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MACROECONOMIC ENVIRONMENT AS A FACTOR OF STABILITY OF THE BANKING SYSTEM

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SUMMARY

The problem of providing a steady development of the banking system takes a key position in the complex of economic problems in the transitional period. In the last two decades the economy of Bulgaria has undergone significant changes thus causing an alteration of the macroeconomic environment of banks.

Under the conditions of constantly complicating economic, social, political and institutional interrelations of the credit institutes with other subjects of economy and society, the rate of the interdependence and dependencies lying at the root of the phenomena and the developed general theoretical bases, are a prerequisite for defining and solving of this intricate complex of problems.

The major principles of stability of the banking sector of quantitative and qualitative factors, influencing the stability of the banking system, are studied in the article.

A model for finding this interdependencies between the major indicators of the status of the banking system and the macroeconomic condition and factors influencing its stability, is produced.

INTRODUCTION

The banking system in its nature is a particularly important part of the mechanism of realisation of the reproduction relations in economy. The status of national economy, the interrelations between social groups in the sphere of economic and international relations can be assessed through the degree of stability of the banking system. On the other hand, the stability of the banking system depends directly on the stability of the social and economic situation in the country. Following the major parameters of the social knowledge based on the epistemological theory of the interdependence between theory and practice, the process of studying of the major problems of the banking system as “a circulatory system of society” (1, p. 18), is necessary, these problems concentrate the major risks, related to the imperfections of the market mechanism, cyclic recurrence and economic development of the country, the dynamic price environment, typical for the modern economy.

CONTENT OF THE PROBLEM

The banking system can be studied as a complex of credit-financial institutions, the functional role of which is the accumulation of financial resource through interaction with the rest economic subjects, the investment of financial resource in compliance with the principles of optimality, efficiency from the point of view of the state economic policy, the reproduction processes of economy, for the preservation of the social peace in society.

The study of the major factors, determining the stability of the banking system, is a study of the banking system in the context of the interdependencies with the other economic subjects and sectors, analysis of some processes of interaction between the bank sector and other sectors of economy.

The final result – the financial sector as the second level – the banking system, on one hand, and the elements of the macroeconomic environment in the country, on the other hand – is considered a system-establishing factor.

“The increase of the budget deficit, the apparent insolvency of many banks, the expected rise of the external (foreign) debt, the increasing reciprocal exposure between the companies, uncovered considerable losses in the major branches ... the complete neglect of the coming considerable payments in foreign currency during the next year (2, 28-29). This picture described by the expert emphasizes that the factors forming the internal and external environment of the banks are the ones that should be considered at the first place as factors of stability of the banking system.

At the same time the economic development requires the development of a stable banking system as a part of the economic system. It is impossible to study the banking system as an independent economic structure as it interacts with depositors and creditors – the status of the money and financial markets, and they also have an internal environment (technology and organization of the banking activities, accountancy and control standards, and bank operations structure). The elements of these structures are the particular banks or group of banks. Consequently, the different variants of structure of the bank sector could be selected and managed on the grounds of its reactions towards its environment.

The stability of the banking system shall be defined as the system of measures, undertaken by the supervisory organs for the purpose of maintaining a steady development, due neutralization and averting of factors causing misbalance, as well as implementation of an external supervision of the banking system.

The stability of the particular bank is determined by its quantitative and qualitative potential, formed under the influence of its shareholders, by the quantitative and qualitative structure of its customers' base, by the product specialization, by the needs of the gap served, by the professionalism and reliability of its staff. Various methods of financial management, banking rating awards, etc., are used for determination of these indicators and optimization of their management.

Certainly the stability of the particular bank is a guarantee of the stability of the entire banking system. The significance of this problem is great particularly in the transitional period of Bulgarian economy. The formulation of the principles of stability of the national banking system is based on universal principles influencing all the economic units as subjects of market economy.

Based on summarized approaches, the major principles of the stability of the national banking system can be formulated, as follows:

1. The principle of adequate legal provision of the system-determining bank units is related to the basic principles of stability. In the conditions of transition the role of the state provides control and supervisory functions.
2. The principle of balancing in fixed terms and quantities of customers' base of the formation of the financial resources (bank liabilities and assets). The formation and allocation of the incomes of the bank depositors and the degree of meeting the needs of the creditors are particularly significant.
3. The principle of adaptation to the changes of the economic and social environment and the functional adaptivity, and namely the correlation of the different types and kinds of banks in the national economy, guaranteeing steady functioning of all levels of the reproductive system.
4. The principle of transparency of banking – through unification of the data of the activity of the bank, access to the information concerning the status of the banking system and of any particular bank.
5. The principle of dependence of the stability of the banking system as an aggregate of credit institutes on the degree of stability of the constituent bank units.

The necessity of formulating the trends and peculiarities of the factors influencing the stability of the banking system in a dynamic market environment, determines the necessity of designing a strategy and tactics in a way that the influence of the macrofactors of the particular bank and of the banking system as a whole is substantially different. The factors influencing the entire system can solve the current interests of the particular bank and vice versa. Consequently, taking strategic decisions, concerning the outlook of the entire bank sector, is different from that of the particular bank. Such a system of methods must be implemented with a complex systematical and functional approach to the theoretical and practical aspects of reliability and stability of the banking system.

Based on the analysis of the factors influencing the stability of the bank system, they can be grouped, as follows:

- A). Quantitative – including the changes of the special indicators of the status of the bank sector, the changes in the relative market share of the particular bank or group of banks, the changes of the collective volume of bank operations and their quantitative interrelations.
- B). Qualitative – manifestation of particular components of the bank sectors as a reflection of the influence of the alteration of the macroeconomic environment, as

well as a manifestation of a separate macrofactors or a group of macrofactors, influencing the status of the bank sector.

In order to demonstrate the major channels of interaction between the macroeconomic conditions and factors of the status of the bank sector, we present the interaction between the bank institutions in a macroeconomic environment in the form of a conceptual scheme of interrelations, in which the directions of changing of the major indicators of the bank sector are shown with a background of changing of the macroeconomic conditions and factors.

For example, the greater the profitability of the real sector is and the greater the domestic product is, than the greater the volume of the loans for it as a relative share in the general volume of loans shall be. The greater the relative share of the ready money in the content of the money aggregate M2 is, the smaller the relative share of the long-term loans in the general volume of the bank assets shall be.

The (+) sign in the cell of intersection of the elements means that there is a direct relationship between the indicators of the banking sector status and the change of the macroeconomic indicators. The (-) sign means that the relationship is reverse. The (+ -) sign means that the alteration of the macroeconomic parameters can have contradictory influence on the change of the relevant indicator of the banking system status.

Table # 1

Indicators of the Bank sector status	Macroeconomic conditions and factors					
	Gross domestic product	Budget deficit	Status of the Balance of payment	Money circulation (M2)	Inflation	Exchange rate with a base currency
Bank sector structure	(+ -)	(+ -)	(+ -)	(+ -)	(+ -)	(+ -)
Own capital	+	(- +)	(+ -)	(+ -)	+	-
Debt capital	+	-	+	+	+	-
Capital adequacy	+	+	+	+	-	(- +)
Liquidity	+	(+ -)	(+ -)	+	+	-
Structure of the credit portfolio – relative share of the long-term credits	+	+	-	-	-	-
Relative share of the credits for the real sector	+	-	(- +)	-	-	-

The scheme presented allows us to see the major trends of alteration of the indicators of the bank sector status, as well as to follow those depending on the aggregated significance of the macrofactors. If some concrete values are marked this

table can be used as a base for a detailed analysis of the bank system status in the context of the dynamic processes in economy at any particular moment.

The rates of inflation and the stabilization of the differences in the exchange rates have decreased and limited the possibility of earning speculative incomes by selling financial resources.

The mechanism of Monetary Board has created conditions for restriction of the processes, disrupting the stability of the bank sector.

The Monetary Board could eventually face some crisis situations, which would influence the bank sector. They could be, as follows:

- A). Monetary – resulting from the fluctuations of the money demand, fluctuations of the interest rate, growth of the domestic loans;
- B). Shocks, aroused by the society;
- C). Fiscal problems in the budget deficit financing;
- D). External – crisis of the balance of payment;
- E) Macroeconomic status of the banks;
- F). Non-economic – political shocks, shake of trust (3, 269-270)

The crisis status of economics, the unstable condition of a significant part of enterprises, the resulting low creditability (credit capacity) of the credittees, arouse the problems of liquidity providing and credit servicing for the banks. Besides, the requirement of the Central bank for maintaining obligatory minimal reserves and minimal authorized capital brings the small and middle-size banks to a dilemma: to maintain the stability of the bank, sacrificing liquidity with the purpose of profit maximization, thus increasing their chances to become insolvent.

Under the conditions of the getting global economic world, the management of the banking system stability is of exclusive significance not only for the steady economic development, but also for the steady political and social development of society. The reasons for this exclusive role are in the base of the essence and character of the banks in their capacity of a financial mediator of the entire society.