EBCI Vienna Initiative

Joint Press Release

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Credit growth returns to CESEE region on basis of robust growth and improving NPL situation, new Vienna Initiative publications show

Credit growth is picking up in central, eastern and south-eastern Europe (CESEE) on the back of a robust economic recovery and an improving non-performing loan (NPL) situation, according to the latest studies by the Vienna Initiative.

The latest **Deleveraging and Credit Monitor** finds that total credit to the private sector in CESEE expanded at 8 per cent year-on-year in February 2018, in line with strong real GDP and investment growth.

Lending to both households and non-financial corporations is increasing, although corporate credit growth continues to be sluggish. While domestic deposits remain the main source of bank funding, CESEE banks resumed tapping into foreign funding sources in 2017.

According to the report, deleveraging of Western banks in the region seems to have come to an end, with their exposure vis-à-vis the region remaining stable in 2017 at about US$ 630 billion. This corresponded to 15 per cent of the region’s GDP, down from the peak of 21 per cent of the region’s GDP in the third quarter of 2008.

Foreign bank funding remains significantly below pre-crisis levels in most countries, except in Albania, the Czech Republic, FYR Macedonia, Montenegro and Turkey.

At the same time, the most recent **NPL Monitor for the CESEE region**, published in May 2018, shows a further improvement of NPLs with volumes reaching their lowest level in seven years at €42.8 billion as of 30 September 2017. This marked a 15.9 per cent decrease year-on-year.

The NPL ratio average for the CESEE region stood at 5.3 per cent, down by 1.4 percentage points year-on-year. However, a large variation between countries remains with NPL ratios ranging from 0.7 per cent (Estonia) to 14.8 per cent (Albania). In five of the 17 CESEE countries the NPL ratios remained persistently high at over 10 per cent (Albania, Bosnia and Herzegovina, Bulgaria, Croatia and Serbia), although all of them recorded improvements in 2017.

The reduction in the NPL volume across the region was primarily attributable to decreases in the NPL stock in Poland (€12.2 billion), Czech Republic (€5.2 billion), Bulgaria (€4.8 billion), Romania (€4.6 billion) and Croatia (€4.4 billion). The largest drop in the NPL ratio year-on-year was registered in Serbia, Albania and Hungary, with a drop of 7.3, 6.5 and 4.2 percentage points, respectively.

In addition to continuing NPL sales, the growth recovery and structural reforms, such as stricter write-off policies and better NPL resolution procedures, further helped NPL resolution in the region. While significant disparities remain between countries, most jurisdictions have continued to implement reforms to resolve remaining impediments to NPL resolution and sales.

Moreover, European Union (EU) regulators have been active in introducing a broad range of new initiatives. These are expected to put further pressure on CESEE countries in the EU and accession countries, to align with European best practices.

The **CESEE Bank Lending Survey,** covering the period October 2017 to March 2018, shows positive developments in the credit market. Banking groups consider their positioning in the region to be either improving or stabilising, on the back of brighter profitability performances.

Regional supply conditions improved, but still lagged behind very robust demand. Survey-based qualitative and quantitative indicators continue to progress, thus signalling further support to already-positive aggregate net credit extensions.

Specifically, banking groups' strategies are tilted towards a selective expansion in the CESEE region. Accordingly, a large majority of international groups described profitability of their regional operations as being higher than that of the overall group.

For the first time since the inception of the survey, groups have signalled a tentative increase in the aggregate groups' exposures to the CESEE region. CESEE banks continue to report an increase in demand for credit, marking the 10th consecutive half-year of positive developments; and supply conditions have eased visibly for the second time in a row over the past six months.

Access to funding has continued to ease in the CESEE region, with IFIs' funding contributing positively. Consistently with the NPL Monitor, the Bank Lending survey finds that self-declared NPL ratios continued to improve.

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