Financial flows to CEE: developments and outlook

Kitzbühel, January 10, 2014

James Roaf

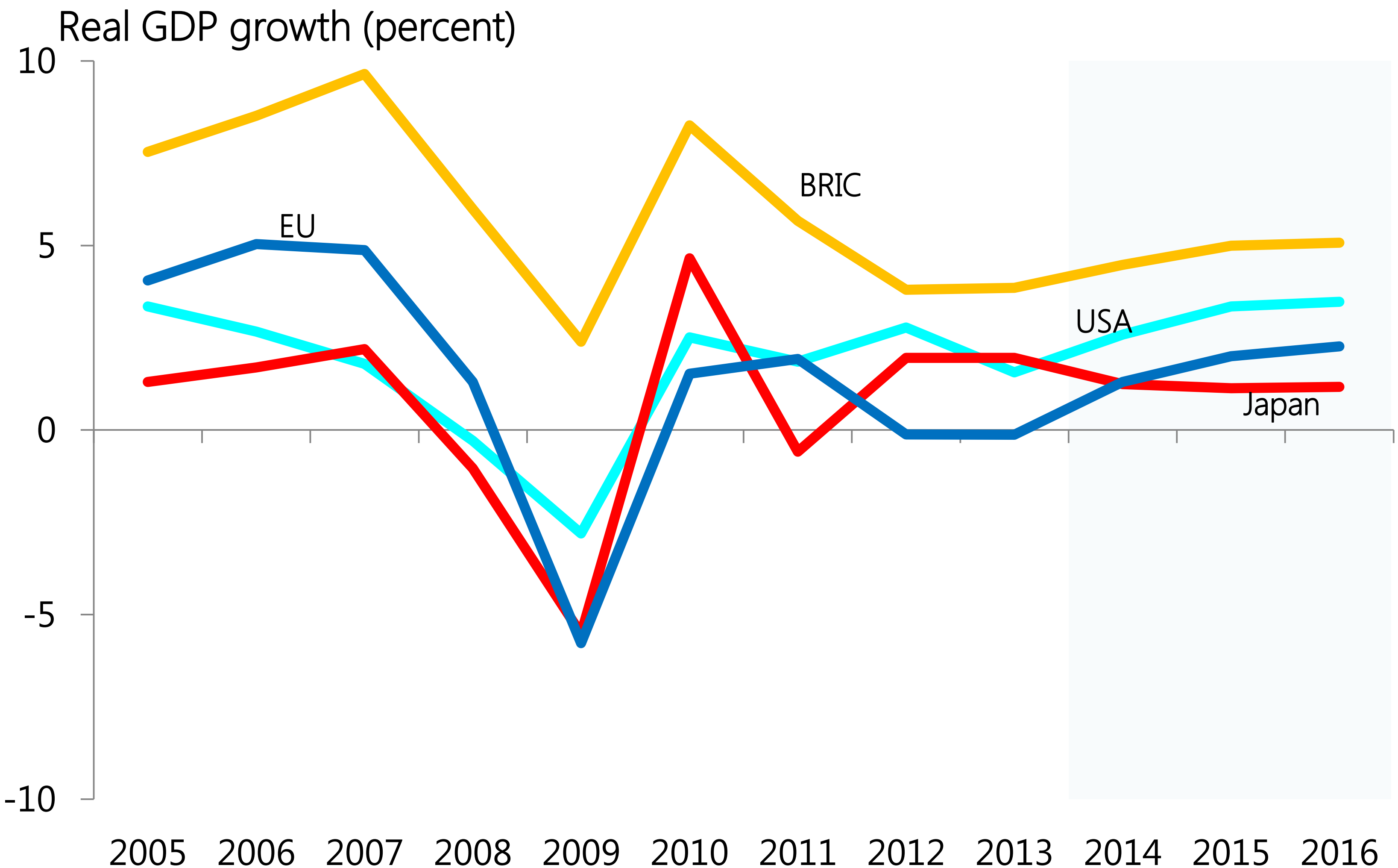
Senior Resident Representative

IMF Regional Office for Central and Eastern Europe, Warsaw

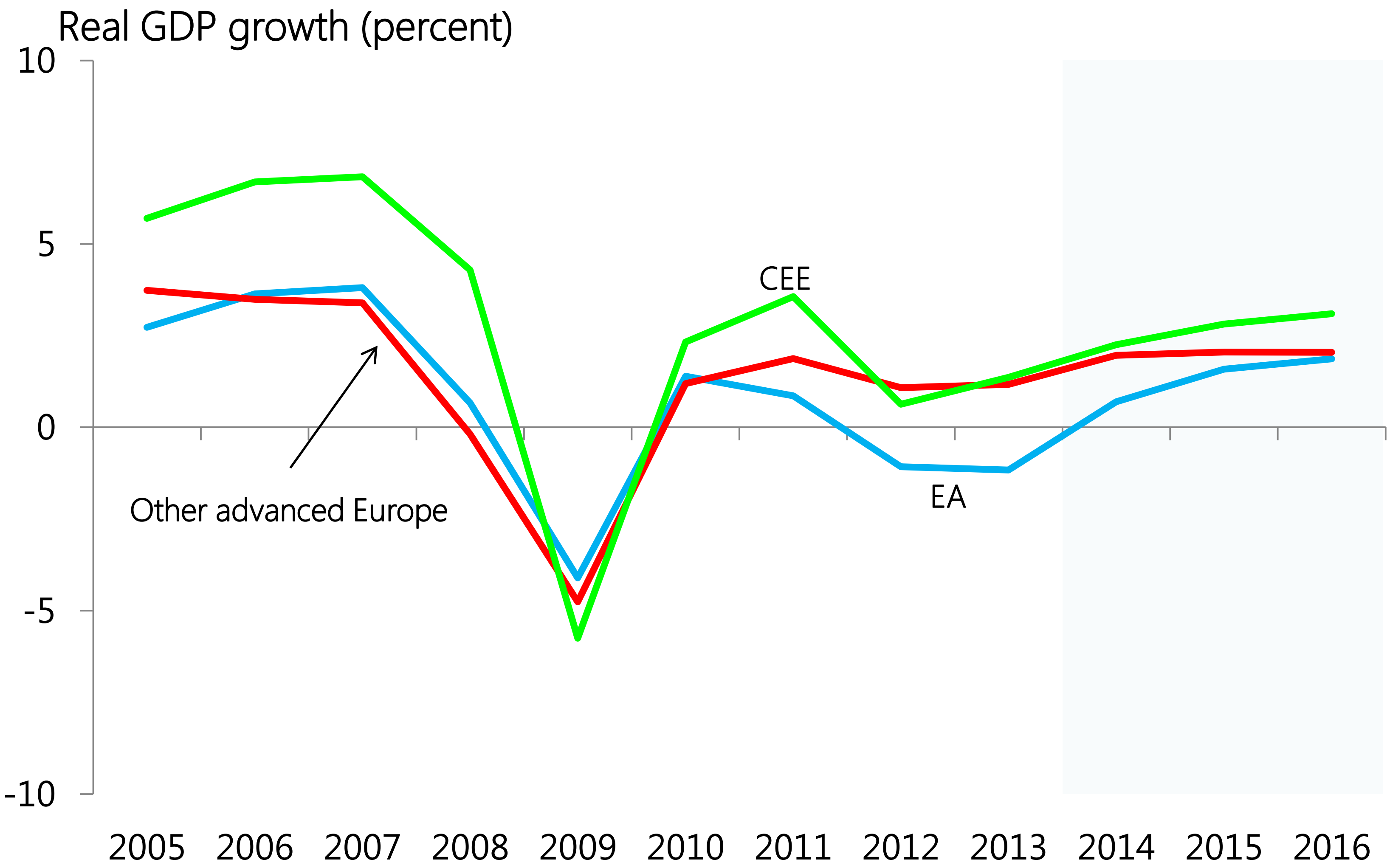
Outline

- Macro backdrop
- Recent developments in financial flows
- Prospects for flows
  - mostly positive push-pull factors…
  - …but banking considerations
- Conclusions

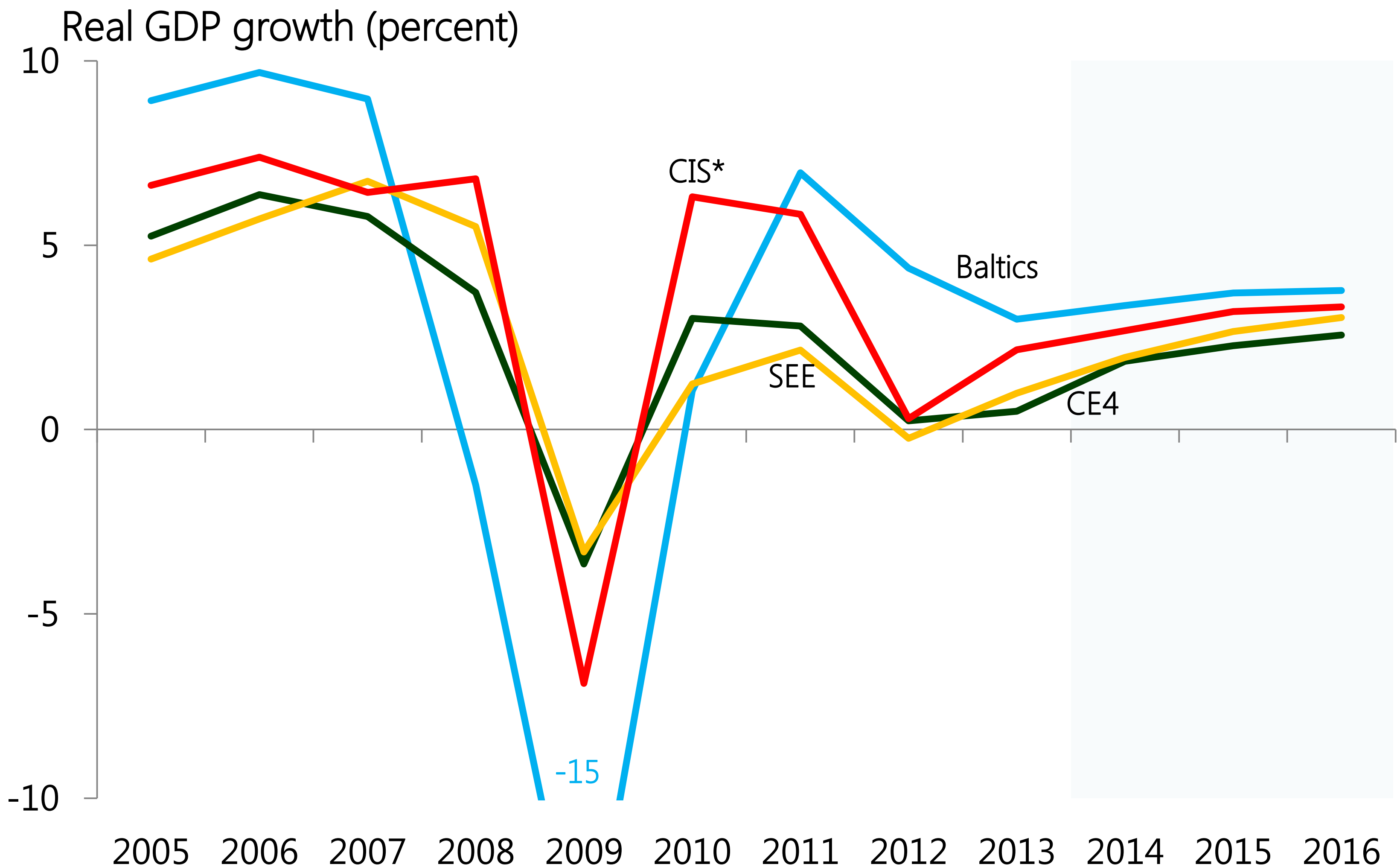
Recovery in prospect



Recovery in prospect

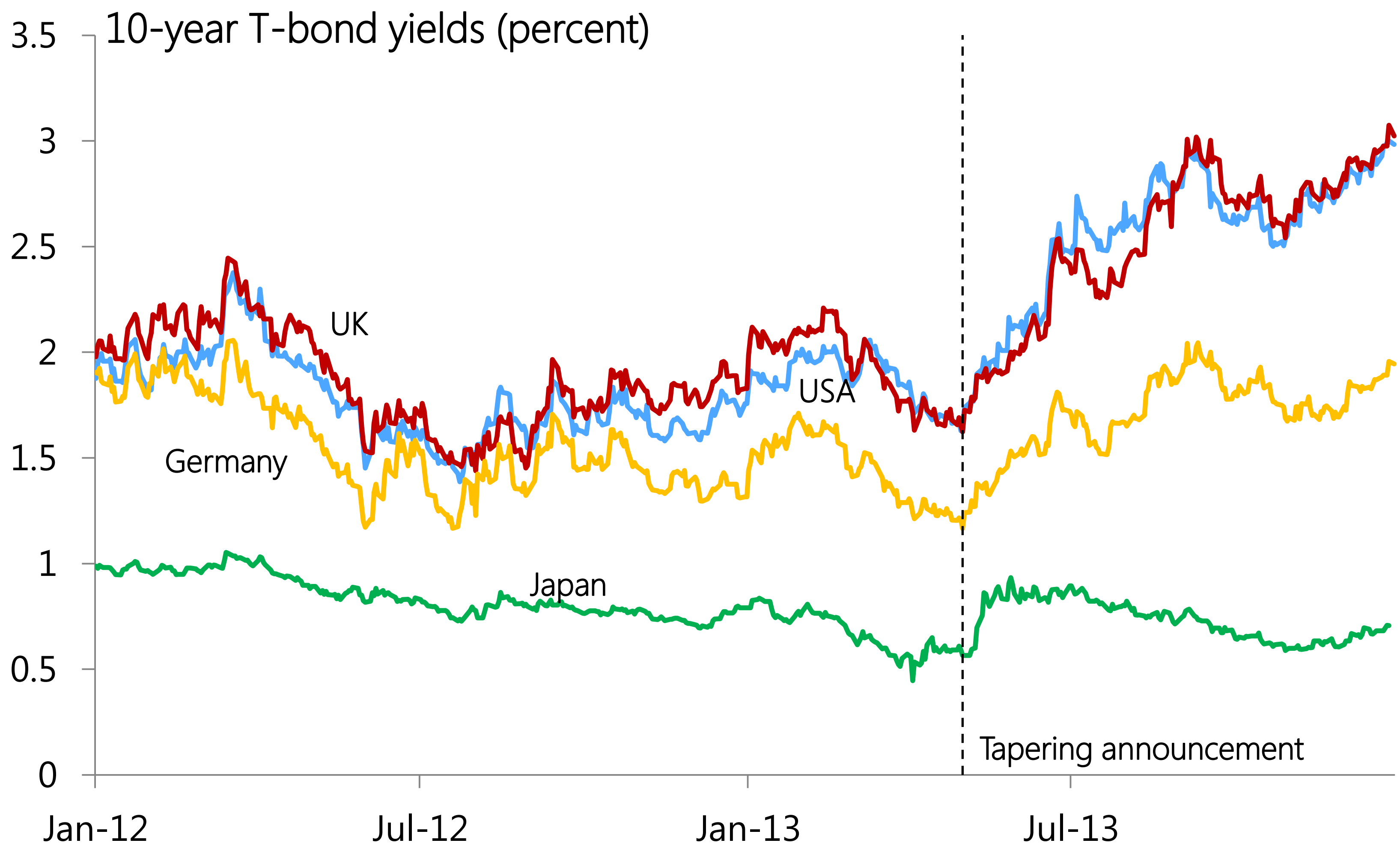


Recovery in prospect



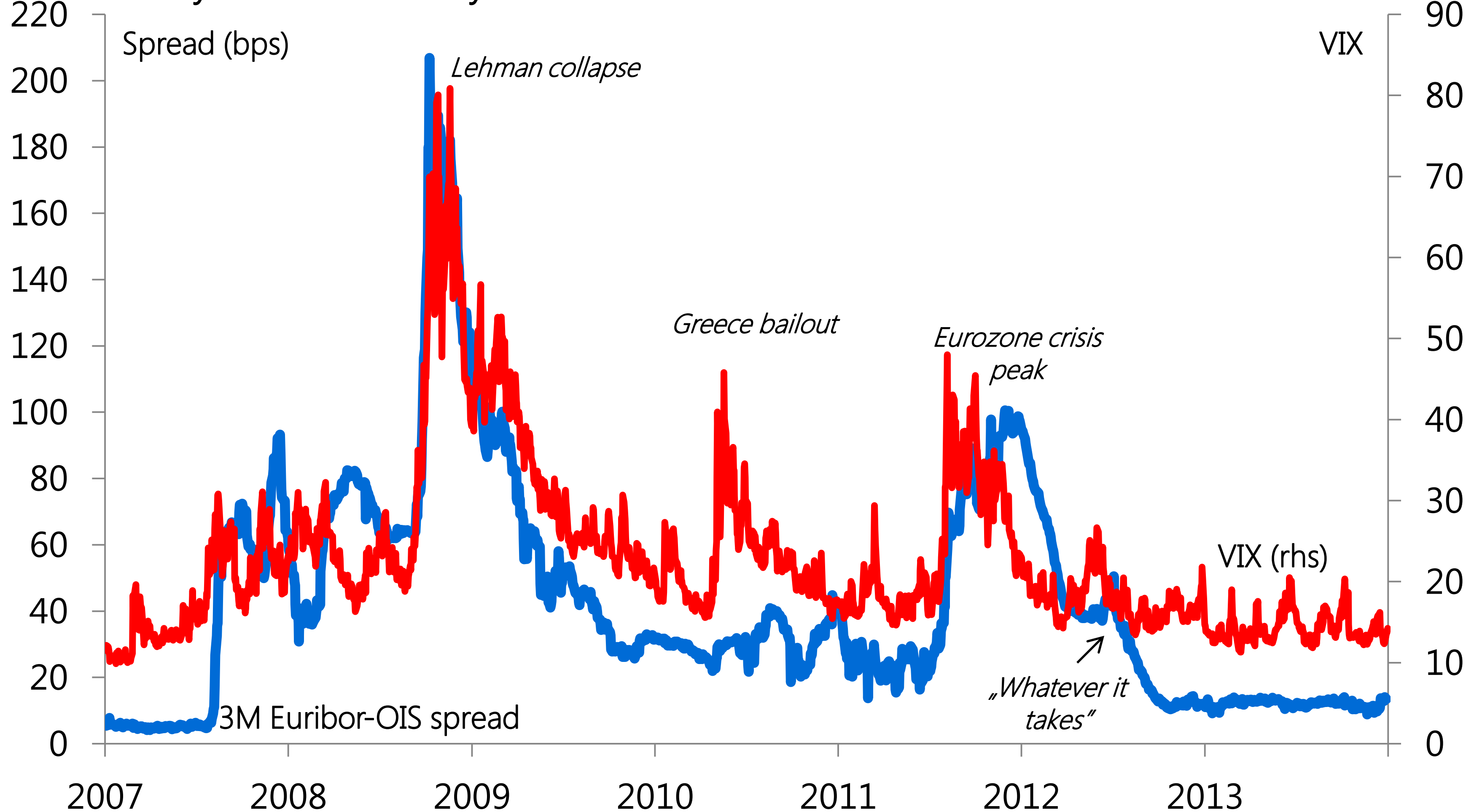
CIS* - excluding Russia

Monetary tightening in train…

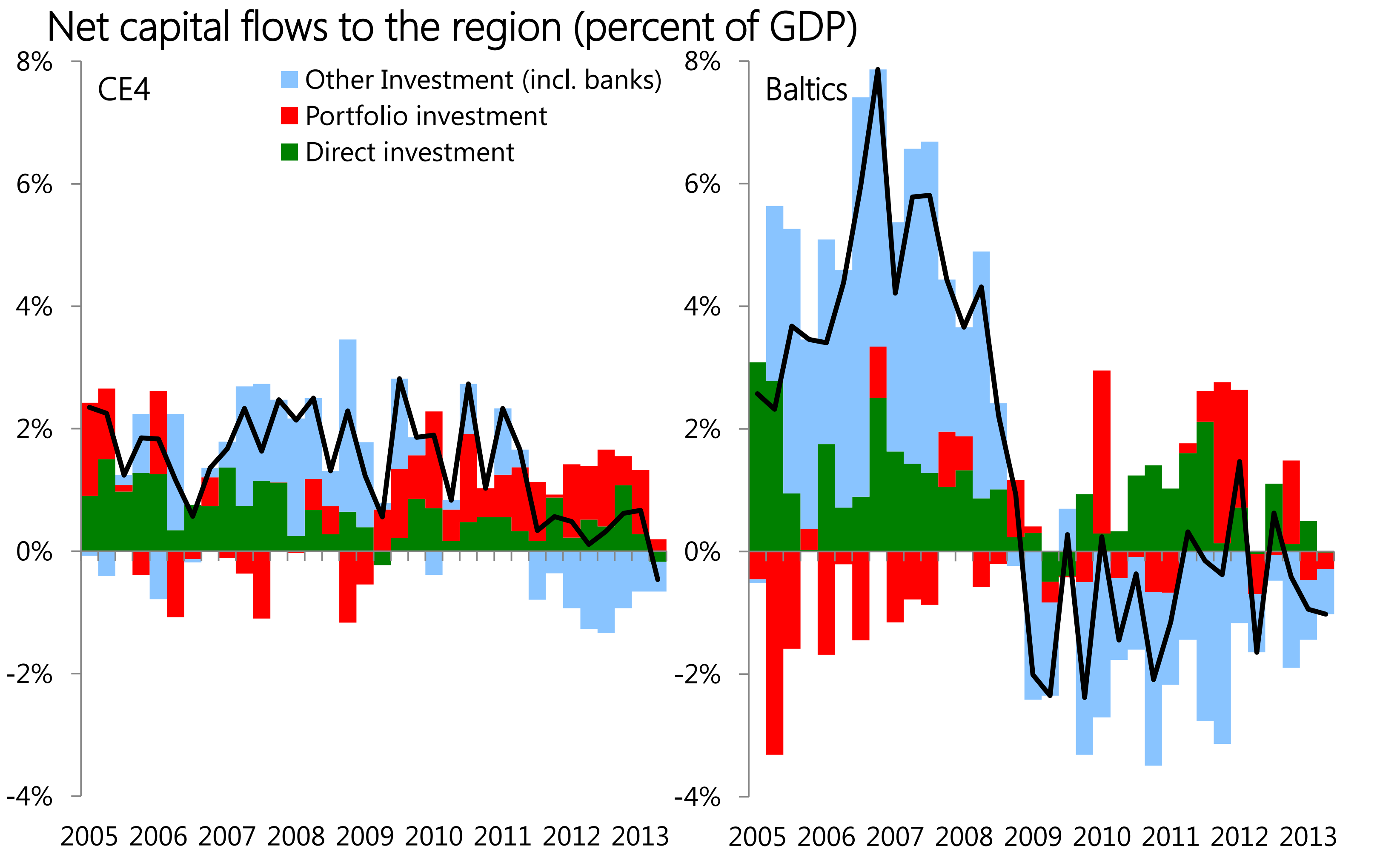


…as uncertainty recedes

Volatility and uncertainty measures



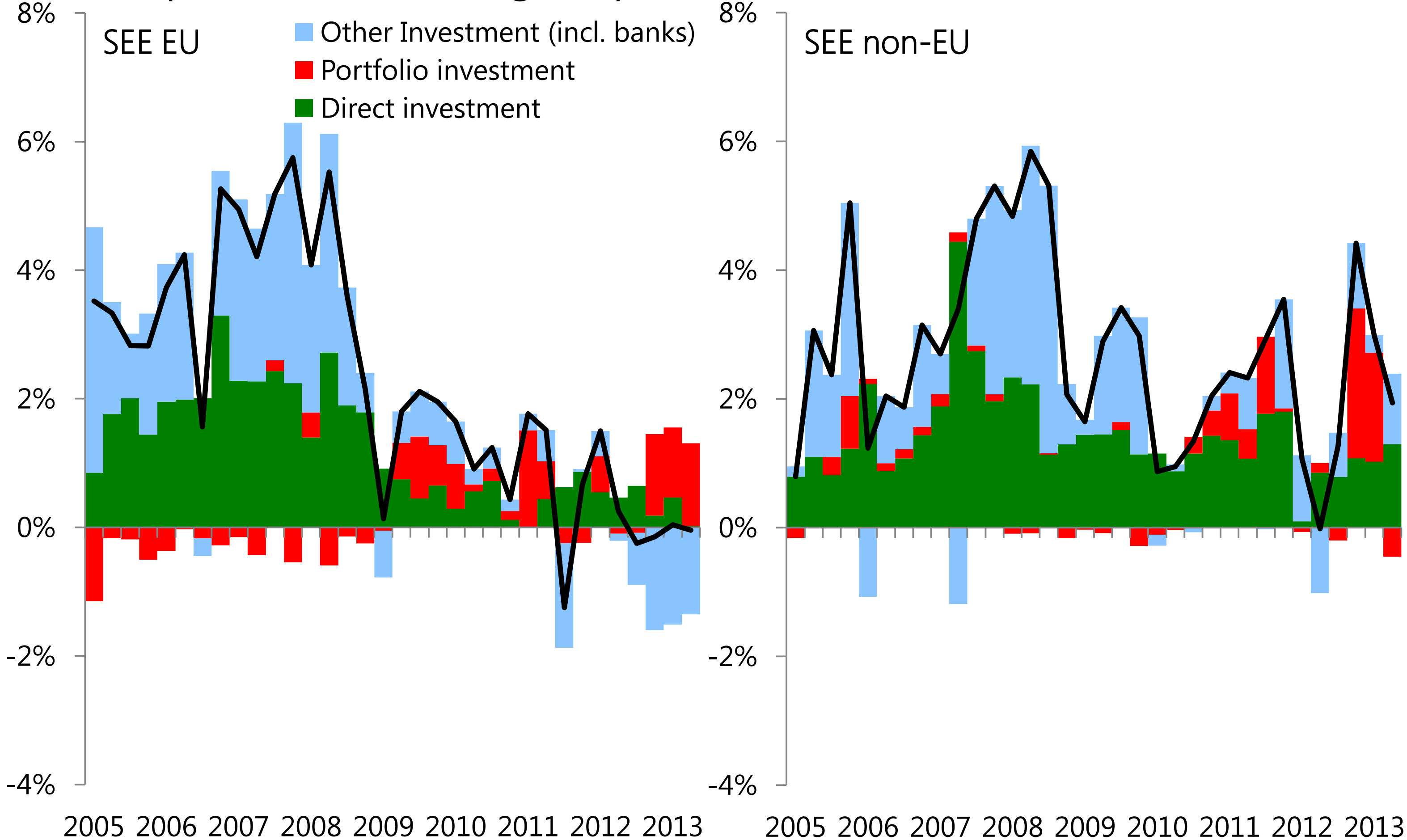
Capital flows have stalled



Note: No data for Slovakia 2013Q2.

Capital flows have stalled

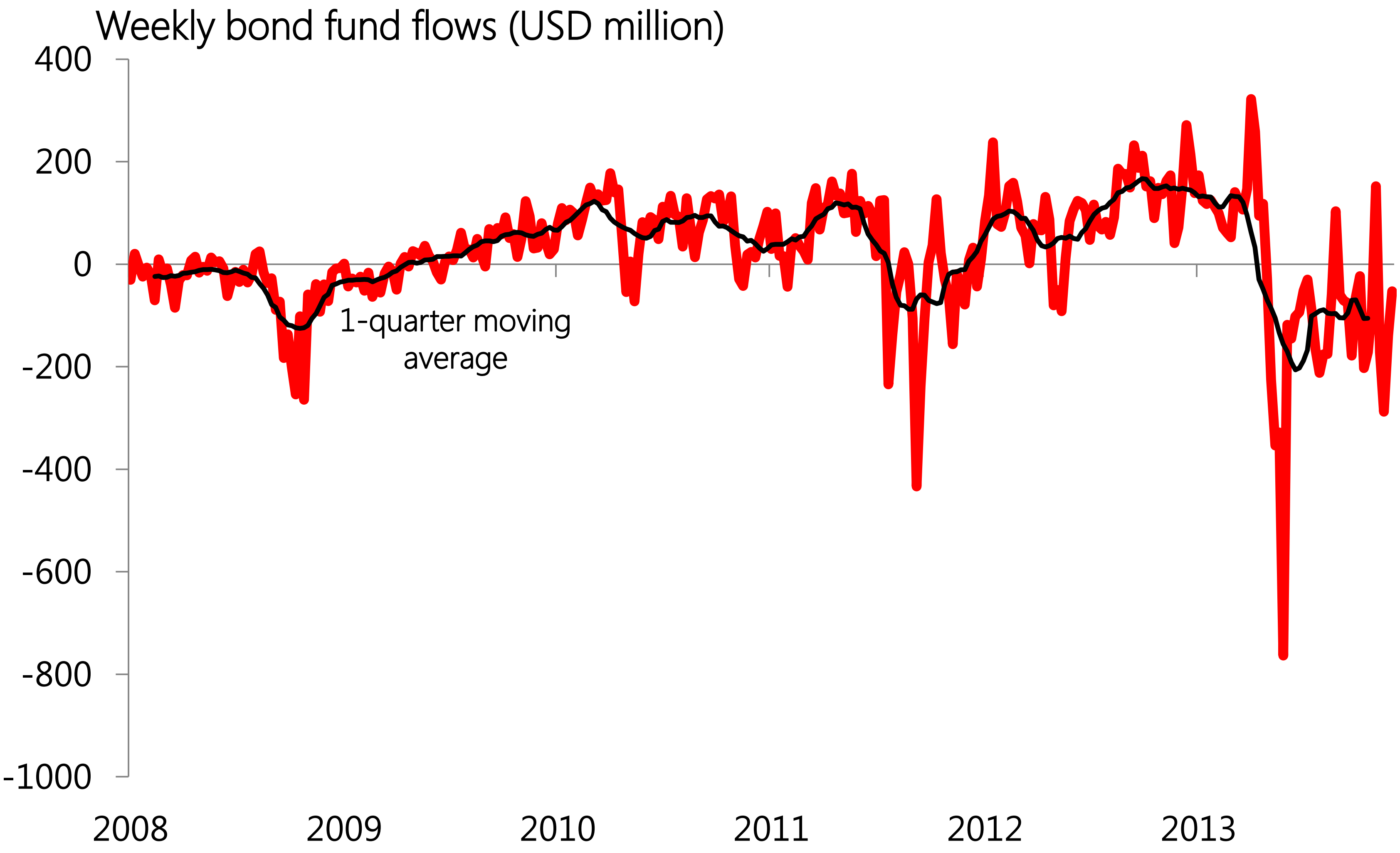
Net capital flows to the region (percent of GDP)



Note: Data for Montenegro starts in 2007, for Serbia in 2008, for Kosovo in 2009. No data for Serbia 2013Q2.

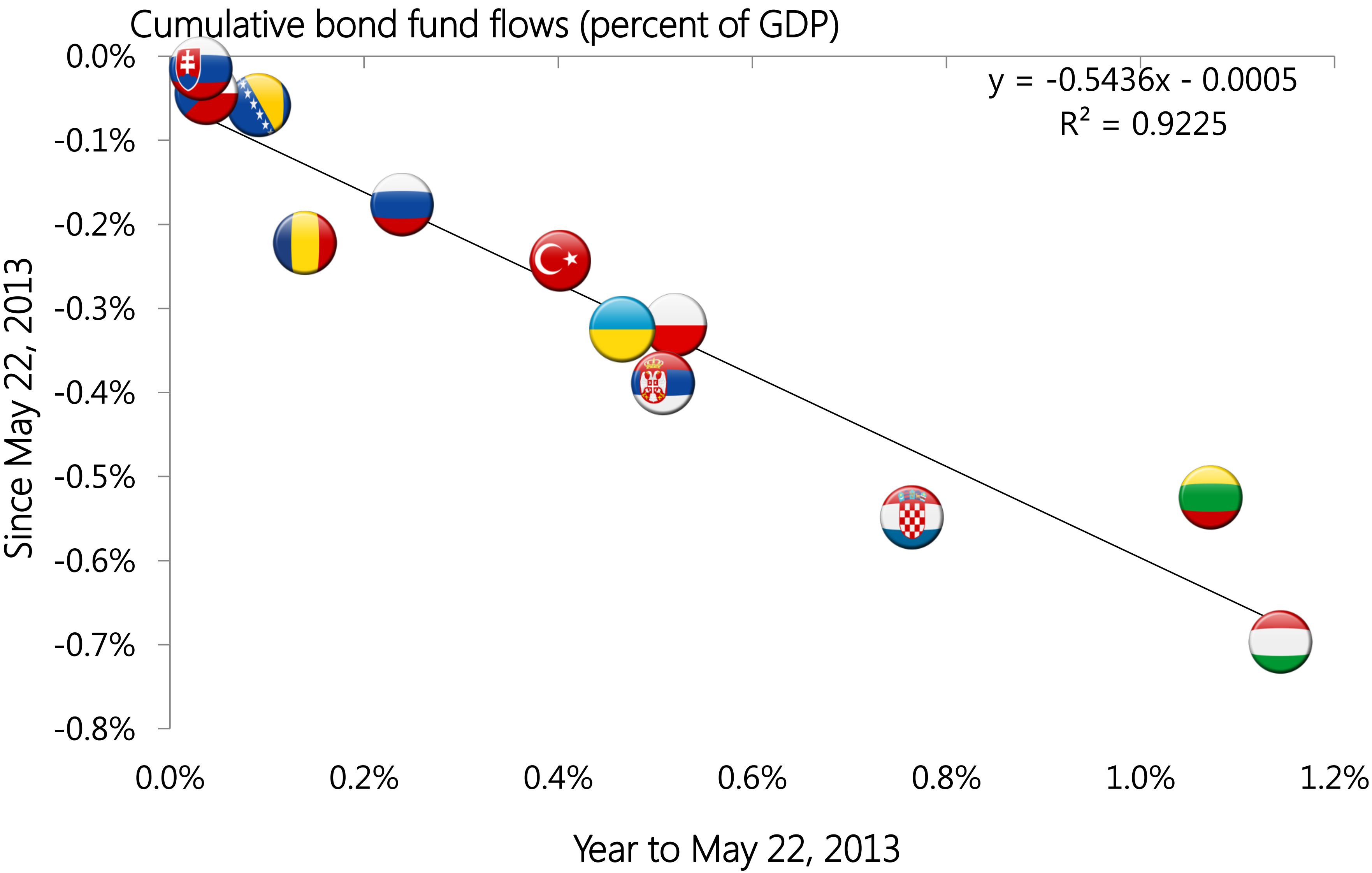
Bond flows reversed after tapering announcement…

EUR

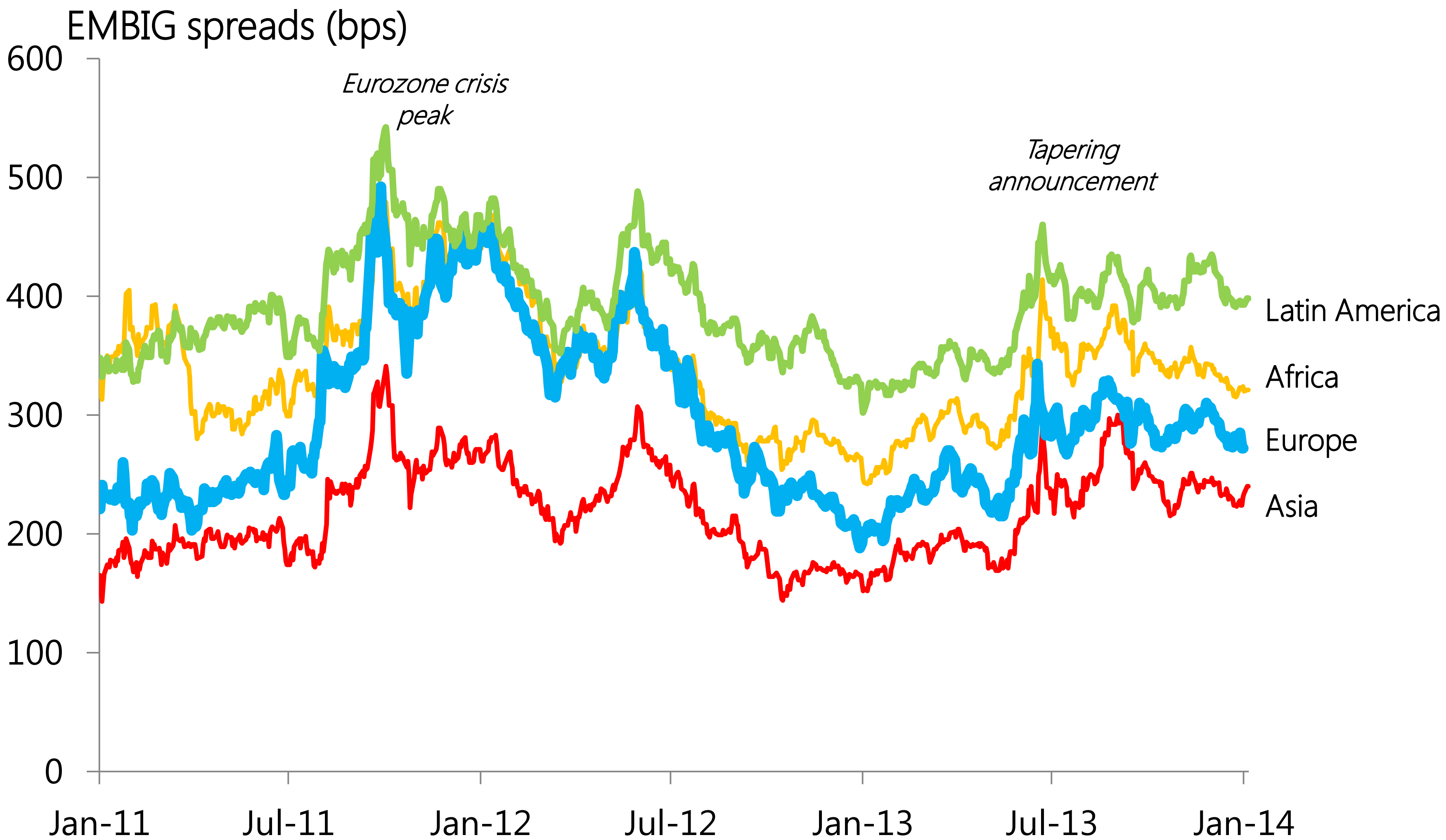


Note: Excluding Russia and Turkey.

…strongly offsetting post-OMT surge.



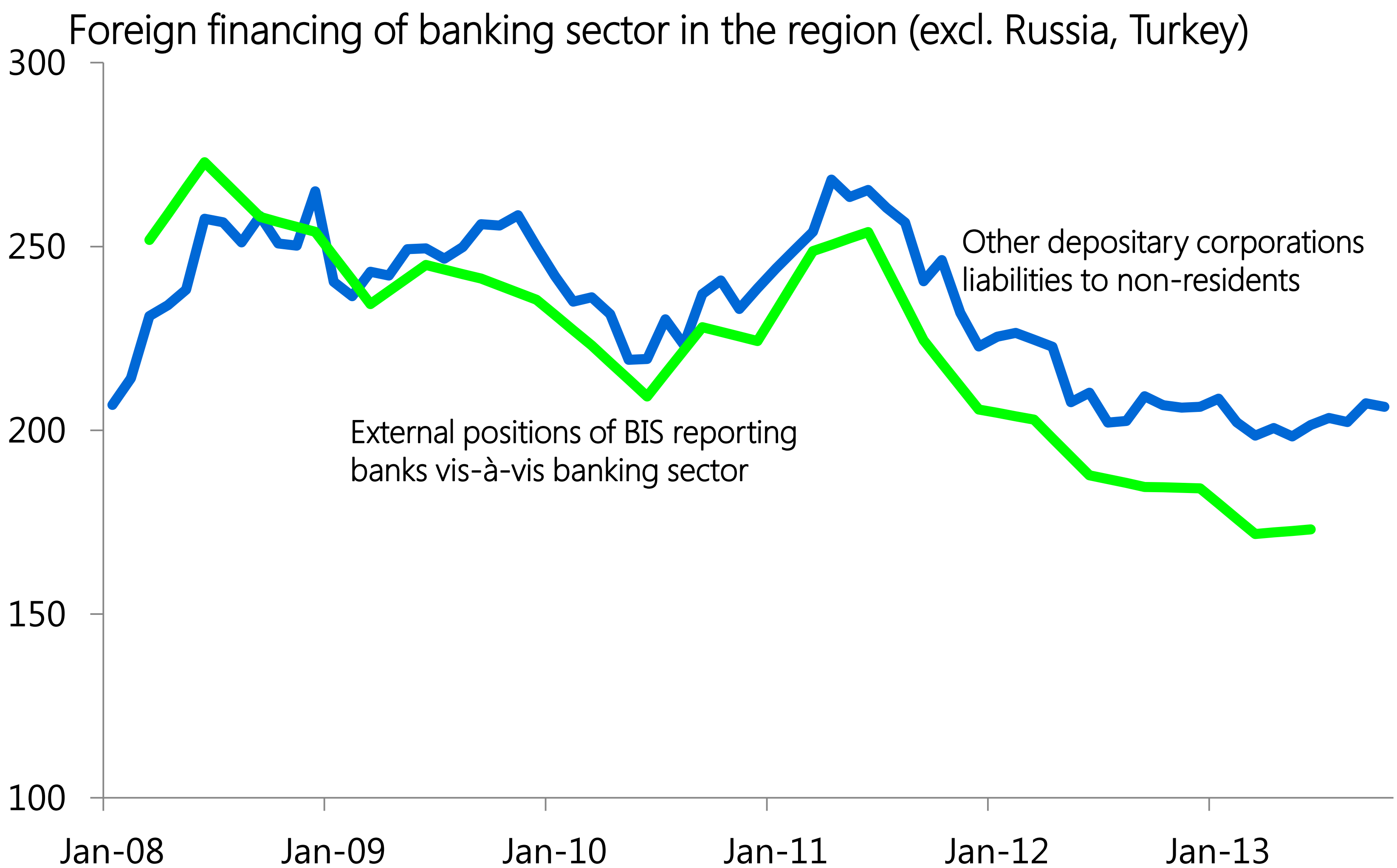
Yields reaction to tapering similar to peers.



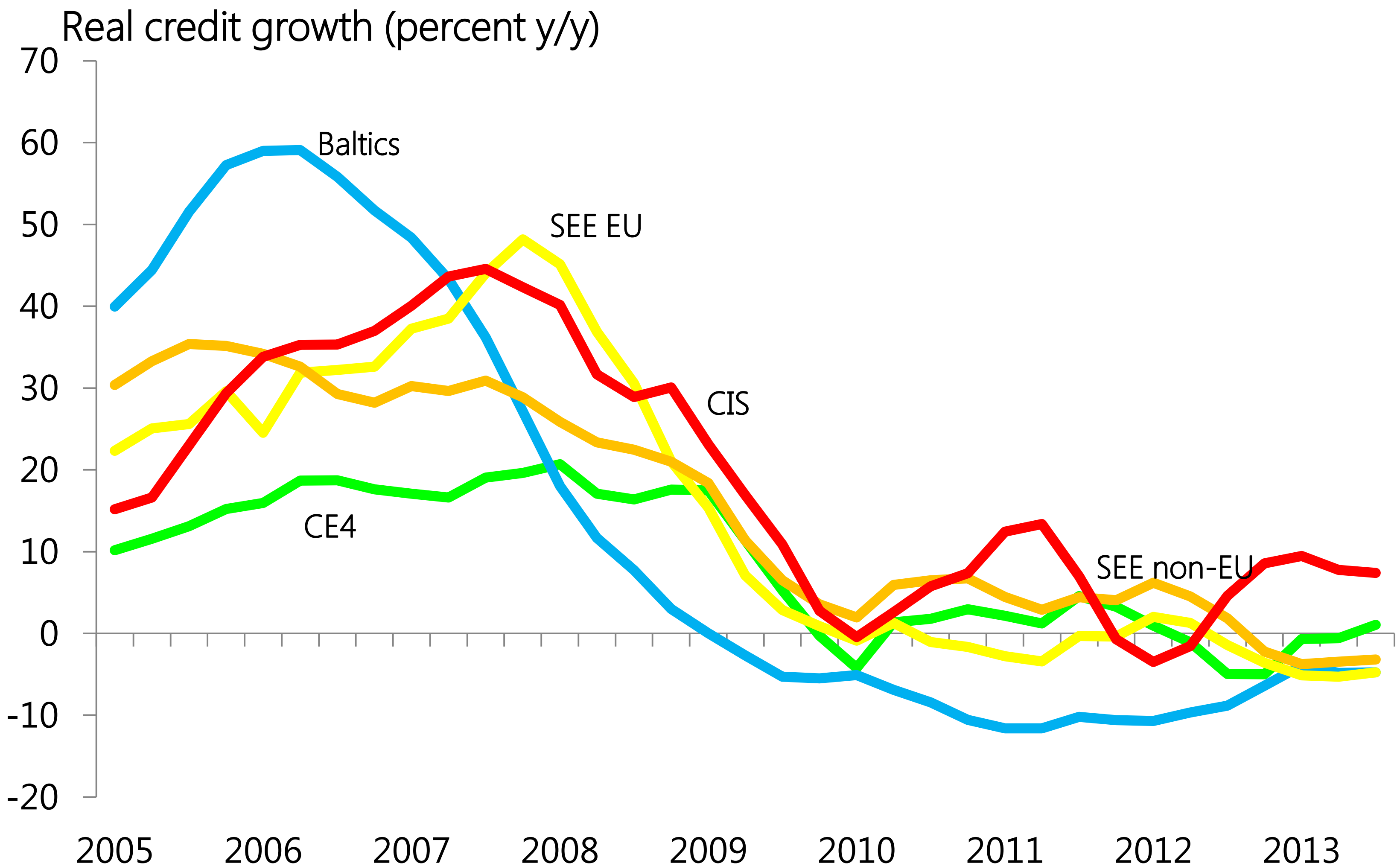
Push and pull factors seem favorable…

Factor	**Expected effect on inflows**	**Prospects for CEE**
Push		
Global risk aversion	-	✓
Global interest rates	-	(✓)?
Global growth	+?	(✓)?
Pull		
Growth	+	(✓)
External position	+	✓
Fiscal position/rating	+	(✓)
Openness	+	✓
Exchange rate volatility	-	(✓)
Business environment	+	✓/✗

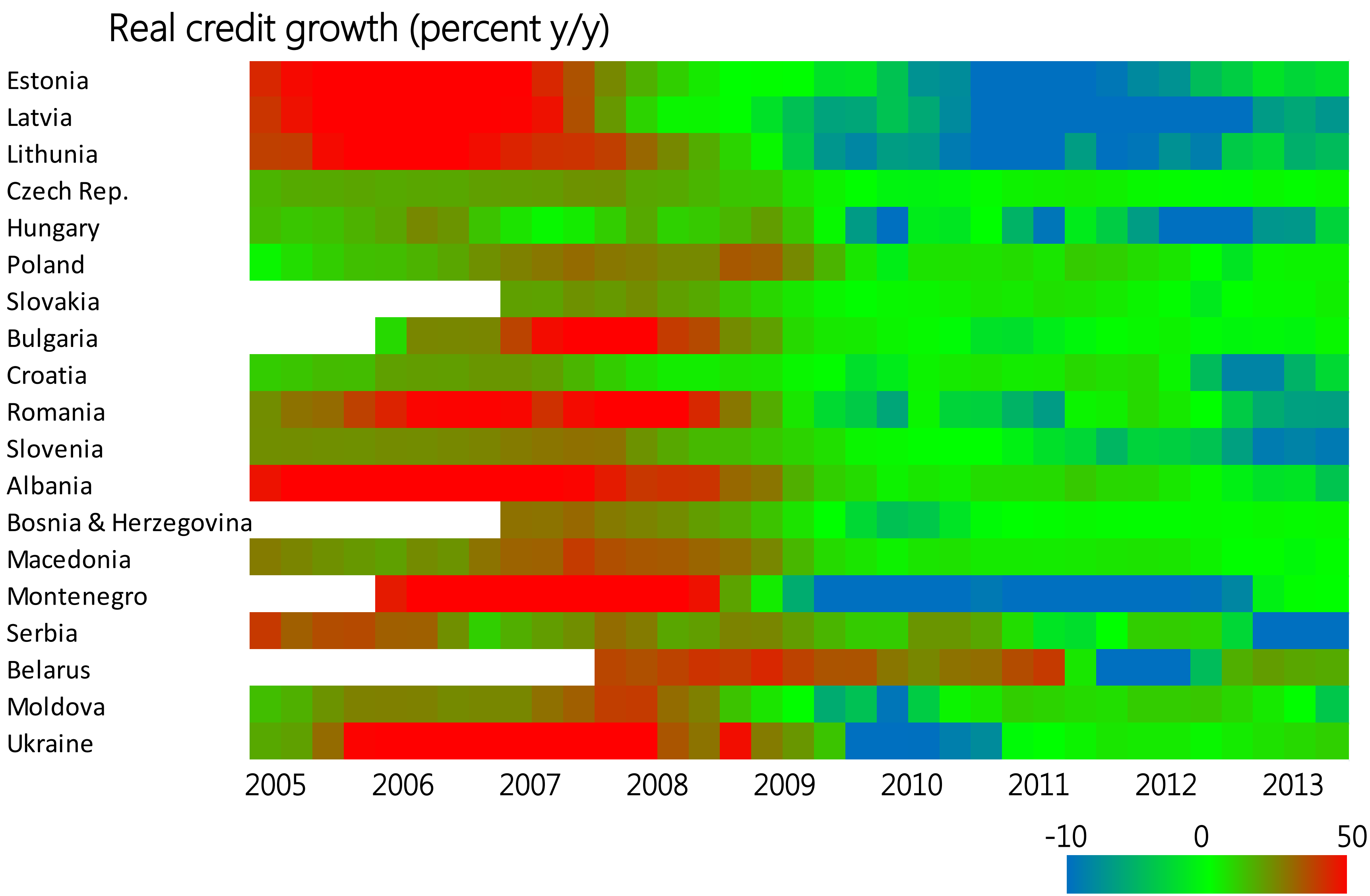
…but deleveraging still a critical factor in CEE…



…affecting credit growth…

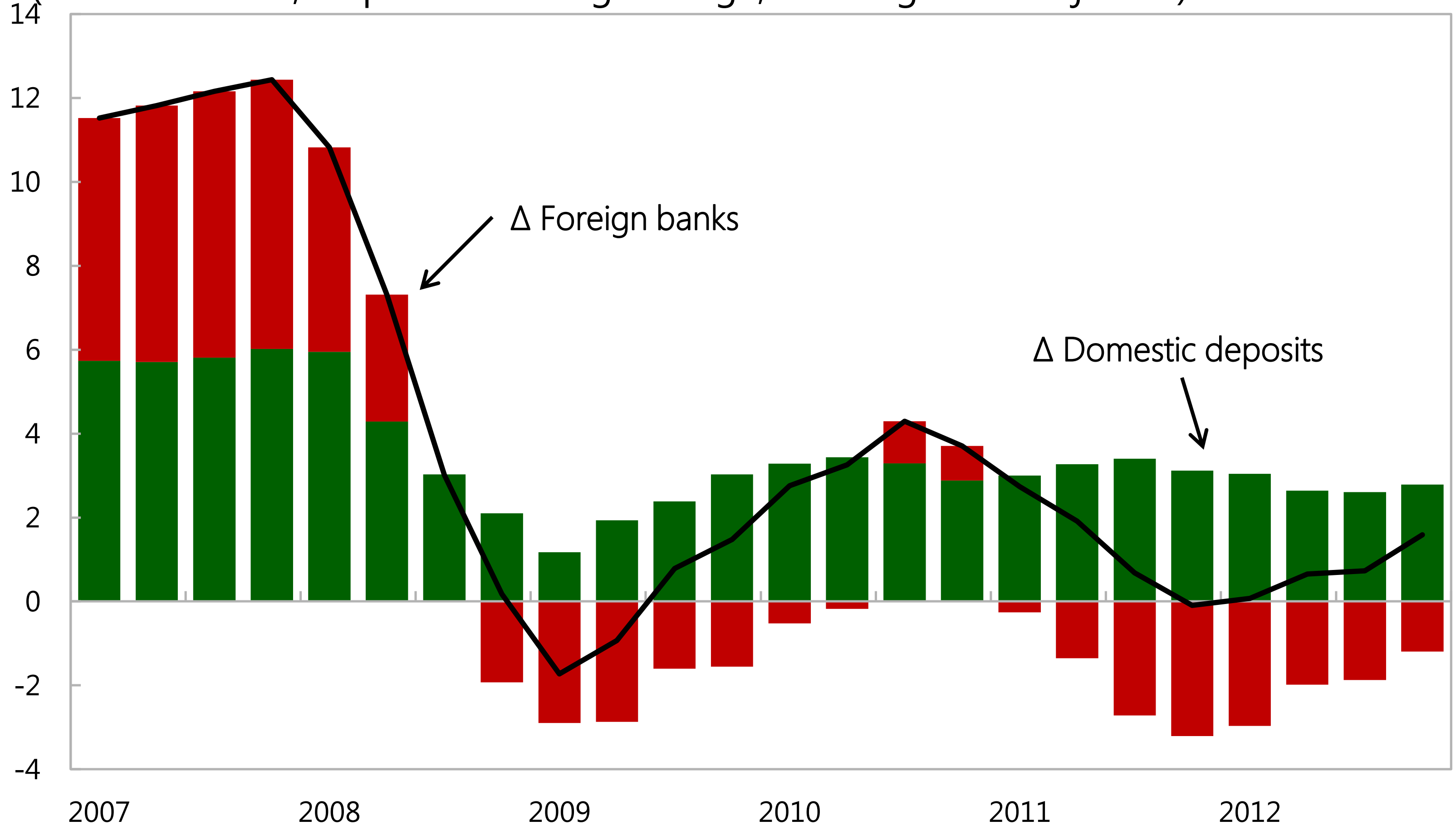


…affecting credit growth…



Funding reliant on deposits…

CESEE excl. Russia and Turkey: Evolution of Main Bank Funding Sources
(Percent of GDP, 4-quarter moving average, exchange-rate adjusted)

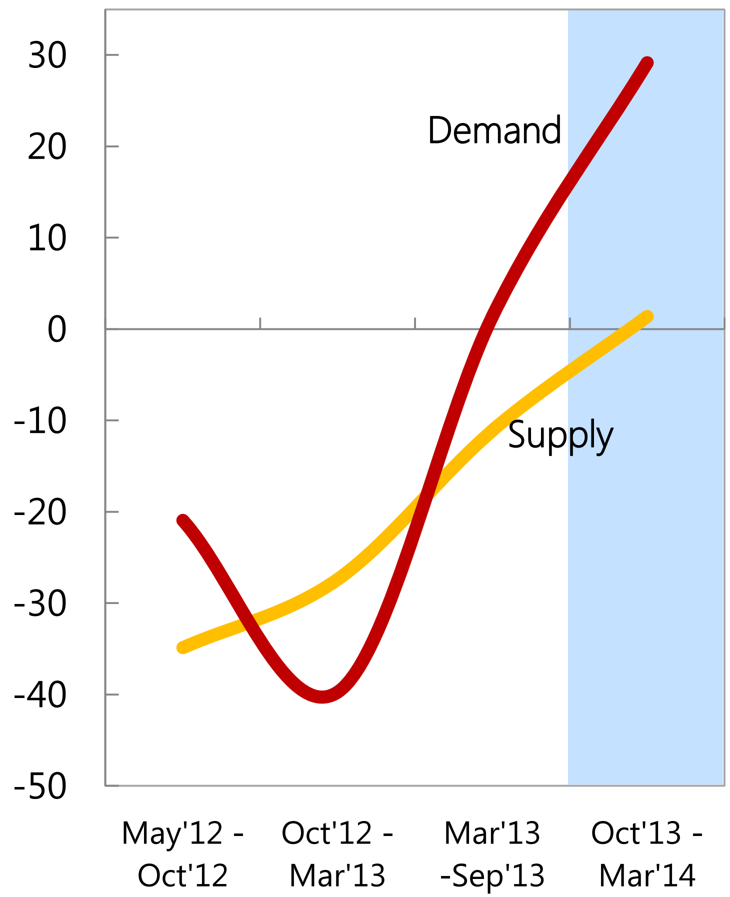


Note: Excludes Montenegro and Kosovo because of data unavailability.

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

...as demand for credit strengthens

Demand and Supply Conditions, Past Developments and Outlook
(Net percentages: negative supply-side values indicate a tightening of credit standards and positive demand-side values indicate an increase of demand)

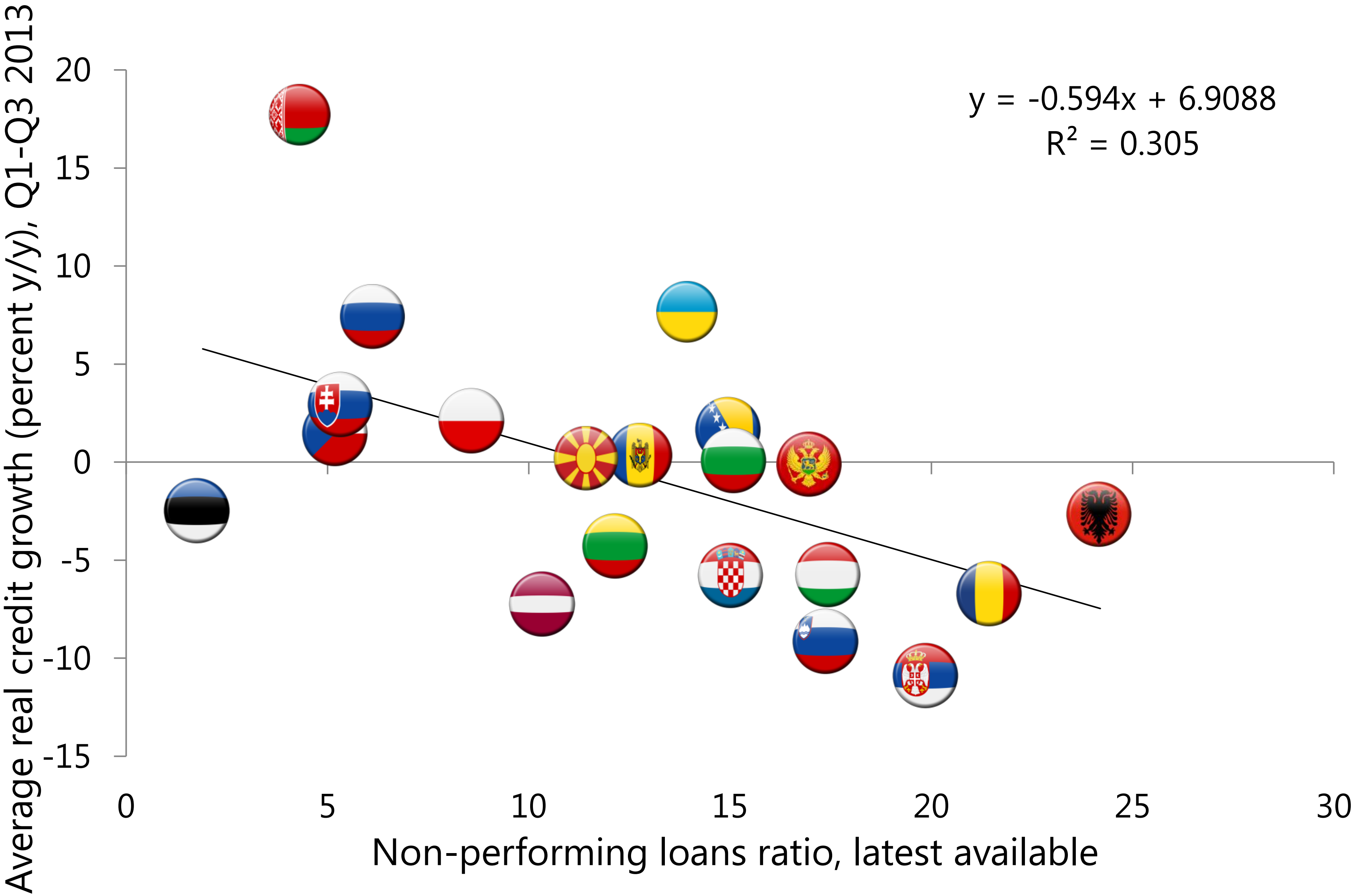


Reported supply factors

- Regulatory changes locally and at EU level a constraint
- Funding availability not a widespread independent pressure point
- Local economic and banking outlooks expected to help ease lending conditions
- High NPLs a constraint

Source: Vienna Initiative, CESEE Bank Lending Survey.

Crisis legacies still in play



Conclusions

- Underlying conditions quite favorable for pick-up in inflows to CEE
- But banking factors will still dominate
- More discrimination on destination of flows
- Policies need to focus on conducive environment for investment (macro, structural)…
- …as well as tackling NPLs and establishing macroprudential policy frameworks

Thank you