NATIONAL BANK OF SERBIA

Speech at the Presentation on Current Developments and Challenges in the Financial System

Dr Jorgovanka Tabaković, Governor

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Ladies and gentlemen, esteemed members of the press, dear colleagues,

Welcome to the presentation of our assessment of current developments and the balance of risks in the Serbian financial system. It is a great honour and pleasure to have with us today Mr Francisco Ramon-Ballester, our dear and esteemed guest from the European Central Bank, who will give his assessment of the key challenges and risks faced by the Serbian financial system.

Since Mr Ramon-Ballester and my colleagues will devote more attention to the risks in the financial system, I will use this opportunity to present, as an introduction, some key indicators of the performance of the domestic banking system. Let me start with capital adequacy. A capital adequacy ratio of over 21% is an unmistakeable indicator of the exceptionally high level of capitalisation of the Serbian banking system. Though the National Bank of Serbia has often been criticised for its conservative approach, it is exactly this conservative approach to regulation and supervision that has kept the domestic banking system stable in the face of numerous challenges, as well as resilient to shocks from both domestic and international environment. This is also confirmed by the results of the latest macroprudential stress tests carried out on data as at the end of the second quarter of 2015. In addition to being well capitalised, the Serbian banking sector is highly liquid as well. More than 35% of total bank assets are liquid, and the results of liquidity stress tests indicate the system's resilience even in a scenario of a major deposit withdrawal.

On the other hand, the 22% ratio of non-performing loans in the banking system is indeed high. However, the capacity of the Serbian banking sector to absorb potential losses on this account is still satisfactory, since these loans are fully provisioned for. An additional risk in the system is embodied in the high level of euroisation of loans and deposits. These problems were years in the making. However, by implementing measures which were critical not only for providing price stability, but also the stability of the exchange rate, the National Bank of Serbia has slowed the growth in non-performing loans and contributed to the increase in dinar savings and dinar loans to households. Year-on-year inflation has been significantly reduced – from 12.8% in January 2013 to 1.4% in October 2015. Progress in reducing inflation created scope for cutting the key policy rate of the National Bank of Serbia by 7 percentage points (from 11.5% to 4.5%) relative to January 2013, and this fed through into lower dinar lending rates. From January 2013, weighted average interest rates on new dinar loans to enterprises fell by 7.6 percentage points (from 15.1% to 7.5%), while those on new dinar loans to households went down by 8.7 percentage points (from 21.9% to 13.2%). Let me remind you of what I said at the presentation of the Financial Stability Report in July. On that occasion, I said that interest rates on dinar loans would most certainly continue to fall, and so they did. During the past four months, interest rates on new dinar loans to enterprises fell by 2.7 percentage points – to 7.5%, while those on new dinar loans to households edged down by 2.6 percentage point – to 13.2%, their lowest level on record. Furthermore, relative stability of the exchange rate of the dinar has been achieved and maintained despite numerous challenges, especially those stemming from the international environment.

Ladies and gentlemen, esteemed members of the press, dear colleagues,

Allow me to conclude this introductory address by saying that our financial system is solvent, liquid and stable. There are risks to the financial system, especially those emanating from the international environment, but these risks are mitigated by the instruments at our disposal.

Thank you all for coming. I now give the floor to our dear guest and friend Mr Francisco Ramon-Ballester.