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Foreign banks' funding to Emerging Europe increased for the first time since 2011

The fall in foreign bank's funding to countries in Eastern Europe may be bottoming out. A new report from the Vienna Initiative committee released today shows that foreign bank funding to Central, Eastern and Southeastern Europe (CESEE) countries, excluding Russia and Turkey, rose in the second quarter of 2015 for the first time since 2011.

Overall, funding for the group of 21 countries[1] shrunk by 0.3 percent of GDP in the second quarter, which was less than the 0.5 percent in the first quarter. Excluding Russia and Turkey, which have recently undergone significant turbulence, exposure rose by 0.1 percent of GDP, driven by strong increases in Czech Republic and Poland (over 1 percent of GDP for each country). According to banks reporting to the Bank of International Settlements, inflows also increased in Estonia, FYR Macedonia, and Moldova, but fell in the majority of countries. Funding fell sharply for Turkey (by 0.5 percent of GDP), reflecting rising political uncertainties; and also for Russia (by 0.5 percent of GDP, though the decline is smaller than in the first quarter).

A split picture for credit growth continued across the region. A few Emerging European countries, such as the Czech Republic, Estonia, FYR Macedonia, Poland and Turkey, are experiencing positive growth in credit to the private sector, including both non-financial corporations and households. In contrast, credit growth has remained weak or has contracted in the rest of the region. The strength of credit recovery is in part linked to the progress in the private sector balance sheet repair as reflected in asset quality of loans held by CESEE banks.

The latest CESEE bank lending survey suggests deleveraging at the group level has significantly decelerated: only about a fifth of the banking groups expect a decline in loan-to-deposit ratios, while over 60 percent plan to selectively expand operations in the region. Subsidiaries and local banks report an increase in demand for credit and almost unchanged supply conditions over the past six months.

[1] Albania, Belarus, Bosnia-Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Turkey, Ukraine.

The CESEE Deleveraging and Credit Monitor is prepared by the staff of international financial institutions taking part in the Vienna Initiative's Steering Committee. It is based on the BIS's International Banking Statistics published on October 21, 2015.

The Vienna Initiative was established at the height of the global financial crisis of 2008/09 as a private-public sector platform to secure adequate capital and liquidity support by Western banking groups for their affiliates in Central, Eastern, and South Eastern Europe (CESEE). It was relaunched as "Vienna 2" in January 2012 in response to renewed risks for the region from the Euro zone crisis.

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