

EBCI

# Vienna Initiative



## CESEE DELEVERAGING AND CREDIT MONITOR<sup>1</sup>

January 26, 2015

### Key developments in BIS Banks' External Positions and Domestic Credit

*BIS reporting banks reduced their external positions vis-à-vis Central, Eastern and Southeastern Europe (CESEE) in 2014:Q3 by 0.3 percent of GDP slightly faster than in 2014:Q2, while BoP data for the same period show that related capital flows held up better. Credit growth remained positive in November 2014, but was concentrated largely in Turkey, Russia, and Poland, with anemic growth in most other countries. Deposit growth continued to more than offset the reductions in foreign bank funding in most countries.*

- In 2014:Q3, BIS reporting banks reduced their external positions vis-à-vis CESEE countries by 0.3 percent of GDP (compared to 0.1 percent of GDP in 2014:Q2) (Figure 1, Table 1). The pace of decline is similar to the pace seen at end 2013 and early 2014. Excluding Russia and Turkey, external positions of BIS reporting banks vis-à-vis the region declined by 0.4 percent of GDP (same as in 2014:Q2). The cumulative reduction in BIS reporting banks' external position since 2008:Q3 amounted to 4.9 percent of CESEE regional GDP, and excluding Russia and Turkey, 11.3 percent (Figure 2). The BIS consolidated banking statistics showed a similar trends: change in BIS reporting banks' consolidated foreign claims to the region declined by about 8 percent in 2014:Q3 relative 2014:Q2, similar to the change in stock of external positions (7 percent), and excluding Russia and Turkey, the decline is 10 percent (compared to 8 percent for the change in external positions).<sup>2</sup>
- Funding reductions by BIS reporting banks took place across the region in varying degrees, with the exception of Slovakia, Montenegro, and Turkey (Figure 3, Table 1). Croatia, Hungary, and Lithuania saw notable declines in 2014:Q3—exceeding 1 percent of GDP, with Croatia

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<sup>1</sup> Prepared by the staff of the international financial institutions participating in the Vienna Initiative's Steering Committee. This note is based partly on the BIS International Banking Statistics released on January 20, 2015.

<sup>2</sup> The change in foreign claims (immediate risk basis) is not adjusted for exchange rate changes, as is the change in the stock of external positions.

leading by a drop of 2.7 percent of GDP.<sup>3</sup> The extent of decline between bank and non-bank claims varied by country, but for the region as a whole, the contraction was more in claims on non-bank borrowers than in claims on banks (relative to respective Q2 stocks) which mirrored weak credit growth for corporates across the region (Figure 4, Table 2, see below).

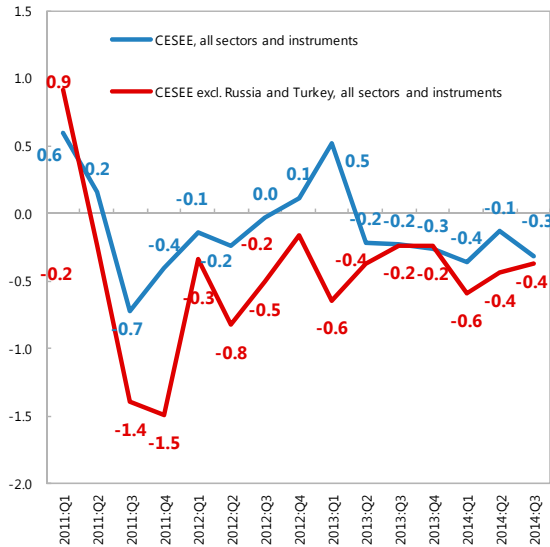
- Balance of payments statistics painted a somewhat more benign picture than the BIS data. For a number of CESEE countries, other investment flows (apart from FDI and portfolio flows—and corresponding most closely to the coverage in BIS data) showed an increase or less of a decline than BIS data in 2014:Q3, and total flows to the region remained positive (Figure 5a&b).
- Domestic credit growth for the region decelerated but remained positive in November 2014. However, growth is still largely concentrated in Turkey (18 percent), Russia (12 percent, y-y), and Poland (5 percent)—the region’s largest economies (Figure 6 and 7), while credit has been contracting or remained anemic in most other countries. Credit contracted sharply in November 2014 in Ukraine (-14 percent) as economic conditions deteriorated, and in Bulgaria (-7.7 percent) and Serbia (-6.4 percent) reflecting a significant decline in credit to corporates. Outside the CIS and Turkey, overall domestic credit grew mainly on account of growth in credit to households. For CIS and Turkey, growth was strong for both households and corporates (except for Ukraine).
- Domestic deposits for CESEE, excluding Russia and Turkey, increased moderately in Q3 by 1.8 percent of GDP (y-o-y, compared to 1.7 percent in Q2) (Figure 8). While deposits grew in most countries and stabilized in Hungary, deposit outflows accelerated in Ukraine—now exceeding 11 percent of GDP for 2014Q2-Q3. Although the rate of deposit growth slowed in the region in 2014, in 2014:Q3, the increase continued to more than offset the decline in foreign bank funding for most countries except for Ukraine, Croatia, Latvia, and Hungary compared to a year ago.
- Nonetheless, a recent survey indicates that due to rising NPLs and continued tightening in credit standards, the improvement in overall lending conditions slowed in 2014:Q3 (Figure 9).<sup>4</sup> Some deceleration in trade finance and weakening demand for corporate and consumer loans were observed as well.

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<sup>3</sup> In the case of Croatia, there is anecdotal evidence that parent banks stepped up efforts to repatriate liquid funds held by their subsidiaries in 2014:Q3.

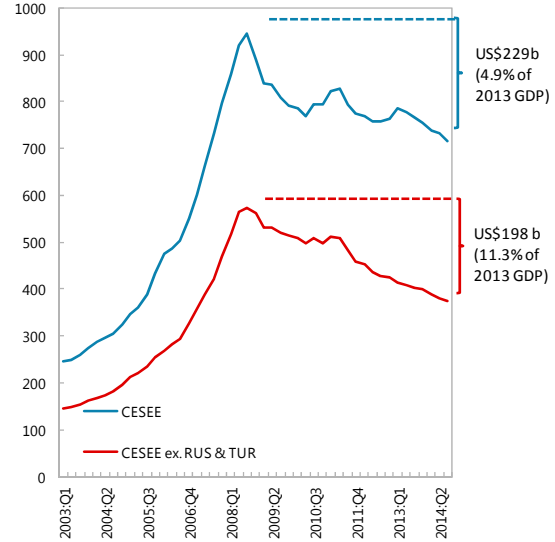
<sup>4</sup> See Institute of International Finance (IIF), “Emerging Markets Bank Lending Conditions Survey--2014Q3”, October 30, 2014.

**Figure 1. CESEE: Change in External Positions of BIS-reporting Banks, 2011:Q1–2014:Q3**  
(Percent of 2013 GDP, exchange-rate adjusted)



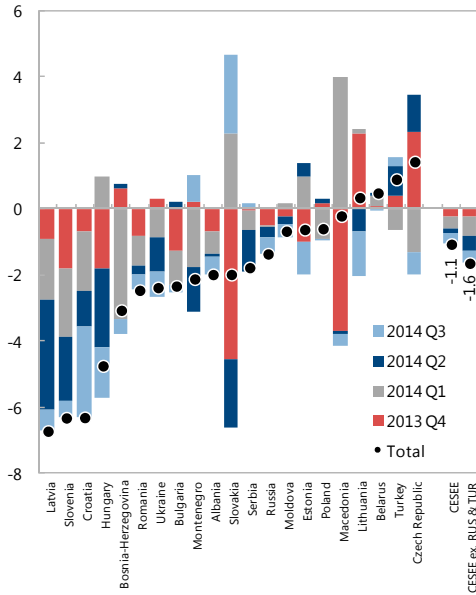
Sources: BIS, Locational Banking Statistics; IMF, World Economic Outlook database; and IMF staff calculations.

**Figure 2. CESEE: External Position of BIS-reporting Banks, 2003:Q1–2014:Q3**  
(Billions of US dollars, exchange-rate adjusted, vis-à-vis all sectors)



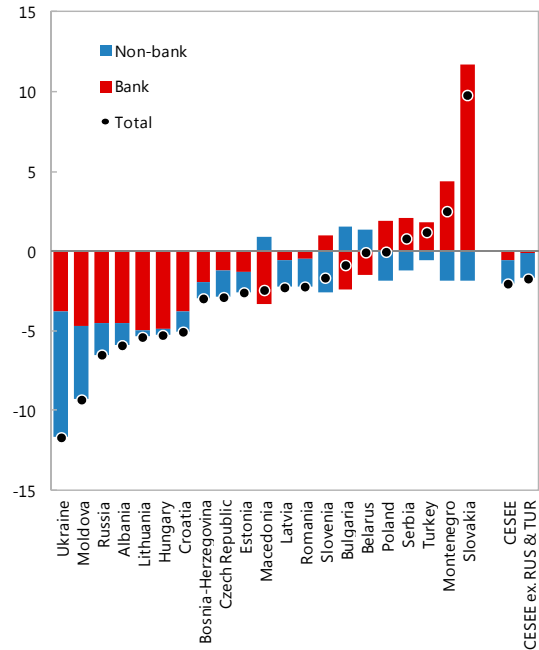
Sources: BIS, Locational Banking Statistics; IMF, World Economic Outlook database; and IMF staff calculations.

**Figure 3. CESEE: External Positions of BIS-reporting Banks, 2013:Q4–2014:Q3**  
(Percent of 2013 GDP, gross, vis-à-vis all sectors)



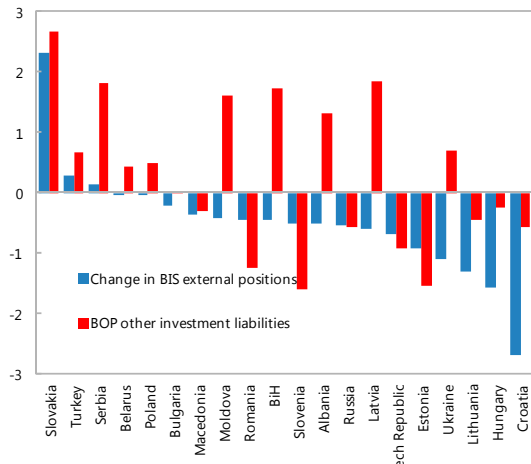
Sources: BIS, Locational Banking Statistics; IMF, World Economic Outlook database; and IMF staff calculations.

**Figure 4. CESEE: External Positions of BIS-reporting Banks, 2014:Q3**  
(Change, percent of 2014:Q2)



Sources: BIS, Locational Banking Statistics; IMF, World Economic Outlook database; and IMF staff calculations.

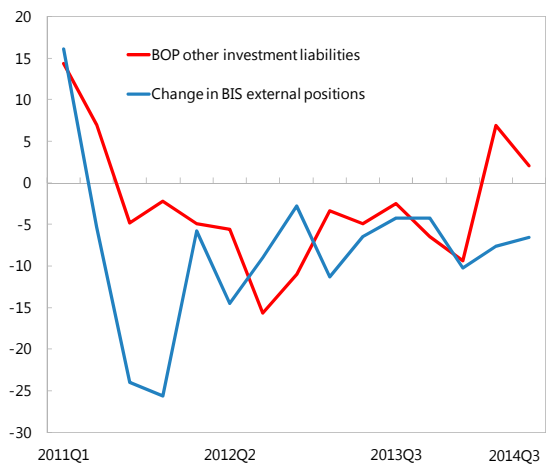
**Figure 5a. CESEE: Change in BIS External Positions and Other Investment Liabilities from BoP (2014:Q3, percent of GDP)**



Note: BoP other investment liabilities include investments other than FDI, portfolio investment, and financial derivatives, which includes loans and deposits, trade credit, etc. They correspond more closely in terms of coverage to BIS claims based on locational banking statistics.

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

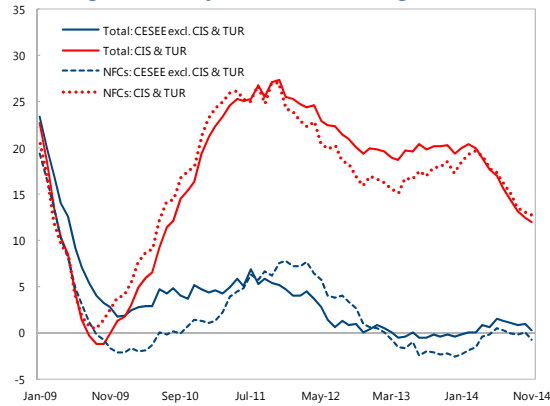
**Figure 5b. CESEE excl. Russia and Turkey: Change in BIS External Positions and Other Investment Liabilities from BoP (Billions of US dollars)**



Note: MNE, and SRB before 2012:Q1, are excluded, because data for BOP other investment liabilities are not available.

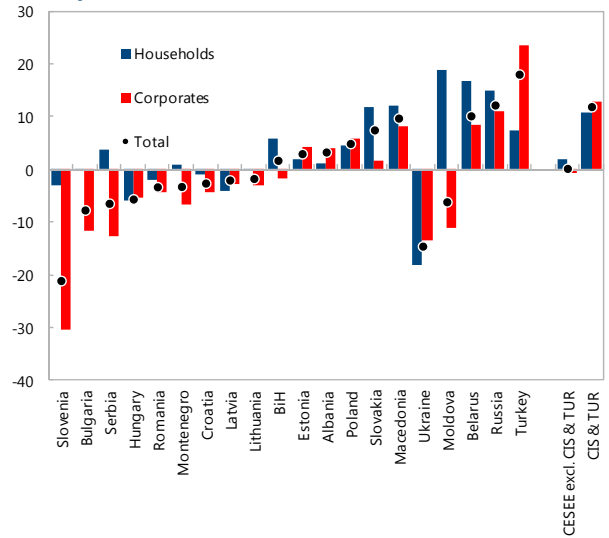
Sources: Haver Analytics; IMF, World Economic Outlook database; and IMF staff calculations.

**Figure 6. Credit to Private Sector, January 2009–November 2014 (Percent change, year-over-year, nominal, exchange-rate adjusted, GDP-weighted)**



Sources: National authorities; ECB; BIS; EBRD and IMF staff calculations. Note: October 2014 data is used for Slovenia because of data availability.

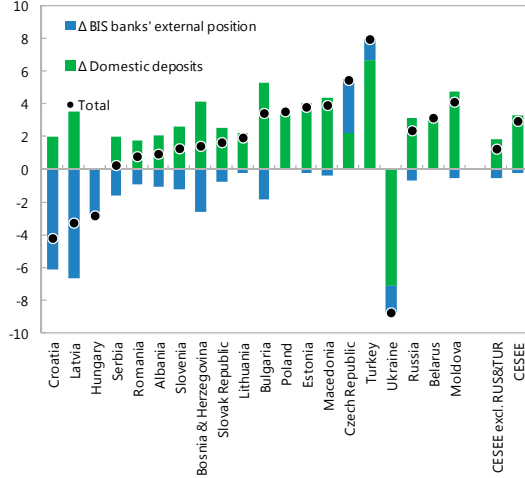
**Figure 7. Credit Growth to Households and Corporations, November 2014 (Percent change, year-over-year, nominal, exchange-rate adjusted)**



Sources: National authorities; ECB; BIS; EBRD and IMF staff calculations. Note: October 2014 data is used for Slovenia because of data availability.

**Figure 8. Main Bank Funding Sources, 2014:Q3**

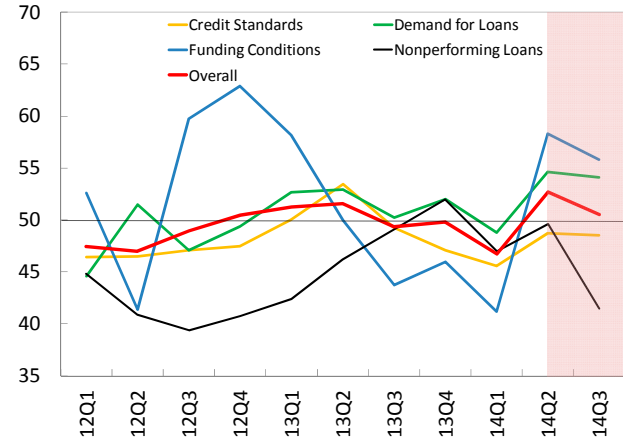
(Year-on-year change, in percent of GDP, exchange-rate adjusted)



Sources: BIS, Locational Banking Statistics; Haver Analytics; International Financial Statistics; and IMF staff calculations.

**Figure 9. EM Europe Bank Lending Conditions Survey, 2014:Q3**

(Values above 50 indicate improving conditions)



Source: IIF.

**Table 1. CESEE: External Position of BIS-reporting Banks, 2013:Q4 - 2014:Q3**  
(Vis-à-vis all sectors)

	2014 Q3 stocks		Exchange-rate adjusted flows (US\$m)					Exchange-rate adjusted stocks (% change)					Exchange-rate adjusted flows (% of 2013 GDP)				
	US\$m	% of 2013 GDP	2013 Q4	2014 Q1	2014 Q2	2014 Q3	Total	2013 Q4	2014 Q1	2014 Q2	2014 Q3	Total	2013 Q4	2014 Q1	2014 Q2	2014 Q3	Total
Albania	1,117	8.8	-87	-85	-11	-70	-253	-6.4	-6.6	-0.9	-5.9	-18.5	-0.7	-0.7	-0.1	-0.6	-2.0
Belarus	3,097	4.3	53	234	58	-2	343	1.9	8.3	1.9	-0.1	12.5	0.1	0.3	0.1	0.0	0.5
Bosnia-Herzegovina	2,788	15.6	105	-596	26	-85	-550	3.1	-17.3	0.9	-3.0	-16.5	0.6	-3.3	0.1	-0.5	-3.1
Bulgaria	14,121	26.6	-669	-565	117	-123	-1,240	-4.4	-3.8	0.8	-0.9	-8.1	-1.3	-1.1	0.2	-0.2	-2.3
Croatia	29,628	51.6	-389	-1,045	-614	-1,575	-3,623	-1.2	-3.2	-1.9	-5.0	-10.9	-0.7	-1.8	-1.1	-2.7	-6.3
Czech Republic	46,411	23.4	4,583	-2,612	2,232	-1,376	2,827	10.5	-5.4	4.9	-2.9	6.5	2.3	-1.3	1.1	-0.7	1.4
Estonia	9,082	36.5	-252	237	100	-241	-156	-2.7	2.6	1.1	-2.6	-1.7	-1.0	1.0	0.4	-1.0	-0.6
Hungary	36,462	27.6	-2,404	1,298	-3,155	-2,022	-6,283	-5.6	3.2	-7.6	-5.3	-14.7	-1.8	1.0	-2.4	-1.5	-4.8
Latvia	8,317	27.0	-285	-560	-1,037	-193	-2,075	-2.7	-5.5	-10.9	-2.3	-20.0	-0.9	-1.8	-3.4	-0.6	-6.7
Lithuania	11,226	24.1	1,049	68	-321	-638	158	9.5	0.6	-2.6	-5.4	1.4	2.3	0.1	-0.7	-1.4	0.3
Macedonia	1,607	15.7	-379	404	-7	-40	-22	-23.3	32.3	-0.4	-2.4	-1.4	-3.7	4.0	-0.1	-0.4	-0.2
Moldova	312	3.9	-18	14	-18	-32	-54	-4.9	4.0	-5.0	-9.3	-14.8	-0.2	0.2	-0.2	-0.4	-0.7
Montenegro	1,428	32.2	9	-78	-60	35	-94	0.6	-5.1	-4.1	2.5	-6.2	0.2	-1.8	-1.4	0.8	-2.1
Poland	110,954	21.1	823	-4,771	820	-34	-3,162	0.7	-4.2	0.7	0.0	-2.8	0.2	-0.9	0.2	0.0	-0.6
Romania	39,588	21.0	-1,540	-1,731	-488	-898	-4,657	-3.5	-4.1	-1.2	-2.2	-10.5	-0.8	-0.9	-0.3	-0.5	-2.5
Russia	152,098	7.3	-11,174	-866	-5,790	-10,552	-28,382	-6.2	-0.5	-3.4	-6.5	-15.7	-0.5	0.0	-0.3	-0.5	-1.4
Serbia	7,654	18.0	-37	-230	-550	61	-756	-0.4	-2.7	-6.8	0.8	-9.0	-0.1	-0.5	-1.3	0.1	-1.8
Slovakia	25,872	26.5	-4,478	2,222	-1,993	2,308	-1,941	-16.1	9.5	-7.8	9.8	-7.0	-4.6	2.3	-2.0	2.4	-2.0
Slovenia	15,012	31.3	-872	-1,000	-912	-253	-3,037	-4.8	-5.8	-5.6	-1.7	-16.8	-1.8	-2.1	-1.9	-0.5	-6.3
Turkey	189,347	23.0	3,096	-5,404	7,402	2,246	7,340	1.7	-2.9	4.1	1.2	4.0	0.4	-0.7	0.9	0.3	0.9
Ukraine	10,393	5.9	543	-1,524	-1,880	-1,373	-4,234	3.7	-10.0	-13.8	-11.7	-28.9	0.3	-0.9	-1.1	-0.8	-2.4
CESEE 1/	716,514	15.4	-12,323	-16,590	-6,081	-14,857	-49,851	-1.6	-2.2	-0.8	-2.0	-6.5	-0.3	-0.4	-0.1	-0.3	-1.1
Emerging Europe 2/	611,820	14.4	-11,019	-14,877	-4,471	-15,102	-45,469	-1.7	-2.3	-0.7	-2.4	-6.9	-0.3	-0.4	-0.1	-0.4	-1.1
CESEE ex. RUS & TUR	375,069	21.4	-4,245	-10,320	-7,693	-6,551	-28,809	-1.1	-2.6	-2.0	-1.7	-7.1	-0.2	-0.6	-0.4	-0.4	-1.6

Sources: BIS and IMF staff calculations.

1/ All countries listed above. 2/ CESEE excluding the Czech Republic, Estonia, Latvia, Slovakia, and Slovenia.

**Table 2. CESEE: External Position of BIS-reporting Banks, 2013:Q4 - 2014:Q3**  
(Exchange rate adjusted flows)

	2014 Q3		Banks (US\$m)					Non-banks (US\$m)					Loans--Banks					Loans--Non-Banks				
	US\$m	% of 2013 GDP	2013 Q4	2014 Q1	2014 Q2	2014 Q3	Total	2013 Q4	2014 Q1	2014 Q2	2014 Q3	Total	2013 Q4	2014 Q1	2014 Q2	2014 Q3	Total	2013 Q4	2014 Q1	2014 Q2	2014 Q3	Total
Albania	-70	-0.6	-43	-75	21	-54	-151	-44	-10	-32	-16	-102	-47	11	19	-38	-55	-8	-2	-33	-24	-67
Belarus	-2	0.0	46	113	43	-45	157	7	121	15	43	186	53	113	43	-46	163	2	133	18	31	184
Bosnia-Herzegovina	-85	-0.5	104	-586	33	-55	-504	1	-10	-7	-30	-46	52	-186	-3	-91	-228	1	-11	-7	-30	-47
Bulgaria	-123	-0.2	-175	-590	93	-345	-1,017	-494	25	24	222	-223	-199	-158	100	-267	-524	-538	-17	-51	260	-346
Croatia	-1,575	-2.7	-389	-1,180	-834	-1,169	-3,572	0	135	220	-406	-51	-437	170	-692	-938	-1,897	18	11	287	-197	119
Czech Republic	-1,376	-0.7	6,251	-2,479	3,409	-563	6,618	-1,668	-133	-1,177	-813	-3,791	6,071	-2,779	3,233	-226	6,299	-999	-148	-276	-648	-2,071
Estonia	-241	-1.0	-483	546	-5	-118	-60	231	-309	105	-123	-96	-108	585	51	-153	375	103	-443	140	-113	-313
Hungary	-2,022	-1.5	-2,071	2,398	-2,101	-1,864	-3,638	-333	-1,100	-1,054	-158	-2,645	-1,957	2,386	-1,044	-749	-1,364	855	-1,082	-580	-175	-982
Latvia	-193	-0.6	-384	-807	-897	-52	-2,140	99	247	-140	-141	65	-378	-599	-848	-48	-1,873	91	-27	21	-105	-20
Lithuania	-638	-1.4	925	-190	-259	-587	-111	124	258	-62	-51	269	939	-73	-347	-475	44	42	102	-55	-13	76
Macedonia	-40	-0.4	-383	398	-3	-54	-42	4	6	-4	14	20	-382	396	0	-43	-29	2	-3	2	-1	0
Moldova	-32	-0.4	-22	10	-17	-16	-45	4	4	-1	-16	-9	13	-4	-25	1	-15	4	4	-1	-16	-9
Montenegro	35	0.8	-37	-3	-72	61	-51	46	-75	12	-26	-43	-36	54	-72	-2	-56	2	-69	37	-2	-32
Poland	-34	0.0	1,494	-2,885	505	2,077	1,191	-671	-1,886	315	-2,111	-4,353	24	-3,315	1,303	-1,694	-3,682	-330	-1,585	324	-1,340	-2,931
Romania	-898	-0.5	-6	-1,982	292	-207	-1,903	-1,534	251	-780	-691	-2,754	-179	-1,676	423	-93	-1,525	-618	86	-829	-427	-1,788
Russia	-10,552	-0.5	-7,880	5,723	-4,623	-7,407	-14,187	-3,294	-6,589	-1,167	-3,145	-14,195	-7,184	1,824	-3,267	-6,967	-15,594	-3,625	-5,790	-1,529	-2,475	-13,419
Serbia	61	0.1	-152	-510	-208	156	-714	115	280	-342	-95	-42	-196	22	-105	-46	-325	52	296	-317	-104	-73
Slovakia	2,308	2.4	-4,037	1,675	-1,213	2,754	-821	-441	547	-780	-446	-1,120	-3,728	1,704	-1,171	2,603	-592	-1,172	257	-161	-462	-1,538
Slovenia	-253	-0.5	-774	-412	423	149	-614	-98	-588	-1,335	-402	-2,423	-734	-26	359	18	-383	108	-641	-1,444	-302	-2,279
Turkey	2,246	0.3	4,169	-1,906	5,414	3,406	11,083	-1,073	-3,498	1,988	-1,160	-3,743	3,967	-3,606	4,911	4,493	9,765	-566	673	842	-770	179
Ukraine	-1,373	-0.8	52	-604	-1,045	-446	-2,043	491	-920	-835	-927	-2,191	104	208	-645	-195	-528	479	-336	-609	-709	-1,175
CESEE 1/	-14,857	-0.3	-3,795	-3,346	-1,044	-4,379	-12,564	-8,528	-13,244	-5,037	-10,478	-37,287	-4,342	-4,949	2,223	-4,956	-12,024	-6,097	-8,592	-4,221	-7,622	-26,532
Emerging Europe 2/	-15,102	-0.4	-4,368	-1,869	-2,761	-6,549	-15,547	-6,651	-13,008	-1,710	-8,553	-29,922	-5,465	-3,834	599	-7,150	-15,850	-4,228	-7,590	-2,501	-5,992	-20,311
CESEE ex. RUS & TUR	-6,551	-0.4	-84	-7,163	-1,835	-378	-9,460	-4,161	-3,157	-5,858	-6,173	-19,349	-1,125	-3,167	579	-2,482	-6,195	-1,906	-3,475	-3,534	-4,377	-13,292

Sources: BIS and IMF staff calculations.

1/ All countries listed above. 2/ CESEE excluding the Czech Republic, Estonia, Latvia, Slovakia, and Slovenia.