

# THE ANALYSIS OF LOANS AND DEPOSITS MANAGED BY BANKS IN THE ROMANIAN WEST REGION

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***Abstract:** The structure of loans and deposits of non-banks, non-government customers by county is analyzed in evolution, in the period December 2013 – January 2015, in the counties: Arad, Caras-Severin, Hunedoara and Timis. The level of loans, in lei or in foreign exchange, for residents and non-residents (current loans and overdue loans), can show the degree of economic development of these counties, in the West Region of Romania. An important part of these loans is held by the corporate sector. Deposits, time deposits (in lei) and demand deposits in foreign exchange are important resources for commercial banks. This analysis aims to find a correlation between banking indicators and financial prosperity of these counties.*

***Key words:** commercial banks, loans, deposits, regional development, financial prosperity*

***JEL classification:** G21, G28*

## INTRODUCTION

In the current context of the international financial crisis, a big problem is the lack of liquidity. Bank loans are important financial sources for economic entities (retail or corporate). The deposits are also financial resources for banks. Bank policies are important for economic developments, macroeconomic prospects, for the monetary and fiscal policy coordinates, as well as the progress in structural reforms. Commercial banks operating in the Romanian banking system have an important role in mediating the relationship savings – investment. In the analyzed period, the banks with majority foreign capital continued to dominate the Romanian banking system.

The macroeconomic and financial environment of 2014 was marked by mixed and sometimes even conflicting developments, which called for the maintenance of a prudent credit policy by commercial banks stance throughout the year, also in the context of shifting to a flat inflation target of 2.5 percent  $\pm$  1 percentage point.

This research aims to analyze in evolution the structure of loans and deposits of non-banks, non-government customers by county, in the period December 2013 – January 2015, in the counties: Arad, Caras-Severin, Hunedoara and Timis. This analysis aims to find a correlation between banking indicators and financial prosperity of these counties. Loans and bank deposits are the most demanded products for retail and corporate customers of banks. The level of loans, in lei or in foreign exchange, for residents and non-residents (current loans and overdue loans), can show the degree of economic development of these counties, in the West Region of Romania. The volume of bank loans and deposits are indicators which express the size of the banking system and financial intermediation.

In the literature review, the subject about banking loans and deposits is treated in extension. It reveals the impact of the financial crisis on credit quality and structure of bank deposits, the relationship between liquidity risk and credit risk, priorities in banking performance management and the relationship between risks and financial performances in banks.

## MATERIALS AND METHODS

The research methods used are: analysis, synthesis, induction and deduction, scientific abstraction, classification and comparison.

The banking indicators analysed in this research are those monitored and reported by the National Bank of Romania. The indicators reflect the structure of loans and deposits of non-bank, non-government customers by county. The time horizon in which are analyzed the banking indicators is the period December 2013 – January 2015. The four counties of the West Region analyzed are: Arad, Caras-Severin, Hunedoara and Timiș. These counties are among the richest in Romania.

The banks are exposed to credit risk as a result of its trading, lending and investment activities. The credit risk associated with trading and investment activities is managed through the bank's market risk management procedures.

## RESULTS AND DISCUSSION

In the analysis of loans and deposits is very important to see the dynamic evolution, in structure, of these banking indicators. The structure of loans of non-bank, non-government customers by county, the level of loans in lei and in foreign exchange, at the end of 2013, is presented in the table below:

Table no.1  
The structure of loans of non-bank, non-government customers by county  
(in December 2013)

- lei million -

December 2013	Arad	Caraș-Severin	Hunedoara	Timiș
<b>Loans in Lei</b>	<b>1.252,9</b>	<b>608,5</b>	<b>1.360,9</b>	<b>2.807,1</b>
• current loans	1.012,0	528,0	1.148,9	2.247,9
• overdue loans	240,9	80,5	212,0	559,2
- residents	1.252,6	608,4	1.360,5	2.805,5
- non-residents	0,3	0,1	0,4	1,6
• corporate sector	653,4	239,4	560,8	1.764,8
• households, of which:	588,2	368,8	799,0	1.037,1
- consumer loans	401,0	271,8	612,6	692,9
- housing loans	46,4	20,0	44,2	104,3
- loans of other purposes	114,7	72,2	131,8	202,8
• other	11,3	0,3	1,1	5,2
<b>Loans in foreign exchange</b>	<b>1.836,3</b>	<b>505,8</b>	<b>1.049,5</b>	<b>6.131,0</b>
• current loans	1.538,8	440,5	871,9	5.016,0
• overdue loans	297,5	65,3	177,6	1.115,0
- residents	1.830,2	502,5	1.048,0	6.115,8
- non-residents	6,1	3,3	1,5	15,2
• corporate sector	853,3	155,7	362,5	2.926,5
• households, of which:	952,5	350,2	686,9	3.188,5
- consumer loans	423,3	210,9	403,7	1.174,8
- housing loans	507,6	136,6	277,1	1.976,2
- loans of other purposes	3,7	0,8	3,5	21,0
• other	30,5	0,0	0,1	16,0

Source: <http://www.bnr.ro/Loans-and-Deposits-by-County>

From the table above it can be observed that the volume of credit in the West Region is 6.029,4 million lei, of which Timiș County has 46,6%. The lowest credit volume is recorded by Caraș – Severin County (10,1%). Loans in foreign exchange represented 9.522,6 million lei equivalent, from which Timiș has 64,4% and Caraș – Severin 5,3%.

The level of loans in lei and in foreign exchange at the end of 2014, is presented in the table below:

Table no.2  
The structure of loans of non-bank, non-government customers by county  
(in December 2014)

- lei million -

December 2014	Arad	Caraș-Severin	Hunedoara	Timiș
<b>Loans in Lei</b>	<b>1.391,5</b>	<b>613,8</b>	<b>1.346,3</b>	<b>3.482,8</b>
• current loans	1.240,4	542,6	1.208,1	3.050,0
• overdue loans	151,1	71,2	138,2	432,8
- residents	1.391,3	613,7	1.345,9	3.479,4
- non-residents	0,2	0,1	0,4	3,4
• corporate sector	647,1	235,7	505,5	1.877,3
• households, of which:	739,4	375,7	839,4	1.603,8
- consumer loans	476,5	265,0	621,6	860,0
- housing loans	142,2	44,2	93,6	475,5
- loans of other purposes	102,4	61,7	114,1	201,2
• other	5,0	2,4	1,4	1,7
<b>Loans in foreign exchange</b>	<b>1.606,8</b>	<b>438,3</b>	<b>875,2</b>	<b>5.608,7</b>
• current loans	1.378,6	388,6	769,9	4.584,3
• overdue loans	228,2	49,7	105,3	1.024,4
- residents	1.601,5	435,8	873,5	5.590,3
- non-residents	5,3	2,5	1,7	18,4
• corporate sector	719,1	119,2	276,2	2.559,7
• households, of which:	884,3	319,0	599,0	3.018,2
- consumer loans	369,8	186,4	336,7	1.028,9
- housing loans	497,1	130,4	256,9	1.939,3
- loans of other purposes	5,3	0,7	3,0	25,9
• other	3,4	0,1	0,0	30,8

Source: <http://www.bnr.ro/Loans-and-Deposits-by-County>

The structure of loans shows that are oriented to current loans for resident customers. At the end of 2014 the loans in lei in the West Region reached the amount of 6.834,4 million lei, higher with 805 million lei than the loans in 2013. It means an economic development of the West Region, which required more development loans. The same situation is found in the case of current loans for residents. An important part of loans is for the corporate sector. The level of loans in foreign exchange, in december 2014, is 8.529 million lei, for all four counties. The structure by counties is as follows: Arad 18,8%, Caraș – Severin 5,1%, Hunedoara 10,3 and Timiș 65,8%. The large share of foreign currency loans registered in Timiș, shows the economic potential and financial strength of companies in this county.

The structure of loans of non-bank, non-government customers by county, in january 2015 is presented in the table below:

Table no.3  
The structure of loans of non-bank, non-government customers by county  
(in January 2015)

- lei million -

January 2015	Arad	Caraș-Severin	Hunedoara	Timiș
<b>Loans in Lei</b>	<b>1.415,3</b>	<b>607,5</b>	<b>1.345,3</b>	<b>3.495,2</b>
• current loans	1.267,1	537,2	1.208,1	3.059,2
• overdue loans	148,2	70,3	137,2	436,0
- residents	1.415,0	607,4	1.344,9	3.492,0
- non-residents	0,3	0,1	0,4	3,2
• corporate sector	667,8	232,1	509,1	1.878,9
• households, of which:	742,6	373,1	835,0	1.614,7
- consumer loans	555,6	314,8	703,6	1.005,5
- housing loans	149,7	45,8	96,0	497,0
- loans of other purposes	21,0	8,6	26,9	49,1
• other	4,9	2,3	1,2	1,6
<b>Loans in foreign exchange</b>	<b>1.600,5</b>	<b>442,9</b>	<b>891,1</b>	<b>5.660,1</b>
• current loans	1.393,9	392,7	785,4	4.693,0
• overdue loans	206,6	50,2	105,7	967,1
- residents	1.594,4	440,3	889,4	5.641,7
- non-residents	6,1	2,6	1,7	18,4
• corporate sector	708,9	116,6	274,3	2.600,6
• households, of which:	888,0	326,2	616,8	3.029,5
- consumer loans	373,9	194,0	353,5	1.046,9
- housing loans	496,9	130,7	260,2	1.931,0
- loans of other purposes	5,1	0,0	0,7	28,2
• other	3,6	0,1	0,0	30,0

Source: <http://www.bnr.ro/Loans-and-Deposits-by-County>

The same situation is found in the case of loans in lei, in January 2015. Loans increased from 6.029,4 million lei in December 2013 to 6.863,3 million lei in January 2015. Total loans in foreign exchange represents 8.594,6 million lei.

The structure of loans of non-bank, non-government customers by county shows the need for financial sources for the companies. There is an obvious preference for loans in foreign currency. Commercial banks have in their portfolio of products a variety of types of loans for their customers.

Other banking products extremely important are the bank deposits. Bank deposits are important financial sources for commercial banks. In the banking systems, insurance of deposits have the role to prevent banking risks. These risks lead to increases the moral hazard of banks. To prevent a banking crisis it must be calculated the moral hazard index of deposits insurance. The elements to be taken into account when calculating this index are: foreign currency deposits, the existence of a guarantee fund and its management, the fund origin etc.

The structure of bank deposits is very important for commercial banks because the deposits represent the resources for banking credits.

The structure of deposits of non-bank, non-government customers by county, in December 2013, December 2014 and January 2015 is presented in the table below (table no. 4, 5 and 6):

Table no.4  
The structure of deposits of non-bank, non-government customers by county  
(in December 2013)

- lei million -

December 2013	Arad	Caras-Severin	Hunedoara	Timiș
<b>Demand deposits in Lei</b>	<b>603,3</b>	<b>193,2</b>	<b>438,7</b>	<b>1.668,0</b>
- corporate sector	348,8	76,6	215,5	1.112,9
- households	231,5	109,0	200,3	516,5
- other	23,0	7,6	22,9	38,6
<b>Time deposits in Lei</b>	<b>1.196,3</b>	<b>452,2</b>	<b>1.347,2</b>	<b>2.766,7</b>
- corporate sector	163,6	48,8	114,6	1.202,0
- households	949,6	395,9	1.160,8	1.509,6
- other	83,1	7,5	71,8	55,1
<b>TOTAL Deposits in Lei</b>	<b>1799,6</b>	<b>645,4</b>	<b>1785,9</b>	<b>4434,7</b>
<b>Demand deposits in foreign exchange</b>	<b>414,9</b>	<b>94,7</b>	<b>156,3</b>	<b>1.103,8</b>
- corporate sector	259,6	26,8	57,4	607,4
- households	148,0	66,4	96,1	472,5
- other	7,3	1,5	2,8	23,9
<b>Time deposits in foreign exchange</b>	<b>1.267,1</b>	<b>333,1</b>	<b>630,1</b>	<b>2.078,7</b>
- corporate sector	88,9	10,0	171,5	192,5
- households	771,6	322,5	456,2	1.874,2
- other	406,6	0,6	2,4	12,0
<b>TOTAL Deposits in foreign exchange</b>	<b>1682,0</b>	<b>427,8</b>	<b>786,4</b>	<b>3182,5</b>

Source: <http://www.bnr.ro/Loans-and-Deposits-by-County>

Table no.5  
The structure of deposits of non-bank, non-government customers by county  
(in December 2014)

- lei million -

December 2014	Arad	Caras-Severin	Hunedoara	Timiș
<b>Demand deposits in Lei</b>	<b>794,2</b>	<b>244,4</b>	<b>511,7</b>	<b>2.242,1</b>
- corporate sector	441,6	94,6	233,1	1.438,9
- households	321,7	140,8	251,8	746,5
- other	30,9	9,0	26,8	56,7
<b>Time deposits in Lei</b>	<b>1.231,3</b>	<b>448,3</b>	<b>1.354,3</b>	<b>3.172,3</b>
- corporate sector	134,3	39,4	114,5	1.318,7
- households	978,8	401,4	1.173,1	1.780,6
- other	118,2	7,5	66,7	73,0
<b>TOTAL Deposits in Lei</b>	<b>2025,5</b>	<b>692,7</b>	<b>1866,0</b>	<b>5414,4</b>
<b>Demand deposits in foreign exchange</b>	<b>451,5</b>	<b>105,9</b>	<b>204,6</b>	<b>1.343,6</b>
- corporate sector	263,1	30,6	85,8	744,7
- households	180,7	73,9	115,8	568,5
- other	7,7	1,4	3,0	30,4
<b>Time deposits in foreign exchange</b>	<b>1.283,4</b>	<b>343,5</b>	<b>586,9</b>	<b>2.130,4</b>
- corporate sector	93,1	8,1	109,8	186,1
- households	775,2	334,7	474,3	1.929,3
- other	415,1	0,7	2,8	15,0
<b>TOTAL Deposits in foreign exchange</b>	<b>1734,9</b>	<b>449,4</b>	<b>791,5</b>	<b>3474,0</b>

Source: <http://www.bnr.ro/Loans-and-Deposits-by-County>

Table no.6  
The structure of deposits of non-bank, non-government customers by county  
(in January 2015)

- lei million -

January 2015	Arad	Caras-Severin	Hunedoara	Timiș
<b>Demand deposits in Lei</b>	<b>794,7</b>	<b>251,4</b>	<b>514,4</b>	<b>2.091,5</b>
- corporate sector	407,8	95,9	222,2	1.257,5
- households	343,7	145,4	261,7	774,5
- other	43,2	10,1	30,5	59,5
<b>Time deposits in Lei</b>	<b>1.241,8</b>	<b>453,0</b>	<b>1.391,4</b>	<b>3.259,1</b>
- corporate sector	143,4	39,0	141,1	1.374,3
- households	990,4	406,2	1.181,4	1.808,8
- other	108,0	7,8	68,9	76,0
<b>TOTAL Deposits in Lei</b>	<b>2036,5</b>	<b>704,4</b>	<b>1905,8</b>	<b>5350,6</b>
<b>Demand deposits in foreign exchange</b>	<b>407,7</b>	<b>107,8</b>	<b>184,9</b>	<b>1.250,6</b>
- corporate sector	219,1	30,1	69,4	627,8
- households	180,2	76,4	112,7	584,9
- other	8,4	1,3	2,8	37,9
<b>Time deposits in foreign exchange</b>	<b>1.266,4</b>	<b>341,8</b>	<b>582,2</b>	<b>2.103,2</b>
- corporate sector	89,6	6,5	107,7	187,7
- households	764,0	334,5	471,2	1.899,3
- other	412,8	0,8	3,3	16,2
<b>TOTAL Deposits in foreign exchange</b>	<b>1674,1</b>	<b>449,6</b>	<b>767,1</b>	<b>3353,8</b>

Source: <http://www.bnr.ro/Loans-and-Deposits-by-County>

From the tables above it is observed that time deposits in lei and in foreign exchange have an important share in total deposits. Timiș County has the highest amount of deposits in the West Region. Banking deposits are divided into categories and types of customers, in lei and in currency.

The results of the analysis made in this research show the volume, diversity and importance of the structure of loans and deposits of non-bank, non-government customers by county in the West Region of Romania. Loans and deposits size shows the financial capacity of companies and financial potential of the western area.

## CONCLUSIONS

The economic development is correlated with the need for financing. Banking loans and deposits represent financial resources.

Loans and deposits managed by commercial banks allow establishing the indicators to quantify the expression of the financial stability of the banking system. In this research is very important the information about bank loans and deposits. For evaluating banking activity, can be used the index credit depth of information, proposed by the World Bank. It measures the degree in which the purpose, availability and quantity of information about loans are affected by legal regulations.

In conclusion, to characterize banking systems are used a variety of indicators that highlight aspects both quantitative and qualitative of the banking activity.

In this research, the analysis of structure of loans and deposits of non-bank, non-government customers by county, shows not only the types of credit and bank deposits, but also the categories of customers with financial potential of the West Region.

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