LOCAL ECONOMIC STRUCTURE ANALYSIS OF THE NORTH - WEST OF ROMANIA

BĂTRÂNCEA Maria¹, BECHIS Liviu², POPA Anamaria³

¹, ³Bogdan Voda University, Cluj-Napoca
²Vasile Goldis University, Arad

Abstract.

In terms of legal, political regionalization is characterized, in comparison with regional decentralization, by giving legislative power to regional assemblies, which has extensive powers, whose content is defined and guaranteed by the Constitution or at least in a constitutional text and to exercise it is an executive with the characteristics of a regional government. Regional development is therefore a form of organization of public administration with specific skills that can contribute to enhancing cooperation between administrative units and to strengthen local autonomy. Regional development in a country maybe the be highlighted with a set of financial ratios used in analyzing effects at the micro level.

Keywords: regional development, financial independence, financial balance, financial stability

JEL classification: H72

1. Literature review on financial structure

Analysis of balance sheet structure is known as vertical analysis of balance sheet assets and liabilities. It consists in determining the proportions

¹ professor Ph.D., Faculty of Economics, Department of Management, Bogdan Voda University, Cluj-Napoca, Romania, batrancea_maria@yahoo.com
² lecturer Pd.D., Faculty of Economics, Department of Finance, Vasile Goldis University, Arad, Romania, liviabechis1960@gmail.ro
³ lecturer Ph.D., Faculty of Economics, Department of Finance, Bogdan Voda University Cluj-Napoca, Romania, anyiap@gmail.com
of various assets and liabilities positions in total assets, thus highlighting the relative composition of assets is the county administration in the North-West, and the share of liabilities (debt and equity) in total capital district administrations Northwest region, explaining their contribution to the financing of county administration in the North-West. (Mironiuc, 2006, p 249)

The vertical analysis can be repeated for several successive years, thus combining the chronological analysis (horizontal) balance sheet to provide information on developments in the balance sheet structure under the impact of internal changes and interactions county administration in the North-West with the environment business. (Mironiuc, 2006, p 249)

The analysis is performed using rate structure or composition, which facilitates assessment of the elasticity or stiffness of the county administration in the North-West so to adapt finance and investment policy changes imposed by the external environment. (Mironiuc, 2006, p 250)

Other experts in the field consider that vertical analysis is an analysis of the structure, which can refer either active (static analysis of total fixed assets and current assets etc.) Or passive (equity analysis and so on). (Gheorghiu, 2004, p 225)

Structural analysis highlights the importance of financial and economic resources of certain components in county administration activities in the North-West, their relationships. Resources structure depends on: the industry; resilience of the county administration in the North-West to the environment, the strategy adopted in a given period (development, stagnation, regression) administration capacity in the North-West district of change resources it holds; need credit and access to resources, funding and policy requirements not least investors (dividend distribution / accumulation). (Petcu, 2003, p 421)

Rates structure is relevant in assessing the financial position and performance of county administration in the North-West by facilitating comparisons (sectoral averages, competitors etc.) And follow their evolution in time, to observe deviations temporary or lasting, separation trends and making decisions accordingly. (Petcu, 2003, p 421)

Economic structure analysis seeks economic analysis of different elements share. Analytical method is rate method. (Vâlceanu, Robu & Georgescu, 2004, p 345)

Rates structure allow "normalization" "Situation Heritage", it helping to ease comparison between companies of different sizes and rapid
observation of structural changes in a company over time. (Vâlceanu, Robu & Georgescu, 2004, p 345)

Balance sheet structure rates are obtained by analyzing vertical positions are determined by dividing the total assets and liabilities on its balance sheet. These rates highlight the financial characteristics of the county administration in the North-West, such as: the ability to turn assets into cash, autonomy and financial independence of the county administration in the North-West, quality short-term financial balance or structure financial (funding) the county administration in the North-West (Petrescu, diagnostic analysis and accounting, 2008, p 163). Next, we address the problem of the structure of assets and sources of their origin.

2. Method and results

2.1. Analysis of assets with rates structure

This analysis is necessary to diagnose the state of performance as reveals the extent to which a company's assets involved in providing economic circuit of county administration in the North-West. Ratios of assets structure are grouped into:
- the overall non-current assets;
- the overall rate of current assets, which in turn breaks down into: rate inventory claims rate, rate of short-term financial investments, cash and cash equivalents in the rate of house and bank accounts of the county administration in the North-West and - expenses ratio in advance.

Figure1: Weight of the main categories of assets-North-West (percentage of total assets)
Source: own illustration based on aggregated balance sheet of county government in the North-West

From the above plot it is observed that the share of total assets Non-current assets hold more than 80%, current assets recorded values ranging from 7.44% in 2011 and 11.89% in 2009. Counties the situation is presented in the following table.

Given the specific activity of county government that is principally engaged in infrastructure modernization, we consider that the structure of county governments assets corresponds Mission Northwest region, which have sufficient financial assets mainly in the form of tangible assets (infrastructure) and in a proportion of 10% in assets that provide the operational activity of productive activities. Under these circumstances, we believe that the impact on their performance status will not be negative. To identify the contribution of each component, we detail the structure analysis on the three active groups: non-current assets, current assets and prepaid expenses.

a) The overall non-current assets (RAN) shows the share of the assets they hold in the total assets of the economic unit. Non-current assets ratio is calculated as a percentage ratio between net book value of non-current assets property (AN) and total assets (AT) as follows:

\[
RAN = \frac{AN}{AT} \times 100
\]

An increase in non-current assets compared to the beginning of the financial year, means a county administration building infrastructure and on this basis there is increased credibility that county administration for investors and creditors. A decrease in non-current assets ratio means either a recovery of the initial investment or a disengagement of county government economic investment programs.

Non-current assets rate decomposes into three segments: Non-current assets Intangible rate (AFNc) Tangible non-current assets ratio (AFC) and financial non-current assets ratio (AFN).
As shown in the above representation, the share of total non-current assets Fixed assets return values between 72.19% and 85.47% in 2007-2011. Intangible assets and financial accounts for between 15% and 27% of these assets particularly through the development of intangible assets. If we consider the specifics of these territorial entities, we believe that a significant share of fixed assets is a strong point of activity, and a solid guarantee for loans accessed by the local government from financing banks.

b) The overall current assets (RACR) shows the share of these types of assets in the total assets of the county of North-West:

\[
RACR = \frac{ACR}{AT} \times 100
\]

To avoid interpretative errors should be noted that this report values depend largely on the characteristics of county government in the North-West (production, trade) and the particular production cycle, which is reflected in the composition of current assets. Some authors consider that a value close to 40% of the indicator is specific industrial enterprises. (Mironiuc, 2006, p 251)

In the Northwest region, this indicator has the following values: 10.87% in 2007, 11.12% in 2008, 11.89% in 2009, 10.12% in 2010 and 7.44%
in 2011. Increase annual index since 2005 means a slowdown in the production process (as increased stocks of finished products, ie gas production).

**Figure 3: The share of each category of non-current assets Non-current assets to total**

<table>
<thead>
<tr>
<th>Current Assets</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disp Reg N-V</td>
<td>7.26%</td>
<td>7.34%</td>
<td>8.78%</td>
<td>6.44%</td>
<td>3.04%</td>
</tr>
<tr>
<td>IFTS Reg N-V</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>CR Reg N-V</td>
<td>0.69%</td>
<td>0.51%</td>
<td>0.51%</td>
<td>1.50%</td>
<td>2.13%</td>
</tr>
<tr>
<td>ST Reg N-V</td>
<td>2.92%</td>
<td>3.27%</td>
<td>2.60%</td>
<td>2.18%</td>
<td>2.27%</td>
</tr>
</tbody>
</table>

Source: own calculus

To identify the causes that led to this situation, this indicator refined analysis of its components, namely: stock ratio (RS) claims rate (RCR) and the treasury rate (RTR) as follows:

- inventory rate decreased from 3.27% of the share in 2008 to 2.18% in 2010. The upward trend in the rate of total current assets stocks in 2007-2008 and 2010-2011 only because stocks of finished goods rate. In general, the indicator values are large enterprises subordinated to county governments in the production and trade and low in service sector enterprises. Increasing the share of stocks could be explained by: the lack of a policy to optimize materials stocks, cyclical conditions that determine supply more than necessary with certain items of inventory, reducing the rotational speed of stock items, prolonging manufacturing cycle etc. All property, financial resources they require, and precise knowledge of cases involving stock structure analysis. (Mironiuc, 2006, p 252)
The structure of current assets, receivables have an insignificant share între0 evolving, SI2 50% in 2007, 13% in 2011.

Adding value ratio means the intensification of trade relations with third parties and immobilization of liquidity. Its value depends on the nature of county government customers in the North-West and the terms of settlement set out in contracts with partners. Typically, the default ratio is small retail businesses in the service, the cash proceeds are realized. (Mironiuc, 2006, p 252)

Treasury territorial administrations analyzed showed an upward trend of its share in total current assets, from 7.26% in 2007 to 8.78% in 2009, thereby strengthening their ability to pay. Reduction of liquidity between 2009 and 2011, may affect the balance of short-term component entities of county government.

Literature recommends employment index between 5% and 25%. Exceeding the maximum may indicate the existence of underutilized cash as would indicate descent below minimum liquidity problems in the enterprise and the need to resort to short-term bank loans to finance operating activities. It is known that the available funds is highly variable on short time intervals, which makes interpretation of the indicator should be undertaken with caution. (Mironiuc, 2006, p 252)

2.2. Analysis of liabilities with rates structure

Financial structure of capital reveals how profits will be split between different donors and additional funding to increase capacity in the future.

Rates liabilities structure shows that the share of different categories of liabilities they hold in total.

Professor Lucian Buse believes that the company's capital structure, its analysis aims at assessing the main strategies and financial policies of the company, on the formation of financial resources by categories of sources and maturities. Therefore, the financial structure can be followed by several criteria, namely: the criterion chargeability and by ownership.

In our opinion, based on the analysis of capital structure ratios reveal how county government borrowing from the Northwest region in two consecutive moments with impact, positive or negative, on state of county government performance.
Figure 4: The share of debt (current and non-current) Total liabilities and equity

From the above analysis it is observed that the prevalence in total liabilities, equity returns: 96.87% in 2007, 94.25% in 2008, 92.65% in 2009, 93.23% in 2010 and 93.22% in 2011. Such a constant evolution in the period, reflecting the strengthening of self-financing of regional analysis, positively influencing its performance status.

- Debts to be paid within one year have evolved as follows: 1.94% in 2007, 2.52% in 2008, 2.96% in 2009, 4.31% in 2010 and 4.28% in 2011 they still having a positive impact on performance status.

- Long-term liabilities and provisions have insignificant weights (from 1 to 4.5%) in total financing sources, county councils thus having sufficient own resources.

- The structure of equity rates highlight how to ensure in-house financial effort territorial entity. In this respect, considering both capital development and the size of reserves from revaluation of assets and reserves from net profit from ordinary activities.
The data analysis presented above the following:

- the percentage of the equity structure and funds large (about 2/3) and one-third share of legal reserves;
- share legal reserves, although decreasing every year, do not fall under the law, which is below 20% of the capital.

2.3. Analysis of financial equilibrium with rates

Financial equilibrium analysis can be done on one side with indicators total financial autonomy, financial stability, financial autonomy, leverage, financial security on the one hand, and on the other hand with liquidity and solvency indicators.

No doubt the financial equilibrium analysis of administrative entity can not ignore the competition in which it is involved, which is why we analyzed the evolution county administration in the North-West.

A first indicator of financial stability analysis is the county government financial autonomy rate.

a) The rate of total financial autonomy or patrimonial solvency (OMF, no. 596 of 28.03.1995, approving the Methodological Norms regarding the budgeting of income and expenditure by autonomous institutions and state-owned companies, pg Annex 9, section .7) expresses the degree to which
local governments can meet payment obligations. The indicator is calculated as the share of equity in total liabilities.

\[
RAFT = \frac{CPR}{PT} \cdot 100
\]

A high value of this indicator signifies an increase in self-financing capacity of local government district.

Patrimonial solvency is considered good when the result exceeds 30%. (Slope, Oprean, Matisse, Pop, Pascal, & Deaconu, 1999, p 481)

Literature for this report recommended value of 33%, while banks set the limit "threshold" value of 30%, knowing that bank risk increases when decreasing the degree of financial independence governments in the North-West district. From the point of view of the banks, if government forced liquidation of assets in the North-West district, capital must be sufficient to absorb losses in liquidation (asset shrinkage). In general, forced liquidation of assets leads to loss of value because some assets have a return value, you lose the work of county government in the North-West is interrupted. (Mironiuc, 2006, p 254)

Like other professionals we believe that a higher level of this rate of 30-40% is sufficient to ensure financial stability, while the normal level is considered to peer around 50%. (Buse G., 1994, p 74)

**Figure 6: The evolution of county government financial autonomy in the North-West**
If county governments in the North West total financial autonomy rate had a downward trend from 96.87% in 2007 to 93.22% in 2011, which ensures their long-term equilibrium.

We believe that the large share of own funds in total resources ensures long-term self-financing capacity of government investment projects in the North-West district.

b) **Financial stability rate** highlights the investment capacity of district administrations. The indicator is calculated as a percentage ratio between permanent equity and liabilities county government.

\[
RSF = \frac{CPM}{PT} \times 100
\]

Predominance of permanent capital in the total financial resources of county government in the North West shows the permanence of funding and provides a degree of safety administrations of North-West district. Financial Practice proves that the situation is comfortable for any entity, and hence the local government when the ratio has ranged between 50% and 66%, because there is steady increase in resources compared with current resources. In dynamic increasing trend indicator is appreciated, especially when done by increasing the higher rate of equity relative to debt over one year. Diminished
value report reflects a favorable situation only when the reduction of permanent capital in total capital district administrations Northwest region is explained by decreasing payable over a period longer than one year. (Mironiuc, 2006, p 254)

**Figure 7. The evolution of the financial stability of county governments in the North-West**

<table>
<thead>
<tr>
<th>Year</th>
<th>Financial stability in N-V region</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>98.06%</td>
</tr>
<tr>
<td>2008</td>
<td>97.48%</td>
</tr>
<tr>
<td>2009</td>
<td>97.04%</td>
</tr>
<tr>
<td>2010</td>
<td>95.69%</td>
</tr>
<tr>
<td>2011</td>
<td>95.72%</td>
</tr>
</tbody>
</table>

Source: own calculations based on government balance sheets in the North-West County

If county governments in the region northwest financial stability of a downward trend as follows: 98.06% in 2007, 97.48% in 2008, 97.04% in 2009, 95.69% in 2010 to 95.72% in 2010. This, though declining, signifies a solid financial stability.

c) Financial autonomy rate shows the ratio between equity and permanent equity.

\[
(5) \quad RAFTM = \frac{CPR}{CPM} \times 100
\]

From research conducted found that in order to ensure financial autonomy, equity share must be at least 50% of permanent capital.
Under this limit, any entity is in an unfavorable position regarding the risk of insolvency. Dynamically, it is estimated that this rate should be increasing trend, when favorable situation due to the increase in equity and debt relief in the medium and long term. Reducing this rate is acceptable if the company is investing and financing calls for the medium and long term loans, provided that the entity to benefit from financial leverage. (Buse G., 1994, p 74)

**Figure 8: The evolution of financial autonomy within the county governments in the North-West**

<table>
<thead>
<tr>
<th>Financial Autonomy Rate in N-V region</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>98.79%</td>
<td>96.68%</td>
<td>95.47%</td>
<td>97.43%</td>
<td>97.39%</td>
</tr>
</tbody>
</table>

Source: own illustration

An increase of this indicator will have beneficial effects on total financial autonomy county administrations analyzed.

If county governments in the region northwest term financial autonomy rate had an upward trend from 98.79% in 2007 to 97.39% in 2011. Counties the situation is presented in the following table. This reflects the ability of local governments to honor their matured obligations to third parties.

d) The term debt is calculated as a percentage ratio between loans and long-term financial and equity.

\[
RDTL = \frac{\text{CTL}}{\text{CPR}} \times 100
\]
According to tax regulations in force (* Law no. 571/22.12.2003, regarding the Fiscal Code, p art.23 (1)) indicator is called "capital indebtedness" and is determined as the ratio of capital term loan repayment over a year and equity averaged over the existing values at the beginning and end of the period for which the tax is determined. By debt means total loans and loans with repayment term of one year. A value less than 1 indicator allows the trader to deduct the full cost of bank interest. Since 2006, bank interest expenses are fully deductible if capital indebtedness is less than 3.

Other experts consider that this indicator should not be less than 50% for the financial loans relate to permanent capital, and less than 100% above model, which means the existence of long-term debt lower than equity. This is a guarantee of repayment of loans taken from banks. (Buse G., 1994, p 75)

An increase in financial dependence indicator means time high.

Figure 9. Term borrowing rate development of county government in the North-West

<table>
<thead>
<tr>
<th>Year</th>
<th>Term Borrowing Rate in N-V region</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>1.20%</td>
</tr>
<tr>
<td>2008</td>
<td>3.41%</td>
</tr>
<tr>
<td>2009</td>
<td>4.74%</td>
</tr>
<tr>
<td>2010</td>
<td>2.63%</td>
</tr>
<tr>
<td>2011</td>
<td>2.56%</td>
</tr>
</tbody>
</table>

Source: own illustration

If county governments in the region northwest term financial borrowing rate had a downward trend from 1.20% in 2003 to 2.56% in 2011. Positive aspect as own resources ahead stressed bank loans, thus explaining the solvency of county government in the North-West.
3. Conclusions

Analysis of regional development through financial structure highlights the following issues:
- establishment and evaluation of active relations between different elements, on the one hand, and debt and equity, on the other hand in the analyzed region;
- highlighting major qualitative changes in state funds (assets) and sources (debt and equity) generated by internal changes and interaction with the socio-economic development of the region analyzed;
- the appreciation of the region's economic and financial development;
- foundation of government financial policy and strategy development region.

4. References


