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Foreign banks' funding to Emerging Europe continued to decline in late 2014, but trend may be reversing, new report shows

The decline in Western banks' funding to Central, Eastern, and Southeastern Europe (CESEE) accelerated in the fourth quarter of 2014, while domestic credit growth remained lackluster in much of the region, but this trend may have started to reverse in early 2015, according to the latest Vienna Initiative committee report released on June 24.

Banks reporting to the Bank for International Settlements (BIS) reduced further their external positions vis-à-vis the CESEE region by 0.7 percent of GDP in the fourth quarter of 2014 (0.8 percent of GDP when excluding Russia and Turkey). The cumulative reduction since the onset of the global financial crisis reached 6 percent of CESEE regional GDP (nearly 12 percent, when excluding Russia and Turkey).

Domestic credit growth in late 2014 was strong in Turkey, Russia, and Poland — the region's largest economies, but remained anaemic or continued to contract elsewhere. Credit fell sharply in Ukraine on the back of a significant deterioration in economic conditions, followed by Slovenia and Bulgaria, driven by a decline in credit to firms.

The latest CESEE bank lending survey, which covers the last quarter of 2014 and the first quarter of 2015, reveals a more positive picture. The ECB's Quantitative Easing program may be helping to improve the outlook. For the first time, credit conditions for both small and medium enterprises and large corporations have begun to ease. The survey also shows that more banks see stabilization and selective expansion in their exposures over the year on the back of improvements in credit quality, as well as in credit demand and supply conditions.

The CESEE Deleveraging and Credit Monitor is prepared by the staff of international financial institutions taking part in the Vienna Initiative's Steering Committee. It is based on the BIS's International Banking Statistics published on June 8, 2015.

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The Vienna Initiative was established at the height of the global financial crisis of 2008/09 as a private-public sector platform to secure adequate capital and liquidity support by Western banking groups for their affiliates in Central, Eastern, and South Eastern Europe (CESEE). It was relaunched as "Vienna 2" in January 2012 in response to renewed risks for the region from the Euro zone crisis.

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