

THE ANTI-CRISIS MANAGEMENT SYSTEM OF FINANCIAL STABILITY OF THE BANKING SYSTEM

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Abstract:

The main objective of crisis management system financial stability of the banking system, in our opinion, is to recognize the extent of the impact factors of the crisis; defining ways and methods of crisis management, measures to overcome the future crisis with the lowest losses.

The purpose of the article is to determine the correlation between the anti-crisis management and the financial stability of the banking system. When developing the principles of the anti-crisis management system of the banking system, it is necessary to take into account the factors that should be taken at all levels.

Keywords: anti-crisis management, financial stability, solvency, liquidity,

JEL classification: G21

Introduction

Regulated bank anti-crisis management is one of the stages of the economic management cycle and is a system for monitoring, comparing, checking and analyzing crises to assess the validity and effectiveness of management decisions developed and adopted to stabilize economic development and identification their degree of implementation. In national and international practice, the concept of crisis management has been defined, although there is no unanimous agreement among scientists. The term "crisis management" has emerged relatively recently, and the reason for its emergence is the existence of a large number of enterprises that are on the verge of bankruptcy [1, p. 102]. The purpose of crisis management is to develop and prioritize the implementation of measures aimed at neutralizing the most dangerous (which intensely influence the ultimate phenomenon) factors that lead to a crisis. The purpose of crisis management involves the effort for an optimal degree of stabilization in a particular business area through the widespread use of anti-crisis measures.

The modern approach to crisis management can be expressed in three key principles:

1. The purpose of crisis management is not to prevent bank failures, but to safeguard the stability of the financial system and to minimize possible negative economic consequences;
2. In a crisis situation, preference will always be given to the private decisions of the bank or the group itself. Problem banks' management will be responsible for rescuing the bank, and if shareholders do not save it, creditors and uninsured depositors should be prepared to suffer losses;
3. The use of public money to remove a bank from crisis will only be used if there are serious systemic threats to the economy and only in cases where the amount of state insurance liability significantly exceeds the cost of recapitalization at State expense. The circumstances and terms of the possible intervention by the State can not be determined in advance. Strict and individual conditions apply to any use of public funds.

In modern economic literature, there are two main approaches to defining the essence of crisis management that involve the use of:

- anti-crisis measures to overcome the crisis of a separate bank;
- complex actions not only to overcome the crisis, but also to timely diagnosis, to prevent and neutralize the crisis, and to ensure the positive evolution of the bank further.

Taking into account the activities and the capacity of their influence on the socio-economic relations system, it is necessary to carefully develop the crisis management mechanism of the

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banking system. Given that the open phase of the crisis occurs when there is a confluence of several factors and reasons that have been sufficiently developed, it is very important to be ready to identify the problems in time and to take appropriate measures to prevent bankruptcy. In this case, it is necessary to take into account the characteristics of crisis management in the banking sector.

First of all, the organization of bank crisis management comes from the following hypotheses:

- can be expected, expected and caused crises in banks, as well as to a certain extent, can be moved or accelerated;
- it is possible and necessary to prepare for crises;
- crisis processes can be managed up to a certain limit and controlled;
- crisis management requires special approaches, knowledge and experience;
- managing the crisis recovery process can minimize its negative consequences [2, pp. 131-132].

Secondly, crisis management is systematic, organized on an ongoing basis, both micro and macro, in terms of diagnosis, prevention and overcoming of the crisis. As a consequence, the crisis management system includes the elements mentioned in figure 1.

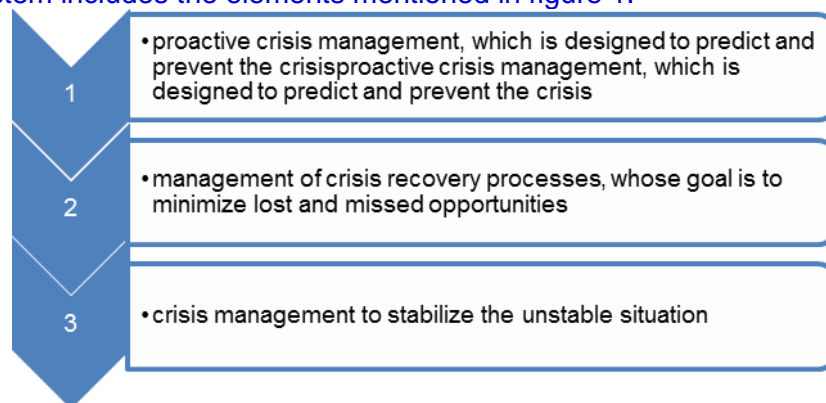


Figure 1. The elements of the anti-crisis management system

Source: elaborated by author

Thus, crisis management in a broad sense implies a specific activity, including preventative work in times of crisis, as well as overcoming the crisis situation both at the level of a particular bank and the banking system as a whole.

Thirdly, banking crises have various causes, duration, level of influence and spreading (local or macro level). Depending on these characteristics, it is necessary to develop and implement various measures to eliminate the crisis phenomena.

Fourthly, crisis management is a system of decisions and measures to manage the diagnosis, prevention, neutralization and overcoming of the crisis phenomena and their consequences in the banking sector. In addition, crisis management is reactive in nature and aims at rapidly detecting and eliminating crises.

Fifth, crisis management is multilateral and is researched in various aspects - organizational, financial, managerial, legal and economic. However, they differ depending on the subject of crisis management - a particular commercial bank or the banking system as a whole.

The purpose of the research consists in developing conceptual approaches regarding the anti-crisis management through the elements and factors that affect the financial stability of the banking system. In accordance with the stated purpose, the following objectives are defined:

1. Research the characteristics of crisis management in the banking sector;
2. Identification of the factors affecting the anti-crisis management system of the financial stability of banks;
3. Researching the types of policies promoted by the Central Bank in order to ensure the financial stability of the banking sector in correlation with the vector of economic development of the state;
4. Strengthening the financial stability of the banking sector through crisis management tools in the banking sector.

Results and discussion

In addition to the characteristics mentioned in figure 1, it is necessary to take into account the factors that are involved at the macro, mezo and micro level in the elaboration of the methodological principles of the anti-crisis system for managing the financial stability of the banks:

1. Macro level factors: development of financial globalization, cyclical development of the economy, problems of managing international financial stability and liquidity;
2. Meso-level factors: imbalances in the development of the financial market, processes of formation and spread of systemic risk, disintermediation, financial innovations and communications, asymmetry of information in the financial market;
3. Micro-level factors: the systemic nature of financial instability of banks, the need to introduce tools and methods of macro-regulation and improve micro-regulation methods.

In our opinion, considering the above classification of the factors that affect the anti-crisis management system of the financial stability of banks, it is necessary to consider the main anti-crisis measures used by the government bodies and to establish the main criteria by which to elaborate an anti-crisis program of measures to ensure the sustainable financial development of banks. An important feature of anti-crisis management in the banking system is the involvement of the state in the process, which is, in fact, the subject of crisis management.

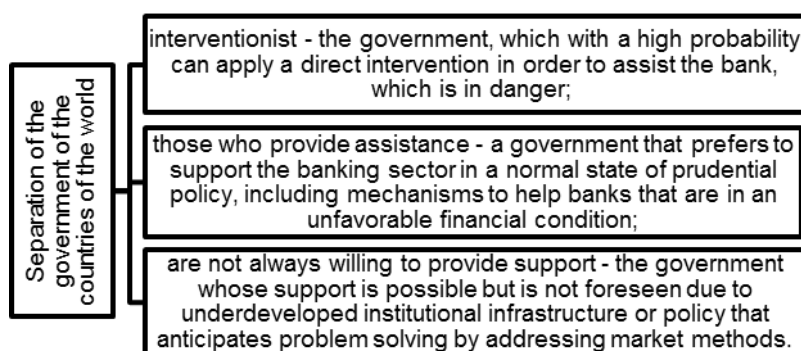


Figure 2. Types of policies promoted by the government

Source: elaborated by author based on source information 3, p. 12

The significant role of the state is addressed by economist S. Korneev in the following: the first and subsequent anti-crisis attempts have proven that the regulatory resources of the country and the central bank have been and remain a determining factor in stabilizing markets and banking systems. Until the government solves the liquidity problem in the banking sector and the proper financing of the real sector, so long as the economic renewal does not take place. The state of affairs "compensates for market failures," when self-regulation is limited, and the classical thesis of the "invisible hand" of the market is transformed into a more effective thesis of the state's "saving hand" [4, pp. 22-24].

In our opinion, the most accurate and complete is the classification of crisis management subjects of the banking system proposed by economist V. Shpachuk and presented in figure 3.

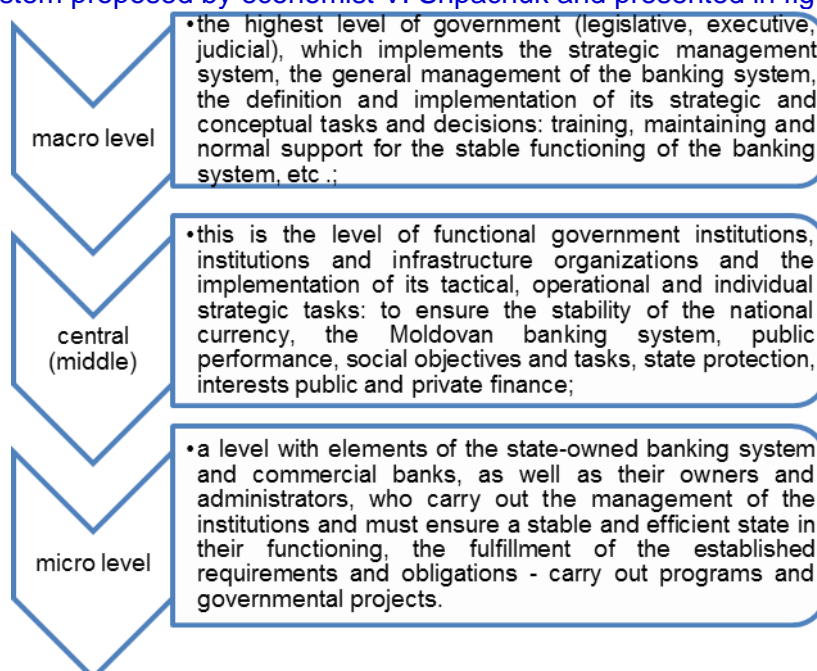


Figure 3. Crisis management levels

Source: developed by the author based on source information 4, p. 25

Depending on the type of banking crisis, it is necessary to make a choice of anti-crisis management tools in the banking sector. These tools are divided into two groups: non-market and market. The first group includes emergency measures and restrictions on banking competition and areas of activity, and the second group includes financial, operational and structural measures. Each of these tools has a specific application described in table 1.

Table 1

State crisis management tools in the banking sector

Tools	Characteristics
Non-Market	
Emergency measures	Suspension of repayment of deposits to stop investors' attacks may take the form of "freezing" deposits and introducing bank holidays;
Restriction of competition and banking activities	Regulation of interest rates and foreign exchange transactions, direct lending to priority sectors, consolidation of state-owned banks, establishment of national and regional barriers for banks. It leads to large financial losses and to the concentration of the banking system
Market	
Financial	Meant to solve liquidity problems: improving the quality of the balance sheet, updating the solvability of the bank does not solve the main causes of instability and needs to be supplemented by operational and structural instruments. These include: the central bank fulfills the function of the ultimate creditor, the provision of state guarantees for deposits and other debts of banks, the provision of financial assistance from banks by the state, the infusion of private capital, the indirect state support methods (system review the taxation of banks)
Operational	It aims to improve the level of internal control and efficiency. These include: change of management, focus on core business, which implies the conclusion of an agreement with a trust foreign bank on operational restructuring
Structural	Aimed at identifying the underlying causes of the crisis in the financial sector, ensuring fair competition and overall system reliability. These include: liquidation, mergers and acquisitions of banks, privatization, bad asset management, condescension for banks to meet regulatory requirements

Source: elaborated by author

Researchers Holsher D. and Kuintin M. identify three stages of public management of systemic banking crises, for each of which an appropriate set of tools can be used:

1. Crisis control - at this stage, after detecting the systemic elements of the crisis, public authorities (actions coordinated by governments, central banks and financial supervisors) must put in place urgent measures to stem the spread of the crisis across the system. Such measures involve the use of financial instruments such as the extension of the bank deposit guarantee scheme, the liquidity support of banks, the immediate elimination of insolvent banks. However, if the situation does not stabilize, governments are often forced to resort to extreme measures - stopping repayment of deposits or introducing bank holidays. The operational use of these instruments is necessary first of all to gain time for the state to develop an efficient, comprehensive and coherent transition policy to avoid further crisis phases. Otherwise, they can not stop the development of the crisis and will lead to lower public confidence in the actions of the country;
2. Restructuring of systemic banks aimed at restoring the solvency and profitability of banks, performing the intermediate financial functions. This process is usually quite long, it must start with the development of an effective legal and institutional framework for the implementation of bank restructuring. The first step directly to restructuring is to assess banks' assets in order to study their current state. For this purpose, the standardized methodology to benchmark banks is to be applied. According to its results, banks are to be divided into the following categories: insolvent, sub-capitalized and viable banks that meet all the necessary criteria. As for the first category of banks, structural instruments such as: selling the bank to other owners, merging, taking over and liquidating the bank can be used. The latter category of banks does not require special attention because it normally operates in a period of crisis. The focus of the restructuring process should focus on the second category of banks and on those banks whose elimination should not be allowed because of its large size as well as on systemically important banks that are located in the

first or in that bank last category, and must be saved anyway. Here it is necessary to distinguish between financial and operational restructuring.

Financial restructuring aims to improve the balance of banks by attracting additional capital (eg. by obtaining funds from existing or new owners or government, ie. private or state capital infusions), reducing debt (eg. by canceling or by increasing the value of assets (for example, by increasing the value of non-performing loans or software).

Operational restructuring aims at updating the bank's profitability by using operational tools. Solvency update is a quicker and easier process, but in order to strengthen the efficiency of reforms, financial restructuring should be complemented by operational restructuring aimed at updating banks' profitable operations that require time and work. Some researchers believe that in this case the implementation of restructuring is more appropriate to be created separately from a public institution, not from the central bank, which must always be ready to support viable banks;

3. Confronting the "bad" assets needed to modernize the economy and which should be complementary to the restructuring of banks. The task of "rehabilitating" assets is to maximize the value of "bad" assets, minimize bank losses and "erode" capital. The management of these assets can be done by the bank through independent restructuring or cancellation of their balance sheet value; the transfer or sale of the bad credit repayment company or a private company specializing in the management of bad assets - the transfer or sale of the company with centralized asset management, which in most cases is a public institution [5, p. 72].

Among the criteria for the rational use of anti-crisis measures at the macro level, we should consider the system of management of problem assets, internal standards and limits, the reorganization of banks on their own initiative, special measures, the development and efficiency of anti-crisis programs. The presence of distressed assets adversely affects the regulatory capital of banks, limiting the prelaunch of loans to the economy. The above mentioned ones significantly impede the stimulation of the economic growth and the increase of the investment attractiveness of the country. This statement results from the data presented in figure 4.

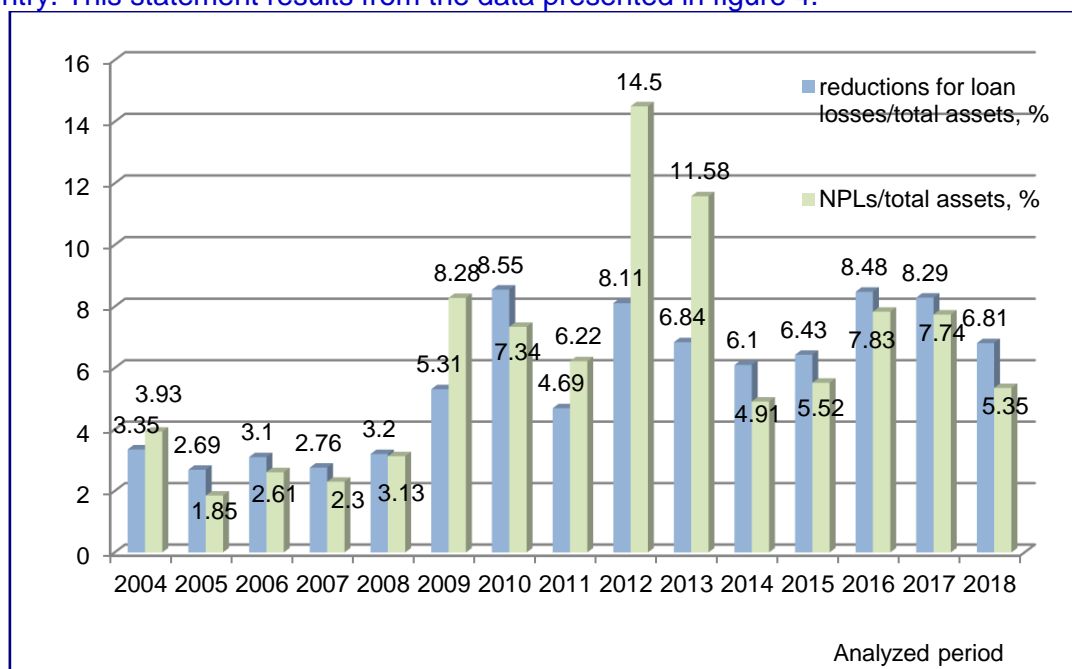


Figure 4. The evolution of credit risk in the banking system of the Republic of Moldova

Source: elaborated by the author based on data from www.bnm.md/md/financal_indices_of_bank_system

The data presented in figure 4 indicates that the reductions for the losses related to the total assets of the banking system reflect a sensitivity of the assets to the credit risk that reduces in the years 2004-2005 from 3.35% to 2.69%, after which it increases to 3.1%, in 2006, and again it reduces to 2.76% by the end of 2007. This fluctuation is considered to be normal when the first crisis signals appear on the world financial market. The period of the crisis reveals a negative dynamic, being present an increase of the ratio between reductions for loan losses and total assets from 2.76 to 8.55% in the period 2007-2010, followed by a recovery of the situation in the context of a more monitoring strict from the NBM of lending operations on the national banking market. The year

2012, considered as a year of total exit from the financial crisis, comes with an essential increase of the resultant indicator to 8.11%, with 3.42% more than 4.69% since the end of 2011. The increase is followed from a decrease to 6.84% and 6.1% of the report analyzed at the end of 2013 and 2014, after which an increase in 2014 - 2016 is observed at 8.48%. For the years 2016 - 2018 the NBM reported decreasing values for the ratio of loan losses to total assets from 8.48% to 6.81%, values influenced by the increase of total assets from 72830.42 million lei to 83076.57 million lei.

The ratio of non-performing loans to total assets is variable, meaning that for the 2004-2005, 2006-2007, 2009-2011, 2012-2014 and 2016-2018 periods, the reduction is characteristic, the values being reflected in figure 5, and in the others years we see an increase to the maximum values of 8.28%, in 2009, and 14.5%, in 2012. The year 2009, being considered as a crisis year, is a less favorable one for the credit risk indicators in the banking system of the Republic Moldova and because of granting loans not legally covered by pledge or other form of guarantee. The year 2012 is considered to be negative due to the unfavorable consequences as a result of the attacks that took place on the banks and, of course, we do not forget the Banca de Economii SA, which suffered from the increase of the total normative capital and of an incorrect policy in the field of lending. At the same time, for 2014, an unfavorable evolution of the banking system is characterized, being found 3 problem banks: Banca de Economii SA, BC "Banca Socială" SA and BC "Unibank" SA, which according to the NBM decision will be liquidated. Thus, the liquidation of these banks generated in 2014-2016 an increase from 4.91% to 7.83% of the ratio between non-performing loans and total assets.

Despite the importance of improving methodological support for financial rehabilitation of credit operations, we should emphasize the existence of another, not less serious, problem - crisis management. Obviously, the leadership of the bank, which is in a crisis situation, must be fundamentally different compared to the bank that works successfully. Moreover, the bank needs to develop a new strategy and more concretely - a strategy for change. The purpose of the change strategy is to restore the sound financial base by eliminating the causes of the crisis. The success of the strategy will depend on the profound analysis and understanding of the causes of the loss of a significant part of the bank's share capital.

Management of crisis situations in the bank should take place not only when the crisis has already arrived (in this case it will most likely be delayed), but it starts and continues from the first days of its existence. For this, the methods of preventive crisis management should be applied professionally and efficiently. These methods are:

1) continuous anti-crisis monitoring of the external and internal environment, in order to detect early threats to the bank;

2) analyzing the internal vulnerability of the crisis facility, identifying, if possible, relevant indicators. The following are usually used for the bank:

- the specialized subdivisions of the bank are not able to act together and identify the emergent situation and the situation of the bank as a whole;
- bank employees tend to pay more attention to the internal situation within the bank than to the external environment, while rivalry with domestic competitors dominates the external environment;
- rejection or inability of the bank to make changes;
- the inability of the bank to perceive properly and to be aware of the signals from the external environment;
- the desire to avoid the rules for short-term benefits.

Financial market events increasingly show how vulnerable the banking giants are, despite their apparent power. In line with internationally accepted standards, the banking protection system should provide for three elements:

- risk control mechanisms (risk management);
- emergency plans to minimize damage;
- measures to cover losses.

The complexity of the combination of strategic and tactical anti-crisis measures is becoming more acute due to the fact that these are usually extraordinary, and they need to be implemented in a short period of time, if the crisis has already arrived. With regard to crisis management, the tactical choice of a list of priority actions largely determines the future strategy of crisis management operations.

The crisis management tactic and strategy are oriented towards achieving results at each stage of the crisis. From the crisis management purposes, the main results of the measures for its implementation are:

- forecasts for crisis development, evaluation of negative trends and identification of negative influence factors on the economic system
- selecting ways to stabilize the economic system
- identifying the effective ways of carrying out the state's anti-crisis policy
- events to adapt the region (sector) to the dynamic factors of the external environment
- modeling the behavior of the economic agents on the market, developing the expected scenarios of the market situation
- establishing a crisis management system and regulating the rules
- determining the mechanisms of resistance of the development of the market infrastructure.

In order to regulate the crisis situation of the banking infrastructure, it is necessary to gradually implement all the elements. However, it should be noted that it is impossible to carry out, separately the anti-crisis regulation of the banking infrastructure, it is a complex of measures, including the impact on the activity of all credit institutions, creating conditions for the continuation of their activity.

The functions of the anti-crisis management system for the financial stability of banks include:

- diagnosis of crisis symptoms;
- development of a financial recovery strategy;
- insolvency settlement;
- restoring financial stability;
- ensuring the financial balance;
- elaboration of crisis management plans;
- control over the implementation of management decisions.

In its position as intermediary on the financial market, with a minimal appeal to its own resources, the banking sector is one of the most regulated economic sectors. The rigorous control of the activity of the banking sector is due, in large part, to the central role played by it in the economy of a state. The assessment of the stability of the banking sector is carried out through the indicators on financial stability (FSI). FSI reflects the state of current financial health and the soundness of a country's financial institutions, as well as their partners.

Based on the state of the banking sector in terms of both financial stability and social-economic efficiency, it is necessary to analyze the financial stability indicators according to the data presented in table 2.

Table 2

Evaluation of financial stability indicators

Financial indicators	2012	2013	2014	2015	2016	2017	2018
Income and profitability							
Return on capital, %	5,6	9,4	5,86	10,16	11,12	11,42	11,6
Return on assets, %	1,1	1,6	0,85	1,67	1,83	1,91	1,9
Liquidity							
Principle 1 of liquidity (≤ 1)	0,7	0,71	1,54	0,7	0,64	0,61	0,72
Principle 2 of liquidity ($\geq 20\%$)	32,9	33,76	22,48	41,73	49,3	55,48	54,64
Capital adequacy							
Risk-weighted capital adequacy, %	24,4	23,02	13,92	26,3	29,77	31,03	31,32
Risk weighted capital adequacy norm, %	≥ 16	≥ 16	≥ 16	≥ 16	≥ 16	≥ 16	$\geq 16,5$
The balance of net non-performing loans / total regulatory capital, %	25,9	59,07	53,04	40,6	59,08	58,11	41,06

Source: elaborated by the author based on data from www.bnm.md/md/financial_indices_of_bank_system

According to the data presented in table 2 we can note the following:

- the performance indicators evolve positively in the period 2012-2013, indicating a favorable situation in the banking sector, whereas in the years 2013-2014 we attest a reduction due to the theft produced. The return on capital has increasing values for the whole period analyzed from 5.86% in 2014 to 11.6% in 2018. The return on assets also shows a stable growth for the whole

period from 0.85% in 2014 to 1.9% in 2018. This evolution shows an efficient financial management of the banks and a tendency of expansion of their possibilities;

- liquidity indicators indicate a different trend by the indicators analyzed previously due to the existence of rigorous prudential limits at this chapter. Thus, the long-term banking liquidity per banking sector is increasing from 0.7 points to 1.54 points in 2012-2014, and the regulation of the liquidity principle 1 is not respected in 2014 with a value of 1.54 being higher as the norm of 1 unit. During the rest of the period this indicator varies between 0.6-0.72 units. The current liquidity shows an uneven evolution during the investigated period due to the unstable economic situation and the deficiencies found in 3 banks of the banking system "Banca de Economii" SA, BC "Banca Socială" SA and BC "Unibank" SA. The norm of the liquidity principle 2 is respected for the whole period starting with 22.48% in 2014 and ending with 54.64% in 2018;

- the financial stability indicators calculated on the basis of bank capital are reduced in 2012-2014 under conditions of banking instability and in response to the delayed global banking crisis in the Republic of Moldova. The situation is changing for the end of 2018 when all indicators are growing. The average of the adequacy of the risk-weighted capital of the sector is maintained at a high level, except for 2014, which was determined by dubious transactions by granting non-performing loans and the bankruptcy of three banks. Non-performing loans, reported to CNT, increased in 2012 - 2013 from 25.9% to 59.7% and a decrease at the end of 2015 to 40.06%, under the conditions of a banking crisis since the end of 2014. With however, in the next period 2015 - 2016 we can see an increase of the resultant indicator to 59.08%, the maximum value of the entire period evaluated due to the changes that have occurred in the composition of the national banking system. The situation is improving in 2017 and 2018 when we notice a decrease in the ratio of non-performing loans and own funds to the values of 58.11% and 41.06%.

Thus, the management of banking system crises is a system of operational and strategic management activities and decisions that operate continuously and aim at preventing, diagnosing, neutralizing, minimizing and overcoming the crises and their consequences at all levels of the banking system.

Conclusions

The presence of a well-designed anti-crisis strategy allows the bank to solve a number of basic tasks:

1. Based on the anti-crisis strategy, tactical decisions are taken more rigorously and intentionally;
2. Inconsistent minimum actions of the various departments of the bank;
3. In the current activities, managers have the opportunity to separate the main problems and tasks from the secondary ones. Otherwise, there is an irrational variation in actions and approaches, which leads to the dispersal of bank resources;
4. Employees work more consistently in areas that are defined in the bank's strategy;
5. The image of the bank is strengthened in the eyes of its clients and potential partners.

In order to determine the approaches to the anti-crisis strategy, it is advisable to take into account that anti-crisis management is a special type of management, characterized by specific conditions and technologies. Differences between management in stable and crisis systems are shown in table 3.

Table 3

Differences between stable system management and anti-crisis management

Comparable criteria	Managing in stable systems	Anti-crisis management
Purposes	Increasing efficiency	Minimizing the negative effects of the crisis
Basic Restrictions	Resources	Temporary resource
Environmental features	Favorable	Non-favorable
Internal environment	Sable	The multitude of conflicts
Result	Increasing efficiency and viability	Switching to a stable state

Source: elaborated by the author

Under the influence of internationalization and globalization on the development of the integration of the Republic of Moldova into the world economic system and the intensification of the processes of concentration and competition in the banking system, together with the need to overcome the negative consequences of the global crisis, the development of effective anti-crisis measures is particularly relevant, as well as organizing the rational interaction of the banking institutions in order to maintain financial stability and gain growth prospects.

The efficiency of the crisis management of the financial stability of the banks is characterized by the degree of achievement of the mitigation and localization objectives of the crisis in comparison with the financial resources spent for it. It is difficult to evaluate such efficiency on the basis of calculation indicators, but it can be determined by analyzing and evaluating the overall management of the bank, its success or its mistakes. In our opinion, these problems can be solved by introducing an anti-crisis management system of financial stability of banks.

From our point of view, the anti-crisis management of the financial stability of the banks represents their ability to transform, distribute and use the resources (personnel, financial resources, assets, equipment and information technologies) as efficiently and with minimal risk as possible to - it fulfills its obligations under acceptable risk conditions and withstands the onset of the crisis.

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