

EBCI | Vienna Initiative



Press Release No. 15/17
FOR IMMEDIATE RELEASE

International Monetary Fund
Washington, D.C. 20431 USA

Bank Deleveraging in Emerging Europe Slightly Faster in the Third Quarter of 2014

Western banks scaled back funding to Central, Eastern and Southeastern Europe (CESEE) countries at a slightly faster pace in the third quarter of 2014, compared to the second quarter, according to a new Vienna Initiative committee report. Credit grew in Turkey, Russia, and Poland, but was largely flat or contracting in most other countries.

Banks reporting to the Bank for International Settlements (BIS) reduced their external positions vis-à-vis the CESEE region by 0.3 percent of GDP in the third quarter of 2014. Excluding Russia and Turkey, the external positions of these banks declined by 0.4 percent of GDP, about the same as in the previous quarter.

The extent of decline between bank and non-bank claims varied by country, but for the region as a whole, the contraction was more in claims on non-bank borrowers than on banks, mirroring weak credit growth for corporations across the region.

According to balance of payments statistics, investment inflows other than Foreign Direct Investment and portfolio flows remained positive for the region, and for many countries, these flows show a more benign picture than the BIS data.

In aggregate, domestic credit growth for the region decelerated on a year-on-year basis but remained positive in November 2014. However, growth was still largely concentrated in Turkey, Russia, and Poland, while in most other countries credit contracted or remained flat. And outside the European CIS countries and Turkey, overall domestic credit growth was mostly driven by expansion of credit to households.

The rate of deposit growth slowed in 2014 (including in Q3), but continued to more than offset the decline in foreign bank funding for most CESEE countries. Nevertheless, due to rising non-performing loans and continued tightening in credit standards, recent surveys indicate that the improvement in overall lending conditions slowed in Q3.

The CESEE Deleveraging and Credit Monitor is prepared by the staff of international financial institutions taking part in the Vienna Initiative's Steering Committee. It is based on the BIS's International Banking Statistics published on January 20, 2015.

The Vienna Initiative was established at the height of the global financial crisis of 2008/09 as a private-public sector platform to secure adequate capital and liquidity support by Western banking groups for their affiliates in Central, Eastern, and South Eastern Europe (CESEE). It was relaunched as "Vienna 2" in January 2012 in response to renewed risks for the region from the Euro zone crisis.