

LOANS AND THE DEPOSITS EVOLUTION AND STRUCTURE OF THE ECONOMIC AGENTS IN THE ARGES COUNTY, DURING JULY 2011 - JULY 2012

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Abstract:

Crediting is one of the main activities of the commercial banks, the loans holding the largest share in all the assets of the banks, representing an important source of income, as the operating income.

Increased competition among the banks and between banks and other entities which began to lend or provide funding, determined the important changes in the credit policy promoted by banks and in the structure of the credit portfolio.

Through this article we want to present the theoretical aspects on crediting the economic agents, analyzing the factors contributing for taking the local banks decision to change or maintain the credit standards and we also conducted a study that reveals the structure of deposits and loans given to the economic agents, in the Arges county, from August 2011 - August 2012, aimed the modest economic dynamics propagated further increasing of the bad loans and in despite of a difficult external environment, marked by the sovereign debt crisis.

Key-words: credit, economic agents, credit structure in the Arges County, the deposits structure

JEL Classification: E51, G21

Introduction:

The lending activity takes place to meet the principle of prudence in approving the loan applications and ensure the control and assuming conscious of all the risks arising from bank relationship with its customers.

This article is based on analysis of documents and statistics relating to banking as those published by the National Bank of Romania (“Financial behaviour of people and entities in territorial - July 2011 to July 2012”, “Survey on the lending of the non-financial companies and population 2012”, “Report on the Financial Stability 2012”), studying of the literature: Caesar Bazno, Nicolae Dardac, Constantin Floricel (1999), Negruș M. (2008), Căpraru Bogdan (2010), articles and regulations of the NBR.

This paper presents and analyzes the monetary and financial statistics data sets that contribute to outline the financial flows in the economy and the substantiation of the decision-making in the monetary policy and the financial stability.

The analyzed statistical data aimed the structure of loans and deposits of the economic agents in Arges County, in July 2011 – July 2012, and based on this analysis we presented, graphically, the loans developments in lei and in the foreign currency (chart. 1).

Eitman, Stonehill and Moffett (1999) in „*Multinational Business Finance*”, Addison Wesley Publishing Company, 8th edition believe that the key factor that attracts both those who borrow and those who make deposits on the lending market in foreign currency is the small difference between the interest rate on deposits and loans, this difference is often less than 1%.

Mugur Isărescu, Governor of the National Bank of Romania considers that the evolution of credit in 2012 has been closely related to the economic growth. Thus, in the period between June 2011 and June 2012 there was increased the volume credit for the private sector due to improving the macroeconomic conditions, respectively the inflation return to a value close to the range around the target which provided a real size for increasing the funding directed to the private sector.

1. Crediting the economic agents

1.1. Loans to the SME sector

Crediting, a defining part of the financial intermediation, is the main flow for the economy financing, the credit forms and instruments diversifying and adapting to the customer requirements, changing the transfer technology and the competition in an environment characterized by uncertainty and risks.

In the last 30 years the share of the bank loans in the bank assets portfolio was over 50%, reaching often 75%, and lately even though banks entering on the financial markets, the financial innovation, securing loans has refocused the lending flows to the financial securities; the loan remained at a directly and indirectly supporting, the whole funding process, the credit management, of the credit risk that actually represents the central issue of the functioning of the entire banking and financial system.

In the process of establishing the types of the credits to be awarded to companies, the banks regard to their needs arising from their activity.

On the one hand, there are identified the short-term loans intended to cover the temporary financial needs on the short term, and, on the other hand there are considered the needs of development, retraining, endowment of the companies with funds that will be granted on the long-term.

Besides of these, there are identified the loans related to the import or export activity of the companies, to the extent that they have such a profile.

It is known that the most important source of financing for SME-s is the own resources, followed by the bank credit and, thirdly, there are used the non-reimbursable funding sources, both from the budget allocations and from the EU grants.

Conducting the cycle of the business activity requires the *fixed assets* financed by the long-term loans, the *permanent current assets* that varies simultaneously and in the same direction with the sales, but records the fluctuations in the production and sales, and has *additional needs, temporary funds*, both financed by borrowing on the short term, this distinction is important for determining the funding needs of the client and for the portfolio planning for the periods longer than 1 year.

In the process of lending of the companies, the banks take into account not only the interest and fees for the credit services, but also income from other services in order to estimate and evaluate the banking profitability activity related by the relationship with a firm.

If the commercial banks are still the dominant financial institutions which provide the commercial loans, they are faced the competition from other financial institutions, such as non-banking, the investment banks or the companies of the sales financing.

The more competitors enter on the commercial credit market of the companies, the more profit margins will be limited, and the banks are forced to offer the high efficiency service to the companies to remain profitable.

2. Loans evolution of the economic agents in the Arges County, during July 2011 - July 2012

2.1. Crediting of the non-financial companies in 2012

In January 2012 - August 2012, the company crediting standards have remained constant, but the banks provide in the following period (September-December 2012) tightening of these standards, especially for long-term loans to the corporations.

Factors underlying the decision of the local banks to modify or maintain the credit standards, according to the survey conducted by the NBR in August, regarding the crediting the non-financial company and population are:

- The current situation and expected of the bank's capital;
- The NBR decisions of the monetary or prudential policy;
- Expectations regarding the general economic situation;
- The risk associated with the industry in which the company operates;
- Change in share of nonperforming loans in the bank portfolio;
- The risk associated with the collateral/the guarantee required;
- The risk associated with a rapid increases or decreases and marked in the real estate prices (only for the guaranteed loans by mortgages on the commercial real estate);
- The competitive pressure in the banking sector;
- The competitive pressure in the non-banking sector;
- Competition with other sources of funding (capital markets and shareholders);

Also, during January-August 2012, the banks tightened the crediting terms through actions materialized by requiring of some higher risk premiums for the risky loans. In a small proportion (net

percentage below 10%), the banks have resorted to increase the spread of the average interest rate of the loan as against the ROBOR 1M.

New rules that will enter into force by implementing Basel III on 1 January 2013 will put an extreme pressure on the small banks in terms of the risk calculation. These banks will no longer lend as easily as before, and one of the categories of the customers that are likely to lose is the SME. In turn, the SMEs do not have access to the finance just only in the strong institutions, which wish to protect themselves against the risk and will have to obtain loans more expensive.

2.2. The loans and the deposits structure of the economic agents in the Arges County, during July 2011 - July 2012

In the period July 2011 - July 2012, the international economic and financial environment has become more tense, being marked by the sovereign debt crisis and by the concerns about financing of the institutions and the banking systems, especially in the euro area and represents the source of growing challenges including the financial stability in Romania.

Crediting the private sector was resumed since the second half of 2011, according to the banking market transmission of the monetary policy measures effect, but its size was moderate, as a result of the shortage persistent of the aggregate demand.

In July 2012, according to the data published on the official site of the National Bank of Romania, the loans structure of the economic agent in the Arges County was as follows:

1. Structure of the loans in lei

Table no. 1
(mil. lei)

1. Loans in lei	2011	2012
Rd. 2+3=4+5=6+7+8	2,103.4	2,139.0
2. - current	1,855.1	1,862.6
3. - overdue	248,3	276.4
4. - residents	2,103.1	2,138.8
5. - non-residents	0.3	0.2
6. - economic agents	919.5	1,019.3
7. - population	1,180.9	1,117.9
8. - others	3.0	1.9

Source: www.bnr.ro / Territorial loans and deposits pdf. July 2011/ July 2012 p.1

From table no. 1 we can observe an increasing of the loans in lei to the economic agents with 99.8 million lei in 2012 compared with 2011. According to the banks, the requests for loans from the economic agents is due to the short-term financing needs, while for the other types of loans the banks expected to decline of the requests for the new loans.

The successive increases of the lending rates and the depreciation of the lei affected the customers ability to repay the loans, so that, the overdue at the loans in lei, in 2012 have increased by 28.1 million lei compared to the same period of 2011.

In terms of the hierarchy of the financial creditors, the debt of the companies and population are 68% owned by the local banks, 25.2% by the foreign creditors and 6.8% by the non-bank financial institutions (NFI), similar one in the recent years.

2. Structure of the foreign currency loans

Structure of the currency loans in the Arges County, in 2012, includes:

2. Structure of the foreign currency loans

Table no. 2
(mil lei)

1. Foreign currency loans	2011	2012
Rd. 2+3=4+5=6+7+8	2,434.3	2,771.9
2. - current	2,228.5	2,492.2
3. - overdue	205.8	279.7
4. - residents	2,432.1	2,771.2
5. - non-residents	2.2	0.7
6. - economic agents	884.9	1,101.9
7. - population	1,549.3	1,670.0
8. - others	0.2	0.0

Source: www.bnr.ro / Territorial loans and deposits pdf. July 2011/ July 2012 p.1

The share of the foreign currency loans in the total loans for the economic agents, in 2012, was 39.75% and in 2011, the share of foreign currency loans in the total loans was 36.35%.

It is observed, in this case, an increasing of the overdue loans in the total loans, with 73.9 million lei in 2012, compared with 2011.

The National Bank of Romania will continue to monitor the foreign currency lending of the economic agents. For this purpose, the NBR may adopt the certain measures to cover risks associated with the borrowers; opposite of the currency risk for foreign currency lending is carried out in terms of covering the foreign currency risks. The need for these measures derives from the fact that credit risk related to the currency continued to grow more quickly than the lending in lei.

Theme of the systemic risks arising from the foreign currency lending is an important concern in Europe, being included in the agenda of the European Systemic Risk Board (ESRB).

The ESRB recommendations address the following:

a) *The warning borrowers about the risks:* the financial institutions will have to inform not covered borrowers at the currency risks about the risk associated with the foreign currency lending, referring, at least, to the impact of a severe depreciation of the national currency and to an increase of the interest for that currency.

b) *The borrowers' creditworthiness.* Supervisors must:

- To monitor the foreign currency lending level and the currency mismatch of the assets and liabilities for the non-financial private sector and take appropriate measures to limit this type of loan;

- To allow the foreign currency loans only to the borrowers who meet the creditworthiness, demonstrating an ability to withstand at the adverse shocks on the exchange rate and interest rate;

- To consider the implementation of the stricter criteria for loans in the foreign currency, such as refers to the debt service share in the income (*debt-to-income*) and the coverage of the credit through guarantees (loan-to-value).

c) *Unsustainable increase of the non-government credit caused by the foreign currency lending*

d) *The internal management of the risk:* supervisory authorities issuing the guidelines for the financial institutions to incorporate appropriate risk from the foreign currency lending in the internal systems of the risk management.

e) *The capital adequacy.* The financial institutions must hold a level of the capital in accordance with the requirements of Pillar II of the Basel II revised, to cover the risks arising from the foreign currency lending, in particular, the risk due to the nonlinear relationship between the credit risk and market.

f) *Liquidity and funding.* Supervisors should closely monitor the funding and liquidity risks of the financial institutions associated with the foreign currency lending and their overall liquidity situation.

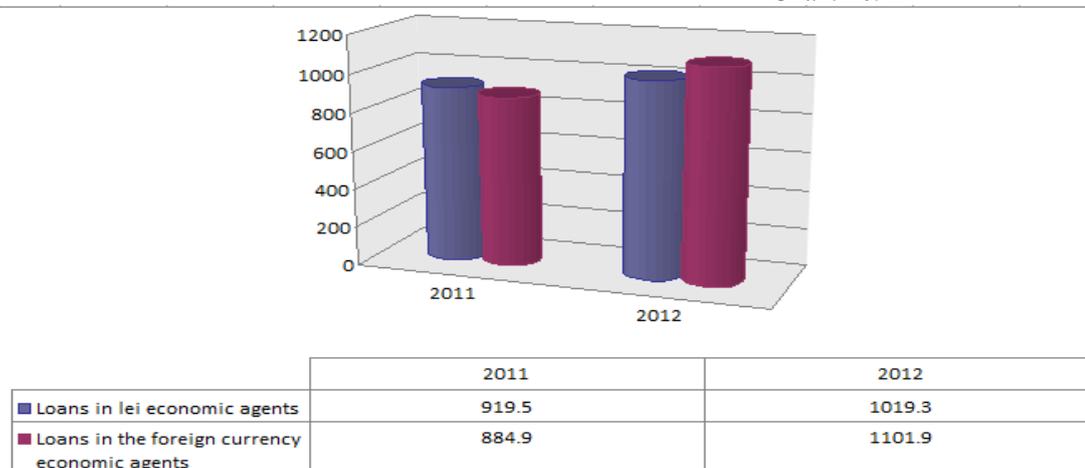
g) *Reciprocity.* The authority of supervisory from the origin Member State should require the financial institutions that provide credit in the foreign currency in another Member State, measures to limit foreign currency lending at least as stringent as those required in the host Member State.

After the domain of activity, the foreign currency loans hold the significant positions for the companies in the real estate sector, followed by services and processing industry.

Evolution of the credits in lei, compared to the foreign currency lending of the economic agents are in the chart below:

Evolution of the credit in lei and in the foreign currency loans of the economic agent during July 2011 - July 2012

Chart no. 1



Source: The own processing of the data in Table no. 1 and Table no. 2

3. Availabilities at sight in lei

Table no. 3.
(mil. lei)

Availabilities at sight in lei	2011	2012
Total of which:	782.3	806.0
1. Economic agents	391.3	408.0
2. Population	373.1	380.1
3. Other	17.8	17.9

Source: www.bnr.ro / Territorial loans and deposits pdf. July 2011/ July 2012 p.1

The amounts held in the current account by the operators in the Arges County, had an upward trend in 2012, with 16.7 million lei compared to the same period of 2011, which is due to the interest paid by banks on deposits in lei, compared with those in the foreign currency. In the last year, the deposits in lei were more profitable than those in euros even while the lei were depreciated against the European currency.

4. Term deposits and deposits redeemable at notice, in lei

Table no. 4.
(mil. lei)

Term deposits and deposits redeemable at notice, in lei	2011	2012
Total of which:	2,079.8	2,441.7
1. Economic agents	370.4	499.9
2. Population	1,670.7	1,894.8
3. Other	38.8	47.0

Source: www.bnr.ro / Territorial loans and deposits pdf. July 2011/ July 2012 p.1

As the availabilities at sight in lei, the term deposits and the deposits redeemable at notice in lei had an upward trend, their value being 129.5 million lei in 2012 higher than 2011.

Even though banks have changed the interest rates, the interest on deposits in lei is higher than the interest in euros or dollars, so, the saving in lei is more efficient.

5. Availabilities at sight in the foreign currency

Table no. 5.
(mil. lei)

Availabilities at sight in the foreign currency	2011	2012
Total of which:	238.3	306.9
1. Economic agents	91.1	150.0
2. Population	145.6	155.9
3. Other	1.6	1.0

Source: www.bnr.ro / Territorial loans and deposits pdf. July 2011/ July 2012 p.1

Availabilities at sight in the foreign currency of the economic agent increased in 2012 by 58.9 million compared with 2011 but had a lower value compared to the availabilities at sight in lei. The foreign currency savings can only be effective if the exchange rate increases.

However, the exchange rate can act in two ways, and for an appreciation of the lei, the final profit of a foreign currency deposit may be lower than the interest rate. We can say that the foreign currency deposits are riskier and do not guarantee the reliable earnings. "Choosing a foreign currency deposit is useful only when it is saving an amount that will be used for a payment in the foreign currency in the short term".

6. Term deposits and deposits redeemable at notice, in the foreign currency

Table no. 6.
(mil. lei)

Term deposits and deposits redeemable at notice, in the foreign currency	2011	2012
Total of which:	612.0	724.0
1. Economic agents	113.7	138.0
2. Population	493.9	572.6

3. Other	4.4	13.4
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Source: www.bnr.ro / *Territorial loans and deposits* pdf. July 2011/ July 2012 p.1

The term deposits and the deposits redeemable at the foreign currency at notice on the economic agents in 2012 increased by 24.3 million lei compared with July 2011, but their value remains lower than the value of the deposits and the deposits redeemable at notice in lei of the economic agents in 2012.

A possible explanation of the interest granted by the banks at the deposits in the foreign currency is that many banks import the foreign currency, as subsidiaries or branches of the foreign banks, obtaining relatively easy the financial resources from abroad, much cheaper than Romanian's. Thus, if the financial resources are cheap, the foreign currency being placed in the favourable conditions in the Romanian banks, the latter have no interest in promoting the tempting offers on the foreign currency deposits.

Conclusions:

In the study conducted in the Arges County, between July 2011 and July 2012 about the structure of the economic agents' loans and deposits, it can be drawn the following conclusions:

- Demand for the loans in lei of the economic agents known an upward trend in 2012 due to the current financing needs of the economic agents, however, demand of the other loans, as domestic banks anticipated, will decrease;
- Demand for loans in the foreign currency the economic agents had an upward trend, so in July 2012, their volume was 217 million lei, higher than in July 2011, but as in the case of the loans in lei, the volume of the overdue loans increased in 2012 to 73.9 million lei compared with 2011. The theme of the systemic risks arising from the foreign currency lending is a concern of the ESRB, which recommend a series of measures for the borrowers creditworthiness, warning them about the risks, internal risk management, capital adequacy and so on;
- Deposits in lei of the economic agents increased mainly, due to the attractive interest rates charged by banks compared to the foreign currency, so the saving in lei is much more profitable;
- Deposits at sight in the foreign currency of the economic agents show an increase of 58.9 million lei compared with 2011, but their volume is lower than those in lei, which is explained by the interest charged by the Romanian banks, most of which are subsidiaries of foreign banks that obtain the cheap funding resources from abroad and have no interest in promoting the interest advantageous offers on the deposits in the foreign currency;

Improving the domestic macroeconomic conditions, respective, the inflation return to a value close to the range around the target, provided a real size increased (+3.3 percent in December 2011 and 4.2 percent in June 2012) increased funding directed to the private sector.

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