

# EBCI | Vienna Initiative



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

February 16, 2016

### 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 2015:Q3 by 0.28 percent of GDP, slightly lower than in 2015:Q2. After rising somewhat in 2015:Q2, external positions of BIS reporting banks vis-à-vis CESEE, excluding Russia and Turkey, declined by 0.36 percent of GDP, on account of significant reductions in Poland and Hungary. The BoP data for the same period show that related capital flows held up better. During September to November 2015, domestic credit outside the CIS and Turkey continued to pick up but growth was still concentrated in the Czech Republic, Slovakia, and Poland. For the CIS and Turkey, the domestic credit growth continued to decelerate. Domestic deposits for CESEE continued to expand in 2015:Q3.*

- In 2015:Q3, BIS reporting banks reduced their external positions vis-à-vis CESEE countries by 0.28 percent of GDP (Figure 1).<sup>2</sup> Outside Russia and Turkey, after a small increase in the previous quarter, external positions of BIS reporting banks declined again, by 0.36 percent of GDP. The decline reflected significant reduction of BIS banks' external positions in Poland and Hungary (0.7 percent and 2.6 percent of GDP, respectively).<sup>3</sup> The cumulative reduction in BIS reporting banks' external positions since 2008:Q3 now amounts to 8.5 percent of CESEE regional GDP, and excluding Russia and Turkey, to 14.7 percent (Figure 2).

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<sup>1</sup> Prepared by the staff of the international financial institutions participating in the Vienna Initiative's Steering Committee. It is based on the BIS Locational Banking Statistics (Table A6) released on **January 21, 2016** (<http://www.bis.org/statistics/bankstats.htm>).

<sup>2</sup> Banks' external positions refer to banks' external claims. All ratios to GDP numbers use 2015 GDP numbers from the IMF's WEO database.

<sup>3</sup> For Poland, the decline is due to a reversal of the increase in cash and short-term deposits in 2015:Q2; both rise in 2015:Q2 and fall in 2015:Q3 were highly concentrated. For Hungary, the decline reflects the sale of Budapest Bank from GE Capital to the government and the reduced bank FX-funding needs with the FX conversion of mortgages, and more recently household car and other personal loans.

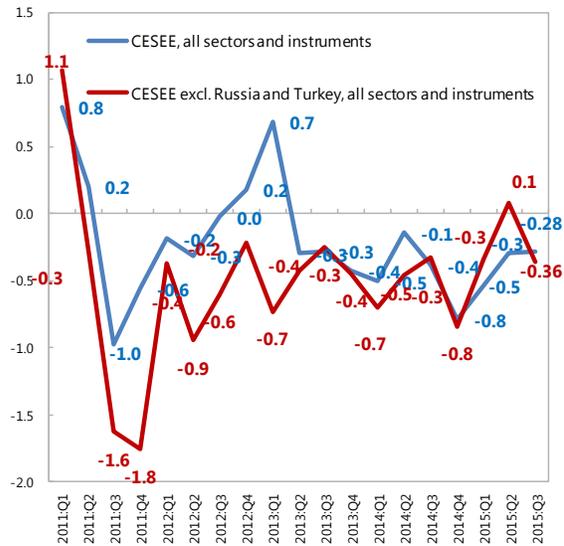
- Most countries in the region continued to see reductions in foreign bank funding, except for the Czech Republic, Lithuania, Slovakia, Turkey, Serbia, Latvia and Belarus. The extent of reduction continued to vary across the region, with significant declines in Russia, Poland, Hungary and Romania in 2015:Q3 (in USD terms (but adjusted for exchange rate changes) and when scaled by GDP). During the first three quarters of 2015, external positions of BIS-reporting banks continued to rise in Czech Republic. The reduction of external positions of BIS-reporting banks continued to slow down in Bulgaria, Croatia, Russia, and Ukraine (Figure 3, Table 1). After contracting sharply in 2015:Q2, BIS banks' external positions in Turkey recovered strongly, consistent with general improvement in sentiment following the elections.
- For the region as a whole, claims on banks and non-bank borrowers contracted by 0.6 percent and 1 percent, respectively, relative to respective Q2 stocks. The decline was most significant in Estonia, Hungary, and Montenegro, exceeding 1 percent of GDP. Relative to Q2 stocks, claims on banks expanded quite noticeably in the Czech Republic and Serbia while declining sharply in Hungary and Macedonia; claims for non-banks contracted sharply in Russia and Montenegro. In Belarus, the sharp decline in claims on banks was more than offset by the increase in claims on non-banks (Figure 4, Table 2).
- The balance of payments (BoP) data shows a somewhat more benign picture than the BIS data, with the region as a whole receiving positive bank inflows in 2015:Q3 (Figure 5a). Excluding Russia and Turkey, the BOP data showed similar outflows as the BIS data (Figure 5a&b). BoP flows were generally similar to or larger than the decrease or increase in the BIS data in 2015:Q3 with some exceptions.<sup>4</sup>
- The domestic credit growth in CESEE outside the CIS and Turkey continued to pick up (2.8 percent in November 2015, y-o-y), as credit to non-financial corporations improved further during September to November 2015. However, growth was still largely concentrated in the Czech Republic, Slovakia, and Poland. Since January 2015, credit had been contracting or remained anemic in Hungary, Slovenia, Bulgaria and Croatia, driven by decline in credit to both corporates and households. For the CIS and Turkey, the domestic credit growth has been decelerating with continued contraction in Ukraine (in corporate and household credit), Moldova, and Belarus (in corporate credit). In contrast, growth remained strong in Turkey in both corporate and household credit (Figure 6 and 7).

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<sup>4</sup> 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.

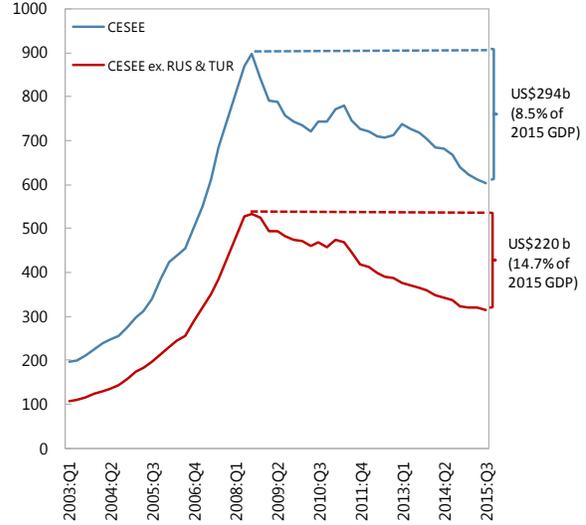
- Domestic deposits for CESEE continued to expand in 2015:Q3 (2.7 percent, y-o-y). When compared to the same period in 2014, growth in deposits in the CIS and Turkey has slowed notably during 2015:Q1-Q3 (from an average of 4.1 percent to 2.4 percent, y-o-y) reflecting decline in Ukraine, and slower growth in Russia, Turkey, as well as in Belarus and Moldova. In contrast, deposit growth outside the CIS and Turkey picked up in 2015:Q1-Q3 compared to the same period in 2014 (from 2.5 percent on average to 3 percent, y-o-y). For 2015Q3, although the rate of deposit growth slowed somewhat in Hungary, Slovenia, SEE non-EU countries, the increase continued to more than offset the decline in foreign bank funding for over half of the countries in the region (Figure 8). The CESEE banking systems' loan-to-deposit (LTD) ratios continued to decline, with the average LTD ratio now at around 105 percent in October 2015 from well over 130 percent at its peak (Figure 9).

**Figure 1. CESEE: Change in External Positions of BIS-reporting Banks, 2011:Q1–2015:Q3**  
(Percent of 2015 GDP, exchange-rate adjusted)



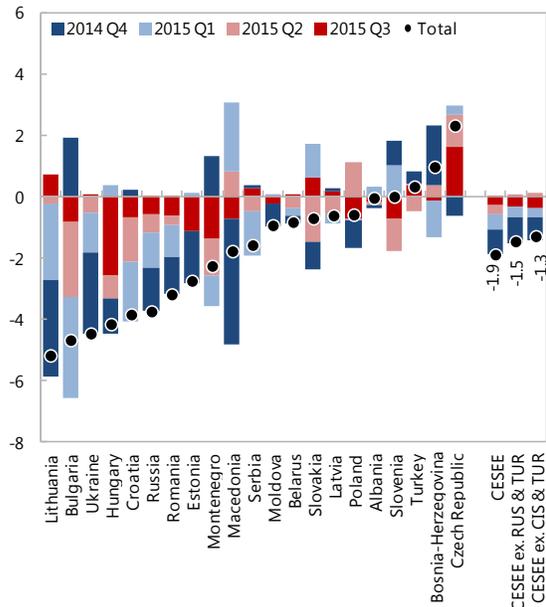
Sources: BIS, Locational Banking Statistics; IMF, World Economic Outlook database; and IMF staff calculations.

**Figure 2. CESEE: External Position of BIS-reporting Banks, 2003:Q1–2015:Q3**  
(Billions of US dollars, exchange-rate adjusted, vis-à-vis all sectors)



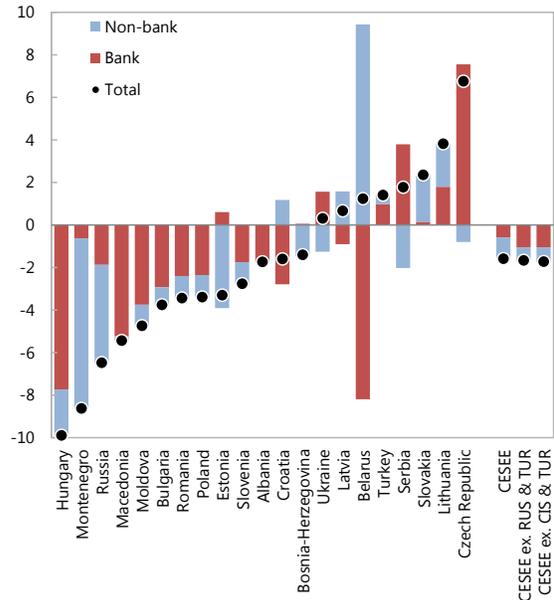
Sources: BIS, Locational Banking Statistics; IMF, World Economic Outlook database; and IMF staff calculations.

**Figure 3. CESEE: External Positions of BIS-reporting Banks, 2014:Q4–2015:Q3**  
(Percent of 2015 GDP, Gross, vis-à-vis all sectors)



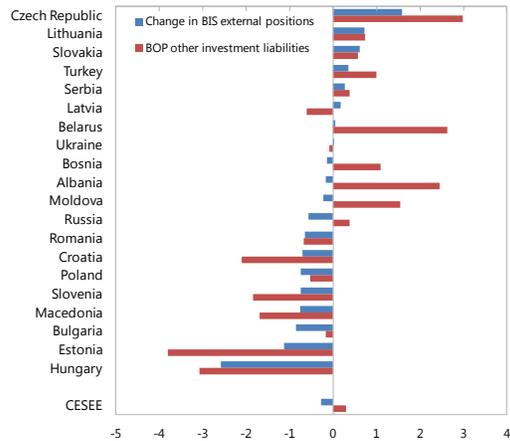
Sources: BIS, Locational Banking Statistics; IMF, World Economic Outlook database; and IMF staff calculations.

**Figure 4. CESEE: External Positions of BIS-reporting Banks, 2015:Q3**  
(Change, percent of 2015:Q2)



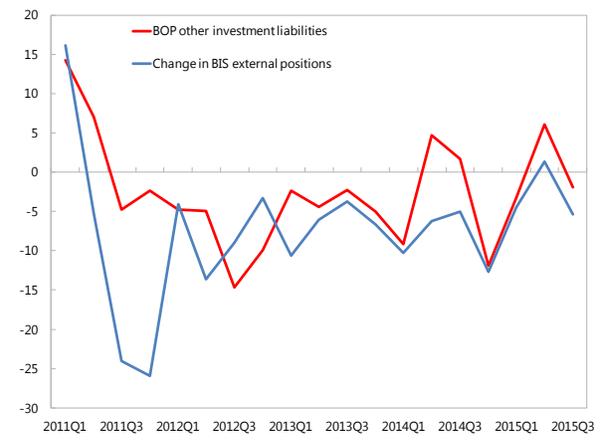
Sources: BIS, Locational Banking Statistics; IMF, World Economic Outlook database; and IMF staff calculations.

**Figure 5a. CESEE: Change in BIS External Positions and Other Investment Liabilities from BoP (2015:Q3, percent of GDP)**



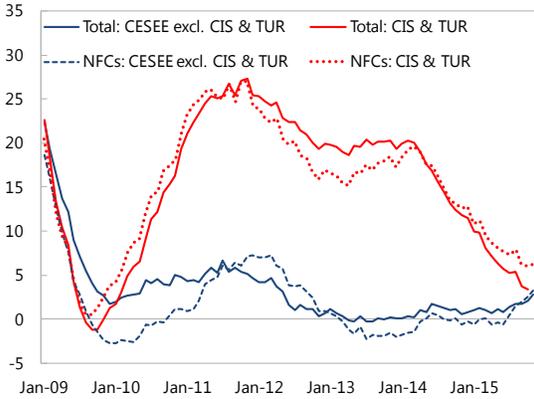
Sources: Haver Analytics; IMF, World Economic Outlook database; and IMF staff calculations.

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



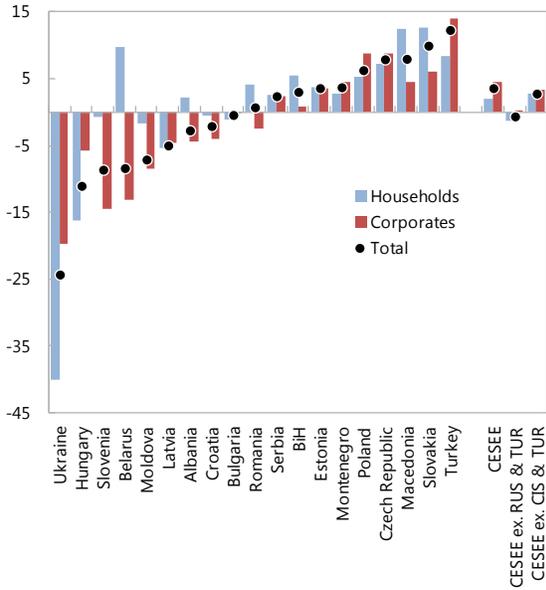
Sources: Haver Analytics; IMF, World Economic Outlook database; and IMF staff calculations.

**Figure 6. Credit to Private Sector, January 2009 – November 2015 (Percent change, year-over-year, nominal, exchange-rate adjusted, GDP-weighted)**



Sources: National authorities; ECB; BIS; EBRD and IMF staff calculations. Note: Lithuania after 2014 December is excluded because of data availability. CIS & TUR credits are up till October 2015 as Russia data for November 2015 are not available yet.

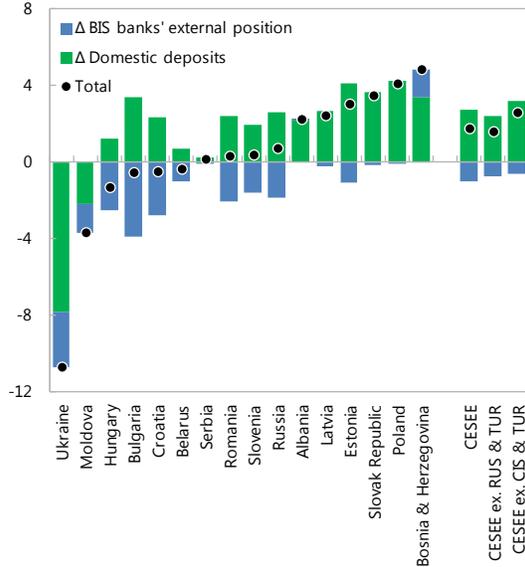
**Figure 7. Credit Growth to Households and Corporations, November 2015 (Percent change, year-over-year, nominal, exchange-rate adjusted)**



Sources: National authorities; ECB; BIS; EBRD and IMF staff calculations. Note: Lithuania and Russia are excluded because of data availability.

**Figure 8. Main Bank Funding Sources, 2015:Q3**

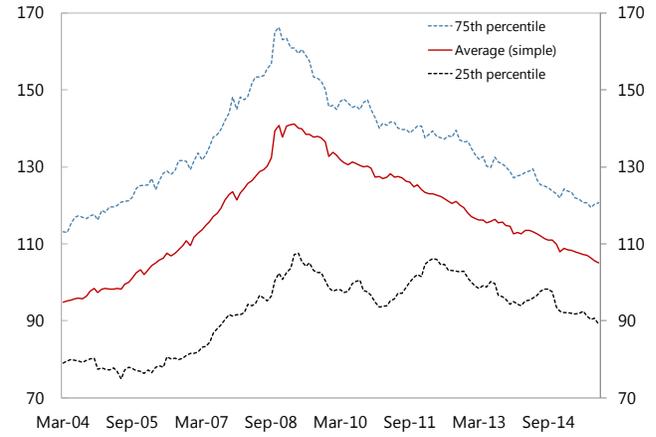
(Year-over-year change, Percent of GDP)



Sources: BIS, Locational Banking Statistics; Haver Analytics; International Financial Statistics; and IMF staff calculations. Note. For Lithuania, data for 2015Q3 are not yet available.

**Figure 9. CESEE: Domestic Loan to Domestic Deposit Ratio, 2004:M3 - 2015:M10**

(Percent)



Source: IMF, Monetary and Financial Statistics; IMF, International Financial Statistics; and IMF staff calculations.

**Table 1. CESEE: External Position of BIS-reporting Banks, 2014:Q4 - 2015:Q3**  
(Vis-à-vis all sectors)

	2015 Q3 stocks		Exchange-rate adjusted flows (US\$m)					Exchange-rate adjusted flows (% of previous stock)					Exchange-rate adjusted flows (% of 2015 GDP)				
	US\$ m	% of 2015 GDP	2014 Q4	2015 Q1	2015 Q2	2015 Q3	Total	2014 Q4	2015 Q1	2015 Q2	2015 Q3	Total	2014 Q4	2015 Q1	2015 Q2	2015 Q3	Total
Albania	1079	9.3	-11	37	-12	-19	-5	-1.0	3.3	-1.1	-1.7	-0.7	-0.1	0.3	-0.1	-0.2	0.0
Belarus	2449	3.9	-144	-165	-236	30	-515	-4.6	-5.5	-9.2	1.2	-17.1	-0.2	-0.3	-0.4	0.0	-0.8
Bosnia-Herzegovina	1621	10.4	299	-185	60	-23	151	10.7	-9.4	3.8	-1.3	2.7	1.9	-1.2	0.4	-0.1	1.0
Bulgaria	10352	21.9	897	-1,566	-1,132	-404	-2,205	6.4	-10.9	-9.8	-3.8	-17.7	1.9	-3.3	-2.4	-0.9	-4.7
Croatia	21294	43.5	108	-934	-708	-346	-1,880	0.4	-3.7	-3.2	-1.6	-8.0	0.2	-1.9	-1.4	-0.7	-3.8
Czech Republic	45829	25.1	-1,183	560	1,949	2,899	4,225	-2.7	1.3	4.9	6.7	10.3	-0.6	0.3	1.1	1.6	2.3
Estonia	7547	33.2	-392	22	3	-258	-625	-4.3	0.3	0.0	-3.3	-7.2	-1.7	0.1	0.0	-1.1	-2.7
Hungary	27968	23.6	-1,365	407	-894	-3,069	-4,921	-3.8	1.2	-2.9	-9.8	-14.7	-1.2	0.3	-0.8	-2.6	-4.2
Latvia	7233	26.6	22	-82	-155	48	-167	0.3	-1.0	-2.2	0.7	-2.3	0.1	-0.3	-0.6	0.2	-0.6
Lithuania	8168	19.7	-1,313	-1,034	-101	300	-2,148	-11.7	-10.8	-1.3	3.8	-19.3	-3.2	-2.5	-0.2	0.7	-5.2
Macedonia	1321	13.1	-411	225	83	-76	-179	-25.6	19.3	6.6	-5.4	-10.5	-4.1	2.2	0.8	-0.8	-1.8
Moldova	283.233	4.6	-48	2	2	-14	-58	-15.3	0.7	0.7	-4.7	-18.2	-0.8	0.0	0.0	-0.2	-0.9
Montenegro	583	14.6	52	-39	-48	-55	-90	3.6	-5.0	-7.2	-8.6	-16.5	1.3	-1.0	-1.2	-1.4	-2.3
Poland	100464	21.2	-4,207	-272	5,226	-3,527	-2,780	-3.8	-0.3	5.4	-3.4	-2.3	-0.9	-0.1	1.1	-0.7	-0.6
Romania	32011	18.3	-2,131	-1,789	-516	-1,140	-5,576	-5.4	-4.7	-1.6	-3.4	-14.3	-1.2	-1.0	-0.3	-0.7	-3.2
Russia	100617	8.2	-17,457	-13,830	-7,728	-6,968	-45,983	-11.6	-10.5	-6.8	-6.4	-30.9	-1.4	-1.1	-0.6	-0.6	-3.7
Serbia	5626	15.4	33	-530	-178	98	-577	0.4	-8.0	-3.2	1.8	-9.0	0.1	-1.4	-0.5	0.3	-1.6
Slovakia	22844	26.4	-772	941	-1,303	525	-609	-3.0	3.8	-5.7	2.3	-2.8	-0.9	1.1	-1.5	0.6	-0.7
Slovenia	11285	26.4	345	423	-447	-320	1	2.3	3.3	-3.8	-2.7	-1.1	0.8	1.0	-1.0	-0.7	0.0
Turkey	186731	25.2	2,819	461	-3,471	2,600	2,409	1.5	0.2	-1.9	1.4	1.2	0.4	0.1	-0.5	0.4	0.3
Ukraine	6413	7.2	-2,379	-1,138	-473	20	-3,970	-23.0	-13.9	-7.0	0.3	-38.1	-2.7	-1.3	-0.5	0.0	-4.5
CESEE 1/	601718.23	17.3	-27,238	-18,486	-10,079	-9,699	-65,502	-3.8	-2.8	-1.7	-1.6	-9.5	-0.8	-0.5	-0.3	-0.3	-1.9
Emerging Europe 2/	498812.23	16.3	-23,945	-19,316	-10,025	-12,893	-66,179	-4.0	-3.4	-2.0	-2.5	-11.4	-0.8	-0.6	-0.3	-0.4	-2.2
CESEE ex. RUS & TUR	314370.23	20.9	-12,600	-5,117	1,120	-5,331	-21,928	-3.4	-1.5	0.4	-1.7	-6.1	-0.8	-0.3	0.1	-0.4	-1.5
CESEE ex. CIS & TUR 3/	305225	22.7	-10,029	-3,816	1,827	-5,367	-17,385	-2.8	-1.1	0.6	-1.7	-5.0	-0.7	-0.3	0.1	-0.4	-1.3

Sources: BIS and IMF staff calculations.

1/ All countries listed above.

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

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

**Table 2. CESEE: External Position of BIS-reporting Banks, 2014:Q4 - 2015:Q3**  
(Exchange rate adjusted flows)

	2015 Q3		Banks (US\$m)					Non-banks (US\$m)				Loans-Banks				Loans-Non-Banks						
	US\$m	% of 2015 GDP	2014 Q4	2015 Q1	2015 Q2	2015 Q3	Total	2014 Q4	2015 Q1	2015 Q2	2015 Q3	Total	2014 Q4	2015 Q1	2015 Q2	2015 Q3	Total	2014 Q4	2015 Q1	2015 Q2	2015 Q3	Total
Albania	-19.0	-0.2	-7	-9	38	-19	3	-4	46	-50	0	-8	0	10	28	-25	13	2	27	-27	-2	0
Belarus	30.0	0.0	-133	-160	-141	-198	-632	-11	-5	-95	228	117	-131	-161	-141	-198	-631	-6	1	-90	226	131
Bosnia-Herzegovina	-23.0	-0.1	402	-190	12	1	225	-103	5	48	-24	-74	403	-167	-3	5	238	-103	4	47	-24	-76
Bulgaria	-404.0	-0.9	-39	-545	-948	-315	-1,847	936	-1,021	-184	-89	-358	41	-388	-1,210	-95	-1,652	966	-860	-141	-203	-238
Croatia	-346.0	-0.7	374	-1,083	-55	-602	-1,366	-266	149	-653	256	-514	562	-374	-127	-419	-358	-166	-31	-531	244	-484
Czech Republic	2,899.0	1.6	289	634	1,252	3,242	5,417	-1,472	-74	697	-343	-1,192	163	1,446	1,087	3,249	5,945	-1,229	-258	842	-599	-1,244
Estonia	-258.0	-1.1	-380	65	29	47	-239	-12	-43	-26	-305	-386	-314	48	17	18	-231	-22	-48	-36	-265	-371
Hungary	-3,069.0	-2.6	-800	89	90	-2,400	-3,021	-565	318	-984	-669	-1,900	-654	501	25	-2,514	-2,642	-217	277	-249	-532	-721
Latvia	48.0	0.2	115	-19	-99	-65	-68	-93	-63	-56	113	-99	147	-25	-98	-53	-29	-79	-42	-38	19	-140
Lithuania	300.0	0.7	-1,107	-1,123	-140	141	-2,229	-206	89	39	159	81	-1,009	-1,048	-133	144	-2,046	-59	-15	14	67	7
Macedonia	-76.0	-0.8	-382	242	107	-73	-106	-29	-17	-24	-3	-73	-380	264	93	-54	-77	-31	-13	-11	-3	-58
Moldova	-14.1	-0.2	-38	-45	1	-11	-93	-10	47	1	-3	35	-32	-1	-3	-2	-39	-10	47	1	-3	35
Montenegro	-55.0	-1.4	48	-28	0	-4	16	4	-11	-48	-51	-106	49	-11	0	-3	35	-3	-24	-7	-27	-61
Poland	-3,527.0	-0.7	-3,002	-175	5,156	-2,445	-466	-1,205	-97	70	-1,082	-2,314	-2,052	421	5,622	-3,622	369	-1,479	-77	106	-439	-1,889
Romania	-1,140.0	-0.7	-1,218	-1,602	-14	-794	-3,628	-913	-187	-502	-346	-1,948	-1,062	-1,194	-523	-943	-3,722	-652	-350	-128	-248	-1,378
Russia	-6,968.0	-0.6	-7,240	-6,970	-6,970	-2,017	-23,197	-10,217	-6,860	-758	-4,951	-22,786	-9,602	-4,790	-4,912	-732	-20,036	-9,150	-6,539	-1,455	-3,784	-20,928
Serbia	98.0	0.3	231	-423	-48	210	-30	-198	-107	-130	-112	-547	266	-72	-77	154	271	-146	-134	-118	-115	-513
Slovakia	525.0	0.6	-465	923	-603	34	-111	-307	18	-700	491	-498	-481	900	-549	89	-41	-526	27	-347	511	-335
Slovenia	-320.0	-0.7	-39	-448	19	-202	-670	384	871	-466	-118	671	-18	-474	152	-227	-567	95	979	-182	-145	747
Turkey	2,600.0	0.4	1,516	-57	-1,119	1,822	2,162	1,303	518	-2,352	778	247	901	482	32	-1,009	406	338	2,121	-1,520	497	1,436
Ukraine	20.0	0.0	-1,545	-861	-249	100	-2,555	-834	-277	-224	-80	-1,415	-674	-419	-430	140	-1,383	-662	-249	-192	-128	-1,231
CESEE 1/	-9,699.1	-0.3	-13,420	-11,785	-3,682	-3,548	-32,435	-13,818	-6,701	-6,397	-6,151	-33,067	-13,877	-5,052	-1,150	-6,097	-26,177	-13,139	-5,157	-4,062	-4,953	-27,311
Emerging Europe 2/	-12,893.1	-0.4	-11,833	-11,817	-4,140	-6,745	-34,535	-12,112	-7,499	-5,885	-6,148	-31,644	-12,365	-5,899	-1,626	-9,317	-29,208	-11,319	-5,800	-4,315	-4,541	-25,975
CESEE ex. RUS & TUR	-5,331.1	-0.4	-7,696	-4,758	4,407	-3,353	-11,400	-4,904	-359	-3,287	-1,978	-10,528	-5,176	-744	3,730	-4,356	-6,547	-4,327	-739	-1,087	-1,666	-7,819
CESEE ex. CIS & TUR 3/	-5,367.0	-0.4	-5,980	-3,692	4,796	-3,244	-8,120	-4,049	-124	-2,969	-2,123	-9,265	-4,339	-163	4,304	-4,296	-4,494	-3,649	-538	-806	-1,761	-6,754

Sources: BIS and IMF staff calculations.

1/ All countries listed above.

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

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