



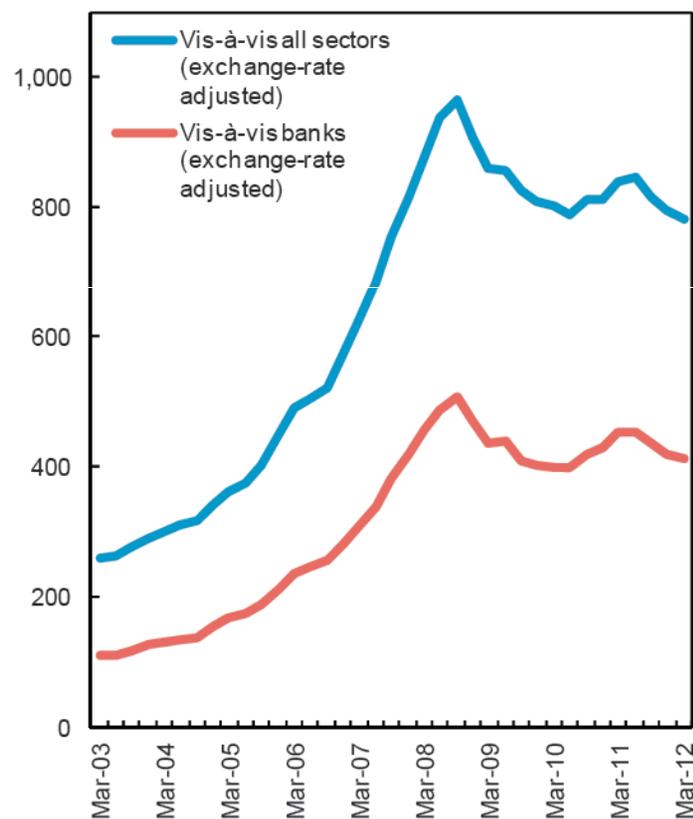
Update on European Deleveraging

Bas Bakker and Debora Revoltella

Since fall 2008, external position of BIS-reporting banks vis-à-vis CESEE has seen significant decline

Figure 1. CESEE: External Position of BIS-reporting Banks, 2003:Q1-2012:Q1

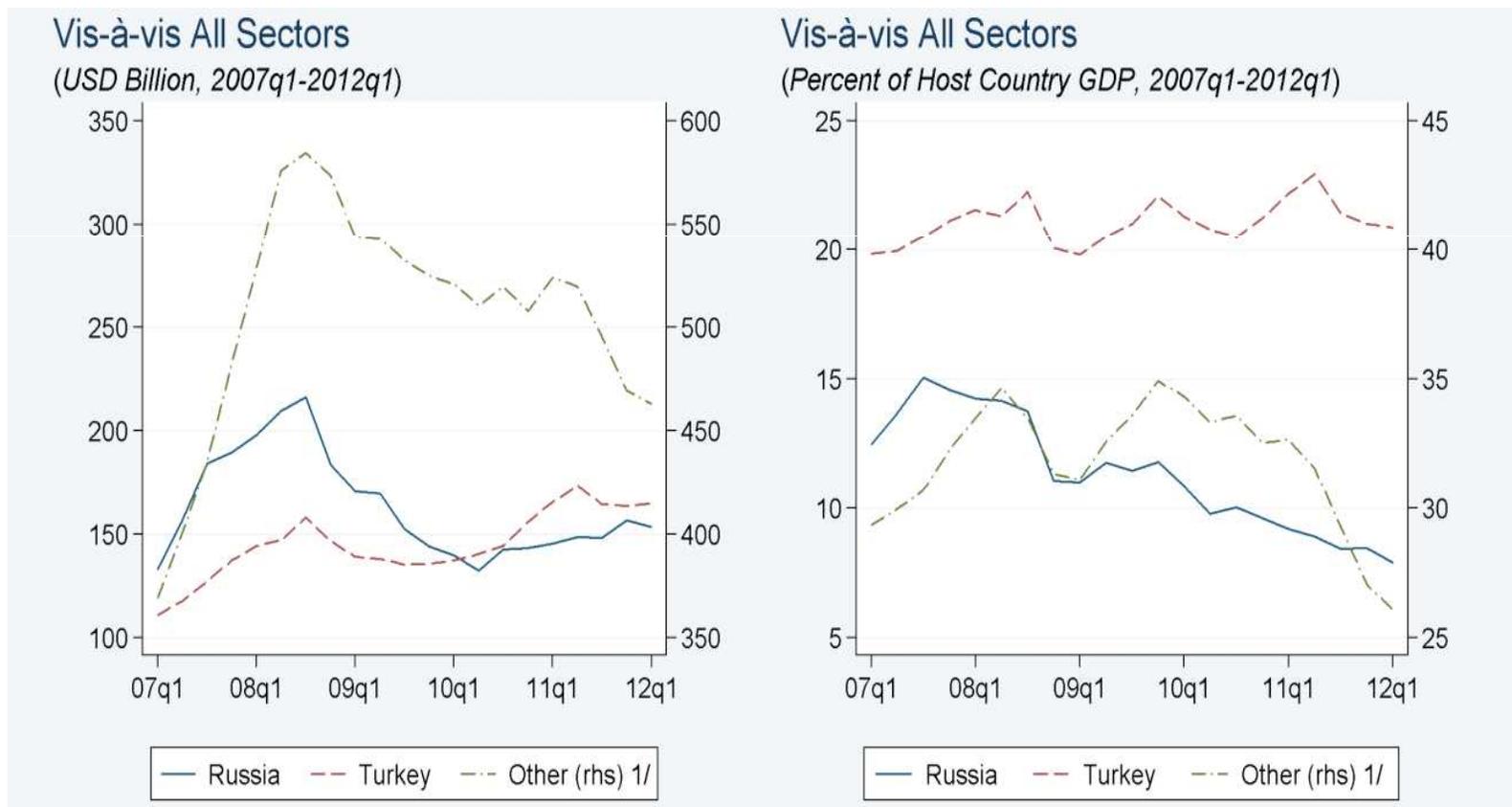
(Billions of US\$)



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

Decline is particularly notable if Turkey and Russia are excluded

Figure 1. External Position of BIS reporting banks vis-à-vis CESEE
(exchange rate changed adjusted)



Decline came in two phases

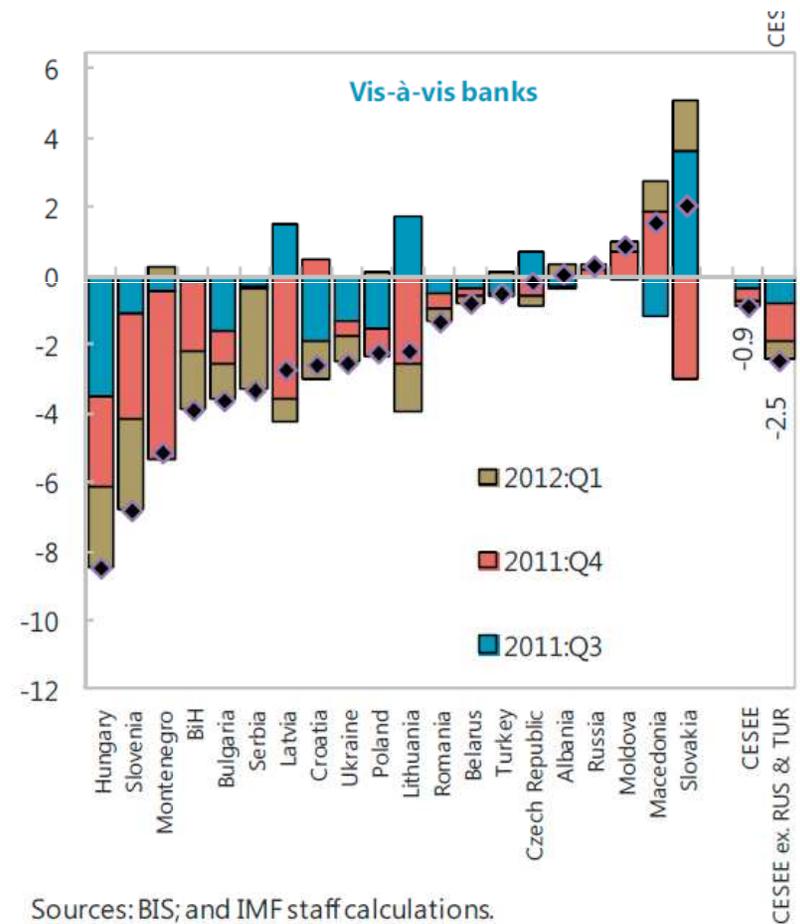
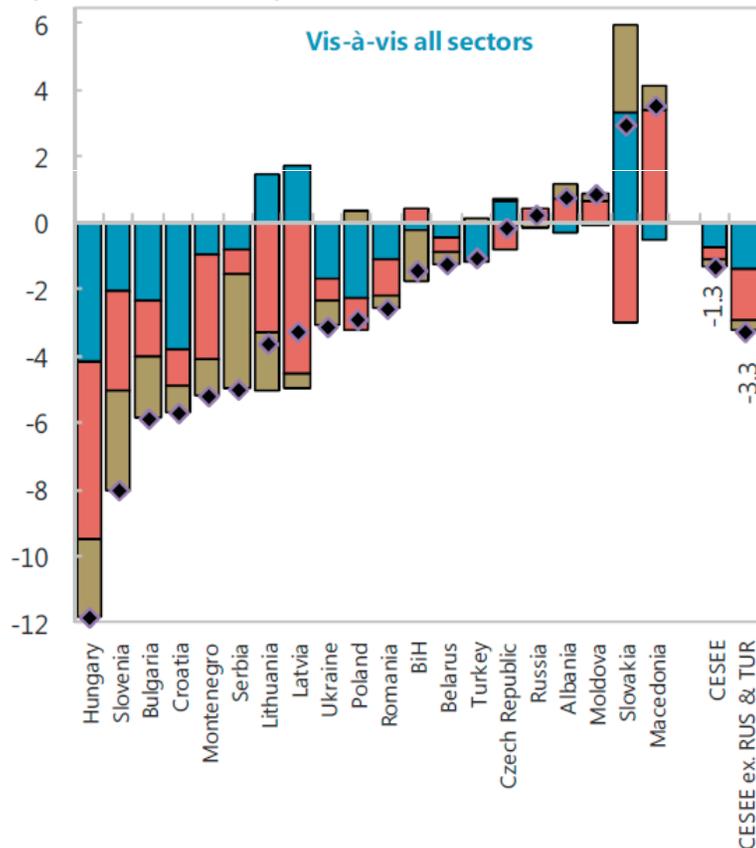


- First phase after Lehman, which stopped in early 2010
- Second phase starting in mid 2011
 - Intensifying funding strains in the markets as euro area crisis expanded to core euro area banks
 - Regulatory and market pressures to improve capitalization
 - Weak credit demand

Cross-border deleveraging since mid-2011 has been significant—particularly in some countries

Figure 2. CESEE: Change in External Positions of BIS-reporting Banks, 2011:Q3-2012:Q1*

(Percent of 2012 GDP)

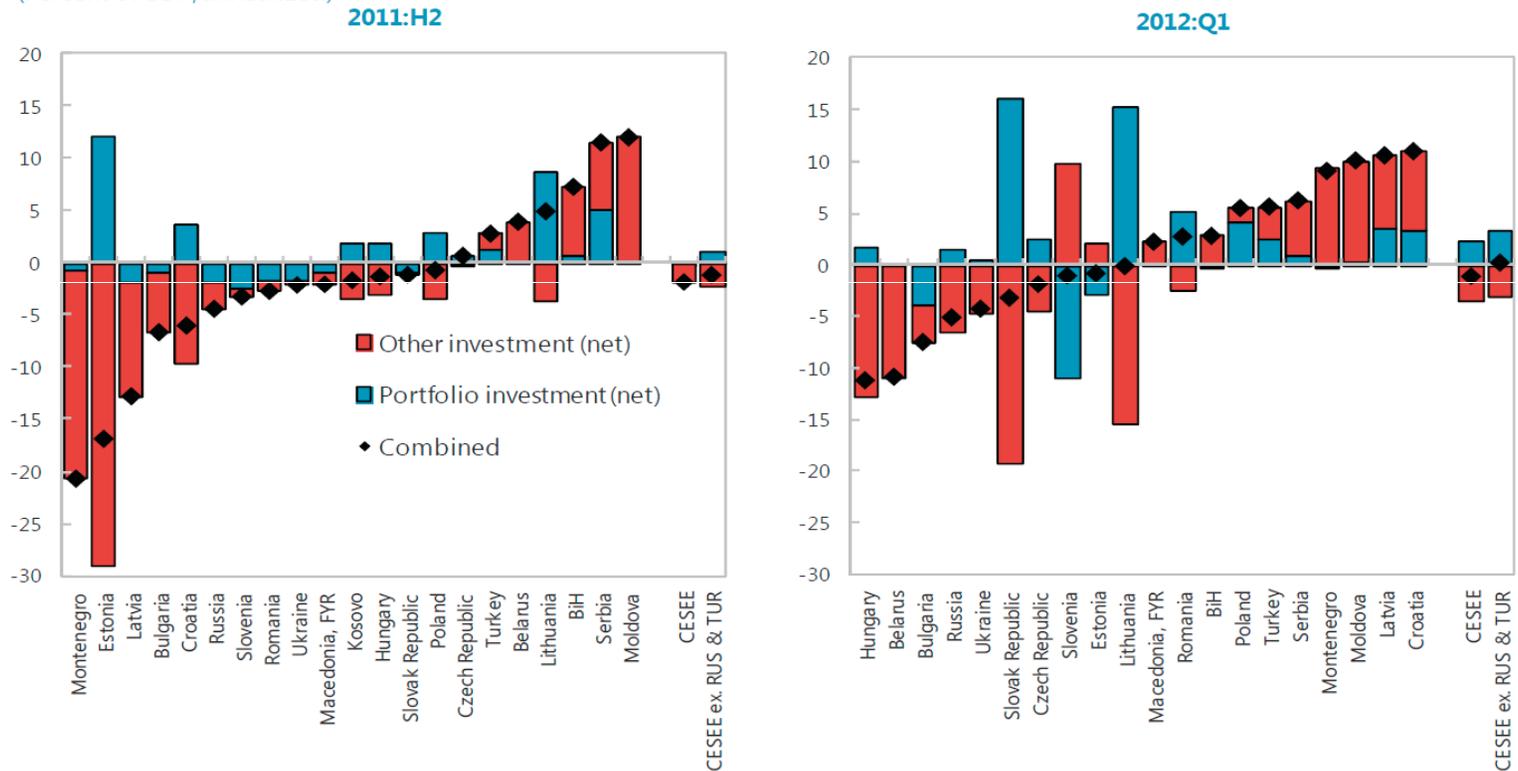


Sources: BIS; and IMF staff calculations.
* Data for Estonia not separately shown.

... leaving deep marks on BoPs ...

Figure 6. CESEE: Capital Flows in the Balance of Payments

(Percent of GDP, annualized)

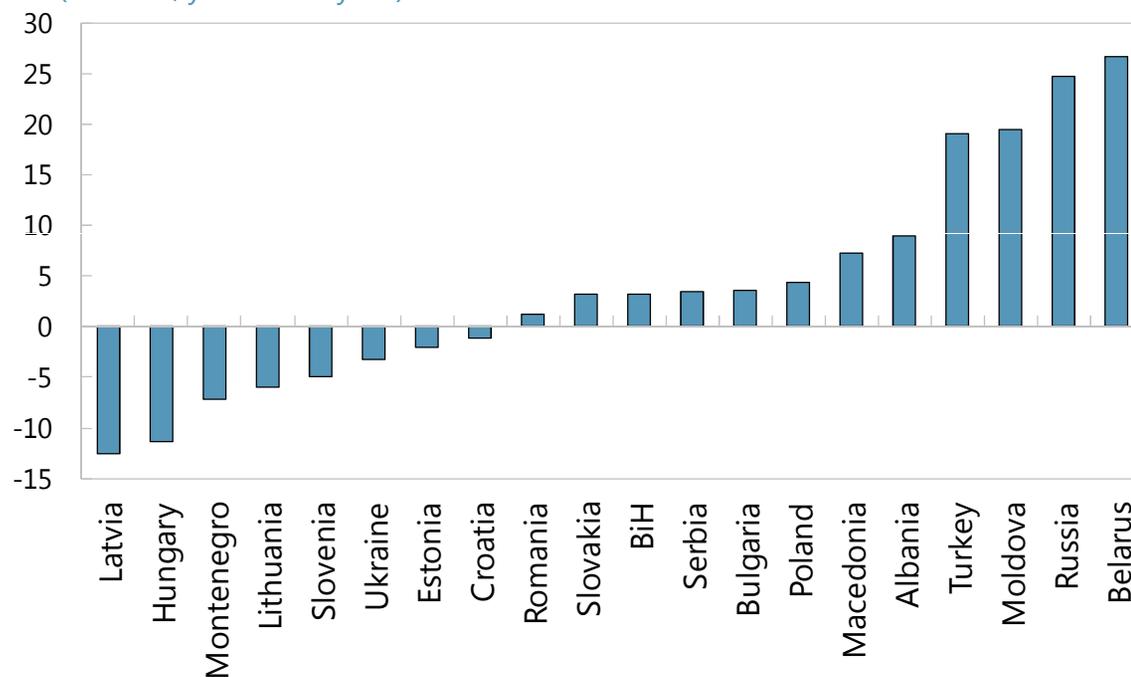


Sources: Haver Analytics; IMF, World Economic Outlook database, and IMF staff calculations.

... and slowing credit growth, although ...

Figure 7: Nominal Credit Growth, July 2012*

(Percent, year-over-year)



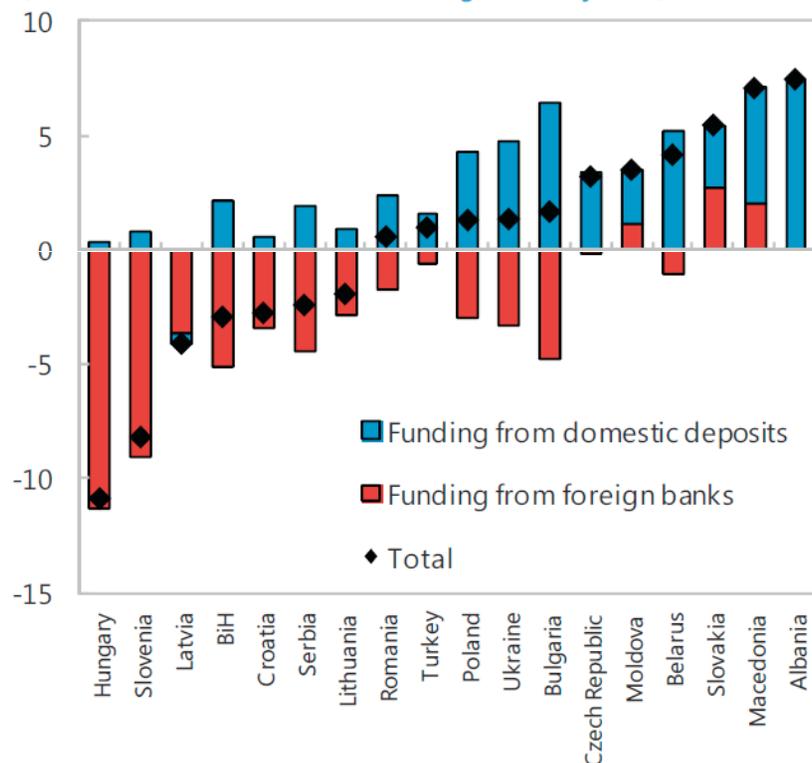
Source: EBRD staff calculations.

* Albania, BiH, Croatia, Macedonia, Russia, Serbia, and Turkey: June 2012.

... foreign funding pressures were partially offset by domestic deposit growth

Figure 8: Change in Banks' Funding Sources, 2011:Q3-2012:Q1

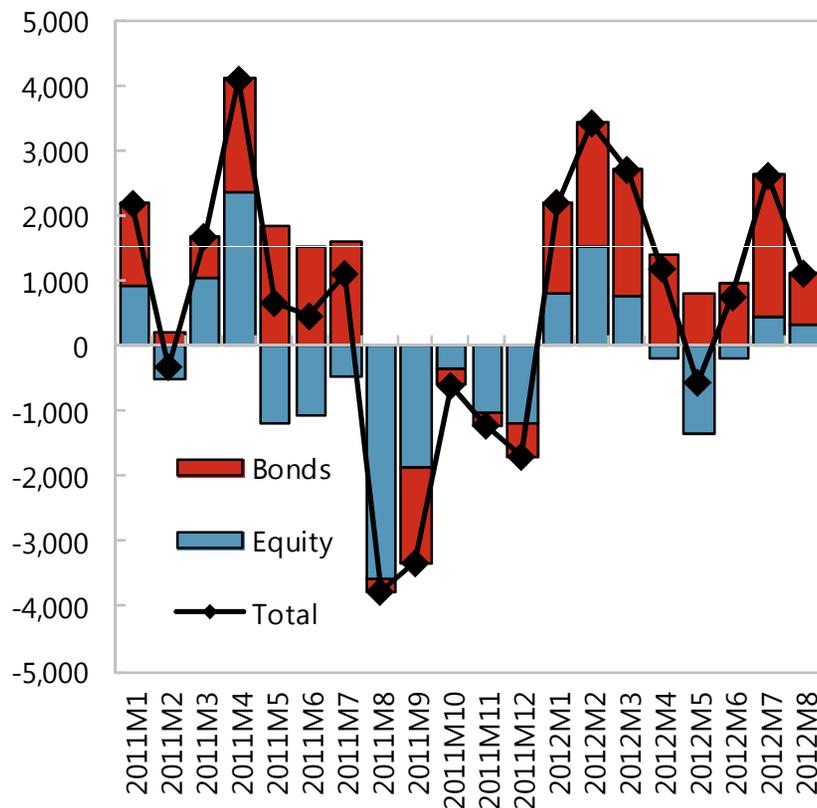
(Percent of GDP annualized, exchange-rate adjusted)



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

In early 2011, ECB's LTROs brought relief to emerging market sentiment

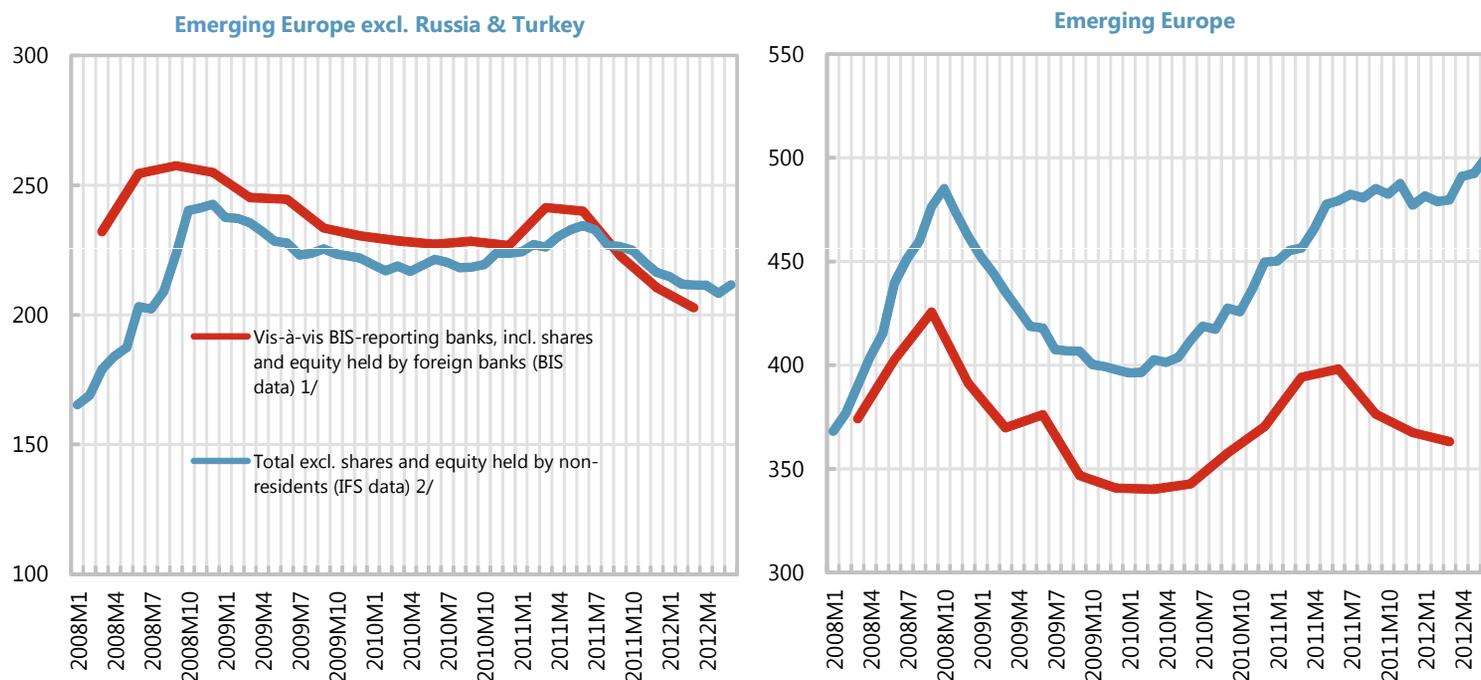
Figure 3. Emerging Europe: Flows into Dedicated ETFs and Mutual Funds, Jan. 2011 - Aug. 2012
(Millions of US\$)



Source: EPFR, equity and bond country flows.

Q2 bank data suggest that deleveraging has leveled off for now

Figure 4. External Liabilities of Banks, 2008:M1-2012:M6
(Billions of US\$)



1/ BIS-reporting banks' claims on banks in emerging Europe (exchange-rate adjusted).

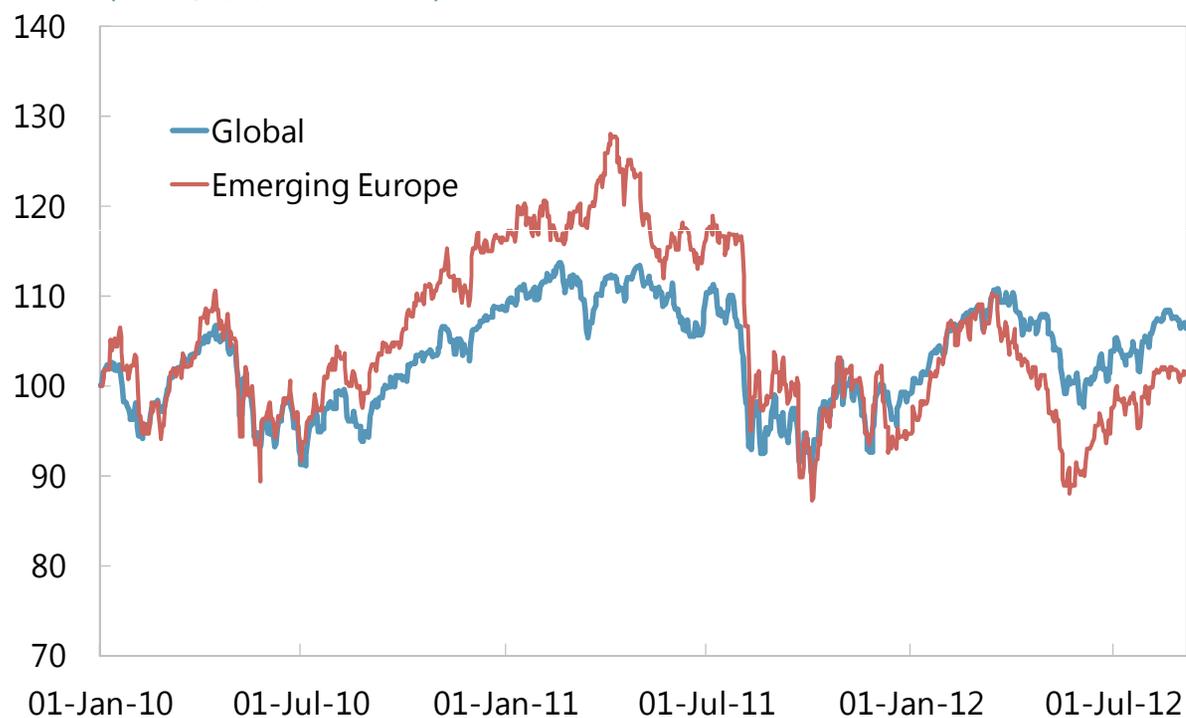
2/ Other depository institutions' liabilities to non-residents (exchange rate adjusted).

Sources: BIS, Locational Statistics; IMF, International Financial Statistics (IFS); and IMF staff calculations.

... and financial markets rallied over the summer following “whatever it takes”

MSCI Equities

(Index, 1/1/2010 = 100)

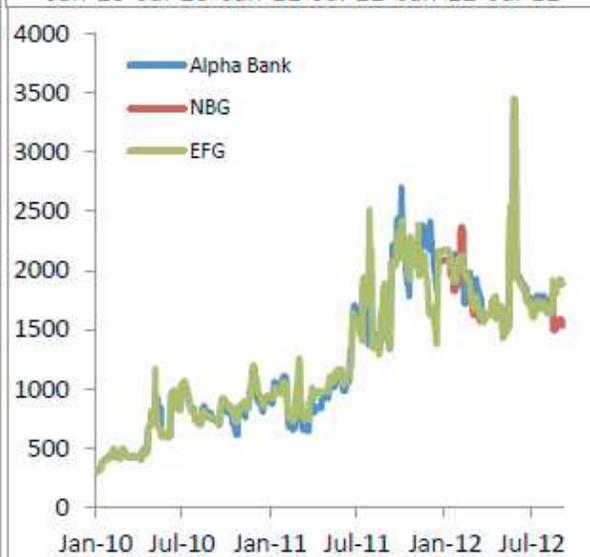
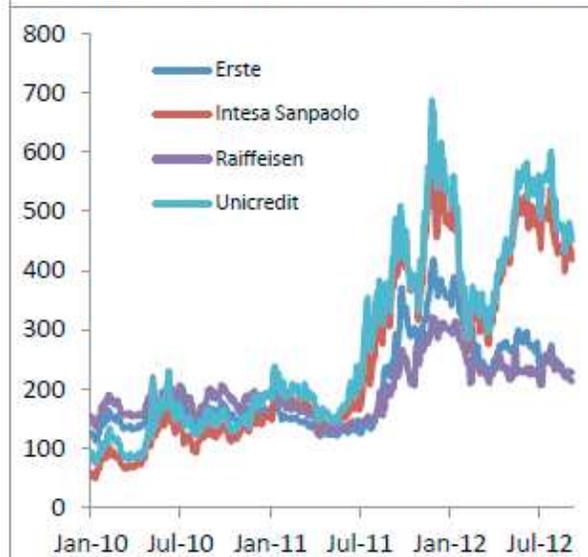
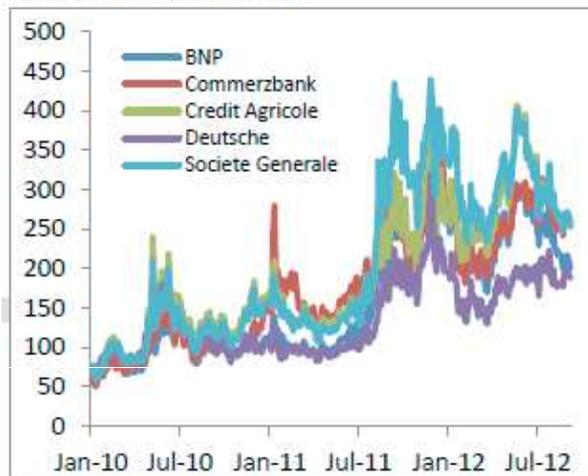


Source: Bloomberg.

... and financial markets rallied over the summer following “whatever it takes”

Bank Credit Default Swap Spreads

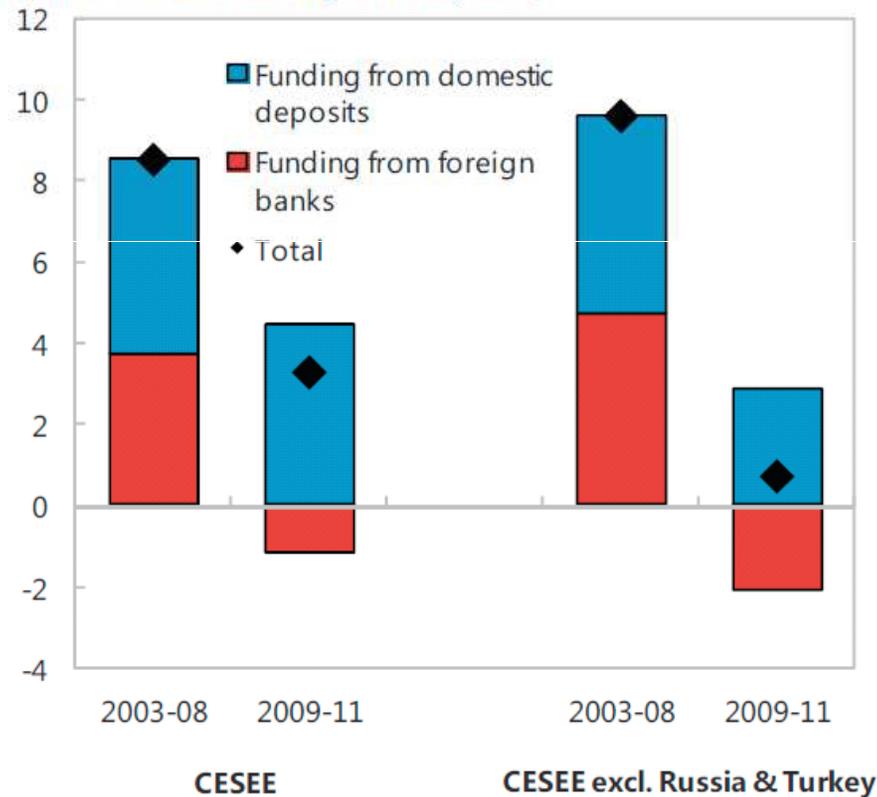
(basis points, 5-year tenors)



Trend of tight parent bank funding likely to continue and downside risks remain

Figure 9. CESEE: Change in Banks' Funding Sources

(Percent of GDP, exchange-rate adjusted)



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

Economic impact through credit is a key concern but disentangling supply and demand factors is difficult

- Is reduction in cross-border exposure result of weak credit demand?
- Or is weak credit the result of tight *supply* of credit, and desire of banks to reduce cross-border exposure
- Both observationally equivalent

Survey on bank lending and underlying driving factors

- A **conjunctural** bank lending survey addressing topical questions on credit developments and underlying factors. Aim of the survey:
 - To understand the **driving factors of demand and supply** and their impact on credit availability
 - Disentangle potential **strategic decisions of parental banks** impacting on local banks operations
 - Apprehend how global and local macro/financial determinants impact on **banks' funding, credit standards**, etc.

Survey on bank lending and underlying driving factors

- Survey addresses parental banks with a view to **understand local bank behaviors in CEE-SEE countries** and to be administered on a semi-annual basis
- Most of the questions structured with a **backward and a forward looking component** (i.e. past/next 6 months)
- Questions on demand and supply factors investigate **several dimensions** in the total credit portfolio (e.g. type of debtor, maturity, currency)

Survey on bank lending and underlying driving factors

- Questions cover a broad range of topics on **past/future developments** in:
- **Supply**
 - Bank's credit standards as applied to the approval of loans or credit lines
 - Bank's conditions and terms for approving loans or credit lines
 - Factors affecting bank's credit standards (e.g. domestic, international factors, etc.)
 - Parents' constraints and other factors affecting funding
- **Demand**
 - Factors affecting demand
 - Demand for loans (by different recipients' types)

Survey on bank lending and underlying driving factors

- Timing for the development of the survey
 1. So far...
 - a. We have designed an **initial the survey**
 - b. Got already a **first commenting round** and consolidated comments
 2. **Final draft** survey by end-September
 3. Set-up **conference calls** to talk banks through the survey
 4. **Post-production**
 - a. Initial draft indications of the results for the plenary meeting of November
 - b. Run survey permanently on a semi-annual basis