

EBCI

Vienna Initiative



CESEE DELEVERAGING AND CREDIT MONITOR¹

August 4, 2014

Key Developments

- In 2014Q1, BIS reporting banks reduced their external positions to CESEE countries by 0.3 percent of GDP, roughly the same as in 2013Q4 (Figure 1). However, excluding Russia and Turkey, external positions of BIS reporting banks to the region declined significantly by 0.6 percent of GDP, a marked pick-up in reduction compared to 2013Q4 (0.3 percent of GDP). Cumulative reduction in banks' external position since 2008Q3 amounts to 4.5 percent of CESEE regional GDP, and excluding Russia and Turkey, 10.6 percent (Figure 2).
- The scale of funding reductions continued to vary across countries in 2014Q1 with Slovenia, Latvia, Croatia, and Bosnia & Herzegovina showing the largest reductions largely consistent with earlier patterns (Figure 3). Flows turned negative in Czech Republic and Turkey in 2014Q1 after staying positive during most of 2013, while Hungary experienced positive flows for the first time since 2011Q2.²
- Foreign portfolio flows to CESEE, excluding Russia and Turkey, remained strong in 2014Q1 with an increase in international bond issuance by CESEE countries in part driven by favorable global financial conditions as reflected in continued decline in the global market volatility (VIX) and the benchmark long-term bond yields in the US and the euro area (Figure 4). However, overall net capital flows turned negative in 2014Q1 on account of bank loans and other flows which showed the largest outflow since the onset of global financial crisis (Figure 5). The divergence between net bank loans and other flows and BIS reporting banks' external position to the region widened substantially in 2014Q1 and bears close watch in coming quarters. The larger net bank loans and other outflows in 2014Q1 relative to 2013Q4 was mostly driven by Czech Republic (a partial reversal of earlier flows), Poland (corporate repayments of

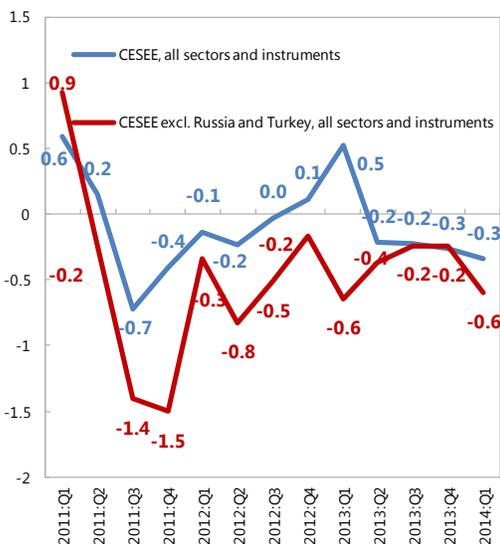
¹ Prepared by the staff of the international financial institutions participating in the Vienna Initiative's Steering Committee. This note is based on the BIS International Banking Statistics published on July 24, 2014.

² In the case of the Czech Republic, these outflows reflect repayment to parent banks of loans provided during November 2013, when the Czech National Bank bought about 8 billion euros from banks.

trade loans and increase in assets abroad), and Romania (reduction in net foreign liabilities in the banking sector and repayment to the IMF).

- Overall credit growth through May 2014 remained subdued outside Turkey and CIS, particularly for non-financial corporates (Figure 6). Slovenia and Serbia continue to experience large contractions in corporate credit (Figure 7).
- Domestic deposits continued to grow everywhere except Hungary and Slovenia, with its increase (y-o-y) on average more than offsetting the decrease in foreign bank funding (Figure 8).
- Recent surveys suggest weaker outlook for credit growth. IIF's 2014Q1 survey shows a tightening in lending conditions in the region with the overall index falling to 46.7 (Figure 9). Further deterioration in funding conditions and tightening of credit standards were main factors, while increasing NPLs also contributed.³

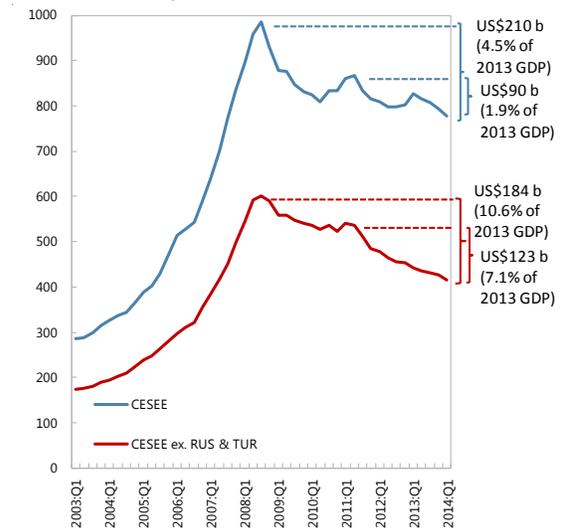
Figure 1. CESEE: Change in External Positions of BIS-reporting Banks, 2011:Q1–2014:Q1
(Percent of 2013 GDP, exchange-rate adjusted)



Sources: BIS, Locational Banking Statistics; and IMF staff calculations.

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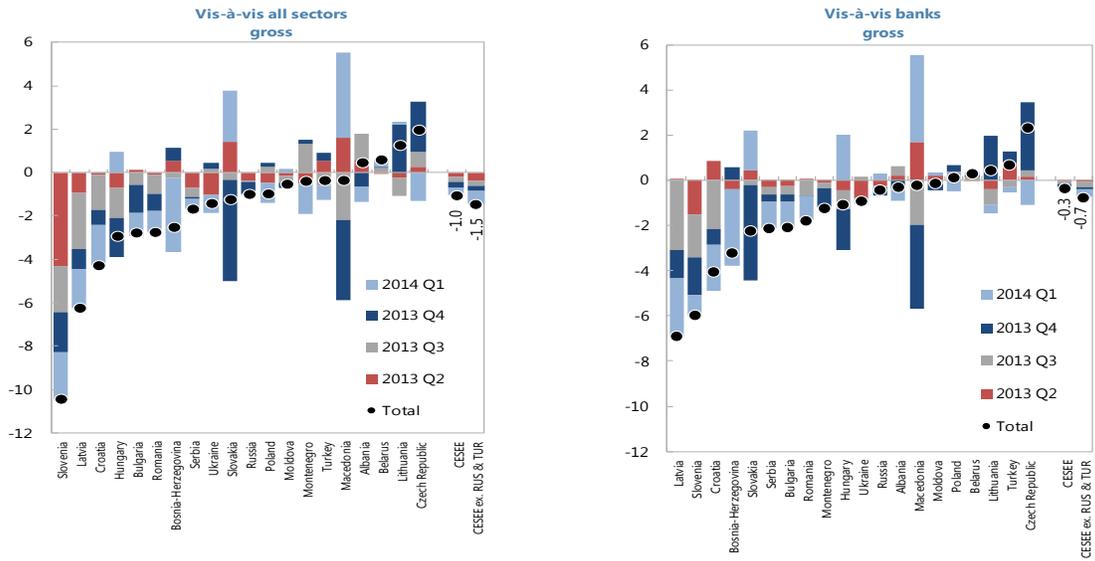
Figure 2. CESEE: External Position of BIS-reporting Banks, 2003:Q1–2014:Q1
(Billions of US dollars, exchange-rate adjusted, vis-à-vis all sectors)



Sources: BIS, Locational Banking Statistics; and IMF staff calculations.

³ There are notable differences in coverage between the IIF survey (28 banks from EM Europe) and the EIB CESEE bank lending survey (14 international groups active in CESEE and 90 local subsidiaries or domestic banks).

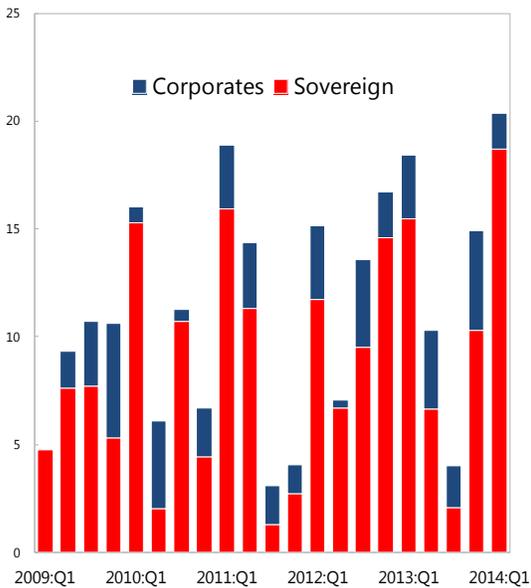
Figure 3. CESEE: External Positions of BIS-reporting Banks, 2013:Q1–2014:Q1
(Change, Percent of 2013 GDP, exchange-rate adjusted)



Sources: BIS, Locational Banking Statistics; and IMF staff calculations.

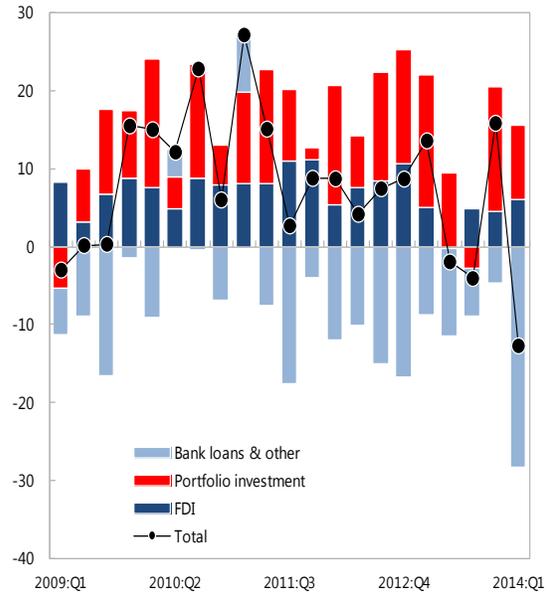
Sources: BIS, Locational Banking Statistics; and IMF staff calculations.

Figure 4. CESEE: International Bond Issuance (excluding Russia and Turkey)
(2008:Q1–2014:Q1, USD Billions)



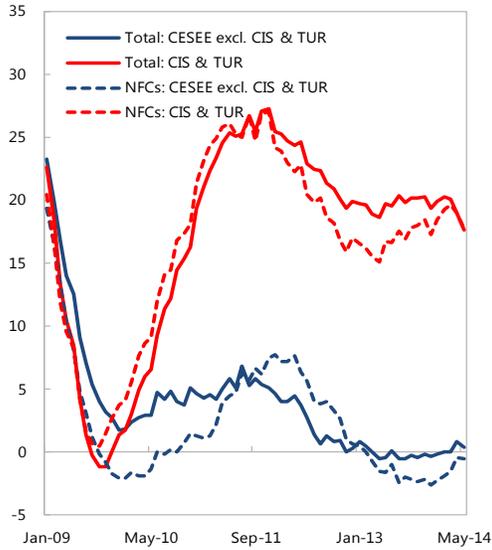
Sources: Dealogic; and IMF staff calculations

Figure 5. CESEE: Net Capital Flows (excluding Russia and Turkey)
(2008:Q1–2014:Q1, USD Billions)



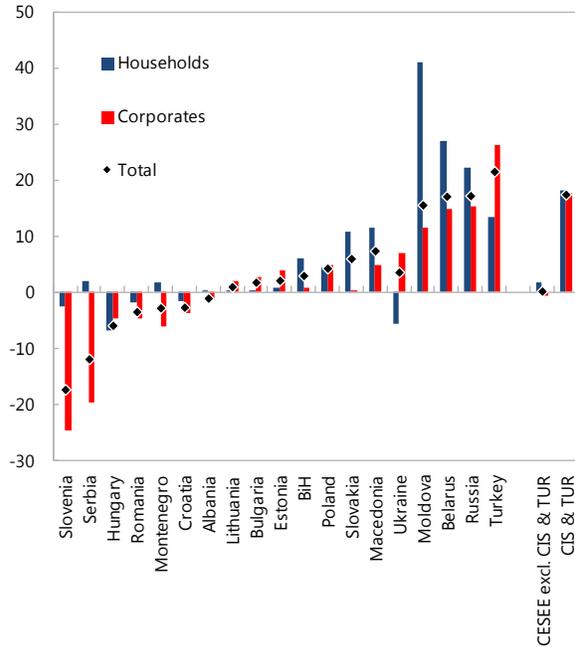
Sources: Haver Analytics; IMF, World Economic Outlook database; and IMF staff calculations.

Figure 6. Credit to Private Sector, January 2009–May 2014 (Percent change, year-over-year, nominal, exchange-rate adjusted, GDP-weighted)



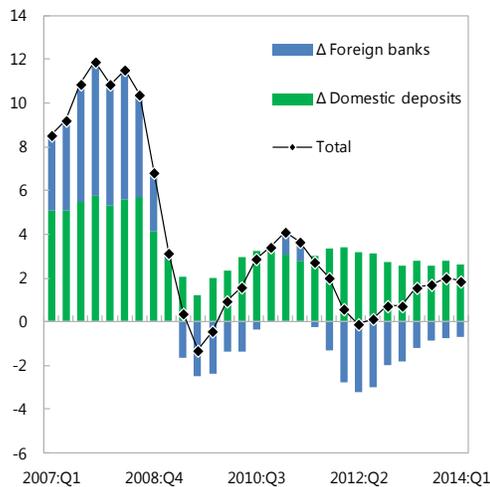
Sources: National authorities; BIS, EBRD and IMF staff calculations.

Figure 7. Credit Growth to Households and Corporations, May 2014 (Percent change, year-over-year, nominal, exchange-rate adjusted)



Sources: National authorities; BIS, EBRD and IMF staff calculations.

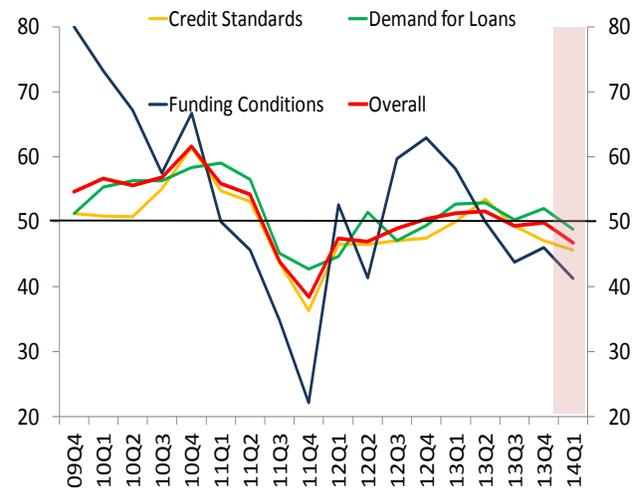
Figure 8. Evolution of Main Bank Funding Sources (2007:Q1–2014:Q1, Percent of GDP)



Notes: CESEE excl. Russia and Turkey; year-on-year change in the stock of BIS banks' exposure and domestic deposits in percent of GDP, exchange-rate adjusted. Excludes Latvia prior to 2011:Q3, Montenegro and Kosovo because of data unavailability.

Sources: BIS, Locational Banking Statistics; Haver Analytics; and IMF staff calculations.

Figure 9. EM Europe Bank Lending Conditions Survey 2014:Q1 (Values above 50 indicate improving conditions)



Source: IIF

Table. CESEE: External Position of BIS-reporting Banks, 2013:Q2 - 2014:Q1
(Vis-à-vis all sectors)

	2014 Q1 stocks		Exchange-rate adjusted flows (US\$m)					Exchange-rate adjusted stocks (% change)					Exchange-rate adjusted flows (% of 2013 GDP)				
	US\$m	% of 2013 GDP	2013 Q2	2013 Q3	2013 Q4	2014 Q1	Total	2013 Q2	2013 Q3	2013 Q4	2014 Q1	Total	2013 Q2	2013 Q3	2013 Q4	2014 Q1	Total
Albania	1,281	10.0	79	154	-87	-85	61	6.5	11.9	-6.0	-6.2	5.0	0.6	1.2	-0.7	-0.7	0.5
Belarus	3,277	4.6	-4	150	53	235	434	-0.1	5.3	1.8	7.7	15.3	0.0	0.2	0.1	0.3	0.6
Bosnia-Herzegovina	3,086	17.3	97	-40	105	-609	-447	2.7	-1.1	2.9	-16.5	-12.7	0.5	-0.2	0.6	-3.4	-2.5
Bulgaria	15,260	28.8	72	-308	-669	-561	-1,466	0.4	-1.8	-4.1	-3.5	-8.8	0.1	-0.6	-1.3	-1.1	-2.8
Croatia	34,207	59.0	-53	-949	-389	-1,085	-2,476	-0.1	-2.6	-1.1	-3.1	-6.7	-0.1	-1.6	-0.7	-1.9	-4.3
Czech Republic	48,747	24.6	501	1,446	4,583	-2,611	3,919	1.1	3.2	9.8	-5.1	8.7	0.3	0.7	2.3	-1.3	2.0
Estonia	10,060	41.1	-453	-68	-252	239	-534	-4.3	-0.7	-2.5	2.4	-5.0	-1.9	-0.3	-1.0	1.0	-2.2
Hungary	44,517	33.7	-949	-1,805	-2,404	1,298	-3,860	-2.0	-3.8	-5.3	3.0	-8.0	-0.7	-1.4	-1.8	1.0	-2.9
Latvia	10,302	33.3	-283	-810	-285	-552	-1,930	-2.3	-6.8	-2.6	-5.1	-15.8	-0.9	-2.6	-0.9	-1.8	-6.2
Lithuania	13,101	27.6	-117	-396	1,049	68	604	-0.9	-3.2	8.8	0.5	4.8	-0.2	-0.8	2.2	0.1	1.3
Macedonia	1,787	17.5	166	-222	-379	400	-35	9.1	-11.2	-21.5	28.8	-1.9	1.6	-2.2	-3.7	3.9	-0.3
Moldova	380	4.8	-12	-25	-18	14	-41	-2.9	-6.1	-4.7	3.8	-9.7	-0.2	-0.3	-0.2	0.2	-0.5
Montenegro	1,604	36.2	-23	58	9	-61	-17	-1.4	3.6	0.5	-3.7	-1.0	-0.5	1.3	0.2	-1.4	-0.4
Poland	116,352	22.5	-2,539	1,502	825	-4,775	-4,987	-2.1	1.3	0.7	-3.9	-4.1	-0.5	0.3	0.2	-0.9	-1.0
Romania	44,054	23.2	-157	-1,662	-1,542	-1,834	-5,195	-0.3	-3.4	-3.3	-4.0	-10.5	-0.1	-0.9	-0.8	-1.0	-2.7
Russia	173,742	8.3	-8,037	-1,233	-11,083	-291	-20,644	-4.1	-0.7	-6.0	-0.2	-10.6	-0.4	-0.1	-0.5	0.0	-1.0
Serbia	8,791	20.7	-295	-180	-37	-196	-708	-3.1	-2.0	-0.4	-2.2	-7.5	-0.7	-0.4	-0.1	-0.5	-1.7
Slovakia	27,928	29.2	1,375	-320	-4,479	2,249	-1,175	4.7	-1.0	-14.9	8.8	-4.0	1.4	-0.3	-4.7	2.3	-1.2
Slovenia	17,577	37.5	-2,025	-989	-872	-1,001	-4,887	-9.0	-4.8	-4.5	-5.4	-21.8	-4.3	-2.1	-1.9	-2.1	-10.4
Turkey	187,550	22.9	4,561	-5,166	3,071	-5,316	-2,850	2.4	-2.6	1.6	-2.8	-1.5	0.6	-0.6	0.4	-0.6	-0.3
Ukraine	14,034	7.9	-1,830	290	543	-1,508	-2,505	-11.1	2.0	3.6	-9.7	-15.1	-1.0	0.2	0.3	-0.8	-1.4
CESEE 1/	777,637	16.7	-9,926	-10,573	-12,258	-15,982	-48,739	-1.2	-1.3	-1.5	-2.0	-5.9	-0.2	-0.2	-0.3	-0.3	-1.0
Emerging Europe 2/	663,023	15.6	-9,041	-9,832	-10,953	-14,306	-44,132	-1.3	-1.4	-1.6	-2.1	-6.2	-0.2	-0.2	-0.3	-0.3	-1.0
CESEE ex. RUS & TUR	416,345	23.9	-6,450	-4,174	-4,246	-10,375	-25,245	-1.5	-1.0	-1.0	-2.4	-5.7	-0.4	-0.2	-0.2	-0.6	-1.5

Sources: BIS and IMF staff calculations.

1/ All countries listed above. 2/ CESEE excluding the Czech Republic, Estonia, Latvia, Slovakia, and Slovenia.