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CESEE DELEVERAGING AND CREDIT MONITOR¹

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Key developments in BIS Banks' External Positions and Domestic Credit

BIS reporting banks continued to reduce their external positions vis-à-vis Central, Eastern and Southeastern Europe (CESEE) during 2015:Q1. The pace of reduction was slower, compared to 2014:Q4 (0.3 percent of GDP for all CESEE compared to 0.7 percent in 2014:Q4). Excluding Russia and Turkey, external positions of BIS reporting banks vis-à-vis the region also declined by 0.3 percent of GDP (compared to 0.8 percent in 2014:Q4). BoP data show that related capital outflows also moderated for the region. Credit growth in the region remains bimodal, with positive nominal credit growth in about half of the countries (including Turkey, Russia, and Poland), but contraction in a few others (e.g., Ukraine, Slovenia, Bulgaria, and Hungary).

- The cumulative reduction in BIS reporting banks' external positions since 2008:Q3 now amounts to 6.2 percent of CESEE regional GDP, and excluding Russia and Turkey, to 12.3 percent (Figure 2).
- BIS-reporting banks reduced their external positions vis-à-vis about half of the countries in the region, mainly those in Southeastern Europe and in the CIS that are still struggling with crisis legacies or facing worsening economic conditions (Figure 3 and Table 1). Relative to the 2014:Q4 stocks, the decline was most significant in Ukraine, followed by Bulgaria and Lithuania.² When scaled by GDP, the reductions in Bulgaria, Lithuania, Croatia, Serbia, and Bosnia and Herzegovina exceeded 1 percent of GDP. In contrast, external positions increased noticeably in Macedonia (2 percent of GDP), and Slovakia and Slovenia (0.9 percent of GDP).³

¹ Prepared by the staff of the international financial institutions participating in the Vienna Initiative's Steering Committee. This note is based on the BIS International Banking Statistics released on July 24, 2015.

² BIS banks' flows for Lithuania were influenced by the Euro adoption and the reduction in reserve requirements, which influenced western bank subsidiaries' liquidity, and also changes in currency and deposits with the central bank. The latter showed an increase in Q1 (see below).

³ Changes in Macedonia appear to have been partly linked to the central bank's FX operations. The latest BIS data revised down BIS banks' positions in Slovakia for 2014Q4, mostly in their positions with non-banks.

For the countries experiencing a decline in BIS banks' external positions, the decline in claims on banks was generally larger than the decline in claims on non-banks. In Macedonia, Slovakia, Turkey, and Czech Republic, claims on banks rose by more than claims on non-banks, while in other countries (Slovenia, Albania, and Hungary), the increase was more concentrated in non-bank borrowers (Figure 4, Table 2).⁴

- Consistent with the developments in the BIS banks' external positions, balance of payments (BoP) statistics also showed much smaller outflows from CESEE in 2015:Q1 compared to 2014:Q4. Most countries saw little or modest outflows, while there were inflows in Lithuania and Croatia.⁵ The BoP outflows were generally similar to or smaller than the declines in the BIS data in 2015:Q1. There were, however, some exceptions: BoP data showed larger declines in Romania and Belarus; and in Slovakia, they pointed to an outflow compared with an increase in the BIS position—this likely reflected flows from non-bank creditors (Figures 5a&b).⁶
- Domestic credit growth continued to bifurcate in April 2015 with strong growth in over half of the countries, but weak growth or contraction in others, broadly mirroring patterns in the BIS banks' external positions. The uneven credit recovery across CESEE countries likely reflects differences in growth prospects and different degrees of private balance sheet repair.⁷ For example, Turkey, Poland, Macedonia, and Estonia are seeing positive growth in both real credit to the private sector and real GDP. In contrast, in Romania, Hungary, Slovenia, Latvia, and Bulgaria, real credit continues to contract notwithstanding positive real GDP growth, in large part due to still high private sector indebtedness (Figure 6, 7, and 8). In Belarus, Russia, and Serbia, both real credit and GDP have fallen.
- Trends in credit to households and firms also vary across countries, likely reflecting differences in their debt burdens and debt service capacity. For example, in Hungary, the decline in domestic credit is largely due to a fall in credit to households as households are still facing challenging debt dynamics; while in countries, such as Bulgaria, Croatia, Latvia, and

⁴ For Hungary, the reduction in BIS reporting banks' external position has gradually declined over 2014 and rose for the first time in 2015Q1, in line with its economy recovering steadily, helped by supportive macroeconomic policies and improved market sentiment.

⁵ For Lithuania, the increase is concentrated in currency and deposits at the central bank.

⁶ BoP statistics generally 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. Nevertheless, in Romania, the large decline in liabilities was in long-term loans of the general government, based on external debt statistics. In Slovakia, the decline in external liabilities reflected mainly decline in central government liabilities in the form of currency and deposits. In Belarus, there was a large reduction in debt instruments of the central bank.

⁷ See IMF, "[Mind the Credit Gap](#)", Regional Economic Issues Report for Central, Eastern and Southeastern Europe, May 2015.

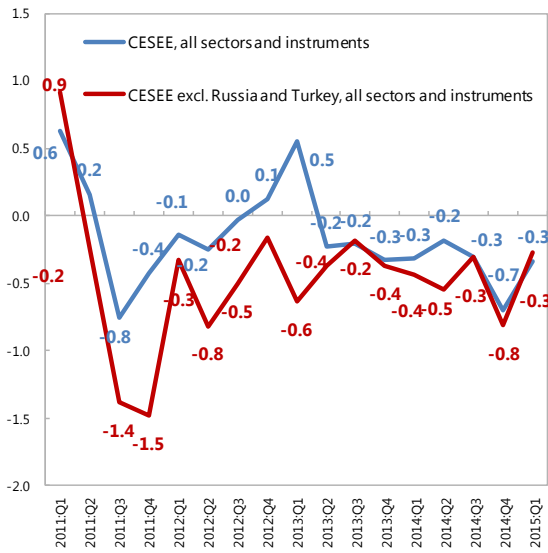
Slovenia, the decline in credit is driven by continued contraction of corporate credit, as corporate indebtedness remains high.⁸ Outside the CIS and Turkey, where countries have seen positive credit growth, it was more on account of households than firms. For Belarus, Russia, and Turkey, nominal credit growth has been strong for both households and corporates, though real credit has been contracting in Belarus and Russia.

- Domestic deposits continued to grow in 2015:Q1 in all CESEE countries, except Ukraine, supporting the reduction of CESEE banks' loan-to-deposit ratios to below 110 percent, on average (Figures 9 and 10).
- Notwithstanding the more upbeat EIB banking survey, a recent IIF EM bank lending survey detected a weakening in loan demand in 2015Q1 (Figure 11).⁹ According to the IIF survey, the decline is most significant in the demand for corporate loans and residential real estate loans, both of which have fallen into contraction territory from 2014Q4, while the demand for commercial real estate loans and consumer loans has also declined but is still in expansion territory.

⁸ For further analysis of these issues, see IMF, "[Mind the Credit Gap](#)", Regional Economic Issues Report for Central, Eastern and Southeastern Europe, May 2015.

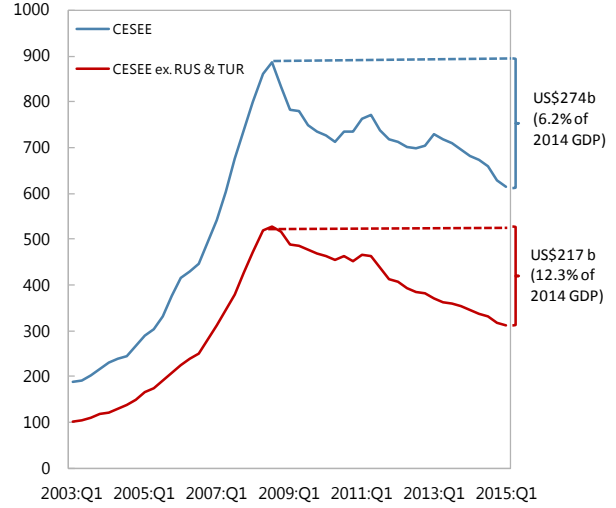
⁹ See IIF, "Emerging Markets Bank Lending Conditions Survey--2015Q1", April 30, 2015. The IIF survey has a less comprehensive coverage than the EIB survey.

Figure 1. CESEE: Change in External Positions of BIS-reporting Banks, 2011:Q1–2015:Q1
(Percent of 2014 GDP, exchange-rate adjusted)



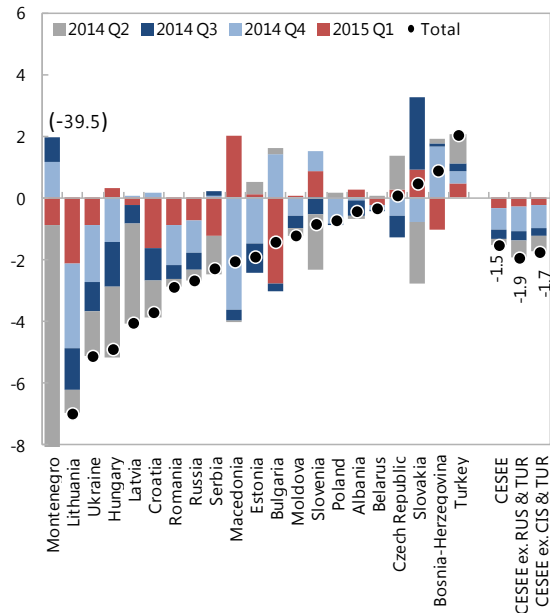
Sources: BIS, Locational Banking Statistics; IMF, World Economic Outlook database; and IMF staff calculations.

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



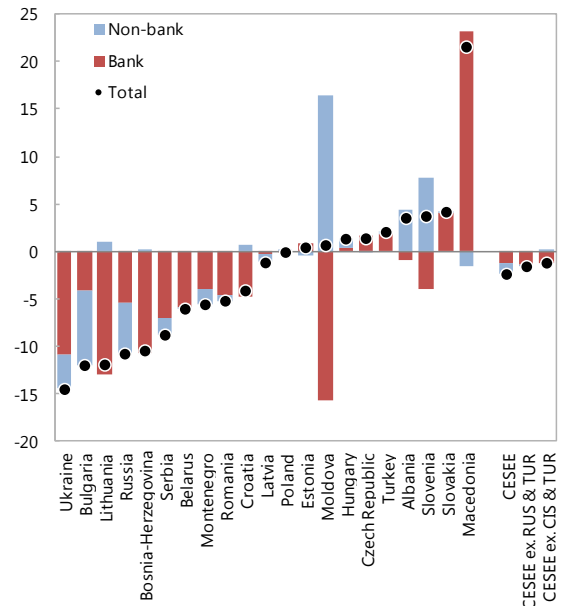
Sources: BIS, Locational Banking Statistics; IMF, World Economic Outlook database; and IMF staff calculations.

Figure 3. CESEE: External Positions of BIS-reporting Banks, 2014:Q1–2015:Q1
(Percent of 2014 GDP, Gross, vis-à-vis all sectors)



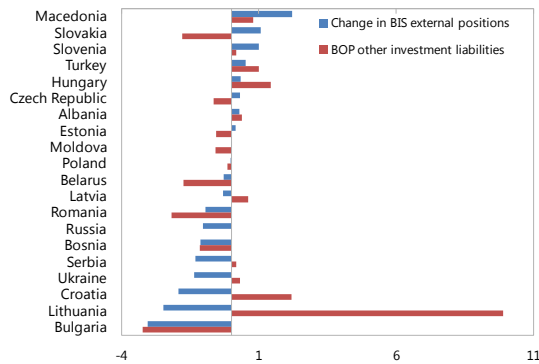
Sources: BIS, Locational Banking Statistics; IMF, World Economic Outlook database; and IMF staff calculations.

Figure 4. CESEE: External Positions of BIS-reporting Banks, 2015:Q1
(Change, percent of 2014:Q4)



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

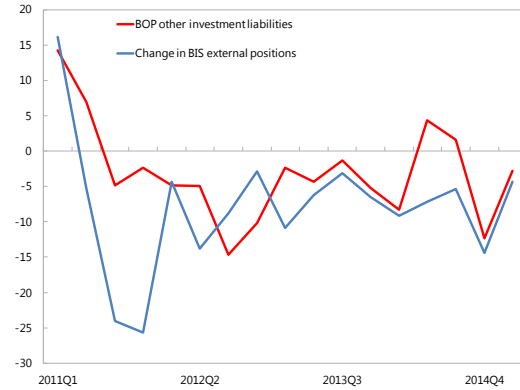
Figure 5a. CESEE: Change in BIS External Positions and Other Investment Liabilities from BoP (2015:Q1, percent of GDP)



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. BOP data for Russia are not available.

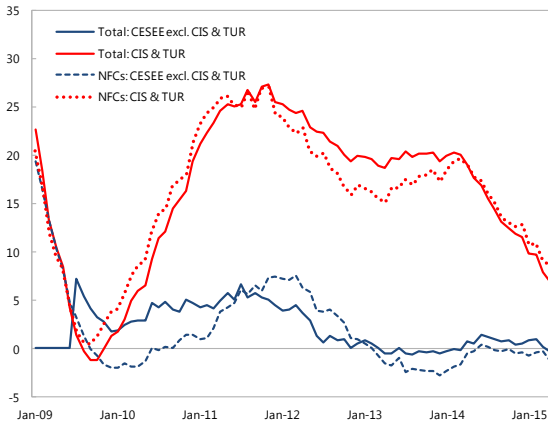
Sources: Haver Analytics; IMF, World Economic Outlook database; and IMF staff calculations.

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



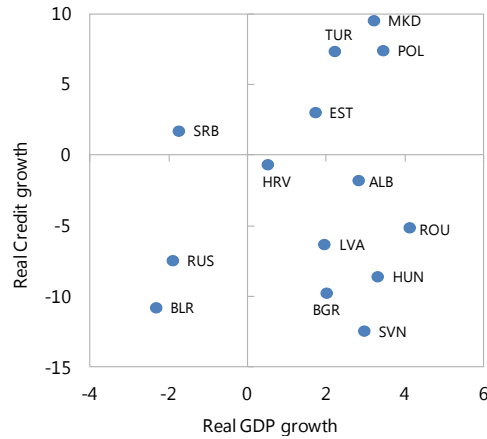
Sources: Haver Analytics; IMF, World Economic Outlook database; and IMF staff calculations.

Figure 6. Credit to Private Sector, January 2009– April 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 and Slovak Republic after 2015 February are excluded because of data availability.

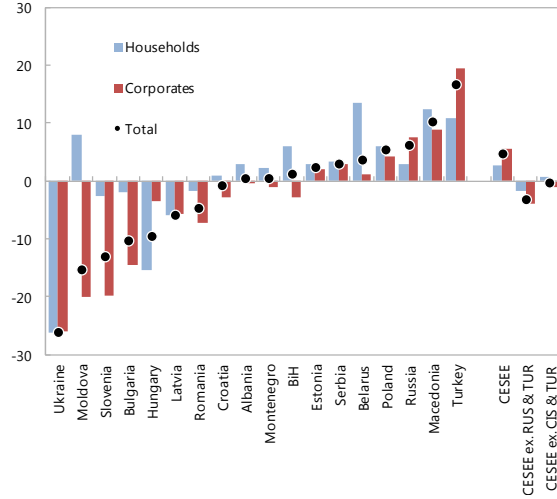
Figure 7. CESEE: Real GDP and Credit Growth, 2015Q1
(Percent change, year-over-year)



Source: Haver Analytics; National authorities; ECB; BIS; EBRD and IMF staff calculations.

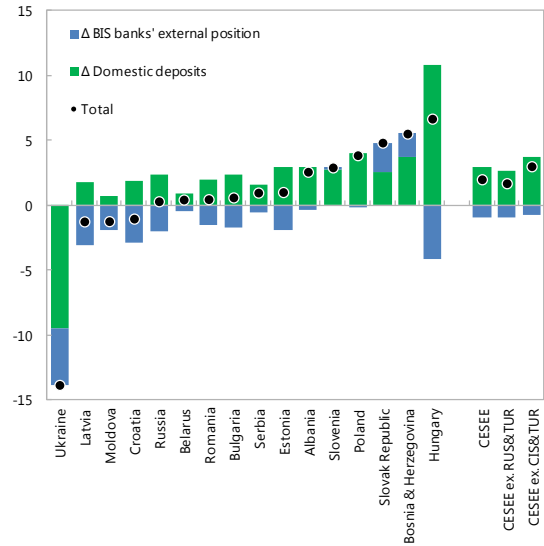
Figure 8. Credit Growth to Households and Corporations, April 2015

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



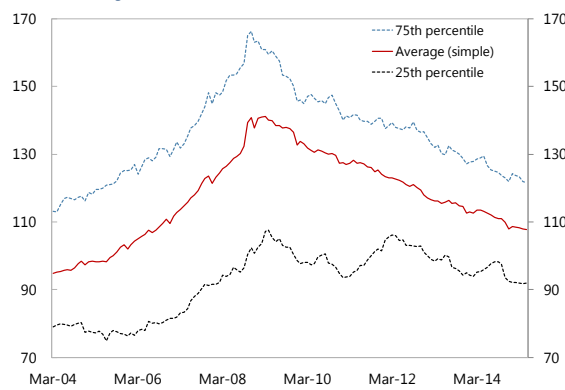
Sources: National authorities; ECB; BIS; EBRD and IMF staff calculations. Note: Lithuania and Slovak Republic are excluded because of data availability.

Figure 9. Main Bank Funding Sources, 2015:Q1
(Year-over-year change, Percent of GDP)



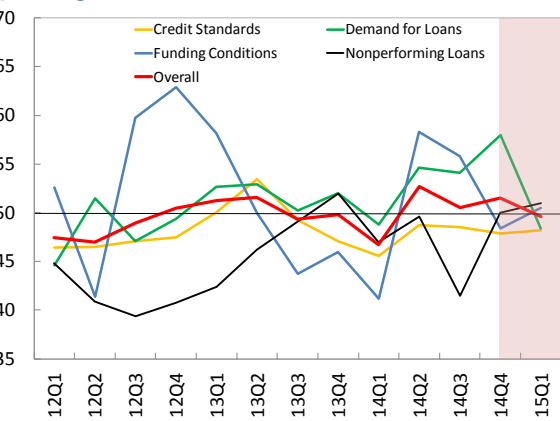
Sources: BIS, Locational Banking Statistics; Haver Analytics; International Financial Statistics; and IMF staff calculations. Note: For Lithuania, data for 2015:Q1 are yet available.

Figure 10. CESEE: Domestic Loan to Domestic Deposit Ratio, 2004:March - 2015:May (Percent)



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

Figure 11. EM Europe Bank Lending Conditions Survey 2015:Q1 (Values above 50 indicate improving conditions)



Source: IIF.

Table 1. CESEE: External Position of BIS-reporting Banks, 2014:Q1 - 2015:Q1
(Vis-à-vis all sectors)

	2015 Q1 stocks		Exchange-rate adjusted flows (US\$m)					Exchange-rate adjusted flows (% of previous stock)					Exchange-rate adjusted flows (% of 2014 GDP)				
	US\$ m	% of 2014 GDP	2014 Q2	2014 Q3	2014 Q4	2015 Q1	Total	2014 Q2	2014 Q3	2014 Q4	2015 Q1	Total	2014 Q2	2014 Q3	2014 Q4	2015 Q1	Total
Albania	1,077	8.1	-12	-70	-11	37	-56	-0.9	-5.6	-1.0	3.3	-4.3	-0.1	-0.5	-0.1	0.3	-0.4
Belarus	2,572	3.4	58	-3	-141	-165	-251	1.8	-0.1	-4.6	-5.5	-8.3	0.1	0.0	-0.2	-0.2	-0.3
Bosnia-Herzegovina	1,589	8.8	27	20	299	-185	161	0.9	0.7	10.7	-9.4	1.9	0.2	0.1	1.7	-1.0	0.9
Bulgaria	11,516	20.6	116	-123	783	-1,566	-790	0.8	-0.8	5.5	-10.9	-6.0	0.2	-0.2	1.4	-2.8	-1.4
Croatia	21,852	38.2	-685	-587	93	-934	-2,113	-2.1	-1.8	0.3	-3.7	-7.1	-1.2	-1.0	0.2	-1.6	-3.7
Czech Republic	39,955	19.4	2,232	-1,376	-1,233	559	182	4.6	-2.7	-2.7	1.3	0.3	1.1	-0.7	-0.6	0.3	0.1
Estonia	7,518	29.0	100	-240	-386	34	-492	1.0	-2.4	-4.3	0.4	-5.2	0.4	-0.9	-1.5	0.1	-1.9
Hungary	31,332	22.9	-3,155	-2,022	-1,949	421	-6,705	-7.1	-4.9	-5.3	1.3	-15.3	-2.3	-1.5	-1.4	0.3	-4.9
Latvia	7,068	22.1	-1,037	-192	19	-82	-1,292	-10.1	-2.1	0.2	-1.0	-12.6	-3.2	-0.6	0.1	-0.3	-4.0
Lithuania	7,674	15.9	-373	-637	-1,325	-1,035	-3,370	-2.8	-5.0	-11.8	-10.8	-27.4	-0.8	-1.3	-2.7	-2.1	-7.0
Macedonia	1,267	11.2	-7	-39	-411	225	-232	-0.4	-2.2	-25.6	19.3	-13.5	-0.1	-0.3	-3.6	2.0	-2.0
Moldova	289	3.6	-18	-32	-48	2	-96	-4.7	-8.9	-15.3	0.7	-26.0	-0.2	-0.4	-0.6	0.0	-1.2
Montenegro	663	14.9	-1,812	35	52	-39	-1,764	-54.3	2.3	3.6	-5.0	-53.9	-40.6	0.8	1.2	-0.9	-39.5
Poland	96,853	17.7	819	-36	-4,671	-45	-3,933	0.7	0.0	-4.2	0.0	-3.6	0.1	0.0	-0.9	0.0	-0.7
Romania	32,733	16.4	-488	-899	-2,575	-1,789	-5,751	-1.1	-2.1	-6.5	-4.7	-13.7	-0.2	-0.4	-1.3	-0.9	-2.9
Russia	114,428	6.2	-5,789	-10,552	-19,464	-13,791	-49,596	-3.3	-6.3	-12.8	-10.4	-29.3	-0.3	-0.6	-1.0	-0.7	-2.7
Serbia	5,527	12.6	-550	61	22	-531	-998	-6.3	0.7	0.3	-8.0	-12.9	-1.3	0.1	0.1	-1.2	-2.3
Slovakia	22,921	22.9	-1,989	2,311	-769	925	478	-7.1	9.0	-3.0	3.8	1.9	-2.0	2.3	-0.8	0.9	0.5
Slovenia	11,708	23.6	-911	-254	328	423	-414	-5.2	-1.5	2.2	3.3	-1.4	-1.8	-0.5	0.7	0.9	-0.8
Turkey	188,255	23.5	7,403	2,246	2,862	3,856	16,367	3.9	1.2	1.5	2.0	8.9	0.9	0.3	0.4	0.5	2.0
Ukraine	6,778	5.2	-1,872	-1,236	-2,429	-1,149	-6,686	-13.5	-10.3	-23.4	-14.0	-48.9	-1.4	-0.9	-1.9	-0.9	-5.1
CESEE 1/	613,575	13.9	-7,943	-13,625	-30,954	-14,829	-67,351	-1.0	-1.8	-4.3	-2.2	-9.0	-0.2	-0.3	-0.7	-0.3	-1.5
Emerging Europe 2/	516,731	13.0	-5,965	-13,237	-27,588	-15,653	-62,443	-0.9	-2.1	-4.6	-2.8	-10.0	-0.2	-0.3	-0.7	-0.4	-1.6
CESEE ex. RUS & TUR	310,892	17.6	-9,557	-5,319	-14,352	-4,894	-34,122	-2.3	-1.3	-3.8	-1.4	-8.6	-0.5	-0.3	-0.8	-0.3	-1.9
CESEE ex. CIS & TUR 3/	301,253	19.4	-7,725	-4,048	-11,734	-3,582	-27,089	-1.9	-1.0	-3.2	-1.1	-7.1	-0.5	-0.3	-0.8	-0.2	-1.7

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, 2014:Q1 - 2015:Q1
(Exchange rate adjusted flows)

	2015 Q1		Banks (US\$m)					Non-banks (US\$m)					Loans-Banks					Loans-Non-Banks				
	US\$ m	% of 2014 GDP	2014 Q2	2014 Q3	2014 Q4	2015 Q1	Total	2014 Q2	2014 Q3	2014 Q4	2015 Q1	Total	2014 Q2	2014 Q3	2014 Q4	2015 Q1	Total	2014 Q2	2014 Q3	2014 Q4	2015 Q1	Total
Albania	37	0.3	21	-54	-7	-9	-49	-33	-16	-4	46	-7	20	-38	1	10	-7	-34	-24	1	27	-30
Belarus	-165	-0.2	43	-45	-129	-160	-291	15	42	-12	-5	40	43	-45	-127	-161	-290	18	30	-7	1	42
Bosnia-Herzegovina	-185	-1.0	34	50	402	-190	296	-7	-30	-103	5	-135	-3	-91	403	-167	142	-7	-30	-103	4	-136
Bulgaria	-1,566	-2.8	91	-345	-87	-545	-886	25	222	870	-1,021	96	99	-267	47	-388	-509	-50	260	920	-860	270
Croatia	-934	-1.6	-516	-180	386	-1,091	-1,401	-169	-407	-293	157	-712	-693	-937	564	-374	-1,440	289	-197	-181	-31	-120
Czech Republic	559	0.3	3,409	-564	213	633	3,691	-1,177	-812	-1,446	-74	-3,509	3,231	-227	190	1,446	4,640	-275	-648	-1,288	-258	-2,469
Estonia	34	0.1	-5	-117	-381	65	-438	105	-123	-5	-31	-54	51	-153	-314	48	-368	140	-112	-16	-37	-25
Hungary	421	0.3	-2,101	-1,864	-1,360	98	-5,227	-1,054	-158	-589	323	-1,478	-1,042	-751	-1,088	506	-2,375	-581	-174	-232	277	-710
Latvia	-82	-0.3	-896	-51	115	-19	-851	-141	-141	-96	-63	-441	-846	-48	146	-25	-773	20	-105	-81	-42	-208
Lithuania	-1,035	-2.1	-260	-587	-1,106	-1,124	-3,077	-113	-50	-219	89	-293	-348	-474	-1,009	-1,048	-2,879	-55	-13	-60	-15	-143
Macedonia	225	2.0	-3	-53	-382	242	-196	-4	14	-29	-17	-36	0	-43	-380	264	-159	2	0	-31	-13	-42
Moldova	2	0.0	-17	-17	-38	-45	-117	-1	-15	-10	47	21	-25	0	-32	-1	-58	-1	-15	-10	47	21
Montenegro	-39	-0.9	-72	61	48	-28	9	-1,740	-26	4	-11	-1,773	-72	-2	49	-11	-36	37	-2	-3	-24	8
Poland	-45	0.0	506	2,077	-3,218	-61	-696	313	-2,113	-1,453	16	-3,237	1,303	-1,694	-2,058	483	-1,966	322	-1,342	-1,719	-2	-2,741
Romania	-1,789	-0.9	292	-207	-1,411	-1,602	-2,928	-780	-692	-1,164	-187	-2,823	423	-93	-1,178	-1,193	-2,041	-829	-428	-801	-350	-2,408
Russia	-13,791	-0.7	-4,623	-7,406	-8,581	-6,926	-27,536	-1,166	-3,146	-10,883	-6,865	-22,060	-3,268	-6,965	-10,725	-4,747	-25,705	-1,528	-2,476	-9,807	-6,537	-20,348
Serbia	-531	-1.2	-209	157	233	-424	-243	-341	-96	-211	-107	-755	-104	-46	268	-73	45	-317	-105	-159	-134	-715
Slovakia	925	0.9	-1,213	2,754	-478	909	1,972	-776	-443	-291	16	-1,494	-1,171	2,602	-483	886	1,834	-157	-458	-510	25	-1,100
Slovenia	423	0.9	414	149	-54	-448	61	-1,325	-403	382	871	-475	359	18	-21	-474	-118	-1,444	-302	93	979	-674
Turkey	3,856	0.5	5,414	3,406	826	3,466	13,112	1,989	-1,160	2,036	390	3,255	4,911	4,493	351	4,003	13,758	842	-770	1,278	1,994	3,344
Ukraine	-1,149	-0.9	-1,038	-308	-1,546	-865	-3,757	-834	-928	-883	-284	-2,929	-645	-196	-675	-423	-1,939	-609	-709	-671	-256	-2,245
CESEE 1/	-14,829	-0.3	-729	-3,144	-16,555	-8,124	-28,552	-7,214	-10,481	-14,399	-6,705	-38,799	2,223	-4,957	-16,071	-1,439	-20,244	-4,217	-7,620	-13,387	-5,205	-30,429
Emerging Europe 2/	-15,653	-0.4	-2,178	-4,728	-14,864	-8,140	-29,910	-3,787	-8,509	-12,724	-7,513	-32,533	947	-6,675	-14,580	-2,272	-22,580	-2,446	-5,982	-11,525	-5,857	-25,810
CESEE ex. RUS & TUR	-4,894	-0.3	-1,520	856	-8,800	-4,664	-14,128	-8,037	-6,175	-5,552	-230	-19,994	580	-2,485	-5,697	-695	-8,297	-3,531	-4,374	-4,858	-662	-13,425
CESEE ex. CIS & TUR 3/	-3,582	-0.2	-508	1,226	-7,087	-3,594	-9,963	-7,217	-5,274	-4,647	12	-17,126	1,207	-2,244	-4,863	-110	-6,010	-2,939	-3,680	-4,170	-454	-11,243

Sources: BIS and IMF staff calculations.

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