



BANKING SECTORS IN THE WESTERN BALKANS

IMF Macroeconomic Policy Seminar for Members of Parliament

Vienna, Austria

June 11-13 2018

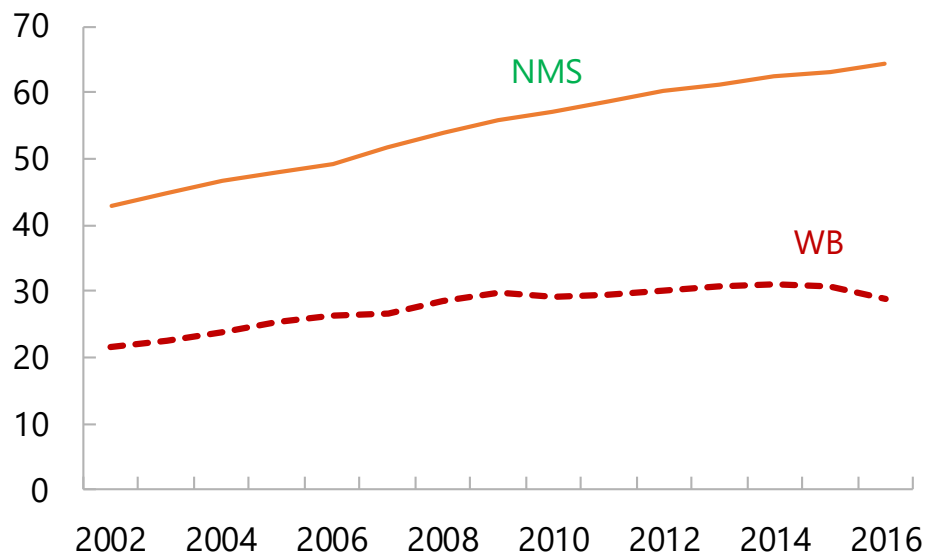
Ruud Vermeulen

IMF Resident Representative for Kosovo

Income convergence and credit deepening stalled.

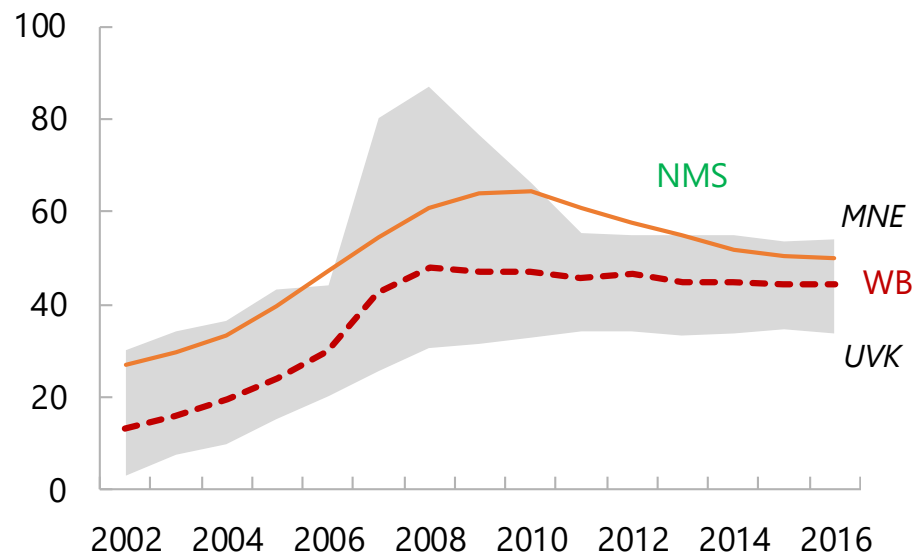
GDP per Capita

(PPP, percent of Euro Area)



Bank Credit to the Private Sector

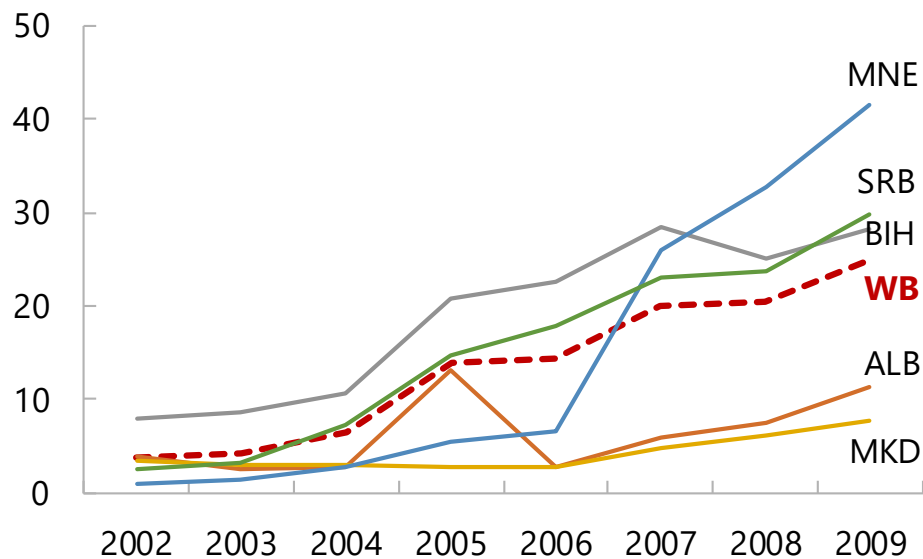
(Percent of GDP)



Sources: IMF WEO, IFS, and World Bank WDI.

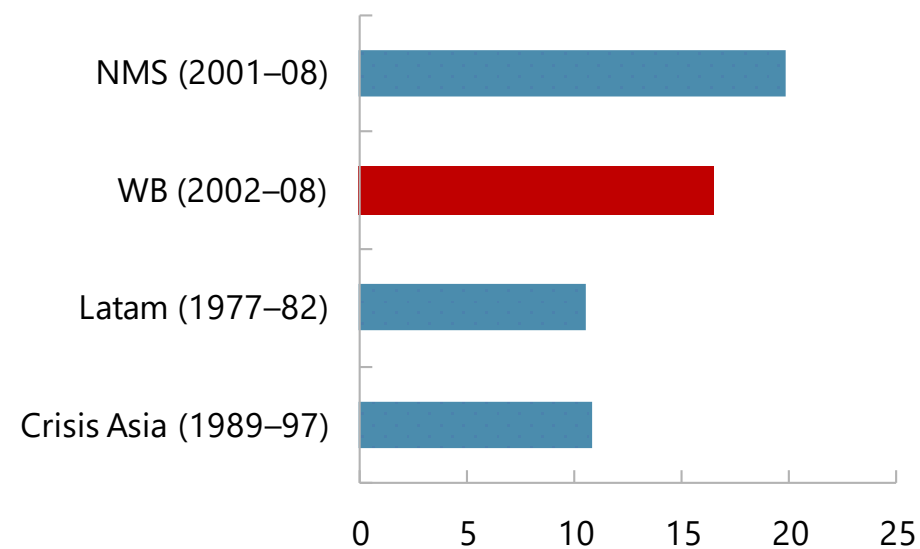
Foreign banks financed a credit boom...

Foreign Bank Funding to Peak
(Percent of GDP)



Leveraging Episodes

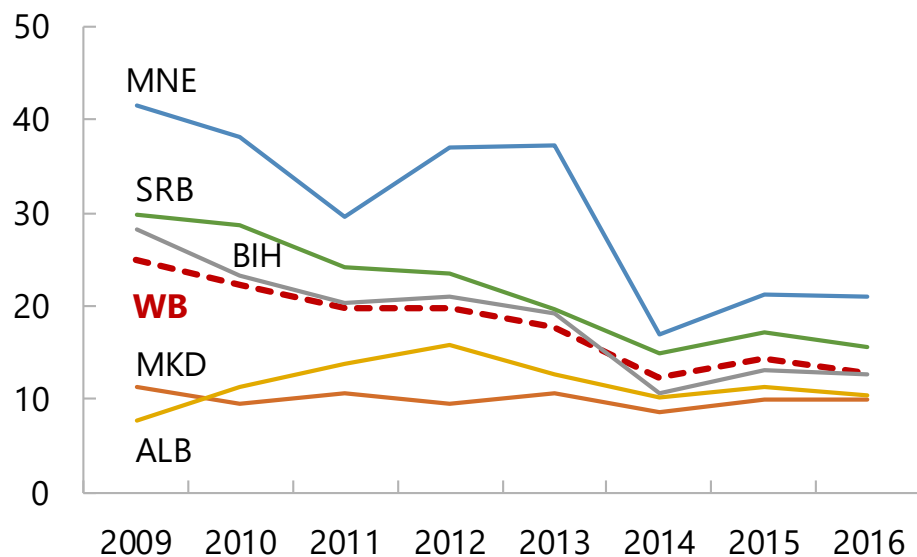
(Increase in foreign bank funding, percent of GDP)



Sources: BIS, IFS, and IMF staff estimates.

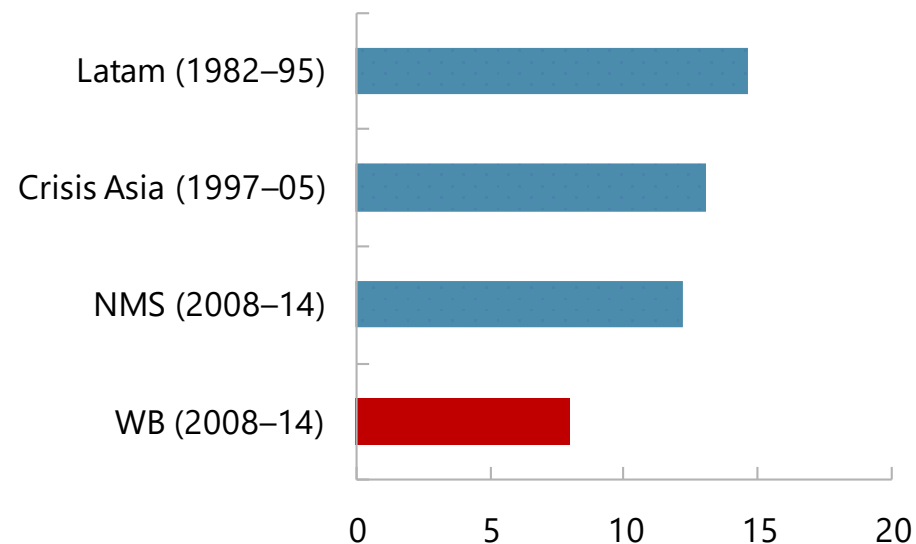
...but this went into reverse when the crisis hit.

Foreign Bank Funding From Peak (Percent of GDP)



Deleveraging Episodes

(Drop in foreign bank funding, percent of GDP)

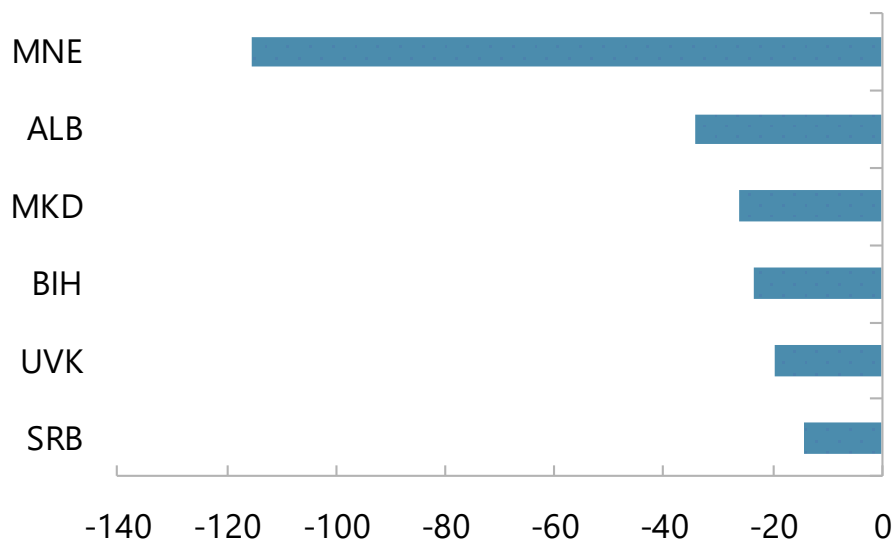


Sources: BIS, IFS, and IMF staff estimates.

This led to a sharp drop in credit growth...

Decline in Real Credit Growth

(2010-11 vs 2007-08, drop in pps SA smoothed¹)

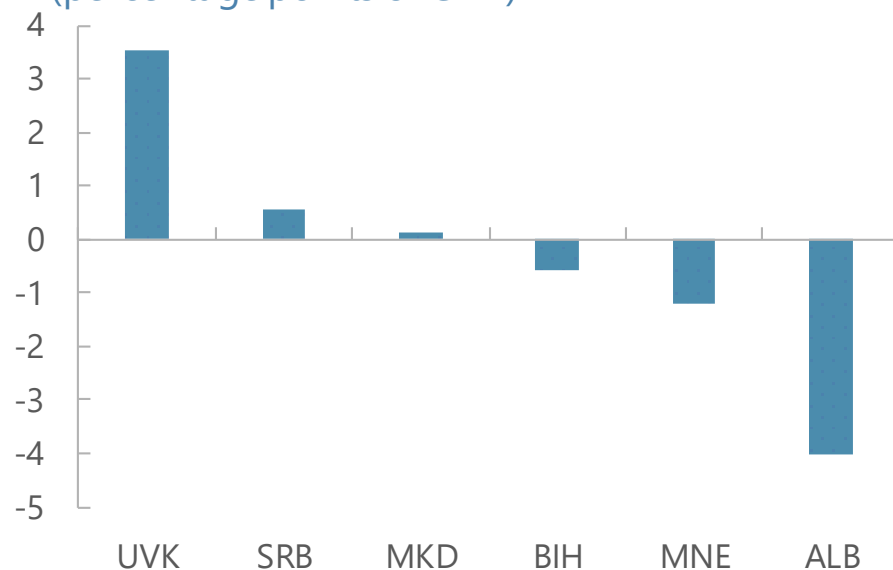


1/ Smoothed growth rates measure the growth against previous 12 months average.

Sources: HAVER, IMF IFS, and IMF staff calculations.

Change in Credit from Trough to 2016

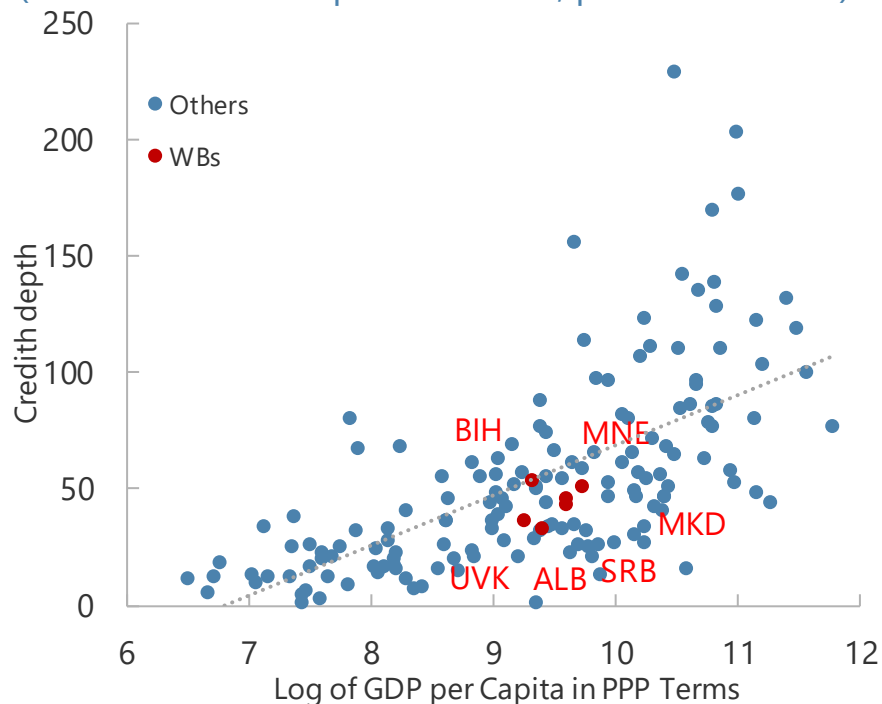
(percentage points of GDP)



Note: Change from 2012 for countries with no trough.
Sources: MFS and IMF staff estimates.

...and a widening of credit gaps.

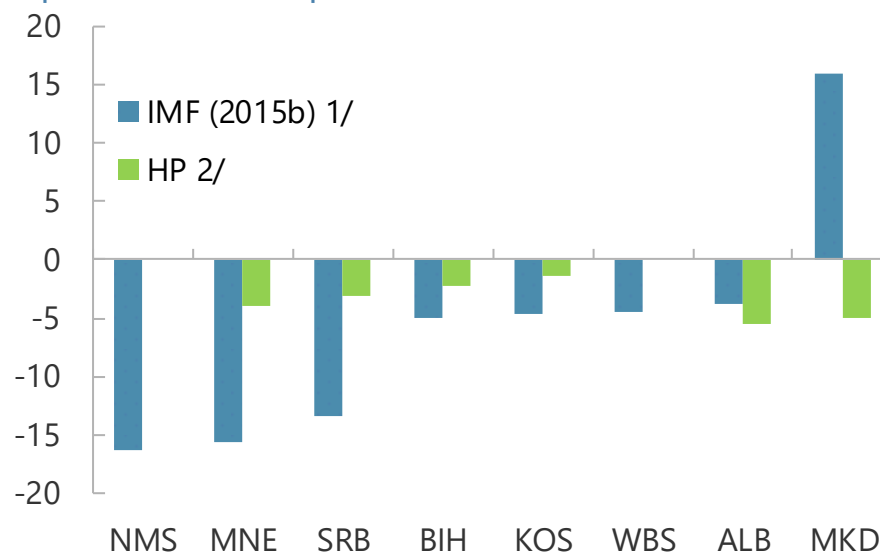
GDP per Capita and Credit Depth in 2016
(Bank credit to the private sector, percent of GDP¹)



¹The sample includes all countries for which data are available.

Estimated Credit Gaps in 2016

(Actual minus fundamentals-consistent level of private credit in percent of GDP)



1/ The fundamentals-consistent of private sector credit is estimated based on its key demand and supply determinants over 1995–2016 (see IMF, 2015b).

2/ Actual minus HP filter.

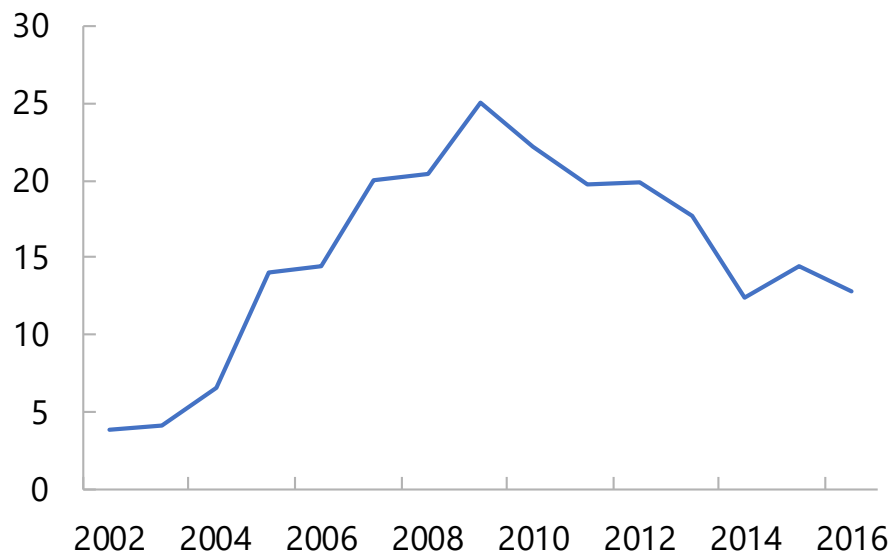
Sources: Staff estimates using WEO, IFS, BIS, World Bank WDI and other data; World Bank FinStats.

What are the prospects for credit deepening?

- Weak funding
- Impaired balance sheets
- Non-bank structural factors

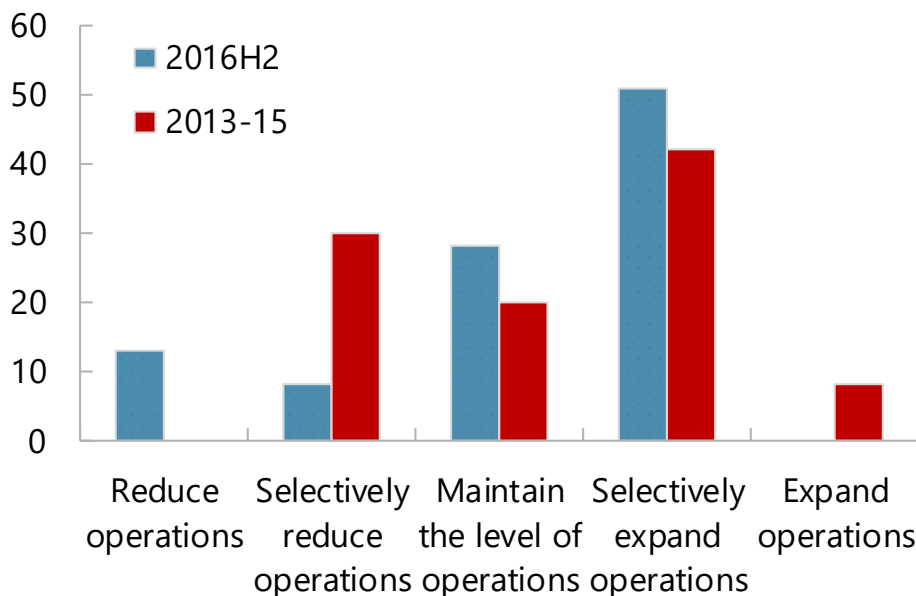
Parent bank funding has not come back...

External Bank Claims on Western Balkans¹
(Percent of GDP, all sectors)



¹Does not include Kosovo. 2016 uses GDP projections.
Sources: BIS, IMF IFS, and IMF staff estimates.

Banks' Long-Term Strategies in CESEE
(Percent of respondents)



Source: EIB CESEE Bank Lending Survey.

...and the region has not attracted many new entrants.

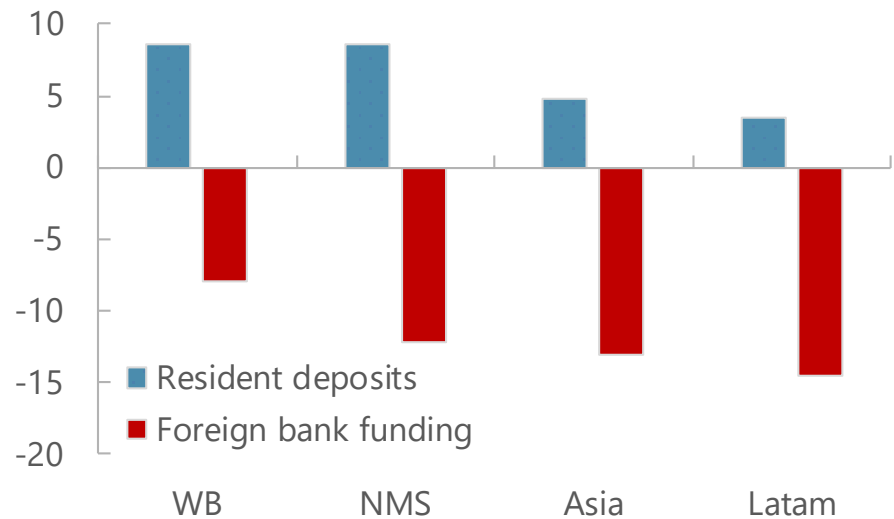
Major Bank Ownership Transactions (2009 – 2017)

	within EU	with USA	with TUR	New Foreign Entrants	Other
ALB	1	1	0	0	0
BIH	1	1	0	0	1
MKD	3	0	2	0	0
MNE	0	1	0	0	1
SRB	4	1	1	1	3
UVK	0	0	0	3	0

Sources: Bankscope, Fitch, and country authorities.

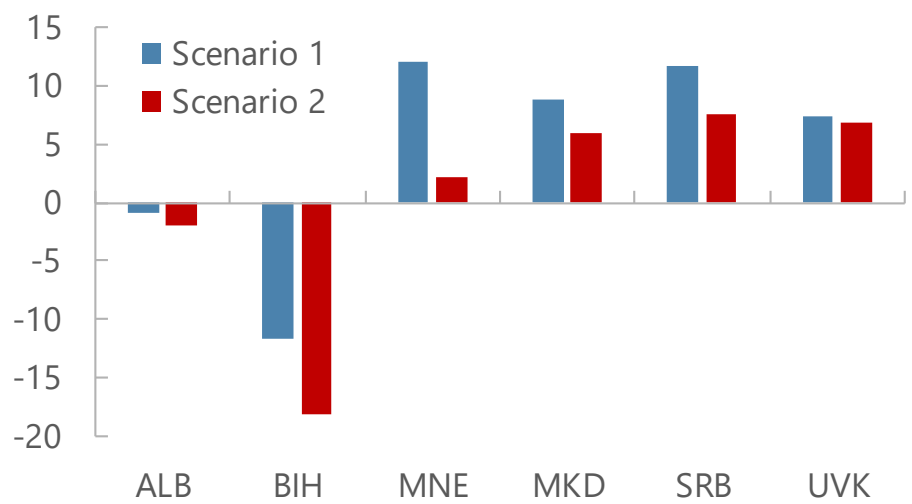
Deposits alone cannot fund meaningful deepening.

Change from Peak to Trough
(Percent of GDP)



Note: Regional weighted average for deposits; aggregate for foreign funding. Residential deposits not available for Latin America and Asia. Deposit data in real terms for Latin America and Asia.
Sources: BIS, IFS, MFS, World Bank, CBK, CBM; and IMF staff estimates.

Simulated Change in Credit Depth
(Percent of GDP)

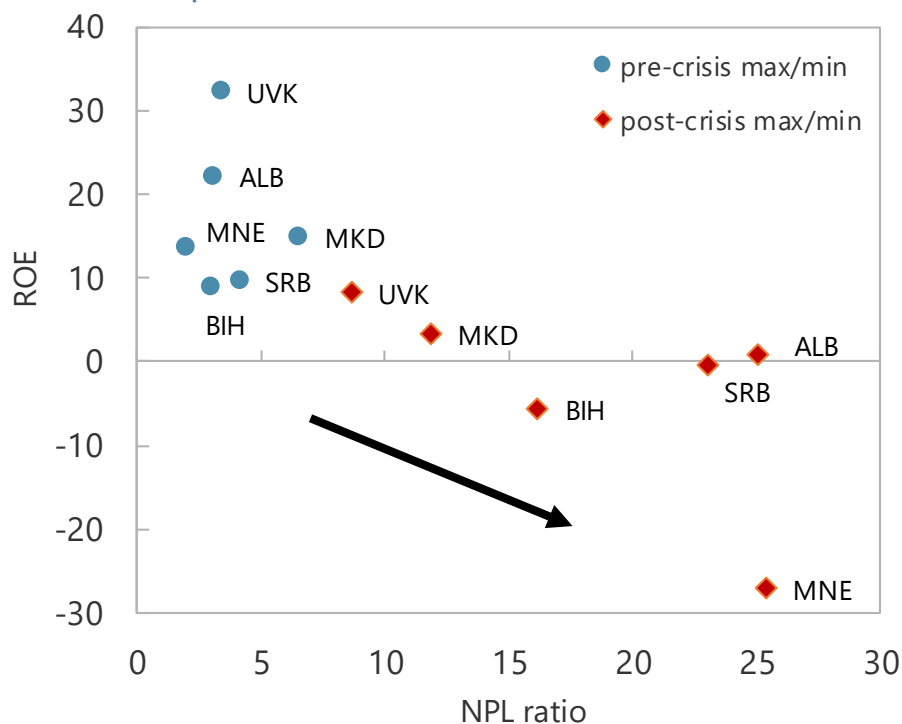


Sources: MFS, IFS, and IMF staff estimates.
Scenario 1: 2026 credit projected by applying 2010–16 average annual deposit growth to 2016 credit level.
Scenario 2: Scenario 1 less potential deleveraging. For each country, half of the post-crisis decline in foreign funding to banks is subtracted from 2026 credit level.

The crisis hit bank balance sheets...

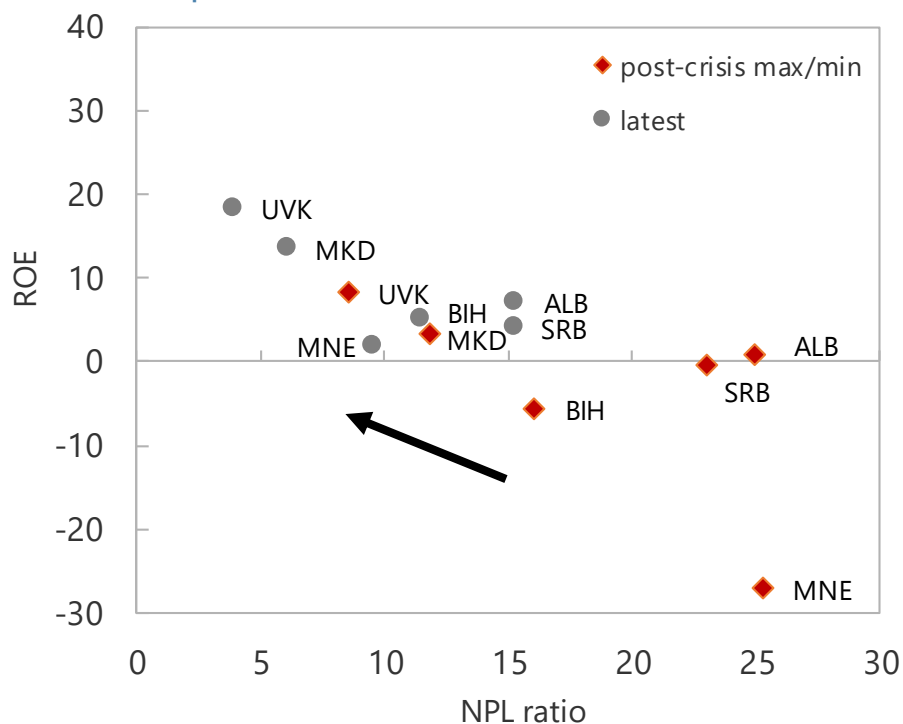
NPLs and ROE before and during crisis

(2006-14, percent)



NPLs and ROE post-crisis

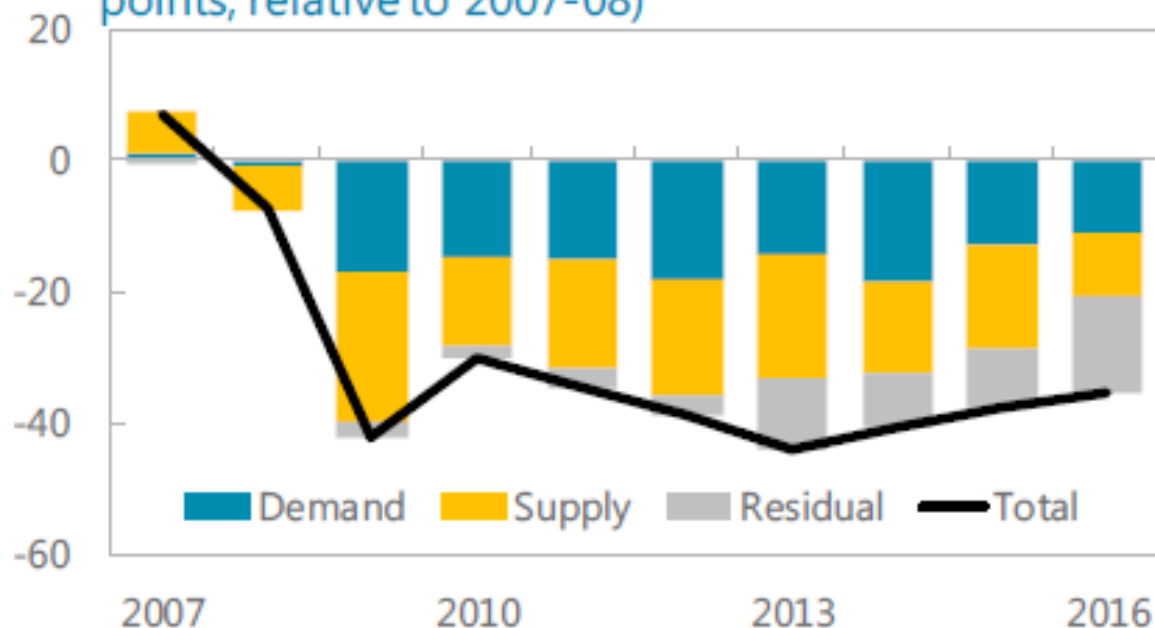
(2010-17, percent)



Sources: Country authorities, FSI, and IMF staff estimates.

...which remain a drag on credit growth...

WB EU-Owned Banks: Demand vs. Supply
Determinants of Credit Growth (Percentage points, relative to 2007-08)



... that economic growth alone will not resolve.

GDP Growth Needed to Bring NPL Ratios to 2007 Levels 1/					
(Percent)					
	NPL Ratio		GDP Growth		
	2007	2016	Actual (2016)	Needed (3 yr) 2/	Needed (5 yr) 2/
Albania	3.4	18.3	3.4	7.1	4.2
Bosnia-Herzegovina	3.0	11.8	2.5	4.2	2.5
Kosovo	4.1	4.9	3.6	0.8	0.5
Macedonia	7.5	6.3	2.4
Montenegro	3.2	11.1	2.4	3.8	2.3
Serbia	8.4	17.0	2.8	4.1	2.5

1/ Assuming no new NPL formation on top of the existing stock.
 2/ GDP growth needed to bring the existing NPL stock back to 2007 levels in a period of three (five) years.
 Source: IMF staff estimates.

Non-bank structural factors have also stymied lending.

- Gaps in land titling and cadastre systems
- Absent/incomplete credit registries
- Understaffed courts/large case backlogs
- Weak insolvency regimes

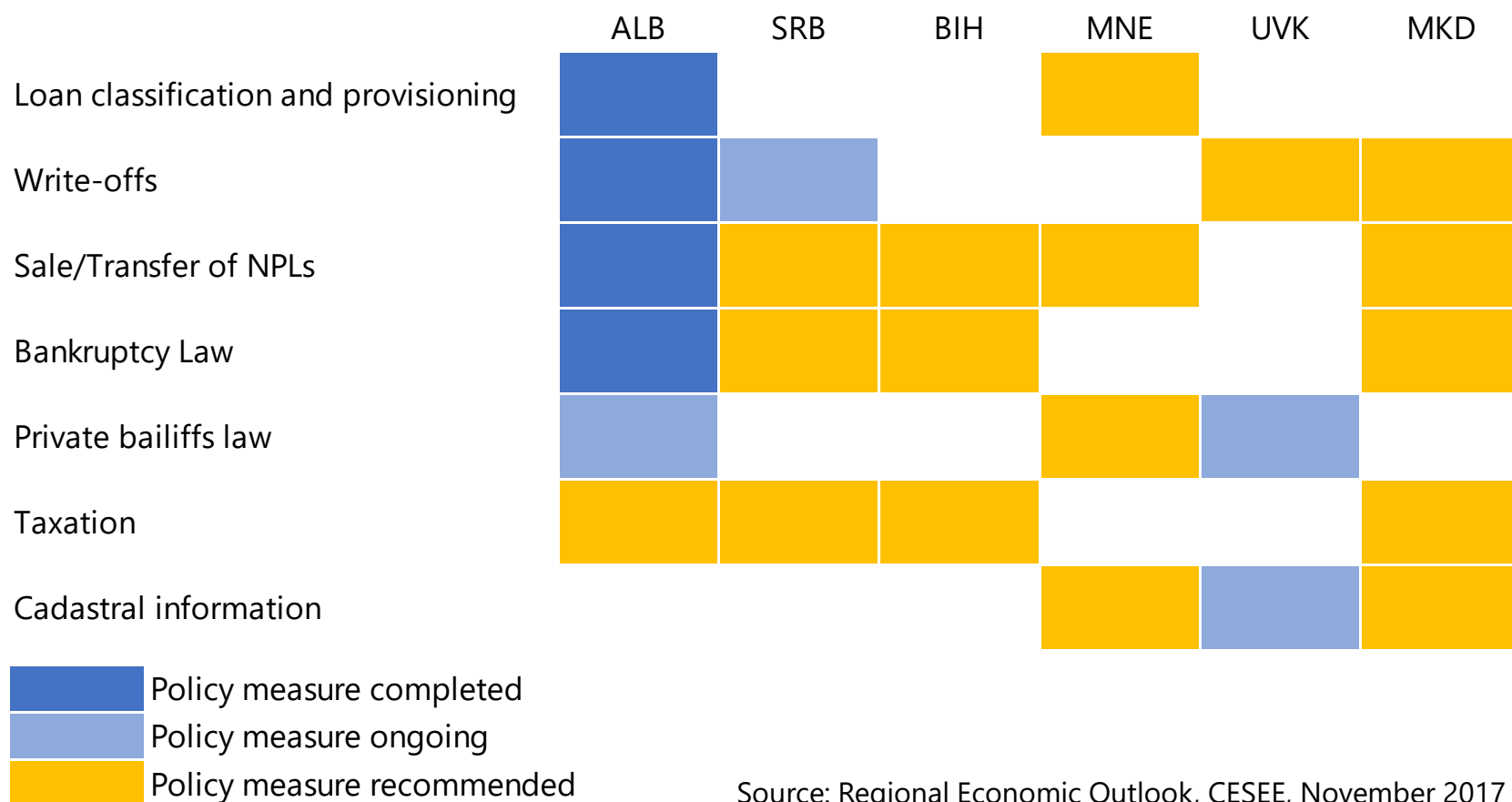
Policy action is needed:

- Repair balance sheets:
 - *AQRs*
 - *supervised action plans*
 - *distressed asset market development*
 - *enhanced supervision*

- Expand funding bases:
 - *manage potential further external deleveraging*
 - *develop local capital markets*

- Address non-bank obstacles to credit:
 - *Land and property titling*
 - *Court procedures and backlogs*
 - *Insolvency frameworks*

Balance sheet repair requires multipronged approach...

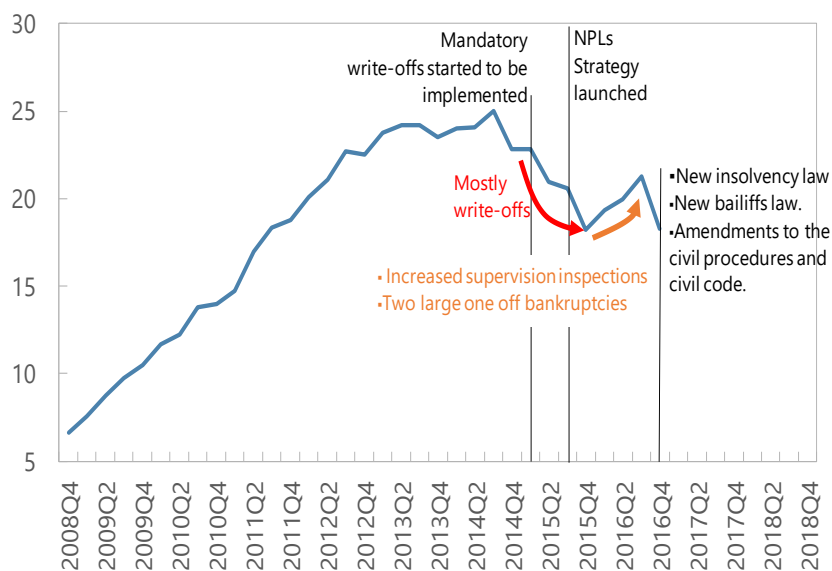


Source: Regional Economic Outlook, CESEE, November 2017

...focused on reducing NPLs.

Albania: NPLs

(Percent of total loans)



Sources: Bank of Albania; and IMF staff estimates.

Serbia: NPLs

(Percent of total loans)



Sources: National Bank of Serbia; and IMF staff estimates.

Thank you