Joint Press Release

November 29, 2017

CESEE region sees steady progress in bank lending, improving access to finance and NPL resolution, new Vienna Initiative publications show

Demand for credit increased in central, eastern and south-eastern Europe (CESEE) in the six months to September 2017 and supply conditions eased, according to the latest Bank Lending Survey (BLS) produced by the Vienna Initiative.

The report also showed that international banks were distinguishing among CESEE countries on the basis of local operations' returns, market potential and positioning. With the regional outlook improving, expectations of future selective strategic expansions are on the rise.

Non-performing loans (NPLs) in the region continued to decline, partly as a result of improvements in regulatory frameworks facilitating NPL resolution and sales. The secondary market for NPLs remained relatively active despite a drop in recent transactions.

The momentum created by EU regulators in 2017 in tackling more effectively the NPL challenges in Europe is expected to have positive spillover effects on adjacent CESEE countries, increasing the sense of urgency to align with best practices.

The latest **Deleveraging and Credit Monitor**[1] finds that the external position of banks reporting to the Bank for International Settlements (BIS) in CESEE has improved somewhat in the first half of this year. The improvement is mainly a result of stronger foreign-bank funding for the region, despite reductions in foreign funding for some countries. Outside the Commonwealth of Independent States (CIS), credit accelerated, with loans to households recovering firmly in almost all the CESEE countries.

The Vienna Initiative, founded at the height of the global financial crisis of 2008-09 as a public-private sector platform to support banking sectors in CESEE, now works on specific financial sector problems in the region, including NPLs, the impact of regulatory reform, and capital market developments. For additional information and the latest publications visit: http://www.vienna-initiative.com.

The latest CESEE **Bank Lending Survey,**[2] covering the period from March 2017 to September 2017, shows that banking groups have continued some restructuring of their global activities, although less intensively than in 2013-16, achieving capital increases mainly via sales of assets and branches.

Moreover, more banking groups have been releveraging than deleveraging. Banking groups' strategies for the future seem to be tilted towards a selective expansion in the CESEE region as a large majority of international groups described the return on assets of CESEE operations to be higher of that for the overall group. CESEE subsidiaries and local banks report an increase in demand

[1] A full report on developments in the second half of 2017 is now available on the Vienna Initiative webpage.

[2] A full report, including country chapters, on the release of the survey for the second half of 2017 is now available on the European Investment Bank website (http://www.eib.org/infocentre/publications/all/cesee-bls-2017-h2.htm) and on the Vienna Initiative webpage

for credit as well as an easing of supply conditions over the past six months. This marks the first clear-cut easing event over the past two years.

Nevertheless, a perceived gap between demand and supply still persists. Demand for loans and credit lines continued to increase, marking the ninth consecutive positive semester. Working capital accounted for a good part of the demand stemming from enterprises. Contributions to demand from investment also exerted a significant positive impact, scoring increasingly higher than in previous releases of the survey and pointing at a strengthening of the economic cycle.

Lastly, debt restructuring contributes less and less to propelling demand. Contributions to demand from housing-related and non-housing-related consumption also remained robust and positive and consumer confidence continues to exert a positive effect.

Supply conditions eased over the past six months, and this is the first significant easing over the past two years. Across the client spectrum, supply conditions (credit standards) eased on lending and consumer credit for small and medium-sized enterprises, while they tightened on mortgages. However, domestic regulatory environments, domestic banks' capital constraints, and groups' NPLs and global market outlook are still partially constraining supply conditions. Starting from high NPL levels, credit quality has continued to improve, and is expected to continue to do so over the next six months. Over the past six months, and for the sixth time, aggregate regional NPL ratios recorded an improvement in net balance terms.

The latest NPL Monitor report produced for the Vienna Initiative shows that non-performing loans in CESEE continued to decline in the 12 months to the end of 2016, benefiting from improvements in the regulatory environment for impaired credits and in the secondary market for bad debt.

NPLs have been a major burden on CESEE economies and an impediment to recovery in the region from the global financial crisis.

The report showed a decline in the regional NPL ratio to the end of 2016 to 6.2 per cent, down 1.5 percentage points from a year earlier.

The remaining stock of NPLs in the region had fallen a sharp 18.1 per cent to €46.5 billion, representing around 3.8 per cent of GDP.

The report warned that NPL ratios in the region remain persistently high for many countries, exceeding 10 per cent in 6 of the 17 CESEE countries. However, it said that none had a ratio above 20 per cent.

It also pointed to expected further regulatory changes that would improve NPL resolution and the development of a more transparent NPL market.

Recent reforms included a new out-of-court restructuring framework in Hungary and the training of judges on insolvency in Croatia.

More remained to be done to resolve the ongoing regulatory, legal and tax impediments in many of the CESEE countries.