Implications of the „normalization “ of monetary policy for debt development in CESEE

Birgit Niessner, RBI

Key interest rate (%)

	cur.	Forecast		
Countries	22-Mar[1]	Jun-18	Dec-18	Mar-19
Euro area	0.00	0.00	0.00	0.25
GB[2]	0.50	0.75	0.75	1.00
Switzerland	-0.74	-0.75	-0.75	-0.75
USA	1.50	2.00	2.25	2.75

1) 11:59 PM CET; 2) Consensus
Source: Thomson Reuters, RBI/Raiffeisen RESEARCH

Range yields 10y (%)

Countries	Jun-18	Sep-18	Mar-19
DE	0.4 - 0.9	0.4 - 0.9	0.8 - 1.4
USA	2.7 - 3.3	2.6 - 3.4	2.2 - 3.6

Source: RBI/Raiffeisen RESEARCH

Our Scenario of Normalization

	current[1]	Jun-18	Sep-18	Dec-18	Mar-19
EUR/USD	1.162	1.17	1.17	1.22	1.25

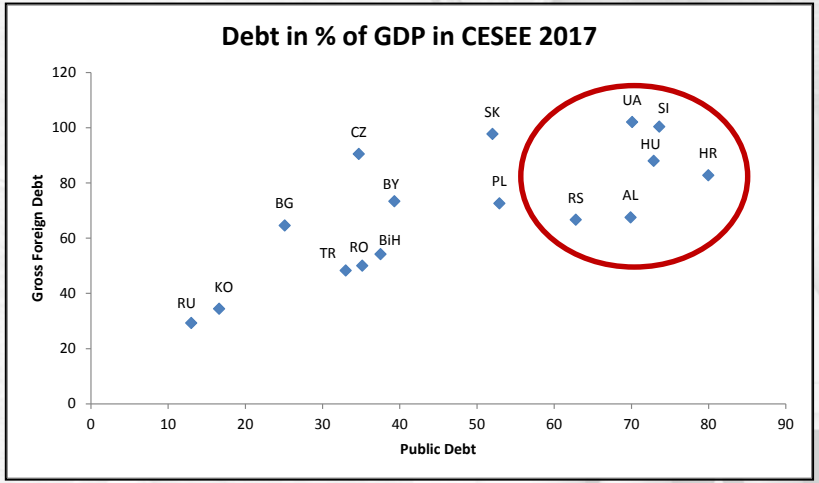
Source: Raiffeisen Research

The Contagion Will Hit Debt in CESEE

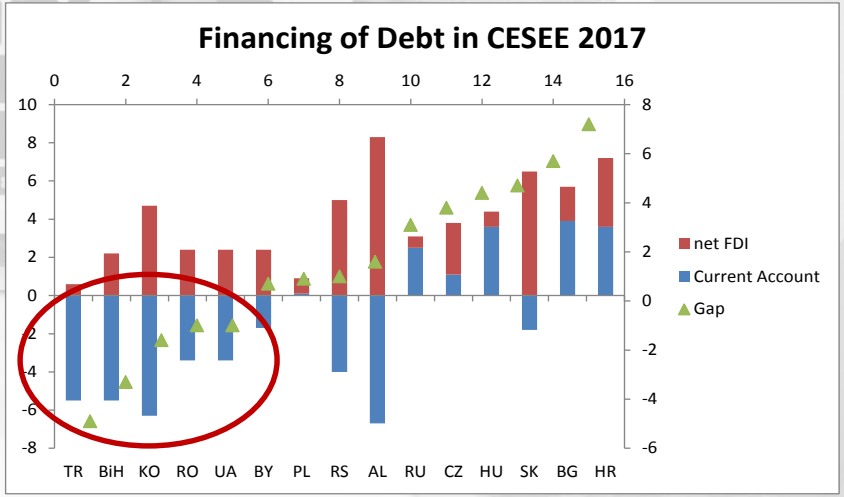
Interest Rates & FX

Public & Private
External Debt Stock

Financing of Debt

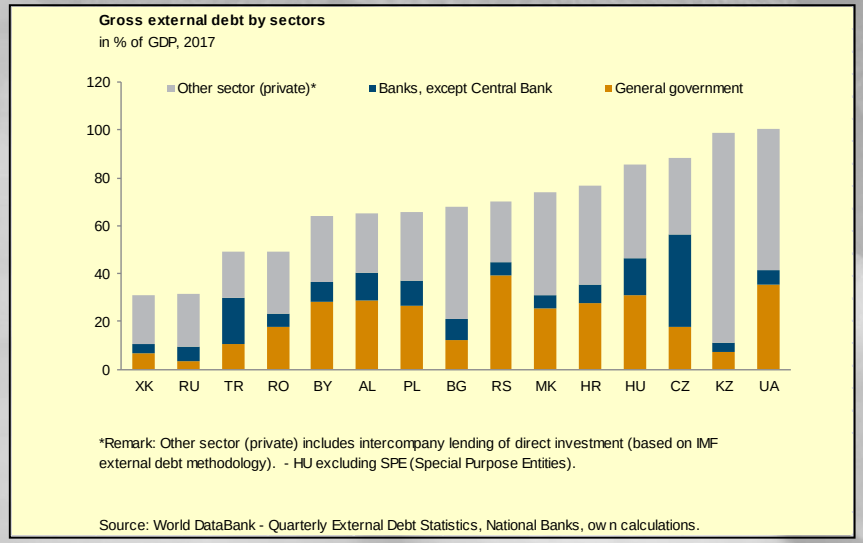


But a few countries are more vulnerable than others

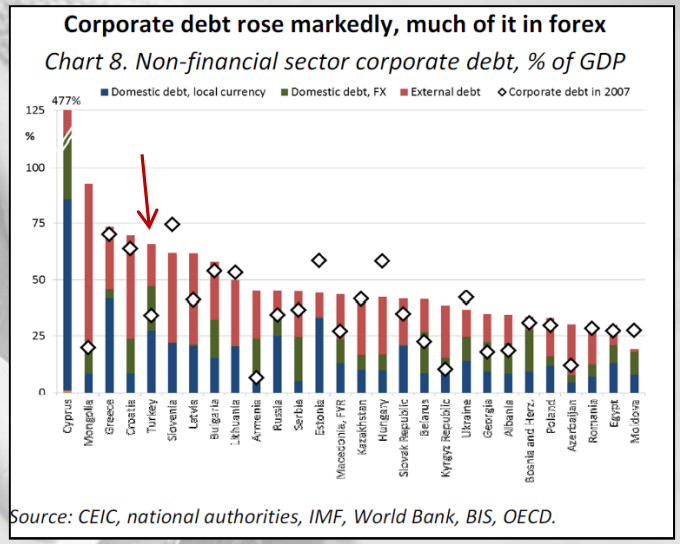


Source: Raiffeisen Research

The Corporate Debt Challenge



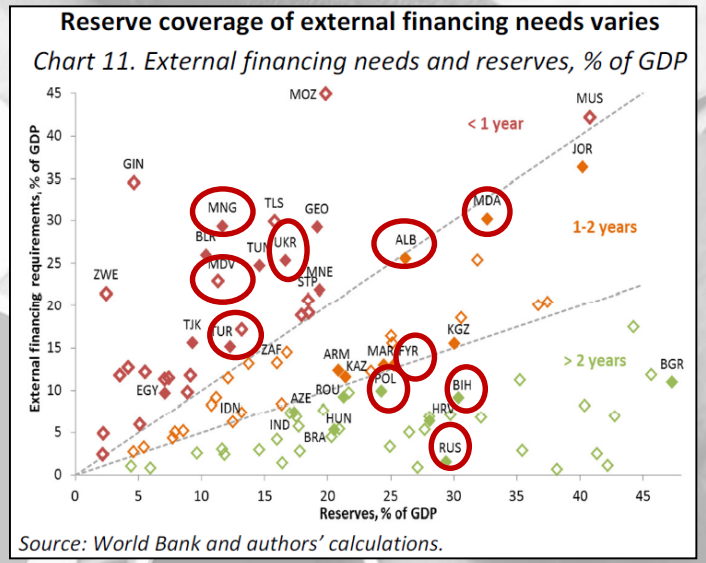
Source: wiiw 2018



Source: EBRD May 2018

- → Corporate balance sheet mismatches are large in Croatia, Hungary, Russia, Turkey and Ukraine
- → According to the IMF, HU and RU corporate USD exposures are hedged by USD export proceeds, and Croation corporate debt is largely euro denominated

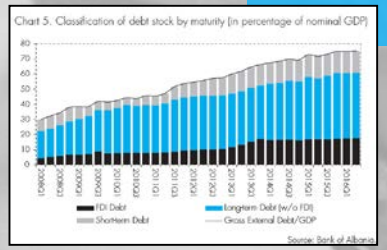
- In most CESEE countries debt stock dominated by FDI and intercompany lending. Exception: CIS and Turkey
- Short-term lending was reduced in the region over the past decade. Exception: Turkey
- In most of the countries, euro denominated debt by far outweighs USD debt. Exception: CIS and Turkey
- Creditors from the Euro area are dominant
- Good reserves coverage of external -debt-refinancing needs

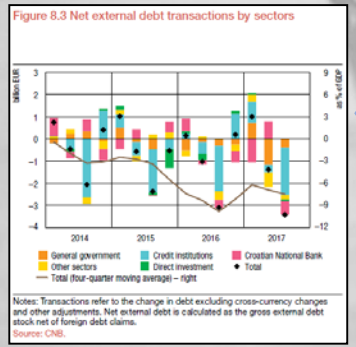


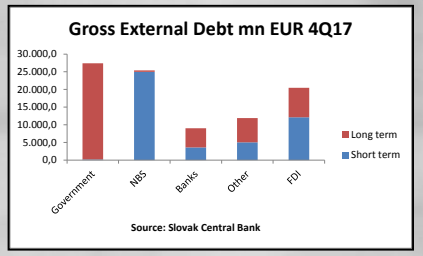
Source: EBRD May 2018

Mitigating Factors

More Glimpses at Country Level







Long-term debt in AL represents 81% of total gross external debt.

In HR deleveraging by credit institutions and the government continues.

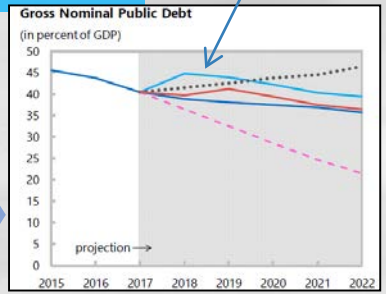
Slovak external debt is long-term.

With higher effective interest rate public debt in BiH reverses trend.

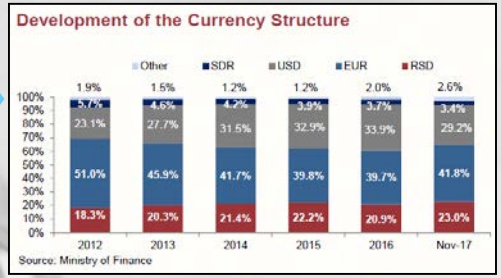
Public debt in RS is 42% euro denominated and 29% dollar denominated.

External debt in RU only at 33% of GDP and mostly corporate debt.

Interest rate shock



Source: IMF 2018



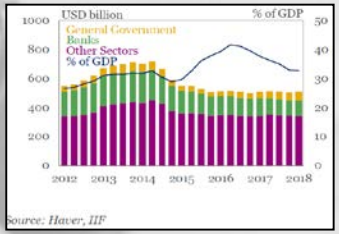


Diagram featured by http://slidemodel.com

Impact of Normalisation Will Vary

A gradual normalisation is key

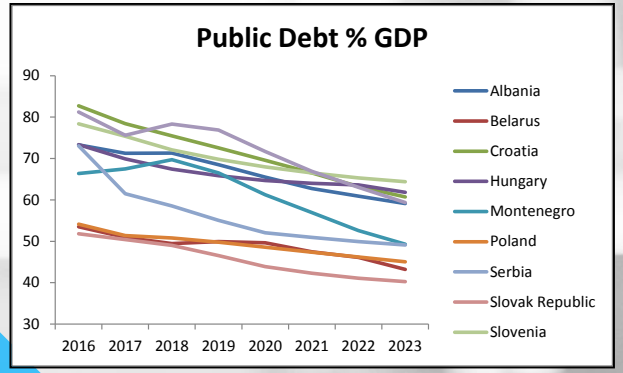
Fundamentals re -gain importance

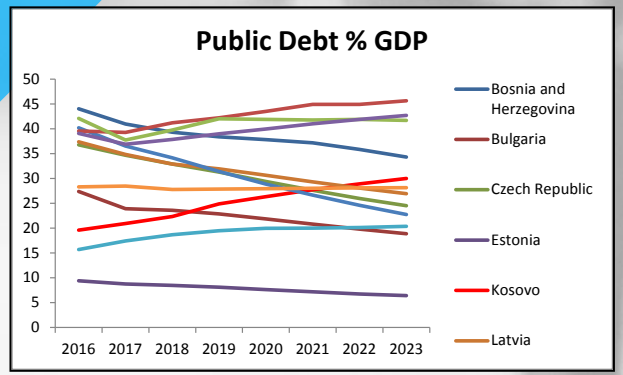
Episodes of volatility possible

The Forecasts

10y T-bond yields (%)	current*	Sep-18	Dec-18	Mar-19	5y high	5y low
Poland	3.28	3.1	3.2	3.3	4.3	2.5
Hungary	3.22	2.8	2.9	3.1	5.7	2.1
Czech Rep.	1.94	2.2	2.4	2.4	2.5	0.5
Romania	4.94	4.7	4.9	5.0	5.4	3.5
Croatia	2.24	2.3	2.3	2.3	5.2	2.3
Russia	7.36	7.4	7.3	7.3	14.1	7.3
Turkey	13.85	14.0	13.5	12.5	12.4	8.1
Germany***	0.34	0.8	1.0	1.2	1.9	0.1
USA	2.86	3.0	3.2	3.4	3.2	2.2

Source: Raiffeisen Research





Source: IMF