



Bank Deleveraging in Eastern Europe Slows Slightly in Second Quarter of 2014

Vienna Initiative committee report also says that credit growth remains subdued

Bank deleveraging in central, eastern and south-eastern Europe (CESEE) slowed in the second quarter this year but credit growth remains subdued, according to a new report from the Steering Committee of the Vienna Initiative.

Banks reporting to the Bank for International Settlements (BIS) reduced their exposure to the region by 0.1 percent of GDP in the second quarter of 2014, a slowdown compared to the first quarter.

Excluding Russia and Turkey, the external positions of BIS reporting banks in the region declined by 0.4 percent of GDP, also a deceleration compared to the first quarter.

Overall net capital inflows to the region, excluding Russia, turned positive in the second quarter, reflecting strong portfolio flows after a negative dip in the first quarter.

However, credit growth through July 2014 remained subdued in the region outside Turkey and the Commonwealth of Independent States (CIS), with most of southeastern Europe still seeing a contraction, while credit growth slowed in Turkey and the CIS.

The Vienna Initiative's bank-lending survey shows cross-border banks continuing to reassess their country strategies in the region.

The percentage of banks anticipating an expansion of operations in the longer term has declined relative to the March 2014 survey. All parent banks, however, intend to maintain the current level of capital exposure to their subsidiaries, or even increase it. The survey shows subsidiaries in CESEE reporting stabilization in supply conditions and an increase in demand for credit over the last six months, albeit at low levels.

Both demand and supply conditions for credit are expected to improve in the next six months.

[The CESEE Deleveraging and Credit Monitor](#) for the second quarter of 2014 was prepared by the staff of international financial institutions taking part in the Vienna Initiative's Steering Committee. It was based on the BIS international banking statistics published on 22 October 2014.

The Vienna Initiative was established by Western banking groups at the height of the global financial crisis of 2008-09 as a private-public sector platform to secure adequate capital and liquidity support for their affiliates in central, eastern, and southeastern Europe.

It was relaunched as "Vienna 2.0" in January 2012 in response to renewed risks for the region from the eurozone crisis.