



DEPOSIT
INSURANCE
AGENCY

Preserving Financial Stability: Practical Experience and Prospects

Ohrid, 22 - 24 June 2016

Practical Experience - Chronology



Political changes in Serbia and the beginning of privatization

Global economic crisis and signing of the Stabilization and Association Agreement with the EU

New concept of the deposit insurance system

Payout



Introduction of insurance of citizens' deposits for the first time

Bankruptcy of so-called "4 large banks" – 2/3 of the banking sector and depositor reimbursement

Bridge bank and P&A

New legal framework for problem bank resolution

Response to Transitional Challenges



Financial sector

- Continued strengthening of confidence in the banking system
- Enhancement of quality and efficiency of banking operations
- Enlargement of the banks' capital basis
- Real and objective evaluation of banks' assets and liabilities

Real sector

- Support to real sector development
- Support to privatization and restructuring of the public and socially-owned companies

Fiscal sphere

- Provision of funding for public debt repayment based on the so-called "old FCY savings" of citizens
- Cost minimization of problem bank resolution

Termination of imperfect bond between:

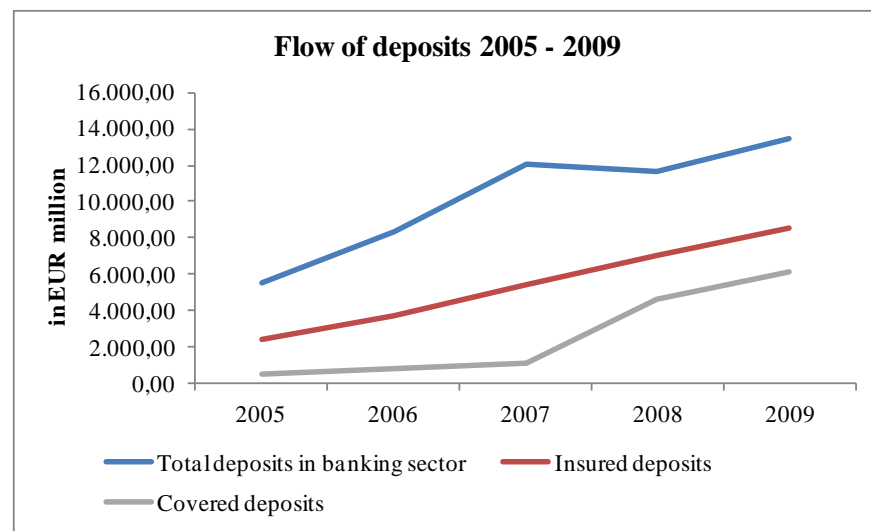
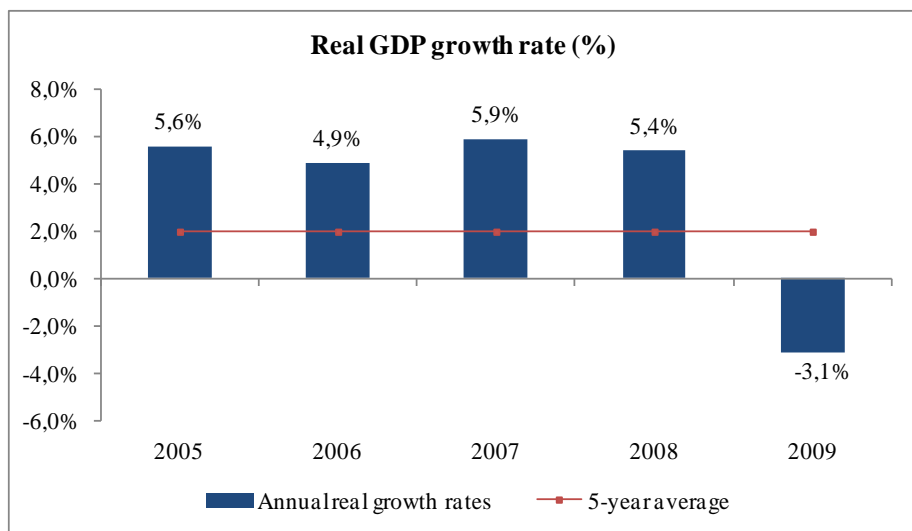
Bank management – which represents personal and political interests instead of those of the shareholders

Bank shareholders – that have no interest to save the bank (de iure owners, de facto bad debtors)



Economic Growth Stabilization

- 2005 – Start of the strong foreign capital inflows
- Real salaries expressed in EUR grew on average even 23% over 2005 – 2008, which growth was mostly based on RSD appreciation but not on productivity;
- Relative macroeconomic stability measured by the average consumer price growth of 14.8% p.a.



Global 2008 Financial Crisis



The strength of the 2008 financial crisis pointed out the need of systemic approach to regulation and supervision of the financial system because three very important lessons were learnt:

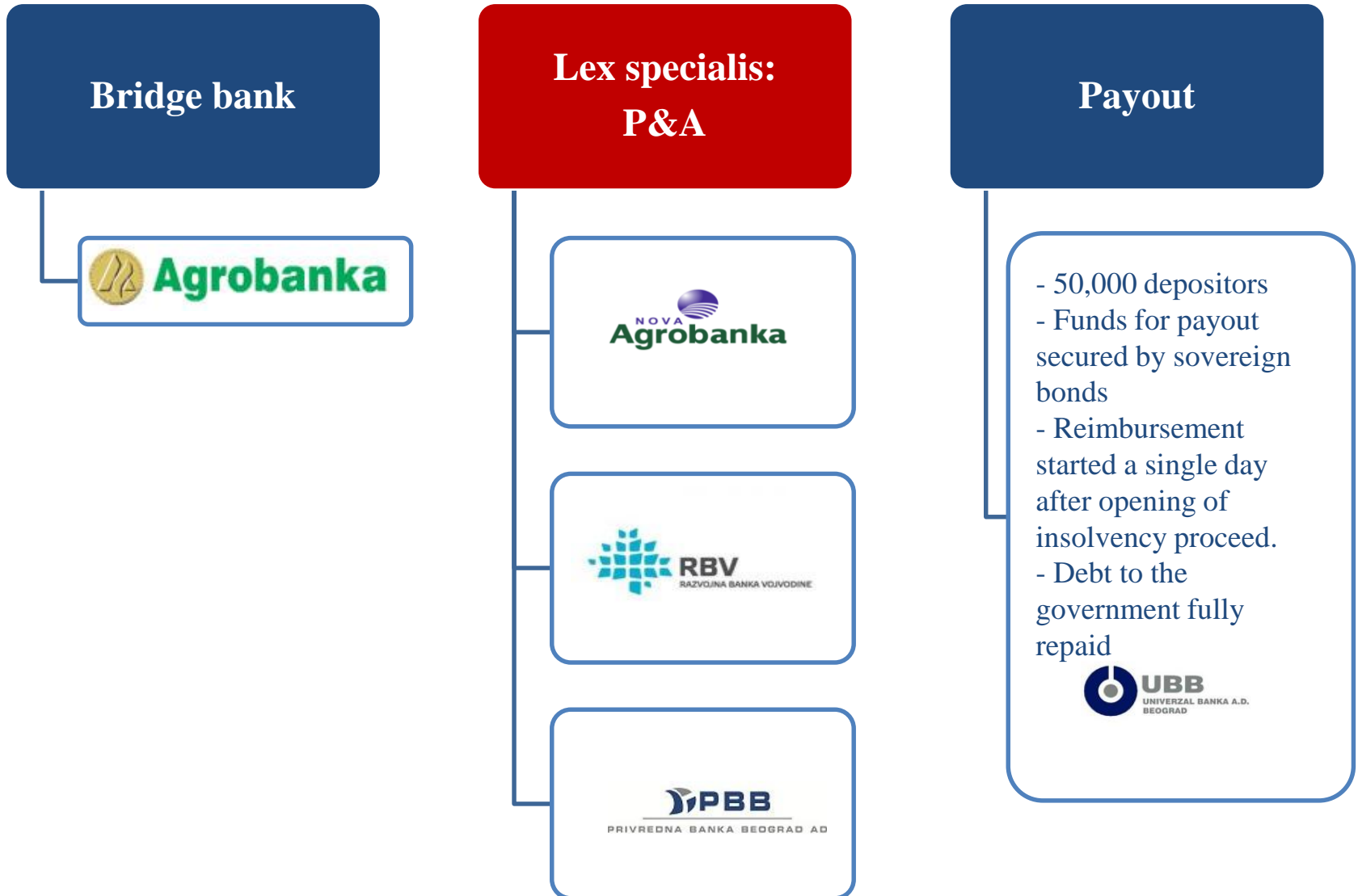
- Development of the financial system influences the economy to a far larger extent than it was previously thought;
- Very high financial crisis costs;
- Price stability is not sufficient for achievement of financial stability.

The 2008 financial crisis caused withdrawal of deposits in Serbia of about EUR 1.1 billion.

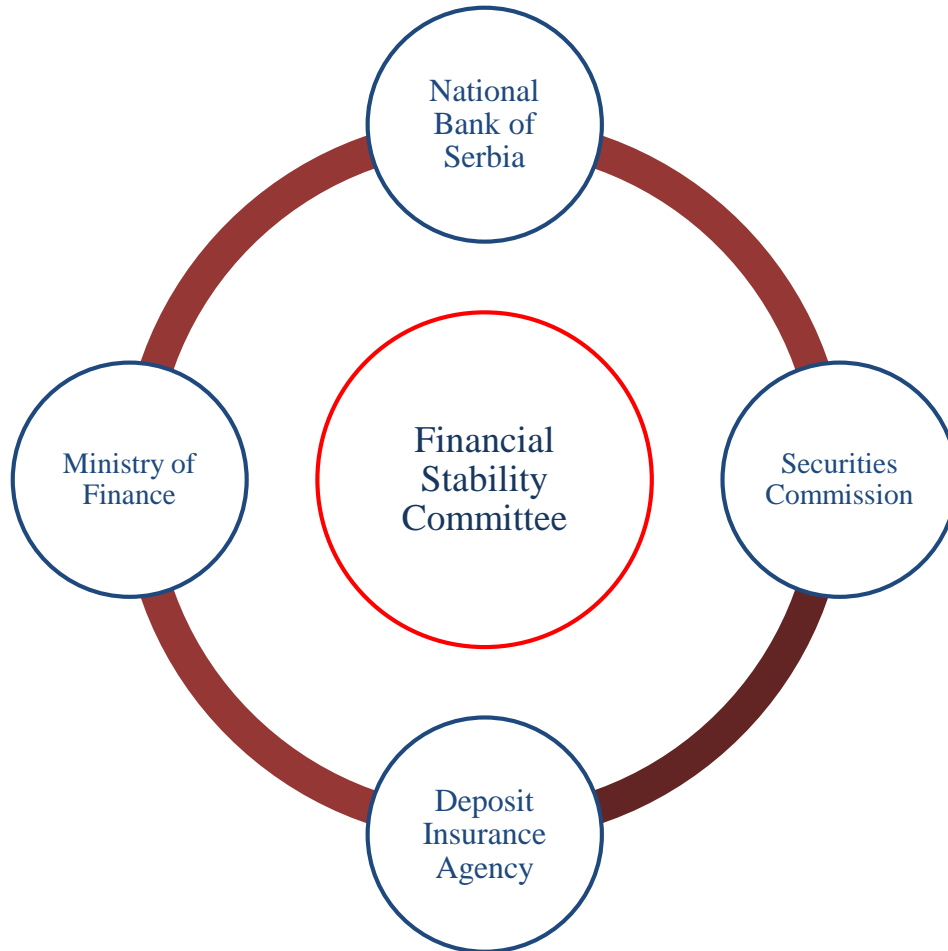
Based on the measures taken by monetary policy regulators, the new deposit insurance system was introduced in September 2008 (coverage level was extended from EUR 3,000 to EUR 50,000; coverage scope was extended by including new categories of protected depositors), which led to return of deposits over the following 11 months.



Problem Bank Resolution – Regular Legal Framework vs. Lex specialis



Institutional Synergy – Prerequisite for Financial Stability



- Prevention or mitigation of adverse effects of occurrence of crises, both on the single financial institution and the whole banking system
- Maintenance of financial stability in Serbia
- To preserve and strengthen financial system, the Financial Stability Committee was established in end 2013 as advisory body assigned with the role to consider and assess all issues and measures to be taken in order to preserve financial system stability and coordinate actions of all key entities in that process
- Preserving and strengthening of confidence in the banking sector
- Action plan
- New legal framework

Prospects of Financial Stability – Possible Sources



- Stronger interest of banks for participation in P&A
- Budgetary restrictions due to past bank resolution costs
- Political stability
- International standards: IADI Core Principles and EU Directive
- Cooperation between regional deposit insurers and supervisory bodies





Thank you for your attention!

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