

The role and objectives of the Credit Registry in maintaining financial stability and economic growth

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Entry

Good morning,

I am pleased to speak at the opening of this very important workshop for the financial sector and our country's economy in general.

My presentation today is focused on the role and objectives of the credit registry in maintaining financial stability and economic growth in Kosovo.

Why do we need a Credit Registry?

Generally, in any mediation, and in particular in the case of financial intermediation, the main issues we face are those of "*moral hazard*" and "*adverse selection*" of the partner, in this case the loan-seeker. Thus, banks often happen to be uncertain about the quality of any project or loan-seekers increase in the future and therefore even useful projects sometimes remain without financial support.

Therefore, an arrangement which can help the overcome information problems is the information exchange through the credit registry, which enables banks to obtain information about credit history of the loan-seeker. In general, credit records are classified according to ownership and the perimeter of information involved. Thus, in practice we face publicly owned credit registry and privately owned credit registry.

Usually, the public registry is owned and managed by central banks or supervisory and regulatory authorities of the financial sector while the private sector in most cases is organized as an office owned by the lenders themselves (in Kosovo there was such arrangement where not all banks participated), or as an independent private agency which simply "buys" information from lenders and sells the same credit report to relevant interested parties.

Public registry operates on the principle of mandatory participation and this is characteristic of the Credit Registry of Kosovo (CRK) , which is required by the Central Bank Law and Banking Rule No. XXVIII, where participate all credit institutions - commercial banks and microfinance institutions. Besides improving the quality of credit information and exchange of this information, one of the primary missions of CRK is to strengthen supervision and regulation of financial institutions by directly contributing to the overall stability of the banking sector.

It is important to stress here, that despite the ownership arrangement, empirical analysis show a significant contribution to the credit registry in increasing credit availability and overall lending in emerging economies (see *Djankov, McLiesh and Shleifer, 2006*) and certainly this applies also to CRK's contribution regarding which you will get factual information during the presentation of Ms. Zylfiu, CRK Head in the CBK.

Briefly on the role of credit registry

A *raison d'être* of the credit registry existence is the need to exchange information among lending institutions. In this regard, there is debate on whether it should be exchanged only positive or only the negative information. The former usually produces reputation as collateral, and the second so-called black list, so it often depends on financial legislation and culture of a country. However experiences of others, indicate that the best solution is to combine these two.

Regarding the role of the credit registry, numerous literatures tell us that this role almost everywhere is primarily concerned with:

- Building and facilitating a culture of information exchange between credit providers;
- Providing complete and accurate information on loan-seeker for objective decision regarding the credit granting;
- Reduction of risk, namely the prevention of loan failure probability;
- Protection of consumers from eventual debt over-loading by facilitating in dosing or calibration of the loan in accordance with "potential" - the capacity to return the credit;
- Opening the door for loans to new customers evaluated as of low-risk, but without any previous credit history.

What are we aiming to achieve with the improvement of credit information in the CRK?

Our goal is not much different from the goals of credit registries in different countries of the world. Thus, we expect that improve of CRK existing information will bring:

- Further improve to credit access (increase of credit offer and reducing its cost);
- Promote more significant competition among lenders;
- Strengthening the Banking Supervision (the use of *ratings* in the future in order to support policies based on provisioning *ex ante*);
- Improvement of economic analysis for the needs of macroeconomic policies (credit information *by region, by sector, according to the quality of the borrower, the interest rate* is very useful for the design of right macroeconomic policies at the country level, including regional specifics and effects of tax policies on the credit flow of in the economy);
- Improving banking regulation (credit registry should provide information on adequacy analysis of existing provisioning, capital adequacy, concentration, risk assessment of credit portfolio of individual institutions and of the whole system; for the needs of applying the regulations requirements arising from Basel II, especially regarding proper calibration of capital requirements, etc.).

How should all this reflect in the eyes of ordinary citizens?

What was said so far sounds a little too technical and is accessible to everyone in this room. Even, in the coming days you'll also go deeper into the technical elaboration of all this. You have foreseen to extract a concrete action Plan for all this at the end.

The message I want to send to the ordinary citizen is from here is also simple and appealing: Improved credit information needs to raise transparency and reduce information asymmetry. This will then reduce a part of the credit risk, while it should also reflect the interest rate reduction in the loan market thus contributing to the economic development and growth of our country. Definitely, the common denominator for all this is exactly what is written in this billboard in front of you where the entire map of the country is marked with the slogan – maximizing the economic growth in Kosovo, for which we are grateful to USAID, respectively the Program for improvement of the business environment in Kosovo.

Thank you and I wish you successful workshop.