Statistical approaches of the credit and the banking rating in the national economy

Abordări statistice ale creditului şi ratingului bancar în economia naţională

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Abstract

The appearance of the credit is closely related to the appearance of the commercial banks, the mobilization of the monetary disposals on the market and their efficient placement to the funds solicitors is being accomplished through credits. The credit giving can be generally described as the process through which a certain value is loaned to a potential debtor which has a certain activity, accepting a financial risk to the possibility that that person/entity may not be capable to fulfill their obligations in the future.

Keywords: *bank credits, evolution, rating, the balance credit/deposits, weight of credits*

Rezumat

Apariţia creditului este strâns legată de cea a băncilor comerciale, mobilizarea disponibilităţilor monetare de pe piaţă şi plasarea lor eficientă către solicitanţii de fonduri se realizează prin intermediul creditării. Acordarea unui credit poate fi în general descrisă ca fiind procesul prin care o anumită valoare este împrumutată unui potenţial debitor care desfăşoară o anumită activitate, acceptîndu-se un risc financiar asupra posibilităţii ca acea entitate/persoană să nu fie capabilă în viitor să-şi achite obligaţiile.

Cuvinte-cheie: *credite bancare, evoluţie, reiting, raportului credite/depozite, ponderea creditelor*

Introduction

On an international level the banking system is dynamic because the banks are consolidated through merges, acquisitions, but also on the base of the bankruptcy of other banking societies. The concentration of the financial-banking sector has become a current phenomenon, while in the Republic of Moldova it is a broadening process. Given these conditions, in the banking universe, numerous risks have an impact over the profitability. These multiple sources of the risk make the number of the definitions given by the economists regarding the bank risk bigger. In this universe where the quantitative administration of risks has a very important function, the generic concepts are more frequently used. Different types of risks must be carefully defined, and these definitions are the basis for the quantification of risks and the implementation of an efficient system for their administration (Green & Lynch, 1999).

Bank loan

The credit loaning is an important function of the banks. The general level of risks in the credit that a bank is ready to cover represents an executive decision and reflects the managerial attitude (Basno & Dardac, 1999). It regards the bank's obligations towards its depositaries and its share holders.

The credit as an expression of the redistribution relationships represents an approach which starts from the economic contends specific for the credit, respectively the transfer of one part of the social product from some participants of the economic circuit to the other participants of this circuit (Basno, Dardac, Floricel, 2003). Unlike other relations of redistribution of income, for example taxes, which have a definitive feature, the credit is a particular form of these relations, through its temporary feature of the transfer in the economy. The complete definition of the credit can be accomplished through taking into consideration and the correlation of these three approaches, which can lead to the following phrasing:

The credit represents an economic category which expresses relations of repartition of a part of the GDP or the national revenue, through which there are mobilized and distributed the disposals of the economy and there are created new means of payment, for the purpose of satisfaction of some capital needs and the accomplishment of certain objectives of the economic policy (Dardac & Vascu, 1999; Turliuc & Corbiş, 1997).

The bank has powerfully balanced businesses. The shareholders' capital is usually up to only 4-6% of the total assets of the bank. Thus any growth, no matter hoe modest of the rate of non performance credits in the credit portfolio will cause a dramatic decline of the revenues returned to the shareholders. Also, a high level

of non profitable credits can damage a lot of the capital which is the basis of the bank's assets, just as easily as it can damage the public trust in the future viability of the bank. Following the path of the global economy's tendencies, the area of the banks' activities has extended a lot on the national markets and the international ones. The financial markets have become more fragile, more exposed to the hazard. This fact has lead to a focused increase of uncertainty and consequentially to the multiplications of the risks specific to the banking institutions.

The numerous events have shown that the problems that banks deal with result from the risk increase. This happens because the future evolution of assets and the cost of expenses can not be predicted properly. The future evolutions depend on the future events such as inflation, the monetary policy, and changes in the net domestic product. The basis of the problems which banks are dealing with is the micro and macroeconomic *factors*. These factors show the importance of risk because risk administration represents the essence of banking activity and the main problem they are dealing with. Other economists consider that risks, which's apparition makes a bank become unsolvable, depend on the variation of the level of income forecasted to be obtained and the variation of the expenses covered by the income (Isaic- Maniu, 2000).

The evolution of credits and deposits in banking system of Republic of Moldova

The credit process at the bank system level and also the depositing activity of the banking system have an positive evolutionary feature, so that if the sum of the credits for the year 2008 has increased by 4019.22 thousand lei compared to the year 2007, then the sum of deposits in the year 2008 has increased by 4091.97 thousand lei compared to the year 2007. Still, analyzing the annual balance of total credits/deposits for the years 2002/2008, we can observe the evolution from Figure 1.

This fact can also be explained partially by the dynamic of the rate of interest for the credits and deposits for the physical and judicial entities. Thus, if the modifications of the interest rates for the credits of the physical and judicial entities during the last years have registered moderate increases, then the interest rates for the deposits for the physical and judicial entities have registered more significant increases, attracting deposits in the last years.

In the year 2008 the average interest rate for lei credits has increased compared to the year 2007 by 3.55%, while the average interest rate of the lei deposits has increased in the year 2008 by 4.04% compared to the previous year. We can also notice that in the year 2008 the interest rate modification of the credits and deposits offered in foreign currency is more visible compared to the previous year. So, in the year 2008 the average interest rate of the foreign currency credits has increased by 3.9% compared to the year 2007, the biggest "jump" of the interest rate in the 2004-2008 period, the increase being more prominent in the case

of the foreign currency deposits, these increasing in 2008 compared to 2007 by 5.6%. We can easily notice that the average interest rate of the credits and deposits in foreign currency have a growing rhythm more visible in the year 2008 compared to the growing rhythms of the interest rates of the previous year, a fact that can be partially explained by the defensive policy of the banking sector regarding the credit portfolio approached in 2008, which was correlated to an acerb promotion of the banking deposit products.
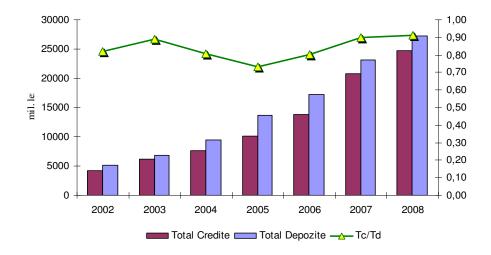

Figure 1. The evolution of credits, deposits and the balance credits/deposits for the years 2002-2008
Source: Elaborated by the author based on the annual report regarding assets, credits, obligations and capital of the banking system of the Republic of Moldova (BNM, 2009)

Also, studying the average interest rates of the interests for the physical and judicial entities in lei and foreign currency we can notice a stabilization in the years 2007 and 2008 of the interest rates for the credits offered in foreign currency, so that after an almost radical increase from the year 2006 by 20.27% for the credits offered in foreign currency, the years 2007 and 2008 have been characterized by a stability of the interest rates these being of 14.33% in the year 2007 and 15.87% in the year 2008.

The major role of the supervising authorities is the one of preventing the systemic risk through the promotion of an efficient banking supervision which can ensure the realization of the stability and viability of the banking system. In this sense has been imposed the necessity of implementing the Uniform System of Bank Credit CASMPL. The system consists of an efficient work instrument for the evaluation of the banking institutions with the purpose of identifying in an incipient

phase the inefficient banks under a financial and operational aspect or the banks that manifest adverse trends, soliciting an increased attention from the supervising authorities.

Bank rating

According to the regulations of the NBM and the international classifications of the risk categories, the bank rating is a determining factor in establishing the credibility of a crediting institution and respectively contributes to the banks' capacity to be perceived as a crediting agent who is efficient and secure. According to the efficiency coefficients, the agency "Estimator VM" has elaborated "The Classification of Commercial Bank Efficiency in the Republic of Moldova" published annually. The classification is based on the capital component and the total rotation of assets. In the year 2007 the first 5 banks in the efficiency classifications have been: Moldova Agroindbank, Economies Bank, Victoriabank, Mobiasbanca, BCR Chisinau. In the year 2008, the classification has placed in the first 5 places the banks: Moldova Agroindbank, Victoriabank, Economies Bank, Moldinconbank, Eximbank SA Gruppo Veneto Banca.

The bank rating is a significant component in determining the credibility of crediting, the credits of the banks with a higher rating having a significant weight in the whole banking system, thus increasing in the year 2008 by 7.70% and reaching 64.86% from the total of given credits in the year 2008, as follows.

The weight of the credits in the banking system according to the bank rating in the years 2007 – 2008 (%)

Tabel 1

Rating	2007	2008	2008/2007
Rating 1 (2007,2008: Moldova Agroindbank)	22.83	20.35	-2.47
Rating 2 (2007: Banca de Economii; 2008: Victoriabank)	8.00	14.13	6.13
Rating 3 (2007: Victoriabank; 2008: Banca de Economii)	13.61	8.04	-5.57
Rating 4 (2007: Mobiasbanca; 2008: Moldinconbank)	7.77	12.93	5.16
Rating 5 (2007: BCR Chisinau; 2008: Eximbank)	4.94	9.39	4.45
Total weight of banks according to rating	57.16	64.86	7.70
Other banks	42.84	35.14	-7.70
Total Banks	**100.00**	**100.00**	**-**

Source: Computations made by the author based on the Classification of Commercial Bank Efficiency in the Republic of Moldova (EVM Group, 2007), the Bank Financial Reports, annual report regarding assets, credits, obligations and capital of the banking system of the Republic of Moldova (BNM, 2009)

The uncontested leaders, the banks situated on the first 3 positions according to the bank rating in the years 2007 and 2008 remain Moldova Agroindbank, Economies Bank and Victoriabank, occupying leader positions in the top of bank efficiency, but as we notice not the biggest weight in the bank system of the Republic of Moldova.

Also we notice that although totally the banks placed in the places 1-5 according to the bank rating have a weight of 64.86% in the total of credits in the bank system, the bank with the 1 rating from this classification (unchanged leader Moldova Agroindbank) has registered a decrease of 2.47% in the weight of credits in the year 2008, occupying though an important market sector in the creditary domain of 20.35% as to 22.83% in the year 2007. It is also notable the credit modification of the banks with the rating 2 and 3. Although the weight in the credit sector has registered an increase for Victoriabank and the Economies Bank in the year 2008, the weights growing by 0.52% for Victoriabank and respectively by 0.04% for the Economies Bank, the mutual changes of rating positions determine a weight modification according to the bank rating of 6.13% for the rating 2, and a decrease of 5.57% for the rating 3. The weight changes for the years 2007 and 2008 can be observed in Figure 2 and Figure 3.
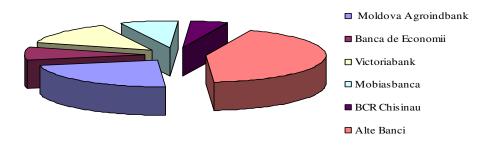

Figure 2. The weight of the credits given by the first 5 banks according to the bank rating classification in the year 2007

We notice that in the year 2007 the weight of other banks with an efficiency rating smaller on the credit market is 42%, a fact that can be explained by the market segments of the last 2 banks according to the rating of approximately 8% and respectively 5% for Mobiasbanca and BCR Chisinau. Still, in average, we notice that the other 10 banks with a smaller rating have a credit weight by 4.2% smaller than the most efficient banks declared officially.
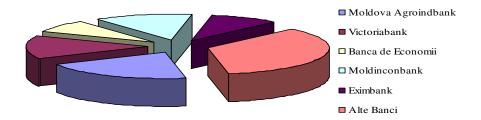
Figure 3. The weight of the credits given by the first 5 banks according to the bank rating classification in the year 2008

The increase if the market segments of the banks situated on the places 4 and 5 is due first of all to the change of the banks on these places, in the year 2008 the new banks becoming Eximbank Gruppo Veneto Banca and Moldoinconbank, a fact that has caused a weight of the other banks on the bank market of 36% decreasing by 6% compared to 2007.

Worth mentioning is the fact that although Mobiasbanca does not occupy a position in the top 5 of bank efficiency, the market segment owned by it in the credit market in the year 2008 is 9.03%, increasing by 1.26% compared to the previous year, which confirms the fact that although the bank efficiency has decreased significantly, the rest of the components of the bank rating CASMPL have been maintained and even improved, contributing to an increase of credit products diversity and respectively a market quota in the credit domain. An essential factor which contributes to the growths of sums of credits offered by the banks in the bank system is the publicity factor, so that an aggressive promotion of credit products and international partnerships in obtaining funds for credit will contribute to a significant growth of the weight of the credits on the bank markets. We could say that the bank system as a whole is susceptible to publicity and significantly any change of rating will affect directly the performances of the bank in the loaning plan.

Also, based on the analysis of the credit risk, can be studied the evolution of the risk fund at the national level as a process that corresponds to the rating practices, given the fact that Moldova is a part of the states with a bank rating Supervised according to the international rating company Fitch International. So, at the same time as the evolution of bank rating, there is taken into consideration the credit rating of the country, which also includes as part of analysis the risk fund at a national level.

Conclusion

Of course the evolution of the risk fund corresponds to the evolution of credit sum offered by the banks to their clients, but a sudden evolution of the risk fund determines an increased risk category evaluated by the commercial banks of the Republic of Moldova. Thus, comparing the increase by 19.36% of the credits given in the year 2008, compared to the year 2007, the increase of the risk fund of 37.63% in the year 2008 as to the year 2007, indicates a worsening of the credit rating of the enterprises, so that the placement of the credits given to these is made according to more rigorous risk categories, respectively based on a tougher bank rating, or a higher rating mark (in the case of the NBM classification the mark 2 or 3).

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