Opening remarks

BoS & EIB conference on

*Promoting lending: The role of securitisation, guarantee products and other instruments providing capital relief*,

5 February 2015, Ljubljana

Ladies and Gentlemen, dear conference participants,

First of all, welcome to this conference, jointly organised by Banka Slovenije and the European Investment Bank.

As you all know, from March 2015 the European Central Bank will start the QE Program. In this context, this conference is very timely.

The purpose of the conference is to discuss the challenges that Slovene banks and firms face in funding their activities and explore the possible solutions. A particular focus of the conference is on how securitisation, covered bond issuance and guarantees, in particular those offered by the EIB, can provide alternatives to bank loan-based debt financing. Since "bank-based" also includes interbank, I am certain this discussion will be of equal interest to banks as it will be to firms. In addition, the conference will feature presentations and discussions of successful case studies on securities issuance by firms in the domestic market.

In the years prior to the financial crisis, banks relied on the syndicated loan market. This provided long-term funding for financing the expansion of credit to the non-banking sector beyond what the deposit base alone could provide. With hindsight this credit expansion, funded by syndicated loans, proved to be excessive, and is the root-cause of today's malaise. However, this does not mean that the future funding mix of banks should not include some long-term wholesale funding sources. These sources should ideally come with enhanced market scrutiny compared to the earlier cross-border syndicated loan funding model.

The balance sheets of banks have traditionally featured low asset encumbrance, and therefore provide room for structured finance instruments. In this regard, asset-based securities, including covered bonds, appear to be a viable option for Slovenian banks. Legislation for issuance of covered bond has been introduced in Slovenia as early as in 2006 but so far no bank has issued a covered bond. In order to make issuing covered bonds a feasible funding source, several factors, including that of size, need to be addressed. In contrast, there is no existing Slovene legislation for issuance of asset-backed securities. In this case, too, the problem of size is equally important and the first-mover disadvantage more pressing than in the case of covered bonds. These issues need to be addressed for the capital market funding alternatives to be attractive to banks.

Let me now turn to the perspective of firms.

Because of mounting of bad debt in bank balance sheets, banks have cut back on lending to firms and have tightened their credit standards significantly. Some firms have therefore turned to the capital market to fund their activities, using both short and long-term debt securities. Their experience is a valuable guide to other enterprises that want to explore an alternative to bank loan financing.

Needless to say a sustainable increase in debt financing will have to go hand in hand with improved corporate governance. This is true for banks as it is for firms, Improvements in corporate governance and risk management are quintessential in ensuring that they will be no further need for injection of public funds into banks in the foreseeable future. A higher readiness and ability of firms to use capital market financing instead of bank loans is not necessary negative for Slovenian banks. In the years leading up to the crisis the notion of corporate securities underwriting has been all but a lost word in banks' vocabulary. Banks facing capital market competition should seize the opportunity to expand their ability to connect issuers with willing investors as this part of banking business can be a welcome complement to their net interest income in a low-interest environment.

Let me conclude by saying that I would like this workshop to focus on exploring solutions. I sincerely hope that the collective wisdom of the participants will build on the proposals put forward in the presentations.. Specific feedback would allow the policy makers, the banking community, and other market participants, both to select viable alternatives and to prioritize them.

Thank you.