

НАРОДНА БАНКА

СРБИЈЕ



Crisis Resilience of Financial Markets - Serbia

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Berlin, December 3rd 2009

High level of euroisation and floating exchange rate (?!) determined our monetary and financial sector supervisory policy

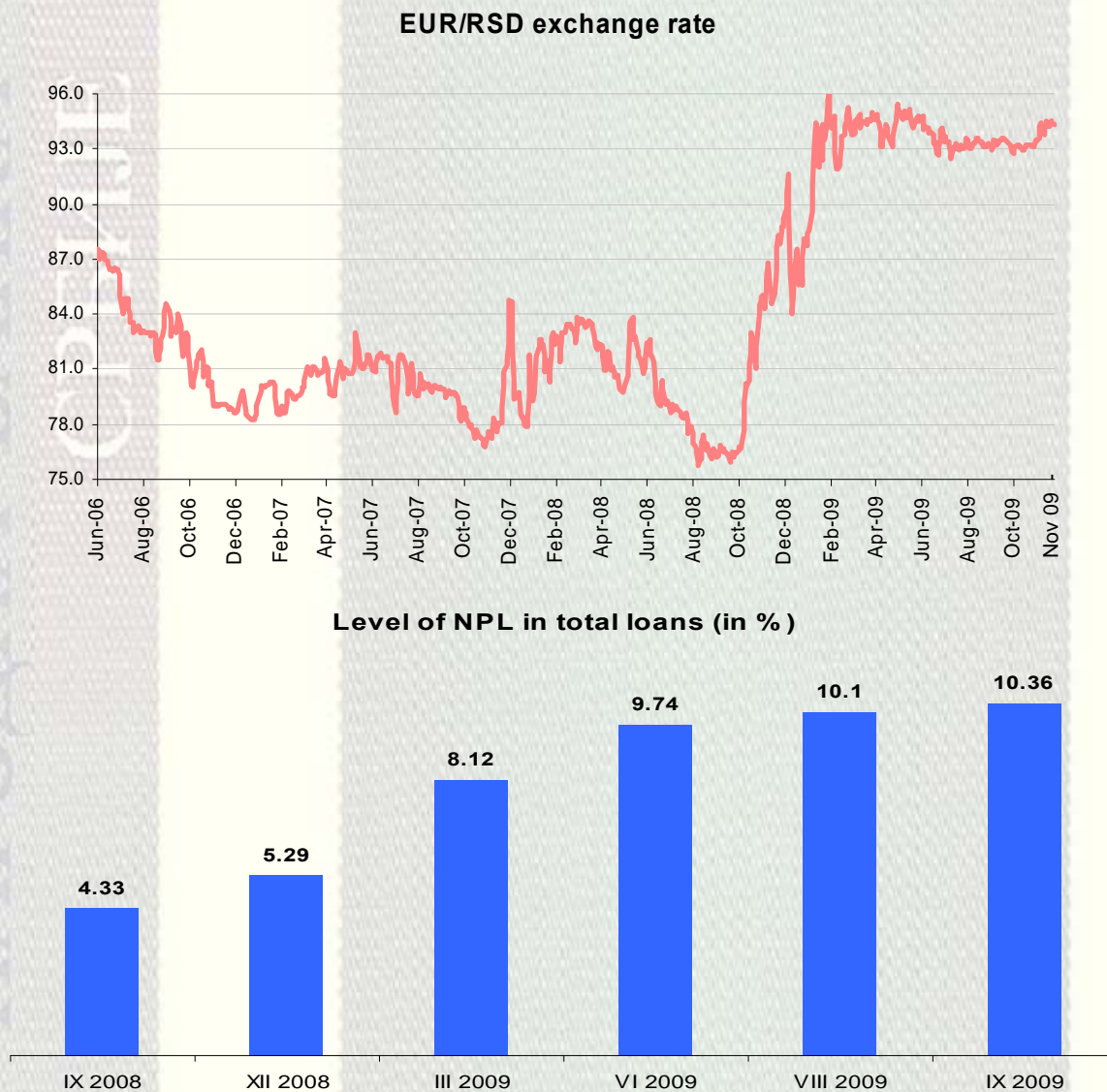
Despite high level of euroisation, depreciation during the crisis did not affect our banking system substantially because of pre-crisis restrictive monetary and supervisory policy (figures are as of 30.9.2008):

- High capital adequacy ratio of 23.3% mainly due to the supervisory limit regarding consumer loans – main solvency buffer;
- High and differentiated FX reserve requirements (FX 40 - 45% while for RSD 5 -10%);
- High NBS repo - EUR 3.2bn that provided a key liquidity buffer against the crisis;
- Additional capital requirements for unhedged borrowers (125%), limits on private borrowing to 50% of monthly disposable income, higher CAR for banks with strong loan portfolio growth etc.
- 75% of banks owned by strategic owners from the EU, 17% owned by the state and only 8% owned by local private shareholders!
- Consumer protection (consumer hot line, educational materials, code of conduct, public warnings etc.)

Majority of the adjustment in Serbia was traditionally done via exchange rate and inflation, and only partly through fiscal policy

- During good times, salaries and pensions (current consumption) were growing much faster than productivity;
- Strong FDI inflow contributed even to an appreciation of the RSD by some 11.6% despite an average inflation of some 10% in the period of 2006-2008;
- Lowering nominal wages and pensions is unfortunately impossible in Serbia: adjustment is taking place only via freezing pensions and wages in both 2009 and 2010 while CPI is expected to be at around 7.5% and 6% respectively;
- Adjustment via exchange rate has substantial implications on the quality of the loan portfolio (stability of the financial sector) when 78% of the loans to private individuals are denominated in FX !

Exchange rate movements affected the quality of loan portfolio



- Around 13% appreciation during good times was followed by depreciation of nearly 26% within the first 6 months of the crisis;
- Is the natural border of exchange rate fluctuation there where the stability of financial sector starts to deteriorate?
- Level of NPLs is bottoming out
-high CAR is safeguarding the banking sector.

Why were we able to handle the crisis successfully in Serbia?

- Cash was provided abundantly to the commercial banks using all means and tools in order to meet the withdrawal of 16% of deposits (EUR 1bn within 6 weeks);
- High reserve requirements meant that 40% of withdrawn money came from the NBS reserves;
- Central bank provided substantial FX liquidity based on sufficient RSD liquidity (around EUR 600mn);
- Foreign strategic ownership did pay off as the majority owners provided all necessary liquidity and capital support needed in order to stabilize the local financial market;
- Serbia was already negotiating a precautionary stand-by arrangement with the IMF;
- EBRD initiated the “Vienna Agreement” that got substantial support from the IMF and became part of the final stand-by agreement;
- **But most of all:** we had a liquid and solvent banking sector!

What did not work well during the crisis?

- Home - host supervisory relationship based on Memoranda of Understanding (MoU) proved not to be a useful tool in order to handle the crisis. Information flow was slow, data was old, day-to-day coordination was missing, all activities were ad hoc! Main source of information for us in Belgrade were the local Austrian (Der Standard, Die Presse,) German (FAZ, Handelsblatt), Greek newspapers, as well as international news agencies;
- Flow of information between headquarters and subsidiaries of banks was also slow and outdated – headquarters suddenly represented a liability to the subsidiary and not an asset!
- Local media was handling the information from the international financial markets unprofessionally;
- Government(s) were acting with a substantial delay to the crisis, as passing new laws in order to tackle the crises (e.g. deposit insurance, bank recapitalization etc.) needed weeks and even months!

Are we going to be able to utilize the crises in order to be better prepared for the next one?

I hope so, although as time is passing the hope is vanishing!

- Not a single law was passed as of today from the package of “crisis preparedness laws” by the Serbian parliament. Politicians tend to forget the crisis rather fast, parliament is dealing with other “more important” issues today;
- Change of the supervisory architecture in the EU/Europe is losing momentum as well.

What can we notice today in financial sector in CEE in the aftermath of the crisis?

- Differentiation in banking sector among the strategic foreign owners is speeding up.
 - Some banks are increasing while others are decreasing their stakes in the region;
 - Some banks are facing tough challenges in raising additional resources on international financial market;
 - Some banks are scrutinized by local and EU authorities;
 - Country where the bank is headquartered is more important than ever !
- Relationship between headquarters (HQ) and subsidiaries is changing - compared to the traditional one where HQs are asked for more money, today subsidiaries are reluctant to give out more loans while some HQs would like to grow faster;
- Additional mergers and acquisitions are imminent in the banking sector
 - The only reason for delay is very low market capitalization today!