EBCI Vienna Initiative

PRESS RELEASE

Deleveraging abating in emerging Europe amid regulatory and structural shifts

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The second wave of funding reductions by western banks vis-à-vis Central, Eastern, and South Eastern Europe (CESEE) that started in mid-2011 is petering out. However, funding reductions have not stopped in all countries of the region and remain significant in Hungary and Slovenia, according to the latest Deleveraging Monitor from the Vienna 2 Initiative Steering Committee.[1]

The report also noted that:

• Current ample global liquidity has not yet led to a return of cross-border lending to CESEE, reflecting the still significant balance sheet pressures of parent banks and subsidiaries alike as well as the continuing trend to rebalance the funding of CESEE subsidiaries toward local sources.

• Private sector credit remains generally anemic in the region as a result.

• The second round of the Vienna 2 Initiative's bank lending survey suggests that weak credit reflects both restrictive demand and supply factors. Among the latter, banks emphasize high non-performing loans over funding constraints as the key factor behind weak credit. At the same time, the results confirm that the drive to lower loan-to-deposit ratios and to rebalance CESEE subsidiaries' funding sources continues.

• Overall, the risks of deleveraging becoming disorderly have receded. However, given the high degree of uncertainty about the optimum level of foreign funding and loan-to-deposit ratios in the region in the medium-term, further substantial funding adjustment cannot be ruled out, which calls for continued vigilance of the deleveraging process.

In addition, Steering Committee Chair and National Bank of Poland President Marek Belka submitted suggestions and remarks on the evolving Banking Union project to the leaders of European institutions on behalf of a Vienna 2 Initiative working group.[2] The document focuses on the project's impact on host countries in emerging Europe. It stresses that a geographically inclusive and fully-fledged banking union, incentivised with appropriate conditions for participation is in the interest of all cross-border group stakeholders - home and host authorities and banks - in Europe's deeply integrated financial markets.

[1] The EBRD, EIB, IMF, World Bank Group, and European Commission are members of the Steering Committee as well as Italy, Romania, and Albania which represent home and host authorities respectively. The Committee is chaired by Marek Belka, President of the National Bank of Poland.

[2] The European Commission and the European Investment Bank were observers in the Working Group on the Banking Union and may have different views on the issues addressed in this document.

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