

НАРОДНА БАНКА

СРБИЈЕ



## **Growing responsibly – Growing responsibility**

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**Radovan Jelašić, Governor - National Bank of Serbia**

**Ohrid, June 9<sup>th</sup>, 2010**

# NBS was using all tools available to slow down excessive credit growth before the crises

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## Monetary policy

- Relatively high reference rate,
- High and differentiated reserve requirements,
- RSD reserve required for EUR denominated deposits...

## Supervisory policy

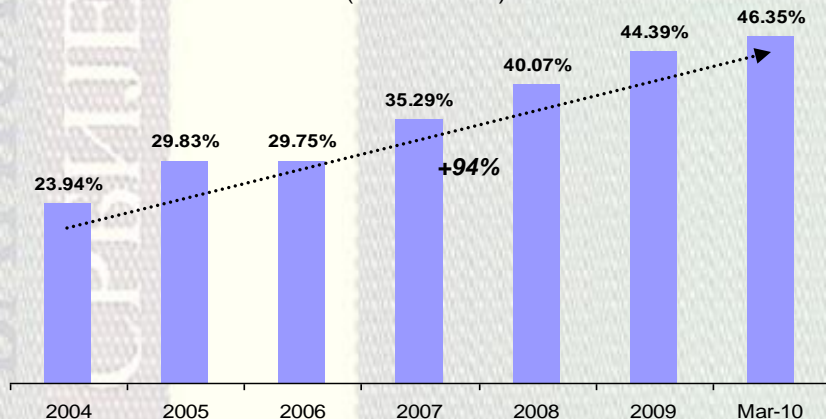
- Additional capital requirements for unhedged borrowers (125%),
- Limitation on household borrowing (30/50%) as well as on loans to households to 150% of capital,
- Restrictive open FX position - 10% of the banks' capital,
- More comprehensive and conservative risk weights...

## Other measures

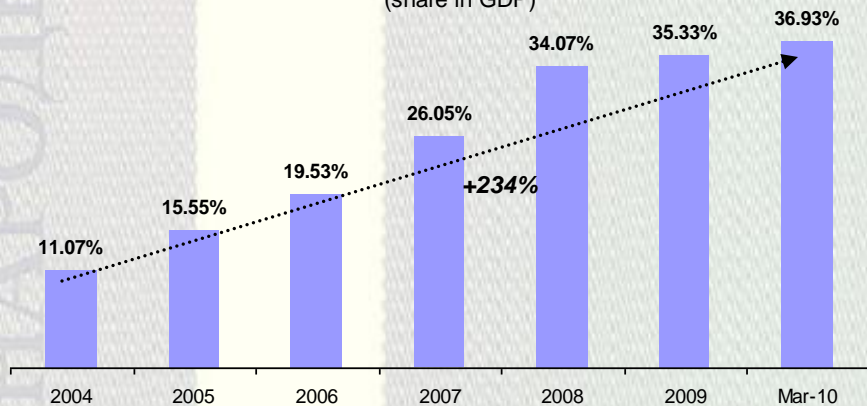
- Supervision of leasing companies,
- Informing home supervisors regarding cross/border borrowing, CHF loans...

## Although the countercyclical policies were not “perfect” they did provide a useful buffer during the crisis

Loan portfolio of banks in Serbia  
(share in GDP)



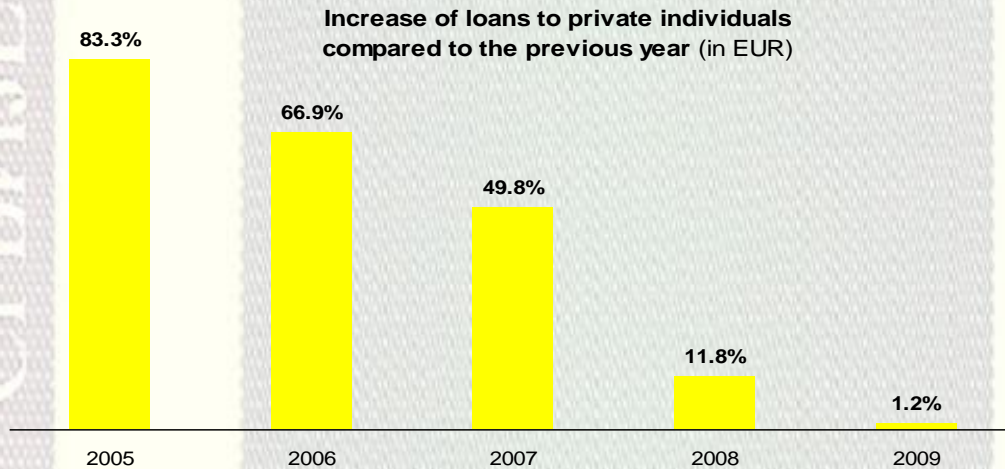
Enterprises cross-border borrowing  
(share in GDP)



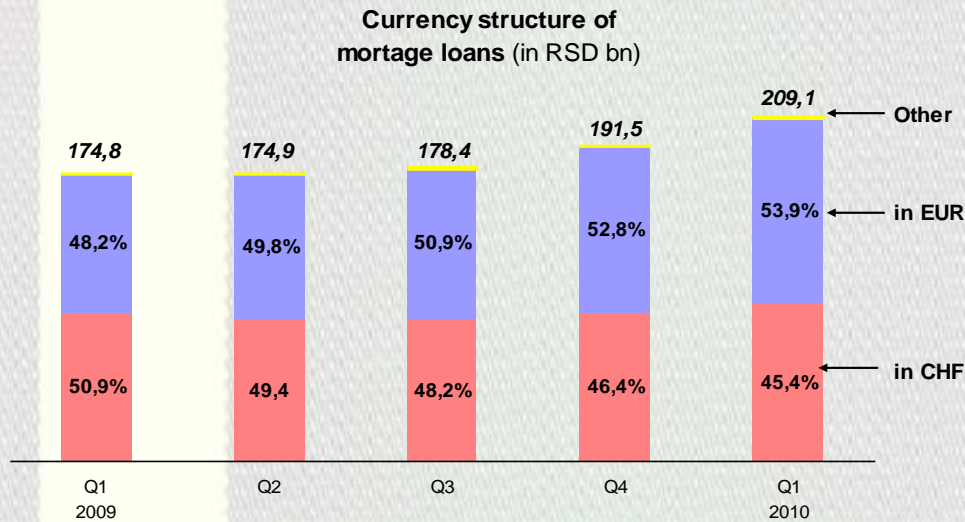
- Capital adequacy ration at the end of Q1 2010 still very high → 21.53%;
- High level of liquidity - total investments of a) RSD 132bn in RS Treasury bills, b) RSD 120bn in NBS repos and c) ~ RSD 390bn in reserve requirements (FX and RSD denominated) = ~ 40% of the balance sheet of the banking sector (*figures as of early June 2010*);
- 74% of the balance sheet of the banking sector in Serbia owned by strategic investors from the EU (*as of march 2010*);
- Successfully met the challenges such as a) EUR 1bn deposit withdrawal, b) increase of NPLs from 4.30% (Q3 2008) to 10.36% (Q3 2009), c) substantial need of additional FX and RSD funding, d) no government support ...

# Crisis changes the behavior of banks more effectively than any central bank's regulation (1/2)

Not only the increase of loans to private individuals slowed down ...



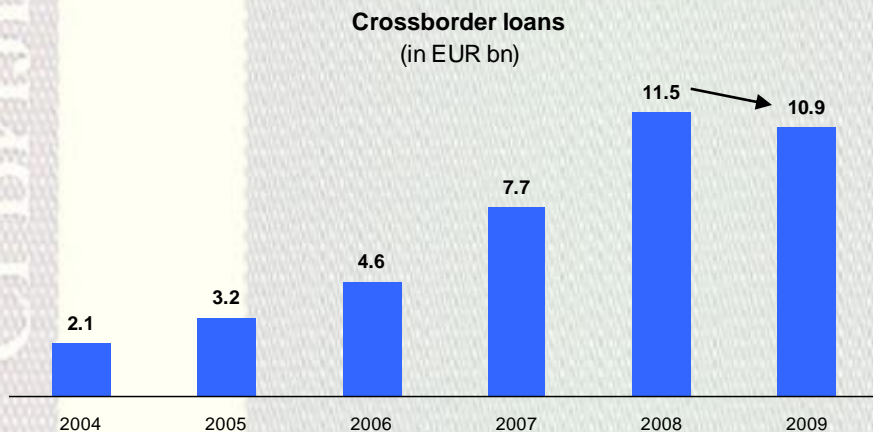
... but the currency composition of mortgage loans changed as well



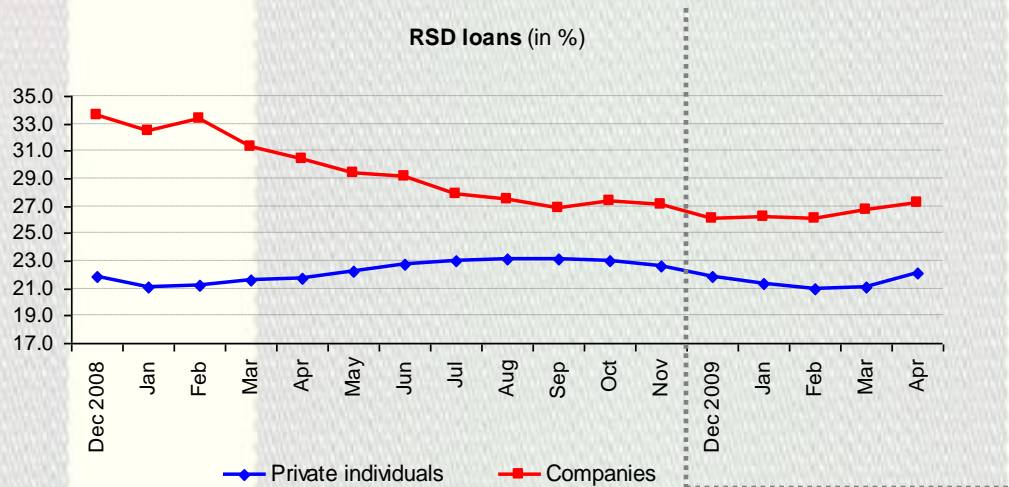
- Risk awareness of banks went to another extreme – commercial banks' internal regulation is today more restrictive than NBS' (LTV, monthly income, CHF loans etc);
- Investments into Treasury bills increased substantially;
- HQ are now pushing the subsidiaries to give more loans and not vice versa ...

# Crisis changes the behavior of banks more effectively than any central bank's regulation (2/2)

Cross-border borrowing is decreasing...



...and share of RSD loans started to increase during 2010



# Central banks should adopt their overall policies to the new reality

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## Questions before the crisis

- How to slow down excessive credit growth?
- How to bring limit on increase in cross-border loans?
- How to stop loans in CHF, JPY?
- How to stop appreciation of the currency .....

## Questions today

- Where will the future deposits of banks come from?
- What does the new growth model mean for banks?
- How to provide local currency funding to commercial banks when citizens prefer to save in EUR?
- How to limit risks of sudden country exposure cuts by HQ abroad?
- How to release some of the reserve requirement kept in the central bank and make sure that it is used to increase the local loan portfolio?

## Home-host supervisory cooperation in practice showed its uselessness during the crises

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- MoU's between supervisory authorities turned out to be rather useless because flow of information was
  - slow,
  - outdated,
  - limited;
- During the crises our main source of information was FT, Der Standard, Die Presse, FAZ etc..
- Supervisory colleges are too late and too little ...
- Previous warnings of host supervisors were not taken seriously a) CHF loans, b) cross-border loans ...
- Supervisory framework today is still tailored for the 20. century (e.g. Unicredit reports to 100 different authorities regarding their activities in the financial sector in the countries they are active);