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EUROSYSTEM

# Banking sectors in the Western Balkans at the onset of the COVID-19 crisis and some recent developments

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## Banking landscape the Western Balkan countries: selected facts and figures



- Dominance of foreign-owned banks: EU-headquartered banks hold more than 50% of total banking sector assets
- Overall sound banking systems at the onset of the crisis: well capitalized, liquid and profitable

- In the first half of 2020, banking sectors remained stable but profitability declined somewhat

### Banking performance

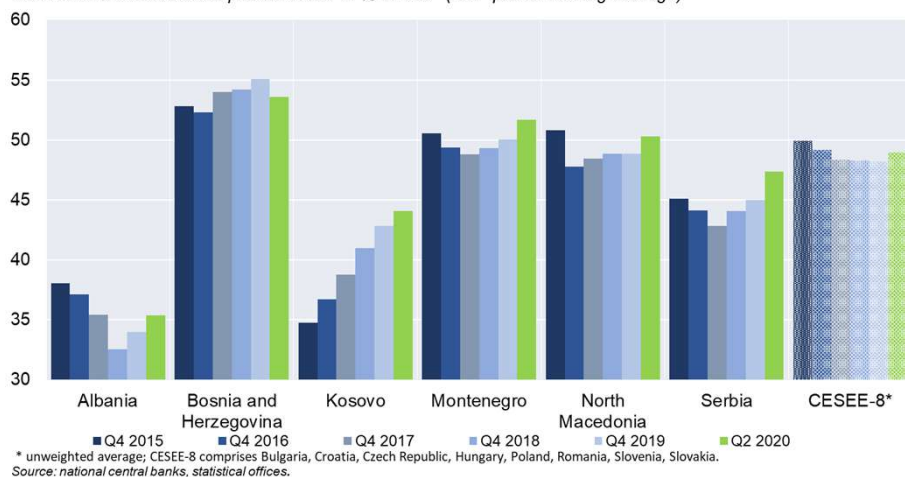
	Regulatory Tier 1 Capital to Risk-Weighted Assets			Return on Assets		
	Q4 2019	Q1 2020	Q2 2020	Q4 2019	Q1 2020	Q2 2020
	in %					
Albania	17.1	17.9	17.0	1.4	0.4	0.9
Bosnia and Herzegovina	17.5	16.7	17.3	1.2	1.2	0.9
Kosovo	15.9	15.1	16.7	2.0	1.8	1.7
Montenegro	17.7	17.4	19.6	1.1	1.2	0.7
North Macedonia	14.8	15.0	15.5	1.3	0.8	1.0
Serbia	22.4	21.9	..	1.6	1.8	..

Source: national central banks.

## Financial deepening and access to finance: room for improvement

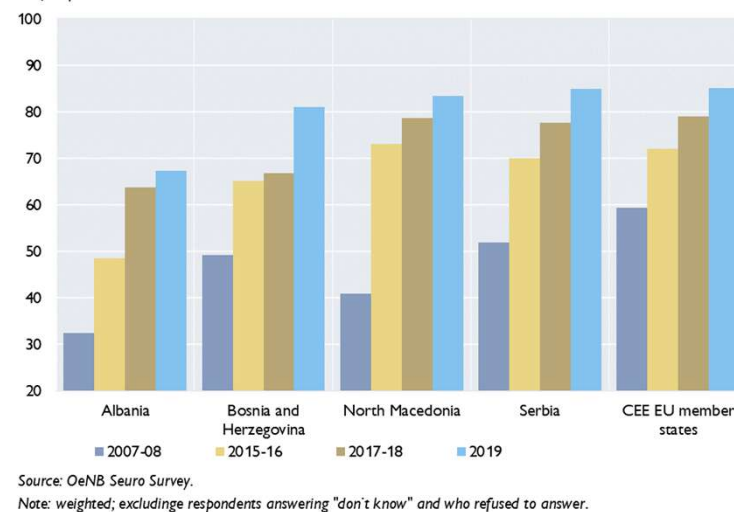
### Only slight increase (or even decline) of financial intermediation in most Western Balkan countries since 2015

total loans to the non-bank private sector in % of GDP (four quarter moving average)



### Bank account ownership over time

% of respondents



### Financial deepening

- highest in Bosnia and Herzegovina, lowest in Albania
- roughly in line with CESEE-8 average for most countries, but significantly below euro area average (90%)

### Ownership of bank accounts

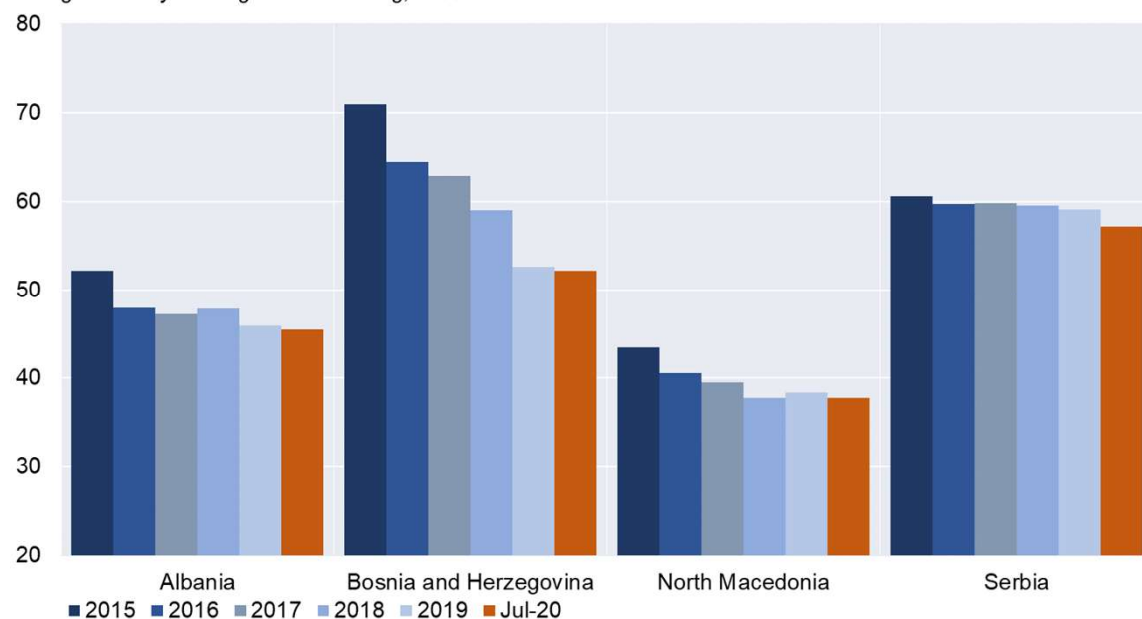
- has increased strongly in all Western Balkan countries since 2007
- most countries have reached CESEE EU Member States average

## Western Balkan countries show high degree of euroization

- Highest share in Serbia; visible decline only in Bosnia and Herzegovina (from elevated level)
- High degree of euroization raises macrofinancial stability concerns: exposure of the financial system to unfavorable exchange rate developments
- Measures implemented to reduce foreign currency lending, e.g. de-euroization strategy in Albania, dinarization strategy in Serbia

High share of foreign-currency lending in total lending

foreign currency lending in total lending, in %

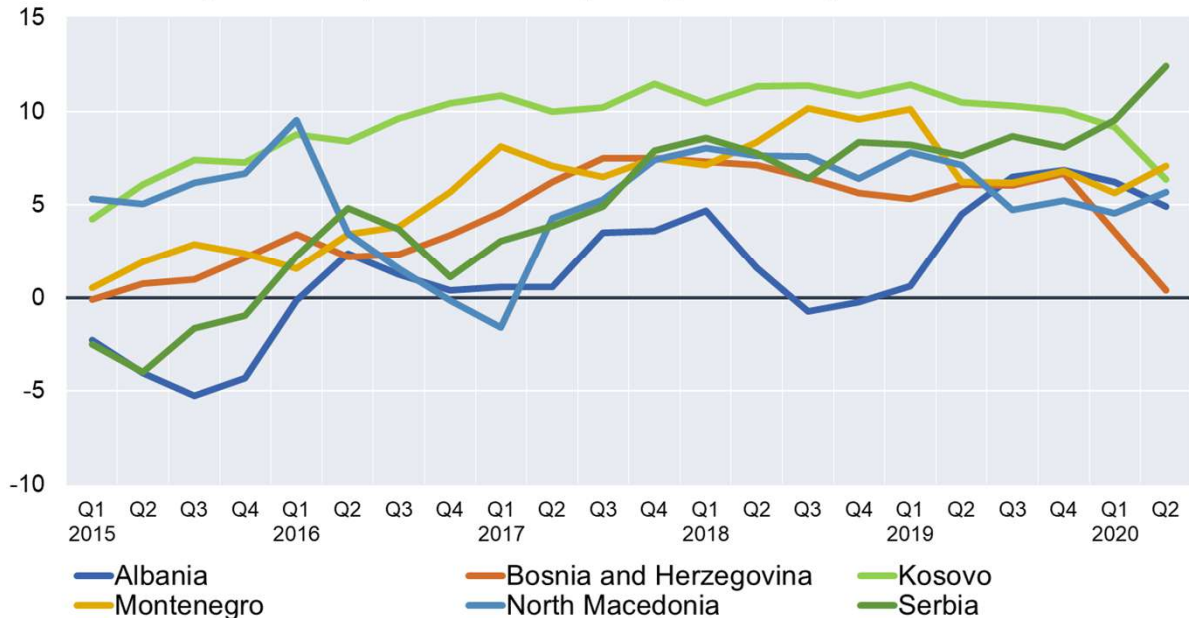


Source: national central banks.

# Strong lending to the private sector until the onset of COVID-19 pandemic, mixed picture in the first half of 2020

## Heterogenous lending activity in the first half of 2020 across the Western Balkan countries

bank loans to the private sector (households and corporates), annual change in %



Source: national central banks.

In the first half of 2020 credit developments differed across countries

Accelerating credit growth e.g. driven by

- supportive measures, e.g. monetary easing, liquidity injections, sovereign loan guarantees
- compensation of income losses

Decelerating credit growth e.g. driven by

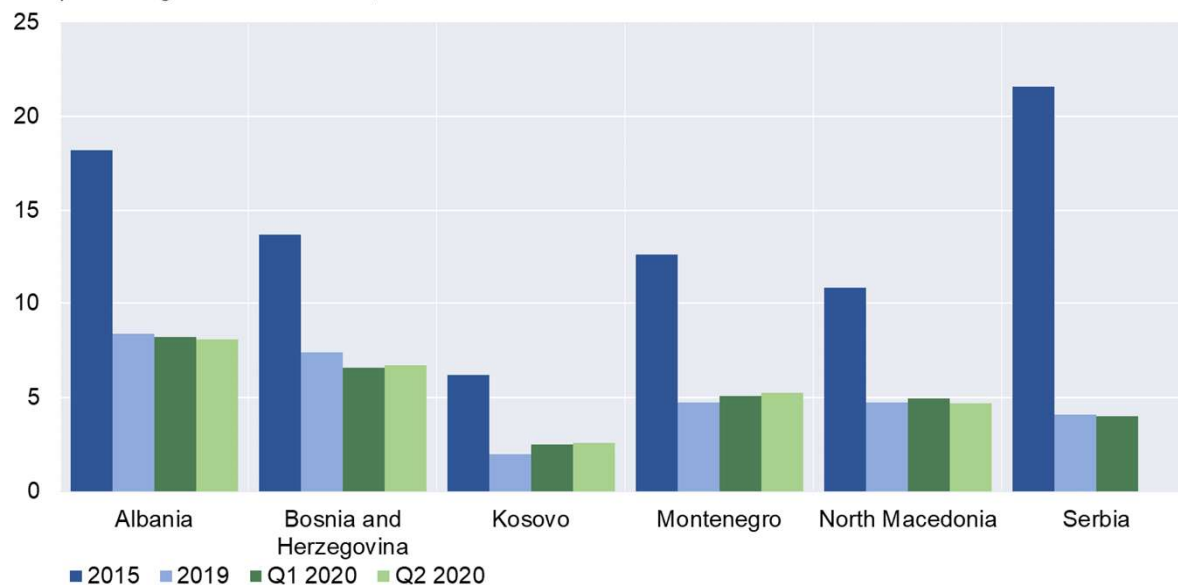
- heightened uncertainty among households and corporates (e.g. postponement of investment), unemployment
- tighter lending standards

## Ability to repay loans has improved significantly over the last years in all countries of the region

- Significant decline of the ratio of nonperforming loans (NPLs) to total loans in all Western Balkan countries from 2015 to 2019
- Currently, Kosovo reports the lowest NPL ratio, Albania the highest
- In Q1 and Q2 2020, NPL ratios remained almost unchanged in all countries

### Visible decline in non-performing loans over the last years, slight increase in Q1 and Q2 2020 in some countries

non-performing loans in total loans, in %



Source: national central banks.

## Repayment relief: important tool to ease strain on debtors (I)



All Western Balkan countries have implemented some form of **repayment relief** for households and the corporate sector at the beginning of the COVID-19 crisis\*

Opt-in option in most countries , **opt-out** in Serbia

### Albania

Loan repayment moratorium of up to three months; expired; **extended** to three important sectors: tourism (until end-2020), clothing and manufacturing sector (until autumn 2020)

### Bosnia and Herzegovina

Banking Agencies instructed banks to support customers in case of repayment difficulties, including a loan moratorium of max. six months and the revision of fees (expired end-August); **extended** until end-2020

### Kosovo

Loan repayment moratorium for corporates and households (until mid-August 2020) for a period of up to three months; **extended** until end-September 2020

\* *Western Balkan countries have implemented further macroprudential measures in response to the COVID-19 crisis, see: Barisitz, S. and A. Hildebrandt. 2020. Macroprudential measures in the Western Balkans: Stocktaking and recent developments (2015 through COVID-19 crisis). Focus on European Economic Integration. Q4/2020. Forthcoming.*

## Repayment relief: important tool to ease strain on debtors (II)

### Montenegro

90-day repayment moratorium (until end of May); **extended** to borrowers whose financial situation has been negatively affected by the coronavirus crisis; extended to cover loans to priority sectors (particularly to tourism) from September 1, 2020, to August 31, 2021

### North Macedonia

Banks can initiate changes in loans' contractual terms without client request which clients can accept/decline within 10 days. Banks' clients can also request changes in their loans' contractual terms (from March to Sept 2020), **extended** (September): banks can offer a second favorable change in the contractual terms of credits (up to six months)

### Serbia

90-day loan repayment moratorium for all banks; regulation was **extended** at the end of July and banks had to offer a moratorium before July 31, 2020, for all liabilities maturing between August 1 and September 30, 2020

Some initial information suggests a high take-up of loan moratoria by households and corporates in some countries.



## Risks of adverse developments in the financial sector due to the COVID-19 crisis

### ➤ Slowdown of financial deepening/access to finance?

- Lower credit growth
- Poorer and unemployed people are more likely to be excluded from bank account ownership
- Second-round effects: limited support for economic activity

### ➤ Impact on (and of) euroization process?

- Recall: economic shock and little trust in own currency and high degree of uncertainty were important drivers of euroization in the Western Balkans
- Increased vulnerabilities in case of currency depreciation

### ➤ Increasing NPLs?

How the COVID-19 crisis will impact the size and speed of the increase of NPLs depends on

- » the duration and size of measures to support households and enterprises
- » the duration and size of the economic downturn and recovery

### ➤ How vulnerable are households in the Western Balkans to the COVID-19 crisis?


**Danke für Ihre Aufmerksamkeit**

**Thank you for your attention**

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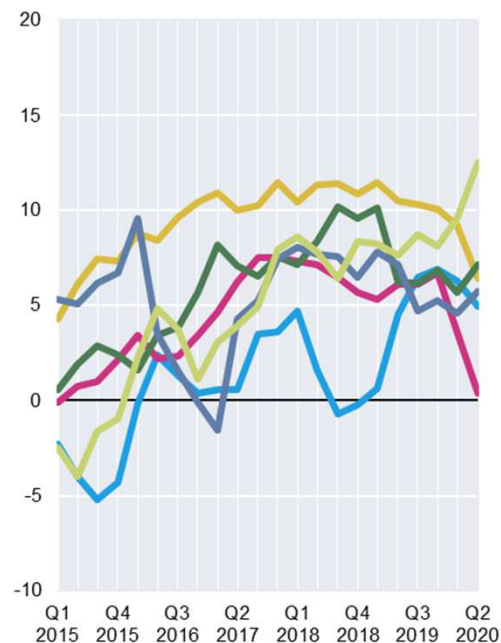
### Performance indicators of the banking sector

		Regulatory Tier 1 Capital to Risk-	Liquid Assets to Total Assets	Liquid Assets to Short Term Liabilities	Loan to deposit	Return on Assets	Return on Equity
<b>Albania</b>	Q4 2019	17.1	15.1	20.9	47.2	1.4	13.3
	Q1 2020	17.0	15.4	21.7	47.3	0.4	3.5
	Q2 2020	17.9	12.0	16.7	47.4	0.9	9.1
<b>Bosnia and Herzegovina</b>	Q4 2019	17.5	29.6	45.5	96.5	1.2	9.1
	Q1 2020	17.3	28.1	43.0	95.9	1.2	9.4
	Q2 2020	17.3	..	..	95.1	0.9	7.1
<b>Kosovo</b>	Q4 2019	15.9	28.8	38.7	80.3	2.0	16.9
	Q1 2020	15.1	26.2	35.3	83.0	1.8	16.3
	Q2 2020	16.7	..	..	82.8	1.7	14.5
<b>Montenegro</b>	Q4 2019	18.1	20.8	31.1	99.6	1.1	9.0
	Q1 2020	19.9	20.9	32.4	105.5	1.2	8.9
	Q2 2020	17.8	20.8	32.0	110.6	0.7	5.3
<b>North Macedonia</b>	Q4 2019	14.8	24.0	41.3	81.6	1.3	11.4
	Q1 2020	15.5	..	..	82.6	0.8	7.5
	Q2 2020	15.5	..	..	82.8	1.0	8.6
<b>Serbia</b>	Q4 2019	22.4	36.0	50.5	95.0	1.6	9.3
	Q1 2020	21.9	35.9	50.0	96.9	1.8	10.5
	Q2 2020	15.5	..	..	92.7	..	..

## Heterogenous lending activity in the first half of 2020 across the Western Balkan countries

### Loans to the private sector

annual change in %



- Albania
- Bosnia and Herzegovina
- Kosovo
- Montenegro
- North Macedonia
- Serbia

### Loans to households

annual change in %



- Albania
- Bosnia and Herzegovina
- Kosovo
- Montenegro
- North Macedonia
- Serbia

### Loans to corporates

annual change in %



- Albania
- Bosnia and Herzegovina
- Kosovo
- Montenegro
- North Macedonia
- Serbia

Source: National central banks.