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BANKING DEPOSITS OF POPULATION. CHARACTERISTICS IN ROMANIA

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INTRODUCTION

- The Solow-Swan model is a model of long-term economic growth, established within the neoclassical theory. It attempts to explain long-term economic growth by analysing capital accumulation, labour force or population growth and technological progress
- Stimulating domestic savings through appropriate economic policies is essential in the case of Romania, thus being able to limit the dependence on foreign capital inflows in the next period, in which we need to finance a large volume of investments

INTRODUCTION

- **The savings is an important variable of economic growth, being influenced by the following factors:**
- **A. demographics** - the age structure of the population affects saving
- **B. the macroeconomic environment** that can be characterized by:
 1. the evolution of GDP;
 2. the amount of income available to economic agents;
 3. **the level of the interest rate, as the main impetus of those who obtain income in saving them;**
 4. the forecast evolution of prices or in other words the anticipated evolution of inflation.
- **C. the state fiscal policy** - high taxation is not likely to encourage saving and investment in financial assets.
- **D. institutional factors** - the development of the financial system, the number and value of loans can affect the volume of precautionary savings (when the volume of credits in the economy is large, the loan conditions are assumed to be more relaxed and as such the need for precautionary savings is lower).

DATABASE – ANALYSIS AND RESULTS

- The study starts from some general hypotheses related to the factors that may influence savings of the population and from the finding that most of the savings of the population in Romania are placed in various forms of bank deposits.
- This is due to the fact that the Romanian financial system is dominated by banks - "the banking sector remains the segment with the largest proportion in the financial system (74.1%)", there are too few financial instruments to invest savings and the population has little financial knowledge to be able to invest in other markets.
- **The savings of the population and their placement in bank deposits are adversely affected by factors such as:**
 - temporary loss of confidence in the banking sector;
 - a major change in the behaviour of the population, in the sense of accentuating the appetite for consumption (2003-2007);
 - increasing or maintaining attractiveness for other types of assets, such as: treasury certificates, real estate investments;
 - increasing the population's indebtedness;
 - recording a real negative level of interest rates on time deposits;
 - tightening of the tax regime of interest income, the 10% tax on interest on time deposits

DATABASE – ANALYSIS AND RESULTS

- **In a positive sense, the demand for time deposits of the population is influenced by:**
 - increase of the revenues of this segment (having as sources the increase of salaries, transfers from the state budget and remittances from abroad),
 - reduction of the income tax rate from 16% to 10%,
 - maintenance of the low area and volume of financial investment alternatives.

Table 1 Deposits evolution of households during 2015-2019 (bil. lei)

Data	Total deposits of households	Total overnight deposits	Overnight deposits in lei	Overnight deposits Foreign currency	Total deposits on terme	Deposits on terme in lei	Deposits on terme Foreign currency
2019	222.398,9	103.848,4	59.587,4	44.261,0	118.550,5	71.547,0	47.003,4
2018	198.726,3	85.196,6	50.548,1	34.648,5	113.529,7	69.813,6	43.716,1
2017	178.659,8	70.890,4	43.995,3	26.895,1	107.769,4	67.558,2	40.211,2
2016	163.462,0	55.481,1	35.205,5	20.275,6	107.980,9	68.437,2	39.543,7
2015	146.780,3	39.900,1	24.701,2	15.198,9	106.880,2	66.979,3	39.900,9

DATABASE – ANALYSIS AND RESULTS

**Table 2 Comparison between different interest rates and the inflation rate
during 2015-2019 (%)**

Data	ROBOR at 3 months	ROBID at 3 months	Inflation rate	Interest on monetary policy	Interest rate at the deposit facility	Interest rate on term deposits existing in the balance; households	Interest rate on overnight deposits; households	Interest rate on new term deposits; households
2019	3,18	2,86	3,8	2,50	1,50	1,87	0,06	1,98
2018	2,70	2,70	4,6	2,50	1,50	1,38	0,07	1,76
2017	1,66	1,66	1,3	1,75	0,75	0,90	0,06	0,79
2016	0,90	0,46	-1,5	1,75	0,25	1,11	0,13	0,90
2015	1,02	0,59	-0,6	1,75	0,25	1,62	0,22	1,48

CAUSES, IMPLICATIONS AND CONSEQUENCES

- **As can be seen, the main characteristics of saving in Romania are:**
 - the savings of the population are poorly diversified, mainly in cash and bank deposits,
 - the only savings instruments that have competed with bank deposits in recent years have been government securities,
 - in Romania, savings have been evolving for many years in the absence of an alternative, as there are no other instruments with high yield potential,
 - this allowed banks to repay the deposits corresponding to imperfect competition.

CAUSES, IMPLICATIONS AND CONSEQUENCES

- The money saved in bank not only does not remain with the same purchasing power, but even brings its reduction. This has grown since 2017, due to interest rates, which are twice lower than the inflation rate. In 2018 deposit interest rates were three times lower than the inflation rate.
- The interest rates offered by banks today for the Romanian savings are no longer related to the market realities. Since the end of 2016, the policy of attracting deposits has totally decoupled from the situation in the economy.
- Despite rising inflation and ignoring the interest rate hikes decided by the NBR, the average return on deposits between three and six months (the most used) fell to an all-time low of only 0.79% at the end of 2017.
- Specifically, the one who made a one-year deposit at the end of 2017, lost 3.81% of the amount deposited, i.e. the difference between the average interest rate of 0.79% and inflation at the end of 2018 of 4.6%. Therefore, a depositor who collects a lower interest rate than inflation decreases his purchasing power, having the opportunity to buy fewer products.

CONCLUSIONS

- **Although there is a more than vigorous increase in the saving of the population through banks, this is not due in any case to the attractiveness of interest rates offered by credit institutions. the desire of those who save not to risk investing in risky financial instruments, the fear of thefts, the security offered by the FGDB by guaranteeing the return of savings in case of bank failure.**
- Unfortunately, there is a series of obstacles to saving such as:
 - the remuneration of bank deposits is not stimulating, at least for the last three years, the population who saves money loses it,
 - money is also lost due to poor financial training of the population,
 - the poorly diversified Romanian financial market has allowed the creation of a monopoly of banks that effectively dictates interest rates on the market,
 - in general, saving suffers due to the lack of alternatives, with reference to the few saving instruments and institutions,
 - the state, by taxing interest income, does not stimulate saving.

CONCLUSIONS

- **Some proposals to exit from this situation refer to:**
 - financial education must increase in order to be able to know more about saving tools and methods and because the risks of saving placements will increase,
 - development of the financial market with the participation of the state, in order to reduce the monopolistic influence of the credit institutions on the deposit market