The Role of the Banking System in Financing the Company Activities. 
An Analytical Approach

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Abstract: The banks represent the basic component of the financing system and contribute directly to the dimensional, structural and qualitative configuration of financing economy. Inside the financing space banks are considered as the main actors as they make the games, lead to the appearance and disappearance of the financial markets, orient and give dimension to the fluxes of liquidities.

Key-Words: consume credit, financing, commercial credits, current activity, investements

1 Introduction

Development of financial markets, as stated Sullivan and Steven [1] would not have been possible without the fundamental contribution of financial intermediation institutions designed to act as an interface between the owners of capital and those in need of this resource base for development business. The bank represents the main pawn in the movement process of the currency in economy, of the transfer, the transformation and its allocation. Achieving the dynamic balance between the demand and the supply of currency is directly influenced by the bank’s activity.

2 Problem Formulations and Solution

The numerous changes that took place in Romania after 1989 could not avoid the banking system. Thus, if at the beginning, the formal national specialized banks became universal banks, subsequently there were founded new banks and some of the national ones became private, so at present the private sector prevails.

The adhesion of a country to the European Union presupposed a process of assimilation of the comunitary Acquis by creating, on one hand, the adherent legislative frame and on the other hand by developing a specific institutional structure that would apply the established regulations.

In other words the first implications on a state member –and, implicitly, on the national banking system – appear before the adhesion. If the respective country decides and adopts the unique European currency, then the implications are major and numerous. All these implications must be taken into consideration as measures applied to determine the effective harmonization on a legislative and institutional level.

Beyond these implications at a macroeconomic level, one should consider a series of consequences regarding the credit institutions:

- the increase of competition not only at a national level but also at an European one;
- the elaboration and achievement of an offer of products and banking services that would satisfy the clients on a large scale thus to ensure the sell of these products and services in all the states members of the European Union without their substantial modification;
- the development of the informational system adherent to the services taking into consideration the fact that,through the Internet, can be offered to the clients trans border financial services;
- the adjustment of the national system of payment to the system used in the Euro area;
- the adjustment of the commissions level , the rates and the expenses to the one from the competitive banks in the euro area (considering the fact that the euro facilitated the transparency of the prices);

The banking system in Romania through its evolution and structure has created the premises for the implementation of the systems of administration of the clientele. The new regulations, the competition, the evolutions in creating a unique data base lead the banks in Romania to the achievement of a necessary stage in their survival- the implementation of a modern system of management
of the relations with the clients. Management is one of the essential factors that explain why a country is poor or rich.[2] Management is art and not an ordinary one, but the supreme art as it values the people’s skills. The two definitions show that management has a highlighted humane character. Leadership means a network of people that work together to attain the goals of the firms, each structure of the firm organizes and leads its own business with the only one amendment that it has to justify the results in front of the company’s management.

Romania’s adhesion to the European Union gave an impulse to the Romanian financial system to develop, transform and adjust to the West European requirements. The Romanian banking system has been transforming continuously absorbing a part of the inflexions in the evolution of the Romanian economy. The most important event can be emphasized in the case of the Romanian Commercial Bank which became private this allowing the Romanian market to enter into normality. Also different institutions started to appear on the banking market which in the next period compete successfully with the traditional commercial banks. In fact, in the banking law appeared the notion of authorized credit institutions that include( figure 1).

This reorganization is based on the main movements on the financial market like the constitution and consolidation of the surveillance activity specific to the banking domain, the extension of the international banking institutions on the local market, the appearance and consolidation of a community of the independent commercial banks, the appearance of new products and banking services adjusted to the requirements of a more and more pretentious and sophisticated clientele, the formation of a banking culture, the intensification of the competition (40 banks), the formation and development of the adjacent financial markets—insurance, capital, leasing, investment funds.

This movement also starts from the necessity of concentration over the basic activities with the highest performance – profitability. The activity of retail banking has these characteristics under crisis conditions being an essential protection of the institution’s income and under conditions of economic boom a golden mine with an important potential yet unexploited.

Due to the European integration the Romanian banks will have to accept the Basel II agreement also which is functional on the European market. This establishes new requirements of adjusting the banks’ minimal capital to the exposed risks strengthening at the same time the role of the surveillance authority.

In the contemporary era the place and role of the banks in economy are tightly connected to their quality as they are the main intermediary in the relation of economy with the investments, a decisive relation in the economic increase.

The credits given to the economic agents can be classified taking into consideration many factors, but we will refer to two criteria we believe important:

**I) The period of the credit [3]:**
- Short-term credits—starting from 24 hours (overnight) until 1 year or on the duration of a production cycle.
- Medium-term credits—between 1 and 5 years and have as objective investment operations, import or export, the purchase of long use objects (e.g. cars)
- Long-term credits—until 25-30 years for financing important objectives, for the construction of buildings (residential or other)

**II) The object:**
- Credits for production and commerce—both for the financing of the circular capital and investments;
- Expenditure credits—usually on a short-term to cover some personal expenses for the natural bodies or for the free lancers;
- Credits for import or export— in case of which the bank besides the actual credit offers specific services (e.g. the insurance of merchandise).

In many countries (including Romania) there are specialized banks to finance these operations that need the analysis of the country’s risks. Furthermore, this financing is expensive for lending and the state may overtake a part of the costs as a ramp to stimulate the exports;

- Commercial credits— according to the denomination in the account plan it refers to the given credits that have as basis the trade effects that are discounted. Their special characteristic is that

![Figure 1. The structure of credit institutions](image-url)
the active interest is cashed at the moment when the respective credit is given, the sum of money received as a loan being the difference between the nominal value of the commercial effects and the value of the interest and the adherent commissions of the service. In this category there are the discount credits, the factoring and the lump.

There follows a short analysis of the implication of the banking sector at a local level. At present in Campulung there are 10 agencies of the credit institutions such as: The Romanian Commercial Bank, BRD Societe Grup, Banc Post, Raiffeisen Bank, Volksbank, Carpathia Bank, Transilvania Bank, RIB etc. There are 2 credit institutions: the Romanian Commercial Bank which in 2008 opened a new agency in Campulung and BRD opened a new agency in 2007. In 2008 Piraeus Bank open a new agency in Campulung as well. In the year 2007 compared with 2008 the number of corporate customers is present in the table below:

Table 1. The account of the volume of clients legal entities

<table>
<thead>
<tr>
<th>The denomination of the credit institution</th>
<th>The number of clients legal entities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007</td>
</tr>
<tr>
<td>Banc Post</td>
<td>500</td>
</tr>
<tr>
<td>BRD</td>
<td>450</td>
</tr>
<tr>
<td>Transilvania Bank</td>
<td>350</td>
</tr>
</tbody>
</table>

The bulk of the credits on 31.12.2007 given to the legal entities are presented in table no.2

Table 2. The account of the volume of credits for the legal entities

<table>
<thead>
<tr>
<th>The denomination of the credit institution</th>
<th>The bulk of the credits (mii lei)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2007</td>
</tr>
<tr>
<td>Banc Post</td>
<td>22.500</td>
</tr>
<tr>
<td>BRD</td>
<td>20.000</td>
</tr>
<tr>
<td>Transilvania Bank</td>
<td>8.000</td>
</tr>
</tbody>
</table>

In a graphic these data are presented as follows:

Figure 2. Number of corporate clients on 31.12.2007 and 31.12.2008

It is noted that the number of legal entities is decreasing in 2008 compared to 2007. It is explaining the global financial crisis that has made its mark and the firmelor. In 2008 companies faced with a lack of liquidity and inability to attract liquidity by financing from banks. Banks have become more prudential lending to legal entities by national rules of lending standards in accordance with National Bank of Romania.

Figure 3. The value of outstanding loans granted to legal persons on 31.12.2007 and 31.12.2008

Also notice a decrease in the volume of loans in 2008 compared to 2007. Romanian Development Bank remains a leader on the local market on credit companies, according to Figure no. 3. This is because the bank has managed to come to market with new products for financing the activities of firms.

In 2008 firms to enable them to perform the work turned to foreign sources of financing through lending from commercial banks to finance current activity.

Figure 4. Classification loans after destinations in Romanian Development Bank (BRD) on 31/12/2008

Thus the figure, no. 4 one can observe that 60% of loans given by BRD is to finance current activity.
and only 40% for activity investitii. Lipsa liquidity situation that led to companies to resort to bank lending.

Figure 5. Classification loans after destinations in Banc Post on 31/12/2008

The data presented in Figure number 5 is observed that the situation is similar to that in BRD. I mean 85% of the Post Bank credits are credits for the current activity of firms and only 15% of the credit for business investment.

Figure 6. Classification loans after destinations in Banca Transilvania on 31/12/2008

Classification credit situation after destinations, according to figure no 6, Banca Transilvania is similar to that of the Romanian Bank and Banc Post Dezvoltare. 65% of loans granted by Banca Transilvania, companies are intended for current activity and only 35% for business investment.

Next we treat the following situation relating to the three banks: it is known that the three banks Transilvania Bank (B1), BRD (B2) and Banc Post (B3) exceed the expected level in providing loans for July 2009, with the following probabilities 0.7; 0.7; 0.8. We want to calculate the probability that: A - at least one bank to exceed the expected level, B - all banks to exceed the expected level, C- a single bank not to exceed the expected level.

We note Ai, where i = 1, 2, 3 the event that the Bi bank to exceed the expected value. Then, the events A1, A2, A3 are consistent, independent and P(A1) = 0.7; P(A2) = 0.7; P(A3) = 0.8 so:

\[ a) P(\text{at least one bank does not exceed the expected value}) = \]
\[ = P(A_1 U A_2 U A_3) = 1 - P(A_1 \cap A_2 \cap \bar{A}_3) = 1 - 0.7*0.7*0.2 = 0.982 \]

\[ b) P(B) = P(A_1 \cap A_2 \cap A_3) = P(A_1)P(A_2)P(A_3) = 0.7*0.7*0.8 = 0.392 \]

\[ c) P(C) = P(A_1 \cap \bar{A}_2 \cap \bar{A}_3) U (\bar{A}_1 \cap A_2 \cap \bar{A}_3) U (\bar{A}_1 \cap \bar{A}_2 \cap A_3) = P(A_1 \cap \bar{A}_2 \cap \bar{A}_3) + P(\bar{A}_1 \cap A_2 \cap \bar{A}_3) + P(\bar{A}_1 \cap \bar{A}_2 \cap A_3) = 0.7*0.3*0.2 + 0.3*0.7*0.2 + 0.3*0.3*0.8 = 0.156 \]

3 Conclusions

- The banking sector plays a major role in promoting the reform and the mechanism of the economic auto regulation;
- The economic agents use in their production activity, commercialization, investments —important financial assets;
- Part of these assets is ensured from own resources other from borrowed ones, taking credits that are given by the banks in the process of recycling and valorification of the available currency capital;
- On the economic market there are 5 major credit categories the most customary being: the banking credit, the commercial credit, the compelling credit, the mortgage credit, the consume credit;
- Almost 70% of the volume of the credits given by the credit institutions at a local level are designated for the current activity;
- Almost 30% of the value of credits are requested by the economic agents for investments;
- Of the investment credits most of them are designated to purchase cars, means of transport and equipments and only a small part to purchase production spaces, commercial ones and fields;
- by 2007 credit conditions were more permissive legal persons, a number of increasingly large companies with access to finance, but since 2008 are more stringent credit conditions. Banks have started to take precautions and to be as selective with people calling to credit;
- There is a need for financing through credits of the legal entities, very few companies being capable of developing their activity through their own resources;
- The credit institutions noted this fact and there is the tendency that the banks open new agencies in Campulung;
If in 2007, loans to companies could be provided by credit institutions based on financial performance, the existence of real estate securities. Take account of the customer's creditworthiness and payment behavior over a certain period (between 2-5 years), since 2008 bank lending rules were harsh;

In the last years there is noted a distinctive approach by the credit institutions of financing the IMM-s. These have created specialized lines of business. There were created new services of crediting adjusted to the companies’ requirements.

References: