

IMPROVEMENT OF FINANCIAL RELATIONSHIPS WITHIN THE ROMANIAN RURAL AREA

FEHER ANDREA*¹

¹*Banat's University of Agricultural Sciences and Veterinary Medicine "King Michael I of Romania" from Timișoara*

*Corresponding author's e-mail: feherandrea.usab@gmail.com

Abstract: *The level of the transactions of financial assets and the improvement of the financial intermediation relationships have a special importance for the mobilization of the financial resources available at a given time and their efficient use in economic activities. In the absence of some efficient financial transfers, the enterprises of any kind, agricultural exploitations, individuals that make up the capital demand may find themselves in the position of not being able to procure the required financial capital, eventually, only with bigger costs. Also, a sub-developed, inefficient financial system has negative effects also over legal persons and individuals that cannot fructify appropriately their savings or temporary available funds, resulted from seasonal collections (frequent case related to agricultural exploitations). Taking into account the above mentioned, we can certainly state that the economic and financial development cannot reach high performances without an efficient system of mobilization and allotment of capitals in the economy. The productivity and, implicitly, the living level decrease a lot, where the financial markets do not operate efficiently, fast and with low costs. These are the arguments that justify partially the weak development of economic and social activities from the rural space.*

Key words: *financial environment, financial relationships, rural area, banking, financial brokerage*

INTRODUCTION

The statistical data of 2016 [8] shows that the rural area boast 9.12 million inhabitants, representing 46% of the population, while they are served by only 11.6% of the total banking branches and agencies in Romania, and only by 11.1% of the total number of cash dispensers existing at national level [5]. For the large majority of this population, the only financial services they can benefit from are the services offered by the Romanian Post Office and/or by CEC Bank. Actually, out of the 36 operational banks present in Romania, a very low number of banks were, so far, interested in opening a branch in the rural area. The focus still rests on large human concentrations, also acting as economic interest centers.

The financing offer in the rural area, as well as the possibilities for placement of cash, are quite reduced. The lack of financing in the agricultural sector severely affects the activity and performances of agricultural undertakings and small and medium enterprises active in the agricultural sector, and it is not only a blockade in the way of new companies being set up, but particularly an inhibition in the development of the existing ones. This idea is also reflected under the fact that over 60% of the agreement concluded for the private investment measures within the National Rural Development Program for 2007-2013 were terminated due to the lack of co-financing, on the part of beneficiaries [9]. The lack of a banking record, the requested guarantees reaching up to 150% of the loan value, the reduced profitability, in conjunction with the high risk of non-reimbursement associated to the agricultural sector, whose paces and particularities are not understood by banks, make the capitalization of small and medium farmers in Romania a problem to which substantial solutions should be found as soon as possible.

The article follows the prominence of the financial relationships existing in the Romanian rural area, compared to the urban environment and the overall status in other European states. The development of economic and social activities is strictly dependent

on the existence of an efficient financial market that will bring a strong reply to the needs for financing and placement of economic operators and the population. The productivity and, automatically, the living conditions are quite reduced in instances where financial markets cannot operate efficiently, quickly and with reduced costs. These are the arguments that partly justify the precarious development of economic and social activities in the rural area.

MATERIALS AND METHODS

The development of the system and the financial environment was analyzed based on several specific indicators meant to capture the degree of development of the financial relationships in Romania, in general, and in the rural area, in particular.

The indicators used under this analysis are:

- *The banking degree of the population*, highlighted by the percentage of population owning a bank account or found to be in possession of a debit or credit card;
- *The level of financial brokerage*, which shows the size of the banking system in relation to the economic activity, calculated as a report between banking assets and the gross domestic product (GDP), or as the ratio between banking loans and the GDP;
- *Density of the banking unit network*, highlighted by the number of banking units per 100,000 inhabitants and the number of cash dispensers per 100,000 inhabitants;
- *The banking loan level for agriculture*, expressed in absolute figures and as a percentage from the total number of loans awarded to the economy;
- *The volume of banking loan awarded per surface unit*, calculated as the report between the volume of the banking loan for agriculture and the usable agricultural area.

Principal data originates from the statistics of national banks of countries considered in the study, articles published in dedicated magazines and data obtained from the Ministry of Agricultural and Rural Development.

RESEARCH RESULTS

Reality shows that serious efforts are needed in order to connect the rural area to the financial market. In the rural area, only 35% of the population owns a bank account, which is over two times less than the percentage in towns, i.e. 78%, while 85% of city dwellers own a bank account. During 2015, 61% of the country's population were in contact with at least one bank, which reflects the reduced level of contact of the entire population (including people in urban areas) with the financial market, considering that Romania saw the operation of 36 banks, with agencies and branches all over the country. According to the information supplied by the World Bank, Romania is ranked last, from the perspective of the population's banking degree.

In Romania, only 61% of the population owns a bank account, compared to Bulgaria, with 63%, Hungary 72%, the Czech Republic 82% and Austria, with 97%. In Eurozone states, the banking degree is 95%. The high number of inhabitants in the central and east-European region that does not cooperate with banks is, in fact, an immense potential for credit organizations, on the retail section [1].

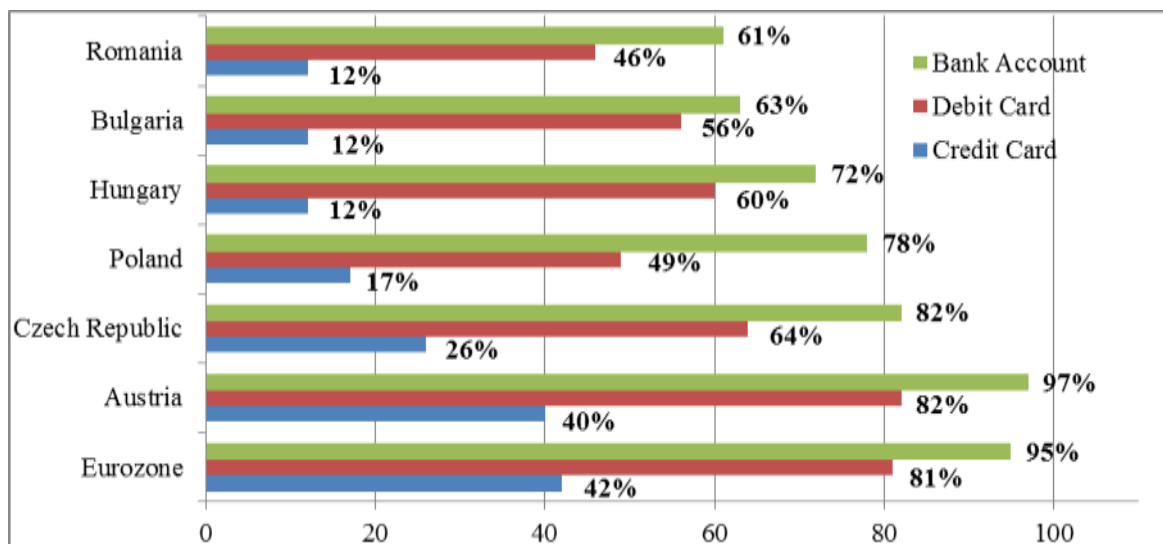


Figure 1. The level of banking of the population (%)

Source: Data processed after World Data Bank, <http://databank.worldbank.org/data/home.aspx>

If we consider the level of financial brokerage in Romania, the situation is similar. Romania is ranked last in the region in what concerns the level of banking assets related to the Gross Domestic Product, with a value of 60%. In Lithuania, such indicator is at 70%, Slovakia, 85% and Poland, 91%. Countries with a level of financial brokerage in excess of 100% are Hungary, 109%, Germany 268%, the Netherlands 369% and France, 383%.

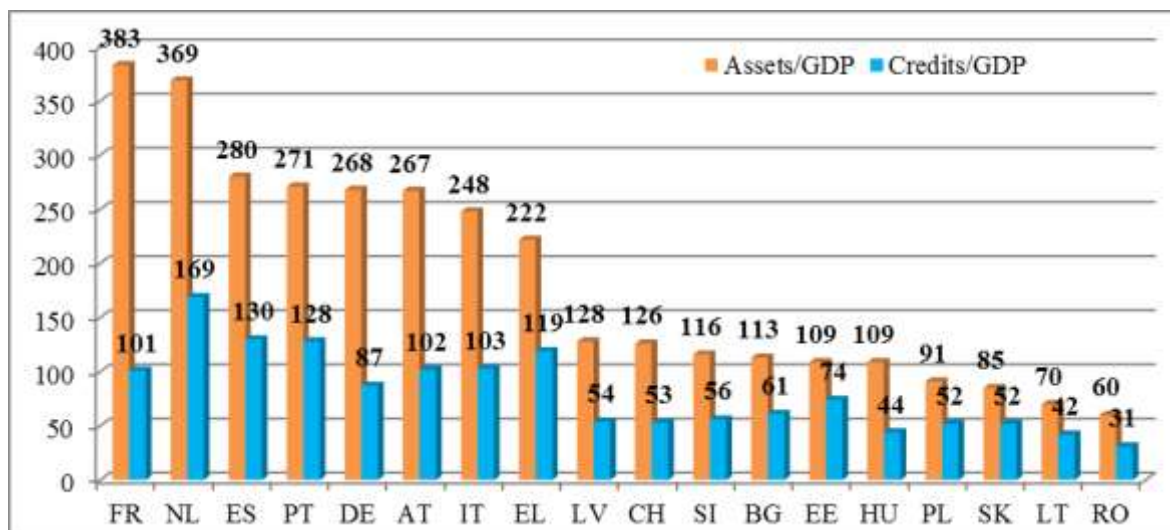


Figure 2. The level of financial brokerage (%)

In Romania, half of banking assets are represented by loan placements, which reflects the reduced degree of engagement of banks on the capital market. Compared to us, France has more than two thirds of assets placed in financial equity, same as Germany, the Netherlands, Italy, i.e. the developed EU countries.

If we consider the percentage of banking population and the level of financial brokerage in Romania, the current situation is quite worrying, however, speaking about the density of the banking unit network, the situation is a little better. In Romania, we find 29 banking units per 100,000 inhabitants, while Hungary has 15, Poland 31 and Bulgaria, 61 banking units per 100,000 inhabitants (Figure 3) [10].

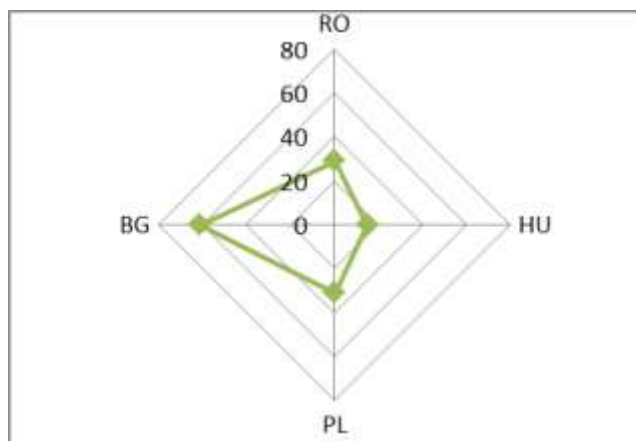


Figure 3. Number of banking units per 100,000 inhabitants

In relation to the banking network in the rural area, the situation is not very adequate, in this case. The rural area sees only 11.6% of the total bank branches and agencies in Romania present, and also only 11.1% of all cash dispensers existing nationally. Reported to the number of inhabitants, the density of agencies in the rural area is 6 per 100,000 inhabitants, compared to 46 per 100,000 inhabitants in the urban area.

Table 1.

Bank presence in Romania: rural vs. urban

Spreading of agencies and cash dispensers

	Agencies	Cash dispensers
Rural	11.6%	11.1%
Urban	88.4%	88.9%
Agencies and cash dispensers per 100,000 inhabitants		
	Agencies	Cash dispensers
Rural	6	11
Urban	46	79

Source: GBI Consulting/MARD, 2015

The more or less developed monetary and financial market offers different cash placement possibilities. In Romania, the main form of placement are banking term deposits and treasure notes [2, 3]. Both usually show a low remuneration level since the interest received for such placements is sometimes, quite close to the inflation rate or, in certain periods, even lower, which makes the value of cash decrease in time and placement of cash under such assets will show a low profitability level. Placement alternatives, being limited or non-profitable, turn a part of the temporary cash availabilities into currency (particularly, in euros), with all consequences arising from such process. Also, the reduced representation of the financial and monetary market in the rural area and the lack of convenient placement alternatives lead agricultural manufacturers into reinvesting their cash availabilities into stocks of material necessary in the agricultural production, for periods sometimes quite distant (over several months). In parallel, another section of the rural area inhabitants operate on a non-banking financial market – represented by Mutual Aid Funds (MAF) and cooperatives -, but also private persons or traders. The fact that an there is an informal (non-institutionalized) loan market in the rural environment, next to the organized (formal) one, shows that there are numerous equity resources not capitalized by the existing financial organizations.

Another very important aspect, reflecting the low level of participation of rural households in the monetary market, is determined by the reduced number of those having obtained a loan. In fact, the level of loans awarded for the agricultural sector by the

credit organizations in Romania, was around €2790 million, in 2015, representing 4% of the total volume of loans [11]. Although, in our country, along the most recent years, one may notice an improvement in loans offered to the agricultural sector, in the sense of increasing the total volume of loans granted, from €164 million in 2000, to €2790 million, in 2015; however, we are still far off the situation encountered in other European Union countries. For instance, in Germany or France, the level of banking loans meant for agriculture financing is much higher, 17.9 times higher in Germany (€50004 million) and 17.1 times higher in France (€47650 million). Hungary orients towards agriculture 5.7% of the total loan volume, i.e. around €1000 million annually (Table 2).

Table 2.**Loan levels for agriculture in Romania and other European states (2015)**

States	Total loans mil. €	Banking loans awarded for agriculture		RO:States
		mil. €	% of total loans	
Germany	1314171	50004	3.8	1:17.9
France	1606263	47650	3.0	1:17.1
Hungary	19053	1083	5.7	1:0.4
Romania	68972	2790	4.0	1:1

Source: Data processed after national bank statistics

After analyzing the level of banking loans awarded per area unit (Table 3), of the four countries considered under the study, we find that Romania ranks last, with €214/ha. Hungary awards €233/ha, France, 8 times more, €1718/ha, while Germany, €2994/ha, i.e. 14 times more than Romania.

Table 3.**Banking loans awarded per area unit (2015)**

States	Utilised agricultural area (thousands ha)	Total banking loans for agriculture (mil. €)	Banking loans per ha (€/ha)	RO:States
Germany	16699	50004	2994	1:14
France	27739	47650	1718	1:8
Hungary	4656	1083	233	1:1,1
Romania	13056	2790	214	1:1

Source: Data processed after national bank statistics and the Eurostat database

Commercial banks in Romania continue to show less interest in awarding loans to small farmers. The particularity of the agricultural crop, the risk associated to the agricultural crop the profite rate in the agricultural sector, generally lower than in other field of activity, the reduced individual value of a loan, reduced possibilities to anticipate the future evolutions of agricultural undertakings are factors contributing to the increase in the management costs for such type of loan, and all the aforementioned are causes for limitation of the loaning process in the agricultural sector.

CONCLUSIONS

The evolution of financial systems and their current features influence the behavior of economic operators and, particularly, their financing potential.

The underdevelopment of financial relationships in the rural area severely affects the activity and performances of agricultural undertakings and small and medium enterprises in the rural area, constituting a blockade in the way of their future development.

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