



Individuals in SEE are most favoured by banks being targeted with a wider and wider variety of products, getting easily accessible with simpler procedures

SEE Credit Market: What's on the Menu?

Ludmila Petrova

When talking about SEE countries, we usually use words like "growth", "perspectives", "efforts", "investment"...

However, they are often followed, one way or another, by "financing", "internal debt", and "credit".

Why have credits become so important on the SEE markets? No doubt, because the increasingly generous supply of such solutions on the market tempts individuals and SMEs to take "the easy way". Leading us to the question is borrowing easy indeed? And lending? Credit market is a clever game. It allows "efforts" result in "growth" and through the means of "investment" move SEE countries closer to "perspectives".

Meet The Players In The Credit Game

The credit market is a realm of the **commercial banks** developing rapidly under the not-always-benevolent eye of the central bank. It often forgets about its mirror-realm of savings and strives for an ever-active expansion. That is why central banks have to watch closely the market so that they can react with timely interventions.

Though certain SEE countries have already taken steps to curb the credit expansion like Bulgaria, the market has become greedy on the demand side. So supply has to respond, though at the cost of higher reserves and risk requirements. More and more banks, especially the ones

profiled in the retail banking are trying to balance between the credit demand of the market and the central bank requirements by introducing deposit services at preferential conditions.

However, credits prove to be much more popular than deposits. In low-income economies, as the majority of the SEE, savings are far from increasing. The immediate consumption often takes no less than 100% of household income. Therefore, to finance purchases such as home appliances, vehicles, IT products, holidays, and especially property, **end consumers** rely exclusively on credit

and, recently - on leasing services.

Another typical client of the credit institutions in the SEE is the **SME** - the prevailing business species on this market. SMEs use credits either to invest (which is the better type of debtor for a bank) or to overcome temporary financial difficulties. This market segment has been almost micro-nised to suit the needs of each SME - either start-up or with a history, even with reference to the field of business activity.

To proceed to the credit market development, it would be useful to see the perspectives of the players.

Central bank perspective

Keywords: Bank sector supervision, Intervention, Reserves

The demanding task of the central bank is to monitor the sector and to intervene when necessary, forecasting the results and keeping the banking system from potential instability.

A new set of standards for establishing minimum capital requirements for banks was published on 11 May 2004. They are defined in the revised Basel Capital Framework. Institutions are required to allocate capital against the following three areas of risk:

- ✓ *Credit risk:* The risk of a trading partner not fulfilling their obligations in full on a due date or at any time thereafter.
- ✓ *Market risk:* The risk to an institu-

tion's financial condition resulting from adverse movements in the level or volatility of market prices of interest rate instruments, equities, commodities and currencies.

- ✓ *Operational risk:* The risk of unexpected losses arising from deficiencies in a firm's management information, support and control systems and procedures.

In the course of the credit boom in the SEE in the recent years, the central banks of almost each country took restrictive steps to cool the credit engine. In countries like Bulgaria and Macedonia this proved to be

successful.

The forecasts are that credit expansion will be tamed by the end of the year without considerable negative effect on the economy.

However, like any medicine, restrictions have side effects, too. Effects like making SME access to credit financing harder, sweeping out of the market riskier projects and SMEs not responding to collateral requirements, urging banks to assess risk rather conservatively. The balance of the credit sector is frail and the central bank has the responsibility to supervise, forecast, warn and intervene to guard it.

Commercial bank perspective

Keywords: Profitability, Risk, Diversification

Between the rising requirements of the central bank and the ever rising market competition, commercial banks have to maintain their profit levels, to offer innovative products on the market and to bear in mind the stronger competition in the already stable and rapidly

developing banking sector in the region. While trying to expand and assure high profitability, commercial banks are forced to constantly develop new credit (and deposit) products to respond to the needs of a micronised market, consisting mainly of individuals and SMEs.

After the latest reserve requirements came into force, they were faced with the threat to lower their profit on credits. So, they went for diversification to keep in line with the sector, though supporting preferably projects with lower credit risk.

Borrower perspective

Keywords: Access to financing, Product variety, Requirements

Commercial banks are serving three major types of borrowers with regard to credits - individuals, SMEs, and large enterprises. Here we will put a highlight on the first two types.

Individuals are most favoured by banks being targeted with a wider and wider variety of products, getting easily accessible with simpler procedures. Especially the property and mortgage credits prove to be preferred by banks and most easily extended. Credit cards are also at hand as they are penetrating most of the SEE markets at the moment. With the exception of

Croatia, the other SEE countries tend to concentrate on credit card market development. In a nutshell, it is getting harder to make a choice of a product among the numerous opportunities, widely advertised in the public space.

And yet, individuals cannot be pleased so easily - now they are claiming the commission paid to the bank at returning their debt ahead of the schedule (e.g. in Bulgaria). Thus they put under question the commercial nature of the credits extended by banks.



SMEs, presenting a considerable share of business in the SEE (see Table on p. 20), recently have more reasons for discontent. Their access to credit from commercial banks is getting harder, the requirements about collaterals and low risk - more strictly observed. Moreover, the asymmetric information about finance opportunities often puts them under pressure, as they are not aware of special programs, credit lines and microfinance institutions. Often they cannot justify the choice of credit as a means of financing itself.

Apart from the usual lack of finance for start-ups, the more established SMEs are also critical of the commercial banks' requirements. The level of interest rates and the collateral requirements for loans to small enterprises are perceived to be unaffordable even in countries like Croatia, judged most developed in comparison to the other SEE countries.

However, SMEs are still the most active borrowers in the SEE countries, as commercial banks develop a range of credit products designed especially for them to suit the needs of particular cases - industry-specific, start-up, growing, etc. Often they create joint programs with state-owned banks or non-banking financial institutions. Just the SMEs have to keep themselves informed so that they make the best choice of financing.

Special highlight: microfinance institutions

Keywords: Access to financing, Product variety, Requirements

The simplest way to speed up the provision of finance to the SME sector is that of creating banking channels entirely dedicated to that activity. The experience of microfi-

nance banks in the region has been excellent in terms of outreach to the smallest and poorest. A very large number of loans of very small size in each country is the profile in which a

microfinance bank or institution is set up. This shows that the loans extended are of good quality: a prerequisite for commercial viability and liquidity of funds.

Number of enterprises in SEE

SEE	Number of SMEs (Including micro enterprises)	Number of micro enterprises only	Number of large enterprises	Number of SMEs per 1,000 inhabitants
Albania	56,237	54,145	253	18.1
Bosnia & Herzegovina	30,000	25,600	200	7.0
Bulgaria	224,211	207,643	741	27.6
Croatia	63,135	41,988	426	13.7
Macedonia	27,938	25,985	194	14.0
Moldova	22,138	17,760	2,547	6.1
Romania	612,862	311,260	1,955	27.4
Serbia & Montenegro	66,968	64,002		7.8

Source: 2003, Spotlight on south-eastern Europe: An overview of private sector activity and investment, EBRD

Note: In Moldova, large enterprises include those with over 50 employees.

Product Highlights

Credit Products: Shortlist Of The Region

Credits to Business	Credits to Households
Operations Investment Equipment Technology Property Vehicles Start-up Growth Trade fair participation	Consumer credits Home appliances Holidays Vehicles Repairs Student credits Property Credit cards
Credit cards Personal Corporate Co-branded	Specialized credit cards Student Hobby Family Co-branded
Special programs for Self-employed Agriculture Tourism Craftsmen Entrepreneurs International trade Regional development	Mortgage credits First property Second property Property exchange - expansion Family house building

What's next on the credit market in the region?

- Just to mention a few trends:
- Further diversification of credit products. Innovative products denominated in unusual currencies at preferential interest rates (like CHF in Serbia).
 - Development of deposit products to balance loans and savings.
 - Rapid development of the credit card market mainly targeted at individuals.
 - Development of finance solutions provided by non-banking institutions.
 - Better informed loan decisions on behalf of the SME.
 - Lower prices of credits.
 - Narrower profit margin of commercial banks.
 - Slower increase in credit activity - up to 35% per year and less due to the interventions of the central banks.
 - Slowing of the property and mortgage credits expansion together with the forecast for cooling the real-estate market in the region in 5-year horizon.
 - Threat of future increase in the bad credit share.

SEE Credit Market: Country Highlights

Bulgaria

The restrictive measures of the Central bank proved effective several months after coming into force in March 2005. In June 2004 the total value of the extended credits was 11.84 billion BGN, in December 2004 - 13.81 billion BGN, and in June 2005 - 16.19 billion BGN. Loans have increased with 36.86% for one year and for the first half of 2005 - with 17.23 %. The forecast is that banks will meet the end of the year with about 35% increase in extended credits, which would prove

Central bank's intervention effective. Statistics show that in 2005 commercial banks were more active in extending credits to households and citizens, especially in the field of property loans. The increase in end-consumer credit outruns the one of credits to companies. For the second half of year 2004 the corporate loans have increased with 45.64% - from 7.23 to 10.53 billion BGN. For the same period consumer loans have marked an increase of 51.5% - from 2.33 to 3.53 billion BGN, and real-estate loans - an

increase of 60.12%, from 662.1 million BGN to 1.51 billion BGN.

The structure of bank credits by sector changes respectively. While in mid-2004 the shares of corporate, household and property credit were respectively 74.64%, 19.76%, and 5.60%, in mid-2005 the credits to companies have fallen to 68.85%, while the credits to households have increased to 21.84%, and the property ones have soared to 9.31%.

Structure of extended credits in BGN, billion

Period	Credit Total	Credit to companies		Credit to households		Property Credits	
		Value	Share %	Value	Share %	Value	Share %
June 04	11.84	7.23	74.64	2.33	19.76	0.66	5.60
June 05	16.19	10.53	68.85	3.53	21.84	1.51	9.31

Source: BNB, bnb.bg

Putting the highlight from the corporate to the household credits drains the SMEs from financial resources necessary for equipment and technologies. Moreover, the extended real-estate credits hide the threat of a possible

future increase in the share of bad credits in case of economy recession. The profit margin of commercial banks also gets narrower because of the ever-falling interest rates on credits and the great competition. To catch up with the

scarce reserves, they have to diversify their portfolio and to hedge partially the risk. In this respect, the so-called scoring systems and credit registries proved to be of great use - in Bulgaria as well as the other SEE countries.

Credit Cards

The estimated number of debit and credit cards as of May 1, 2005 is 3 530 204, of them - 54 814 credit cards. According to the national card operator BORIKA, compared to the last year, the credit cards issued by it have marked a 45% increase. Certain banks operating on the credit card market, however, estimate the increase to 155% or a total of over 98 000 credit cards. Among the major reasons of the slow market penetration of the credit cards in Bulgaria are:

- ✓ The relatively small number of POS terminals in shops - in 2004 it has increased from 3754 to 6837. During the first quarter of 2005 the POS terminals in the country served by BORIKA have increased with another 1439.
- ✓ The reluctance of traders to use card payments in shops.
- ✓ The cash-culture and shopping habits of Bulgarian consumers.

Credit cards in circulation (issued by the national card operator BORIKA, May 1, 2005)	
Cards total	3,530,204
Credit cards total	54,814
International credit cards MasterCard	37,073
International credit cards Visa	17,741
Credit cards issued by other institutions (estimate)	
Transcart	160,000
Euroline	180,000
Other	43,000

Bosnia & Herzegovina

The year 2005 continues the trend from 2004 of marked preference towards long-term credits, consisting 74.53% of the total extended credits in August 2005. For comparison, in

August 2004 the share of long-term credits was 74.57%.

83.92% of the extended credits in August 2005 are in Convertible Marka (KM), mainly preferred for the benefi-

cial interest rates. Of the remaining foreign currency credits, about 60% are held by the Euro- denominated credits. Both the citizens and SMEs go for loans denominated in domestic currency with medium and long term.

Total loans of commercial banks end of period, in KM, million

Year	Month	LOANS		
		Short-term	Long-term	Total
2004.	08.	1 394,3	4 088,5	5 482,8
	09.	1 463,3	4 169,1	5 632,4
	10.	1 492,4	4 233,1	5 725,5
	11.	1 518,4	4 273,9	5 792,2
	12.	1 576,2	4 350,9	5 927,1
2005.	01.	1 581,7	4 397,1	5 978,8
	02.	1 605,6	4 449,8	6 055,5
	03.	1 643,6	4 560,7	6 204,4
	04.	1 698,7	4 684,2	6 383,0
	05.	1 722,8	4 803,3	6 526,2
	06.	1 740,3	4 940,4	6 680,7
	07.	1 741,8	5 078,1	6 819,9
	08.	1 758,6	5 146,0	6 904,6

Source: CBBH, 2005, cbbh.gov.ba

Credit currency structure million

Year	Month	Credits			Total in KM
		KM	Euro	Other currencies	
1	2	3	4	5	6 = 3+4+5
2004.	08.	4 089,0	984,0	409,8	5 482,8
	09.	4 837,7	389,1	405,6	5 632,4
	10.	4 815,5	512,4	397,6	5 725,5
	11.	4 891,0	516,9	384,3	5 792,2
	12.	5 014,7	535,2	377,2	5 927,1
2005.	01.	5 042,6	539,0	397,2	5 978,8
	02.	5 116,5	547,9	391,1	6 055,5
	03.	5 239,9	566,1	398,3	6 204,4
	04.	5 394,5	588,1	400,4	6 383,0
	05.	5 513,1	606,8	406,3	6 526,2
	06.	5 624,0	637,3	419,3	6 680,7
	07.	5 728,8	667,9	423,2	6 819,9
	08.	5 794,0	695,0	415,6	6 904,6

Source: CBBH, 2005, cbbh.gov.ba

The credit card market in the country is at its first-steps stage, leaving a lot to desire in comparison with Croatia, for example.

Croatia

Croatia has the most sophisticated banking sector in the region, more comparable to the ones of the EU countries than to the SEE ones.

It has developed credit card market, due to the tourist activity and the foreign banks' good practice, as well as the relatively higher income of the population. Among the most widespread cards in Croatia are American Express, Diners Club, Visa, and Eurocard/Mastercard. The first Croatian credit card was OlympCard. The access to direct card payments is easy and POS terminal - widely spread, unlike Bulgaria, for example.

Commercial banks have collaborated with other institutions to develop appropriate SME loan products, too. SMEs declare easy access to financing though bank loans are not their first choice. They have found alternative sources of finance - special funds and programs dedicated to defined regions, sectors etc.

However, the highlight is reluctant bank lending to SMEs.

Banks participate in SME financing with their own programs designed for this sector, programs in co-operation with the state development bank (CBOR) as well as with common credit programs. Bank credit has become more accessible to the SME sector after the privatization of the sector by foreign banks,

which now own more than 90% of total bank assets. Interest rates have decreased and special programs have been developed in the process of diversifying credit products. Entrepreneurs in Croatia use unsecured credit for investments. Furthermore, they use credit cards for business purposes (bank drafts, revolving credit), so that business sector finance is higher than presented in statistics. However, com-

mercial banks seem to have a conservative and cautious position in lending to the SME sector and are too much profit-oriented.

Foreign banks have had a positive impact on the domestic banking market in terms of lower interest rates, good reputation and product diversification. But commercial banks exclude from lending those SMEs that do not meet collateral requirements. They skim deals

from the market that have appropriate collateral, excluding SMEs that do not have it even though they might well be sound businesses and more profitable to the bank. Banks may earn a high return while taking only low risks, so they tend to be too conservative in assessing risks, ruling out of the market higher risk projects and those investments which convey only a medium rate of return.

Macedonia

In the course of 2004 the commercial banks gained more speed in the credit activity, fueled by the extended deposit potential, the higher solvability of the borrowers, the lowered price of credits and the currency liberalization. This resulted in a yearly increase of bulk credits to companies and households with 12.182 millions dinars or 27,0%.

The net credits follow the same dynamics, marking an increase of 10.965 million dinars, or 29,5% compared to the end of 2003.

This increase is a sign of the continuing during the whole 2004 year trend of credit expansion, expressed in more active credit extending towards enterprises (SMEs) and individuals, as well as the better quality structure of extended credits.

By types of banks (large, medium, and

small) the increase of credits is due to the boom of credit activity of large banks - only this group marks credit increase of 69.2% compared to year 2003. As for the other two groups of banks - they show negative trend in credit activity, expressed in a decrease of extended credits of respectively 18.5% and 6.5%.

The structure analysis of the **credits by sector** shows that the dominant place is held by credits to companies, including SMEs, representing 71.5% of extended credits (a decrease of 7.3% compared to 2003).

Credits to households amount to 26.7% (5.9% increase compared to 2003).

Concerning the **currency structure** of bank credits, there is a marked trend of intensifying of the foreign currency

credits, mainly as an effect of the liberalization in July 2003, as well as of the more attractive interest rates on forex credits. The foreign currency credits are preferred by the enterprises with a fast increase in the second half of the year. And yet, the dominant share of the total credits extended is held by the dinar-denominated credits with 59.4%. 20.6% are the dinar credits with foreign currency clause and 20.0% are the foreign currency - denominated credits.

Viewing **the terms of credit**, long-term credits have the dominant share in the credits total with 46.8%, while the short-term ones amount to 34.1%. Generally, long-term credit growth is due to the increased share of long-term credits extended to households - mainly property credits.

Structure of extended bank credits to non-financial institutions, December 31, 2004 in MKD, million

Description	Total	Credit to companies		Credits to households		Other borrowers	
		MKD	Other currencies	MKD	Other currencies	MKD	Other currencies
<i>Dostasani</i> credits	1,210	616	470	110	3	0	11
Short-term credits	19,583	13,771	2,703	2,457	43	594	15
Long-term credits	26,848	8,464	6,611	11,378	298	9	87
Bad credits	9,727	7,297	1,089	1,026	17	187	111
Bulk credits	57,367	30,149	10,872	14,971	362	790	224
Reserves	-9,292						
Net credits	48,076						

Source: NBRM, 2005, nbrm.gov.mk

Moldova

The credits to economy, advanced by 65.9 million lei (0.8%), and ran into 8183.8 million lei as of July 31, 2005. This dynamics was due to the growth of credits in foreign currency (expressed in MDL) by 89.9 million lei (2.9%), while the credits in national currency dropped by 24.0 million lei (0.5%).

The credits in foreign currency (expressed in US\$) accounted for US\$

256.4 million, by US\$ 7.2 million (2.9%) more versus June 2005.

The value of credits in MDL amounted in July 2005 to 660.8 million lei, by 108.7 million lei less as against the previous month. The share of credits extended to businesses represented 88.0% of total credits in national currency. Within their structure the highest weight of

46.0% was held by credits for a term of over 12 months, in an amount of 267.3 million lei at an average interest rate of 18.20%. The share of short-term credits (of up to 1 month) recorded an increase of 15.1% of total credits, as well as the credits for a term of 6 to 12 months that reached the level of 28.0%.

The value of credits in foreign currency extended to businesses amounted to 296.4 million lei (equivalent of US\$ 23.6 million, by US\$ 2.3 million less versus June 2005). Though the share of credits for a term of over 12 months (extended at an average interest rate of 11.04%) was significant (56.3% in total credits in foreign currency extended to businesses), it reduced by 14.9 percentage points as compared to the previous month, concomitantly with the increase of credits for terms of 6 to 12 months, which share went up by 12.2 percentage points, up to the level of 35.8% .

The average interest rate on credits in foreign currency extended to businesses advanced by 0.12 percentage point and accounted in July 2005 for 11.18%.

Dynamics of credits extended by commercial banks (MDL, million)

Period	Credit extended				
	Total	In MDL		In foreign currency	
		Value	Interest, %	Value	Interest, %
December 2004	954.8	659.0	21.11	295.8	11.35
January 2005	524.2	338.9	21.16	185.3	11.29
February	757.1	485.2	20.88	271.9	11.26
March	1048.8	656.0	20.70	392.8	11.45
April	1037.3	646.2	20.16	391.1	11.18
May	963.4	646.4	19.21	317.0	11.29
June	1096.6	769.5	19.36	327.1	11.06
July	957.2	660.8	19.32	296.4	11.18

Source: BNM, 2005, bnm.org

Romania

Non-government credit rose at an average monthly rate of 2.9 percent January through August 2005; financial intermediation is estimated at 21 percent in December 2005.

Currency structure of bank credit remained unchanged throughout the year 2005 (credit in domestic currency holding about 40% and credit in foreign exchange taking 60%). The growth rate of RON-denominated credit moved faster than that of foreign exchange-denominated credit, possibly fueled by the expansion of consumer credit in domestic currency.

The significant negative contribution of nominal appreciation of the domestic currency to the expansion of non-government credit offset almost entirely

Structure of extended credits Nominal values (RON, million)

	Total	Credit to households			Credit to companies		
		Total, of which	Consumer	Mortgage / real estate	Total	Production	Investment
January 05	41,330	11,933	8,020	3,295	29,397	16,537	12,859
February	41,542	12,170	8,183	3,340	29,372	16,666	12,706
March	43,297	13,053	8,727	3,620	30,243	16,989	13,255
April	44,949	13,805	9,253	3,764	31,145	17,418	13,726
May	47,097	14,827	10,514	3,957	32,270	17,974	14,296
June	48,956	16,061	11,559	4,130	32,895	18,107	14,788
July	50,548	16,885	12,299	4,202	33,663	18,719	14,944
August	52,352	18,090	13,306	4,390	34,262	18,854	15,408

Source: BNR, 2005, bnro.ro

Structure of Extended Credits - Percentage

	Total	Credit to households			Credit to companies		
		Total, of which	Consumer	Mortgage / real estate	Total	Production	Investment
January 05	100.0	28.9	19.4	8.0	71.1	40.0	31.1
February	100.0	29.3	19.7	8.0	70.7	40.1	30.6
March	100.0	30.1	20.2	8.4	69.9	39.2	30.6
April	100.0	30.7	20.6	8.4	69.3	38.8	30.5
May	100.0	31.5	22.3	8.4	68.5	38.2	30.4
June	100.0	32.8	23.6	8.4	67.2	37.0	30.2
July	100.0	33.4	24.3	8.3	66.6	37.0	29.6
August	100.0	34.6	25.4	8.4	65.4	36.0	29.4

Source: BNR, 2005, bnro.ro

the positive contribution of RON-denominated credit. Credit to households rose to one third

of the non-government credit total, with its share moving ahead 6.1 percentage points in the first eight months

of 2005 only as compared to 3.7 percentage points in full-year 2004.

Credit to households reached a reading similar to those of production credit and investment credit to companies. In early 2005, domestic currency-denominated credit to households prevailed over forex-denominated credit but in August the shares of the two components were almost equal.

Consumer credit in domestic currency accounted for more than 60% of credit in RON and mortgage credit in foreign currency held an overwhelming share of 90% of credit in foreign currency. Five banks took almost 80% of credit to households. After the contraction in 2004, the share of consumer credit in credit to households resumed growth, reaching 74% in August 2005, while the share of mortgage / real-estate credit witnessed a decline.

Credit / Debit Cards

Of the many services typically offered by banks, the issuance of credit/debit cards, the handling of payments via cards, and the clearance of payments made via the internet are of special interest in Romania at this time. According to industry experts, there are about 7 million potential card users in Romania. In actual fact, there are only about 2 million credit and debit cards on the Romanian market, with debit cards having the greatest share. Of the 42 banks active in Romania, only 15 are

currently issuing cards. Only six of these issue credit cards: There are about 1,700 ATMs countrywide. Of all cards in Romania, 1.2 million are Visa cards. American Express, Mastercard, Europay, and other western card brands are also increasing their market share. An important factor in the development of the credit card market is the network of businesses accepting credit cards. Currently, this network is poorly developed in Romania, where the "cash culture" is still strong. Only about 7,000

businesses accept payment by card at this time. Customers are not yet well educated regarding the use of cards. About 90% of all transactions on Romanian cards are cash withdrawals from ATMs.

An emerging trend on the card market is the development of co-branded cards, whereby a company enters into a partnership with the card-issuing bank and grants "points" to the card user for each transaction. This is expected to increase the customers' interest in using cards.

Serbia & Montenegro

According to the survey of loans and their trends in the first half of 2005 and previous periods (end-2004 and end-2003) the greatest amount of loans was extended to corporate customers (67.9%) and citizens (24.5%). The first half of 2005 saw a CSD 52.7 billion or 18.6% rise in overall lending activity of the banking sector. Banks were lending most to corporate customers (CSD 31.3 billion or 15.9%)

Loans Structure (Credits and Other Bank Loans) in CSD million

Position	December 31, 2004		June 30, 2005		Growth Index 2004	Growth Index 1 half 2005
	Value	Share %	Value	Share %		
Corporate	197,022	69.4	228,360	67.9	140	116
Retail	64,283	22.6	82,293	24.5	226	128

Source: NBS, 2005, nbs.yu



and citizens (CSD 18.0 billion or 28.0%).

In the first half of 2005, the share of bad assets in total classified assets did not change significantly, and on June 30, 2005 it stood at 22.51%.

The adoption of new bank sector regulations on the procedure for credit approval and bank reserves by the Central Bank is aimed at the monitoring of bank exposure to the potential credit risk, which stems from the calculation of loans in foreign currency or loans indexed by the currency clause. Thus, banks are obliged to adopt methodology that keeps record of the exposure of an individual debtor to the risk of change in the dinar exchange rate. Banks are obliged to continuously analyze the credit risk arising from the influence of the change in the dinar exchange rate on the debtor's financial standing, given that the possibilities of loan repayment depend on the debtor's dinar cash flows. ■

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