

CESEE DELEVERAGING AND CREDIT MONITOR

October 12, 2017

Key developments in BIS Banks' External Positions and Domestic Credit

Adjusting for one-off factors, the external position of BIS reporting banks in Central, Eastern, and Southern Europe (CESEE) has improved somewhat in the first half of this year. The improvement in the external positions is corroborated by BOP data. Foreign bank funding for the region as a whole has improved, despite reductions in foreign funding for some countries. Outside the Commonwealth of Independent States (CIS), credit accelerated, with the credit to the household sector recovering firmly in almost all the countries.

- **After accounting for one-off factors, the external position of BIS reporting banks in CESEE has broadly stabilized in 2017H1.** Following a prolonged period of deleveraging, external positions of BIS reporting banks stabilized towards the end of 2016 (Figure 1). Accounting for one-off factors, which were mainly driven by the rapid increase in exposure to the Czech banks in 2017Q1 (Figure 3) associated with the removal of the exchange rate floor by the Czech National bank, external positions have improved somewhat in the first half of this year (Figure 2, Table 1).¹ Accordingly, the stock of BIS reporting banks' external positions for the region as a whole has remained broadly stable since end-2016 and is now about 11 percent of CESEE GDP below its peak (16 percent excluding Russia and Turkey, Figure 2).
- **Notwithstanding reductions in foreign bank funding in some countries, foreign bank funding for the region as a whole has improved in 2017H1** (Figure 3, Table 1). Compared to 2016, the overall foreign bank funding to CESEE (in percent of GDP) improved in 2017H1. This reflects an increase in foreign bank funding in a number of countries (Belarus, Bulgaria, the Czech Republic, Latvia, Lithuania, Macedonia, Montenegro, Russia and Ukraine) which have compensated for the decline of foreign funding in some countries (Bosnia and Herzegovina, Croatia, Estonia, Poland, Slovakia, Slovenia, and Turkey).
- **The changes in foreign bank funding were mostly driven by claims on banks, but the role of foreign funding directed to non-financial sector increased** (Figure 4, Table 2). Compared to 2016, reductions in claims on banks were recorded in Croatia, Estonia, Hungary, Macedonia, Moldova, Poland, Romania, Slovakia, Slovenia, Turkey, and Ukraine, while increases were recorded in Belarus, Bosnia and Herzegovina, Bulgaria,

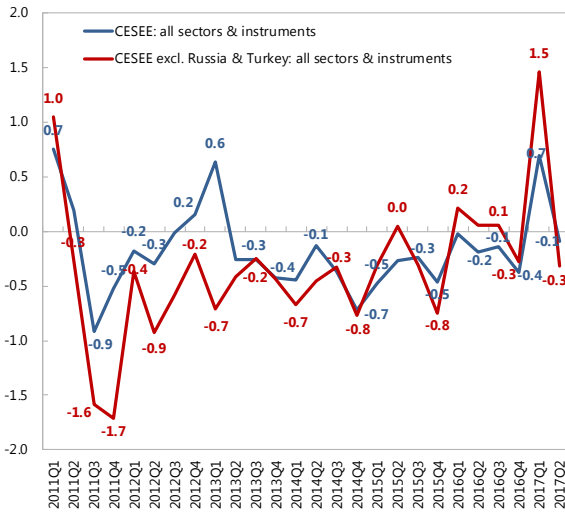
¹ The large increase of the exposure to the Czech Republic is likely associated with the expected exit from the koruna floor by the Czech National Bank in early April 2017.

the Czech Republic, Latvia, Montenegro, Serbia, and Russia. Compared to 2016, the role of foreign funding directed to non-financial sector increased, driven by higher exposure to nonfinancial sectors in the Czech Republic, Estonia, Lithuania, Latvia, Poland, Turkey, and Ukraine.

- **The balance of payments (BoP) data suggest similar movements in 2017H1 to external positions based on BIS data** (Figure 5a&b). After divergence in 2016, BoP data were broadly consistent with BIS data for the CESEE region in 2017H1, although there were differences for some of the countries.² BoP data suggest notably larger inflows into Slovakia, Hungary, Moldova, Ukraine, and Albania, while outflows were larger than implied by BIS data in Belarus and Slovenia.
- **Similar to external positions, foreign claims of BIS banks on CESEE appear to have recovered somewhat in the first half of this year** (Figures 6&7). Foreign claims, which include cross-border claims and total local claims of foreign banks' affiliates, have generally traced developments in external positions and stabilized since 2015Q1, with a considerable decline in 2016H2, and recovery in 2017Q1.
- **Credit developments suggest a firm recovery.** Total credit to the private sector as well as non-financial corporations continued to recover, both in CESEE and CESEE excluding CIS and Turkey (Figure 8). In June 2017, outside the CIS credit contracted only in Albania and Croatia, while credit growth reached robust levels in Slovakia, the Czech Republic, Bosnia and Herzegovina, Montenegro, Estonia, and Poland. However, lending to non-financial corporations remains relatively subdued in several countries (Figure 9).
- **CESEE banks continue to experience robust deposit growth, while gradually reducing their loan to deposit ratios.** Domestic deposit growth (year on year) remained strong in the vast majority of countries in 2017H1, balancing the decline in parent bank funding and raising overall bank funding (Figures 10). This helped the average loan-to-deposit ratio for the whole region decline further, reaching around 100 percent level in June 2017.

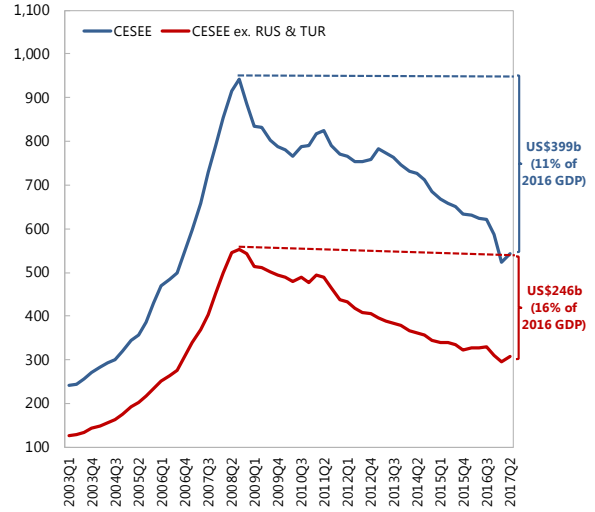
² Data referred here are other investment liabilities in BoP (include investments other than FDI, portfolio investment, and financial derivatives, which includes loans and deposits, trade credit, etc.). They correspond more closely in terms of coverage to BIS-reporting banks' external claims based on locational banking statistics. Belarus, Bosnia and Herzegovina, Macedonia, Moldova, Russia, Serbia, Turkey and Ukraine are on net basis, and others are on gross basis. In general, such BoP statistics do not report flows by external creditors so direct comparison with the BIS statistics is difficult in terms of the source of reduction by creditors

Figure 1. CESEE: Change in External Positions of BIS-reporting Banks, 2011Q1-2017Q2
(Percent of 2016 GDP)



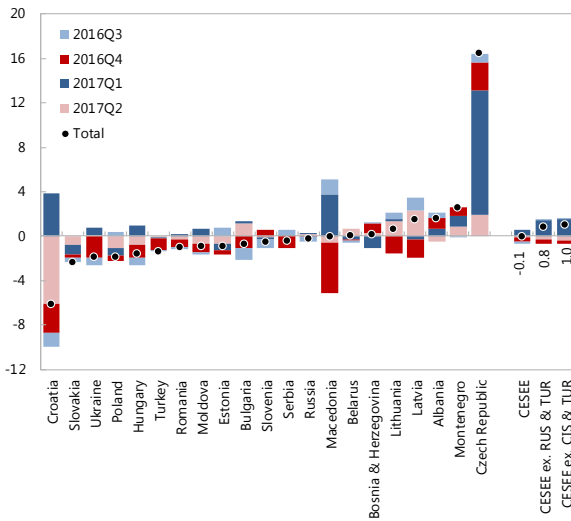
Sources: BIS, Locational Banking Statistics; and IMF staff calculations.

Figure 2. CESEE: External Position of BIS-reporting Banks, 2003Q1-2017Q2
(Billions of US\$, exchange-rate adjusted, vis-à-vis all sectors)



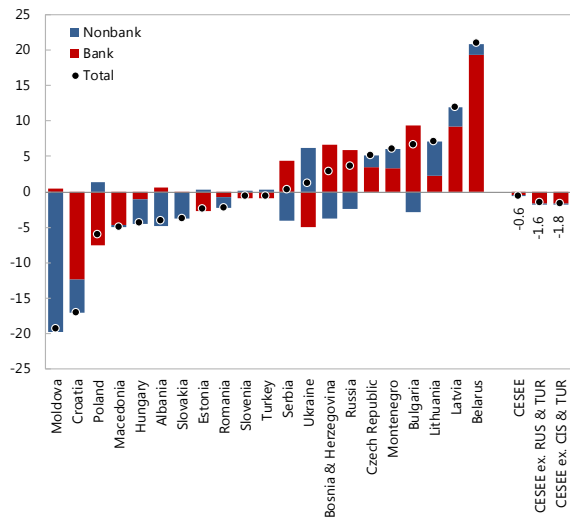
Sources: BIS, Locational Banking Statistics; and IMF staff calculations.

Figure 3. CESEE: Change in External Positions of BIS-reporting Banks, 2016Q3-2017Q2
(Change, percent of 2016 GDP)



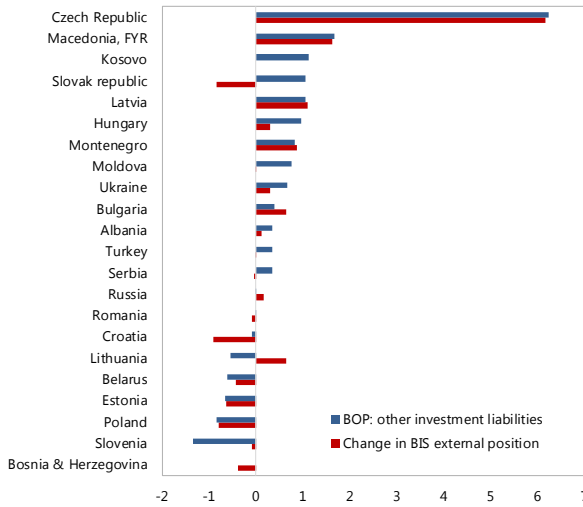
Sources: BIS, Locational Banking Statistics; and IMF staff calculations.

Figure 4. CESEE: Change in External Positions of BIS-reporting Banks, 2016H2-2017H1
(Change, percent of 2016H2 position)



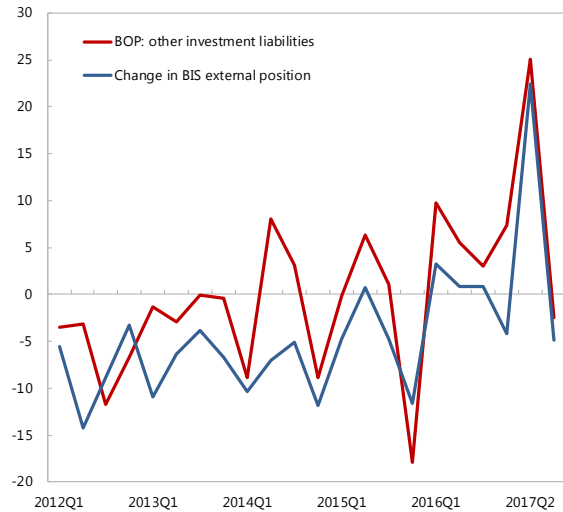
Sources: BIS, Locational Banking Statistics; and IMF staff calculations.

Figure 5a. CESEE: Change in BIS External Positions and Other Investment Liabilities from BOP, 2017H1
(Percent of 2016 GDP)



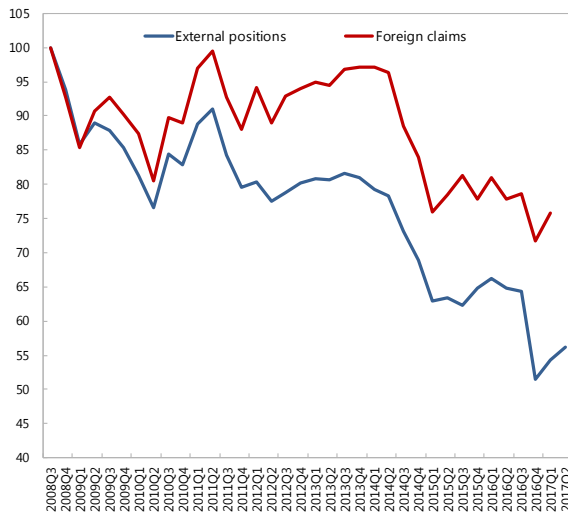
Sources: Haver Analytics; IMF, World Economic Outlook; and IMF staff calculations.

Figure 5b. CESEE excl. Russia and Turkey: Change in BIS External Positions and Other Investment Liabilities from BOP
(Billions of US dollars, 2012Q1-2017Q2)



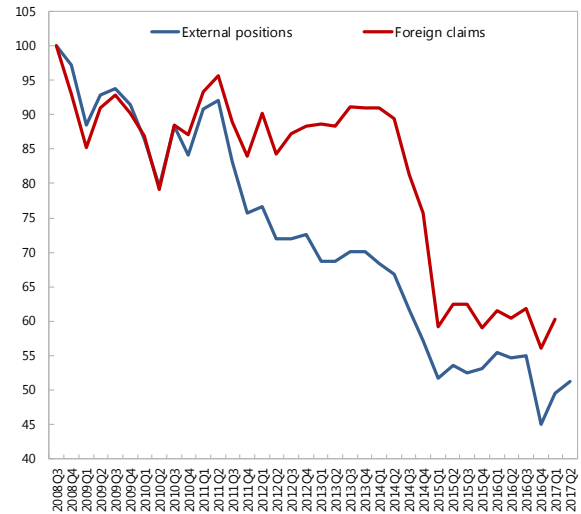
Sources: Haver Analytics; IMF, World Economic Outlook; and IMF staff calculations.

Figure 6. CESEE: External Positions and Foreign Claims, 2008Q3 - 2017Q2
(2008Q3 = 100, not exchange-rate adjusted)



Sources: BIS, Locational and Consolidated Banking Statistics; and IMF staff calculations.
Note: Data on foreign claims for 2017Q2 is not available yet.

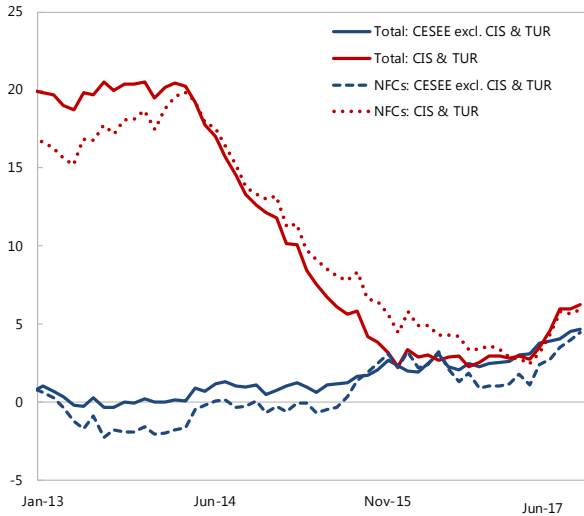
Figure 7. CESEE excl. Russia & Turkey: External Positions and Foreign Claims, 2008Q3 - 2017Q2
(2008Q3 = 100, not exchange-rate adjusted)



Sources: BIS, Locational and Consolidated Banking Statistics; and IMF staff calculations.
Note: Data on foreign claims for 2017Q2 is not available yet.

**Figure 8. Credit to Private Sector,
Jan 2013 - June 2017**

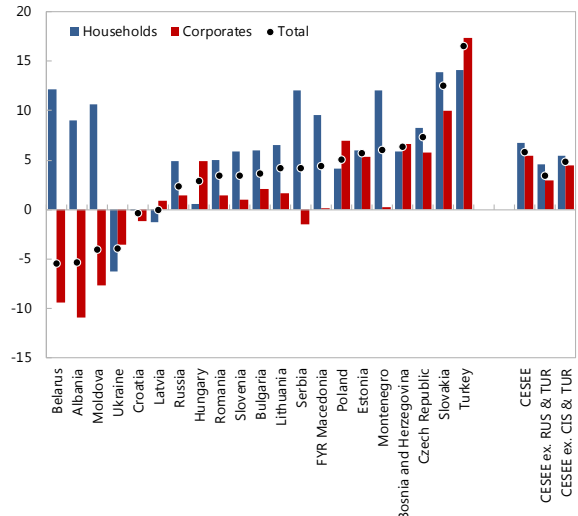
(Percent change, year-over-year, nominal, exchange-rate adjusted, GDP-weighted)



Sources: National authorities; ECB; BIS; EBRD; and IMF staff calculations.

**Figure 9. CESEE: Growth of Credit to
Households and Corporations, June 2017**

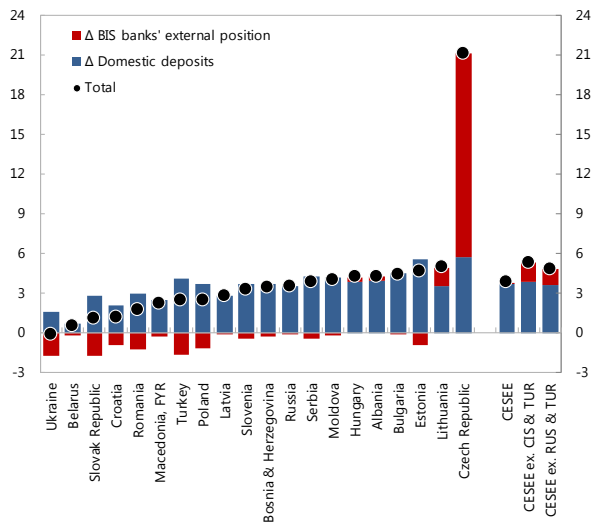
(Percent, year-on-year, nominal, exchange-rate adjusted)



Sources: National authorities; ECB; BIS; EBRD; and IMF staff calculations.

**Figure 10. Main Bank Funding Sources,
2017H1**

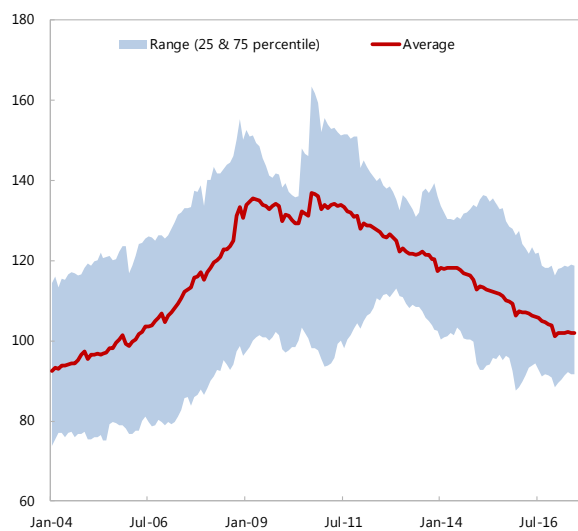
(Percent of 2016 GDP, year-on-year, exchange-rate adjusted)



Sources: Sources: IMF, Monetary and Financial Statistics; and IMF staff calculations.

**Figure 11. Domestic Loan to Domestic
Deposit Ratio**

(Percent change, year-over-year, nominal, exchange-rate adjusted)



Sources: IMF, Monetary and Financial Statistics; and IMF staff calculations.

Table 1. CESEE: External Position of BIS-reporting Banks, 2015H2 – 2017H1
(Vis-à-vis all sectors, based on partial sample)

	2017H1 stocks		Exchange-rate adjusted flows (US\$m)					Exchange-rate adjusted flows (% of previous stock)					Exchange-rate adjusted flows (% of 2016 GDP)				
	US\$m	% of 2016 GDP	2015H2	2016H1	2016H2	2017H1	Total	2015H2	2016H1	2016H2	2017H1	Total	2015H2	2016H1	2016H2	2017H1	Total
Albania	1,317	11.1	14	-14	164	29	193	1.2	-1.2	14.6	2.3	17.2	0.1	-0.1	1.4	0.2	1.6
Belarus	1,989	4.2	-253	-170	-150	192	-381	-10.7	-8.0	-7.7	10.7	-16.1	-0.5	-0.4	-0.3	0.4	-0.8
Bosnia-Herzegovina	1,618	9.8	79	-141	171	-141	-32	4.8	-8.2	10.8	-8.0	-1.9	0.5	-0.9	1.0	-0.9	-0.2
Bulgaria	10,152	19.4	-350	648	-1,101	717	-86	-3.4	6.6	-10.4	7.6	-0.8	-0.7	1.2	-2.1	1.4	-0.2
Croatia	15,835	31.2	-1,696	-682	-1,971	-1,126	-5,475	-8.0	-3.5	-10.4	-6.6	-25.7	-3.3	-1.3	-3.9	-2.2	-10.8
Czech Republic	82,766	42.4	3,121	3,651	6,454	25,634	38,860	7.1	7.8	12.7	44.9	88.5	1.6	1.9	3.3	13.1	19.9
Estonia	7,048	30.2	735	-440	86	-297	84	10.6	-5.7	1.2	-4.0	1.2	3.2	-1.9	0.4	-1.3	0.4
Hungary	21,889	17.6	-4,666	267	-2,275	248	-6,426	-16.5	1.1	-9.5	1.1	-22.7	-3.8	0.2	-1.8	0.2	-5.2
Latvia	6,409	23.1	-262	-764	-151	569	-608	-3.7	-11.3	-2.5	9.7	-8.7	-0.9	-2.8	-0.5	2.1	-2.2
Lithuania	9,039	21.1	-58	624	-381	639	824	-0.7	7.6	-4.3	7.6	10.0	-0.1	1.5	-0.9	1.5	1.9
Macedonia	1,232	11.3	-365	369	-354	352	2	-29.7	42.7	-28.7	40.0	0.2	-3.3	3.4	-3.2	3.2	0.0
Moldova	203	3.0	-22	-6	-63	1	-90	-7.5	-2.2	-23.8	0.5	-30.7	-0.3	-0.1	-0.9	0.0	-1.3
Montenegro	693	16.6	-52	-19	31	76	36	-7.9	-3.1	5.3	12.3	5.5	-1.2	-0.5	0.7	1.8	0.9
Poland	82,826	17.6	-9,646	6,376	-416	-8,303	-11,989	-10.2	7.5	-0.5	-9.1	-12.6	-2.1	1.4	-0.1	-1.8	-2.6
Romania	27,442	14.6	-1,530	-1,179	-1,648	-313	-4,670	-4.8	-3.9	-5.6	-1.1	-14.5	-0.8	-0.6	-0.9	-0.2	-2.5
Russia	74,529	5.8	-12,511	-11,198	-6,714	3,174	-27,249	-12.3	-12.5	-8.6	4.4	-26.8	-1.0	-0.9	-0.5	0.2	-2.1
Serbia	5,317	14.1	159	-159	-209	30	-179	2.9	-2.8	-3.8	0.6	-3.3	0.4	-0.4	-0.6	0.1	-0.5
Slovakia	17,890	20.0	753	-1,976	-673	-1,440	-3,336	3.5	-9.0	-3.4	-7.4	-15.7	0.8	-2.2	-0.8	-1.6	-3.7
Slovenia	9,615	21.5	-798	-179	-96	-133	-1,206	-7.4	-1.8	-1.0	-1.4	-11.1	-1.8	-0.4	-0.2	-0.3	-2.7
Turkey	160,442	18.6	3,727	-5	-10,329	-1,619	-8,226	2.2	0.0	-6.0	-1.0	-4.9	0.4	0.0	-1.2	-0.2	-1.0
Ukraine	4,270	4.6	-1,140	269	-2,481	716	-2,636	-16.5	4.7	-41.1	20.1	-38.2	-1.2	0.3	-2.7	0.8	-2.8
CESEE 1/	542,521	14.7	-24,761	-4,728	-22,106	19,005	-32,590	-4.3	-0.9	-4.1	3.6	-5.7	-0.7	-0.1	-0.6	0.5	-0.9
Emerging Europe 2/	409,754	12.6	-28,252	-5,644	-27,345	-5,967	-67,208	-5.9	-1.3	-6.2	-1.4	-14.1	-0.9	-0.2	-0.8	-0.2	-2.1
CESEE ex. RUS & TUR	307,550	20.0	-15,977	6,475	-5,063	17,450	2,885	-5.2	2.2	-1.7	6.0	0.9	-1.0	0.4	-0.3	1.1	0.2
CESEE ex. CIS & TUR 3/	301,088	21.7	-14,562	6,382	-2,369	16,541	5,992	-4.9	2.3	-0.8	5.8	2.0	-1.0	0.5	-0.2	1.2	0.4

Sources: BIS; and IMF staff calculations.

1/ All countries listed above.

2/ CESEE excluding the Czech Republic, Estonia, Latvia, Lithuania, Slovakia, and Slovenia.

3/ CIS = Russia, Ukraine, Moldova and Belarus.

Table 2. CESEE: External Position of BIS-reporting Banks, 2015H2 – 2017H1
(Exchange rate adjusted flows, based on partial sample)

	2017H1		Banks (US\$m)					Non-banks (US\$m)					Loans-Banks					Loans-Non-Banks				
	US\$m	% of 2016 GDP	2015H2	2016H1	2016H2	2017H1	Total	2015H2	2016H1	2016H2	2017H1	Total	2015H2	2016H1	2016H2	2017H1	Total	2015H2	2016H1	2016H2	2017H1	Total
Albania	29.0	0.2	-51	-4	-8	57	-6	65	-10	172	-28	199	-55	-6	32	8	-21	60	-7	178	-28	203
Belarus	192.0	0.4	-370	-193	-94	191	-466	117	23	-56	1	85	-376	-195	-96	-97	-764	117	26	-57	4	90
Bosnia-Herzegovina	-141.0	-0.9	90	-165	170	-8	87	-11	24	1	-133	-119	50	-129	98	25	44	-10	24	2	-133	-117
Bulgaria	717.0	1.4	-283	370	-552	998	533	-67	278	-549	-281	-619	-11	-95	17	-26	-115	-178	234	-568	-280	-792
Croatia	-1,126.0	-2.2	-1,897	24	-1,285	-106	-3,264	201	-706	-686	-1,020	-2,211	-1,584	-170	-934	-221	-2,909	115	-881	-440	-1,018	-2,224
Czech Republic	25,634.0	13.1	3,105	3,366	7,183	22,379	36,033	16	285	-729	3,255	2,827	-3,113	2,419	5,162	18,296	22,764	-631	-181	-527	1,461	122
Estonia	-297.0	-1.3	1,182	-65	-29	-296	792	-447	-375	115	-1	-708	1,158	-20	29	-233	934	-386	-414	142	-19	-677
Hungary	248.0	0.2	-3,324	782	-804	886	-2,460	-1,342	-515	-1,471	-638	-3,966	-3,770	617	-1,273	935	-3,491	-1,289	-463	-455	-486	-2,693
Latvia	569.0	2.1	-324	-360	-168	467	-385	62	-404	17	102	-223	-331	43	-136	481	57	-16	-346	-96	69	-389
Lithuania	639.0	1.5	-311	1,245	-368	333	899	253	-621	-13	306	-75	-332	1,264	-340	518	1,110	95	-254	55	38	-66
Macedonia	352.0	3.2	-365	333	-359	361	-30	0	36	5	-9	32	-370	293	-311	317	-71	-9	48	-5	4	38
Moldova	1.0	0.0	-14	-2	-63	53	-26	-8	-4	0	-52	-64	-10	-7	-25	-6	-48	-8	-4	0	-52	-64
Montenegro	76.0	1.8	-10	11	7	51	59	-42	-30	24	25	-23	-12	16	3	63	70	-14	-1	43	64	92
Poland	-8,303.0	-1.8	-8,817	6,629	-677	-9,358	-12,223	-829	-253	261	1,055	234	-7,907	7,397	1,739	-7,402	-6,173	-273	880	95	175	877
Romania	-313.0	-0.2	-1,278	-1,096	-1,974	-32	-4,380	-252	-83	326	-281	-290	-1,554	-1,133	-1,813	-758	-5,258	-364	156	57	-188	-339
Russia	3,174.0	0.2	-6,066	-6,989	-238	3,979	-9,314	-6,445	-4,209	-6,476	-805	-17,935	-3,051	-5,012	-1,241	3,052	-6,252	-5,408	-4,875	-6,801	-1,419	-18,503
Serbia	30.0	0.1	245	-335	21	87	18	-86	176	-230	-57	-197	166	-213	134	-70	17	-183	36	-131	-218	-496
Slovakia	-1,440.0	-1.6	854	-1,740	-326	-875	-2,087	-101	-236	-347	-565	-1,249	853	-1,829	-243	-1,303	-2,522	442	-207	-77	-185	-27
Slovenia	-133.0	-0.3	-789	-250	-84	-85	-1,208	-9	71	-12	-48	2	-865	-325	-207	-68	-1,465	-281	206	163	-452	-364
Turkey	-1,619.0	-0.2	1,329	-6,230	-9,905	-1,731	-16,537	2,398	6,225	-424	112	8,311	-1,675	-3,854	-9,193	-1,234	-15,956	1,723	4,954	119	-13	6,783
Ukraine	716.0	0.8	-406	509	-1,858	207	-1,548	-734	-240	-623	509	-1,088	-510	592	-1,547	25	-1,440	-661	-288	-591	431	-1,109
CESEE 1/	19,005.0	0.5	-17,500	-4,160	-11,411	17,558	-15,513	-7,261	-568	-10,695	1,447	-17,077	-23,299	-347	-10,145	12,302	-21,489	-7,159	-1,357	-8,894	-2,245	-19,655
Emerging Europe 2/	-5,967.0	-0.2	-21,217	-6,356	-17,619	-4,365	-49,557	-7,035	712	-9,726	-1,602	-17,651	-20,669	-1,899	-14,410	-5,389	-42,367	-6,382	-161	-8,554	-3,157	-18,254
CESEE ex. RUS & TUR	17,450.0	1.1	-12,763	9,059	-1,268	15,310	10,338	-3,214	-2,584	-3,795	2,140	-7,453	-18,573	8,519	289	10,484	719	-3,474	-1,436	-2,212	-813	-7,935
CESEE ex. CIS & TUR 3/	0.0	0.0	-11,973	8,745	747	14,859	12,378	-2,589	-2,363	-3,116	1,682	-6,386	-17,677	8,129	1,957	10,562	2,971	-2,922	-1,170	-1,564	-1,196	-6,852

Sources: BIS; and IMF staff calculations.

1/ All countries listed above.

2/ CESEE excluding the Czech Republic, Estonia, Latvia, Lithuania, Slovakia, and Slovenia.

3/ CIS = Russia, Ukraine, Moldova and Belarus.