Eurozone banks and Growth in CESEE

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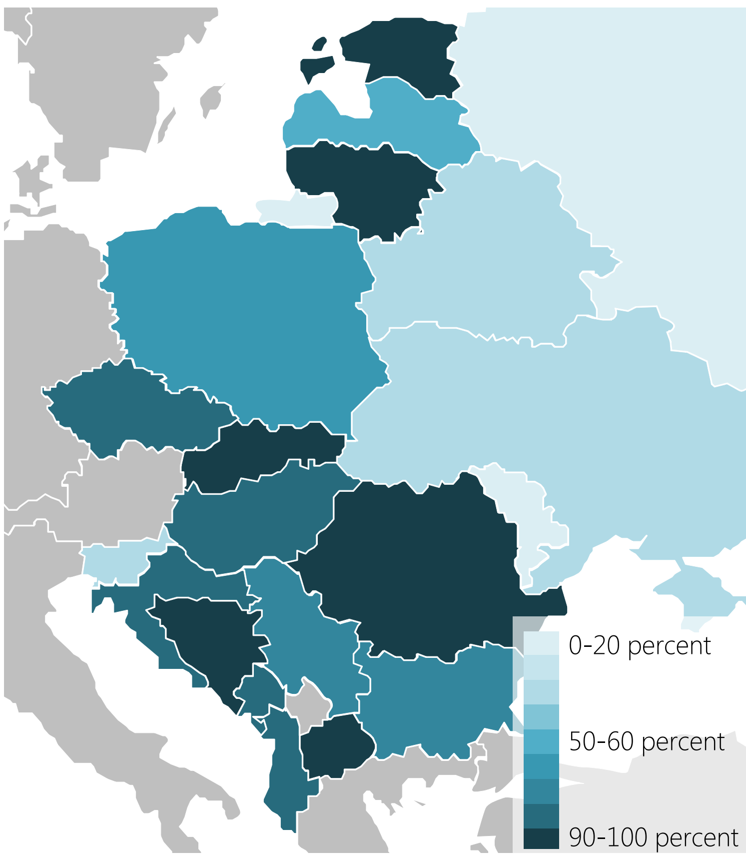
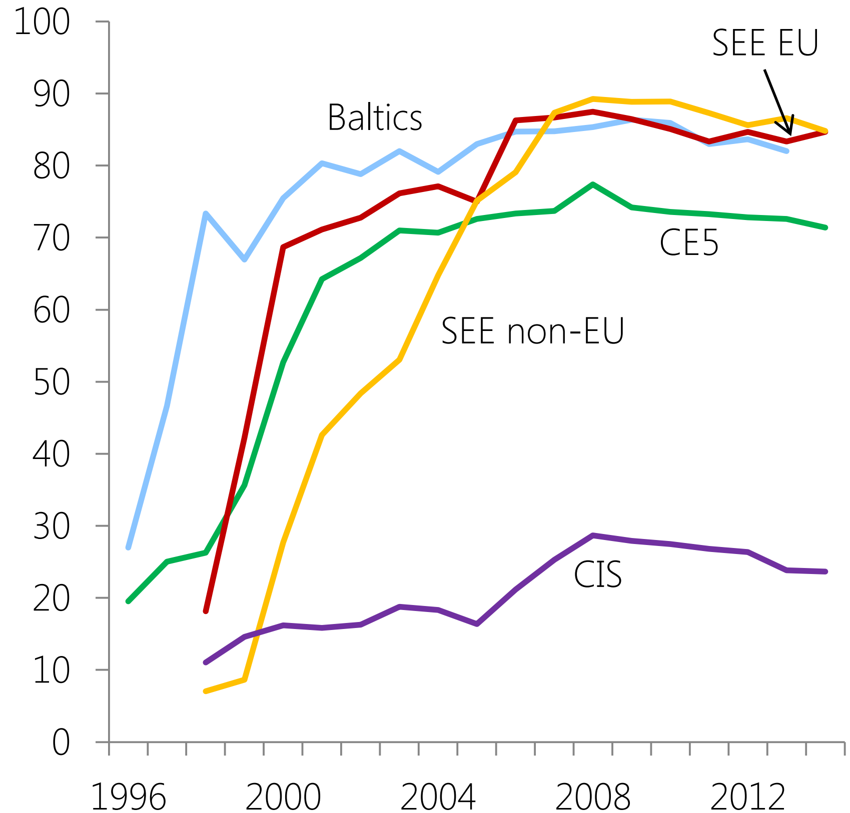
Western banks are very important in CESEE

Foreign bank participation
(percent of banking sector assets)



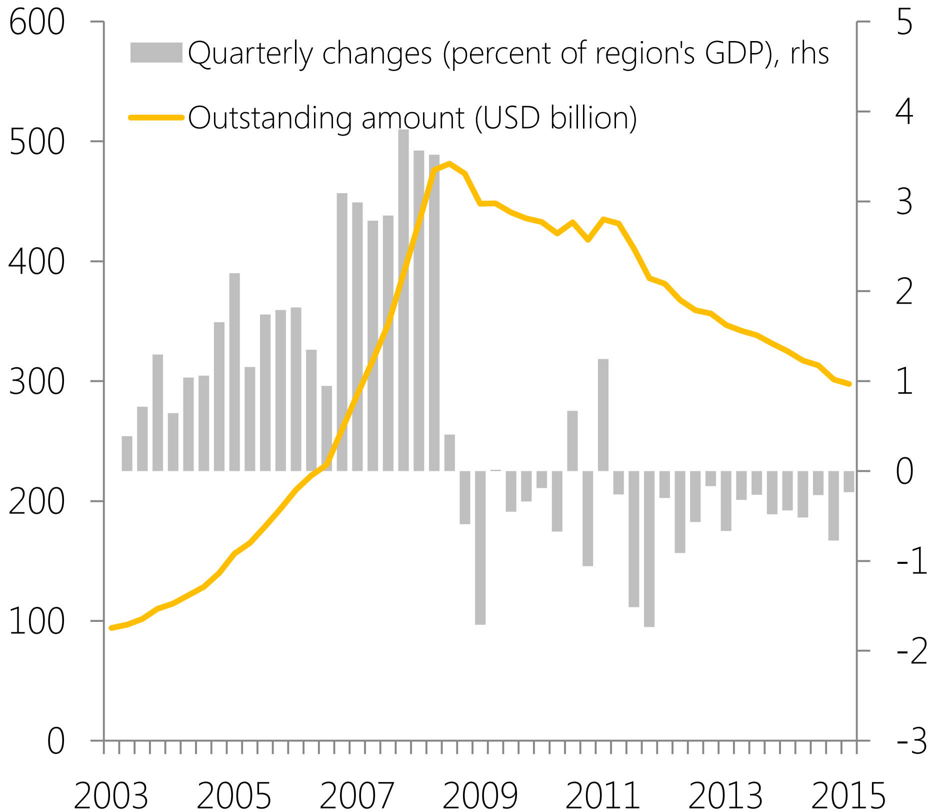


This makes CESEE vulnerable to what happens with Western European banks

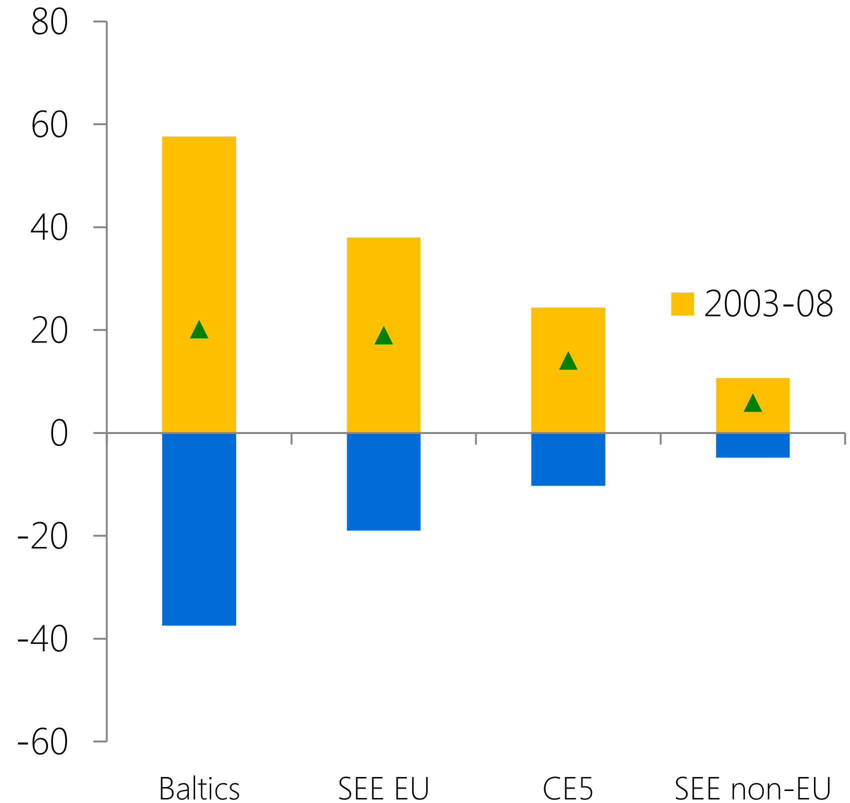
- In boom years, they funded a credit boom in CESEE
- After Lehman, pressure on Western European bank led to sudden stop in capital flows to CESEE
- Second deleveraging wave from mid-2011 onwards, triggered by eurozone sovereign debt crisis

The boom-bust in bank flows has been quite dramatic

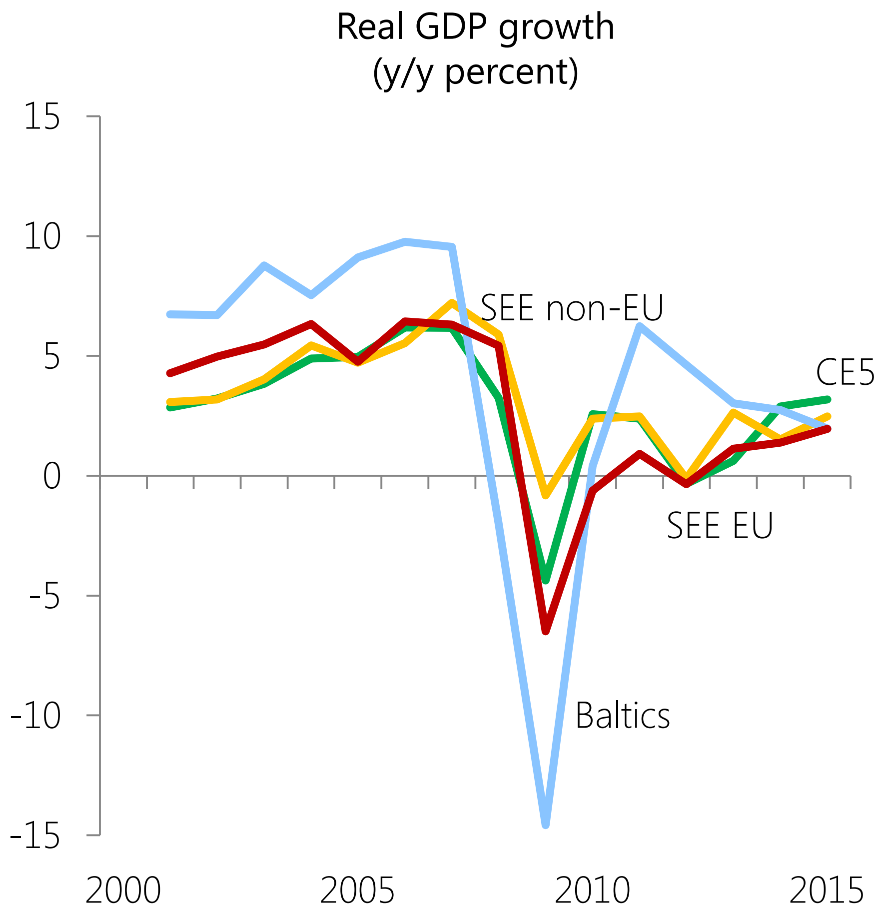
Exposure of BIS-reporting banks to CESEE vis-a-vis all sectors (exchange-rate adjusted)

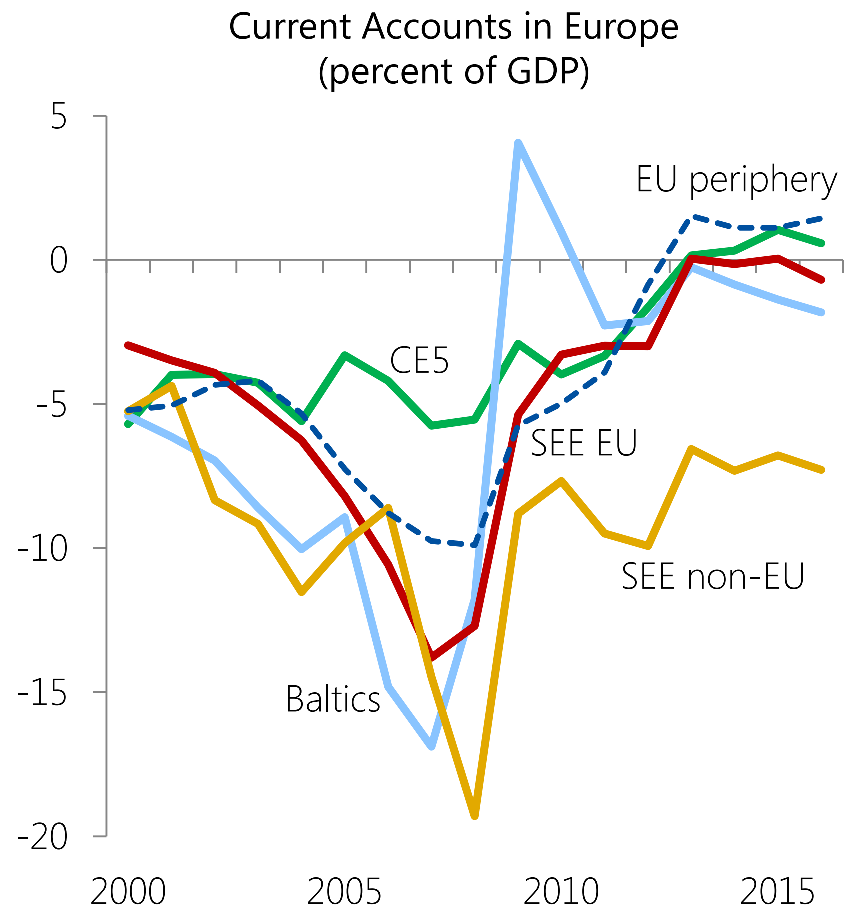


Changes in exposure of BIS-reporting banks (percent of 2015 GDP)

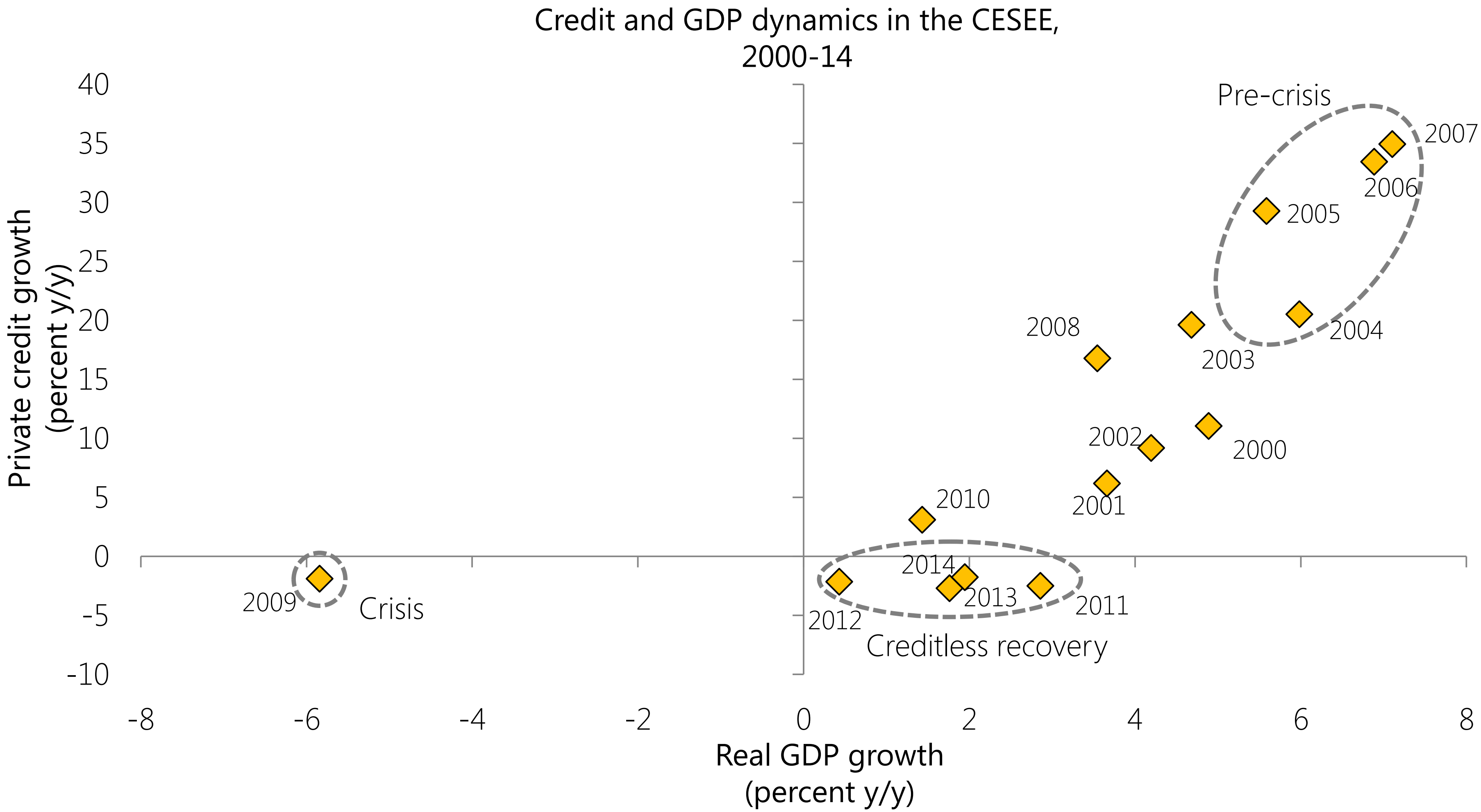


As has the boom-bust in growth—and current account deficits



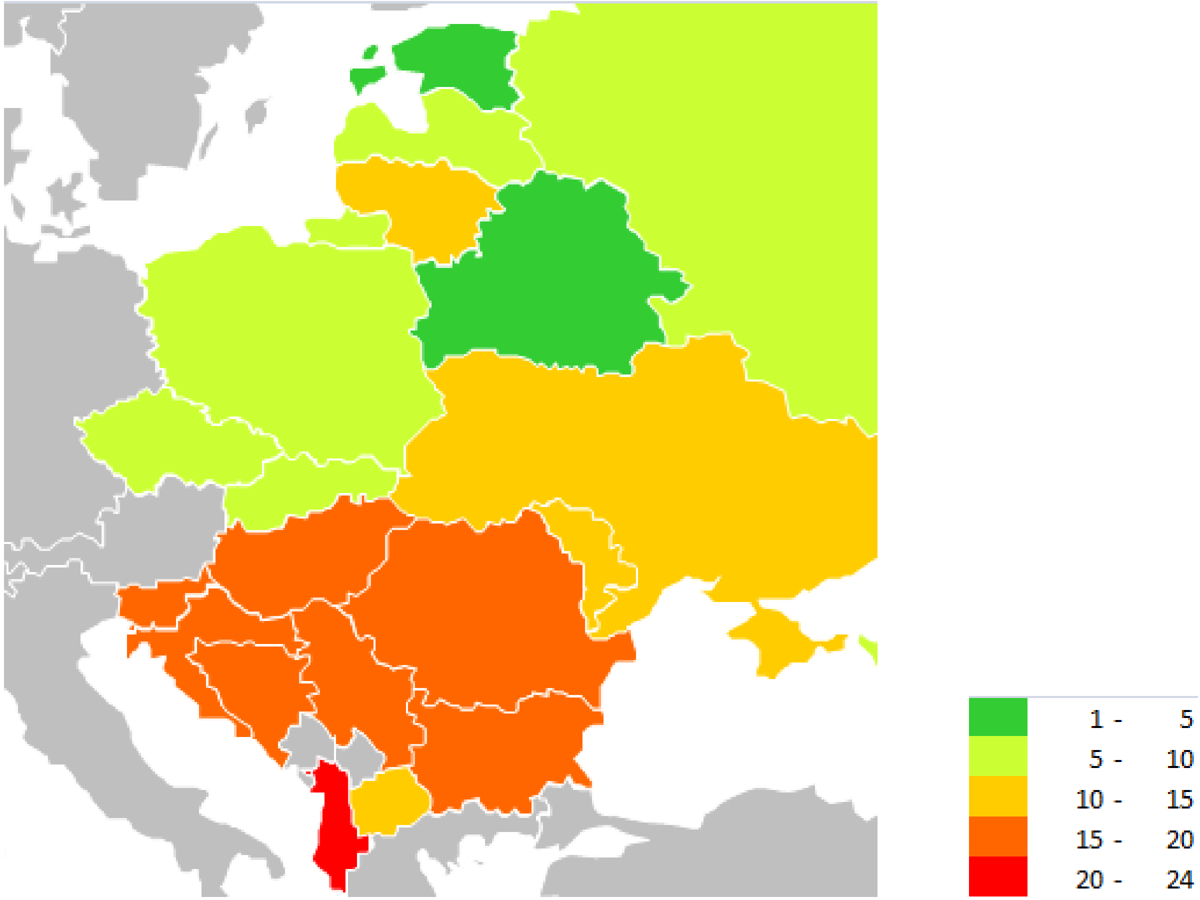


Weak parent banks have contributed to weak credit and GDP growth

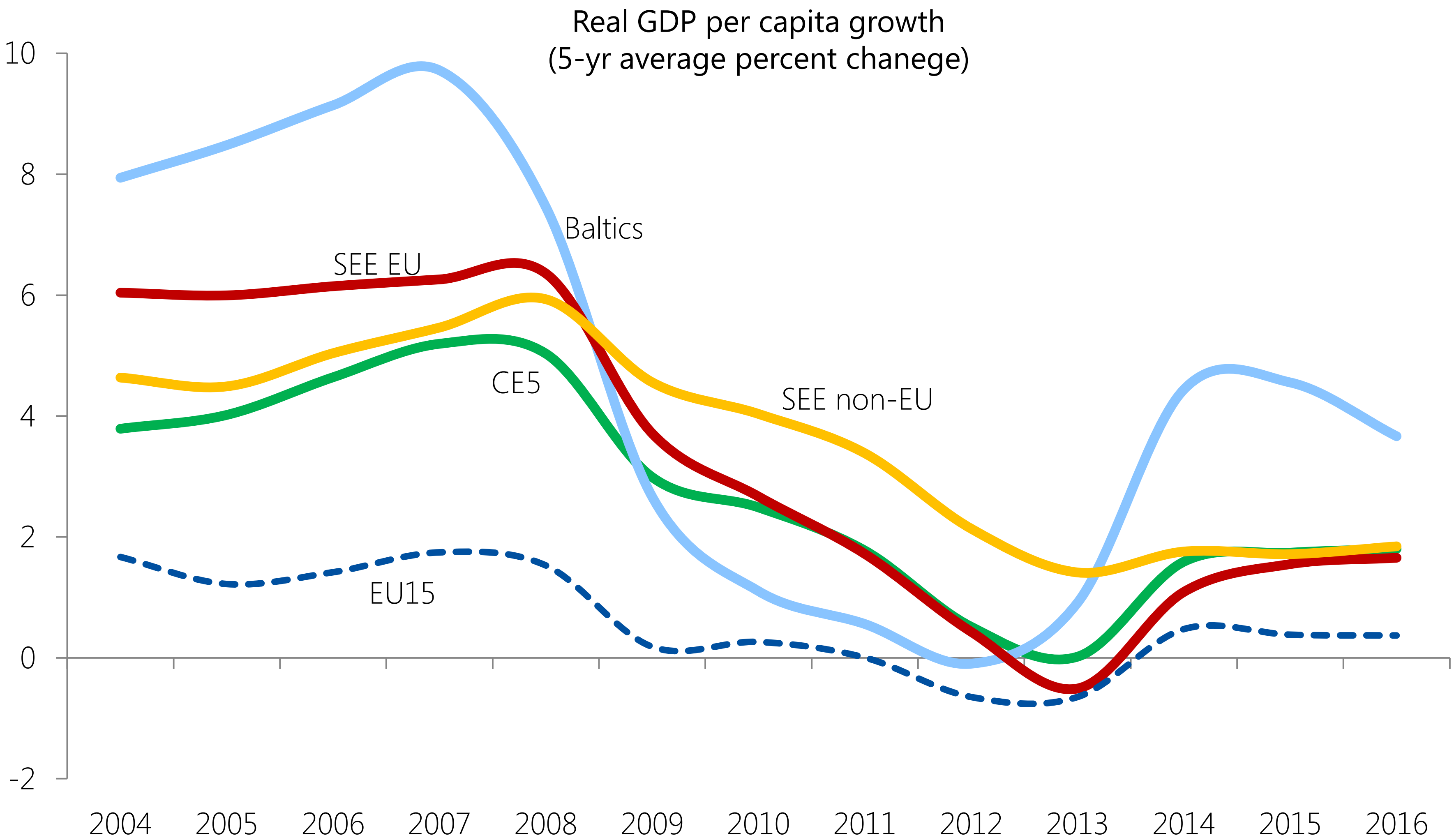


Further exacerbated by high domestic NPLs

NPLs ratios (2014)

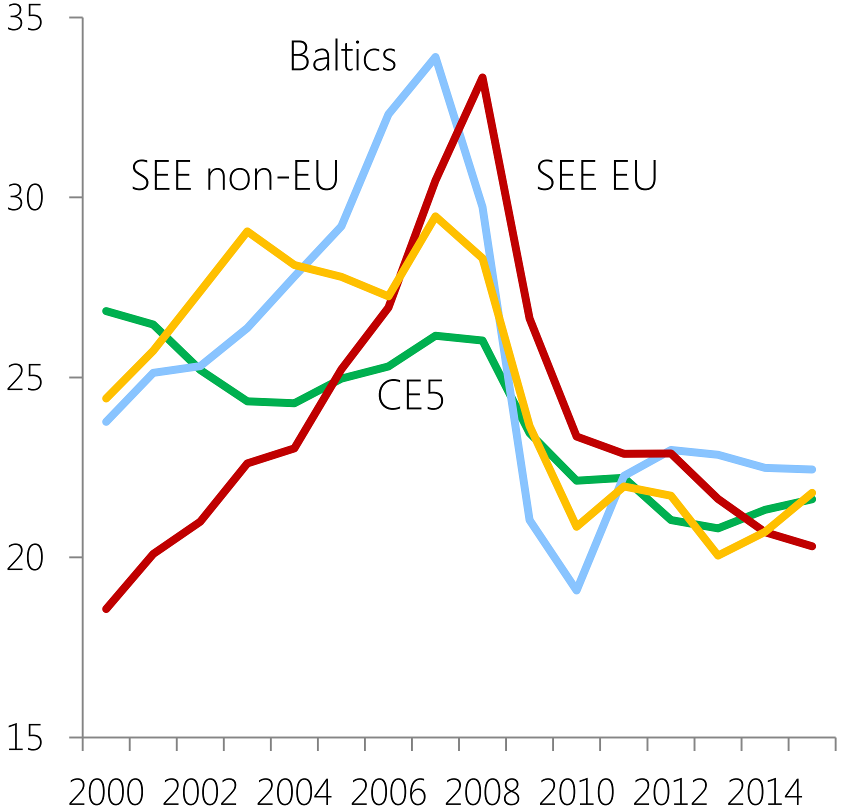


Overall, post crisis growth has been very modest in SEE

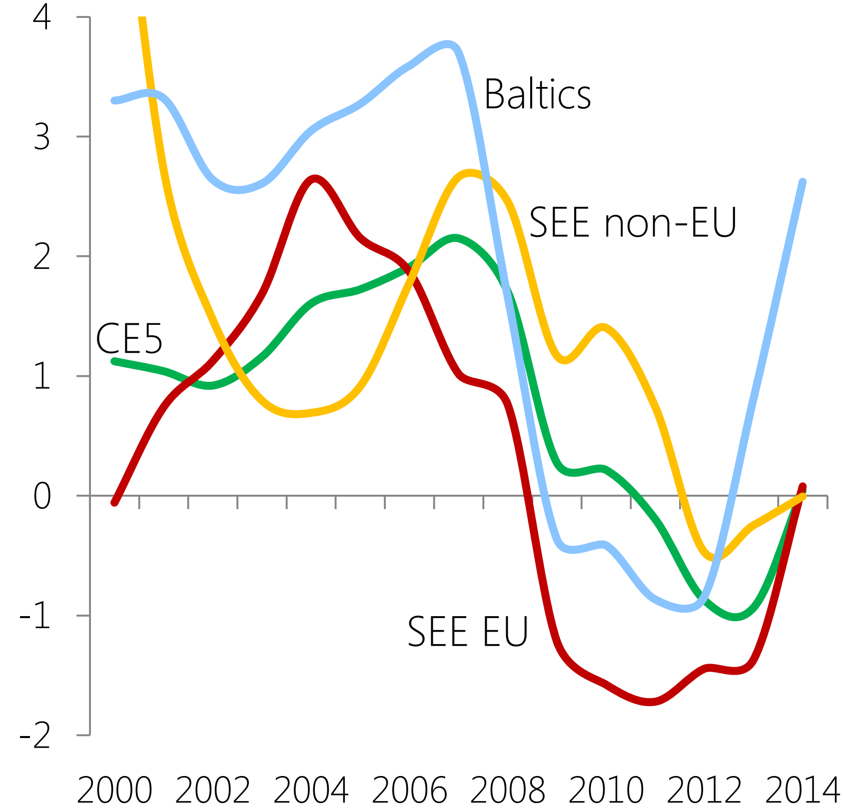


Reflecting a sharp drop in investment as well as TFP

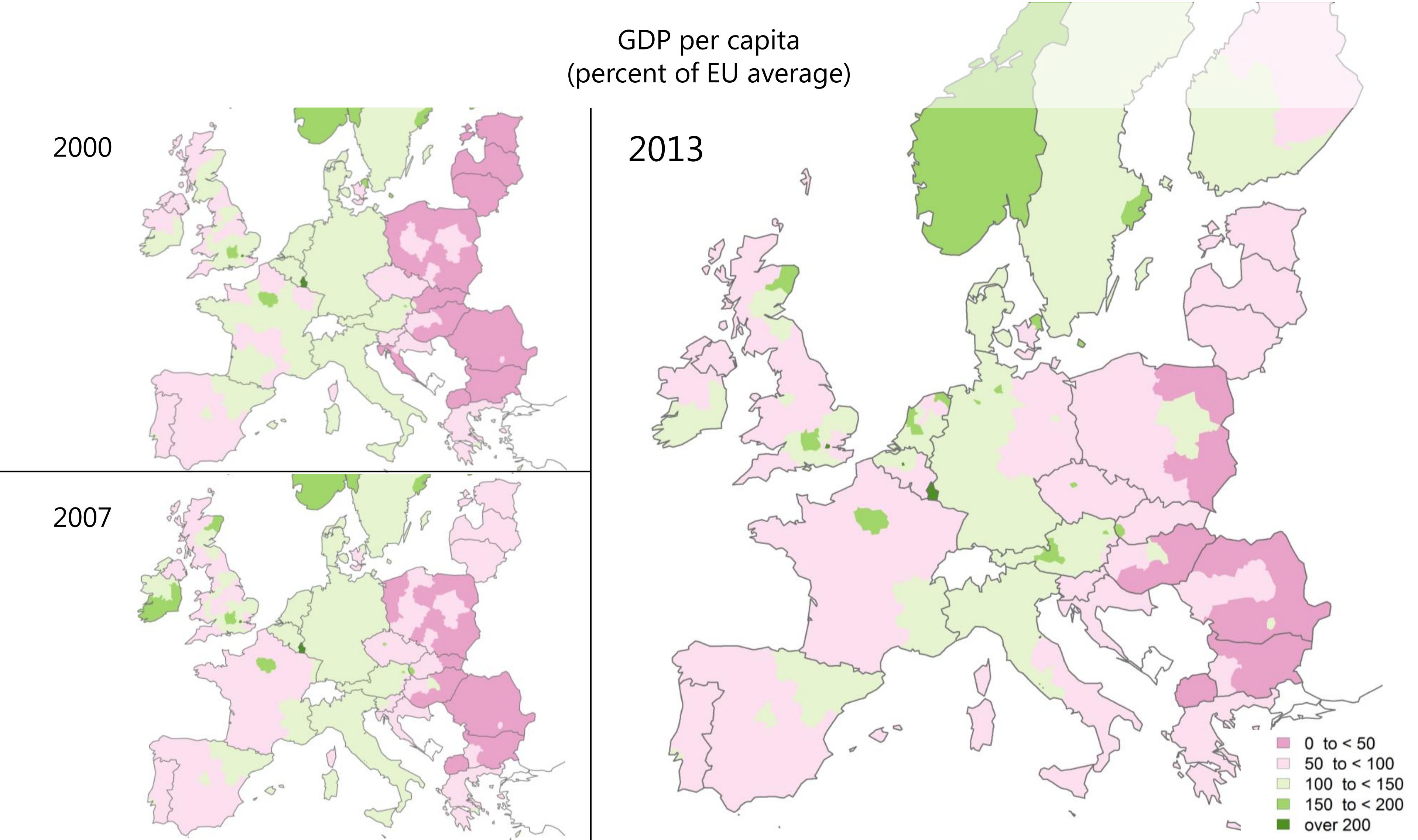
Investment rate
(Percent of GDP)



TFP growth
(percent, 5-year moving average)



SEE remains one of the poorest regions in Europe



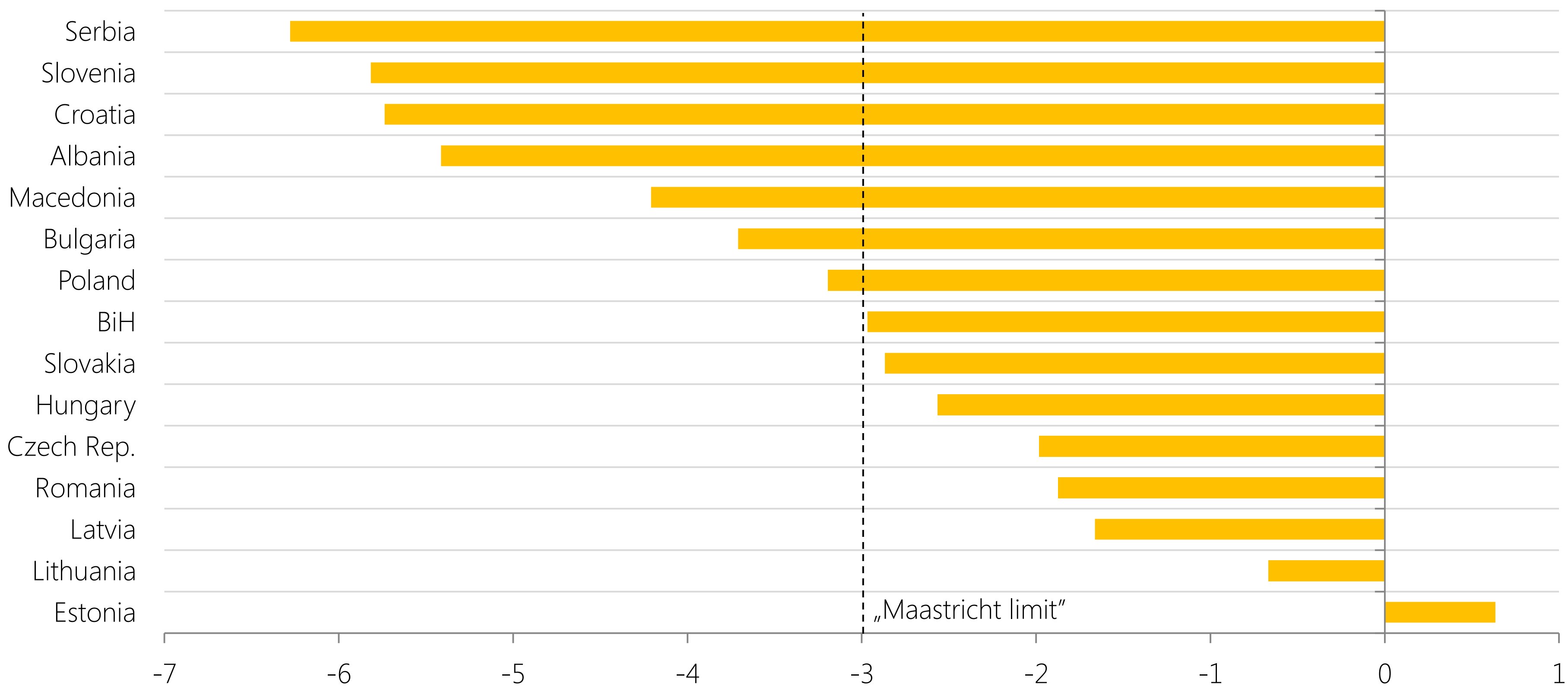
How to raise investment?

- Reduce constraints on bank lending to private sector
  - Address NPLs

- Raise domestic saving

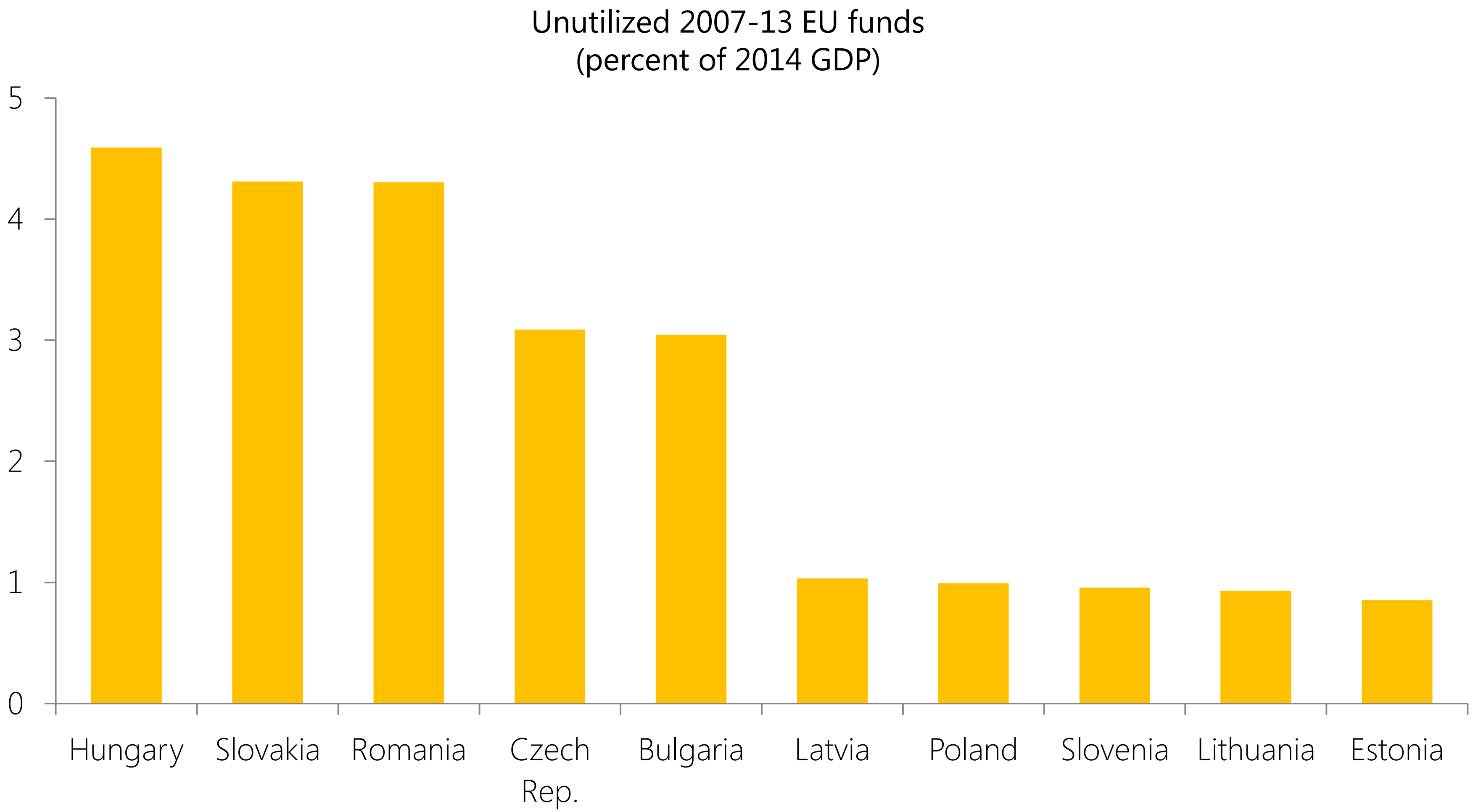
Raise domestic saving: reduce public dissaving

Fiscal balance, 2014
(percent of GDP)

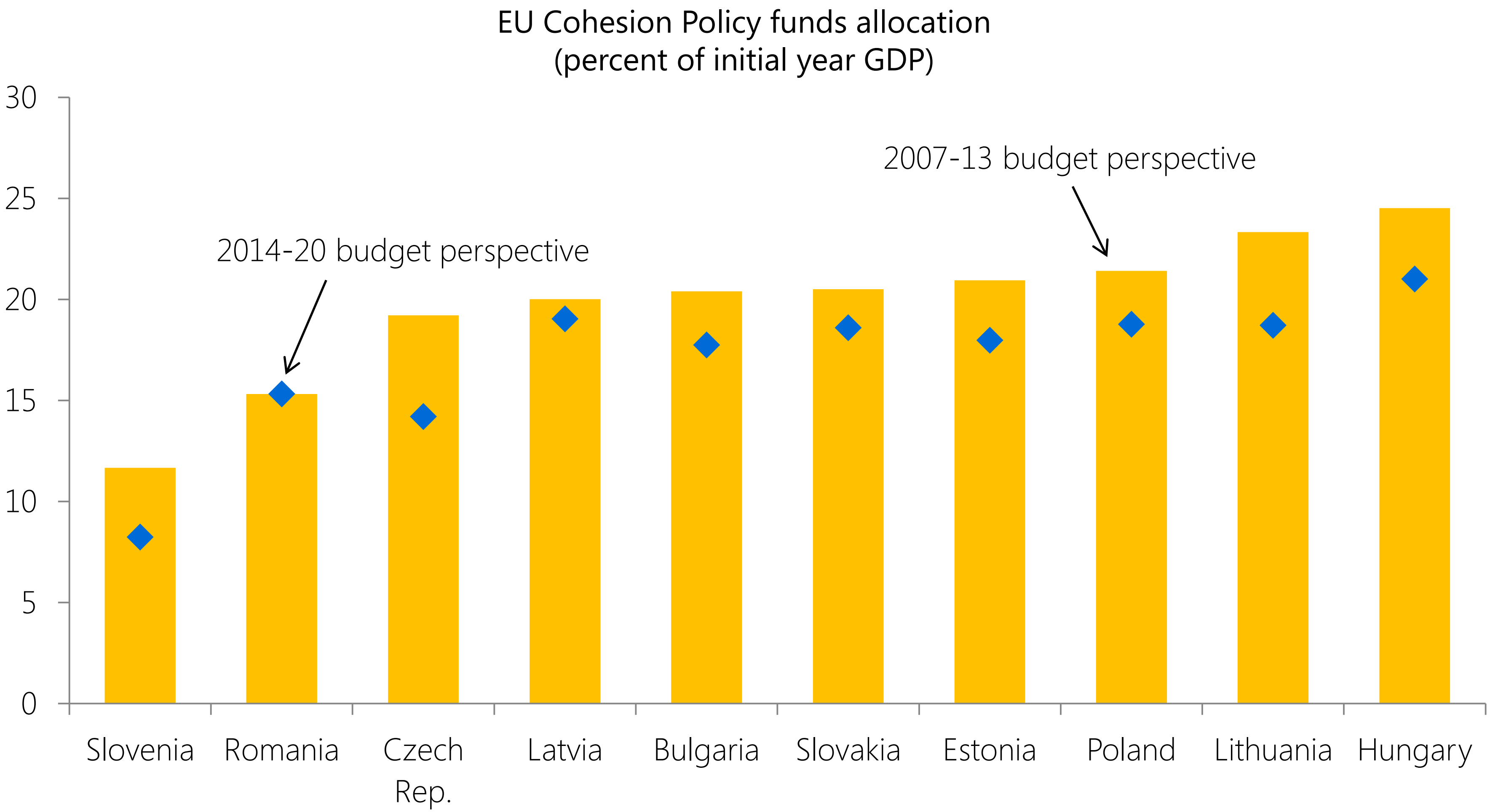


Note: In green countries that improved fiscal balance vs. 2004-07 average.

Improve EU funds absorption

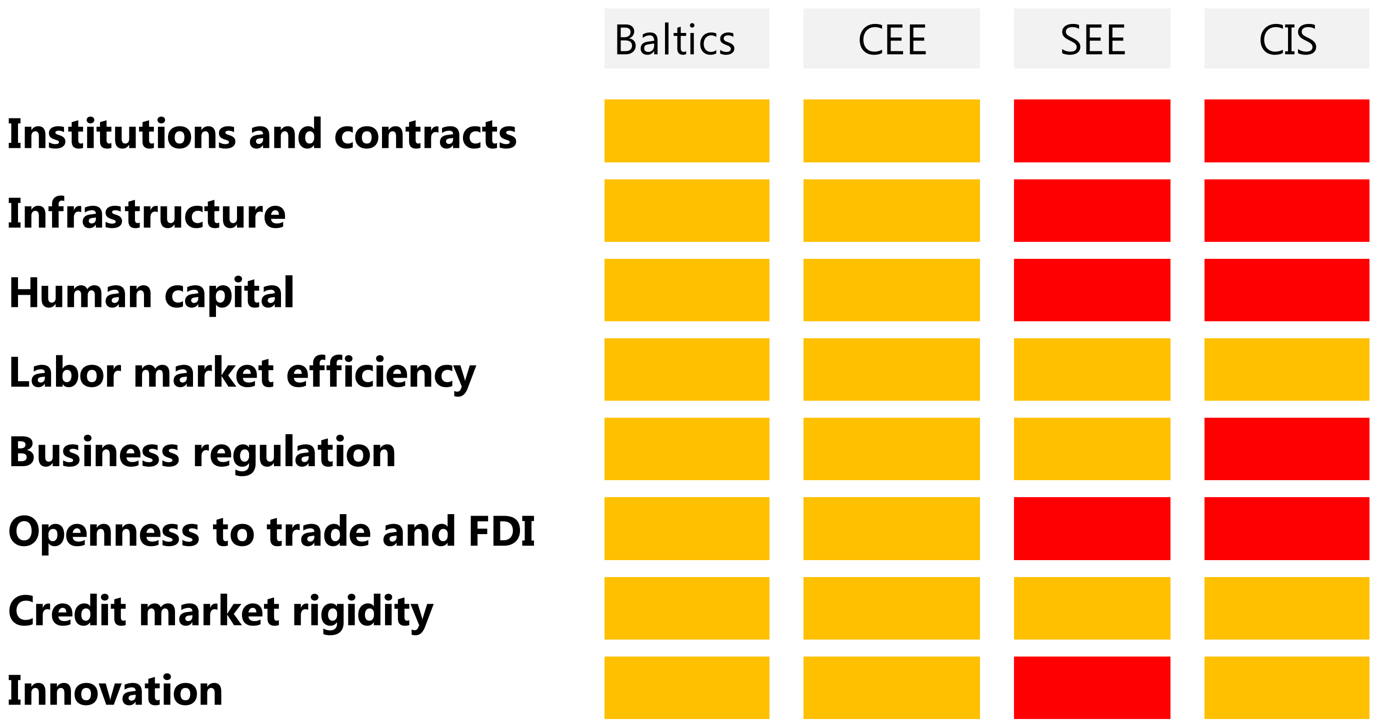


This is particularly important given the amounts involved



SEE is lagging in structural reforms

CESEE: Structural Reforms Relative to OECD Countries



Note: Red - value below the 25th percentile; Yellow - value in the 50th and 75th percentile range. The sample includes all OECD and CESEE countries.

Source: IMF Spring 2015 Regional Economic Issues Report on CESEE, May 11, 2015 : http://www.imf.org/external/pubs/ft/reo/2015/eur/eng/pdf/REI0515.pdf

Thank you