

Ivan Iskrov: Reflections on the past year

Speech by Mr Ivan Iskrov, Governor of the Bulgarian National Bank, to the Association of Banks in Bulgaria on the occasion of the Banker's Day, Sofia, 6 December 2010.

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Ladies and Gentlemen,

It's a great pleasure to be here this evening with you all, on 6th December, Saint Nicholas Day, and celebrate our professional holiday. Over the last eight years I and my colleagues from the BNB Governing Council, regardless of our numerous engagements, have not missed a single occasion to be with you and celebrate this great day. By this gesture we show our respect for and acknowledgement of the job well done by you in favour of the national economy. Commercial banks are not merely some of the many capitalist businesses focused on profit making for their shareholders. The banking system is a major part of the infrastructure of any market economy; it is its circulatory system. Without our daily committed work, our state would not be able to function properly.

By tradition today we have the chance to pause and reflect on the past year and to share our hopes that in the year to come we would again successfully meet the new challenges. I have no doubts about that because we all have proved that we are capable of turning trials into useful experience, and experience into a means of completing the mission that society has assigned to us.

The economic crisis, continuing into 2010, only confirmed these expectations of mine. Banks not only did not become the reason for deepening the problems in our economy, but they were also the main pillar of stability and driver for overcoming the problems. The Bulgarian banking system continued to be a paragon of stability and predictability in the face of the unprecedented slowdown in over a decade. As regards the blatantly provocative "projections" of some domestic and foreign "analysts", just a few days ago I reminded you of their fantasies in a sort of a chart of "unfulfilled black predictions" about the Bulgarian banking system. The coming year 2011 is a year of elections. We at the Central Bank are well aware that it could be possible for some of the local candidates for glory – the eternal candidates to come back on the big political scene – to actively try and "sell fear" during the elections year 2011. So watch out!

The situation is very complicated, and yet the banking sector stays flexible and efficient; while the number of non-performing loans is on the increase, the system goes on generating current profits. Despite the deteriorated quality of loan portfolios, Bulgarian banks did manage to keep considerable capital buffers, given the provisions of over BGN 4.5 billion allocated only by October. Is there any other country among the 27 EU member-states, apart from Bulgaria, that in these circumstances could be proud of the remarkable 18% capital adequacy and total liquidity ratio of nearly 22%?

Once again I would like to point out that these outcomes are not accidental and do not come out of the blue. All that we have achieved so far is a result of both the long-standing and consistent efforts made by the Bulgarian National Bank for creating cushions and maintaining the stability of the system, and of the common sense and efforts of each and every one of you. Thank you very much for this!

The crisis could not make us turn away from the strategic tasks facing us, i.e. to be competitive, to provide the services needed by individuals and businesses, to be innovative and stand in the lead among the EU member-states so as to meet the demands of the future.

In one of the most rapidly developing areas – payment systems, Bulgaria marked a significant progress in 2010. The merger of the two most important operators BORICA and BANKSERVICE is accomplished. On 1 February, we launched into operation the national

component of TARGET2 (TARGET2-BNB). The connection of the national banking community to TARGET2 is an important step in our integration into the euro area payment system, providing to the participating banks an opportunity to execute real-time euro-denominated transfers at an exceptionally low price. In parallel with launching TARGET2 and the developments in the large payments area, we had the system for processing customers' payment in euro – BISERA7-EUR – started from 1 February. The system processes euro-denominated payments in line with SEPA standards. With the implementation of TARGET2 and BISERA7, banks and their customers have at their disposal a reliable and secure infrastructure for processing small and large payments in euro. This is a proper opportunity to invite any of you who, for one reason or another, have not yet availed of the advantages entailed in joining these two systems to do so.

The most direct and broadest everyday contact of the general public with the banking system is through the banknote and coin related services provided to individuals and businesses. This year's great event in this area was the commencement of operations of the BNB Cash Centre in Sofia. Our Cash Centre is one of the state-of-the-art facilities for storage and processing of banknotes and coins within the European System of Central Banks, meeting the highest requirements to security and convenience of the serviced banks and CIT companies. Through it the BNB has also met its obligations with regard to currency distribution and destruction of unfit currency. In its newly opened cash centre the BNB continues to provide to its customers standard currency-related services. However, this is the proper time to share with you that more and more often we receive at the BNB complaints by citizens that banks have refused to exchange damaged Bulgarian banknotes or that customers have received such banknotes in ATM cash withdrawal transactions. This necessitates the conclusion that banks do not strictly observe the BNB requirements to the quality of banknotes and coins. We expect from all the banks to pursue the necessary measures on their part for the full implementation of BNB Ordinance No. 18. The Cash Services Company is already operating full-scale providing high-quality cheap and very competitive services. Those of you who have not yet fully availed of them are definitely losing.

As I believe any one of you will agree, the BNB's supervisory policy can hardly be described as "regulatory comfort", as our unjustified critics have recently tried to define it. The Bulgarian banking system is one of the most strictly and conservatively regulated ones within the whole European Union.

The consistent anti-cyclical policy pursued by the BNB has initially stimulated the accumulation of capital resources and a liquidity potential for successfully facing the crisis, and later on (since 2008) has implemented a number of measures aimed at supporting liquidity and easing lending. In 2010, our supervision proceeded with the "fine tuning" of regulations and with the BNB's very careful approach to processes underway in credit institutions. In the coming year, we will continue with the phased-in implementation of all new requirements and recommendations of the EU *acquis* and of the Committee of European Banking Supervisors, taking into consideration the best practices. The adoption of a new ordinance on the principles of formation of remuneration in banks, which would recognize the risks taken by them, is forthcoming within days.

Last but not least, on a day like this we should also speak up our concerns. The crisis, besides all else, evoked negative public attitudes in relation to banks. Although not a lev of Bulgarian taxpayers has been spent to bail out banks and it would be unfair to place the Bulgarian banks next to those that continue to receive capital support from many governments and central banks, we should be aware of such attitudes. A short list runs like this:

"... banks are the ones to blame for the crisis; besides they do not show commitment to the problems of businesses during these hard times";

"... interest rates and taxes in Bulgaria are high";

"... banks enjoy regulatory comfort," etc, etc.

Have we got sufficient evidence to expect that such attitudes will dissipate any time soon? And what is our response?

There is more than just one side to this problem, because the majority of the population lacks a basic financial knowledge. Others are not responsible enough in managing their own money. I agree with you when you feel indignation at the lack of objectivity in much of the criticism against commercial banks. But we can't change people. The important thing is to do anything we possibly can to give our clients the maximum correctness. You could step in and play an important role by streamlining your business practices with regard to servicing clients. "He who works, makes mistakes" Mistakes however should be owned and rectified in a prompt manner. Our analyses show that in the vast majority of instances the signals and complaints received at the BNB theoretically could have been resolved then and there, at the branches and divisions of your banks, as these did not need to get as far as the head offices and executive directors of the institutions.

I would like to emphasize that the BNB had stated its position about the relations between commercial banks and their customers long before this became a hot topic in the media. Allow me to conclude my speech in literally the same words, which I used to speak to you here exactly 4 years ago (back then, in 2006, banking was on the upswing and nobody was talking about crises or difficulties in repaying loans):

"...it is in the interest of both consumers and the banking industry to establish between the two sides of the process long-term relations based on transparency of financial services pricing, and on the strict observance of obligations by both parties."

In conclusion, allow me, on behalf of the BNB Governing Council and on my own behalf, to congratulate everyone of you on the occasion of our professional holiday, the Banker's Day – 6 of December! I wish you a successful 2011 year and much health to your families as well as to the balance sheets of the banks you are running!

Happy Banker's Day, dear colleagues!