

Financial Constraints on Economic Recovery in CESEE

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WIIW Spring Seminar 2013 'Is There a Growth Strategy for Central and Eastern Europe?' 1



Agenda

- Economic adjustment and the new role of banks
- Evidences from the EIB Bank lending survey
- Lessons

20/03/2013

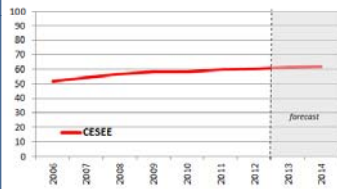
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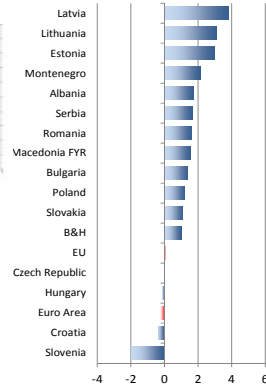
CESEE Convergence - Growth



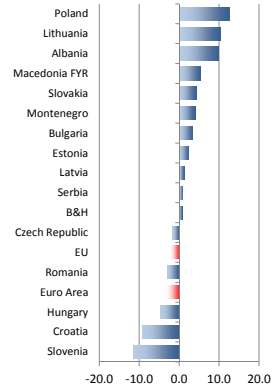
GDP per capita (PPS Euro)
CESEE (EU = 100)



GDP growth 2013



GDP per capita 2013 vs 2008
Real percentage change



European Investment Bank

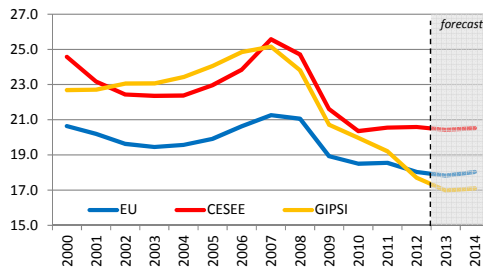


CESEE Convergence - Investment



Gross fixed capital formation

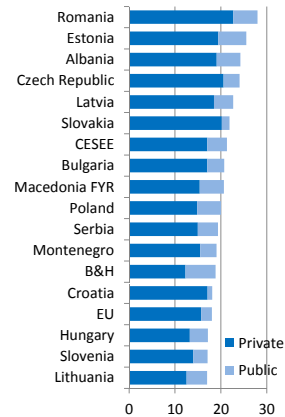
Total economy, Percent of GDP



Source: AMECO, 2013 Winter Forecast

Gross fixed capital formation

Percent of GDP, 2012



Source: AMECO, 2013 Winter Forecast

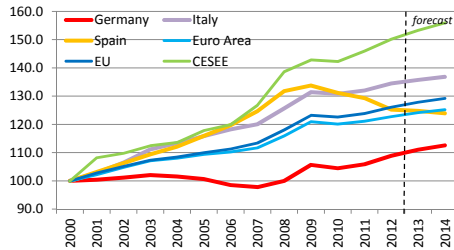
European Investment Bank



CESEE Convergence - Competitiveness

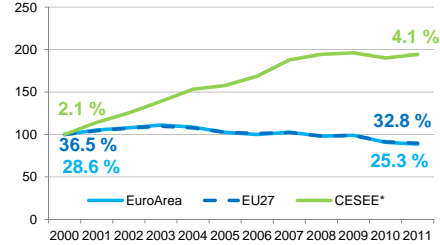


Unit Labour Costs Index (2000=100)



CESEE* - Bulgaria;Czech Republic;Estonia;Hungary;Latvia;Lithuania;Poland; Romania;Slovakia;Slovenia;Croatia;Macedonia, FYR
Source: Eurostat

Market share in total world imports (2000=100)



CESEE* - Bulgaria;Czech Republic;Estonia;Hungary;Latvia;Lithuania;Poland; Romania;Slovakia;Slovenia;Albania;Bosnia & Herzegovina;Croatia;Macedonia, FYR;Montenegro;Serbia
Source: WTO

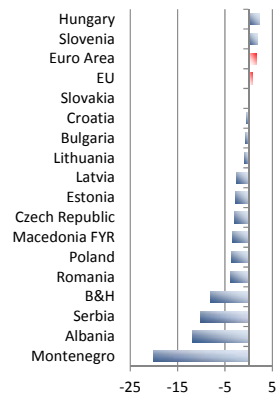


A more balanced macroeconomic picture



Current account balance, 2012

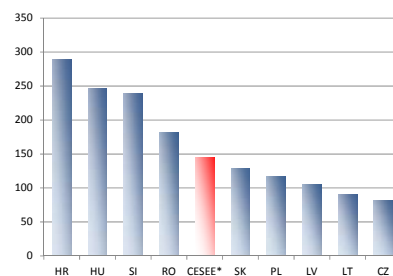
Percent of GDP



Source: AMECO, Feb'2013; IMF, WEO

Credit Default Swap, 5 Years, Euro, Avg January'13

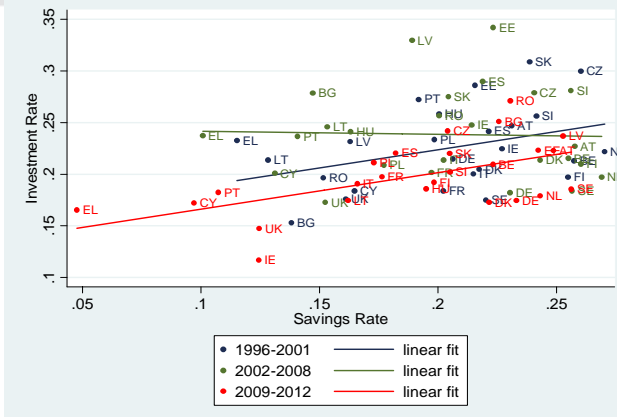
Spread Mid



Source: Datastream, *CESEE (GDP weighted average)

$$(I/Y)_j = \alpha^{CS} + \beta^{CS} (S/Y)_j + u_j$$

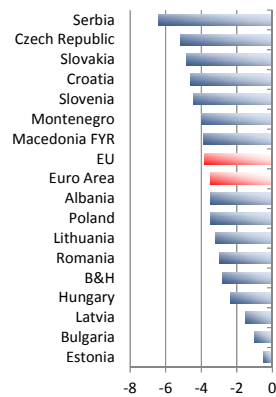
Period	β^{CS}	R^2
1996-2001	0.3518* (0.1807)	0.1421
2002-2008	-0.0294 (0.1529)	0.0010
2009-2012	0.3525*** (0.1031)	0.3175



NOTE: *, ** & *** indicate significance levels of 10, 5 and 1% respectively

Fiscal Balance, 2012

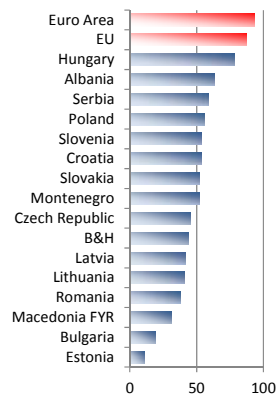
Percent of GDP



Source: AMECO, Feb'2013; IMF, WEO

General government debt, 2012

Percent of GDP



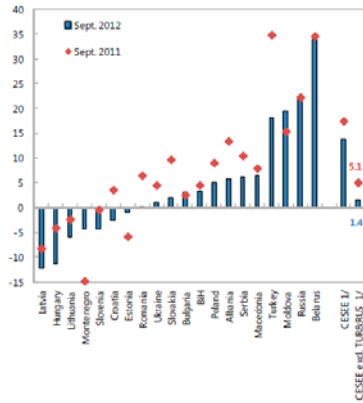
Source: AMECO, Feb'2013; IMF, WEO



A new banking model?



Growth of Credit to Households and Enterprises (Percent, year-on-year, nominal, exchange-rate adjusted)



1/ Average weighted by shares of private sector credit in CESEE total private sector credit.
Sources: National authorities; and EBRD staff calculations.

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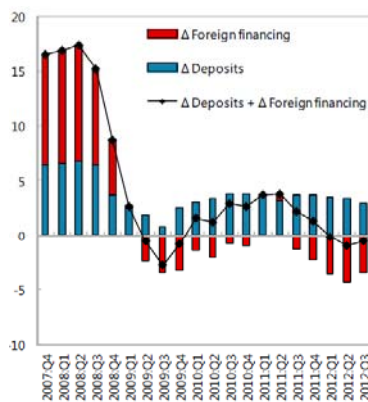
Towards a more self-funded banking system



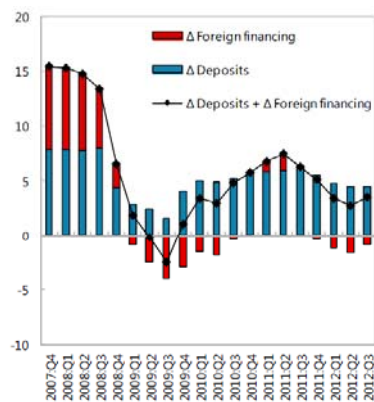
Evolution of Bank Funding, 2007:Q4 - 2012:Q3

(Percent of GDP, 4-quarter moving average, exchange-rate adjusted)

CESEE excluding Russia and Turkey



CESEE

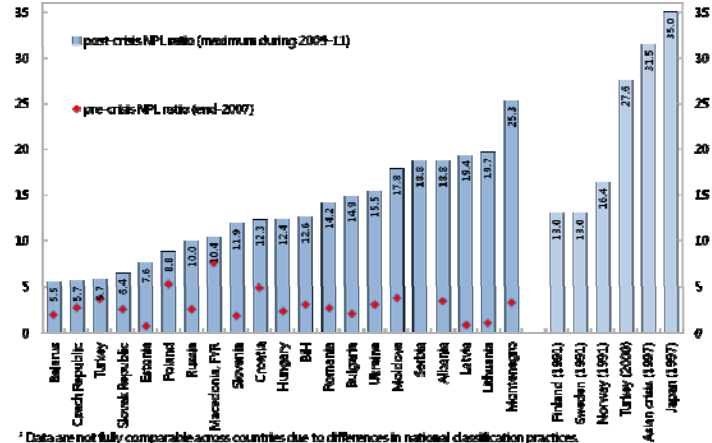


Sources: BIS, Locational Banking Statistics; IMF, International Financial Statistics; and IMF staff calculations.

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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).

- ❖ Economic adjustment
- ❖ The new role of banks - Evidences from the EIB Bank lending survey
- ❖ Lessons



- 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*

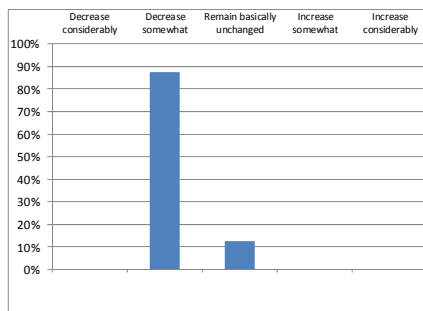


Results: Group level

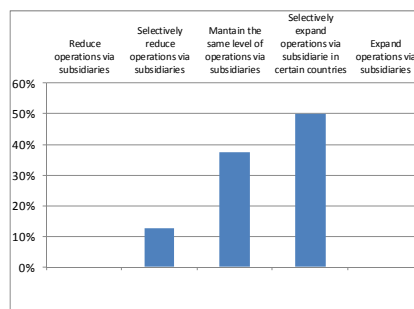


- All parents going through some sort of strategic restructuring
- At group level, some more deleveraging expected
- Continued commitment to operations in the CESEE
- Being selective is the key strategic factor

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



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

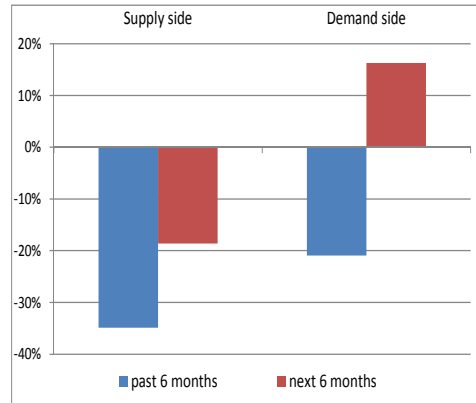


EIB survey on deleveraging in CESEE – Vienna 2



Results: Subsidiary level

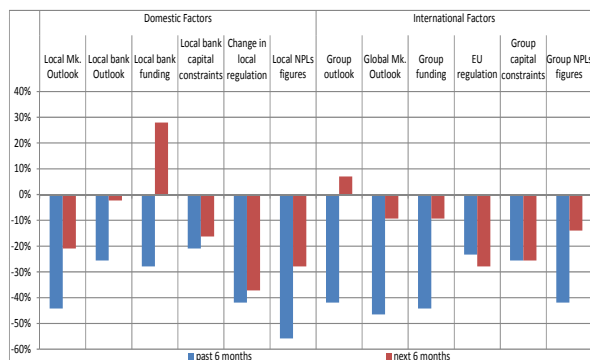
- Demand and supply
 - Past six months: both subdued
 - Looking ahead: demand more positive; supply tilted to the downside
- Among negative factors affecting past demand
 - low consumer confidence
 - housing price prospects
 - subdued M&A activities
 - weak fixed investment



Results: Subsidiary level

Both domestic and international factors weight on supply tightening, signalling 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

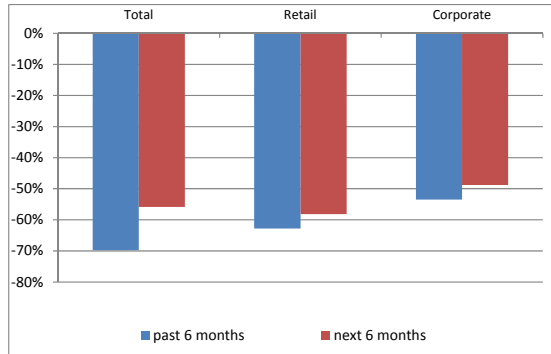




Results: Subsidiary level



NPLs prospects continue to be seen on the negative side



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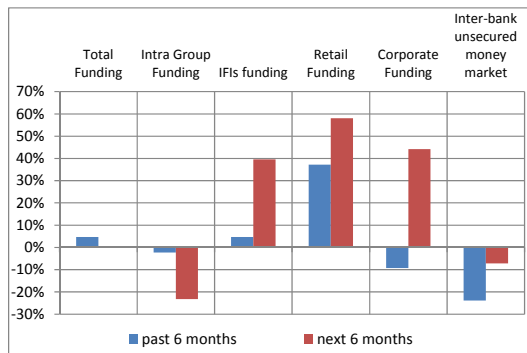
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Results: Subsidiary level



Rebalancing of the banking model might lead to strongly binding constrains when demand recovers



EIB survey on deleveraging in CESEE – Vienna 2
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- Economic adjustment
- The new role of banks - Evidences from the EIB Bank lending survey
- **Lessons**

- Economic rebalancing underway
- 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
 - Focus on competitiveness and EU Funds