

THE EVOLUTION OF THE BANK CREDIT STRUCTURE BY ACTIVITY OF BORROWER AND RISK CATEGORIES

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Abstract: *The evolution of bank loans in structure and dynamics is analyzed during the period 2015-2018. This research proposes a comparative analysis of the evolution of bank credits by sectors of economic activity (Industry; Services; Construction; Agriculture, forestry, fishery; Financial intermediation; Public administration and Individuals). The evolution of bank loans by risk categories (Treasury loans, Inventory loans, Equipment loans, Foreign trade loans, Commercial loans and others) shows the priorities of banks to finance these activities. Banking prudence is also found in the selection by banks in the types of loans granted to clients.*

Key words: *bank credit, risk categories, economic activity, activity of borrower*

INTRODUCTION

Bank credit represents a growth engine for the national economy of a state. It is an important source of funding made available to commercial entities by commercial banks. In their financial intermediation activity, commercial banks redistribute temporary financial resources available to the economy, to areas and sectors of activity that need these resources to carry out cost-effective activities [6]. Banks are considered to be true "locomotives" that pull after them economic development. But the excessive level of indebtedness in advanced economies was a key factor in triggering the global financial crisis of 2007 and 2008. Increased indebtedness in advanced countries, particularly in the private sector, has slowed down in the last period. However, this slowdown was offset by an acceleration of the debt growth of emerging countries. This makes the entire world financial system at least as vulnerable as it was in 2008 during the crisis [3].

The European Central Bank (ECB) appreciates more and more signals are announcing a new financial crisis in Europe [1]. It is certain that there will be a new crisis, which could originate in the real estate market. To solve the financial crisis of 2007-2008, the European Central Bank decided to offer all the liquidity required by financial institutions without limits [15]. On August 9, 2007, about 50 Eurozone banks have requested, and have obtained from the European Central Bank - ECB liquidity in the amount of 95 billion Euros to meet their obligations. Although banks are better capitalized, liquidity is abundant, for all that there are some banks that have not been sufficiently successful in mobilizing collateral and gaining additional liquidity from the market when they became subject to pressure [2].

This research starts from the role and importance that the evolution of bank credit structure has on the growth of indebtedness. The excessive level of indebtedness may be a major factor in triggering a new global financial crisis [12].

MATERIALS AND METHODS

The research carried out analyzed the evolution in structure and dynamics of credits granted by the commercial banks within the Romanian banking system [8]. Data on bank credits granted during the years 2015-2018 were systematized and compared.

Systematized, analyzed and compared credits were grouped into the following categories, depending on:

- *sectors of economic activity* (after which the following types of credits are distinguished: for Industry, Services, Constructions, Agriculture, Forestry, Fishery, Financial intermediation, Public administration and Individuals);
- *categories of risks* (after which they are distinguished: Treasury loans, Inventory loans, Equipment loans, Foreign trade loans, Commercial loans, Housing loans, Other real estate loans, Consumer loans and Other loans);
- *maturity or reimbursement terms*, according to which we distinguish: Short-term (less than one year) loans, Medium-term (1-5 years) loans and Long-term (more than 5 years) loans.

The data analyzed are those presented by the National Bank of Romania, based on the reports made by the commercial banks within the Romanian banking system [14]. These bank synthesis indicators are based on the bookkeeping of commercial banks as well as the data contained in the balance sheet aggregated in the entire Romanian banking system.

RESEARCH RESULTS

The classification of credits granted by commercial banks is based on various classification criteria. These criteria are particularly useful in banking practice because they allow banks to effectively analyze exposure and indebtedness across various economic sectors, on various risk categories as well as on various maturity terms [4]. In this research, credits were selected and analyzed only on the basis of three of the classification criteria used in banking practice. The three criteria were considered the most representative for the research carried out.

The evolution of credits in structure and dynamics, by various sectors of economic activity, during the period 2015-2018, is presented in the following table:

Table 1.
The evolution of bank credits by sectors of economic activity (activity of borrower)
– million Lei –

No.	Credits by sectors of economic activity	2015	2016	2017	2018
1.	Total Credits by sectors of economic activity, of which for:	331,270	346,440	369,204	393,640
2.	• Industry	62,624	64,604	67,785	68,740
3.	• Services	86,135	90,485	94,560	99,750
4.	• Construction	30,556	27,834	27,228	28,596
5.	• Agriculture, forestry, fishery	12,780	13,427	15,270	16,171
6.	• Financial intermediation	7,370	9,046	11,080	12,778
7.	• Public administration	14,350	14,567	15,266	16,319
8.	• Individuals	117,455	126,477	138,015	151,286

Source: Own processing of data available at:

<file:///C:/Documents%20and%20Settings/User/My%20Documents/Downloads/e2018bl12.pdf> [11]

Total credits by sectors of economic activity increased from 331,270 mil. Lei in 2015 to 393,640 mil. Lei in 2018, respectively by approximately 19%. In all economic sectors there are increases in the volume of credits, with the exception of Construction, where the volume of credits decreases from 30,556 mil. Lei in 2015 to 28,596 mil. Lei in 2018, respectively a decrease of 6.4%. In the Individuals sector, the volume of credits increased from 117,455 mil. Lei in 2015 to 151,286 mil. Lei in 2018, respectively by 29%. This is the highest recorded growth compared to the rest of the economic activity sectors, with a high vulnerability for banks.

The evolution in dynamics of credit structure by sectors of activity during the period 2015-2018 leads to the conclusion of an increase in their volume, especially in sectors with a high vulnerability for banks, namely the Individuals sector.

Analyzing in structure the credits granted for each selected year, it is noted that the largest share in Total credits granted is held by the Individuals sector, namely 35.5% in 2015, 36.5% in 2016, 37.4% in 2017 and 38.4% in 2018. In all four years analyzed, it is noted that important economic sectors, such as Industry and Agriculture, have reduced their share in the total volume of credits granted by banks. For example, in 2018, Industry accounts for a share of 17.5% of total credits, and Agriculture holds 4.1%.

The evolution in structure of credits by sectors of activity during the period 2015-2018 leads to the conclusion that the vital sectors of economic activity hold small shares in the total amount of credits granted by banks.

The evolution of credits in structure and dynamics, by categories of risk during the period 2015-2018 is presented as in the table below:

Table 2.

The evolution of bank credits by risk categories

– million Lei –

No.	Credits by risk categories	2015	2016	2017	2018
1.	Total Credits by risk categories, of which for:	331,270	346,440	369,204	393,640
2.	• Treasury loans	85,033	87,397	92,212	98,807
3.	• Inventory loans	13,048	12,994	11,110	9,928
4.	• Equipment loans	46,947	48,942	51,781	56,016
5.	• Foreign trade loans	50	43	29	17
6.	• Commercial loans	6,398	6,723	6,991	6,646
7.	• Housing loans	38,518	43,291	49,922	56,732
8.	• Other real estate loans	45,155	46,456	48,728	52,160
9.	• Consumer loans	48,712	49,297	51,385	54,995
10.	• Other loans	47,409	51,297	57,046	58,339

Source: Own processing of data available at:

file:///C:/Documents%20and%20Settings/User/My%20Documents/Downloads/e2018b112.pdf [11]

The credits selected according to risk categories refer to the following types of loans: Treasury loans, Inventory loans, Equipment loans, Foreign trade loans, Commercial loans, Housing loans, Other real estate loans, Consumer loans and Other loans.

From the data presented in the table above, it is clear that in all four analyzed years, the largest share in Total credits granted is represented by the Treasury credits. They have a share of 25.7% in 2015 in total credits granted, respectively 25.3% in 2016, 25.0% in 2017 and 25.1% in 2018. Their weight in the total credits granted by banks is kept relatively constant over all four analyzed years, respectively at about 25%. As the total volume of credits increased in the period 2015-2018, the volume of Treasury credits also increased from 85,033 mil. Lei in 2015, to 98,807 mil. Lei in 2018, respectively by 16.2%.

The smallest share in the total volume of credits granted by commercial banks is recorded by Foreign trade loans, in all four years, namely only 0.004% in 2018.

The evolution of credits in structure and dynamics by maturity or reimbursement terms, during the period 2015-2018 is presented in the Table 3.

Table 3.**The evolution of bank credits by maturity**

– million Lei –

No.	Credits by term of maturity	2015	2016	2017	2018
1.	Total Credits by term of maturity, of which for:	331,270	346,440	369,204	393,640
2.	• Short-term (less than one year)	39,273	38,798	37,472	43,418
3.	• Medium-term (1-5 years)	101,283	106,436	123,556	129,630
4.	• Long-term (more than 5 years)	190,714	201,206	208,176	220,592

Source: Own processing of data available at:

file:///C:/Documents%20and%20Settings/User/My%20Documents/Downloads/e2018bl12.pdf [11]

The three categories of credits (short, medium and long term) are presented in both structure and dynamics over the years 2015-2018. The most significant weight in total credits granted by banks over all four years is represented by Long-term credits. They register a share of 57,6% in 2015, 58,1% in 2016, 56,4% in 2017 and 56,1% in 2018. Long-term loans represent the category with the highest risk for commercial banks for at least two reasons [13]. The first reason aims at securing long-term resources for granting these credits. The second reason concerns the long-term realization and preservation of the collateral securities required by the bank for granting a credit. Besides these, the evolution of the borrower's financial position should be taken into account over the entire lending period until full repayment of the credit [7].

Short-term loans occupy a small share in the total volume of credits granted by commercial banks. In 2015, their share is only 11.9%, and in 2018 their share is 11.0%. The volume of short-term loans increased from 39,273 mil. Lei in 2015, to 43,418 mil. Lei in 2018, respectively by 10.6%, given the increase in the total volume of credits granted by banks.

From the analysis carried out, it can be observed that the volume of Medium and Long-term credits occupy a large share in the total volume of credits, as they represent a higher degree of risk for banks [5].

CONCLUSIONS

From the analysis of the evolution of the bank credit structure by sectors of economic activity, by risk categories and by maturity terms, during the years 2015-2018, it can be inferred that there is a vulnerability of the Romanian banking sector.

The evolution in dynamics of the structure of credits by activity sectors during the period 2015-2018 leads to the conclusion of an increase in their volume, especially in sectors with a high vulnerability for banks, namely the Individuals sector.

After analyzing the evolution in structure of credits by sectors of activity during the period 2015-2018 it can be concluded that vital sectors of economic activity, such as Industry and Agriculture, hold small shares in the total volume of credits granted by banks. The significant weight is held by the Individuals sector, a sector with high vulnerability for banks [9].

The volume of Medium and Long-term loans occupies a very large share in the total volume of credits, under the circumstances that they present a greater risk for banks. They require medium and long-term resources to be provided for and are designed to secure the long-term protection of the collateral required by the bank to grant a credit. These include the evolution of the borrower's financial position over the entire lending period until full repayment of the loan.

A prudent lending policy should bring a larger share of Short-term credits into the bank's loan portfolio [10]. Reducing exposure to risk can bring comfort and safety to banks, especially in the current global economy context.

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