## 4.3. CREDIT MONITOR: CYCLE PICKING UP AS ASSET QUALITY IMPROVES

**by Olga Pindyuk**

› Credit growth is positive across almost the whole of CESEE. Loans to households are rising everywhere apart from Latvia and loans to non-financial corporations are also growing in most places (see Table 9). Since the onset of the global financial crisis, Latvia has undergone almost uninterrupted deleveraging by both households and companies, despite negative real interest rates and low levels of NPLs.

› On a regional aggregate basis, growth in loans to households has accelerated everywhere, except Turkey (see Figure 28). These loans have grown more quickly than credits to non-financial corporations in all countries, apart from Turkey, Lithuania, Poland and Hungary. In June 2018, many countries recorded a double-digit rate of growth in the stock of household loans. CIS + Ukraine has experienced the fastest accumulation of household loans; together with sluggish household income growth in these countries, this points to potential overheating in the sector.

› Slovakia has remained the leader in EU-CEE with regard to household loan growth. Household loan penetration in the country has more than doubled since 2010 to reach the highest level of the 11 EU-CEE countries; this is potentially linked to years of ultra-loose policy by the European Central Bank. In general, eurozone countries in the region plus Romania show the most negative real interest rates.

› The growth of loans to non-financial corporations has remained rather weak in most of CESEE (Hungary is a notable exception), despite loose monetary policies (as reflected by low or negative interest rates). This is linked to the lethargic performance of the private sector in many countries over the past decade, owing to the prolonged effects of the global economic crisis. Signs of potential instability can be seen in Turkey, where a sharp lira depreciation has inflated the debt burden in local currency terms (due to the high share of forex loans).

› As of June 2018, NPLs had declined in all the countries, compared to the same month in 2017, pointing to a broad-based improvement in asset quality. In Ukraine, however, the decline has been only marginal and the country continues to struggle with an extremely high level of NPLs. Apart from Ukraine, only three countries in the region recorded double-digit shares of NPLs in June 2018 – Albania, Bulgaria and Croatia.

## Table 9 / Indicators of financial sector developments, June 2018

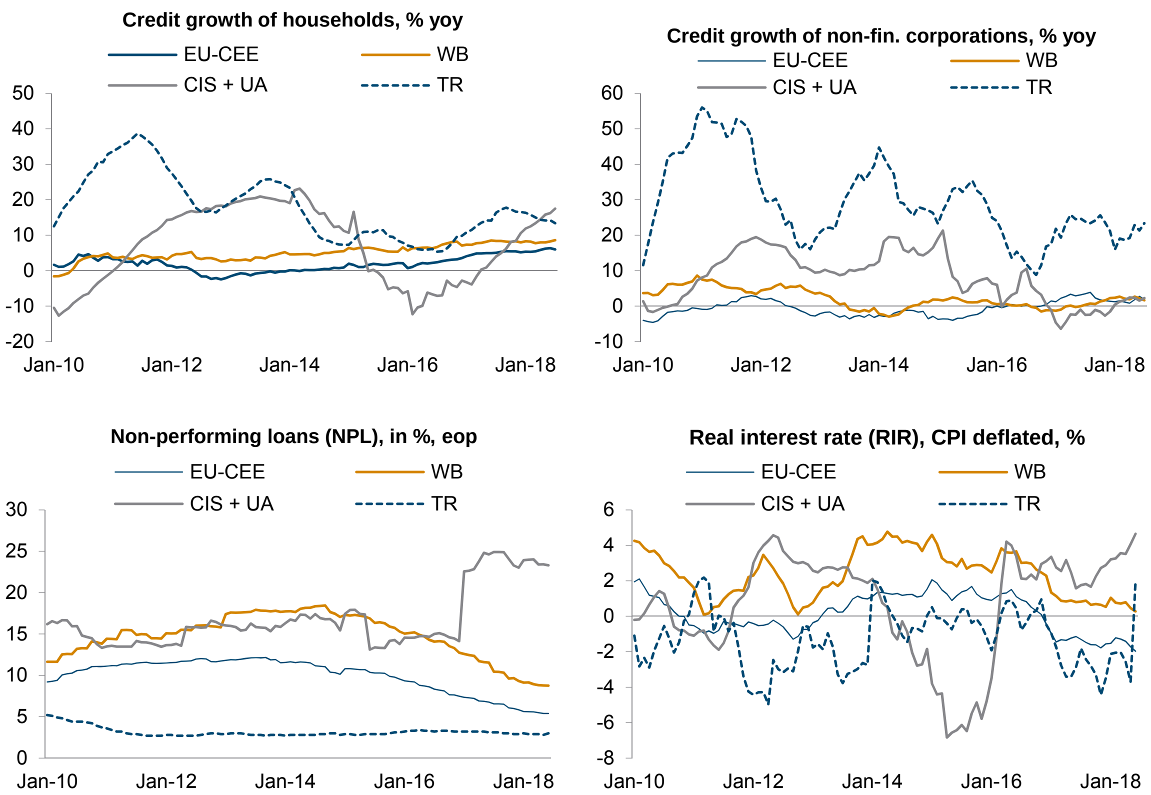
| | AL | BA | BG | CZ | EE | HR | HU | KZ | LT | LV | ME | MK | PL | RO | RS | RU | SI | SK | TR | UA |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Loans to non-fin.corporations, % yoy | -5.9 | 6.8 | 3.5 | 4.2 | -4.9 | -0.1 | 14.7 | -5.8 | 7.7 | -9.3 | 6.3 | 2.9 | 7.0 | 3.5 | 0.8 | 4.6 | -2.3 | 6.6 | 21.3 | 5.8 |
| Loans to households, % yoy | 4.9 | 7.2 | 9.2 | 7.5 | 7.0 | 3.9 | 2.1 | 14.8 | 7.0 | -0.4 | 10.4 | 9.7 | 4.8 | 10.0 | 9.0 | 18.9 | 6.3 | 12.3 | 14.2 | 15.1 |
| Real interest rate, CPI deflated, % | -1.4 | -1.9 | -2.9 | -1.4 | -3.8 | 0.8 | -2.2 | 2.8 | -2.5 | -2.6 | 2.3 | 1.6 | 0.1 | -2.1 | 0.7 | 4.7 | -2.3 | -2.8 | 2.0 | 6.5 |
| Non-performing loans (NPL), in %, eop | 13.3 | 9.3 | 13.1 | 3.4 | 0.7 | 11.2 | 4.1 | 8.8 | 3.2 | 4.2 | 7.0 | 5.0 | 6.8 | 5.7 | 7.8 | 5.4 | 2.9 | 3.6 | 3.0 | 55.7 |

potential overheating/instability relative to regional peers

underheating/stability relative to regional peers

Note: The deeper the orange shading, the greater the potential instability/overheating relative to regional peers; the deeper the grey shading, the greater the stability/under-heating. For NPL: PL data refer to Dec. 2017, LT data refer to March 2018.
Source: wiiw Monthly Database incorporating national statistics.

## Figure 28 / Indicators of financial sector developments over time




Note: Simple averages for country aggregates. WB excluding XK, CIS excluding BY.
Source: wiiw Monthly Database incorporating national statistics.