

THE DEBIT AND CREDIT CARD MARKET IN ROMANIA. A MACROECONOMIC PERSPECTIVE

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Abstract:

Credit is one of the core elements of a modern economy and easy access to credit is a hallmark of the development of the financial sector in a country. Credit cards have been in use, in many places of the world, for more than 60 years now and, in a lot of countries, having a credit card is the norm for most people. This, however, has not been the case for Romania where the market penetration of credit cards has been very limited at best. In this paper we aim to provide an overview of the debit and credit card market in Romania. We avoid focusing only on credit cards because of their limited scope at the moment of writing this paper and instead would like to determine whether they are not used because Romanians do not want to take on credits or because it is not easy to use cards as a means of payment. The paper is structured in two parts. In the first section we provide a presentation of the banking sector in Romania and how it has been impacted by the financial crisis of the last couple of years. This is followed up with a presentation of the debit and credit card market, in which we discuss both the number of transactions, by type and card, and the value of these operations. Our tentative conclusion is that the main limit on this market is the ease of use which, while improving, has not yet reach its potential. A more in-depth research, using methods specific to time-series analysis, would have been preferable, however the data series are too short at the moment and the results would have been questionable.

Keywords: Credit card; debit card; credit market Romania;

JEL classification: E51

1. Introduction

During the past two decades, the importance of consumer finance for the private sector has grown significantly and with it so has the competitiveness of the banking sector, with new financial products constantly being put forward on the market (Mitrică, 2005). At the same time, the importance of credit and debit cards, as a means of payment and of short-term financing cannot be debated (Hayhoe, et al., 2000).

The purpose of this study is to present a general picture of the debit and credit card market in Romania, in the aftermath of the Great Recession of the late 2000s. This is accomplished in two parts, first by presenting a general view of banking sector in Romania and following it up with a presentation of debit and credit card use in general, using macroeconomic data published by the National Bank of Romania.

2. Research focus and methodology

The purpose of this paper is to draw up an as clear as possible image of the credit and

debit card market sector in Romania. This objective is accomplished in two stages. The first one is a presentation of the banking sector in Romania and how it has fared, over the last couple of years, as a result of the economic downturn which has befallen the country. This is followed up with a presentation of the debit and credit card market in Romania and its evolution over the last couple of years. The analysis is based on public information available from the National Bank of Romania. A more in-depth analysis is not possible, at this time, using the publicly available data, due to the fact that we are working with time series data which is showing very strong signs of autocorrelation. The obvious solution would be to use techniques specific to time series analysis, however the available data goes back only to 2007 or 2008 and, as such, is insufficient for an adequate study.

3. A brief overview of the banking sector in Romania

In order to properly understand the context in which the market for credit and debit cards has developed over the past couple of years, it is necessary to have a clear image of the economy in general and the banking sector in particular and how they have changed during this period.

The economic situation in Romania, following the Great Recession of the late 2000s, has been difficult to say the least. During this time, most of the important macroeconomic indicators have taken a turn for the worse, thus GDP per capita (Anghelache, et al., 2013), foreign direct investments and the number of companies in the economy have fallen (Geamănu, 2012). The financial market has been affected as well with the number of investors dwindling, but, surprisingly, the value of the stocks has improved (Badea, 2012). The circumstances have not been amended by the reaction of the authorities who, in most cases, have had more of a passive role in situation, with the purpose of achieving certain quantitative objectives and not following through on qualitative changes (Socol, 2012).

The banking sector in Romania, under the close supervision of the National Bank of Romania, has had a fairly good evolution over the past couple of years. At a first glance it would seem that it was hit hard, with the number of credit institutions falling from a total of 40 in 2007 to 36 in July of 2015.

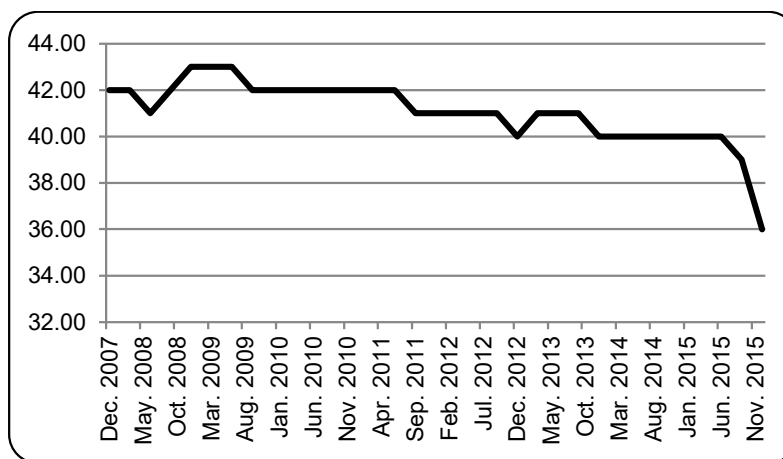


Figure 1: Number of credit institutions

Source: Created by the authors using data from the National Bank of Romania.

This evolution is not troublesome however, due to the fact that, during the same period, the value of the total assets owned by banks has increased, as can be seen from the figure below, which would indicate that even if there are fewer banks on the market, those which exist at the moment are stronger than before.

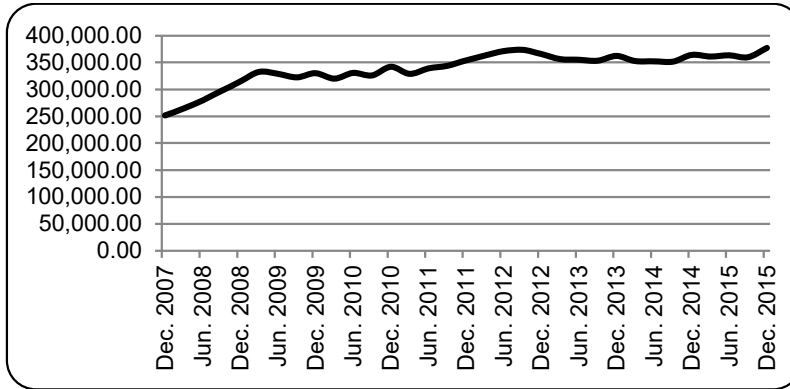


Figure 2: Total assets of banks in Romania

Source: Created by the authors using data from the National Bank of Romania.

This conclusion is corroborated by the solvency available in the banking system. With both the solvency rate and the leverage ratio being well above the 8% and respective 6% required by the standards imposed by the National Bank of Romania.

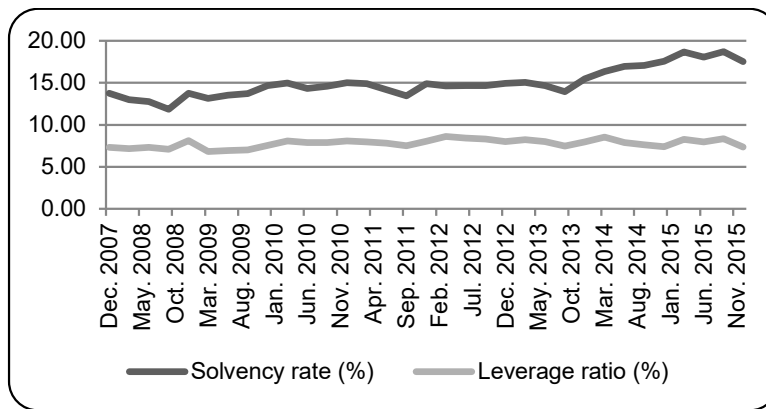


Figure 3: Bank solvency rate and leverage ratio

Source: Created by the authors using data from the National Bank of Romania.

During this period and in order to support the development of the economy, the NBR has promoted an expansionist policy with regard to money supply. This can be seen from the figure below which shows that the key interest rate has fallen significantly, from 7.5% at the end of 2007 all the way to 1.75% in May of 2015.

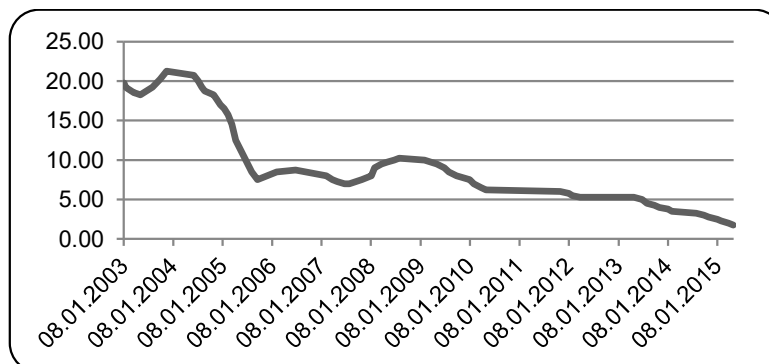


Figure 4: Key interest rate in Romania

Source: Created by the authors using data from the National Bank of Romania.

The only period which does not fit the same pattern as the rest is in the immediate aftermath in early 2008, when the key interest rate rose slightly. This was done in order to account for the slight dip in the solvency rate which occurred during that period and was a signal that a flight of capital from Romanian banks was possible. The measure had the desired effect and, immediately afterwards, the number of new deposits tripled whereas the number of new credits remained the same.

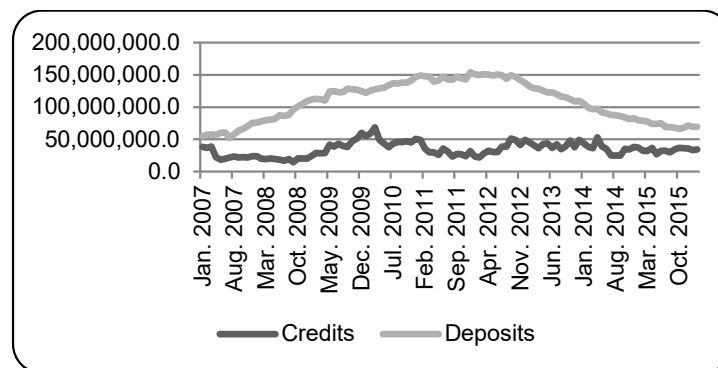


Figure 5: New deposits and credits in Romania

Source: Created by the authors using data from the National Bank of Romania.

Overall, the last couple of years have been a period of slow growth for the banking sector in Romania. A period during which significant returns have not been within their reach, but they have been able to buckle down and weather the storm in an appropriate manner and to come out the other side stronger than before.

4. The debit and credit card market in Romania

Credit cards have been in use for more than 60 years now (Garcia, 1980). Their introduction to Romania, however, has been a relatively slow process. The early 1990s were characterized by a process of massive reform of the financial sector, as it transitioned from a communist society and it adapted to the requirements of a capitalist way of doing things, as such, many banks were being privatized and restructured. At first, the number of banking services and products was very limited and the system was very rigid and slow to change (Caracotă, 2012).

In time, the banking industry has come to recognize the importance of the credit card as a means of increasing private financing, facilitated through different means of payment and reimbursed in installments, with or without interest. (Allen, et al., 2002).

In the following section we will look at the information concerning debit and credit card use, as published by the National Bank of Romania.

The first item that we need to take into consideration is the actual number of card in use and we can see their evolution in the graph below.

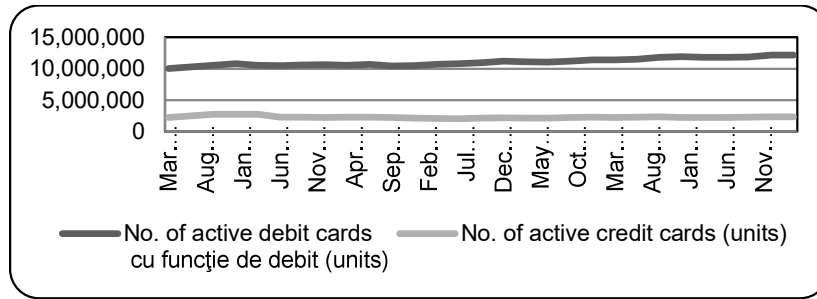


Figure 6: The number of active debit and credit cards in Romania
 Source: Created by the authors using data from the National Bank of Romania.

From it, we can notice that the number for both of them has increased over the entire period. Furthermore, the number of credit cards is significantly smaller than the number of debit cards. This leads us to think that Romanians, in general, prefer to avoid using a credit card and, should they require financing, they prefer an alternative method. The next four figures illustrate how easy it is to use a card, be it credit or debit, and how the number of different types of transactions has changed over the course of the years.

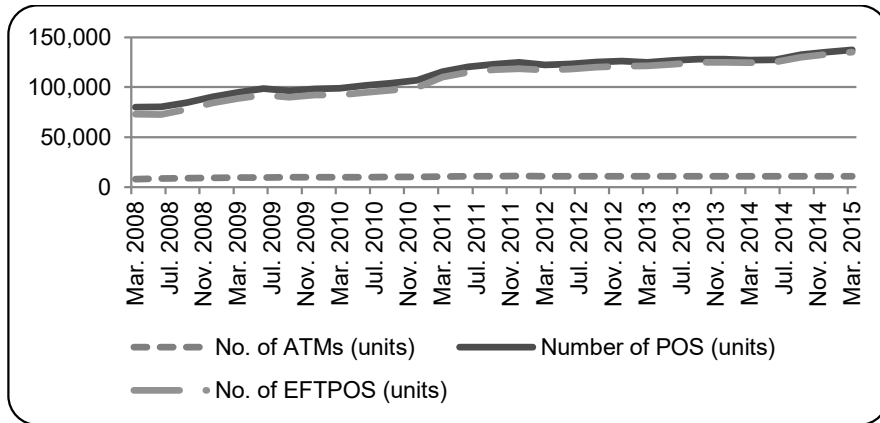


Figure 7: Ease of use for cards in Romania
 Source: Created by the authors using data from the National Bank of Romania.

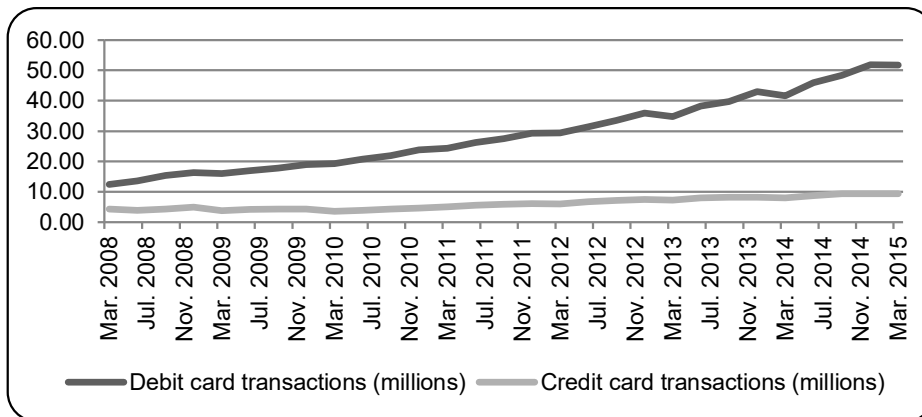


Figure 8: Number of debit/credit card transactions in Romania
 Source: Created by the authors using data from the National Bank of Romania.

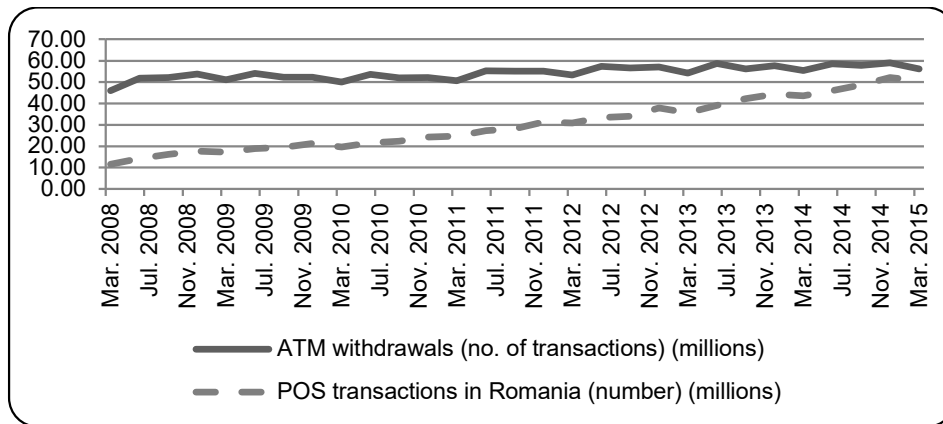


Figure 9: Types of debit/credit card transactions in Romania
 Source: Created by the authors using data from the National Bank of Romania.

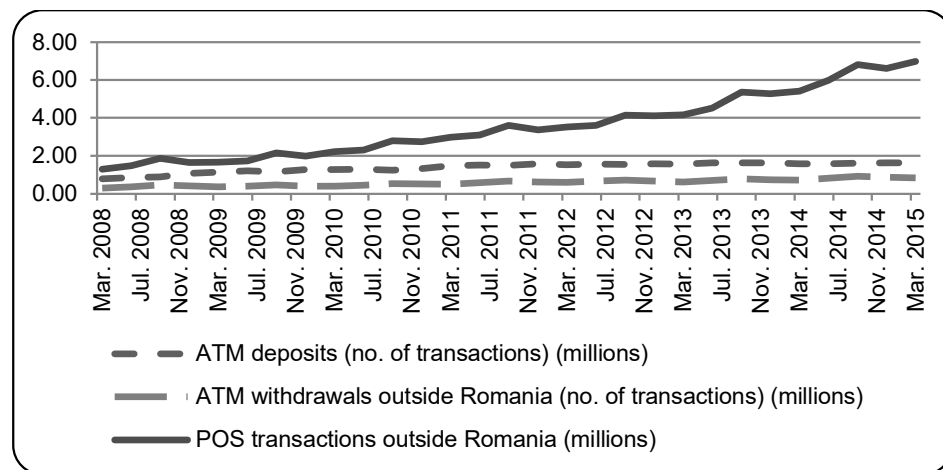


Figure 10: Types of debit/credit card transactions in Romania
 Source: Created by the authors using data from the National Bank of Romania.

First of all, we can notice from Figure 7 that it has become a lot easier to use a card as a payment method because the number of merchants who accept some type of card has almost doubled. What is interesting here is the fact that the number of ATM has remained almost the same.

The number of transactions using a debit or a credit card has also had an interesting, yet somewhat expected pattern. It is easy to notice that the number of transactions with a credit card has doubled between 2008 and 2015 and this would be significant, if it wasn't dwarfed by the transactions with debit cards which have grown six times. This comes to support the idea that Romanians prefer to stay away from credit cards.

As for what exactly are the transactions themselves, the data is very surprising. By far the most common transaction is withdrawal from an ATM, which means that the vast majority of transactions in the economy are cash based. POS transactions have been catching up and, as acceptance of payment using a card becomes ubiquitous among merchants, it is likely to surpass them; however this has yet to happen. Other types of transactions play a much smaller role, but it is interesting to note that, when outside of Romania, the relationship is inversed and most people prefer to pay with a card as opposed to withdrawing money.

We will now take a look at the value of the transactions performed using a debit or credit card.

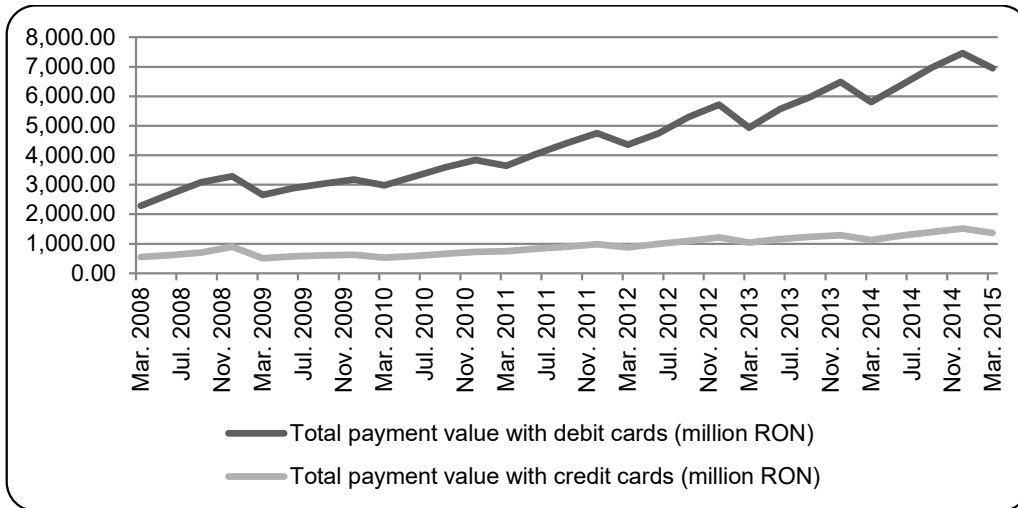


Figure 11: Total value of debit/credit card transactions in Romania
 Source: Created by the authors using data from the National Bank of Romania.

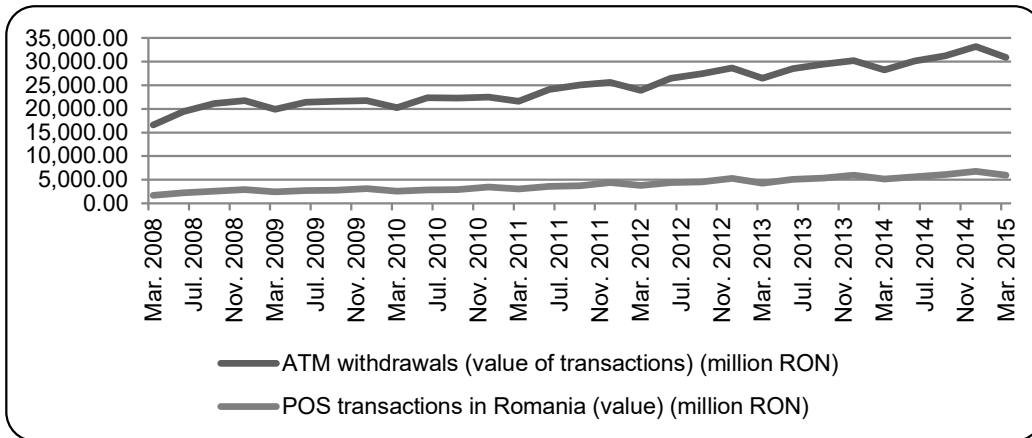


Figure 12: Total value of debit/credit card transactions by type, in Romania
 Source: Created by the authors using data from the National Bank of Romania.

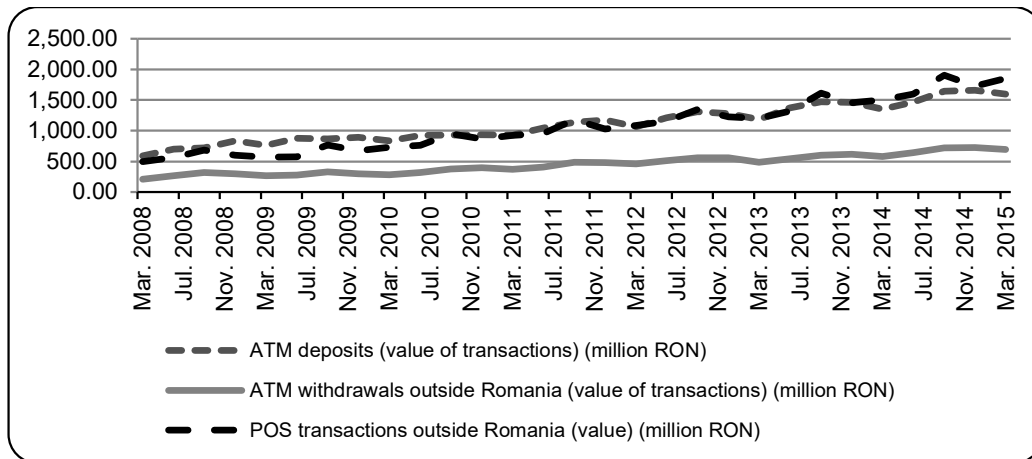


Figure 13: Total value of debit/credit card transactions by type, in Romania
 Source: Created by the authors using data from the National Bank of Romania.

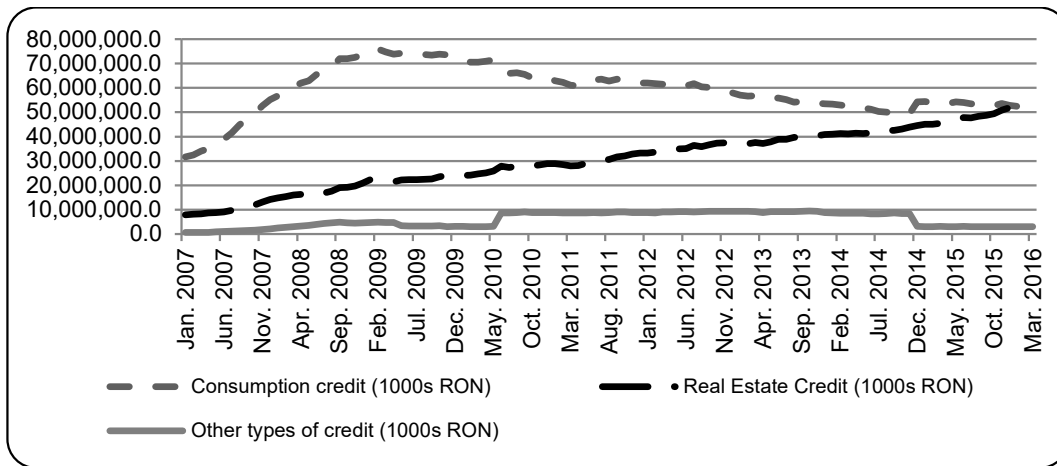


Figure 14: Types of credits in Romania

Source: Created by the authors using data from the National Bank of Romania.

From Figure 11 we can see that the value of the transactions follows the same pattern as their number. Thus, the value of the payments with credit cards has more or less doubled whereas the total payment value with debit cards has grown more than three times, a change that is not as large as the one in the number of transaction, but this is not surprising when considering that the value for debit cards was already six times larger than of credit cards and we are talking about a people who, for one reason or another, do not use any type of card in general. Figure 14 hints at the idea that consumption credits are quite popular in Romania, it's just that the credit card as a tool is not.

Figures 12 and 13 show the evolution of the different types of transactions. The results are similar to those from before, thus the most common type of operation conducted with a card is to withdraw money from the ATM. What is very interesting to note is that, even if the number of transactions at a POS has increased significantly, their value has not, which shows that there is a lot of room for future growth in this respect.

5. Conclusion

In this paper we have attempted to provide an accurate portrayal of the macroeconomic perspective on the debit and credit card market in Romania, after 2007. This has been done in two stages.

We started out by presenting the macroeconomic developments in Romania in the aftermath of the Great Recession of the late 2000s period. While doing this we have shown that the banking sector has gone through something of a cleansing period, during which the number of institutions has shrunk, but the value of their total assets has improved and so has the liquidity in available in the system.

This has been followed up by a discussion on the situation of the debit and credit card market in Romania. First of all, we have found that debit cards are by far more popular than credit cards and the trend doesn't seem to be changing. This, however, is not caused by an avoidance of credit, as a means of financing a purchase, as can be seen from Figure 14 which shows that value of consumer credits is significantly higher than that of real estate credits or other types. The limit; however seems to be the number of places where it can be used. We can easily see that as the number of EFTPOSs has increased, so has the number of debit cards, of credit cards and of transactions with either of them. However, that number is still too small and, if we're discussing in terms of value, by far the most popular type of operation is withdrawal of money from the ATM.

An important caveat of this research is that it should have studied the econometric relationship between the variables. This was not possible due to the fact that the time series is not long enough and does not permit a more detailed analysis. An area for future research is a microeconomic study which focuses on the items considered important by

the average person when choosing between a debit and a credit card.

6. References

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