

THE CONCEPT OF THE CREDIT POTENTIAL OF THE BANK AND THE FACTORS THAT DETERMINE IT

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Abstract:

In the context of the economic crisis, caused, among other things, by the COVID-19 coronavirus pandemic, banks faced a shortage of attracted financial resources as a result of falling incomes of the population, bankruptcy of enterprises, and rising unemployment. The lack of financial resources provoked an outflow of depositors from banks. At the same time, for the same reasons, the demand for credit services of banks increased.

The study is aimed at improving methodological approaches to the concept and structure of the credit potential of banks.

In particular, there is no single approach to the definition of the concept of "credit potential of the bank", its structure, as well as the factors influencing it. In addition, there is no consensus on the formation of a methodology for assessing the bank's credit potential.

Keywords: credit potential of banks, economic crisis, bank

JEL Classification: E43, E58

Introduction

The main purpose of the operation of any financial institution on a global scale is to maintain the stability of the banking system and ensure the sustainable economic development of the country. The banking system is the financial anchor of the economic development of the state, because it acts as a financial instrument that provides support and enables the development of small and medium enterprises in the country. In order for the bank to be able to ensure the stable development of business within the country, it must realize and maintain its own potential at a decent level.

The potential of a bank (from the Latin potency - opportunity, power) is a set of strategic resources at the disposal of a commercial bank that determines the limits of financial capacities when it operates under certain conditions. There is also the opinion that the bank's potential includes the value of its own capital and available tangible and intangible assets.

Description of the problem

The formation and implementation of the lending policy of a commercial bank cannot be without the methods and forms of financial support for the bank's credit potential.

In banking theory, there are two approaches to determining the credit potential of a commercial bank. According to the first approach, the credit potential of a bank is, on the one hand, all the funds available to a credit institution, on the other hand, those intangible assets it owns. These include the bank's staff, quality management and established work methods, organization of the lending process, information technology, etc.

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However, the approach given ignores the limits of using the sources of funds mobilized in the bank for granting a loan and performing other active operations. This issue is of great importance for the bank's activities.

Every commercial bank faces the primary task of mobilizing cash and placing it in optimal assets. At the same time, not all funds accumulated by a commercial bank are available for active operations.

The development of lending operations of commercial banks is largely determined by the level of their lending potential, which tends to show an asymmetric reaction to positive and negative management decisions and to the impact of the external environment. The asymmetry is manifested by a relatively high degree of resistance to positive, creative influences, expressed by a decrease in the reaction to them, while negative and destructive influences can produce a fairly quick and tangible negative effect. The efforts to structure and maintain the efficient functioning of the banking system are always greater than those that cause its destruction, so it is always easier to cause damage than to achieve an equivalent positive effect. This property of the credit potential is also a function of its absolute value: a high value ensures increased stability, but significant efforts are required by the bank for each unit of its increase. The crediting potential of a lower value allows ensuring increased rates of relative growth, but to the maximum extent it is subject to the influence of external and internal negative factors.

The conditions for forming and using the credit potential of commercial banks as a whole are complex and contradictory. The state of the lending potential of commercial banks was determined by the following factors:

- deep crisis in the non-financial sector of the economy;
- hard monetary policy, which led to an extremely narrow monetary base and, as a result, to defaults, to the use of monetary substitutes;
- the inefficient structure of household savings, characterized by a large amount of individual savings concentrated outside the banking system.

The bank and its customers in the process of forming and using the credit potential pursue various economic interests, the bank's needs for financing sources of the credit potential and the needs of its customers for financing from the credit potential are closely interconnected and can be determined by the following parameters: profitability, liquidity, property structure, debt capital structure, customer base, risk minimization.

The credit potential of a commercial bank is the sum of the funds mobilized in the bank minus the liquidity reserve [2, p. 10].

The formation of the credit potential of the bank is determined by the possibility of creating the optimal quantitative and qualitative characteristics of the resource support for credit activities. In our opinion, the formation of the financial component of the bank's credit potential is the basis for creating the necessary credit potential in the bank.

As previously mentioned, the totality of financing sources mobilized by the bank represents the total financial potential of the bank's lending activity, whose funds can be used for lending purposes, but not in full. The structure of the net financial potential of net lending activities can be represented as a set of own financing sources and part of borrowed ones, without regulatory requirements.

A commercial bank, lending the free funds of its principals, immediately assumes the obligation to ensure the timely return of these funds. Any commercial bank must create a reserve of liquidity and reliability from each fund unit attracted by it.

The set of factors presented below has an objective impact on the general level of the credit potential of a commercial bank:

- the total amount of funds mobilized in a commercial bank;
- the structure and stability of sources of credit potential;
- the level of mandatory reserves established by the NBM;
- the way of using the mandatory reserves, when the use of these reserves is allowed to maintain the current liquidity of a commercial bank;
- the total amount and structure of liabilities of a commercial bank.

All sources of credit potential are divided into own and borrowed funds. Based on the principle of liquidity, the borrowed funds of a commercial bank consist of short-term and long-term funds. An analysis of the credit potential of the bank, based on the urgency and speed of circulation of funds for individual passive operations, makes it possible to calculate approximately what part of the funds received from a passive operation can be used as a stable credit resource for a certain period, while the remaining part should serve as a liquidity reserve.

At the same time, in our opinion, the concept of credit potential must be clarified, since the term "potential" itself implies that the bank has real and potential opportunities to mobilize resources. The first part of the credit potential - the real financial potential of the bank's lending activities - is characterized by sources invested in credit operations in various forms, and its balance sheet value at each specific moment in time is equal to the value of the bank's credit investments. In fact, the real financial potential of lending activities is an impersonal monetary fund formed from various sources and placed by the bank in lending operations.

Depending on the degree of influence on the final result of the formation and use of the bank's credit potential, it is advisable to distinguish two components in its composition: assets - resources and opportunities that directly and directly affect the final performance during the study period, liabilities - those resources and opportunities that during the study period have a slight influence on it, but subject to the application of a certain set of motivational and stimulating measures, can become a strong source of increasing the efficiency of its use.

Highlighting the active and passive parts of the bank's credit potential is important, both theoretically and practically, because it allows, first of all, the objective assessment of the degree of utilization of the bank's credit potential and, secondly, to identify the intensive and extensive factors for increasing the efficiency of training and its use.

We consider that the inclusion of modern monetary policy measures, to be opportune, provided that it is oriented towards ensuring a sustainable economic growth.

The possibility of achieving the objectives set by the commercial bank, as well as obtaining the expected economic effect, depends on the structure of the bank's lending potential.

In order to study the structure of the credit potential of a commercial bank, it is necessary to constantly solve problems such as:

- taking into account the sources that make up the bank's lending potential;
- determining the functional role of each resource for the creation and use of bank credit potential [1].

In the economic sphere, only financial resources are included in the structure of credit potential, but a broad understanding of its structure should not be limited only to the financial component (figure 1).



Figure 1. Sources that provide the structure of the credit potential of the bank

Source: elaborated by the author

The resources that act as sources that ensure the credit potential should provide an opportunity to characterize the bank's lending activity, the objectives of the formation and application of the credit potential, the relationship between elements and groups of resources, as well as the definition of the credit potential as the basis of credit activity, as a dynamic and transformational category.

The quality of the structural elements in the composition of the credit potential must be taken into account in interrelationship and interdependence during all stages of the crediting process. Based on this, it is recommended to combine the sources that provide the structure of the bank's credit potential in the following groups of elements that are also components of efficiency: financial, technical-organizational human resources and customers. The main elements of the bank's lending potential are schematically presented in figure 2.

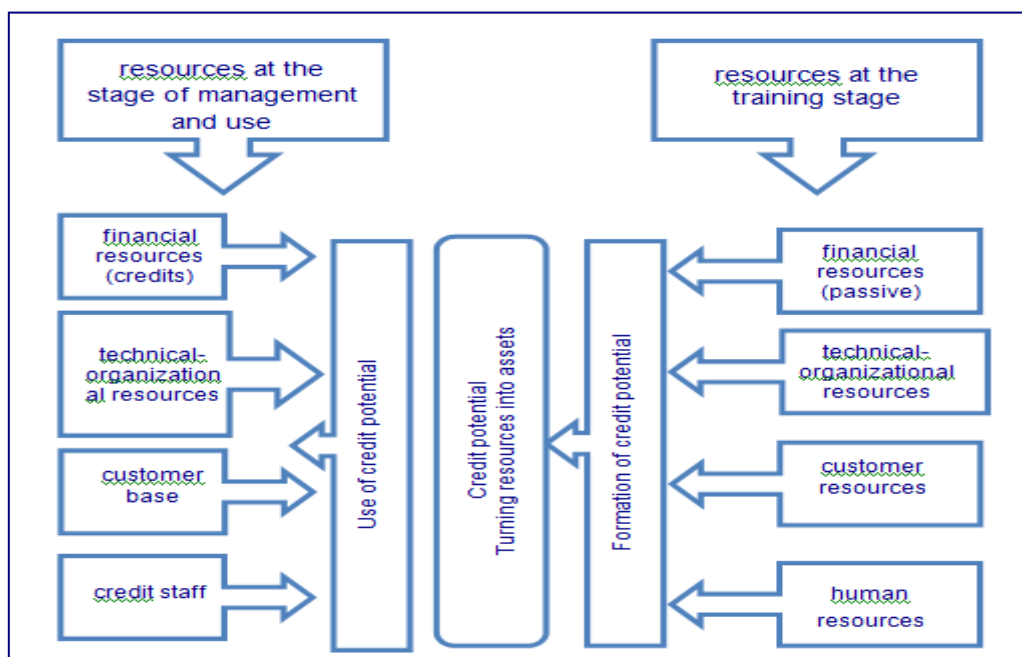


Figure 2. Elements of the bank's credit potential structure

Source: elaborated by the author

Thus, the structure of the credit potential of a commercial bank is represented by two generalized components:

- elements that ensure the formation of credit potential;
- elements that determine its placement possibilities, that is, its use and management.

In the stage of credit potential formation, liabilities are a set of accumulated financial resources that can be transformed into loans.

Technical-organizational resources are business processes, innovations and technologies, i.e., everything that ensures the accumulation of financial resources.

Customer resources are understood as a set of potential customers that provide a constant cash flow in the form of financial resources. Human resources represent a set of operational and managerial personnel involved in the accumulation and transformation of resources.

In the stage of using and managing bank credit potential, all financial resources are transformed into financial assets, which are credit products. Technical-organizational resources, i.e., business processes, innovations and technologies, ensure the crediting process in all its stages. The customer base is represented by a combination of all categories of borrowers. Lending staff at all levels are involved in the effective transformation of resources.

Methodology and Data Sources

In banking theory, the credit potential of a commercial bank is defined as the difference between the total amount of funds mobilized in the bank and the liquidity reserve. Any commercial bank aims to create a minimum liquidity reserve and ensure the maximum credit potential, based on reliability, liquidity and profitability.

In world practice, it is optimal to maintain the primary reserve at the level of 5-10%, the secondary reserve - 10-15% of the volume of deposits. Thus, the total liquidity reserve will be 15–25% of the volume of deposits [1].

In order to evaluate the credit potential, it is recommended to use the credit potential utilization efficiency coefficient, which is calculated according to the formula:

$$Kucp = \frac{\text{Total credit}}{\text{the estimated amount of the credit potential}} \times 100\% \quad (1)$$

where *Kucp* - the coefficient of use of the credit potential.

Based on these values, the estimated size of credit and credit potential for the banking system of the Republic of Moldova will look as shown in table 1.

Table 1. Calculation of the coefficient of use of the credit potential

Indicators	2017	2018	2019	2020	2021
Total loans, mil. lei	33473,29	35452,75	40375,46	45643,21	56359,17
Total deposits, mil. lei	59989,54	63577,37	68449,69	79699,04	90145,7
Total liquidity reserve, mil. lei	3624,5	3558,7	4485,9	9324,3	10717,05
The estimated amount of credit potential, mil. lei	56365,04	60018,67	63963,79	70374,74	79428,65
The coefficient of use of the credit potential, %	59,39	59,07	63,12	64,86	70,96

Source: elaborated by the author based on data from
<https://www.bnm.md/bdi/pages/reports/drsb/DRSB1.xhtml?id=0&lang=ro>

The results presented in the table show that the crediting potential of the banking system in 2017-2018 is insignificantly reduced from 59.39% to 59.07%, even if all elements of the calculation relationship have increased. The following years demonstrate an increase in lending potential from 59.07% to 70.96% with the increase in loans granted per system from 35452.75 million lei to 56359.17 million lei and the estimated value of the potential of credit from 60018.67 million lei to 79428.65 million lei.

These values demonstrate that the economy of the Republic of Moldova has overcome the problems of the pandemic period and favorable conditions for continuous development have been created.

To fully use the crediting potential of the bank, it is necessary to implement the methods of calculating the crediting limitation. The setting of the limits, based on the assessment of the experts, may generate an unjustified increase or decrease of the credit limit. Reducing the limit may make it impossible for the bank to fully use credit resources and, accordingly, not receive the planned interest income. The maximum profit on the lending potential can be achieved when there is an optimal combination of profitability and risk, that is, when maximum profit is achieved under conditions of minimum risk.

Results and discussion

The effectiveness of the bank's credit potential is achieved if, at the same time:

- the minimum necessary liquidity is ensured;
- the entire set of potential lending funds is used;
- the highest possible profitability of the credit potential is obtained.

In order to use the credit potential accumulated by banks for the development of the real sector of the economy, it is necessary to develop special economic mechanisms and, in particular, cancel a series of regulations. For banks to truly become the backbone of the revival, corresponding changes in the regulatory framework are needed to organize closer interactions between commercial banks and industrial enterprises.

Conclusions

As the main directions in the formation and use of credit potential, we consider it necessary to recommend:

- improving the quality of banking services, expanding the list of banking services for attracting client funds, using existing tools to increase the potential, namely: when concluding agreements to attract funds from legal entities and individuals to establish the size of the minimum balance on the accounts, stimulating at the same time this process at rates higher than the "on demand" rate;
- timely revision of the types and conditions of deposit products in order to improve them for pensioners, whose deposits occupy a significant weight in the lending potential of commercial banks;
- expansion of such a field of activity of banks with individuals as individual banking services for wealthy clients, the so-called "Private Banking", as well as services for individual legal entities – VIP clients (including management of their capital, formation of investment portfolios) , while offering more favorable conditions for placing funds - special banking products, discounts and special conditions within the bank's "partnership programs".

An assessment of the level and factors of formation and use of lending potential serves as a basis for developing recommendations for improving the functioning of the banking system in order to increase its role in stimulating the economy in the difficult conditions of the economic crisis.

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