Macro-prudential Measures to the Banking System at the Time of Crisis: The Case of Macedonia

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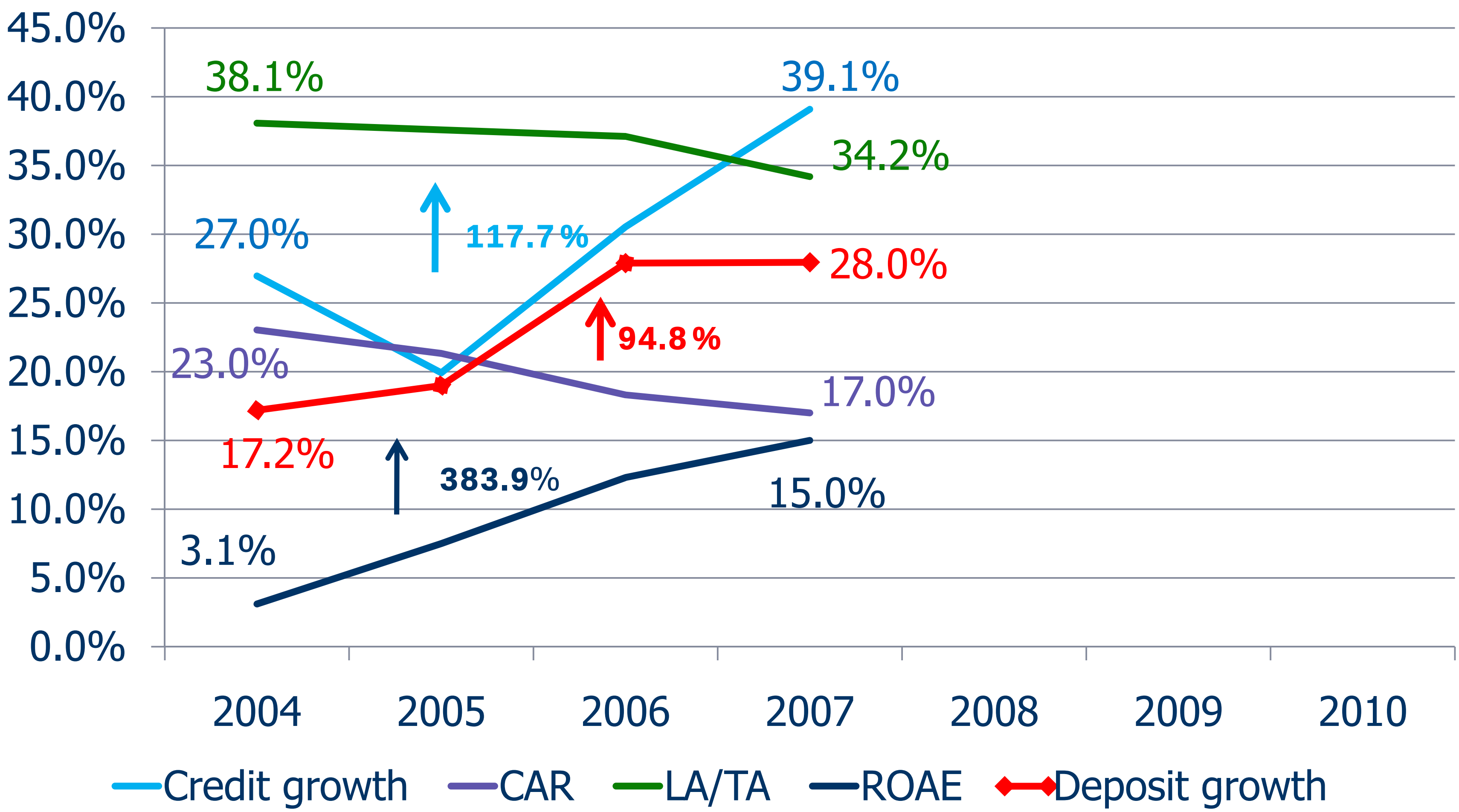
Outline

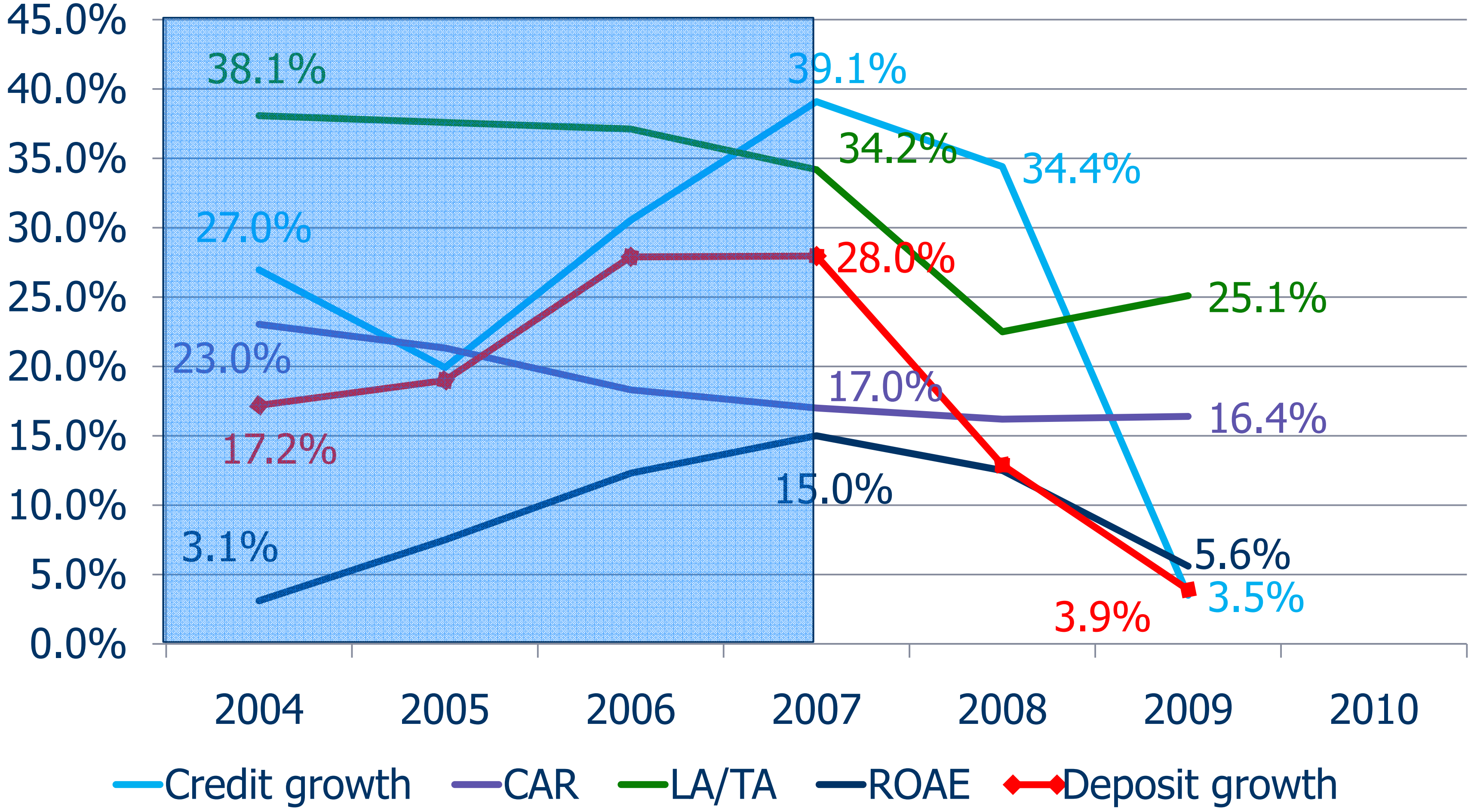
- Pre-crisis, crisis and post-crisis trends (2004-2010)
- Macro-prudential measures
  - Prevention of high credit growth risk
  - Capital requirements
  - Liquidity ratios
  - Regulation on FX lending
- Conclusions
  - Measures' impact
  - The role of the National Bank
  - Future challenges

PRE-CRISIS, CRISIS AND POST-CRISIS TRENDS

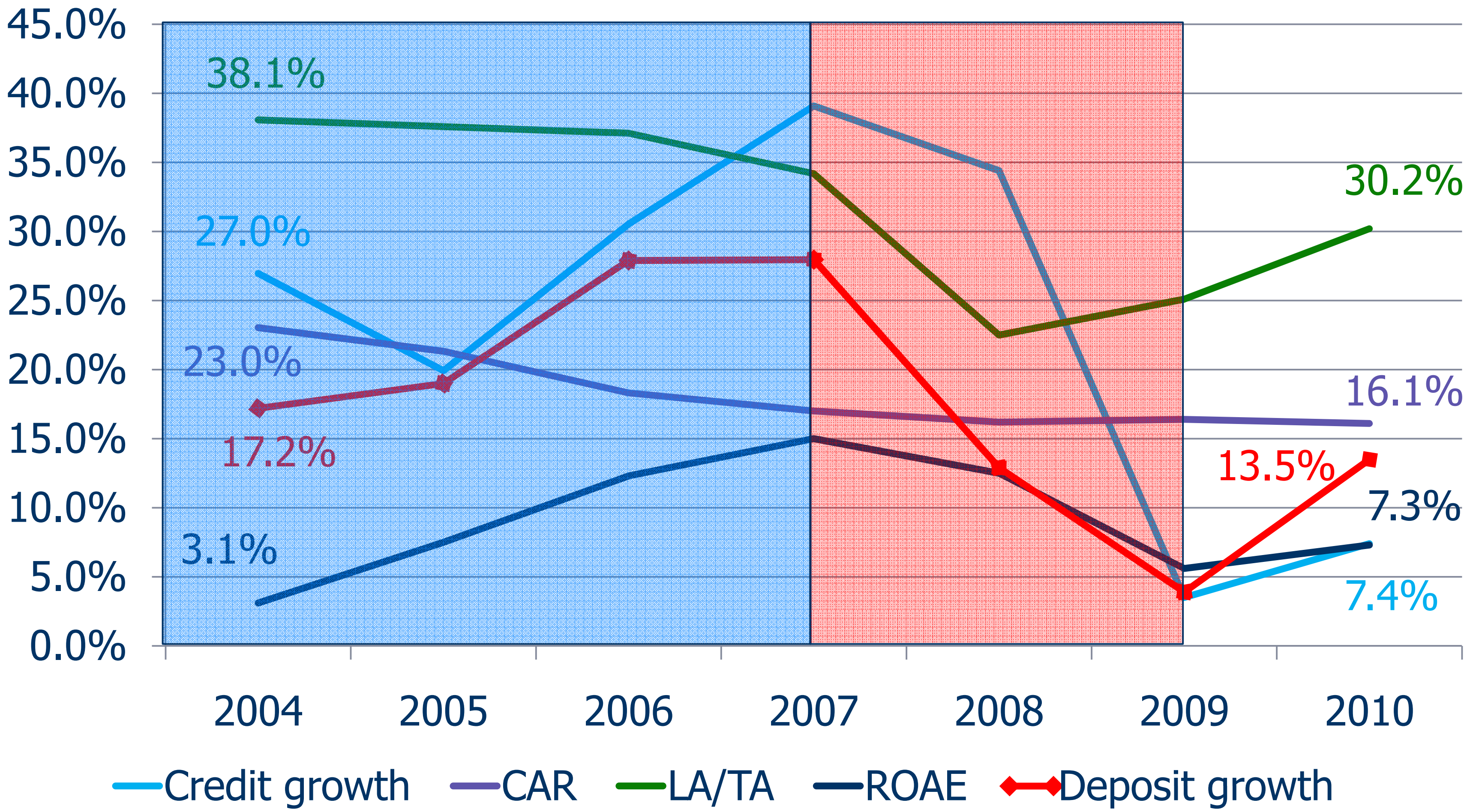
Pre-crisis period (2004-2007)



Crisis period (2008-2009)



Post-crisis period (2010)



Impact of the Crisis

- Decline of the deposit growth
- Significantly lower credit growth ratios
- Lower profitability ratios
- Deterioration of the credit quality

	2007	2009	2010
NPLs/Total loans	10.3%	9.1%	9.3%

However,

- Stable liquidity and solvent position
- No need for a direct financial support by the Government

Reasons for the "low" direct impact

- Low correlation with the global financial market
- Lack of complex and toxic financial products
- Conservative approach to credit risk ("credit risk averse")
- Macro-prudential measures of the National Bank

MACRO-PRUDENTIAL MEASURES OF THE NATIONAL BANK

Macro-prudential measures

- Prevention of high credit growth risk - 2008
- Capital requirements - 2008
- Liquidity ratios - 2009
- Regulation on FX lending - 2006

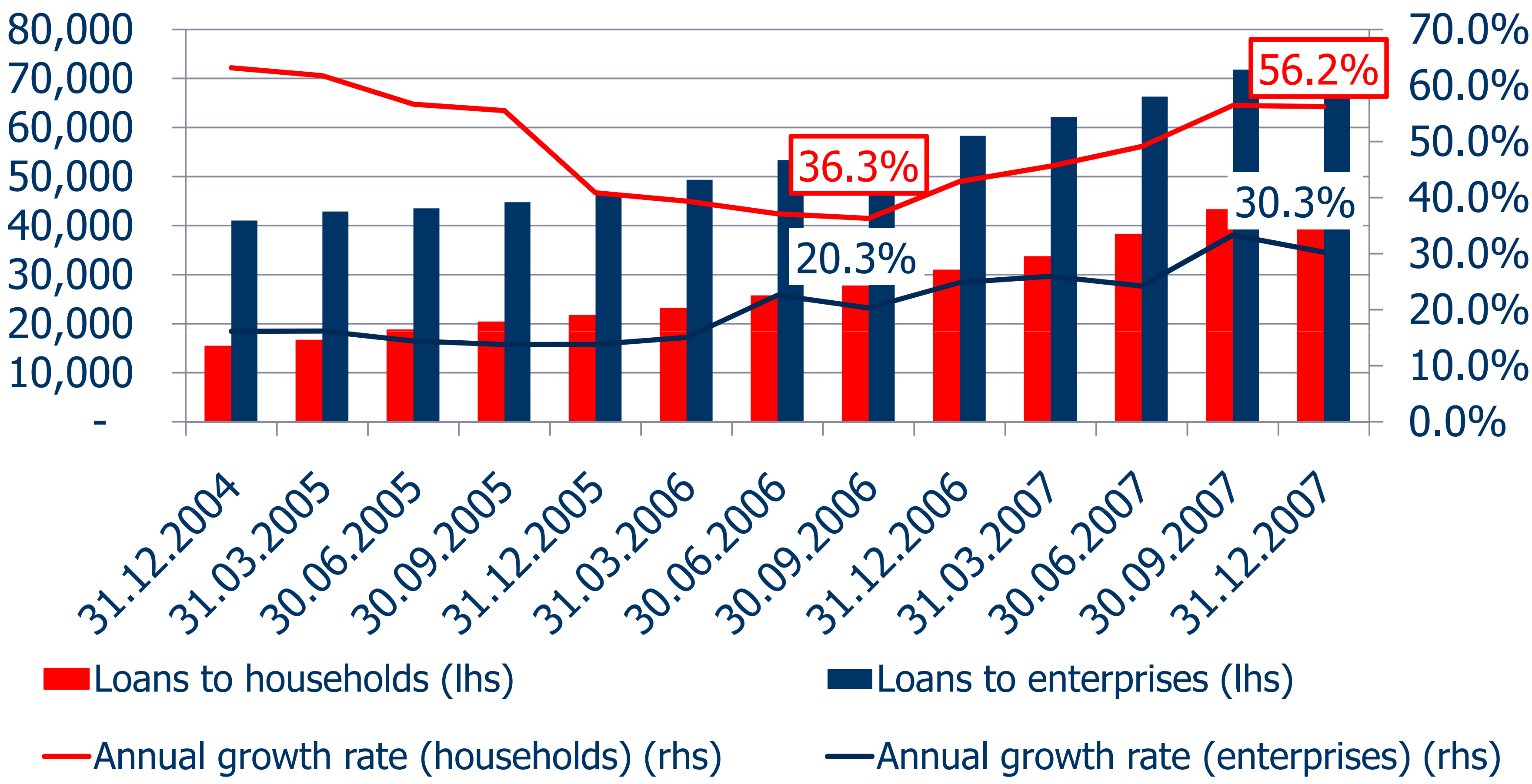
Structure:

- Reasons for the introduction of the measure
- Description of the measure
- Impact of the measure

Prevention of high credit growth risk

Average growth rate (enterprises) – 20.8%

Average growth rate (households) – 49.3%



Prevention of high credit growth risk

Decision on the compulsory deposit with the NBRM– June, 2008 and December, 2008

- Cumulative monthly credit growth ratios on short-term and long-term loans to households (2008 and 2009)
- Higher credit growth than the prescribed monthly ratios - compulsory deposit with the NBRM (1% p.a.)

Prevention of high credit growth risk

31.05.2008 - Base

Month	Growth rate
July 2008	5.6%
August 2008	8.0%
September 2008	10.3%
October 2008	12.5%
November 2008	15.1%
December 2008	18.1%

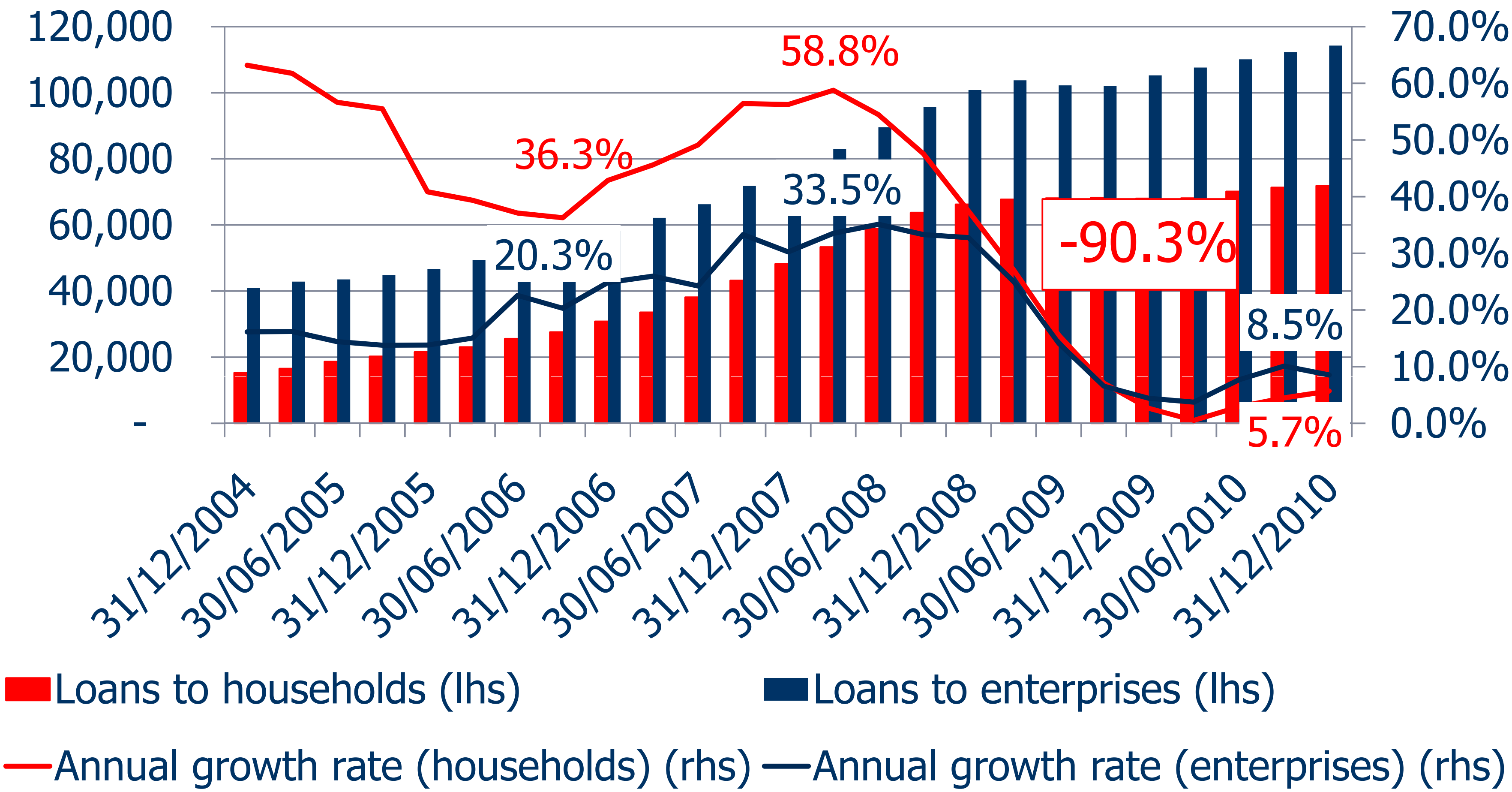
31.12.2008 – Base

Month	Growth rate
January 2009	0.5%
February 2009	1.2%
March 2009	2.1%
April 2009	3.0%
May 2009	4.2%
June 2009	5.4%
July 2009	6.6%
August 2009	7.5%
September 2009	8.3%
October 2009	9.3%
November 2009	10.2%
December 2009	11.3%

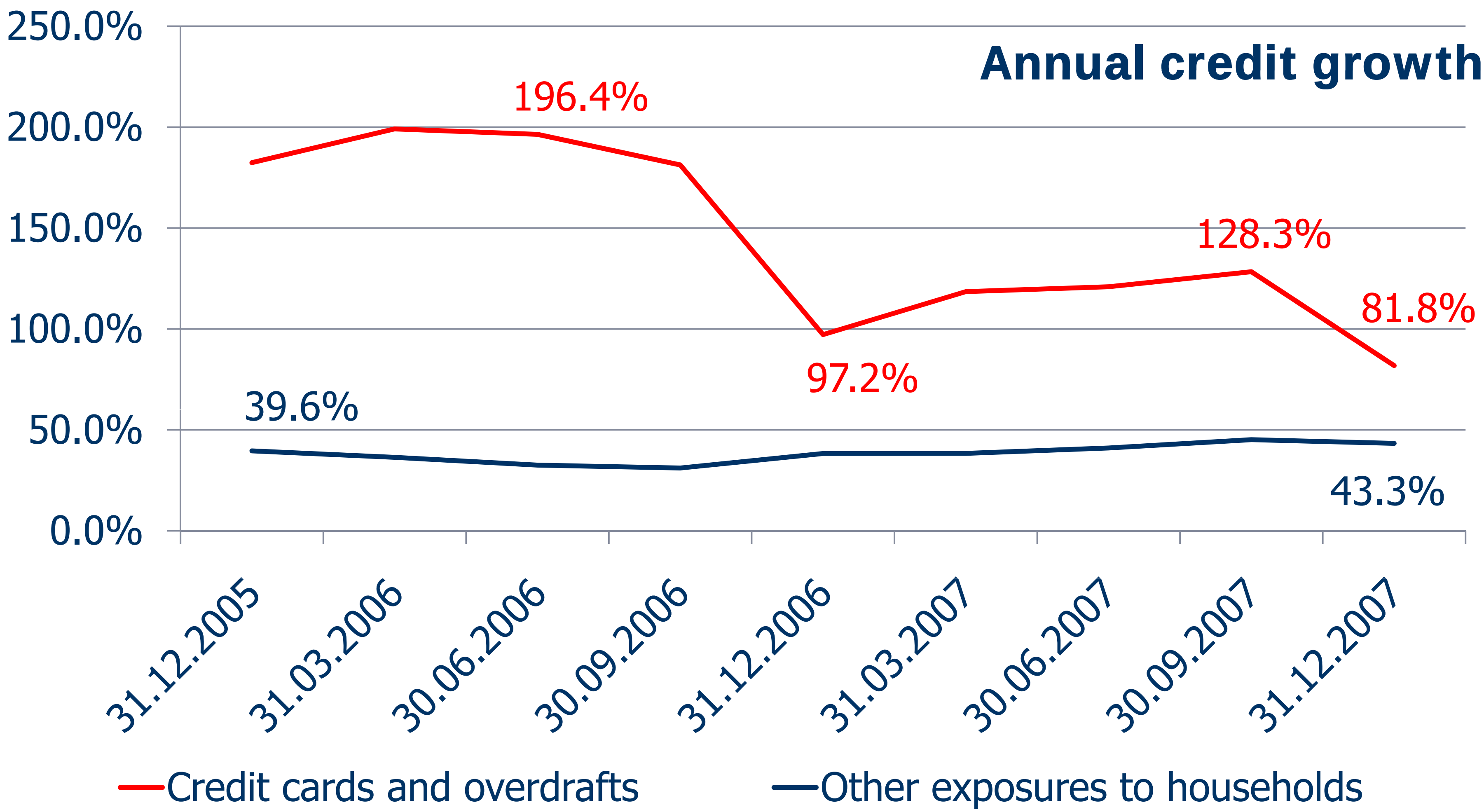
Prevention of high credit growth risk

- Only 1 bank within the prescribed monthly rates (during the whole period)
- Average number of banks above the prescribed monthly rates (per month) - 7
- Annual growth rate for 2008 – 37.4%
- Growth rate until October 2009 – 1.83%
- 2010 – end of the measure

Prevention of high credit growth risk



Capital requirements



Capital requirements

	2006	2007
Total number of issued credit cards	419,168	716,611
Total value of transactions (mil. denars)	2,442.3	7,693.6
% of unsecured claims (credit cards and overdrafts)	N/A	74.5%
% of C, D and E claims (credit cards and overdrafts)	3.8%	4.1%

- ½ of the growth of the total loans to households
- 40% of the annual growth of C, D and E exposures to households
- Maturing of the portfolio

Capital requirements

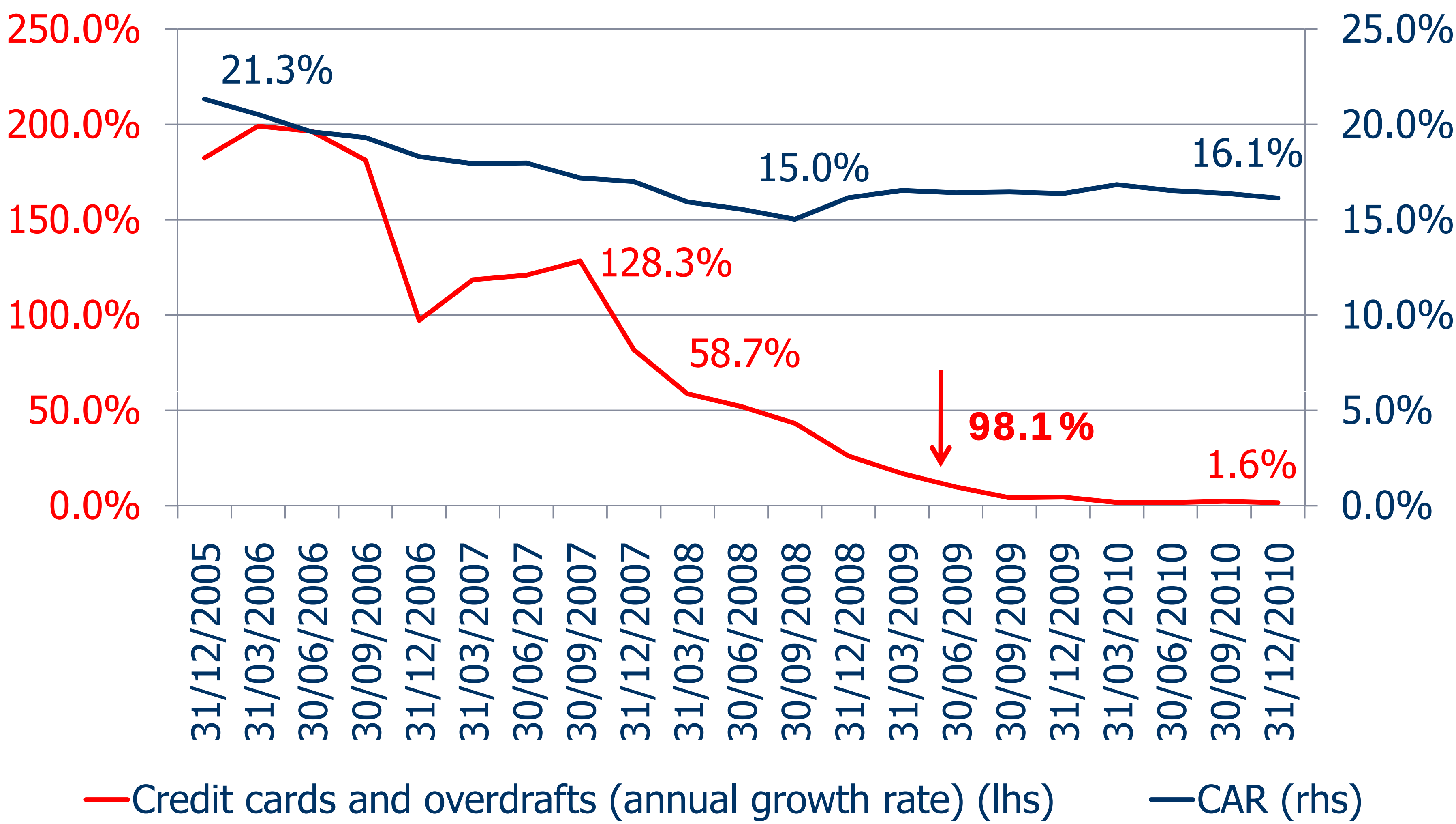
Amendments of the Capital Adequacy Methodology – March, 2008

Raising of risk weights on credit cards and overdrafts to 125%

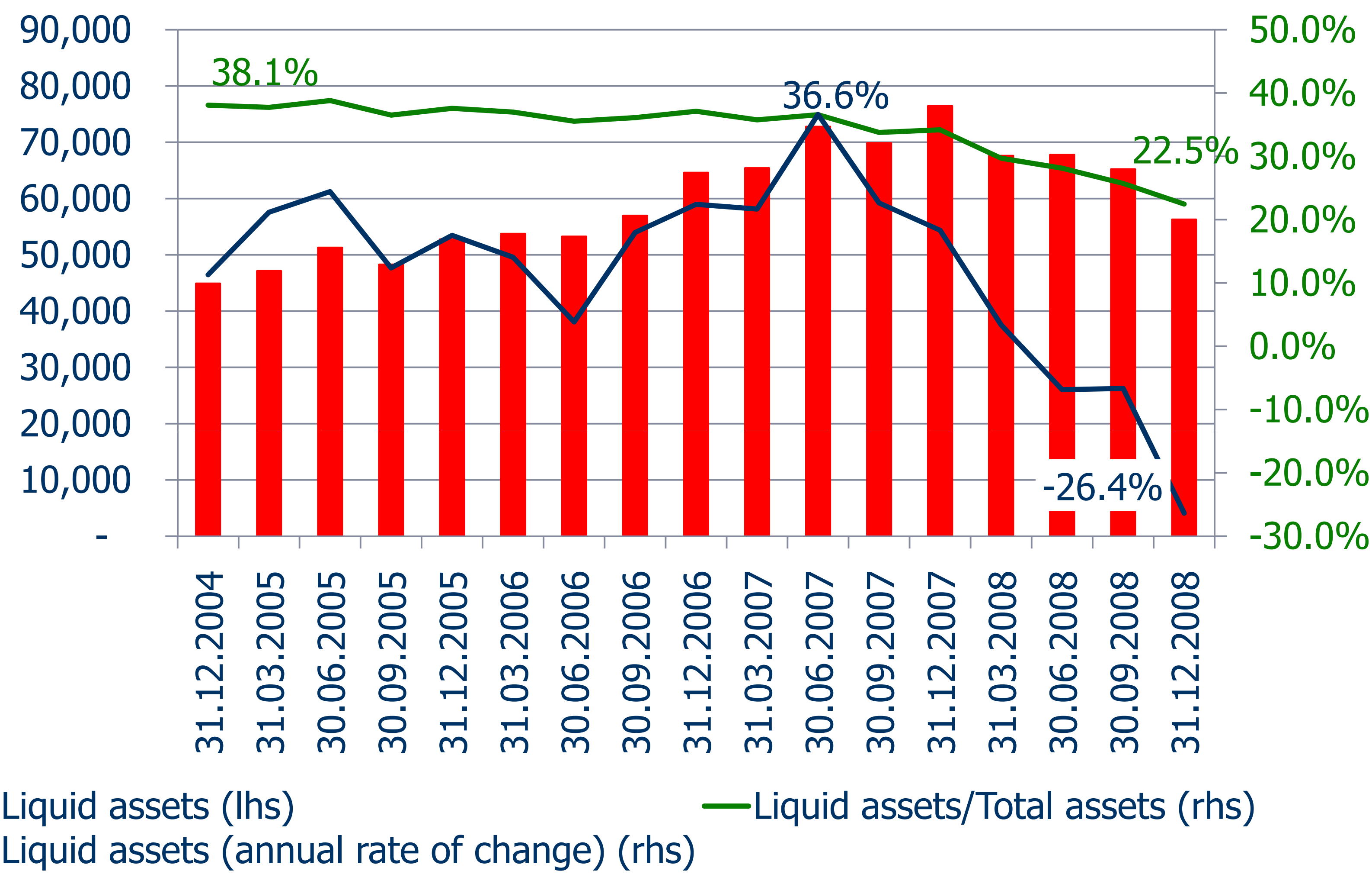
Why capital risk weights?

- Requires additional capital
- Reduces the credit growth risk to an acceptable level
- System-wide measure - impact on all banks

Capital requirements



Liquidity ratios



Liquidity ratios

Decision on liquidity risk management - December, 2008

- Minimum liquidity ratios – LR30 and LR180
  - Assets/Liabilities maturing in the following 30, i.e. 180 days = 1
  - Separate ratios for the Denar and FX assets and liabilities
  - Monthly dynamic
    - 28.02.2011 - liquidity ratios (30 days)
    - 28.02.2014 - liquidity ratios (180 days)
- Requirements for liquidity risk management
  - Enhanced role of the Senior management
  - Explicit requirement for stress-testing
  - Level of concentration
  - Estimation of the expected maturity of assets and liabilities
  - Internal liquidity ratios

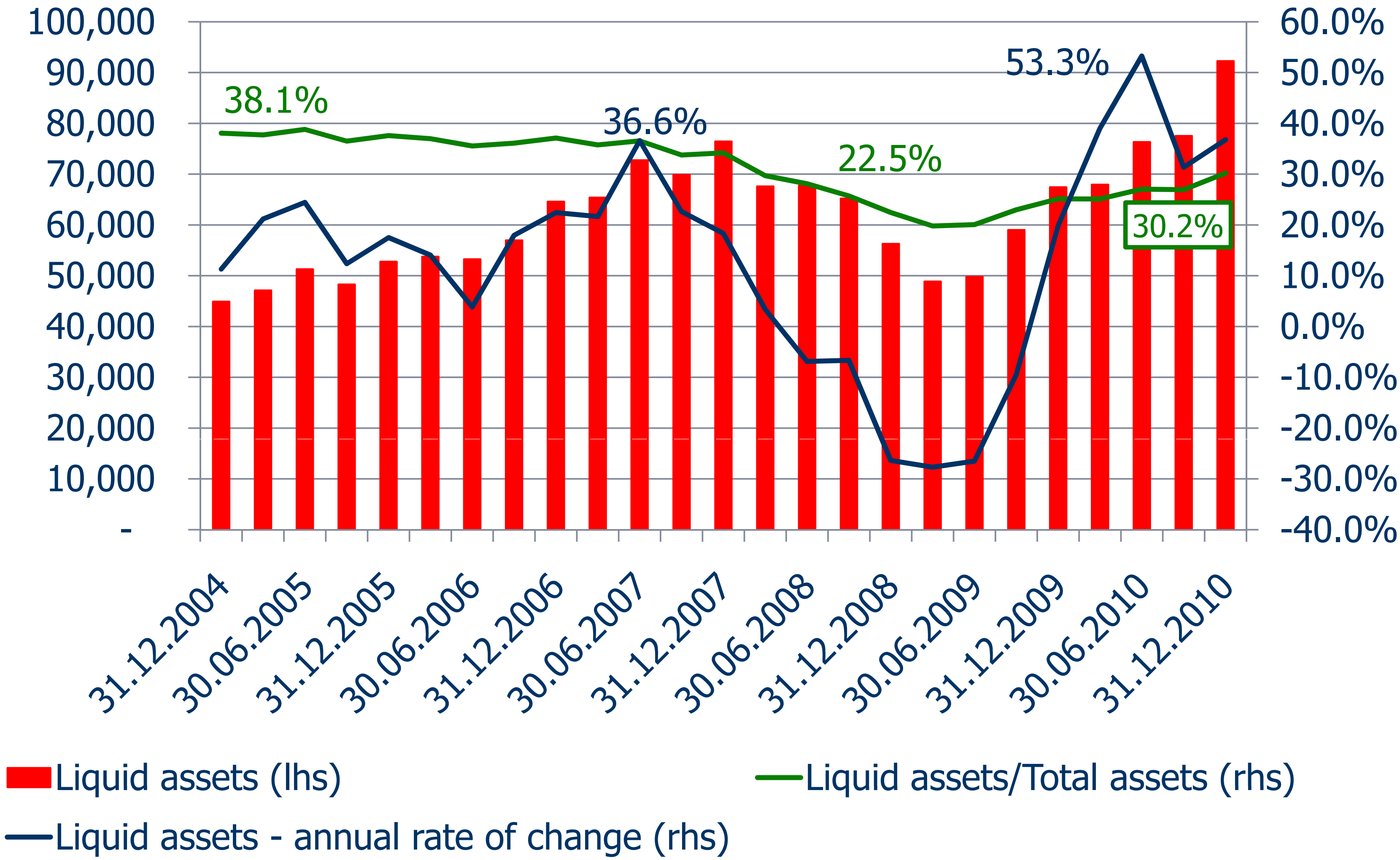
Liquidity ratios

Decision on liquidity risk management - December, 2008

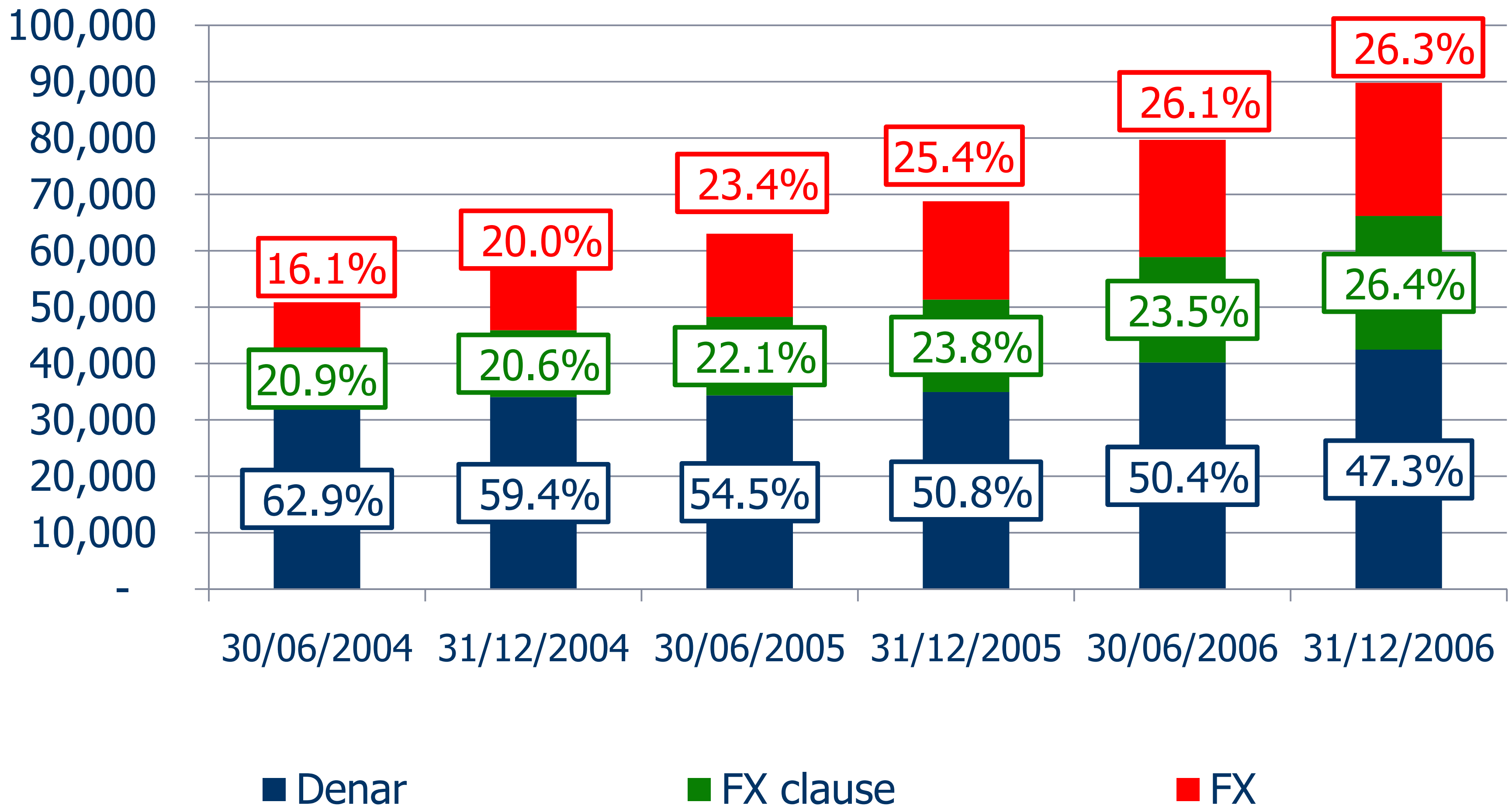
Compliance with the Decision (end of 2010)

- All banks have achieved the minimum denar and FX liquidity ratios up to 30 days
- Only 2 banks have FX liquidity ratios up to 180 days lower than the prescribed dynamic

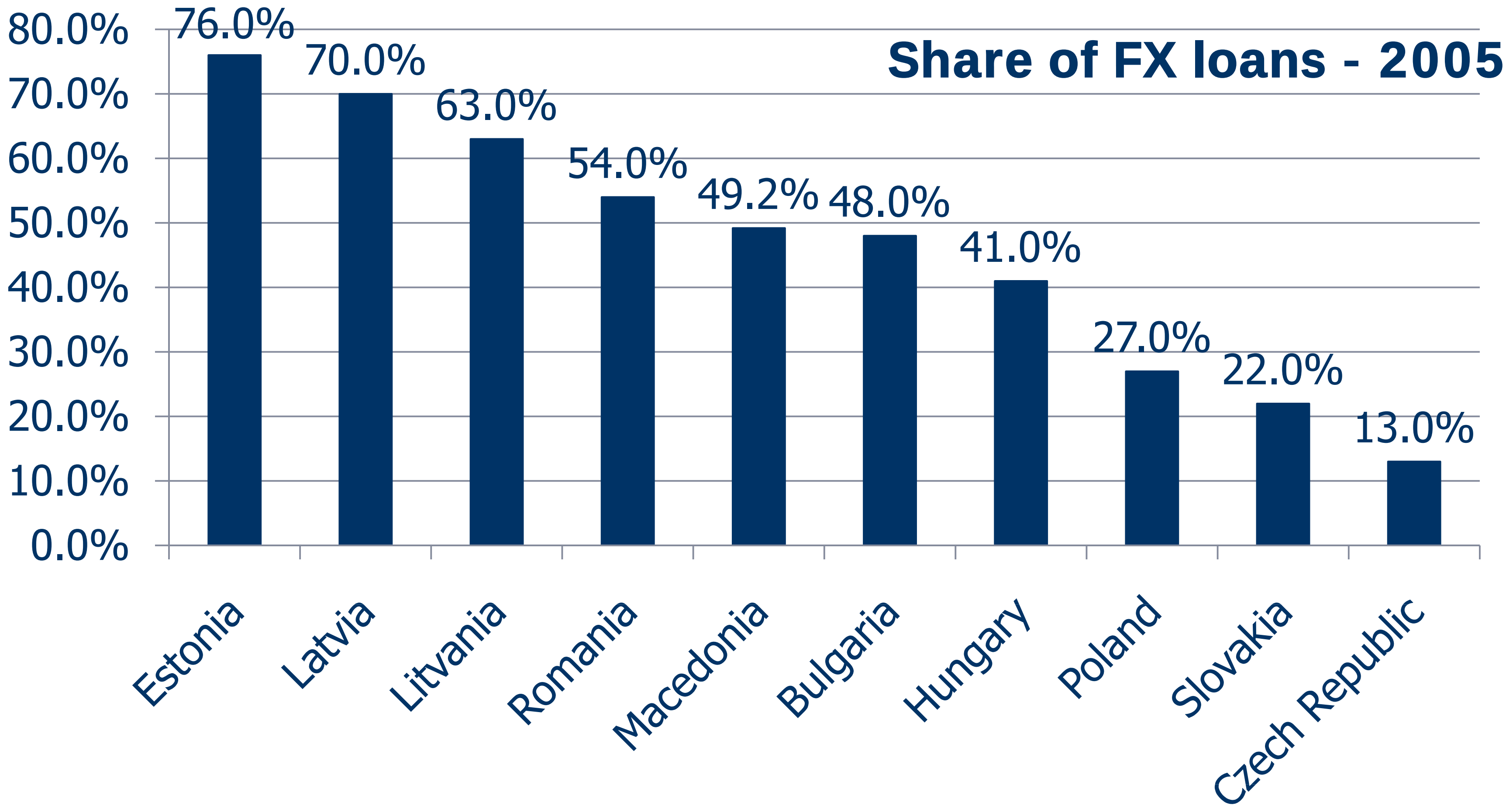
Liquidity ratios



Regulation on FX lending



Regulation on FX lending



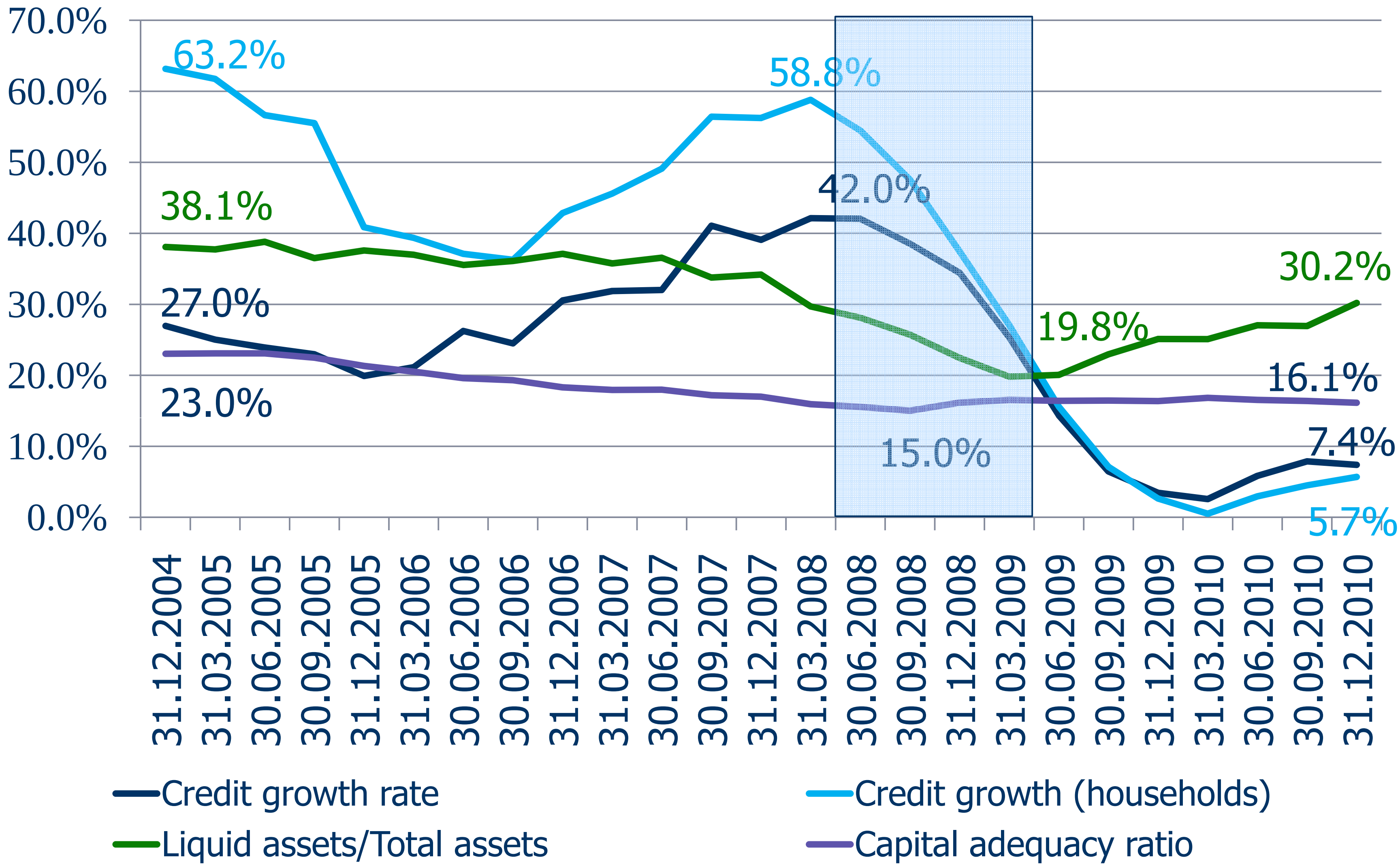
Regulation on FX lending

Decision on the conditions and the manner of extending FX loans and Denar loans with FX clause - March 2006

- Extending FX loans and Denar loans with FX clause
  - Clients classified as A or B clients by the bank and by the banking system (data from the NBRM's Credit registry), or
  - First-rate collateral (cash or cash equivalents, guaranties by the RM, NBRM, EU countries, first-rated banks, etc.)
- Written policy and procedures for management of the induced credit risk
  - Criteria for assessment of the (mis)match of clients' FX assets and liabilities
  - Limits on the FX exposure
  - Stress-testing of the FX risk (at least annually)

CONCLUSIONS

Measures' impact



The role of the NBRM

- Responsible for the monetary policy
- Sole banking supervisor
  - Micro-prudential supervision
  - Macro-prudential supervision
- Assessment and monitoring of the financial stability

Future challenges

When to end the macro-prudential measures?

Capital requirements

- NPLs/Total loans = 9.3%
- NPLs (households)/Total loans (households) = 8.1%
- C, D, E (credit cards and overdrafts)/Total (credit cards and overdrafts) = 5.8%

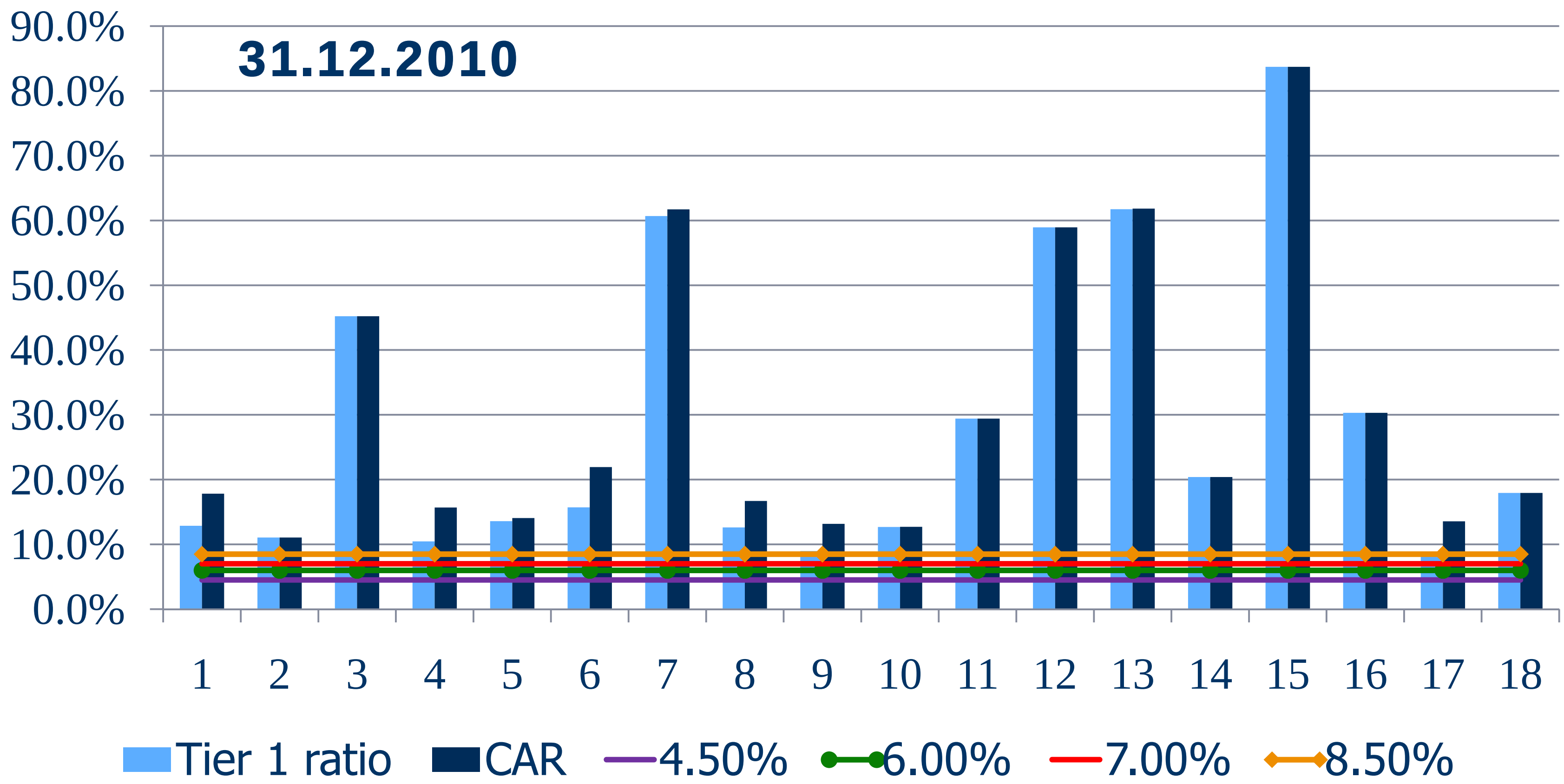
Liquidity ratios

- The banking system is still fragile
- Basel III liquidity ratios
  - Liquidity coverage ratio ≈ LR30
  - Net stable funding ratio – longer time horizon than LR180

НАРОДНА БАНКА НА РЕПУБЛИКА МАКЕДОНИЈА

Future challenges

Basel III implementation



THANK YOU!

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