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Market trends of personal borrowing by taking credit

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Abstract

The analysis of the scientific literature has revealed that the problematics of the borrowing market in respect of issuance of the credits for physical entities still lack of the scientific attention. The research of this type was considered to be purposeful since crediting of physical entities generates a significant share of the revenue for credit institutions. The main purpose of this paper is to research the problematic and trends of Lithuanian borrowing market in respect of issuance of the credits for physical entities. The methodology of the research includes analysis of the scientific literature and analysis of the statistical data. The results of the research have revealed that Lithuanian borrowing market has recovered after the economic/financial crisis, which is confirmed by the gradual increase in the volumes of different kinds of credits issued for physical entities as well as by the increased turnover of the credit cards market.

Introduction

Crediting of physical entities is usually a direct (Lukina, 2012; Shaitanova & Michailof, 2012; Janof, 2012) or indirect (Andriukaitis, Ceponyte, & Jureviciene, 2009; Deimantaite-Gedminiene, 2012; Gudelyte & Valuzis, 2012; Kilinc, Karasoy, & Yucel, 2014) object of the scientific research. The analysis of the scientific literature has revealed that crediting of physical entities is commonly analysed in the context of the total crediting system, concentrating on the specificity of the crediting of juridical entities (Jimenez & Saurina, 2005; Adamoniene, Mikuteniene, & Trifonova, 2008; Mileris, 2012). While studying crediting of physical entities, scientists usually

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introduce and compare different methods of risk management (Jaseviciene, Kedaitis, & Vidzbelyte, 2014; Chowdhury & Ahmed, 2009; Deimantaite-Gedminiene, 2012; Lileikiene & Lileikyte, 2012). However, the problematics and trends of the borrowing market in respect of issuance of the credits for physical entities lack of the scientific attention. With reference to the data, presented by the Central Bank of the Republic of Lithuania (2014), issuance of the credits for physical entities makes nearly 40 – 45 per cent of the overall volumes of crediting in the country. Thus, the analysis of the problematics and trends of Lithuanian borrowing market in respect of issuance of the credits for physical entities is purposeful since this kind of crediting generates a significant share of the revenue for credit institutions. The main **purpose of this paper** is to research the problematics and trends of Lithuanian borrowing market in respect of issuance of the credits for physical entities. **The methodology** of the research includes the analysis of the scientific literature and the analysis of the statistical data – statistics dynamic lines.

1. The structure of the physical entities' crediting system

Issuance of credits for physical entities commonly is an indirect object of scientific studies (Andriukaitis, Ceponyte, & Jureviciene, 2009; Deimantaite-Gedminiene, 2012; Gudelyte & Valuzis, 2012). Being analysed alongside with crediting of juridical entities (Jimenez & Saurina, 2005; Adamoniene, Mikuteniene, & Trifonova, 2008; Mileris, 2012, etc.), it is researched in terms of credit institutions' management, risk management or improvement of risk management techniques (Chowdhury & Ahmed, 2009; Deimantaite-Gedminiene, 2012; Lileikiene & Lileikyte, 2012).

Considered as an independent object, issuance of credits for physical entities can be interpreted as lending funds for "individuals who act personally on their own behalf" (Bagdanavicius, Stankevicius, & Lukosevicius, 1999, p. 55). In this context, an individual can be treated not only as a person, but also as an inhabitant, household, citizen, final customer. According to Lukina (2012), the main aim of issuance of credits for physical entities is fulfilling the needs of consumers' society. Also, it should be noted that the relationship between a creditor (bank) and a debtor (physical entity) is one of basic features characterizing the nature of crediting of physical entities (Mileris, 2012).

The structure of the physical entities' crediting system consists of several blocks (see Fig. 1).
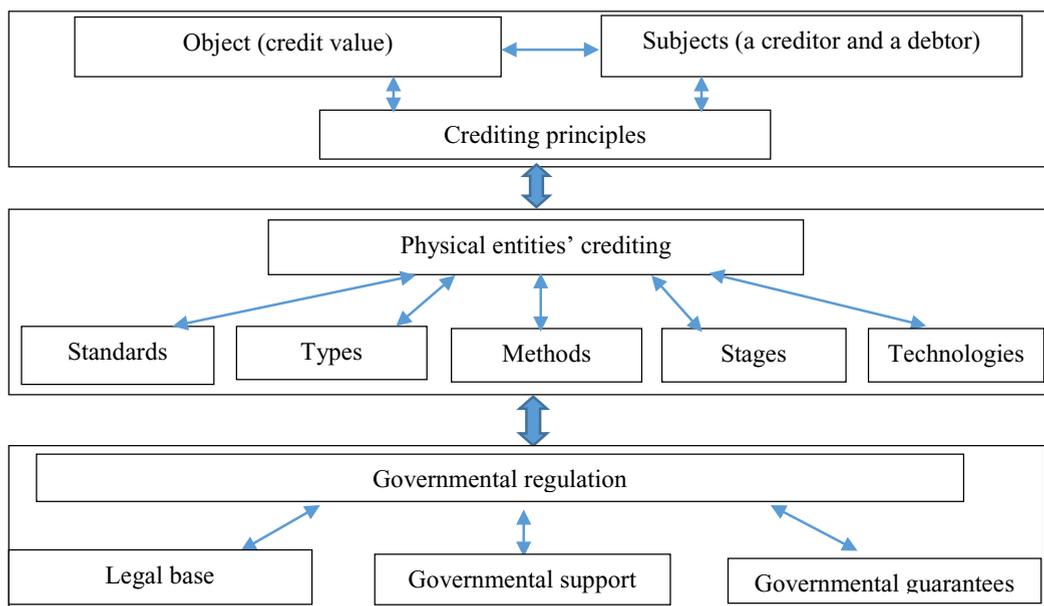

Fig. 1. The structure of physical entities' crediting system (source: Janof, 2012, p. 204).

The first - fundamental block - makes the foundation for the functioning of the other two blocks. It is based on the relationship between the object (credit value) and the subjects (a creditor and a debtor) and influenced by the entirety of crediting principles such as return date fixing, repay ability, targeted nature, compensation (Awanis & Chi Cui, 2014). The second - organizational block - enables to define the standards, types, methods, stages and technologies of physical entities' crediting, i.e. it represents physical entities' crediting infrastructure. Finally, the last - regulation block - includes legal regulations on the analyzed activity and available governmental support and guarantees.

From economic point of view, physical entities' crediting contributes to GDP growth since the borrowed money is used for consumption, creation of products or services or adding value to them (Deimantaite-Gedminiene, 2012; Lileikiene & Lileikyte, 2012). That is why the research will be based on the comparison of the dynamics of the physical entities' crediting data with the dynamics of GDP in Lithuania during the period of 2009 – 2013.

2. The methodology of the research

The research was based on the method of comparative analysis of the statistical data. This method was engaged presuming that the dynamics of the borrowing market in respect of the credits issued for physical entities can be revealed comparing annual changes of GDP with the changes in the volumes of bank credits issued for physical entities. The selected method enables to assess the tendencies of the selected borrowing market's segment in macroeconomic context (changes of GDP is one of the main macroeconomic indicators). The period of 2009 – 2013 was selected for the research since it covers the crisis and post-crisis stages in Lithuanian economics, including finance markets. This way, the selected period reflects the crisis and post-crisis processes that have had the impact on the current situation of the borrowing market of the country.

3. The dynamics of Lithuanian borrowing market in respect of the credits issued for physical entities during the period of 2009 - 2013

The analysis of the borrowing market in respect of the credits issued for physical entities has enabled to define the major directions of the market and assess the key changes in it. The statistical data shows the links between annual changes of GDP and the changes in the volumes of the credits issued for physical entities (see Fig. 2).
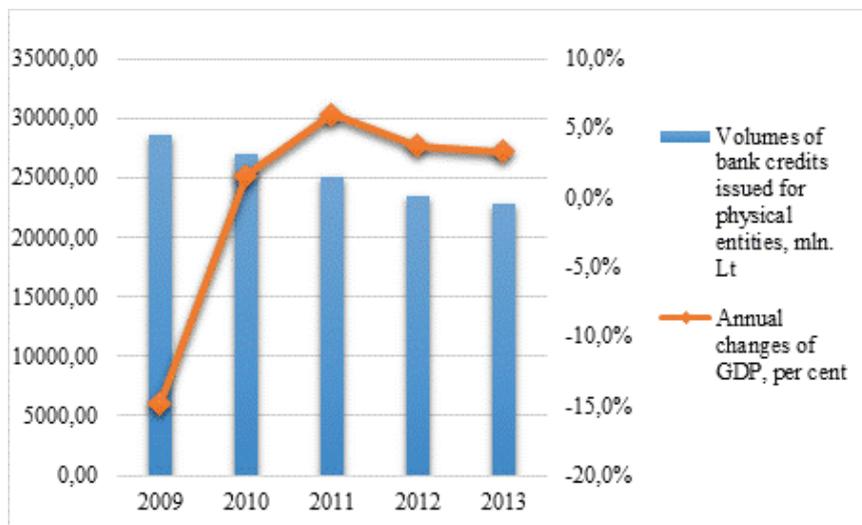

Fig. 2. Annual changes of GDP and the volumes of bank credits issued for physical entities during the period of 2009 – 2013, mln. Litas and per cent (source: compiled by the author with reference to the data of the Central Bank of the Republic of Lithuania, 2014 and Lithuanian Department of Statistics, 2014).

As it can be seen from Fig. 2, the volumes of the credits issued for physical entities decreased by 20 per cent during the period of 2009 – 2013 whereas the changes of GDP during the same period were positive, which shows the signs of the revival of country's economics after the crisis experienced in 2008 – 2009, when GDP dropped by 14.8 per cent. Thus, the volumes of the credits issued for physical entities declined during the researched period despite the increases or decreases of annual GDP, which proposes that unreasonable and immoderate crediting of physical entities served as one of the reasons that deepened the economic and finance crisis in Lithuania and has motivated the banks to start following stricter policies with a view to reducing credit risk and offsetting the losses experienced due to impact of the crisis. Undoubtedly, the economic crisis has had a significant impact on Lithuanian borrowing market considering the fact that the volumes of the credits issued for physical entities had been decreasing during all the researched period and have not still reached the level of 2009.

Despite the gradual decrease in the volumes of the credits issued for physical entities, it should be noted that this type of crediting has remained a significant part of the overall bank lending structure (see Fig. 3).
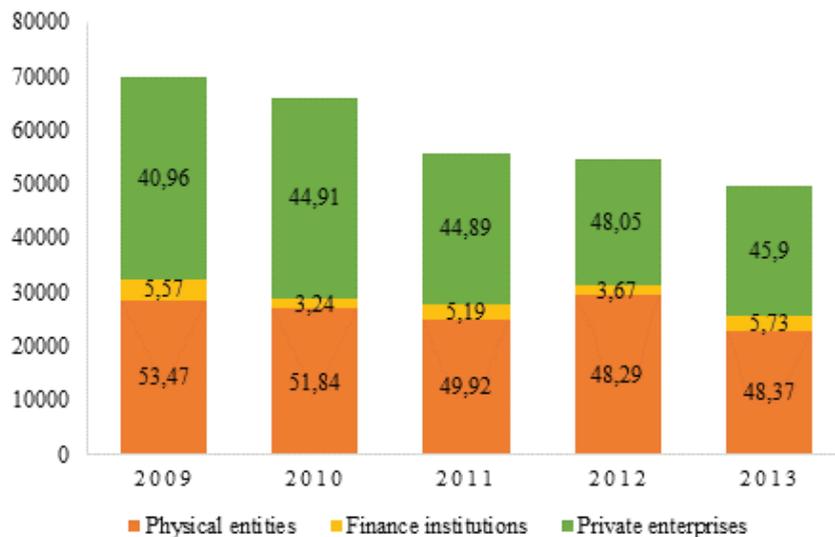
Fig. 3. The volumes of bank credits issued for different entities (excluding business partnerships) during the period of 2009 – 2013, mln. Litas and per cent (source: compiled by the author with reference to the data of the Central Bank of the Republic of Lithuania, 2014).

With reference to the data presented in Fig. 3., crediting of physical entities made 45.9 per cent of the overall bank lending. During the period of 2009 – 2013, this share fluctuated between 41 per cent in 2009 and 48 per cent in 2012, which proposes that crediting of physical entities still makes the customary share of 40 – 45 per cent of the overall bank lending.

What concerns the types of the credits issued for physical entities, the analysis of the statistical data has revealed that housing credits, consumer credits and leasing credits prevail in the analyzed segment of the borrowing market. The changes in the value of the above mentioned types of credits during the researched period have been reflected in Fig. 4.
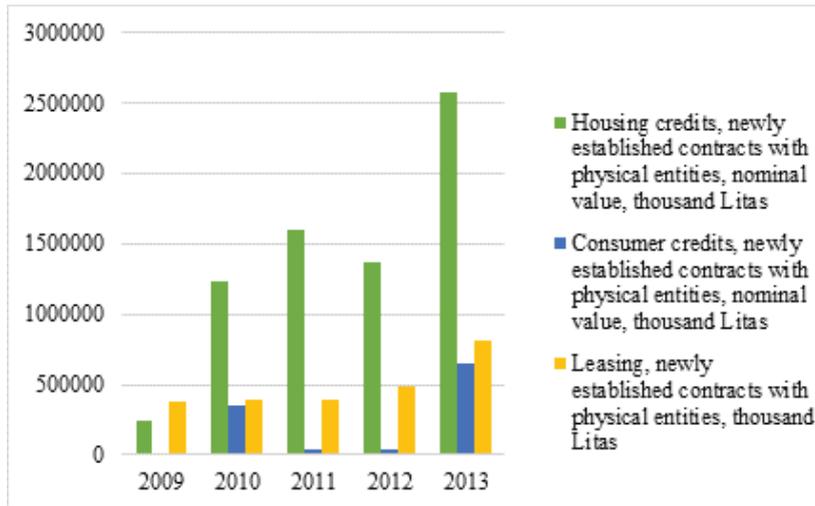
Fig. 4. The value of housing credits, consumer credits, and newly established leasing contracts during the period of 2009 – 2013, thousand Litas
(source: compiled by the author with reference to the data of Lithuanian Bank Association, 2014)

The data presented in Fig. 4 reveals that the value of the housing credits increased by 11 times (from 242,376 thousand Litas in 2009 to 2,577,312 thousand Litas in 2013) during the researched period. In comparison to 2012, the value of the housing credits rose by 88 per cent in 2013, which shows the tendencies of intense growth of this type of crediting. The value of consumer credits also grew significantly (from 68,020 thousand Litas in 2009 to 652,167 thousand Litas in 2013) during the researched period. In comparison to 2012, the increase made 42 per cent in 2013, which shows the tendencies of consistent growth of this type of crediting. The value of the newly established leasing contracts rose twice (from 382,358 thousand Litas in 2009 to 807,473 thousand Litas in 2013) during the researched period. In comparison to 2012, the increase made 65 per cent in 2013, which also shows the tendencies of consistent growth of this type of crediting. The growth of the value of the three prevalent types of crediting proposes that Lithuanian borrowing market is recovering after the consequences of the economic and financial crisis.

Although the scopes of the use of credit cards are not so extensive as that of housing credits, consumer credits and leasing credits, they are not less significant. The research results have revealed that the number of the issued credit cards during the period of 2009 – 2013 decreased by 197,194 cards, the decrease making 34 per cent. In 2013, in comparison to 2012, the number of the issued credit cards increased by 2 per cent, but the increase did not reach the level of the period 2009 – 2010. Although the number of the issued credit cards decreased during the researched period, the credit turnover rose. During the analyzed period, it increased by 6 per cent. In 2013, in comparison to 2012, the increase of the credit turnover was even more significant, making 16 per cent. Starting for 2011, the turnover gradually rose, but it did not reach the level of 2010. Thus, the data of the statistical data analysis shows that although the number of the issued credit cards decreased by 34 per cent during the period of 2009 – 2013, the turnover of this market increased by 6 per cent, which confirms the signs of revival of the borrowing market in the country.

Conclusions

The theoretical contribution of this paper is provision of systematic and complex analysis of the borrowing market in respect of issuing credits for physical entities in macroeconomic context.With reference to the research results, the following conclusions can be made:

1. Although the volumes of credits issued for physical entities decreased by 20 per cent during the period of 2009 – 2013, the percentage of the credits still remains significant in the total structure of banking credits (40 – 45 per cent of the total market of banking credits). Thus, it can be stated that crediting of physical entities makes a significant part of banking lending policy.
2. The value of the newly established contracts for housing credits, consumption credits and leasing gradually increased during the period of 2009 – 2013 (the value of the newly established contracts increased by 11 times for housing credits, by 10 times – for consumption credits, and twice for leasing contracts), which shows the revival of the borrowing market after the period of economic/financial crisis.
3. It has also been disclosed that although the number of the issued credit cards decreased by 34 per cent during the period of 2009 – 2013, the turnover of this market increased by 6 per cent, which confirms the signs of revival of the borrowing market in the country.

Summarizing, the results of the statistical analysis presented above show that Lithuanian borrowing market has recovered after economic/financial crisis, which is confirmed by the gradual increase in the volumes of different kinds of credits as well as by the increased turnover of the credit cards market. On the other hand, credit institutions follow more conservative crediting policies while issuing credits for physical entities.

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