

UPGRADING OF INDICATORS WHICH QUANTIFY THE RISKS AND DIMENSION THE CREDITS AS A RESULT OF CREDIT CRISIS

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The credit crisis has generated a lack of liquidities at the whole national economy level which finally will lead to decapitalizations among the economic agents and the banks. Under these conditions the financing of the capitalization process gets new capacities in this stage of our country development imposing it as an objective necessity. The problems the national economy confront with and of whose solving depends the reaching of objectives in the process of market economy strengthening and of economic welfare increase, can be surpass only by an adequate capitalization of all the activity sectors. For it the banking system should re-examine the crediting policy that should have as a central axis the national economy capitalization at the level of all its economic links meaning that the instruments of credit volume dimensioning and those of risk quantification should be re-defined according to the new purpose.

Key words: capitalization, non-financial aspects, economic performance, SWOT analysis.

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1. Introduction

In 2006 the World Bank performed a study on 100 countries published at Oxford University Press – *Doing Business in 2007: How to Reform* regarding the impacts of credits upon the national economy. Starting from this study, Martin Brown and Christian Zehnder in the article *Credit Reporting, Relationship Banking and Loan Repayment* (Swiss National Bank Working Paper No. 2006-3) and afterwards taken by Journal of Money Credit and Banking have raised the problem of effects the credit has upon the financial markets performances and the borrowers standing for a relation between the borrowers and the banks to contribute to the performances increase.

The confronting of banking financial institutions with new risks but also the accentuation of the existing ones means the starting point in issuing the new international regulations regarding the capital suitability these being doubled by an adequate management at the organizations level in the crediting process.

At the international level lots of magazines of international circulation (quoted ISI) offer places for articles dealing with the problem of capitalization in banking sector and business environment. Among these we mention: Journal of Money Credit and Banking (U.S.A), Journal of Finance (Oxford), Journal of Banking & Finance (Amsterdam). In Journal of Money Credit and Banking in 2007 was published Valeriya Dinger and Jurgen von Hagen's article intitled *Does Interbank Borrowing Reduce Bank Risk*. They empirically analyze Central and East Europe banks concluding that they need an urgent recapitalization.

2. A SWOT analysis drawing up at the national economy level in the process of its capitalization financing.

One of the most used modalities of analysis and successfully applied at international level is the SWOT analysis (strengths, weaknesses, opportunities, threats). This analysis is based on the investigating style and consists of:

-strengths;

- weaknesses;
- opportunities;
- threats.

The analysis can be used for the economic agents which aim at the capital increase, their partners and the banking institutions but also at the proper activity of banks financing the process of capitalization.

We will try to present for the first time a model of SWOT analysis for the national economy considering that it is opportune in the process of capitalization. Although this technique of analysis is used at microeconomic level we will extrapolate further on the investigating style at macroeconomic level according to table no. 1.

Table no. 1

SWOT analysis at the national economy level in the process of capitalization process

STRENGTHS	WEAKNESSES
OPPORTUNITIES	THREATS

Strengths in the process of capitalization at macroeconomic level can be as follows:

- banking system has a network of banks strongly capitalized;
- clients portfolio belonging to banking institutions assures an adequate dispersion of risks;
- products offered by the banking system support national economy capitalization;
- deviation between active and passive interests is adequate;
- credits portfolio is performant enough.

Weaknesses in the process of capitalization are given by:

- decision makers which are not progressive;
- banking products which do not adapt to the requirements of capital increase;
- big interests for investment credits;
- unsatisfactory rate of exchange;
- the economy is sub-credited and sub-capitalized.

Opportunities means external factors that should be considered in the process of capitalization:

- more and more important role of foreign banks in the process of capitalization;
- integration of Romanian money market;
- joining the European Community;
- introduction of European unique currency;
- participation to the external capital markets.

Threats can be achieved or not but they must be known and quantified:

- appearance on internal financial market of some foreign banks which are aimed at speculative purposes by the performed operations;
- competence at European level is stronger and stronger;
- national economy specialization aimed at certain branches according to the instructions got from outside the country;
- co-optation of some Romanian specialists by other national economies;
- pressure of rates of exchange.

In the proposed model of analysis are combined internal factors with external factors that should be unitary treated with the biggest responsibility. In practice, the model applied at microeconomic level tends to insist more upon strengths and opportunities. This mood of approach is very harmful and it does not represent the interests of an economy whose main objective is the process of capitalization.

3. The analysis of non-financial aspects in the process of capitalization

In the process of national economy capitalization banks should consider the non-financial as well as the financial aspects regarding the activity of economic agents applying for credits. The capitalization of economic agents as a basis of national economy capitalization depends on a complex of factors among which some are shallowly dealt with in the specialized literature and in practice. In this respect, a greater care should be taken of non-financial aspects whose action in the process of capitalization can have surprising effects.

Within the non-financial aspects an important place is held by the type of property on capital knowing that the base of capital increase means the capital itself. In this respect it is very important to know what is the capital nature, private or state-owned. If the capital is of mixed type, the owners should be known in details and if there are not differences in opinions regarding the strategy of capital increase. In practice was found out the inclination to the consumption of the received profits by some proprietors with administrative jobs with negative consequences on the process of capitalization. Such a state can be eliminated by appointing in managing jobs some administrators whose payment should be done in accordance with the achieved economic and financial indicators as well as the future strategy regarding the capital preservation and increase.

If there are more shareholders it is possible to follow only the increase of the shares value for the stock exchange purpose (stock exchange capitalization), commercial banks being obliged to find out these intentions but the central bank will have to impose some restrictions to finance such cases.

Another non-financial aspect is represented by the general information about the society among which we are particularly interested in the capital amount and the level of competence of the associations regarding its increase or decrease. The financial and the credit institutions are required to check these information at the Commerce Registry where they can get information about the capital increase or withdrawal as well as about its structure. Concomitantly information about the field of activity should be obtained because the capital amount differs from one branch to another in the national economy being bigger for industry, transports and smaller in trade or services.

The company managerial team as another non-financial aspect is interested by progress. In other words, the leaders should be seen how much they are progressive. A progressive managerial team will always adopt strategies of capital increase as well as of their structure improvement.

The human capital as a component part of the company capital nowadays becomes more and more interesting. This is a non-financial aspect with response in the process of capitalization for which it is important to act for a continuous perfection, the participation with suggestions in management, the stimulation in order to increase fidelity and not the least to use all the intellectual and professional aptitudes at the highest level.

The business is interested by its added value which will be the support of the capital increase. The value increase should not be followed at any rate but its dimensioning so that it should assure the capital increase as well as the market segment maintenance and increase.

A market of a business means the support of the achievement of the new created value as a base of the capital increase its winning depending on a complex of elements of which more important are product, clients, competition, suppliers, marketing policy (price policy, distribution policy, advertisement and advertising are more important).

As I previously stated, the process of national economy capitalization is not possible without a proper crediting by the financial and credit institutions. The analysis performed by banks should emphasize the analysis of non-financial aspects. In several countries has been found out that a non-financial aspect of a crucial importance in granting performant credits is the quality of borrowers managerial team. This criterion has begun to be introduced in our country too, being even accepted by some norms introduced by The Romanian National Bank.

To create an equilibrium between the bank risk profit, incomes and the capital, in practice has been imposed an analytic background called „Windows on risk” (departments regarding the risk to control concentrations on each country, products, industry and client, to reduce the vulnerability regarding portfolio, operations, technology and legislation). This concept implies:

- short-term forecasts drawing-up regarding the external global environment, underlining major risks;
- examination of risk banks profile which affects business and money operations;
- initiation of actions which determines the risk profile as a response to the risks perceived by environment and portfolio analysis.

4. Upgrading of indicators used in the analysis of financial performance

After the analysis of non-financial aspects it is required as a second stage of the credit risk analysis the determination of financial performances. According to BNR norms the analysis of financial performances will be done on the basis of accountant financial states existing at the end of the year or the term. The analysis should consist of information of the existing last checking balance so that the data should be more relevant.

If the credit granting are not especially aimed at the capitalization of the economic agents the analysis done on the basis of more recent states could be sufficient. But if the financing is aimed at the capitalization of the economic agents then the analysis is necessary to be done on the basis of the financial states at the end of the last three years and the latest checking balance.

Using this type of analysis we could draw pertinent conclusions on the politics approached by the economic agents in the process of capitalization. If the own capitals and the loans have increased in the analyzed period then the conditions in which this increase has been registered should be found out: as a result of permanent capital re-valuation, as a result of new capital subscription or as a result of contracting new loans. If permanent capitals have been revaluated the revaluated shares will be identified and how this revaluation was done. If there are contracts for new loans will be identified the amounts, the periods of time, the financed activities and the guarantees formation.

If there is a decrease of capitals it will be analyzed if the business dimensions have been reduced, if shares selling have been done, which is the nature of the sold shares as well as the reason of the shares selling (they are not necessary or they have been sold to face some due debt).

To form a reason for capitalization it is not sufficient that the economic and financial performance of economic agents should be determined strictly in accordance with the introduced regulations. The economic and financial analysis should also emphasize the way the indicators will look after the loan has been granted because by debts increase with this credit amount the liquidity, the solvency and the debt level will get worse. Thus, the performance becomes a concept that comprises at the same extent the past information as well as information with forecast character. Under these conditions the calculation of the main indicators of the credit analysis should take into account also the credits amount for which the analysis is done according to table no. 2.

Table no. 2

The main indicators of credit analysis

Indicator	(1)	(2)
Liquidity	Floating assets ----- x 100 Debts with due date under one year	Floating assets ----- x 100 Debts with due date + Credits under one year
Solvency	Total assets ----- x 100 Total debts	Total assets ----- x 100 Total debts + Credits
Leverage	Total debts ----- x 100 Own capitals	Total debts + Credits ----- x 100 Own capitals
Gearing	Financial debts ----- x 100 Own capitals	Financial debts + Credits ----- x 100 Own capitals
Liquidity for a future period	Own money resources + Forecasted returns ----- x 100 Debts due for crediting period	Own money resources + Forecasted returns ----- x 100 Debts due + Credits for crediting period

The calculation of the indicators in column number (1) it is actually done by each bank correcting the positions at dominator as well as at numerator by various balance positions according to the strategy applied in the risk credit analysis. In column number (2) were put into calculation also the credits the bank clients apply for and for which the risk credit analysis is done even at the date of the analysis these are not registered in the checking balance.

The putting into calculation of the credits amount the debtors apply for leads to decrease the risk regarding the appearance of some non-performant credits. At the same time this way of calculation is to change some bank clerks' false ideas according to which the credits are granted when the client "goes well" but also of some company managers according to which the credits are granted when the client "goes wrong".

5. Conclusions

A performant bank strategy should consider the reducing of banking risks. The premises of risks appearance in crediting derives from the very complex character of relations which appears in the process of capitalization financed by credits. The increase of banking performance and the decrease of risks can be determined by the diversification of credits portfolio.

In the trial to finance the process of capitalization the risks approach should be done first of all, starting from the bank capitals that should be protected and afterwards strengthened, finally allowing a better finance of the process of capitalization at the level of all sectors of activity. Secondly, the risks avoiding should concern also the results by which the activity of economic agents is ended after the credit has been returned. That is why the economic indicator upgrading which analyzes the economic agent financial performances becomes an objective necessity under the present economic conditions.

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