



# CESEE banks – internationally and domestic driven deleveraging

Debora Revoltella  
Director Economic Department EIB

26-27 November, 2012



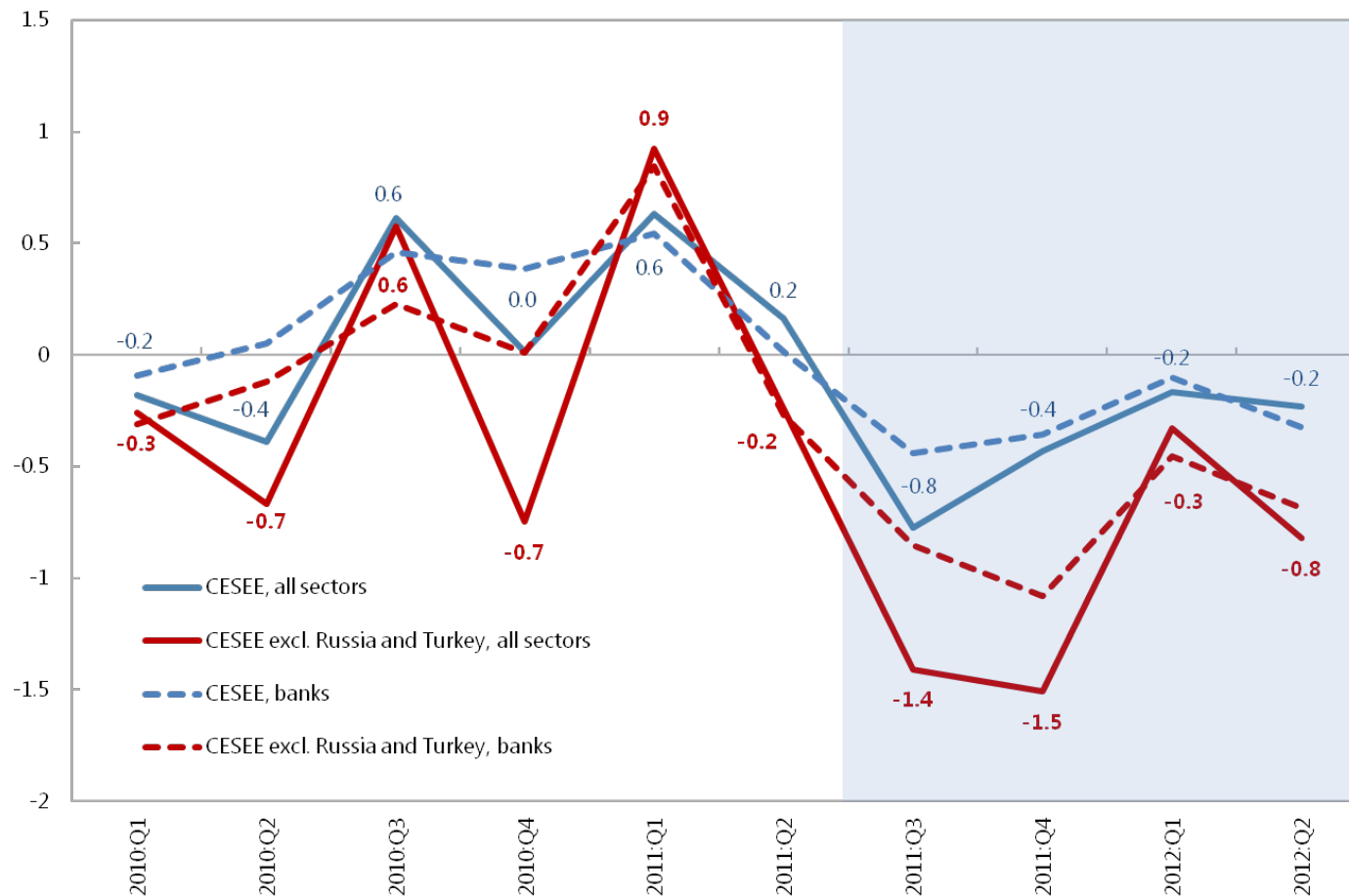
- Evidences from macro data
- Evidences from the EIB Bank lending survey
- Lessons

# The external positions of BIS-reporting banks fell moderately in 2012:Q2



## CESEE: External Positions of BIS-reporting banks, 2010:Q1-2012:Q2

(Percent of GDP)



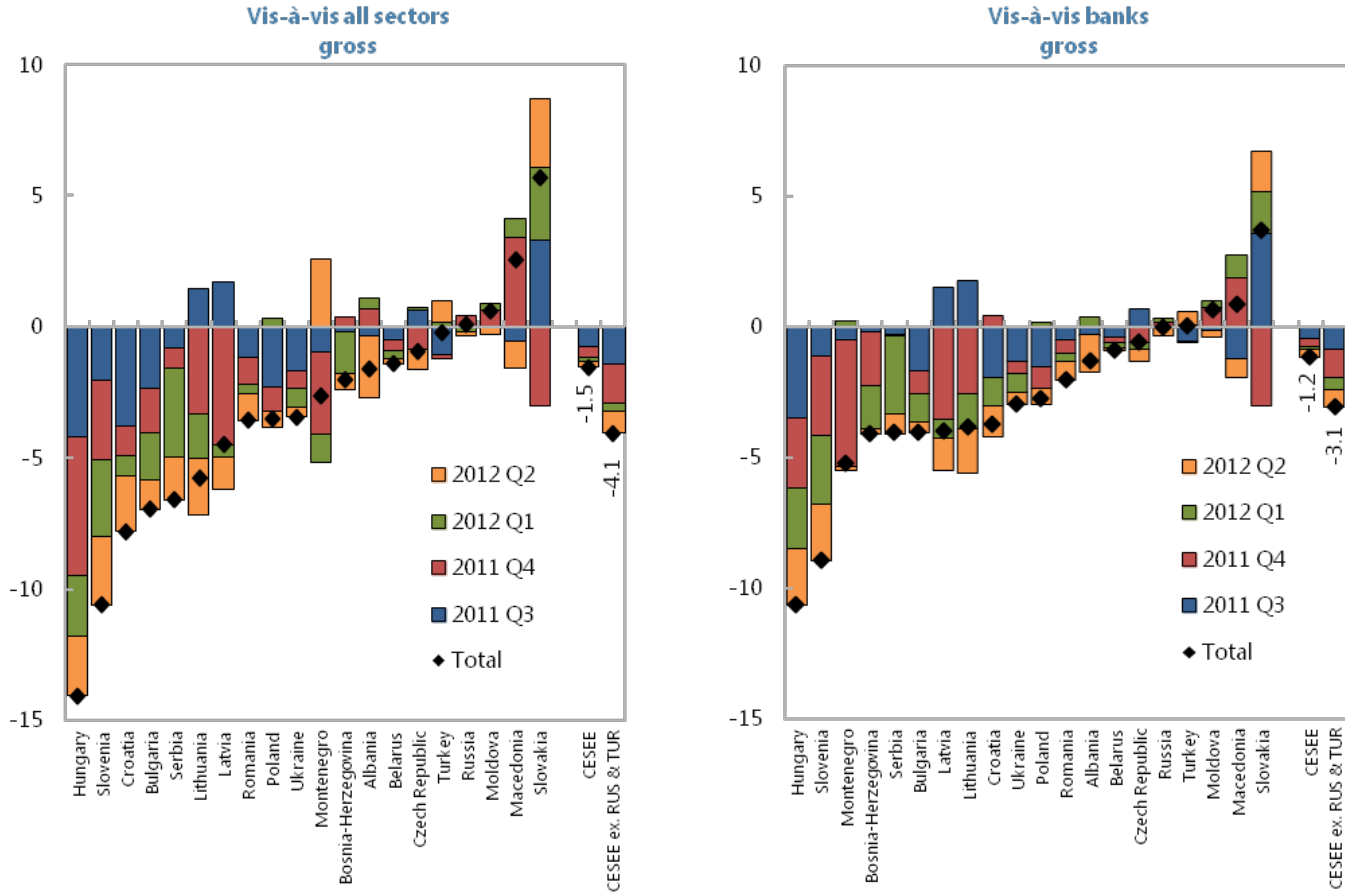
Sources: BIS, Locational Banking Statistics; and IMF staff calculations.

# Cumulative fall of external positions since mid-2011 was large, particularly vis-à-vis some countries



## CESEE: External Positions of BIS-reporting Banks, 2011:Q3 - 2012:Q2

(Change, Percent of GDP\*)



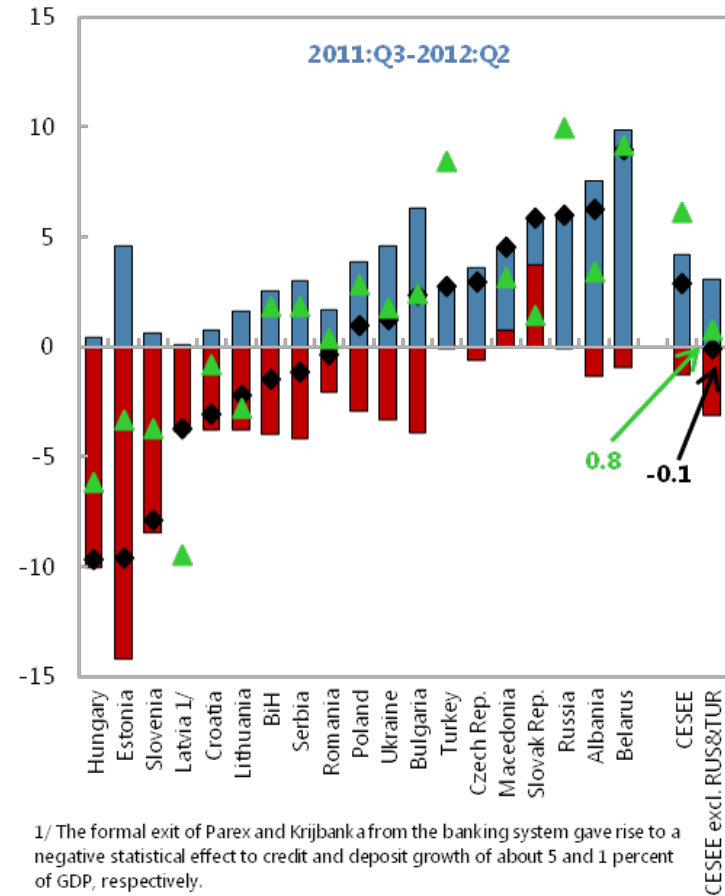
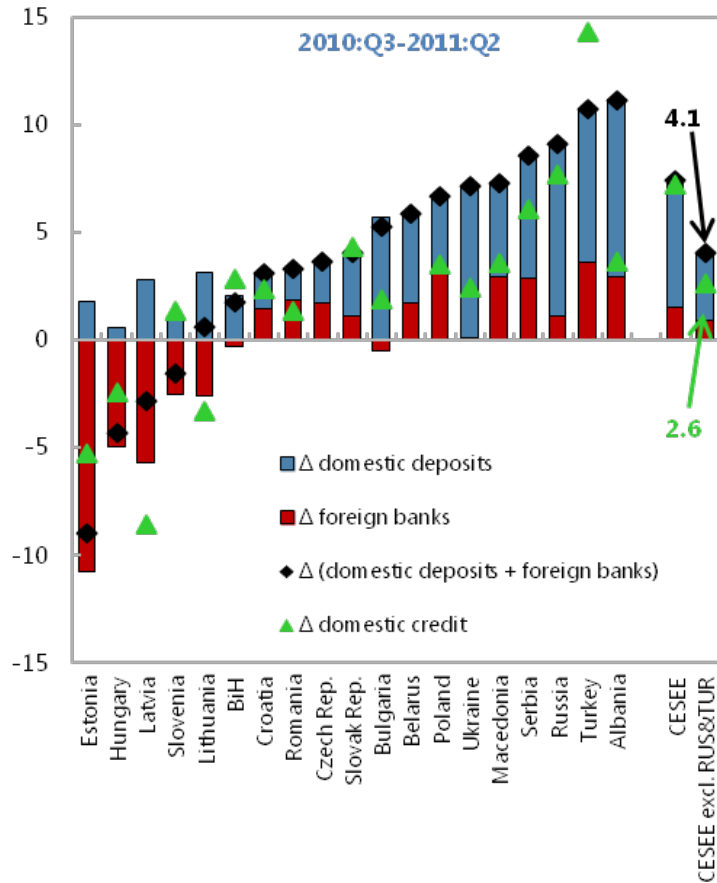
Sources: BIS, Locational Banking Statistics; and IMF staff calculations.

\* Full year 2012 GDP.



# Towards a more self-funded banking system

**CESEE: Banks' Funding Sources and Credit Developments**  
(Percent of GDP, exchange-rate adjusted)



1/ The formal exit of Parex and Krijbank a from the banking system gave rise to a negative statistical effect to credit and deposit growth of about 5 and 1 percent of GDP, respectively.

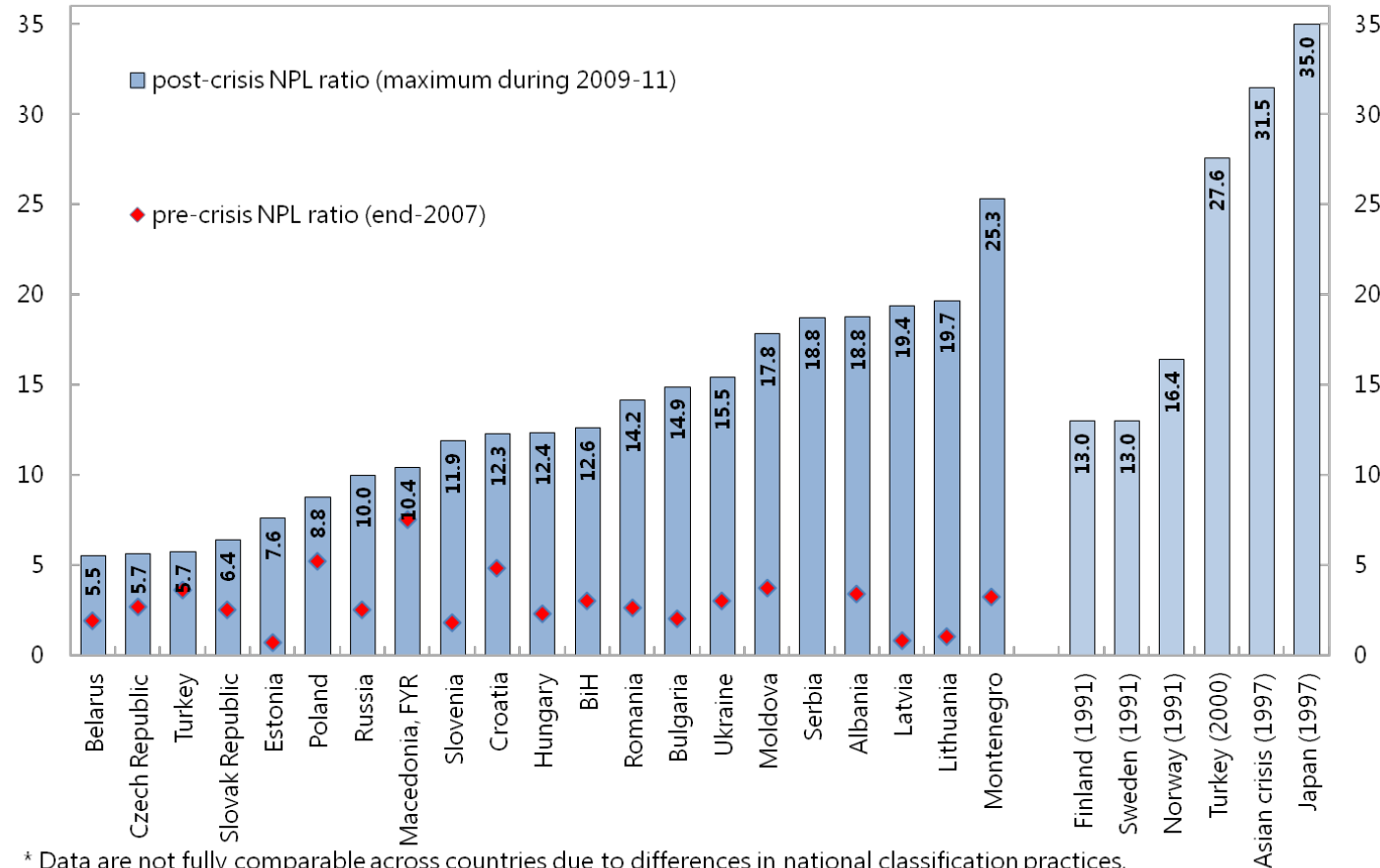
Sources: BIS, Locational Banking Statistics; IMF, IFS; IMF, WEO; national authorities; EBRD; and IMF staff calculations.



# A NPLs legacy to be managed

## CESEE and Previous Crises Countries: Peak NPL Ratios\*

(Percent of total loans)



\* Data are not fully comparable across countries due to differences in national classification practices.

Sources: Country authorities; IMF country desks; IMF Statistics Department; and Laeven and Valencia (2008).



- Evidences from macro data
- Evidences from the EIB Bank lending survey
- Lessons



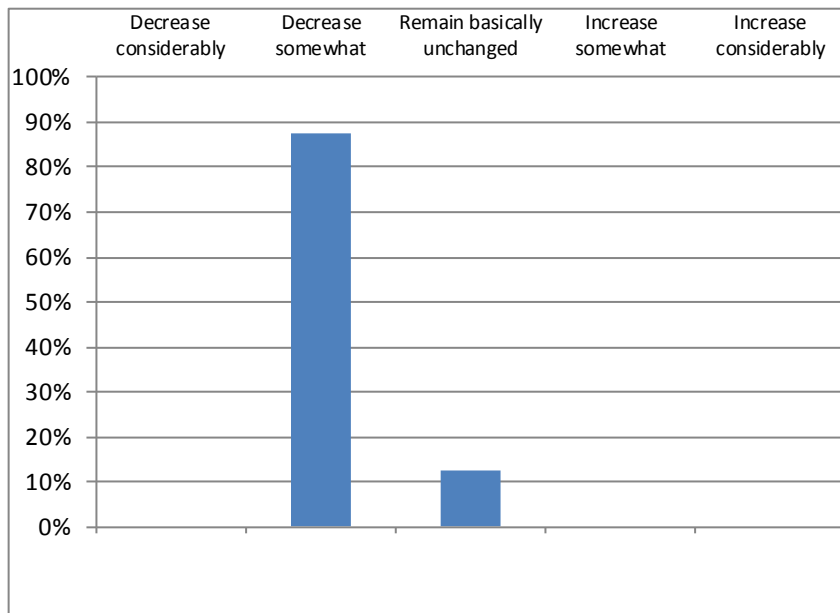


- ❖ Credit stall in CESEE is a key concern – understanding the factors behind is key to define proper actions
- ❖ This survey disentangles:
  - ❖ Demand and supply factors
  - ❖ Domestic and international factors
  - ❖ Role of expectations
- ❖ First run of the survey October 2012. *High rate of participation*

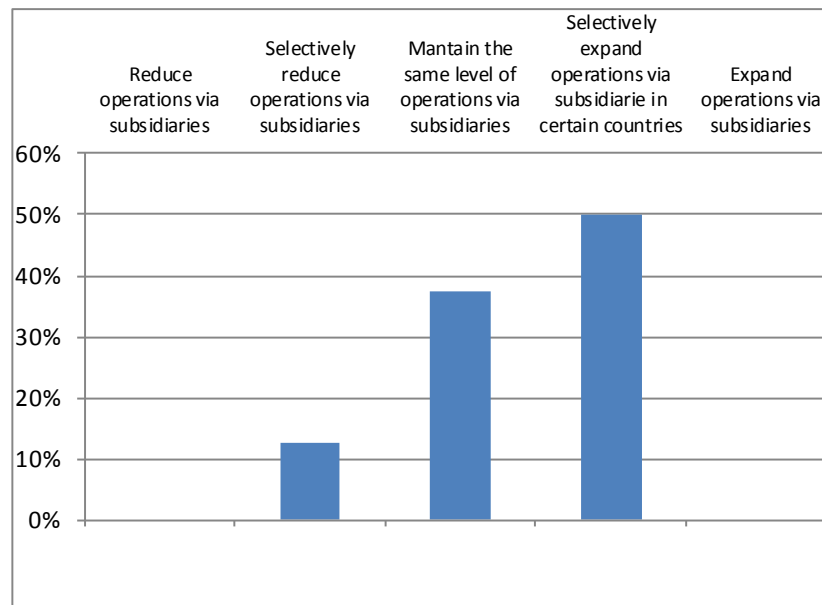
## Results: Group level

- ❖ All parents going through some sort of strategic restructuring
- ❖ At Group level, some more deleveraging expected
- ❖ Continued commitment to operations in the CESEE
- ❖ Being selective is the key strategic factor

Deleveraging — over the next six months, do you expect the loan-to-deposit ratio of your group to...

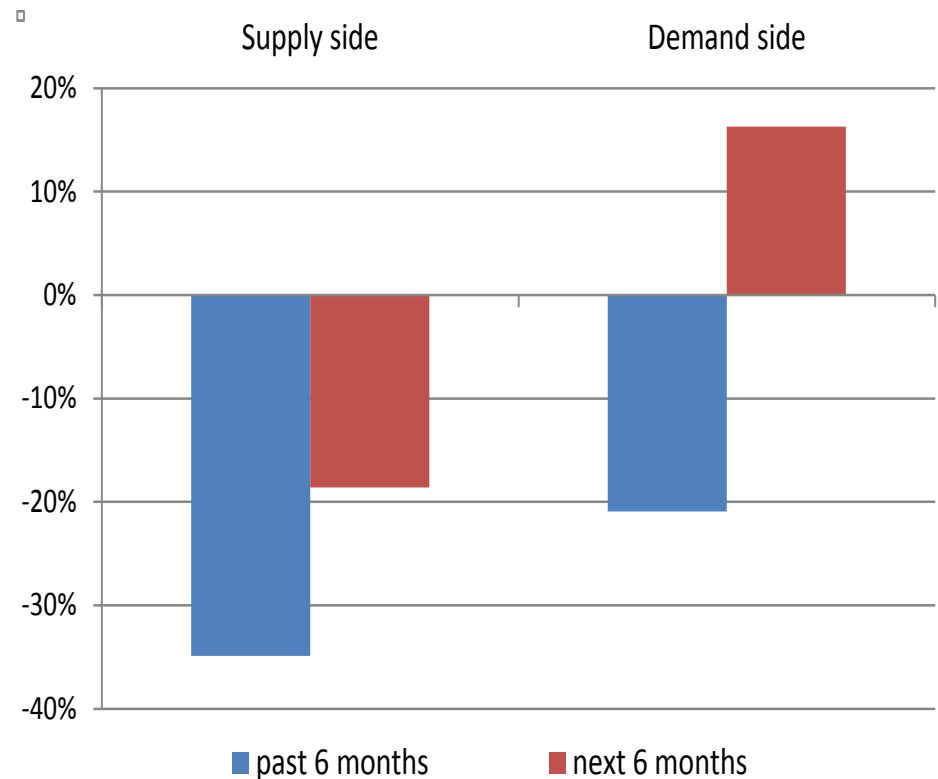


Longer term strategies (beyond 12 months): Looking at operations via subsidiaries in CEE-SEE, your group intends to...



## Results: Subsidiary level

- Demand and supply
  - Past six months: both subdued
  - Looking ahead: demand more positive; supply tilted to the downside
  
- Among negative factors affecting past demand
  - low consumer confidence
  - housing price prospects
  - subdued M&A activities
  - weak fixed investment



## Results: Subsidiary level

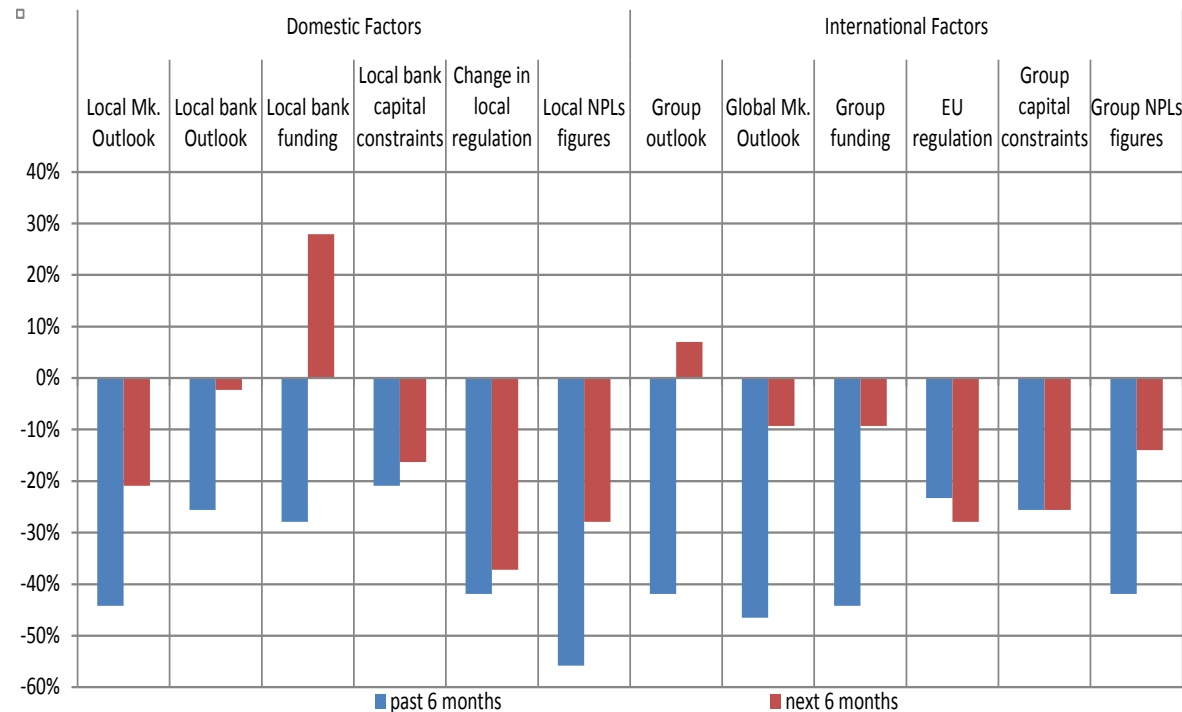
Both domestic and international factors weight on supply tightening, signaling a shift towards a more self-sustainable banking model

### Domestic

- local market outlook
- local regulation
- Compliance local bank capital requirements
- NPLs

### International

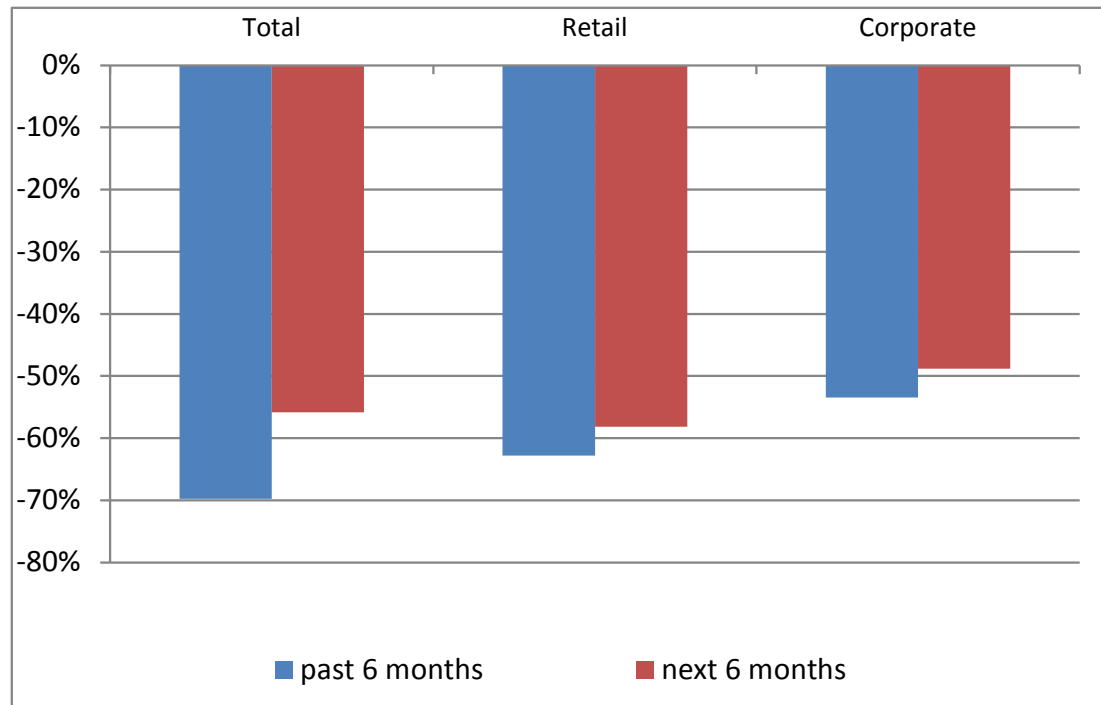
- global market outlook
- group funding
- group capital
- group NPLs





## Results: Subsidiary level

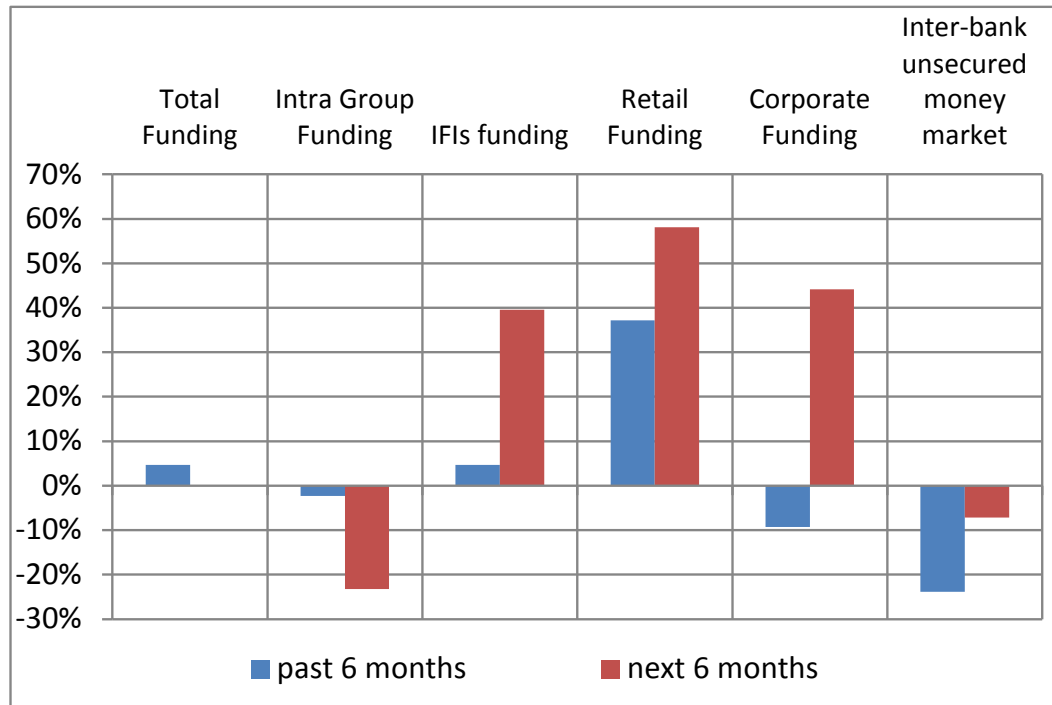
NPLs prospects continue to be seen on the negative side





## Results: Subsidiary level

- Rebalancing of the banking model might lead to strongly binding constraints, when demand recovers





- Evidences from macro data
- Evidences from the EIB Bank lending survey
- **Lessons**



- Towards a rebalancing of the CESEE banking model
- Financial sector rebalancing takes time and affects growth
  - Supply and demand factors play a role in constraining credit growth
  - Both international and domestic factors affect supply
- Policy implications:
  - Banking sector can accommodate growth but can not be the driver for growth
    - Local funding and local capital market development
    - Proactive management of NPLs