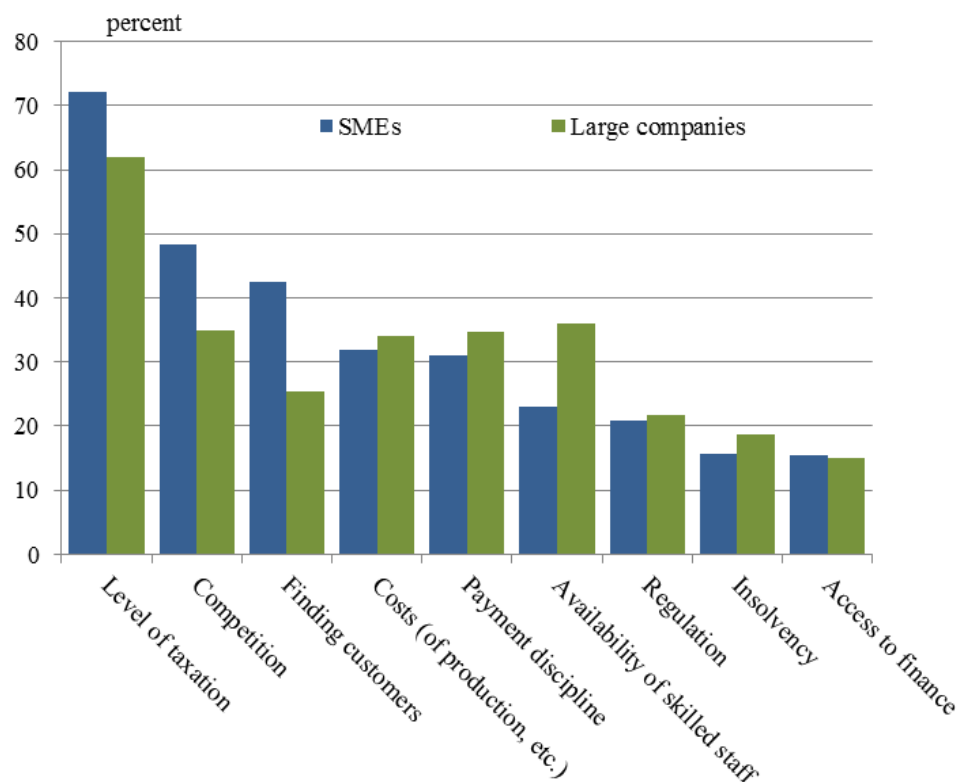
# The most pressing problems for NFCs



*Note :* percentage of companies which rated the problem as pressing (grades 1 and 2 on the grading scale from 1-the most pressing problem, to 5-the least pressing problem)

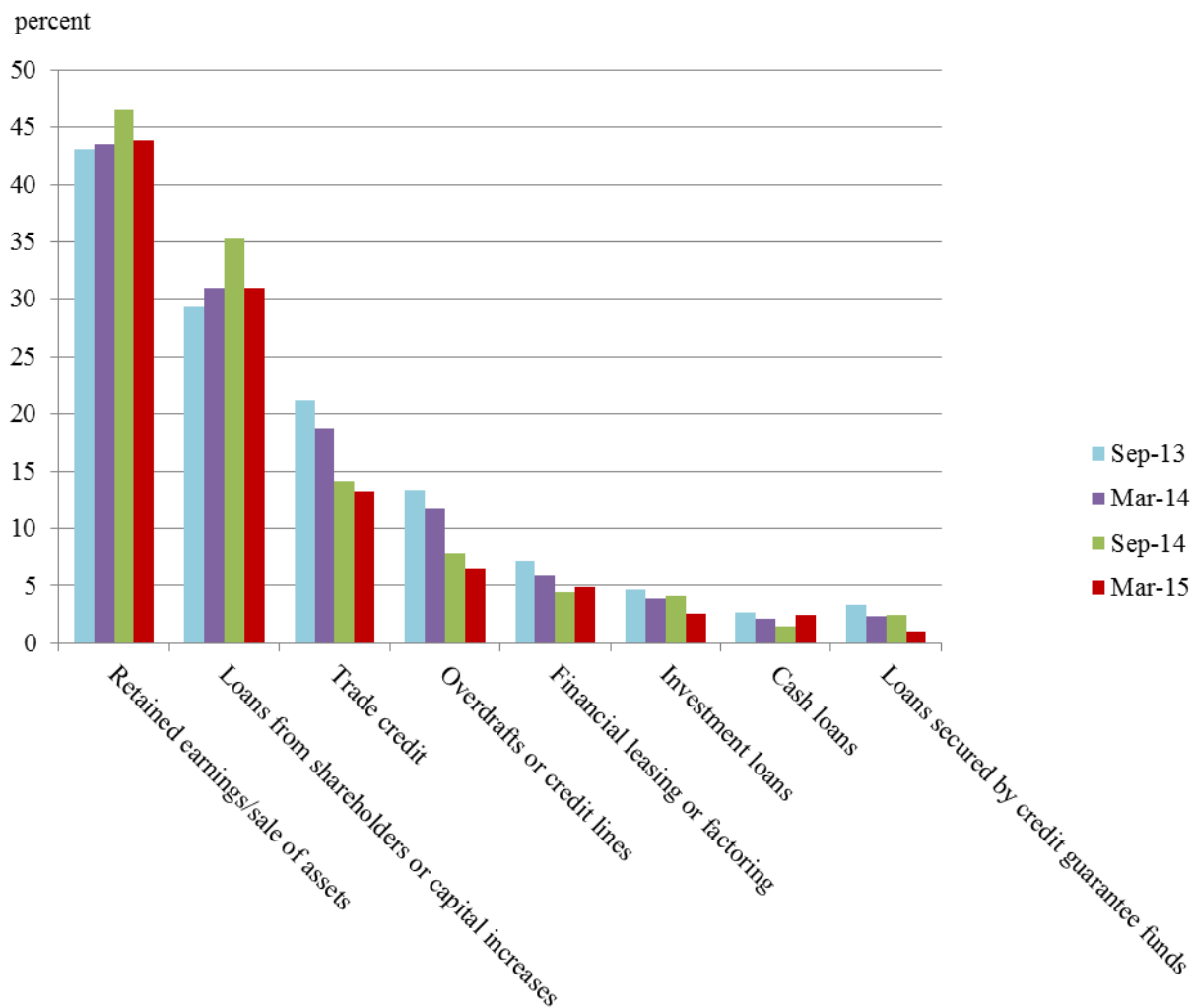


# The most pressing problems for NFCs, by size, in October 2014 - March 2015



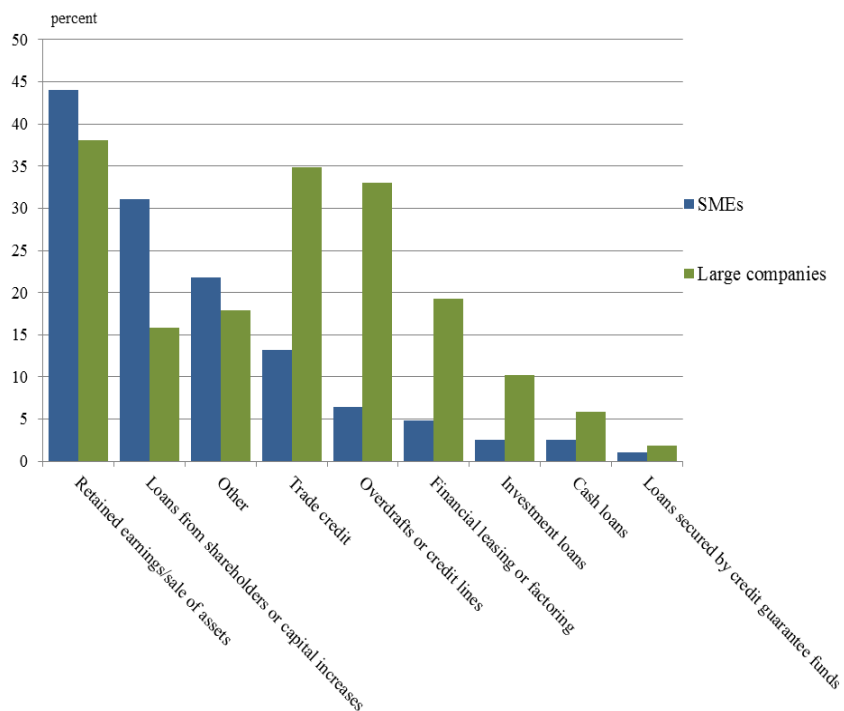
*Note* : percentage of companies which rated the problem as pressing (grades 1 and 2 on the grading scale from 1-the most pressing problem, to 5-the least pressing problem)

# Main sources of financing for NFCs

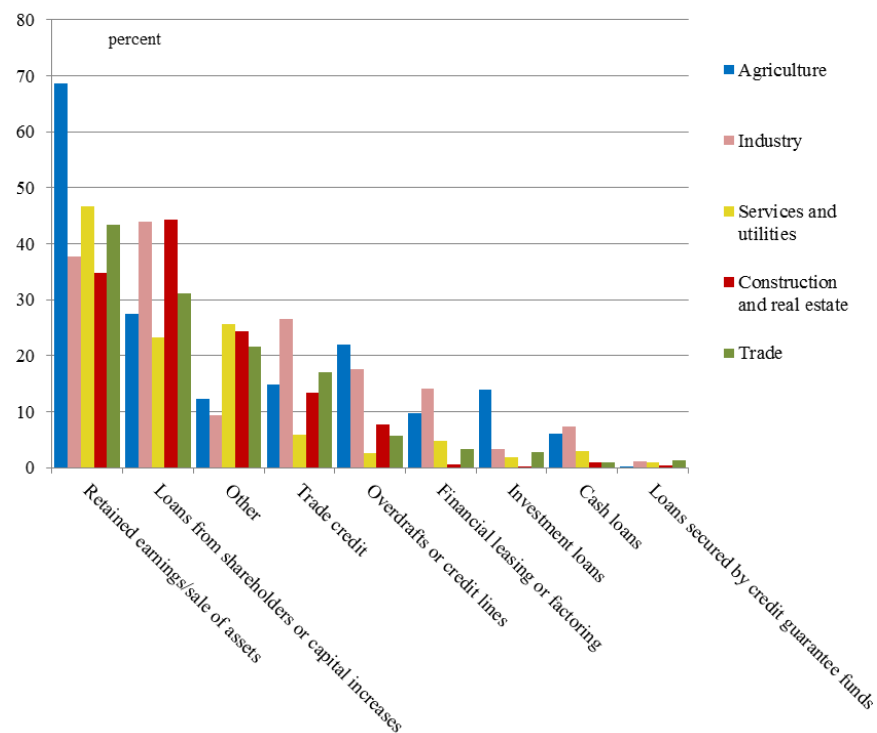


# Main sources of financing for NFCs, in October 2014 - March 2015

By size

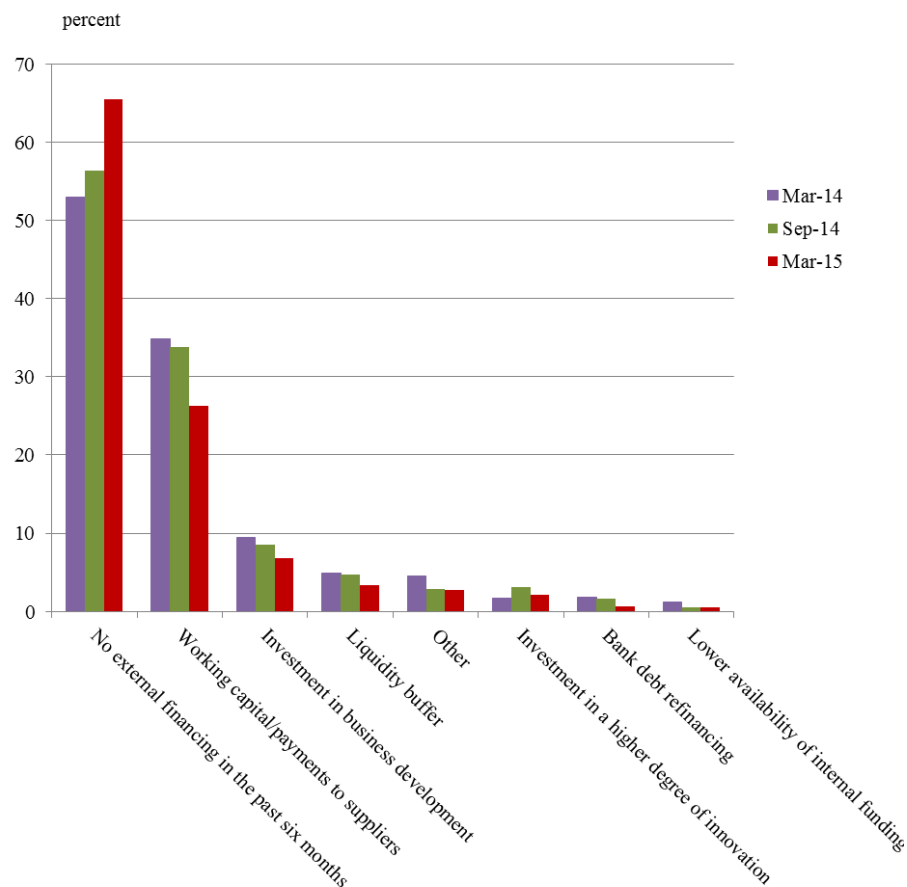


By economic sector

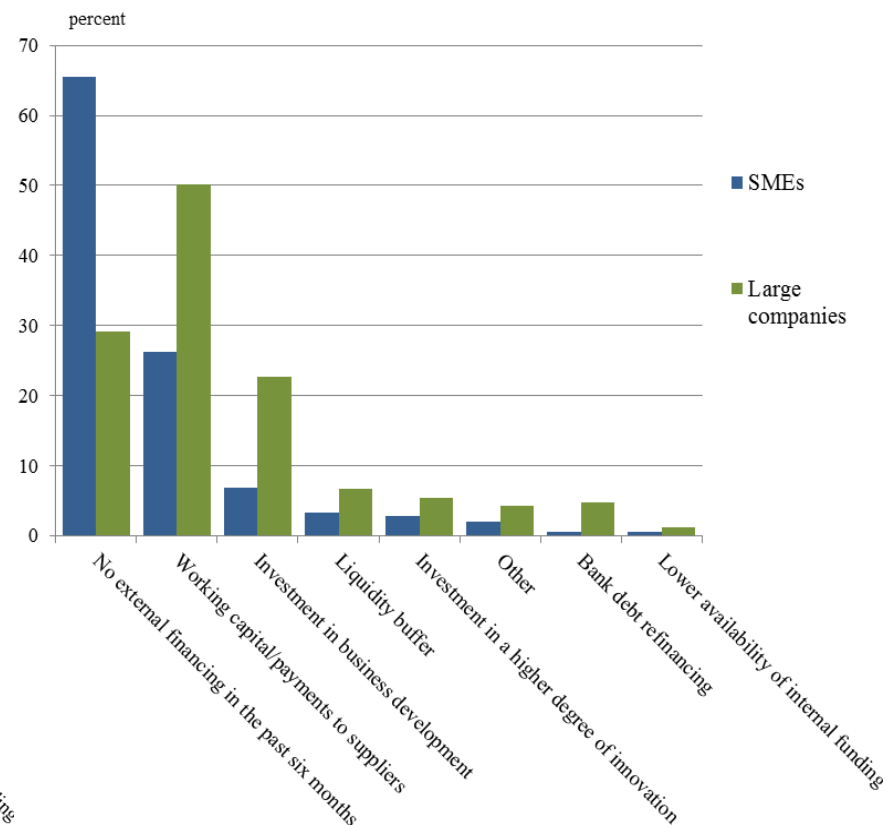


# The destination of external financing of NFCs

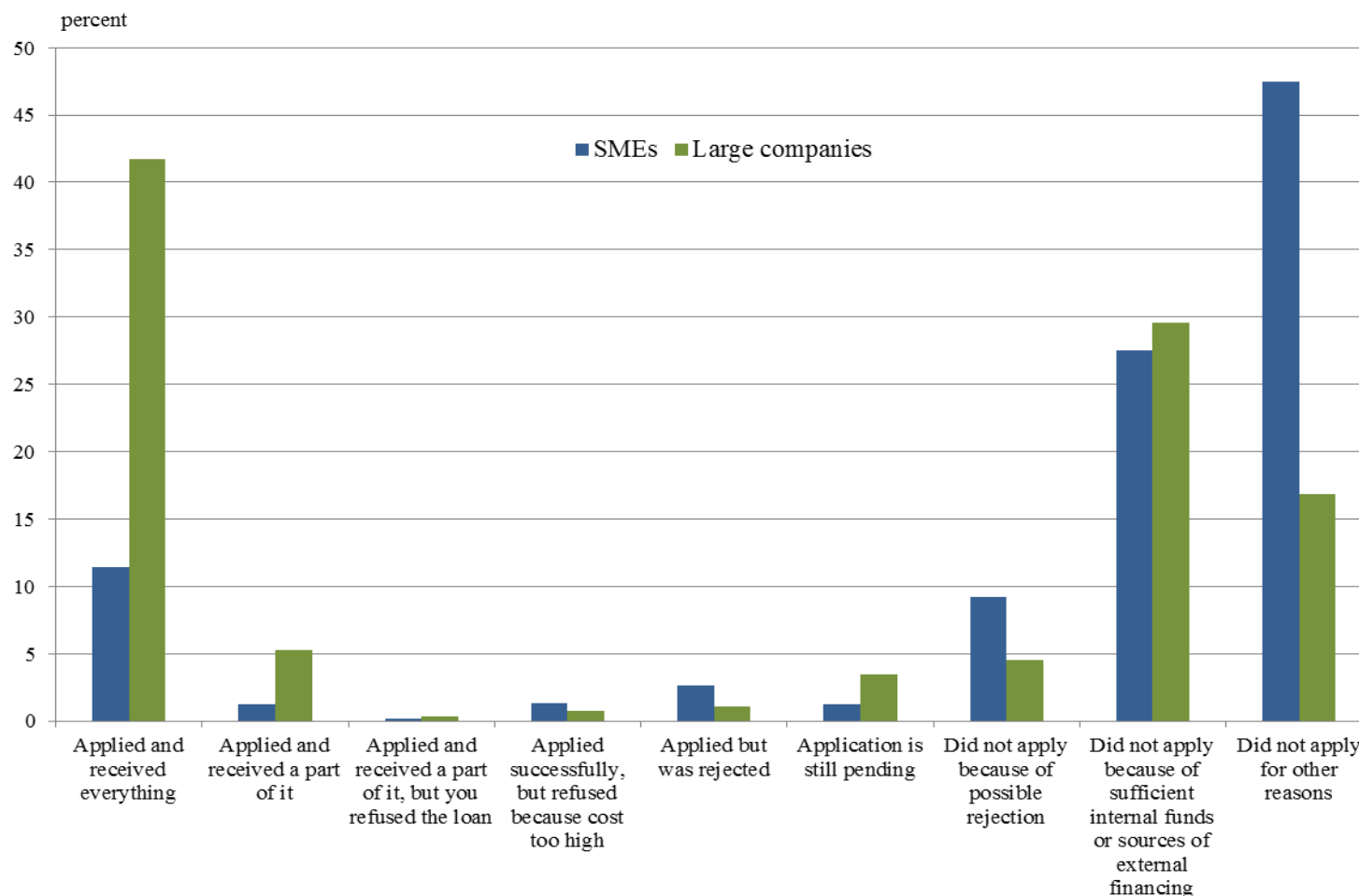
## Historical development



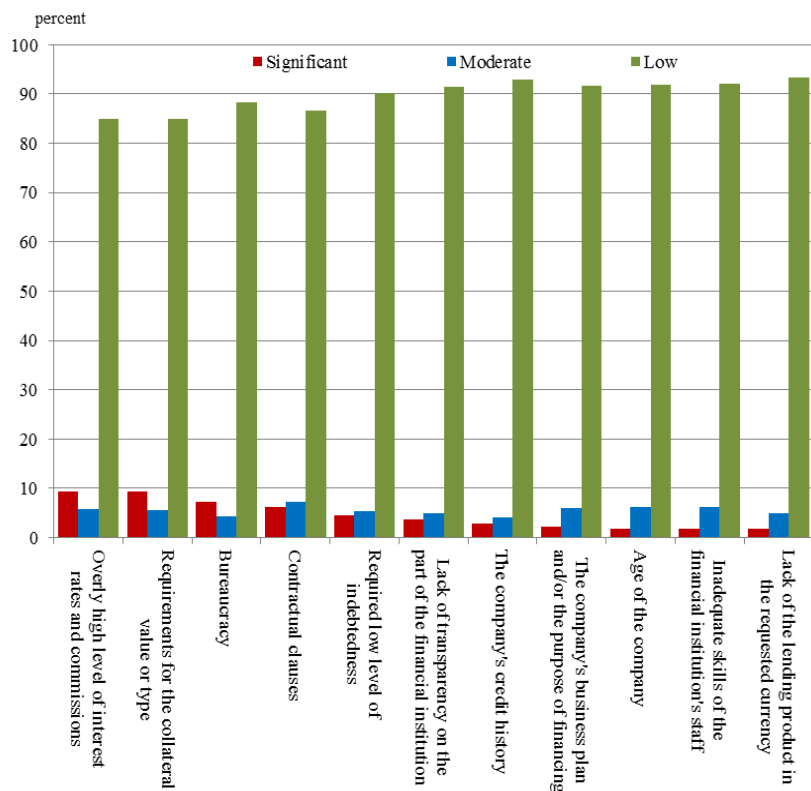
## By size, in October 2014 - March 2015



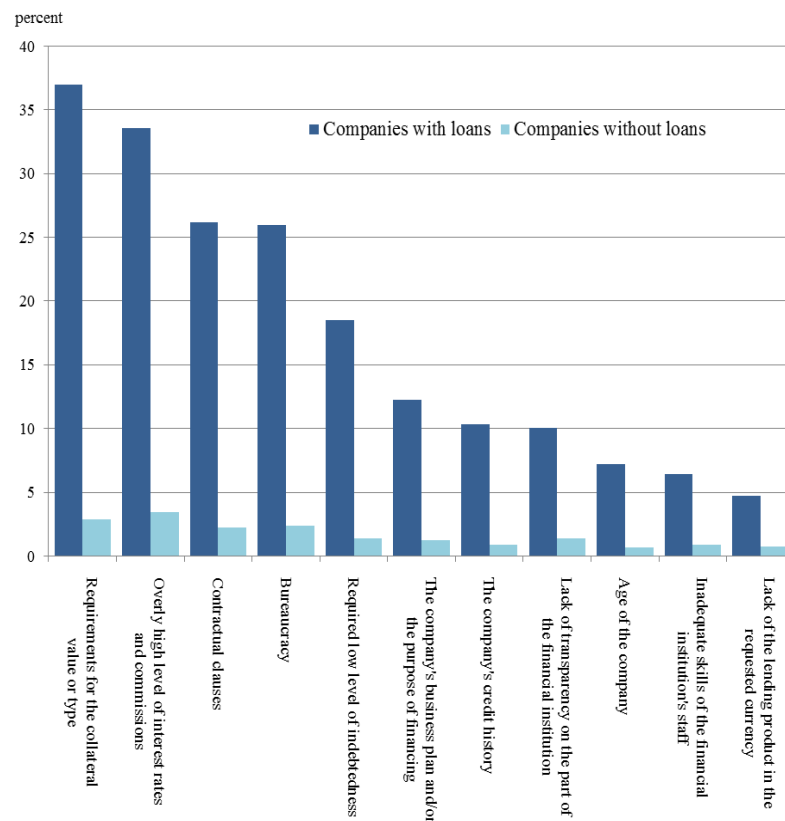
# NFCs rate of success in accessing finance from banks and NBFIs, by size, in October 2014 - March 2015



# The main difficulties faced by NFCs in accessing financing from banks and NBFIs, in October 2014 - March 2015



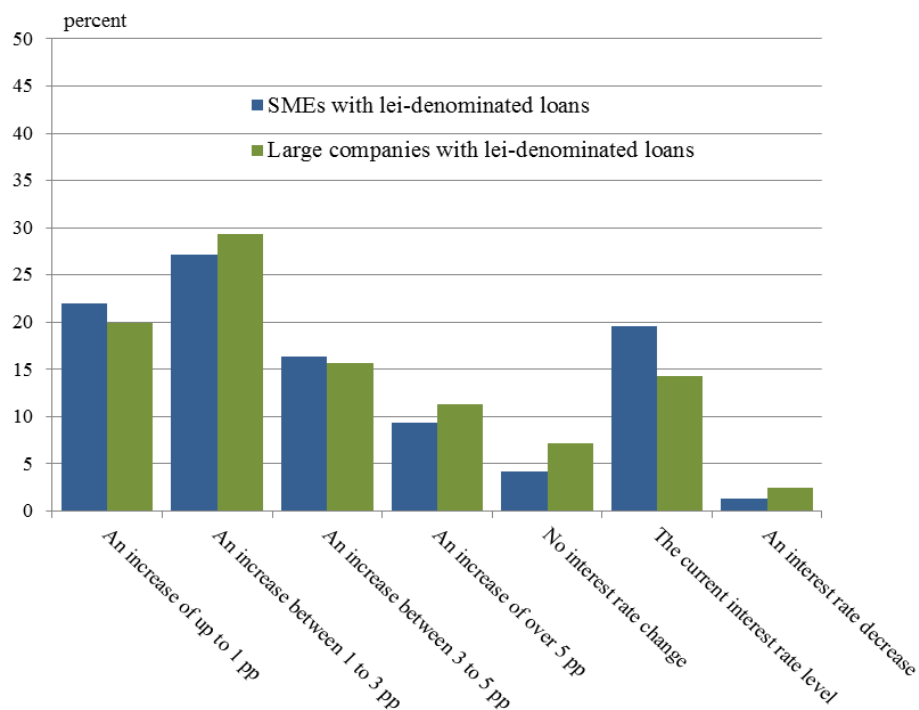
*Note:* percentage of companies which rated the obstacle on a grading scale from 1-significant obstacle, to 5-insignificant obstacle, thus significant: grades 1 and 2; moderate: grade 3; insignificant: grades 4 and 5



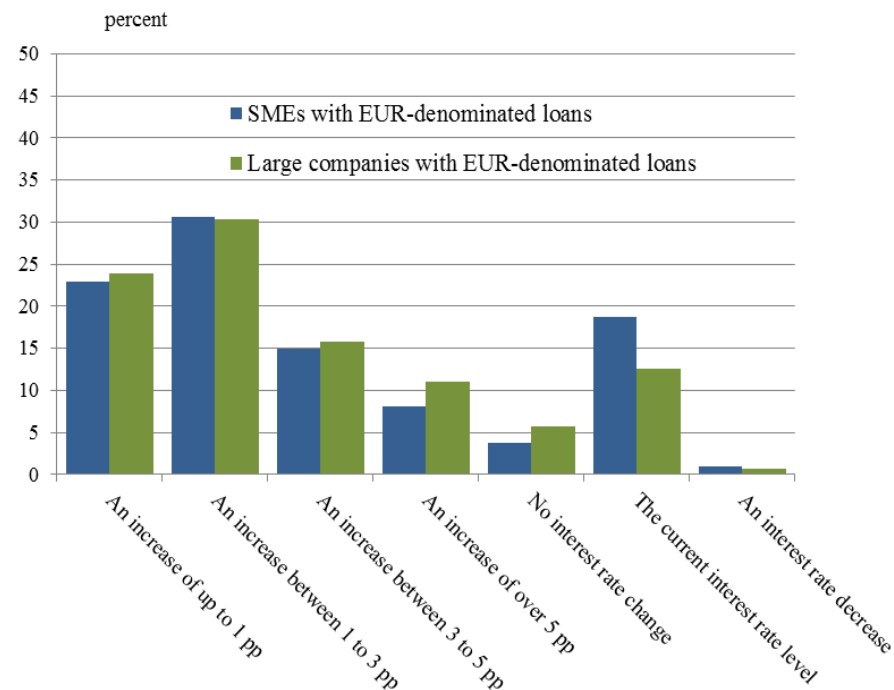
*Note:* percentage of companies which rated the obstacle as significant (grades 1 and 2 on a grading scale from 1-significant obstacle, to 5-insignificant obstacle)

# NFCs' perception of potential adverse interest rate developments, in October 2014 - March 2015

Interest rate developments for  
LEU denominated loans, that  
would affect the NFCs



Interest rate developments for  
EUR denominated loans, that  
would affect the NFCs



# 3. Systemic risk identification

## Systemic Risks Survey (CRS)



# CRS overview

Launched in Q2/2014

Quarterly frequency

Sent to the top 10 largest banks (by asset size)

Focus on potential systemic risks, their effects on the banking sector, and banks' capacity to manage them

Useful for domestic risk assessments required by the ESRB ATC bottom-up questionnaire

# Systemic risk in CRS











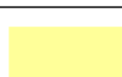





- ***systemic risk*** is defined as "a risk of disruption in the financial system with the potential to have serious negative consequences for the internal market and the real economy"

(Regulation (EU) no. 1092/2010 of the European Parliament and of the Council, November 24th 2010)

# Systemic risk dimensions

- Risk rank/ importance
- Expected likelihood
- Potential impact on the financial system
- Bank's ability to mitigate the risk

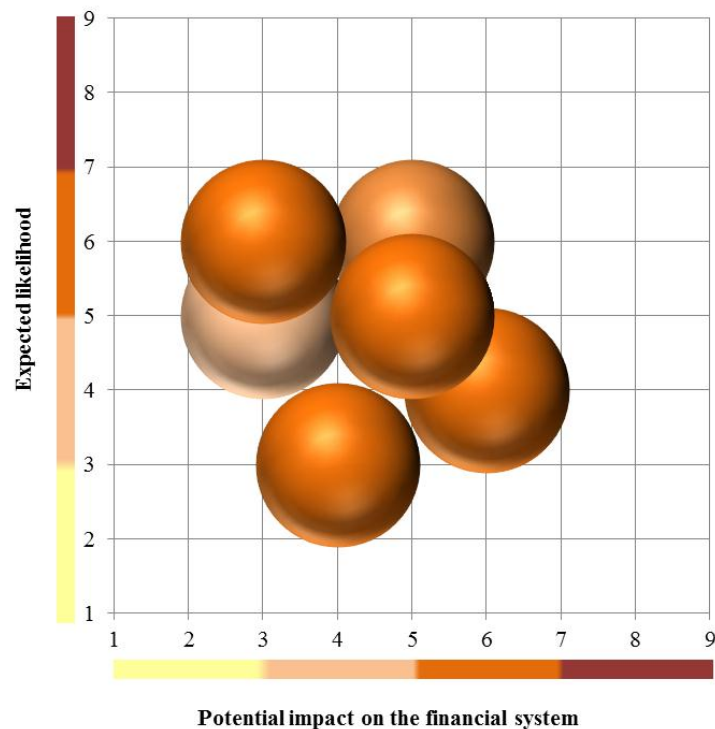
# Systemic risks covered by the June 2015 survey (1)

No.*	Systemic risk in the financial system	Current level of risk**	Difficulty in managing the risk***
Risk 1	Potential adverse consequences of a possible Greek exit from the euro area		
Risk 2	Persistence of a modest lending activity, which could determine a low profitability level		
Risk 3	Risks related to household indebtedness sustainability		
Risk 4	Credit risk associated to the stock of foreign currency exposures to NFC and HH sectors		
Risk 5	Risks generated by direct or indirect concentration of exposures related to the evolution of real estate prices		
Risk 6	Contagion risk stemming from the parallel banking system (non-bank financial institutions, investment funds, money market funds)		
	severe/ very difficult to manage systemic risk		
	high/ difficult to manage systemic risk		
	moderate/ manageable systemic risk		
	low/ unproblematic systemic risk		

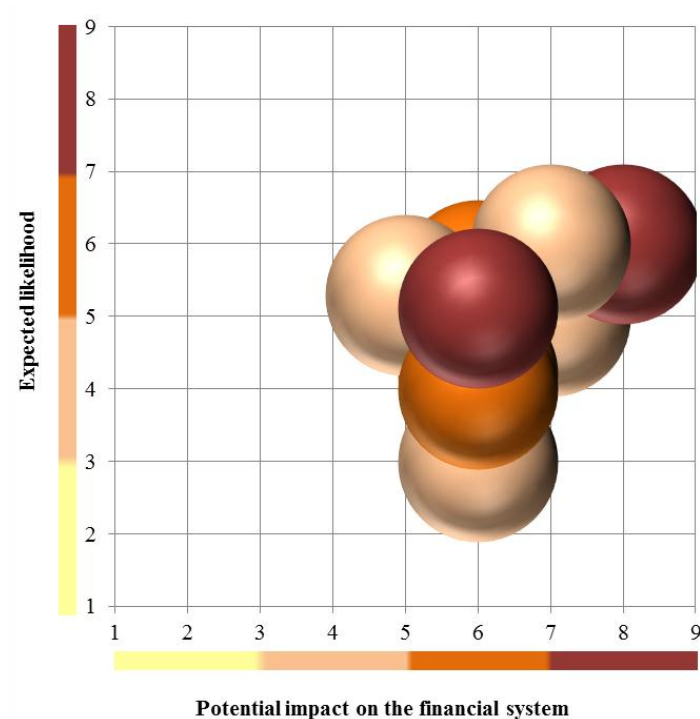
Note: \* The order in which the risks are presented is given by the importance of the risk as graded by banks. Risks 1 and 2 were also included in the previous questionnaire. \*\* The colour indicates the present level of the risk, taking into account its impact on the banking sector in case of materialization. \*\*\* The colour indicates the current level of the difficulty to manage the risk by credit institutions.

# Systemic risks covered by the June 2015 survey (2)

R1: Potential adverse consequences of a possible Greek exit from the euro area

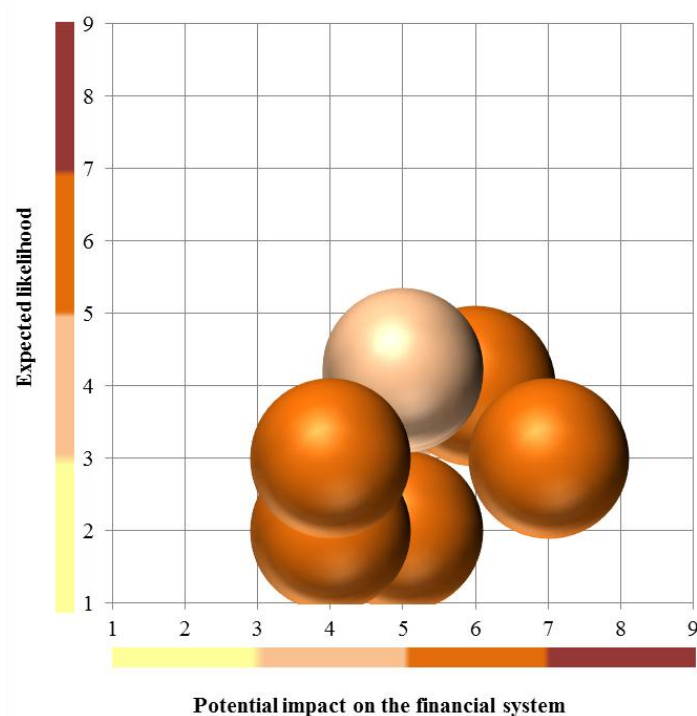


R2: Persistence of a modest lending activity, which could determine a low profitability level

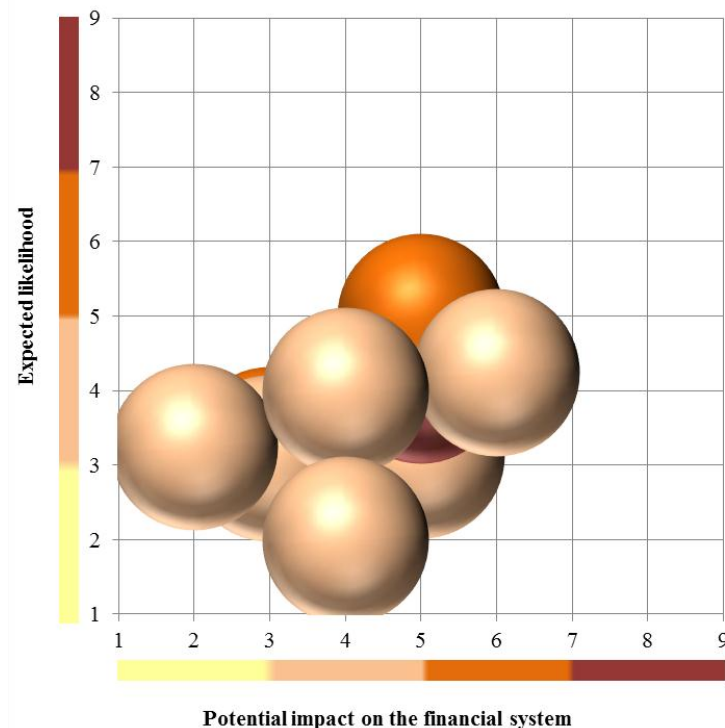


# Systemic risks covered by the June 2015 survey (3)

R3: Risks related to household indebtedness sustainability

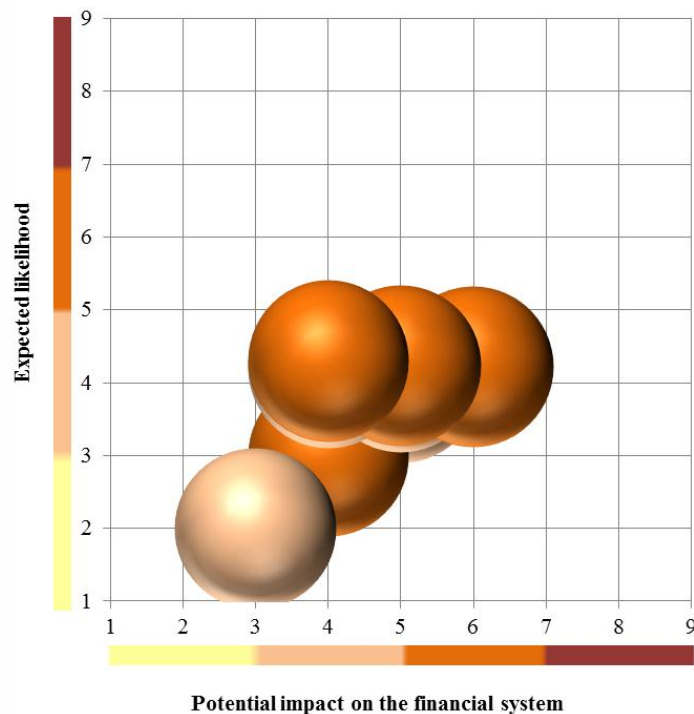


R4: Credit risk associated to the stock of foreign currency exposures to NFC and HH sectors

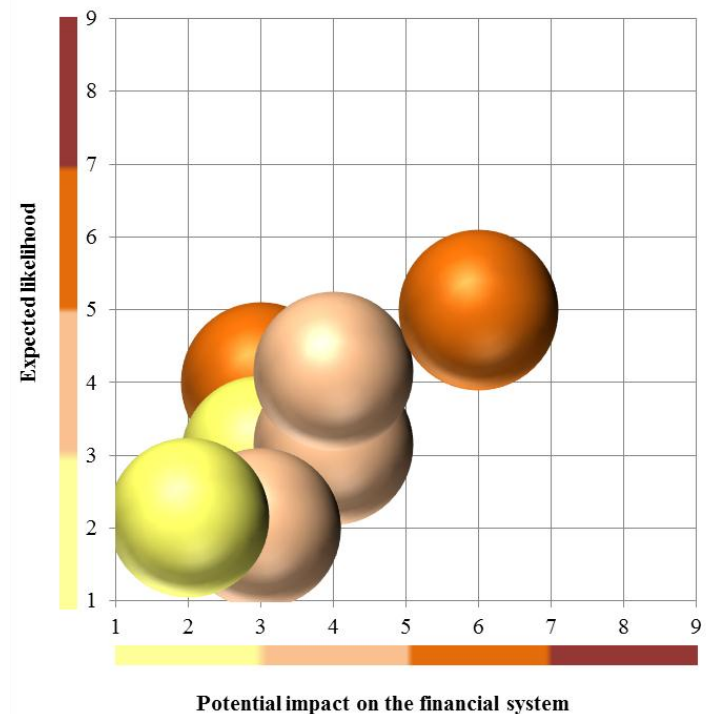


# Systemic risks covered by the June 2015 survey (4)

R5: Risks generated by direct or indirect concentration of exposures related to the evolution of real estate prices



R6: Contagion risk stemming from the parallel banking system



# Conclusions

- Surveys have proven effective for NBR policy decisions in the last years, as they:
  - signaled important patterns in credit supply and credit risk of the Romanian banking system in the aftermath of the financial crisis
  - shed light on reasons and mechanisms that put in motion credit demand
  - quantified domestic banks' perception of the most important systemic risks



