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SHARE OF LOANS TO HOUSEHOLDS IN NON-PERFORMING LOANS OF THE BANKS IN MACEDONIA

Abstract

Banks as key financial institutions have the greatest importance in the financial system, its main function is the transformation of deposits in funding. Activities pursued by modern banks often include both banking and non-banking services. For sound monetary policy is necessary to take-over key reforms and restructuring of the banking system. The banking system in the Republic Macedonia has possibilities for increasing and improving the efficiency of the banks, since the index of household loans / GDP according to we are among the last countries in transition countries. Unlike the banking systems of transition economies, the performance of the Macedonian banking system has been a trend in the improvement of banking processes and procedures. Depending on all types of loans contained in the range of products offered by banks and their functionality depends on the growth and profits of banks since the credit activity is one of the basic functions and carries the greatest profitability for banks. Borrowers apply for a loan may have various purposes. Banks create products to meet the different needs of different users.

Key words: bank, loans, households, non- performing loans.

JEL classification: G21

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1. NON-PERFORMING LOANS AND CLASSIFICATION OF BORROWERS

According to the Decision (Official Gazette No. 21 / 02- revised text) of the Central Bank in laying down and classified according to their risk balance sheet and off balance sheet assets, which are required in determining the loans classified in risk categories B, C and D in the case of outstanding matured or fully matured obligations (interest, annuity or full principal) that stems from ongoing personal accounts, payment (debit and credit) cards, short-term and long-term credit transfer for a period exceeding 90 days from the date of maturity of accounts for bad and doubtful debts as non-performing loans.

After their transfer it requires analysis to monitor the collection of such disputed claims, to calculate interest, to align payments, to perform calculations and prepare reports to finally liquidate suspiciously claim or if they charge disputed due receivables (due installments interest) return to regular accounts or to respect the agreement on rescheduling of the loan. Maturity of the loan is the day when the amount of principal and all accrued fees and interest should be covered by the loan.

After the transfer of receivables, after balancing the credit party full habitual condition is transferred to the account of bad and doubtful debts with full and complete documentation in order processing trial. If the loan is secured by a promissory note used all tools for payment and make contact with the guarantors, if any, then inform the borrower from the consequences of the process of enforcement, with ultimate payment of the claim and avoiding court proceedings, and court costs.

Total claims classified in the riskiest category “D” of a bank customer that spent two consecutive quarters is obliged to reenter to the account that will recorded claims with a degree of probability of recovery.

2. THE CASE OF NON-PERFORMING LOANS OF REPUBLIC OF MACEDONIA

Banks' lending activity results in wearing the most profitable solutions, but credit activity if placed unsecured and forcing an increase in credit activity only to be ahead of competitors and maximize profits is the

most common cause of bankruptcy of banks. Thus non-performing loans in credit portfolios of banks are increasing and affecting adversely working efficiency.

The biggest problem of Macedonian banks, based on information from the Central Bank, is a high credit risk, which occurs as a result of weaknesses in the full application of policies and procedures and internal control system. Mainly, the credit risk is manifested by inadequate identification systems, quantification and its monitoring.

Riskiness of banks and their dexterity in dealing with risk, Central bank has determined by CAMEL's methodology that despite the risk, analyzes banks' assets, capital adequacy, profitability, liquidity and market risk. According to this methodology, the banks get the grades from 1 to 5. These analyzes also give information for the degree of harmonization of regulations on banks and their operations with the legislation, respecting the decisions taken by the Central Bank, particularly respecting decisions for quantification of the risk of errors and so on.

The Macedonian banks are most exposure on credit risk primarily due to weakness in credit analysis, high concentration of credits in few companies and consequently low diversification of risks. Then high level of foreclosed mortgages which are great burden on banks. All these indicators represent a consequence of the accumulation of bad loans in operation.

Credit risk has most important role and is outstanding factor that affect performances of Macedonian Banks, which is result of dealing with traditional business model – collecting deposits from the domestic private sector and their placement in form of credits intended for domestic non-financial sector.

The range of credit products for households in the period after the independence of Macedonia was relatively weak and with poorly developed market. In the period of privatization and transformation of ownership structure it is characterized by applying the conservative monetary policy by the Central bank, mostly due to a high level of non-performing loans in the portfolios of some biggest banks.

After a difficult period and economic stabilization, banks gradually began to build a system for dealing with risks and to promote and expand the supply of wide range of credit products and reduce non-performing loans. From 2004 until 2008 the credit growth in the country is characterized by double-digit annual growth rates, and the share of non-performing to total loans was marked by historic minimum rate of

6.6%. But the picture is beginning to change with the onset of the financial global crisis in September 2008, after the non-performing loans have continued growing. In recent years, the years after the crisis the share of non-performing loans to total loans increased almost twice and at the end of September 2015 was 11.7%, which is twice the rate recorded in 2008. The situation is similar with the countries in the region and European economies, sometimes even more dynamic and intensity. In line with MMF and WB statistics at the end of 2013 developed economies have significant fall in economic growth and non-performing loans reached almost 90% of total credits in Ireland, or near 80% in Italy and approximately 30% of non-performing loans in average for the rest developed EU countries and USA. The situation with non-performing loans in developing countries is much worse as a result of their weak and vulnerable economies. In average non performing loans reached up to 40% of total loans, except Turkey, where non-performing loans were up to 5% of total loans. Banking sector of Serbia, Albania and Montenegro was most affected by financial crisis and non performing loans reached almost 70% in Serbia and near 60% in Albania.

Non-performing loans are significant category of research, that brings losses for banks and increased financing costs. Nonperforming loans reduce economic growth, increase the level of unemployment, affect macroeconomic policies and restrict credit supply to the private (non-financial) sector where banks play a major role in the financial market. Slower credit growth in recent years is around 9% versus rapid growth of non-performing loans. In the period before the economic crisis credit growth amounted up to 30%. Theoretically, the high share of non-performing loans is an indicator of the occurrence of financial crises and destabilization of the financial sector. Dealing with nonperforming loans by Macedonian banks, is almost reduced to zero as it reported in the financial statements.

Potential losses and unfavourable effects arising from the amount of non-performing loans on capital positions of Macedonian banks are quite limited. High concentration of non-performing loans in the banking system deteriorate the quality of bank's portfolio and unfavourable affect their portfolio particularly when their portfolio is composed by certain number of customers and when their creditworthiness is seriously deteriorate.

In the past few years the share of non-performing loans given to domestic companies in the total amount of non-performing loans is 85%.

Loans to sectors wholesale and retail, manufacturing industry and construction accounted for the majority of non-performing loans. Traditional high concentration in the loan portfolio of the corporate sector accounted for 60% of the total amount of non-performing loans, and this percentage is composed fifty largest amounts of loans granted to legal persons. In dysfunctional household loan portfolio accounted for most of the loans for personal consumption and resulted in relatively lower amounts compared to the loan portfolio of the corporate sector. Macedonian banks as long as there is the slightest possibility of recovery is not using the opportunity to write off the claims but use all collateral given in loan approval.

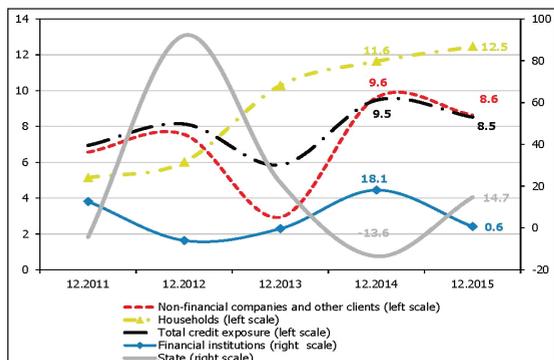
Such an approach to non-performing loans keeps them very long in the balance sheets of domestic banks, and it can determine by analysing the age structure of these loans. Besides activation of the instruments given as collateral for the loans, the opportunities that are available to domestic banks but are less commonly used is secondary trading with non-performing loans.

In the past year despite political turmoil, unstable domestic and external environment, the banking system maintained its stability and resilience to shocks. Amid slow recovery of the global economy, but solid economic growth in the country, banking intermediation between savers and borrowers continued to strengthen, but slowly

Assets, loans and deposits, on an annual basis, rose by 5.8%, 9.7% and 6.7%, respectively (2014: 8.3%, 9.9% and 10.7%, respectively). Environment in which banks worked in the previous year was characterized by the debt crisis in Greece, the political turmoil in the country, low interest rates have limited opportunities for higher growth in the sources of funding for banks. The most significant risk to the banks or credit risk does not cause increased concern in 2015.

The slower growth of nonperforming loans in solid growth in bank lending contributed to the reduction of the share of non-performing loans to total loans at the end of 2015, which after several quarters falls below 11%, and reduced to 10.8%. Non-performing loans in total loans to the corporate sector at the end of 2015 was 15.2%. The capacity of the banking system to absorb unexpected credit losses is increasing and requires more attention be paid and restructured loans because their condition is impaired in previous years, with growth of nonperforming loans, a decrease of standard loans.

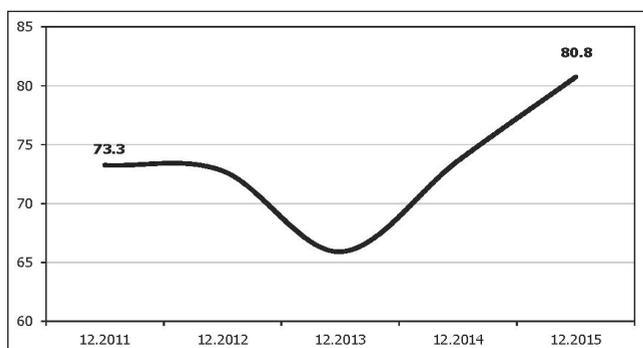
Chart 1: Annual growth of sectors, credit exposure to all, by sector in %



Source: http://www.nbrm.mk/WBStorage/Files/Regulativa_Annual_2015.pdf accessed on 15 July 2016

In 2015, the total credit exposure of the banking system grew by 36,084 million or 8.5% to 459,658 million denars. Growth in 2015 is almost equally distributed between households and non-financial companies. The analysis of credit risk in this section refers to credit risk arising from both non-financial sectors, households and non-financial companies.(see Chart 1)

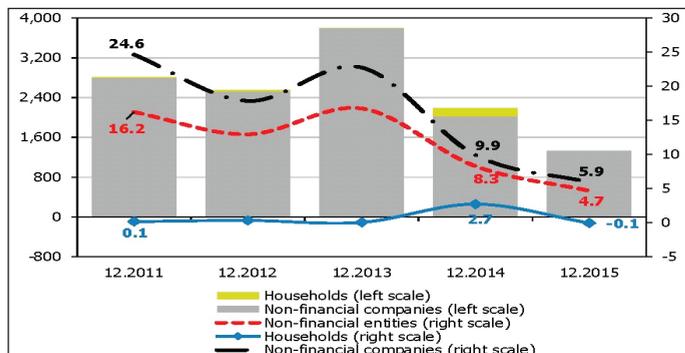
Chart 2: Share of the large exposures to nonfinancial entities in the banks' own funds



Source: http://www.nbrm.mk/WBStorage/Files/Regulativa_Annual_2015.pdf accessed on 15 July 2016

Receivables from non-financial companies registered a high level of concentration in the credit risk. Share of large exposures in banks' own funds has an annual growth as of 31.12.2015 was 80.8% (See Chart 2)

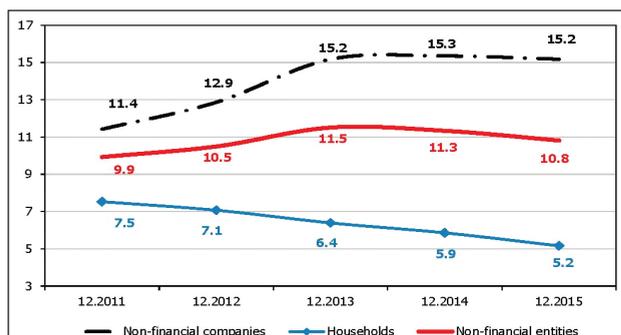
Chart 3: Annual growth in the non-performing loans for non-financial entities (in millions denars and in %)



Source: http://www.nbrm.mk/WBStorage/Files/Regulativa_Annual_2015.pdf accessed on 15 July 2016

The annual increase in non-performing loans to non-financial entities in the portfolio of banks is characterized by a reduction or improvement over previous years. Non-performing loans in bank portfolios of banks in 2015 decreased to 4.7%, which is also the lowest rate since 2008. The trend of non-performing loans mainly depends on the participation of non-performing loans to non-financial companies is decreasing in 2015 and is 5.9%. Loans of households still are relatively small and stable, decreased in 2015 by 0.1%.(see Chart 3).

Chart 4: Share of non-performing to total loans (for non-financial entities) in %



Source: http://www.nbrm.mk/WBStorage/Files/Regulativa_Annual_2015.pdf accessed on 15 July 2016

Non-financial companies represent the growth of total non-performing loans and in 2015 the growth rate was 10.8%. The majority or 89.2% of the portfolio is in regular repayment. The trend in the share of non-performing to total loans recorded a slight decrease, which is due to the faster growth of total nonperforming loans, but it is twice higher than in the crisis period of 2008. (see Chart 4)

Expanding the range of banking products and increase the efficiency of banking is a trend to which Macedonian banks aspire to reach the level of developed economies in transition. Improvement of systems for handling credit risk not only in the analysis of credit requirements, but in the whole life process of the loan is the best way to deal with a dysfunctional status of borrowers.

Careful reprogramming of claims and change of conditions agreed with their adaptation to the conditions favorable to the borrower that will yield positive results, can maintain or reduce the growth of non-performing loans.

Conclusion

Banks as key financial institutions have the greatest importance in the financial system. Although the most important functions of banks' are credit and deposit function, activities of modern banks besides traditional spread to a number of non-banking services. For sound monetary policy is necessary to take key reforms and restructuring of the banking system. The banking system in the country has possibilities to increase and improve the efficiency of the banks, because according to the index of household loans / GDP, we are among the last countries in transition countries. Unlike the banking systems of transition economies, the performance of the Macedonian banking system has been a trend in the improvement of banking processes and procedures. Depending on all types of loans contained in portfolio of products offered by banks and their functionality depends on the growth and profits of banks since the credit activity is one of the basic functions and carries the greatest profitability for banks.

More intensive lending by banks by easing the conditions for obtaining credit, lower interest rates and diversified supply of credits ranging upwards share of loans in GDP. GDP / Loans relate directly proportional, ie if we have economic growth and increased lending activity.

From the research component if the trade deficit has an impact on retail lending, then observed correlation, or relatedness between consumer credit and import of a wide and personal consumption. Correlations inflation - consumer loans are not exhibits significant connectivity and interdependence.

Credit risk is highly determined by the approvals of loan applications, increased credit activity brings greater risk, which if not controlled can only worsen the loan portfolio and to increase the percentage of non-performing clients. Credit risk associated with currency and liquidity risk.

Domestic drivers of growth and resilience of the economy, despite the unfavorable environment that prevails in the country, however, resulted in a positive trend, ie accelerated pace of growth of GDP, the credit activity of the banking system.

Management of banks with dysfunctional portfolio and their reduction is a result of constant monitoring and control of bank officials primarily. As previously well conducted credit analysis when approving the application and consideration of the potential hazards, which in turn depends on the training and skills they possess or to teach clerks, better results would have been if banks invest in their staff, upgrade as well as continuous improvement of the working process. The analysis of the loan portfolio shows that the dominant category in the portfolio is category „A,, which approve credit applications.

Compared with countries in the region according to the indicator households' debt / GDP we can conclude that the indebtedness of the population in Macedonia is higher only than the indebtedness of the population in Serbia, Romania and Hungary.

Nonperforming loans reduce economic growth, increase the level of unemployment, difficult macroeconomic policies restrict credit supply to the private sector where banks play a major role in the financial market.

Expanding the range of banking products and increase the efficiency of banking is a trend to which Macedonian banks aspire to reach the level of developed economies in transition. Improvement of systems for handling credit risk not only in the analysis of credit requirements, but in the whole life process of the loan is the best way to deal with a dysfunctional status of borrowers.

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