CESEE banks – internationally and domestic driven deleveraging

Debora Revoltella
Director Economic Department EIB

26-27 November, 2012
Agenda

- Evidences from macro data
- Evidences from the EIB Bank lending survey
- Lessons
The external positions of BIS-reporting banks fell moderately in 2012:Q2.
Cumulative fall of external positions since mid-2011 was large, particularly vis-à-vis some countries.

(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)

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).
Agenda

- Evidences from macro data
- Evidences from the EIB Bank lending survey
- Lessons
First results of the CESEE bank lending survey

- 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

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

- Continued commitment to operations in the CESEE
- Being selective is the key strategic factor

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

EIB survey on deleveraging in CESEE – Vienna 2
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

EIB survey on deleveraging in CESEE – Vienna 2
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

EIB survey on deleveraging in CESEE – Vienna 2
Results: Subsidiary level

NPLs prospects continue to be seen on the negative side
Rebalancing of the banking model might lead to strongly binding constrains, when demand recovers.

EIB survey on deleveraging in CESEE – Vienna 2
Agenda

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