Is Credit Rating Already a Need of Bulgarian Entrepreneurs?

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Abstract

Corporate Credit Rating is a modern instrument for risk measurement and presents an impartial assessment of the debt capacity of a firm. Credit Ratings shall be expressed in a manner concise and easy to appreciate. There is a view to the advantages, of which firms may avail when they have a Credit Rating:

A Credit Rating available can expend their access to funds, and can facilitate their funding process;

There are two banks’ approaches in the determination of Credit Risk:
- standardised approach;
- internal Ratings based approach (formed by the banks themselves).

Under the standardised approach, the main role in the assessment of Credit Risk is played by the so-called external Ratings, prepared by independent Rating Agencies. In order to establish the risk weights of their exposures, banks in Bulgaria shall be able to use credit assessments, granted by the Rating Agencies or Export Insurance Agencies (EIA) listed by the Bulgarian National Bank (BNB).

Basel standards allows banks to also use their internal Rating Systems, provided, however, that they adhere to certain criteria, as determined by the Basel Committee. The bank shall have to avail of an independent unit controlling Credit Risk, and responsible for the Rating System;

The internal awarding of a Rating to a given firm (Applicant Borrower) is only made for the purposes of the respective bank, before which the application for credit is filed, and where – generally, and as a whole - the firm remains unaware of such Rating (except for its resulting in the firm either being granted or refused the credit), the rating awarded by a Rating Agency is usually public.

Credit Rating Agencies – international and domestic practice. It is believed that Rating Agencies (RA) guarantee better differentiation of risks; that they are more reliable in their assessments, moreover that the internal Rating Systems are not yet in broad operation - transparency, inclusive with respect to their rating methods used;

Some examples of Bulgarian Credit Rating Agency practice are analysed and some conclusions are made.

The aim of this paper is to study the role and importance of credit rating for Bulgarian entrepreneurs as well as to analyze the development of the rating process and rating agencies in this country at present.