



EUROPEAN CENTRAL BANK

EUROSYSTEM

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Debt in CESEE: concluding remarks and outlook

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Good news

- Strong economic growth
- Low(er) interest rates
- Private sector deleveraging
 - Deleveraging with growth!
- Debt-related vulnerabilities decreased
 - e.g. maturity lengthening
- Credit growth recovery
- Change in financing behaviour
 - Banks: from cross-border to deposits
 - Firms: from credit to own funds

Not so good news...

- Public debts have risen
- Windfall revenues not been used!
 - Low buffers if a crisis hits
- Public debt sustainability
- Debt levels still high
- Vulnerabilities persist
 - FX & external exposure
 - SOEs, large NFC
- Banking sector weakness
 - NPLs, profitability, lending constraints
- House price bubbles building up
- Low potential growth
- Economic growth losing momentum, new trade policies?

Private sector debt in CESEE: *opportunity* for long-term growth

- although negative impact of private sector debt on growth in medium term

Public debt not! On the contrary: public debt detrimental for growth

Rising indebtedness brings *challenges* that should be adequately monitored

Vulnerabilities risk to increase

- Monetary policy normalization → Deterioration of debt servicing capacity
- Heightened global uncertainty → Higher costs, liquidity & refinancing risks
 - Interest rate & FX effects

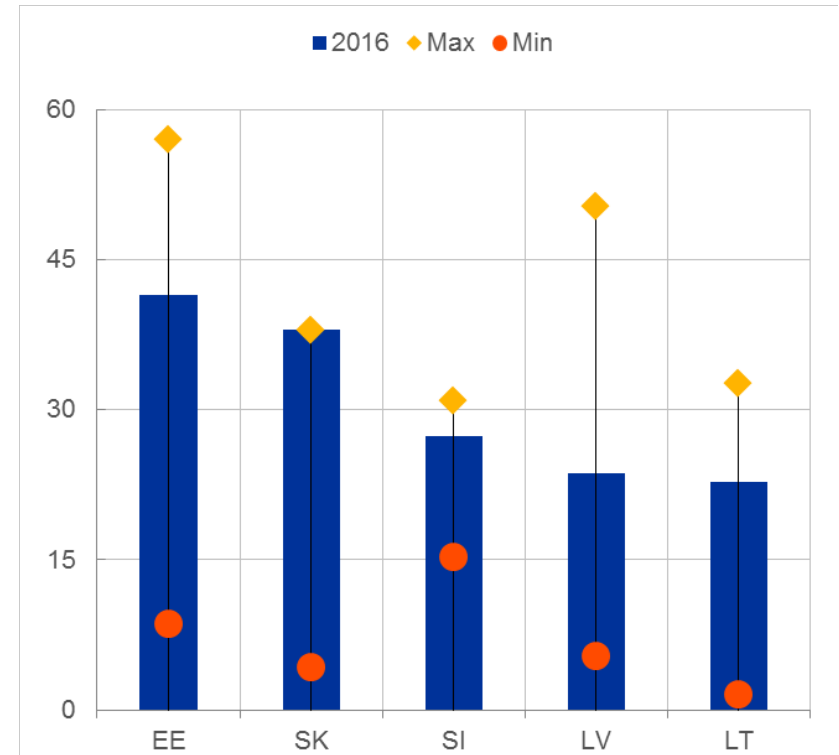
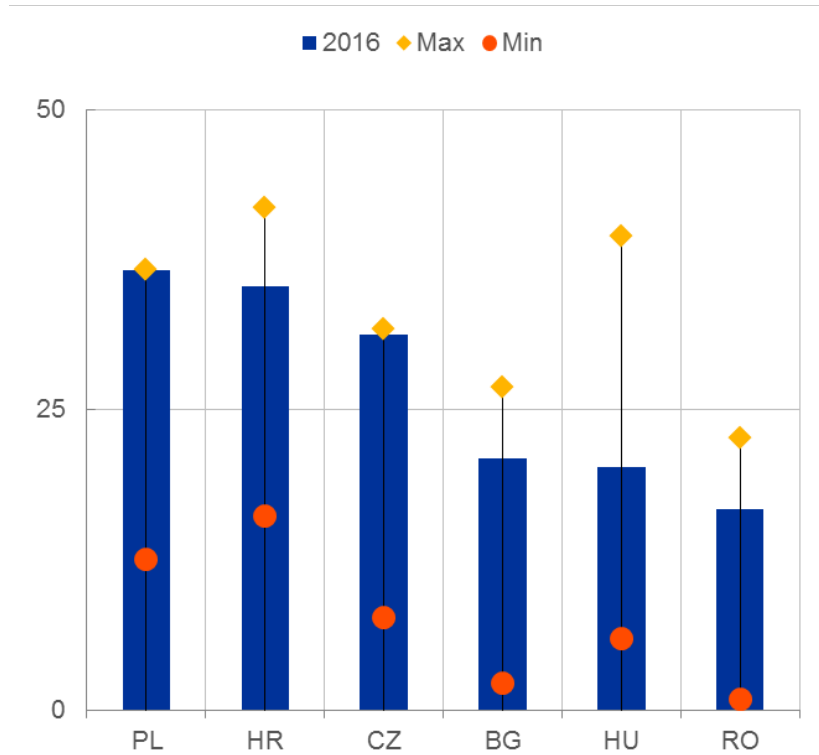
- Ensure fiscal sustainability (GSP)
- Structural reforms to increase potential growth and efficiency
 - Income inequality matters
- Institutional reforms
 - “Good institutions and governance can help sustain higher debt”
- Supervision, micro and macroprudential policies
- Fostering the development of capital markets
- Reviving the banking allocative function

Country-specific assessment and policy implications!

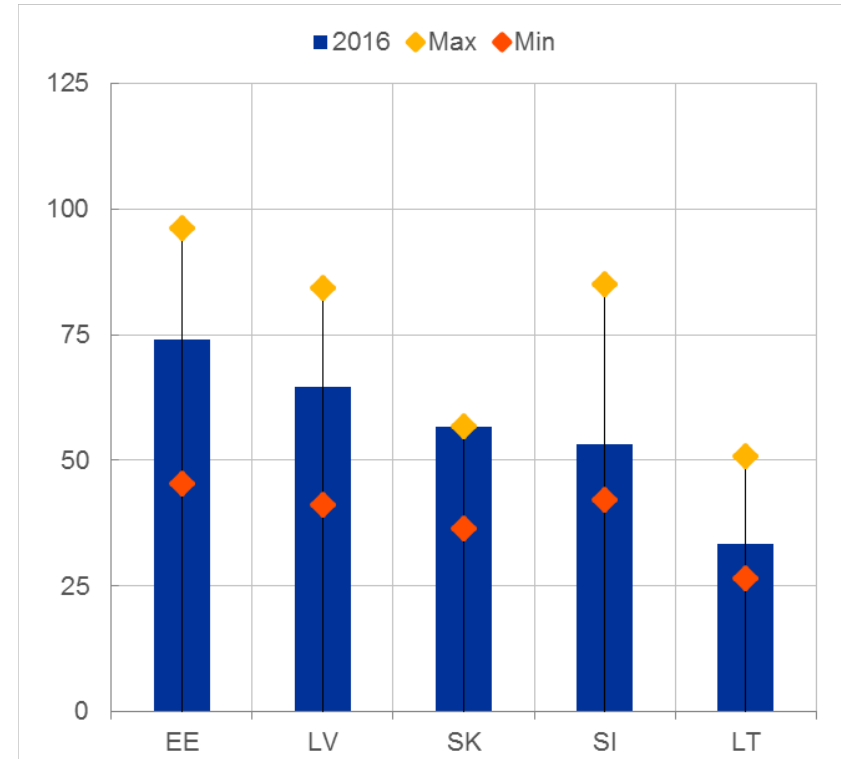
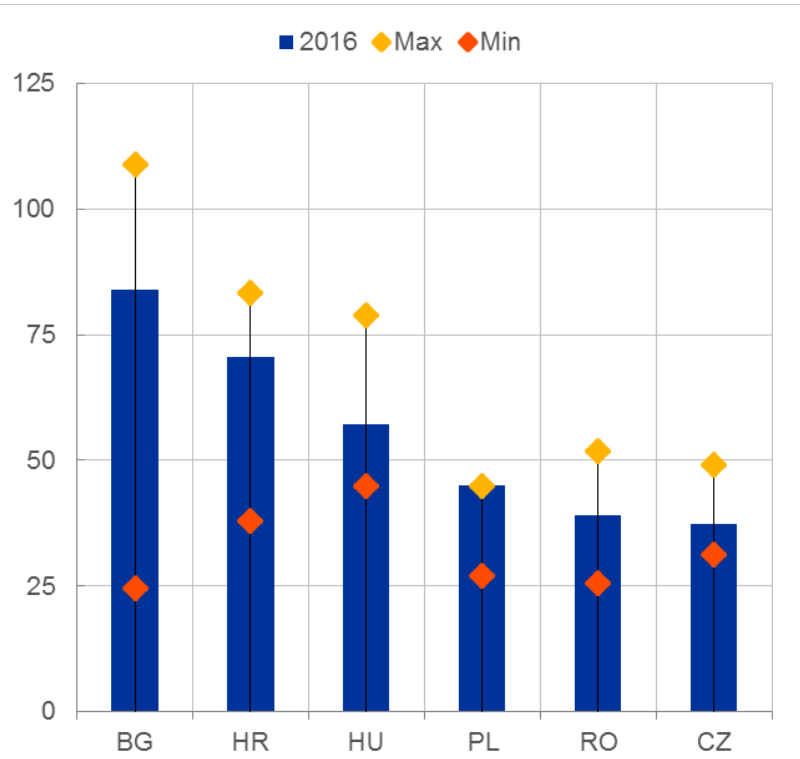
Thank you for your attention!

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Households debt (% of GDP)



NFC debt (% of GDP)



General government debt (% of GDP)

