



DEVELOPMENT OF THE LOAN PORTFOLIO IN 1993 – 2000

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The degree of credit risk and its impact on the economic position of the banking sector and individual banks in SR is known to the expert public. It is high and significantly influences not only the reproduction of credit flows but also the degree of credit exposure of the banking sector. The importance of analyses that allow the determining of industry credit risks is increasing. Those risks may be minimised by knowledge of the particulars of the financial flows within industry. The Institute of Monetary and Financial Studies has prepared an extensive analysis on the development of industry credit risk. Selected parts of this study are summarised in the subsequent three articles.

Results of the analysis are intended primarily for bank analysts dealing with credit risk management, assessment of client creditworthiness and management of existing lending operations. This part contains an analysis of the loan portfolio development during the period 1993 – 2000 together with the impact on its risk structure and a brief assessment of its impact on the economic status of the banking sector. It has been prepared on the basis of statistics reports of the NBS elaborated from data submitted by commercial banks. It contains data on the entire loan portfolio within the Slovak banking sector in terms of industry, time and risk structure.

Banking loans still represent the most significant form of financial relationship between the banking sector and the corporate sector. Loans provided to the corporate sector amounted to as much as SKK 341,924 mill. as of 31 December 2001¹. However, from the point of view of the reproduction of the portfolio there are two controversial tendencies.

(The first one is represented by a long-term low aggregated performance of that part of the corporate sector that depends on domestic lending resources. The result is an increasing reproduction of its financial flows on debts external resources. An increase in the financial dependency of a significant number of loan debtors takes place with the simple reproduction of material flows; in many cases even upon their decrease. The turnover of assets in revenues thereby decreases and the risk of non-repayment increases.

¹ The analysis of loan portfolio development does not include the level of loans provided to the financial and insurance industries. Their share of total loans represents only 2.81%, with the portion on the total level of classified loans being 3.02%. The analysis is focused on the development of the loan portfolio and credit risk of non-financial business entities.

Tab. 1

Ratio/year	1993	1994	1995	1996	1997	1998	VI/99	1999	VI/00	2000	VI/01
TA/GDP	114.03	108.30	109.50	118.23	113.27	106.55	187.30	94.42	186.00	96.11	185.27
L/GDP	64.80	55.22	52.76	55.90	49.90	45.32	98.38	42.95	90.80	39.65	67.51
L/TA	56.81	51.03	48.18	47.27	44.07	42.54	52.53	41.50	38.82	38.54	36.44

TA = Total assets in the banking sector, GDP = gross domestic product in current prices, L = Loans

Chart 1a (SKK mill.)

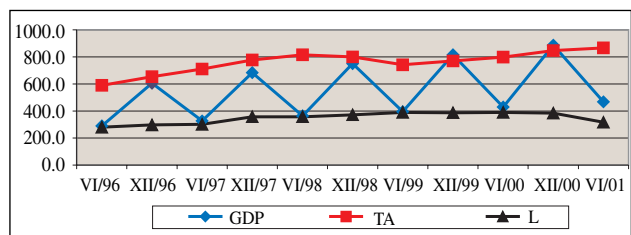
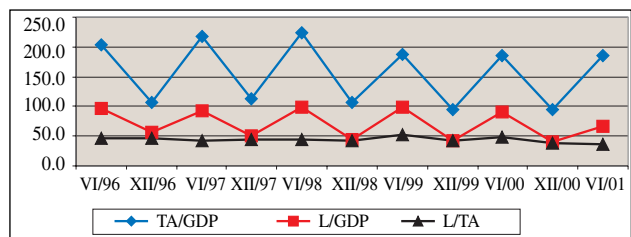


Chart 1b (%)



(The second tendency is represented by a decrease of loans in the structure of lending operations of the banking sector. A decisive cause is the general degree of the lending risk, which influences the level of sustainable credit exposure of the banking sector as a whole and of individual banks. The result is a decrease in credit exposure. In a situation where a significant part of the corporate sector lacks an alternative source of financing, the reproduction of the operations cycle, the turnover of credit flows is subsequently extended. Table 1 and charts 1a and 1b express the development of the credit exposure of the banking sector.

The absolute value of total assets within the banking sector has increased but in regard to the value of income flows in the economy it is permanently decreasing. A decisive cause is the significant decrease in credit exposure, which even after the restructuring has the nature of a credit crunch.² This is influen-

² Approaches to the credit crunch and mainly to the cause of the decrease in absolute, or relative, credit exposure are different. It is of decisive importance whether the original cause is a decrease in the demand for loans, interest rates, performance of the corporate sector, real liquidity of the banking sector or a combination of these basic factors. It is up to individual readers whether they agree with the opinion that the decisive cause is the generally low performance of the debtors and simultaneously the insufficient aggregated internal potential of the banking sector, which would enable an increasing of the level of acceptable credit risk.

ced by the fact that the restructuring of the loan indebted corporate sector is lagging. No space has been created for the recovery in order to induce an extended reproduction of lending flows.

The ability of the banking sector to satisfy the demand of the corporate sector for loans is influenced by the actual return of loans, which can be expressed by the credit risk coefficient: (CRC):

$$CRC = \frac{x \cdot 0 + y \cdot 0,05 + z \cdot 0,2 + q \cdot 0,5 + w \cdot 1}{\Sigma \text{ loans}}$$

where

- x = standard loans,
- y = special mention loans,
- z = substandard loans,
- q = doubtful and disputed loans,
- w = loss loans.

Principally, this quantifies the need for provisions in hellers per 1 SKK of loans provided without taking account of collaterals. It expresses the total value of credit flows that cannot be repaid within the determined period of maturity. Its value influences the reproduction of the loan portfolio, which depends on the ability of the banking sector to cope with loan losses. Such losses absorb available lending resources of the banking sector. Table 2 and Chart 2 show that the continuous decrease in credit exposure is accompanied by a high general degree of credit risk.³

The banking sector reported the highest general level of credit risk at the end of 1998. Out of SKK 1 of loans provided, 37 hellers were not being repaid at maturity. The chart shows the influence of the assignment of receivables on a decrease in the CRC values. Nevertheless, credit exposure is decreasing. A decisive reason for this is that the decrease in the credit risk is not a consequence of increased performance of loan debtors, but of a change in the risk structure of receivables by way of their assignment.⁴ If we retract the influence of receivable assignment, it is possible to observe a permanent increase in the general degree of credit risk and a permanent decrease in credit exposure. The year 1996 proved to be an exception. A more moderate decrease in lending due to more intensive refinancing was reflected in a decrease in the level of CRC. However,

³ The portion of loan losses sustainable in long-term should not exceed 2% of the banks' assets. Attaining this parameter is an important prerequisite for the capital stability of the banking sector, respectively of an individual bank. Based on analyses carried out by the IMFS, focusing on assessment of the credit risk impact on the economic position of banks (for the period of 1995 – 2000), three levels of risk were identified with regard to the loan portfolio (upon a portion of earning assets over total assets representing 90%).

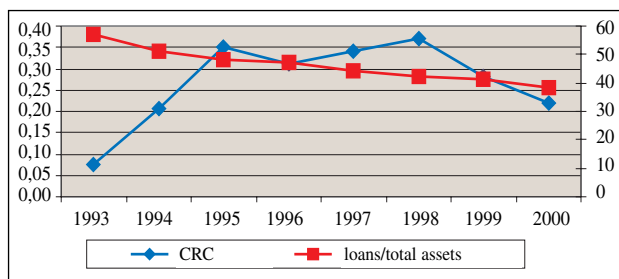
1. To ensure the stable reproduction of loans, the sustainable value of CRC is at the level of 0.1 (10 hellers per SKK 1 of provided loans is not repaid). The bank is capable of covering the y/y increase in loan losses by its own resources.

2. A higher risk level draws on the potential for simple reproduction of the loan portfolio. The CRC value of more than 0.300 increases the imbalance of the bank.

Table 2

Ratio/year (%)	1993	1994	1995	1996	1997	1998	1999	2000
CRC	0.077	0.208	0.351	0.313	0.342	0.370	0.283	0.219
Loans/total assets	56.81	51.03	48.18	47.27	44.07	42.54	41.50	38.54

Chart 2 Development of the relationship between credit exposure and credit risk



Note: the left numerical axis expresses the CRC value, the right axis the value of the relationship 'loans/total assets' in %.

the decrease was only temporary. The development of credit risk does not reflect the performance of the loan burdened corporate sector, but is due to the willingness or ability of the banking sector to substitute the lending flows.

The development of CRC by industry (Table 3) confirms that the degree of credit risk is general. It also allows the assessment of the impact of receivable assignment on the development of credit risk by industrial department.⁵

CRC expresses the ability of debtors to repay their debts. The extent of loan repayment is influenced by their economic position. The development of CRC is the outcome for defining industry credit risks. Currently, in assessing the quality of the client, an increased requirement is placed on the assessment of specifics of industries from the point of view of assets, working assets turnover, sales turnover and other parameters influencing the real cash-flow of the debtor that are very much industry specific. Failure to respect industry specifics in lending activities is a major cause of loan losses, the volume of which is unbearable for the banking sector in the long-term. Recovery of lending flows should be in the common interest of the corporate sector and the banking sector. Table 4 shows the degree of absorbing financial disturbances in the corporate sector by the banking sector through lending. It also shows the drawing on the internal potential of the banking sector to reproduce the loan portfolio.

3. The outcome of a credit risk above 0.500 not only represents a decrease in its own funds and a threat to the bank's liquidity, but also of its solvency (this was confirmed also by the development of several banks with a credit risk exceeding this level).

⁴ During the first stage of the restructuring process, receivables from loans representing SKK 82,217 mill., including interest, were assigned. The value of classified loans reported by banks has nevertheless decreased by just SKK 50,383 mill. In the second stage, classified receivables worth SKK 34,198 mill. were assigned, their asset value being decreased by a mere SKK 24,626 mill. however.

⁵ At the end of 2000, loans amounting to SKK 163,832 mill. were allocated to the section '14 – other activities'. This represented 47.92% of total loans of the banking sector. However, the decisive portion was formed by receivables assigned to Slovenská konsolidačná, a. s., which is classed as standard. The result was a decrease in the value of CRC for this industry from the level of 0.203 in 1998 to 0.043 in 2000.

**Table 3 (CRC value)**

Industry	1993	1994	1995	1996	1997	1998	1999	2000
Agriculture, hunting, fishing (1)	0.138	0.341	0.607	0.617	0.653	0.683	0.773	0.842
Forestry and timber (2)	0.026	0.050	0.019	0.076	0.129	0.141	0.092	0.050
Mining (3)	0.021	0.059	0.352	0.347	0.413	0.452	0.679	0.486
Food industry (4)	0.081	0.203	0.377	0.340	0.414	0.486	0.369	0.307
Chemical and pharmaceutical industry (5)	0.014	0.047	0.092	0.101	0.137	0.192	0.190	0.113
Metallurgy and mech. engineering (6)	0.092	0.345	0.346	0.305	0.329	0.399	0.508	0.530
Electro-technical and electronic industry (7)	0.221	0.507	0.513	0.453	0.464	0.603	0.464	0.426
Textile, clothing and leather industry (8)	0.089	0.159	0.447	0.474	0.475	0.524	0.496	0.578
Other industry (9)	0.093	0.296	0.488	0.435	0.487	0.530	0.422	0.361
Production and distribution of electricity, gas, water (10)	0.039	0.034	0.143	0.046	0.056	0.062	0.046	0.048
Construction and building (11)	0.031	0.117	0.239	0.224	0.235	0.466	0.379	0.457
Trade, marketing, restaurant and accommodation (12)	0.105	0.264	0.453	0.418	0.453	0.485	0.436	0.416
Transport, warehousing, tourism, communications (13)	0.076	0.216	0.341	0.196	0.264	0.269	0.328	0.227
Other activities (14)	0.069	0.250	0.216	0.191	0.195	0.203	0.078	0.043
Total	0.077	0.208	0.351	0.313	0.342	0.370	0.283	0.219

Table 4 (selected ratios of the level of loan losses)

Ratio/year (%)	1993	1994	1995	1996	1997	1998	1999	2000
LL/total assets	4.75	11.23	17.89	14.08	14.14	15.74	12.86	8.92
LL/own funds	50.80	91.28	156.66	139.73	151.12	161.36	101.34	126.13

LL = loan losses

The impact of loan losses is reflected on two levels:

1. Throughout the entire period up to restructuring of banks with high credit exposure, loan losses drew on balance sheet profit in the long-term. The consequence of this was a lack of funds for ensuring the extended reproduction of lending flows, which takes into account also the inflation rate. The increased volume of loans over and above sustainable growth of the banking sector was reflected in a growth in uncovered losses.

2. Furthermore, loan losses caused the banking sector to be in the red in the long-term too. This led to a lack of funds to

ensure even simple reproduction of credit flows without running the risk of threatening the financial stability of the banking sector - not in terms of the balance sheet value of loans but in terms of their share of the GDP (Table 1).

The cause can be seen in Table 5, which characterises the risk structure of the loan portfolio of industries according to currently valid principles of loan categorisation.

This risk structure means that even after restructuring, the banking sector still had a loan portfolio in which, as of the end of 2000, 22 hellers remained unpaid at maturity per SKK 1 of loans provided.

The basic assumption of the repayment of a loan is to respect the real turnover of the company's assets financed by the loan. In the long-term average for 1993 – 2000 the aggregated

turnover period of corporate assets was 422 days. At the same time, the ratio 'revenues/assets' of a significantly important statistical sample reached a value of just 0.87. This means that each SKK 1 of corporate assets produces only 87 hellers of revenues per year. At the same time, a large portion of corporate revenues is generated at a loss. With debtors finding themselves in such an economic position, the provision of short-term loans would clearly mean not respecting their ability to repay the loan without running the risk of increasing their overall financial dependency. A prevailing barrier is the requirement to ensure basic liquidity parameters of a bank. A time period relationship of assets

Table 5 (portion in % on total loan portfolio)

Value of CRC/year	1993	1994	1995	1996	1997	1998	1999	2000
up 0.100	79.60	13.97	3.80	6.92	6.88	7.80	46.83	57.31
0.101 – 0.300	20.40	65.09	31.69	31.55	30.80	27.64	1.38	3.50
up 0.300	–	20.94	64.51	61.53	62.32	64.56	51.79	39.19
of which above 0.500	–	2.28	6.62	5.80	5.45	17.26	17.27	14.50

Table 5a (portion on total loans provided (in %))

Ratio/year	1993	1994	1995	1996	1997	1998	1999	2000
Short-term loans/loans	35.4	37.9	37.9	40.4	37.0	39.2	31.9	35.2
Medium-term loans/loans	21.1	18.6	20.3	21.8	23.6	22.5	37.3	37.0
Long-term loans/loans	43.5	43.4	41.8	37.9	39.4	38.3	30.8	27.8

Table 5b (coefficient)

Ratio/year	1993	1994	1995	1996	1997	1998	1999	2000
CRC ↔ S/T loans	0.153	0.237	0.295	0.236	0.277	0.329	0.326	0.217
CRC ↔ M/T loans	0.088	0.305	0.422	0.362	0.355	0.394	0.141	0.094
CRC ↔ L/T loans	0.044	0.201	0.366	0.368	0.394	0.423	0.409	0.386
Total CRC	0.077	0.208	0.351	0.313	0.342	0.370	0.283	0.219

and liabilities does not allow the provision of loans that are adequate to the turnover of debtors' financial flows even at the present time.

Tables 5a and 5b reflect the degree of respecting the actual turnover of borrowers' assets by the banking sector. The aforementioned mismatch between the period of required maturity of loans and borrowers' assets turnover is reflected in the development of the level of risk of loans divided in terms of maturity.⁶

(The high level of CRC was due to high operational leverage – fixed costs/revenues, when depreciation reflected in the price calculation was not realized in sales. The depreciation declared in the profit and loss accounts is not a source of real cash-flow. A high proportion of long-term loans on total loans was not the result of their substitution, but of a high level of immobilized long-term lending flows. The CRC value of these loans, which in the long-term is around 0.300, does not allow even simple reproduction for the banking sector.

(The low repayment rate of investment loans draws on long-term lending resources of the banking sector. The banking sector was therefore focused on the reproduction of short-term loans due to the time relationship between assets and liabilities as an important liquidity factor. The result of this controversy – on one side the focus on short-term loans and on the other hand the turnover of company assets – was reflected in the high level of CRC also of short-term loans. Losses from short-term loans also represent a threat for the capital stability of the banking sector. The already mentioned increased level of loans outstanding in 1996 was concentrated mainly in short-term loans. The result was a significant decrease in the credit risk. However, in the subsequent period when total outstanding loans dropped, these loans have recorded the highest increase in losses. This confirms the generally high dependence of the company sector on external resources. Therefore, the development of the general degree of credit risk cannot yet be considered as an indicator of changes in the performance of borrowers, but as an indicator of the ability and willingness of the banking sector to reproduce lending dependency.

(Data show that medium-term loans gradually became the least risky loans. They most realistically respect the turnover period of company assets, their sales turnover and the degree of accumulation of available profit. They are the only ones that currently do not decrease the working capital of loan debtors. The development of total loans outstanding and the level of risk in terms of maturity is documented in charts 3a and 3b.

The portion of loss loans on total assets exceeds the bearab-

⁶ The portion of short-term loans in the time structure of the loan portfolio as of 1H 2001 remains principally unchanged and has reached the level of 35.3% of the loan portfolio. The coefficient of the credit risk has however increased to 0.289 and is approaching the level seen before the assignment of receivables.

Chart 3a Loan portf. development – by maturity

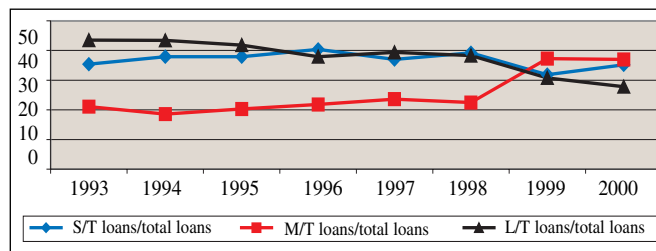


Chart 3b Development of CRC by maturity

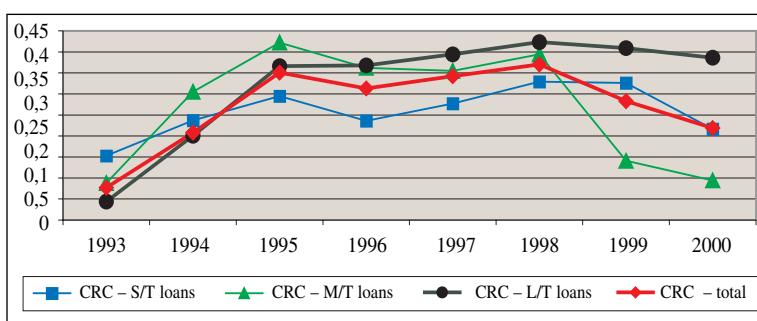
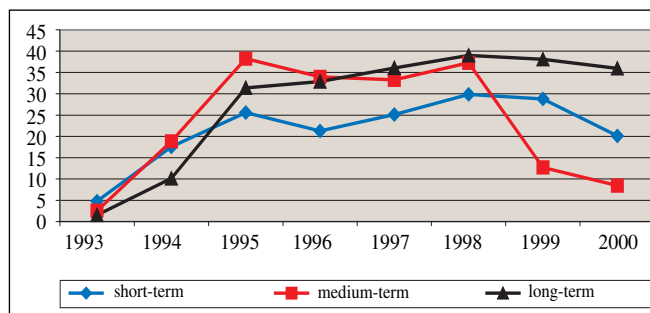


Table 6

Ratio/year (%)	1993	1994	1995	1996	1997	1998	1999	2000
Loss loans/total assets	2.88	14.57	30.58	28.43	31.38	34.10	25.71	20.26
Loss loans/total assets	1.77	7.86	15.60	12.77	12.98	14.51	11.70	8.92

Chart 4 Development of the portion of loss loans on total loans by maturity (in %)



le level of 2% in the long-term. It was noted that a high degree of credit risk, and its practically constant increasing, has a general nature according to industrial sector, the same holds true for the development of loss loans in terms of maturity structure. This is documented by the development of ratios contained in Chart 4.

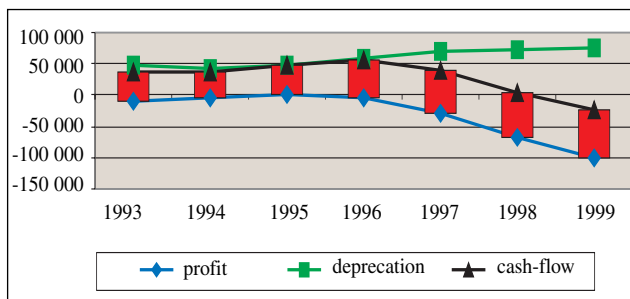
Besides the already mentioned year 1996, when the short-term risk structure was improved by the significant level of loan exposure, in 1993 – 1998 we recorded an increase in the portion of loss loans in all groups. The increase in losses from long-term loans was not interrupted even in 1996. In the subsequent period it was followed by an increase in losses from short-term loans. This confirms the actual relationship between long and short-term loans, with long-term loan losses gradually being absorbed by refinancing. The increase in risk incurred via short-term loans was even more accelerated in the subsequent period. The result was that short-term loans did not, and still do not, create any growth potential for working

Table 7

Industry/ratio	1	2	3	4	5	6
Agriculture, hunting and fishing	35.00	0.859	46.50	0.926	81.50	0.842
Textile, clothing and leather industry	44.38	0.391	35.11	0.843	79.49	0.578
Metallurgy and mechanical engineering	49.26	0.324	38.41	0.871	87.67	0.530
Mineral raw material mining	56.67	0.515	38.51	0.485	95.18	0.486
Building and construction	38.28	0.429	28.80	0.680	67.08	0.457
Electro-technical and electronic industry	54.13	0.221	32.01	0.763	86.14	0.426
Trade, marketing, restaurant, accommodation	55.95	0.292	28.47	0.685	84.42	0.416
Other industry	49.22	0.358	27.01	0.372	76.23	0.361
Foodstuffs industry	54.08	0.173	22.84	0.626	76.92	0.307

1 = portion of short-term loans in the industry on total loans within the industry (in %) 4 = CRC of long-term loans of the industry
 2 = CRC of short-term loans within the industry (in %) 5 = portion of long and short term loans in total
 3 = portion of long-term loans in the industry on total loans within the industry (in %) 6 = total level of CRC of the industry

Chart 5 Influence of the development of profit and depreciation on cash-flow



capital of the debt burdened company sector. A significant portion of short-term loans surrogates the low level of efficiency of investments, not the financing of a sustainable increase in short-term assets.

The level of CRC pertaining to long-term loans by industry and also the portion of corresponding loss loans confirms the generally low efficiency of corporate fixed assets. This mainly concerns industries with a high portion of depreciation in the structure not only of overall costs, but in particular fixed costs (agriculture, raw materials mining, the foodstuffs industry, metallurgy and mechanical engineering, electro-technical, elec-

Table 8 (in days)

Industry/year	1993	1994	1995	1996	1997	1998	1999
Agriculture, hunting, fishing (1)	676.46	860.04	778.13	726.09	629.69	613.32	620.30
Mining (3)	881.44	789.03	733.71	809.92	778.33	872.48	942.05
Food industry (4)	369.91	341.53	343.15	301.69	263.39	276.44	282.42
Chemical and pharmaceutical industry (5)	437.82	405.74	369.70	356.99	353.86	406.24	376.30
Metallurgy and mech. engineering (6)	548.92	487.46	428.02	385.95	361.42	267.73	248.54
Electro-technical and electronic industry (7)	940.70	514.18	420.96	397.50	1644.52	242.15	246.53
Textile, clothing and leather industry (8)	429.91	408.65	417.33	397.73	380.41	303.55	287.22
Other industry (9)	523.86	461.12	498.73	430.95	371.24	415.92	366.16
Production and distribution of electricity, gas and water (10)	692.58	1040.12	734.04	760.91	734.57	749.80	777.79
Construction and building (11)	442.58	396.84	371.57	323.10	296.13	242.19	259.36
Trade, marketing, restaurant and accommodation (12)	238.57	186.83	193.95	197.73	214.85	212.16	211.33
Transport, warehousing, tourism and communications (13)	491.99	530.58	497.22	613.25	561.75	520.43	439.24
Other activities (14)	955.99	1075.26	954.82	632.13	745.67	630.96	773.82
Average	497.98	431.61	425.13	400.69	404.04	366.08	361.07

tronic, and textile industries, building and construction, trade and transport). Their consequent low profitability is reflected in a negative cash-flow value, when the loss absorbs also the amount of depreciation. Identification of the causes of risks and losses pursuant to long-term loans should be one of the priorities when analysing the loan portfolio. Their low rate of return is one of the important causes of the inefficient allocation of short-term lending resources. The greatest risks in short-term loans are once more seen in the

following industries: agriculture, mining, metallurgy and mechanical engineering, the textile industry, trade, building and construction. If the cause of risk for long-term loans is the low efficiency of investments, the cause of risk of short-term loans is the lengthy duration of the turnover of short-term assets.

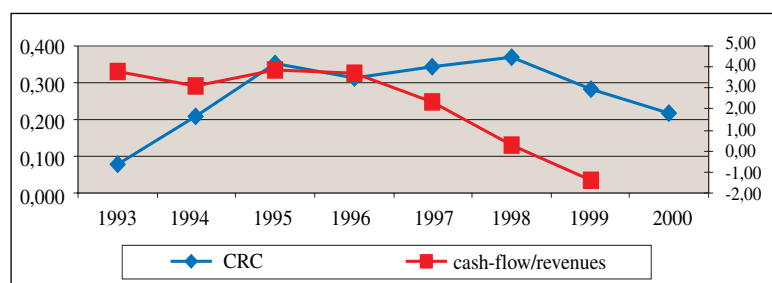
The outcome of a general degree of lending risk is therefore the accumulation of these two factors, which are mutually interconnected. The structure of the financial dependence, and of the lending dependency of such, also has its time sequence. Low efficiency of investments did not ensure the anticipated sustainable growth. The insufficient or extended accumulation of real revenues increased demands for financing the reproduction of costs of operations by the application of external resources. The synergy effect of the aforementioned factors led to low return on long-term loans being "resolved" by their refinancing through short-term loans. Those have nevertheless absorbed the impacts of long-term low efficiency. This is confirmed by the data given in Table 7, which contains actual data as of December 31, 2000, on short and long term credit exposure of the banking sector in industrial sectors with the highest level of credit risk.

Chart 5 documents the development of borrowers' cash-

Table 9 (cash-flow/revenues in %)

Industry/year	1993	1994	1995	1996	1997	1998	1999
Agriculture, hunting, fishing (1)	4.41	4.77	5.21	5.09	6.34	5.43	3.83
Forestry and timber (2)	13.43	10.11	9.50	8.08	7.19	8.30	6.41
Mining (3)	12.74	15.34	15.45	13.25	13.36	8.28	-4.51
Food industry (4)	2.09	2.06	1.64	2.69	1.63	1.16	1.44
Chemical and pharmaceutical industry (5)	6.47	7.03	8.85	6.69	6.37	4.82	2.39
Metallurgy and mech. engineering (6)	-0.26	0.91	0.46	-0.94	-3.48	-1.71	-1.59
Electro-technical and electronics industry (7)	-4.07	-0.12	0.48	1.90	-0.26	-1.94	0.25
Construction and building (11)	6.39	0.19	-1.55	-1.50	-4.66	-0.05	-1.61
Other industry (9)	4.56	3.07	2.20	4.32	2.36	0.36	0.96
Production and distribution of electricity, gas and water (10)	14.37	17.24	15.71	15.86	11.63	8.59	12.65
Výstavba a stavebníctvo (11)	3.44	2.22	1.31	2.53	2.62	0.84	0.09
Trade, marketing, restaurant and accommodation (12)	-0.80	-0.43	0.59	0.97	0.78	-2.16	-1.52
Transport, warehousing, tourism and communications (13)	12.73	15.18	13.15	11.38	6.33	2.88	1.51
Other activities (14)	10.88	8.99	6.20	3.34	3.63	-2.04	-26.12
Total	3.81	3.12	3.87	3.69	2.35	0.31	-1.43

Graf 6 Comparison of the development of cash-flow on revenues and the CRC value



flow. Sections in bold express the value of depreciation. With respect to the level 0 on the left numerical axis, the data allow assessment of which part of depreciation is absorbed by losses.

The extent of absorption of depreciation by losses is constantly increasing. The chief cause of this is the asset turnover period in individual industries. Since 1995 the level of cash-flow generated from SKK 1 of revenues has been on the decrease. In 1999 the aggregated value of cash-flow of the debt burdened company sector had reached a negative value. The development of cash-flow is influenced mainly by profit generation. Depreciation as an accounting expense item, but not an expense, represents a real resource through the realization of short-term assets in sales. If the turnover of company assets is longer

Table 10a (portion in % of the total loan portfolio)

Value of CRC/year	1993	1994	1995	1996	1997	1998	1999	2000
to 0.100	79.60	13.97	3.80	6.92	6.88	7.80	46.83	57.31
0.101 – 0.300	20.40	65.09	31.69	31.55	30.80	27.64	1.38	3.50
above 0.300	-	20.94	64.51	61.53	62.32	64.56	51.79	39.19
of which above 0.500	-	2.28	6.62	5.80	5.45	17.26	17.27	14.50

Table 10b (portion in % on the total loan portfolio except industry 14)

Value of CRC/year	31.12. 1998	30.6. 1999	31.12. 1999	31.3. 2000	30.6. 2000	31.12. 2000
to 0.100	10.08	9.86	12.83	11.40	15.62	18.37
0.101 – 0.300	6.59	6.18	2.27	8.14	6.77	4.05
above 0.300	83.33	83.96	84.90	80.46	77.61	77.58
of which above 0.500	22.28	53.73	28.32	12.35	8.15	27.86

than one year, the value of depreciation included in the price and/or production calculation is not a real financial source in the course of the current year. The development of the turnover period of company assets is illustrated in table 8.

The relationship between the circulation of assets owned by the borrowers and the maturity structure of loans allocated to industries with a lengthy period of assets turnover, explains the aforementioned high general degree of credit risk inherent in long-term loans and subsequent-

ly short-term loans. The general degree of credit risk is the result of long-term disturbances in the financial flows of borrowers.

The development in the cash-flow of the debt-burdened company sector, and of credit risk, are documented in Table 9 and Chart 6. They confirm that the decrease of credit risk in 1999 – 2000 is the result of the assignment of receivables. The real risk of the company sector depends on domestic lending resources, and did not decrease. The prudence of the banking sector is therefore logical. In general, the value of borrowers' cash flow is declining.

The stated prudence is a reaction to the real credit risk of borrowers. It has been stated several times that the development of the risk structure of the loan portfolio of the entire banking sector in the last two years is influenced by the assignment of receivables. This is documented in tables 10a and 10 b.

If we abstract from the receivables assigned, the risk incurred in the loan portfolio is still high, mainly from the aspect of the development of loss loans.

If we abstract from industry 14, the gap between the development of the portion of standard and loss loans is significantly more moderate. The portion of loss loans cleared of the influence of receivable assign-



ment has changed only minimally. However, the development of the loan portfolio is not only as a result of borrowers' performance. It is influenced by the degree of harmony between the turnover of company assets and the conditions of loans that are financing them. It is therefore necessary to stress that: **The solution is not to stop lending. The way to recovery of financial flows between the banking sector and the company sector is to offer loans that can be realistically repaid.** The actual repayment within a specific time and the amount are determined by the performance of the borrower. The bank may decide whether or not to provide a loan, which takes into account the real turnover of assets. Current data concerning the development of the portfolio provide an answer to the question as to what portion of loans provided by the Slovak banking sector entered the reproduction of sound financial flows of the company sector.

An important priority of loan portfolio analyses should therefore be the identification of indicators realistically expressing the extent of the financial crisis of the borrower. In other words, to know in advance the moment when the provision of another loan and/or refinancing of an already existing loan, will not have a development effect. The value of these loans is significant, as it is drawing on lending resources and decreases the efficiency of their allocation.

This article contains only a brief analysis of the development of the loan portfolio within the Slovak banking sector, which is processed in an already mentioned study. Nevertheless, it provides individual banks with the chance to compare their loan portfolios and the level of risk by industry with average values for the entire sector.

To be continued in issue 2/2002