

Management comments in relation to residential lending operations

Bank handling

A key issue in the OPER's assessment of Bank handling as *satisfactory* was the comment "the Bank had repeatedly identified but did not monitor the systemic risk to banks, and to its own large exposure to the country's banking system, posed by widespread use of loans indexed to foreign currency."

The country's economy has been very closely linked to the deutschmark and subsequently to the euro. The issues arising from foreign currency lending and indexing of loans to foreign currency have been recognised at the outset of the project and discussed regularly and at length with the authorities, who are also well aware of the implications of this practice. The Bank's clients are carefully monitored for both foreign exchange risk through open foreign currency positions and the foreign exchange risks faced by their borrowers. The banks' credit processes recognise the implications of foreign currency and indexed lending and take account of those risks in approving the sub-loans. Sub-borrowers under EBRD credit lines were informed of the underlying risks associated with loans that were denominated in or indexed to the euro.

Finally, the Bank maintains regular contact with the National Bank on monetary policy trends and areas of concern to the Banking Supervision Department – including exchange rate risk for banks and their clients. The Bank continually monitors trends in the overall economy and will continue its active policy dialogue with the authorities.

Main OPER issues and lessons learned

Taking a proactive approach: EVD suggests that in future, the Bank could use technical cooperation (TC) to support efforts by private sector banking associations to lobby for improved service from land and mortgage registries. The Bank has maintained an active dialogue with the country's Bankers' Association and management does not share the view that every difficult issue should be resolved via TC. The country's banking system is largely foreign-owned and is fully capable of financing its own lobbying efforts.