

### 4.3. CREDIT MONITOR: HOUSEHOLD DEMAND REMAINS STRONG

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- › In the first half of 2019, loans to households increased in all CESEE countries except Latvia and Turkey. In the former, deleveraging has been going on already for 10 years, while the latter has found itself on the brink of a crisis (see Turkey report).
- › The market has started to cool slightly compared with December 2018 in many countries, in particular in Belarus, Serbia, Bulgaria and Montenegro. However, despite the slower credit growth in Belarus, we identify this market as still the most vulnerable to potential overheating. In Kazakhstan and Russia we also assess the likelihood of credit bubbles forming as fairly high. In both these countries, credit growth has continued to expand, driven by consumer lending.
- › In most of CESEE, loans to non-financial corporations continued to grow in H1 2019, albeit at a much slower pace than household loans. In the Baltic States, Kazakhstan and Ukraine, the stock of corporate loans declined. Hungary maintained double-digit growth of loans to non-financial corporations, as banks benefitted from fiscal stimulus and access to cheap sources of financing. The Western Balkans posted the fastest rate of corporate loan growth in CESEE despite rising real interest rates.
- › Montenegro undertook the strongest monetary tightening in real terms in H1 2019, with the real interest rate increasing by 1.7 p.p. compared with December 2018. In EU-CEE, real interest rates remained negative and further declined. Latvia has the lowest real interest rate in the CESEE region and yet a decreasing stock of loans. Slovakia saw the biggest decrease in the real interest rate in H1 2019, and joined countries prone to the highest risks of potential overheating due to negative real interest rates – the Baltic States, Bulgaria, and Hungary.
- › The share of non-performing loans has continued to trend downwards in most countries of EU-CEE and the Western Balkans. However, asset quality worsened in all CIS countries in our sample, most significantly in Kazakhstan (by 2 p.p. compared with December 2018).

**Table 4.5 / Indicators of financial sector developments, June 2019**

	AL	BA	BG	BY	CZ	EE	HR	HU	KZ	LT	LV	ME	MK	PL	RO	RS	RU	SI	SK	TR	UA	XK
Loans to non-fin.corp., % yoy	2.6	4.6	4.6	8.1	3.5	4.7	-2.5	14.6	-11.6	-3.1	-2.5	1.7	6.4	4.0	6.4	8.7	6.5	0.0	4.9	6.1	-3.0	10.6
Loans to households, % yoy	5.5	7.4	8.1	23.7	6.7	6.6	6.1	7.6	20.7	8.0	-4.6	8.9	9.9	6.0	6.9	9.2	22.8	6.1	8.5	-0.4	13.5	10.4
Real interest rate, CPI defl., %	-0.3	-0.4	-2.3	4.1	-0.4	-2.5	2.5	-2.4	3.4	-2.3	-3.0	5.7	1.9	-0.8	-1.4	1.4	2.7	-1.8	-2.6	7.2	7.8	3.3
Non-perf. loans (NPL), in %, eop	11.2	8.0	7.2	5.8	2.8	0.5	9.2	4.9	9.4	2.1	5.4	4.8	5.4	6.8	4.7	5.2	5.7	4.3	2.9	4.4	50.8	2.5

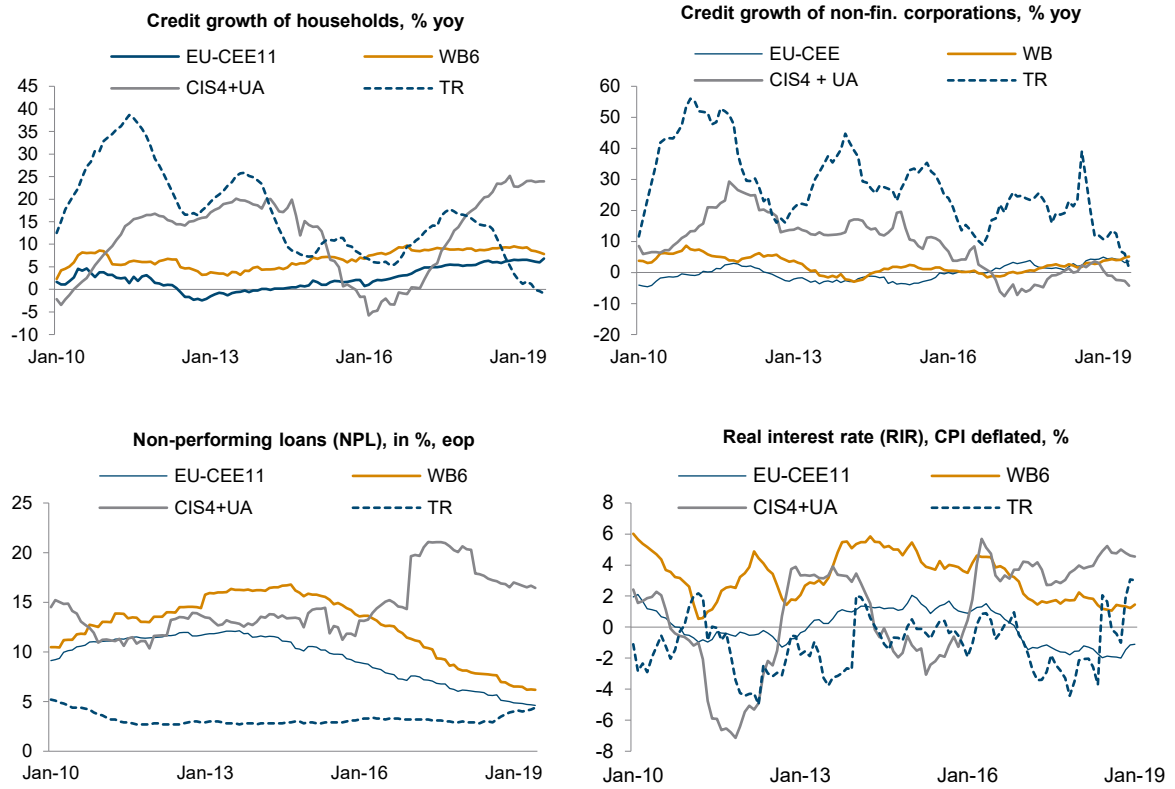
potential overheating/instability  
relative to regional peers

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.

Source: wiiw Monthly Database incorporating national statistics.

Figure 4.4 / Indicators of financial sector developments over time



Note: Simple averages for country aggregates.

Source: wiiw Monthly Database incorporating national statistics.