STRATEGIES CREDIT POLICIES OF COMMERCIAL BANKS IN SERBIA

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ABSTRACT

Contemporary business conditions involve the active participation of banks in the financial market. This involvement is primarily related to the approval of different types of bank credits to economy and citizens for their productive functioning, as well as to successful and organized implementation of credit policy by each bank. Today we can note different types of banking markets, which entail the differences between their participants. As credits represent the largest item in the banks' assets of balance and the largest source of interest income, it is necessary to establish the strategy of credit policy to contribute to the maximization of bank's earnings, all within the boundaries of acceptable risk level. It is essential to build a distinct credit policy, which includes clarity of regulations and conditions under which the bank is willing to approve credit to its clients. The banks' policy of credit placements should be noticeable, transparent and continuous, so as to be projected both in short and long term respectively, where we should take into account that long-term projections should be more flexible, so that the bank can adapt at any time to new regulations and opportunities offered by the credit market. This paper addresses the types of credits approved by banks, as well as the market coverage of credit placements towards economy and population, current credits and the instruments for achieving them.

Key words: credits, credit policy, placements, bank.

INTRODUCTION

Credit policy of a bank can be defined as a document about basic attitudes and principles that regulate credit approval. The purpose of a credit policy is to make certain that the representatives of a bank as a financial institution treat all its clients equally, as well as define clear procedures and actions. The best practice demands a written policy that precisely elaborates all relevant actions in a credit process. Credit policy should be in coordination to other bank policies like: securities policy, assets and liability policy, human resources policy, bank marketing management policy etc. Banks develop their credit policies and procedures taking into consideration the characteristics of their credit portfolio. Credit policy should respect the ability of credit return before the expiry date, through defining the bank credit portfolio. Taking into consideration the material importance and specific qualities of a credit portfolio that the banks approve to economy and citizens, they should particularly process the category of credit risk within their credit policies and procedures. In course of their business, the banks are supposed to abide the basic business rules: stability, liquidity and profitability. This means to invest their assets into the credits of clients who will pay them back regularly, before the expiry date, and who are not threatened of bankruptcy or liquidation, in such forms of credit placements that can be cashed in short terms without any loss, as well as placements where they can get profit on the basis of the balance between active and passive interest rates.

SERBIAN BANKING SECTOR

By the end of 2011 in Serbian banking sector there were 33 banks with 29.644 employees. The total net bank assets are 2.538 billion dinars, and the total capital is 535 billion dinars. Out of the total number of banks, foreigners govern 21 bank and there are 12 banks governed by Serbian investors out of which 8 are governed by the state as the majority share owner and 4 are governed by citizens.

With the total assets of 371 billion dinars and the participation of 14.6 % in the total assets of the banking sector, Bank Intesa (Banka Intesa) represents the biggest bank in Serbian banking sector. It is then followed by Commercial bank (Komercijalna banka) with 259 billion dinars and the participation of 10.2%.

Table 1: The ten largest banks by total assets criterion

	30.09.2011.			30.06.2011.			31.03.2011.		
	Mlrd RSD	%	Rang	Mlrd RSD	%	Rang	Mlrd RSD	%	Rang
Bance Intesa	371	14,6	1	357	14,1	1	343	13,5	1
Komercijalna banka	259	10,2	2	257	10,1	2	255	10.0	2
Raiffeisen bank	184	7,3	3	169	6,7	3	171	6,7	3
Unicredit bank	174	6,9	4	166	6,6	4	166	6,5	4
Societe Generali	168	6,6	5	153	6,0	6	148	5,8	6
Eurobank EFG	164	6,5	6	164	6,5	5	154	6.0	5
Aik banka Niš	144	5,7	7	139	5,5	7	142	5,6	7
Hypo Alpe-Adria	141	5,6	8	138	5,4	8	133	5,2	8
Vojvođanska banka	91	3,6	9	89	3,5	10	89	3,5	10
Alpha bank	87	3,4	10	94	3,7	9	99	3,9	9

As far as the whole Serbian banking sector is concerned, regardless of the fact that Serbia cannot be isolated from the global credit crisis, its effects in our country will be considerably milder due to the highly restrictive monetary policy that has been applied in the last few years, and which has led to a high capitalization of banking market.

Regardless of thedifferences between certain banks, the general structure of credit placements should be such that out of new available sources minimum 70% should be directed to economy, maximum 20% to citizens and 10% to the state and other credit applicants. That would support the financing of the development and current production of economic participants, and reduce the financing of public consumption based on the import of foreign products, which would certainly influence the growth of Serbian Republic gross profit.

CREDIT ACTIVITY OF SERBIAN BUSINESS BANKS

Credit activity of each bank is defined in coordination to the boundaries of its business activities. Such a policy is supposed to be directed to clients` satisfaction, their determination to apply for credit loans, and simultaneously attribute to the maximization of financial institutions` profitability. By this policy, it is necessary to predict all the conditions under which the bank would be able to approve the loans to its clients, as well as credit repayment possibilities in due terms. Therefore, each bank is supposed to abide by the basic principles that are important to all banks and all credit forms, and they are the following:

- Avoiding high placement concentration in certain branches, economy sectors, except with the specialised banks, for risk dispersion,
- Obligatory client share who are in demand of a credit for investment, in other words providing means for the working capital,
- Obligation of highly formalised procedure of defining credit approval conditions,
- Demanding at least the last-year financial report for the client,

– Obligatory demand of a depreciation payment plan and a client quarter income plan,
– Priority credit approval for client liquidity with restrictive approach to financing of new, risky investments,
– Surveillance and control of credit application.

The total banking sector activity at the end of the third trimester in 2011 was 1.736,1 billion dinars which is 15.3 billion dinars or 0.9% more than in the previous trimester.

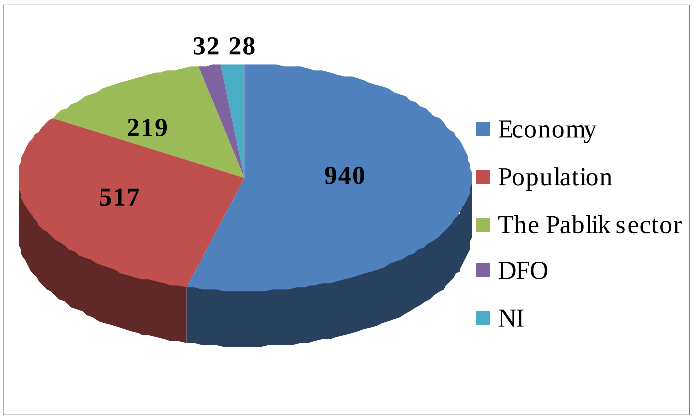

Figure 1: The structure of the bankink sector lending derbija

Among the most popular credits are residential credits for certain. Ever since the state has adopted the program of residential credits subvention, there was great interest in withdrawal of bank capital for the purpose of investing it in purchasing real estate in construction. Statistics show that in our country the approximate value of a credit is 39.411 euro and that the approximate share is 17.69%.Economy and citizens pay off credit approximately for 20 years, which means that today long-term credits dominate the short-term cash credits.

In the period January 1 2008. to July 12010.Serbian citizens were mostly interested in **car credits**, then cash credits, residential and refinancing credits, with the exception of the first six months in 2008, when the most demanded were state subvention credits. The analysis of credit interest shows that car credits were definitely most wanted during 2008 (31.4%). In 2009 this interest was lowered (25.7%), so that in 2010 the drastic fall in interest was recorded (13.92%).

When it comes to **cash credits** indexed in euro, there was almost the same interest in 2008 (14.54%) and in 2009 (14.72%), so that it would fall to 11.58% in the first half of 2010. These credits are interesting because they are purposeless, in other words, citizens get cash and the approval procedure is less complicated and faster than with other credit types. Nevertheless, their popularity among citizens is surprising having in mind that they are the most unfavourable when the height of interest rates in concerned, they are indexed in euro and carry the value risk.

Residential credits, since 2008 until today are considered to be the most attractive credits. In 2008, about 10% of citizens were interested in these credits, next year this interest was lowered to 7%, and in the first half of this year the interest continues to decline to 5%. The tendency of interest fall for classic residential credits is due to the increase of interest in subvention residential credits which were approved in the last trimester of 2009 and continued up to the beginning of 2010. Citizens have greatly turned to more favourable subvention credits, while those who had incomes bigger than 120.000 dinars turned to classic residential credits. Let us not forget, one of the conditions for the subvention residential credit application was a monthly income lower than 120.000 dinars.

Refinancing credits have recorded the considerable growth of 13.54% in 2009 in relation to the growth in 2008 which was 9.34%, so that in 2010 the interest would fall to its lowest level of 8.14%. Resourceful and less indebted citizens refinanced their obligations by dinar subvention cash credits, therefore, the interest for classic refinancing credits has been reduced this year.In any case, the fact that more and more citizens want to refinance their obligations due to the impossibility of paying back their instalments, can be alarming, but not indicative, because it must not be forgotten that the growth in credit request has been recorded at the height of world economic crisis, when the majority of citizens were trying to reduce and optimise their indebts.

Nowadays, Serbian economy has certain liquidity deficit, so the credits for maintenance of current liquidity are most applied for. The prerequisites that the bank client, in this case the company, has to fulfil are the following: it has to be registered in Serbia, it has to be working for at least two years, it has to have an account open in a bank where it applies for this credit, positive business result for the previous two years, all taxes paid, and that the client`s account has been under blockade 15 days longest. Minimum credit amount is 50.000 euro in dinar value, with the interest rate up to 10.5% on year basis, where the Investment fund gives subventions to the amount of interests of 5% a year on the amount of the credit. Repayment period is up to 12 months.

The reduction of available money together with the price rise and decreased purchase ability which is the result of massive discharges, illiquidity, especially of medium enterprises, more restrictive policy of large and state enterprises, has certainly had its influence on sales. It is even clearer that during crisis citizens are more turned to the purchase of necessary articles only. On the foreign market, buyers are more careful with order placements in fear of making unnecessary stocks and therefore endangering their liquidity.

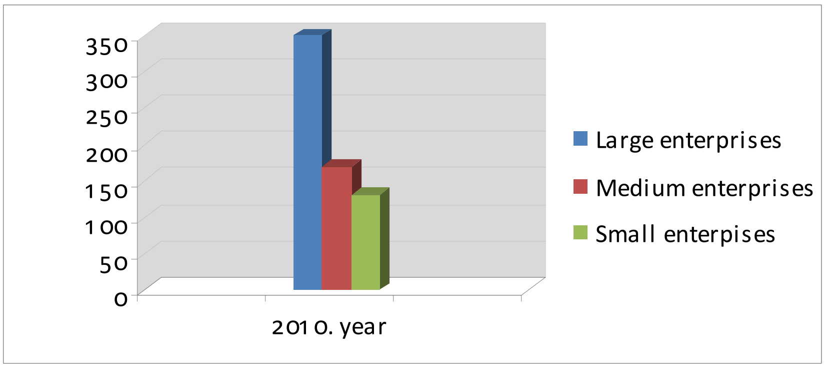

Figure 2: Structure of subsidized loans for the companies liquidity

Stimulating economy package includes liquidity loans of 80 billion dinars total, of which 4 billion is approved by the state. The banks that approve loans through the government Program of measures for stabilization of Serbian economy have, by now, approved 703.4 million euro subvention loans.

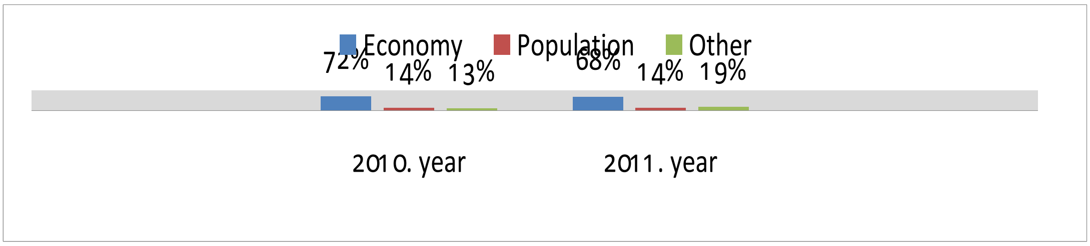

Figure 3:Problematic loans

Banks combine different ways of protection depending on the loan amount, client`s loan ability and client`s total indebtedness:

– Verified bills (signed and stamped) by the authorized company person (client) and the owner,
– Other legal person guarantee (bills verified by the legal person`s authorized guarantee),
– First type mortgage on adequate real estate which provides the condition 1:1.25 if it is a residential real estate,or 1:2 if it is a business real estate together with the real estate insurance policy.

Loan policy strategy must consider the critical business bank placements. They can emerge due to inadequately estimated prerequisites that a consignee has to fulfil in order to become loan user, due to the lack of promptness of loan administration or due to the effects of monetary policy sudden changes that banks are unable to cope with.

The total sum of banking sector loans that are overdue longer than 90 days, at the end of the third trimester in 2011 are 321.5 billion dinars and represent 18.8% of the total number of approved loans. Absolute and relative increase in problematic loans has been continued (10.5 billion dinars or 3.4%) which resulted in the increase of the level of indicators that point to problematic loans for 0.2% compared to the end of the last trimester.

CONCLUSION

Bank credit policy is supposed to contain elements of both long-term and short-term credit approval both in state and abroad. Bank experiences of highly developed countries show that long-term credit policy should be as flexible as possible, in order to be applied and modified according to changes of law and demands of credit market. In this way banks adapt their credit functioning to new conveniences and possibilities offered by credit market. Regardless of the loan type, credit policy should answer this question: what data, information and reports will be demanded from loan applicant in order to analyse and mark his credit ability. Related to this, if a bank wants to provide the efficient way of credit placement, it needs to develop a unique way and style of credit placement that will make it recognisable on the credit market.

Banking sector in Serbia has relatively well dealt with the major strike of world economic crisis, in great part due to the more conservative regulations of the National Bank of Serbia which prevented economy and citizens to indebt across available limits. High obligatory bank reserves demanded by the National Bank of Serbia, as well as proportionally high interests, provided the stability of financial sector, so the state did not invest the means from its national treasury to save the banks. None of the 33 Serbian banks considerable liquidity problems, nor difficulties with paying their obligations to the founders. Even though the profit has decreased, the system stability has been maintained. Interest for loans in Serbia is still present in such a way that the interest structure has been changed over time regarding the types of loans. Subvention loans of the Republic of Serbia have turned out to be profitable, the economy was most interested about overcoming the liquidity problem, and citizens about purchasing consumer articles.

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