Serbia

De-euroisation amidst an uncertain regulatory environment

The whole of Serbia is served well by branch networks of domestic and foreign-owned banks (Chart 1). Branch concentration is most dense in Belgrade and Novi Sad. Surveyed banks note that foreign-owned banks are strong competitors in small and medium-sized enterprise (SME), large enterprise and retail lending. Domestic private banks are cited as strong competitors at a far lower rate than in the rest of the region. All foreign banks report their parent bank as “important” or “very important” in shaping their credit risk, portfolio management and corporate governance.

Following the financial crisis, Serbia witnessed the largest proportion of banks reducing foreign currency lending in the region at 65 per cent compared to the regional average of 25 percent. Serbian banks reported the low demand for foreign currency, the risks of FX lending, and regulations affecting FX lending as the most important reasons behind this decrease in euroisation (Chart 2).

From 2007 to 2011 Serbian banks looked to specialised lending programmes to attract new customers (Chart 3). Specifically, nearly all respondent banks ranked participation in specialised lending programmes led either by the government or international agencies in support of lending to micro, small and medium-sized enterprises (SMEs) as a (very) important method for attracting new customers. Over this same period Serbian banks appear to have focused less on expansion and more on improving the quality of services and products.

Concerning the regulatory environment, 77 per cent of respondent banks in Serbia in 2011 agreed or strongly agreed that direct instructions over and beyond published laws and regulations present their bank with a significant burden, compared with only 43 percent in 2007. Serbia also has the lowest percentage of banks in the region (strongly) agreeing that the banking regulator is able to enforce its decisions (85 per cent), is fair and impartial (65 per cent) and is quick and efficient (35 per cent). In reaction to uncertainty over future laws and regulations, Serbian banks report being disposed towards restricting credit and holding more capital and liquid assets, all at the highest rates observed in the region (Chart 4).

Chart 1 Bank localities by ownership

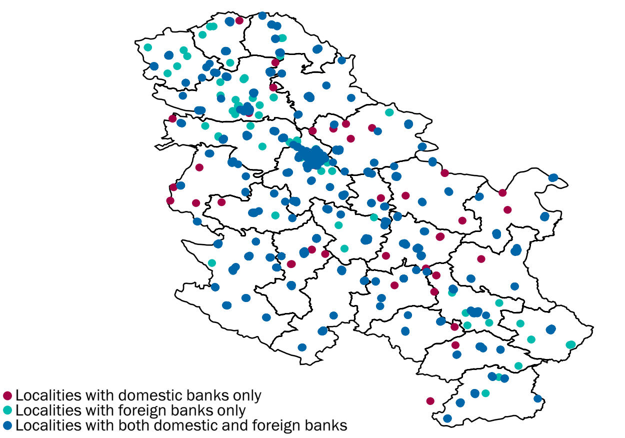

Chart 2 Reasons for decreasing FX lending

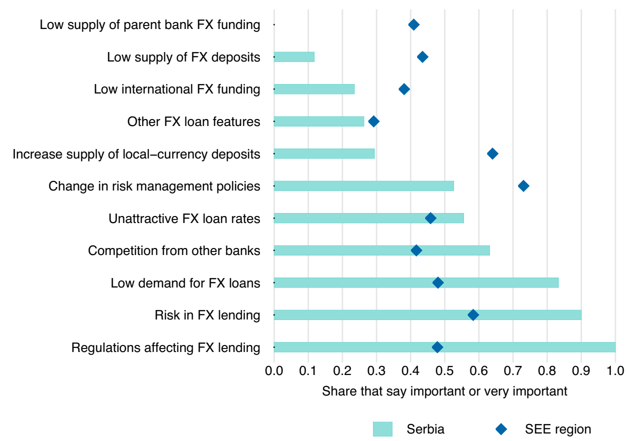

Chart 3 Methods for attracting new customers

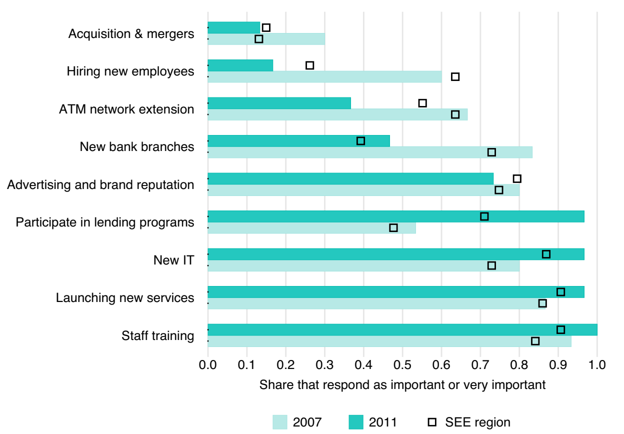

Chart 4 Common actions over law uncertainty