



Народна банка Србије

# Current Developments and Challenges in the Financial System

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**Press conference**  
Belgrade, 4 December 2015



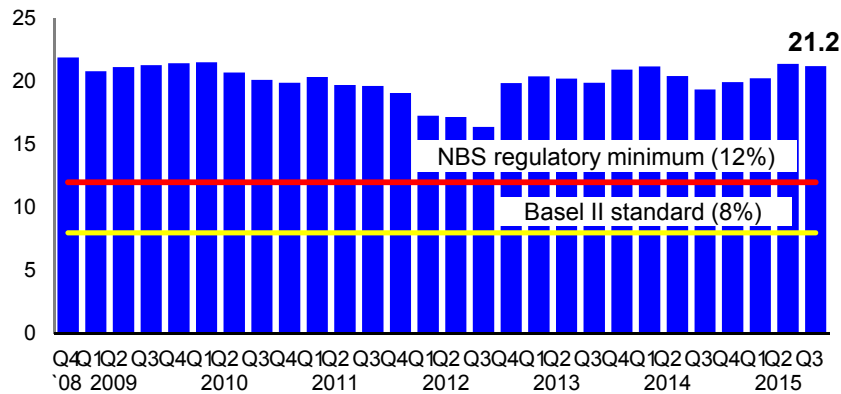
- ❑ **Current developments in the financial system.**
- ❑ Key internal challenges and response measures.
- ❑ Key messages.



# Conservative regulatory framework has contributed to the resilience of the banking system

## The banking sector is highly capitalised

Banking sector capital adequacy ratio (%)

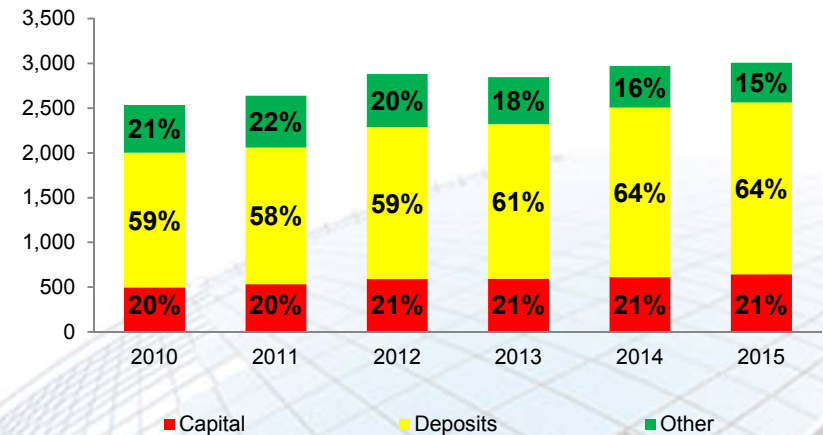


Source: NBS.

- At end-Q3 2015, CAR measured 21.2%, which is significantly above the regulatory minimum of 12.0%.
- CAR growth in 2015 (from 20.0% to 21.2%).

## Domestic sources of funding are dominant, which lessens the risk of deleveraging

Banking sector funding sources (RSD bln)



Source: NBS.

- Total deposits made up 63.9% and capital 21.4% of total banking sector liabilities at end-Q3.
- Foreign liabilities accounted for around 13% of balance sheet assets.

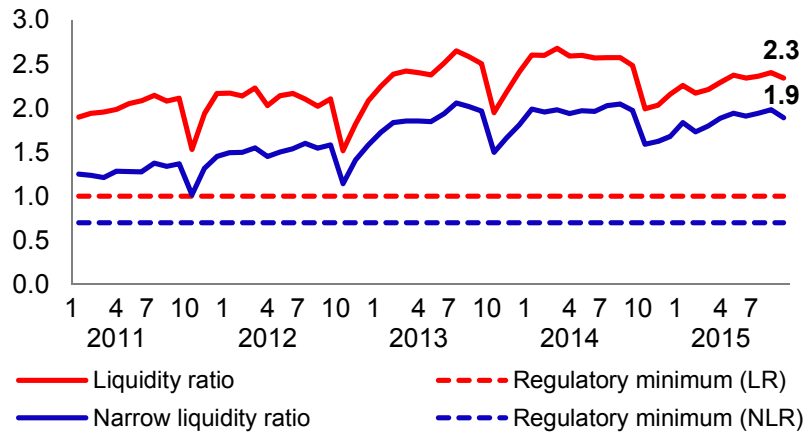


# Banking sector in Serbia is liquid

## Liquidity indicators point to high liquidity of the banking sector

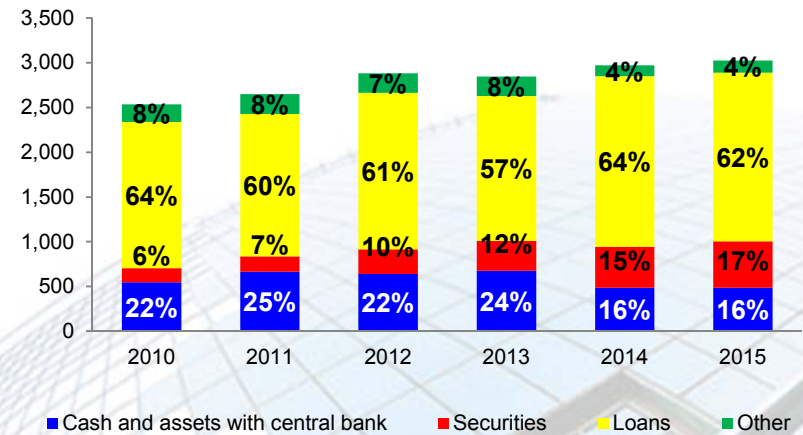
In the aftermath of the crisis, the strongest growth is recorded for investment in government securities

Average monthly liquidity ratio



Source: NBS.

Structure of banking sector assets (RSD bln)



Source: NBS.

□ Liquidity ratio of 2.3 at end-Q3 2015 shows that the banking sector can withstand scenarios of a sudden deposit withdrawal.

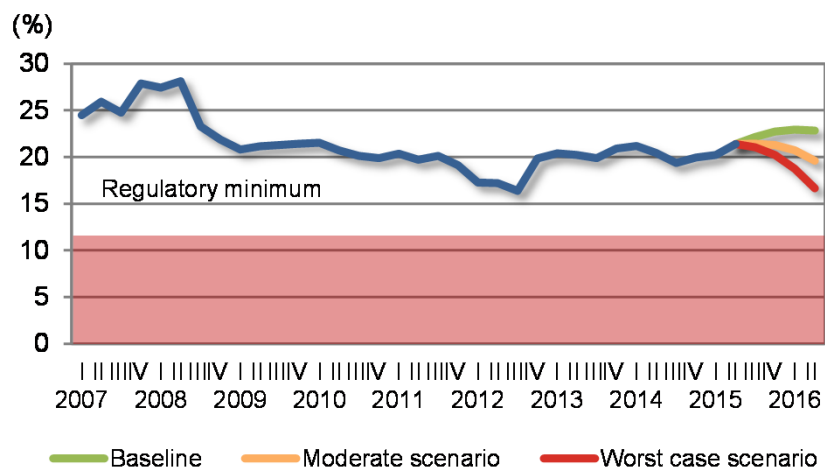
□ The share of liquid assets in total assets continues above the high 35%, which confirms the banking sector's capacity to service its debts smoothly.

# Macroprudential stress tests show that the system is highly resilient to solvency and liquidity shocks

**Strong shocks are assumed under both moderate and worst case scenarios**

**The liquidity ratio remains in the safe zone and is under no threat even in case of a major deposit withdrawal**

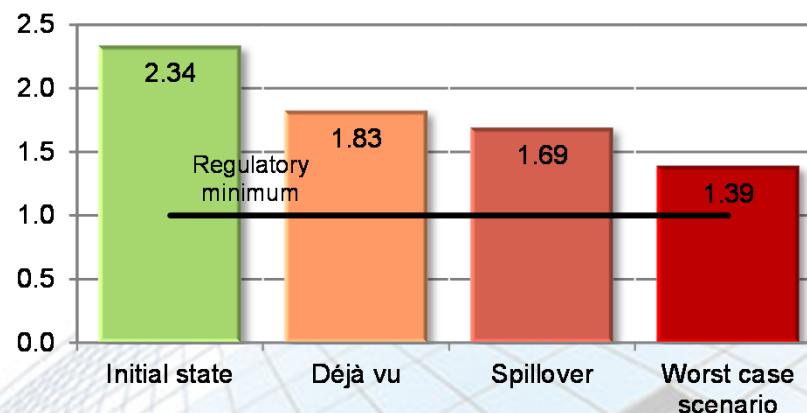
Expected capital adequacy ratio by stress scenario



\* NBS estimate.

- ❑ Banking sector's CAR remains above the regulatory minimum even in a worst case scenario that implies an exchange rate shock by 50% stronger than in the period October 2008-January 2009.
- ❑ **The solvency of the system as a whole is under no threat!**

Expected liquidity ratio for the banking sector by stress scenario



\* NBS estimate.

- ❑ Liquidity ratio remains significantly above the regulatory minimum even in case of a worst case scenario which assumes double the amount of deposit withdrawal registered in October 2008.
- ❑ **The liquidity of the system as a whole is under no threat!**



- Current developments in the financial system.
- **Key internal challenges and response measures.**
- Key messages.

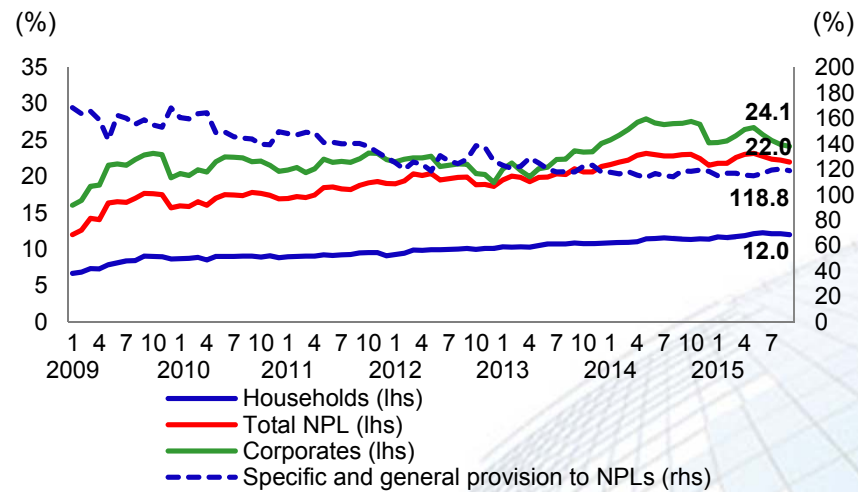




# NPLs are high but do not jeopardise the stability of the financial system

Though slightly lower, the share of NPLs in total loans remains high – 22.0% at end-Q3 2015

NPL ratio by sector and NPL coverage



Source: NBS.

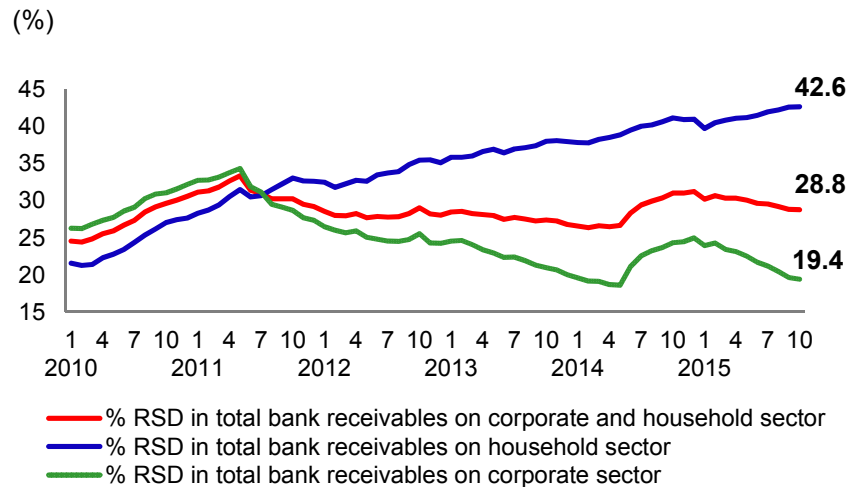
- In Q3 2015 the share of gross NPLs in total loans decreased by 0.8 pp - from 22.8% to 22.0%, as a result of a mild rise in lending activity, but also as a result of debt recovery and write-off of a part of these loans.
- Though high, NPLs pose no threat to the stability of the banking sector. This is also confirmed by a 21.2% CAR and the results of macroprudential stress testing.

# Dinarisation – strategic goal of the NBS and the Government

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## Loan dinarisation is rising in the household sector and falling in the corporate sector

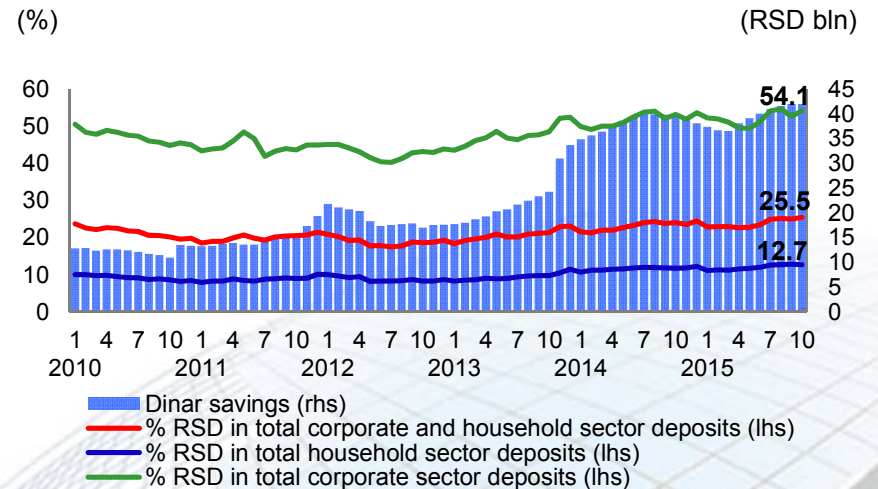
### Credit dinarisation



Source: NBS.

## Without deposit dinarisation there can be no increase in loan dinarisation

### Dinar savings and deposit dinarisation



Source: NBS.

- Looking at new loans, trends are more conspicuous:
  - In 2015 more than 66% of new loans to households were denominated in dinars.
  - At the same time, only 15% of new loans to corporates were denominated in dinars.

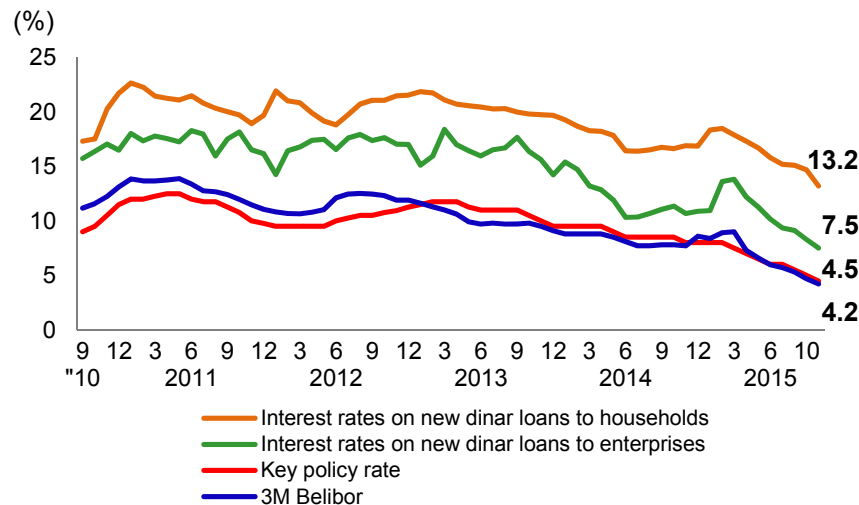
- Dinar savings totalled RSD 42.0 bln in October 2015, which is 2.4 times the amount in Q4 2012.
- Though the share of dinar savings in total savings remains low (4.0%), their almost uninterrupted growth is an encouraging sign.



# NBS remains committed to maintaining and strengthening monetary and financial stability

**Dinar lending rates follow in the footsteps of the declining key policy rate ...**

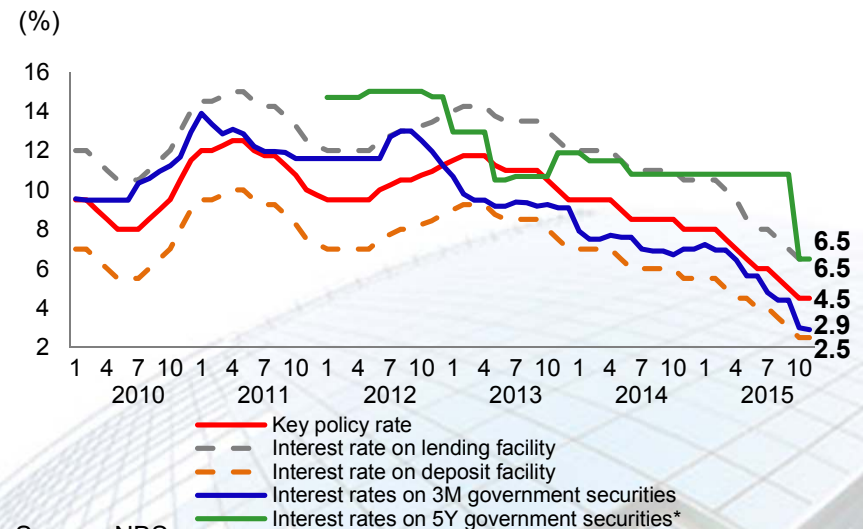
**Interest rates on new dinar loans to private sector, key policy rate and 3M Belibor**



Source: NBS.

**... as do interest rates on dinar government securities**

**NBS interest rates and interest rates on government securities**



Source: NBS.

\*5Y government securities were issued for the first time on 1/24/2012

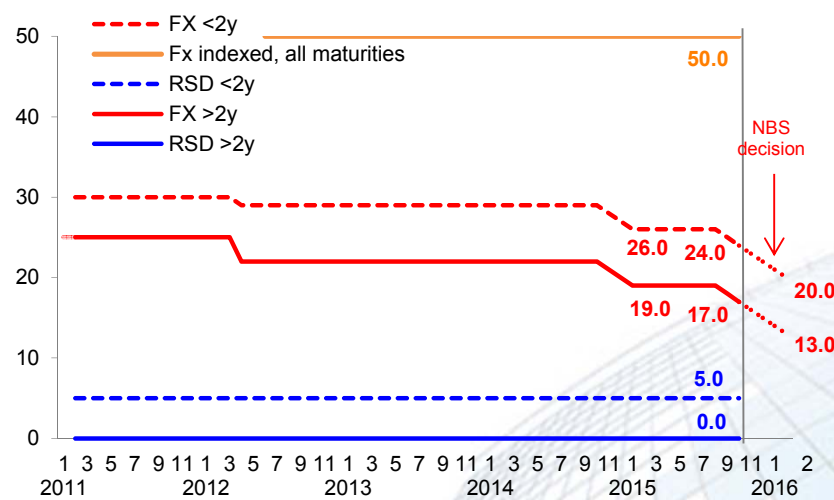
- The 3.5 pp cut in the key policy rate in 2015 (from 8.0% to 4.5%) reflected on the price of dinar lending. Average interest rates on new dinar loans fell by 3.7 pp (from 16.9% to 13.2%) for households and by 3.4 pp (from 10.9% to 7.5%) for enterprises.

- Interest rates on dinar government securities also declined. To illustrate, interest rates on 3-month bills fell by 4.1 pp (from 7.0% to 2.9%), while those on benchmark 5-year dinar bonds went down by 4.3 pp (from 10.8% to 6.5%).

# Gradual release of FX required reserves reinforces the effect of the key policy rate

## The NBS continued lowering the FX reserve requirement ratio from September

Reserve Requirement Ratios (%)



Source: NBS.

- As of September, FX reserve requirement ratios are cut by 1 pp in each of the subsequent six maintenance periods (by 6 pp in total), which means that in February 2016 the ratios will be 20% (on sources of funding up to two years) and 13% (on sources of funding over two years).
- By lowering interest rates and unlocking a part of banks' credit potential, these measures aim to bolster credit activity.



- Current developments in the financial system.
- Key internal challenges and response measures.
- **Key messages.**





# Key messages

- ❑ The banking sector is solvent and liquid.
- ❑ The banking system is stable – the results of the latest macroprudential stress test exercise confirm the system’s resilience to shocks.
- ❑ There are challenges, but the instruments we use have proved to be effective in mitigating them.
- ❑ Joint action plan of the NBS and the Government is under way to combat high rates of non-performing loans.
- ❑ While loans and deposits remain highly euroised, the process of dinarisation is yielding results – both dinar lending to households and dinar savings are growing.





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**Thank you for your attention!**

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