


# Maintaining Monetary and Financial Stability

**György Szapáry**

*JVI Conference, 7/12/2012*

# Triple crisis in the Advanced World led to instability in the banking system

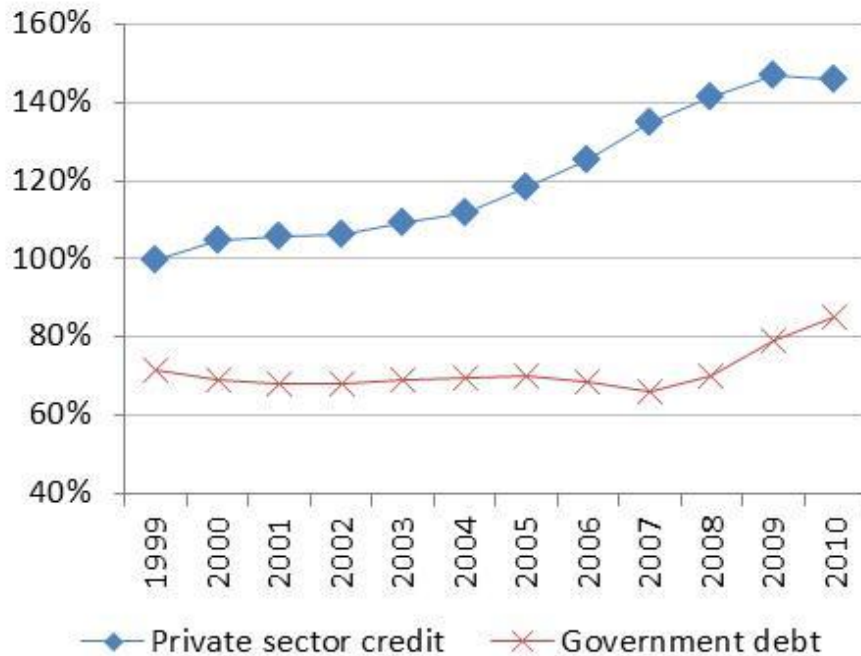
- Financial crisis
- Debt crisis
- Confidence crisis  ***GROWTH CRISIS***



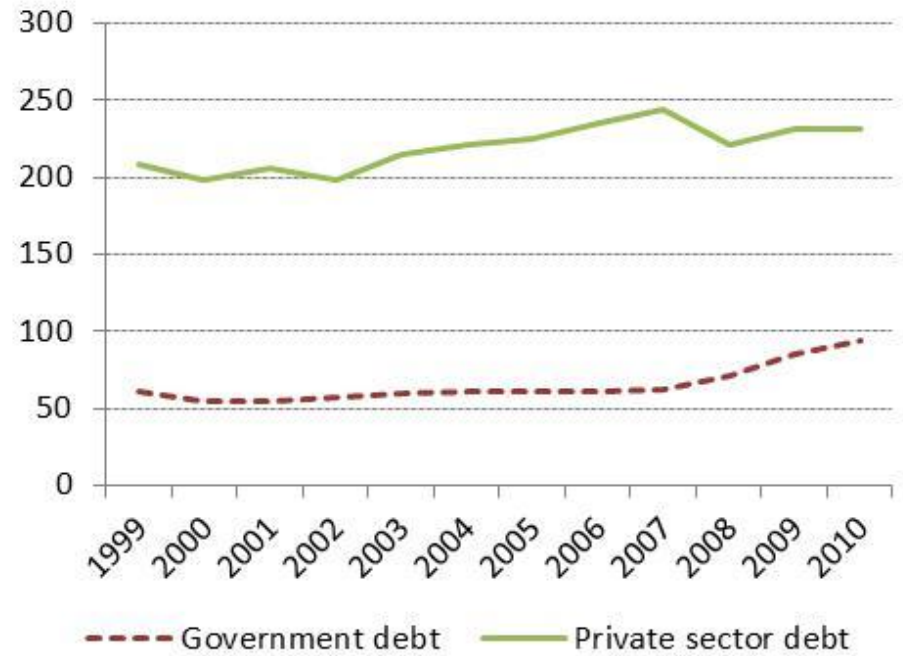
*Instability in the banking system*

# High private and public sector indebtedness in the Eurozone and the US

**Eurozone**  
*(In % of GDP)*

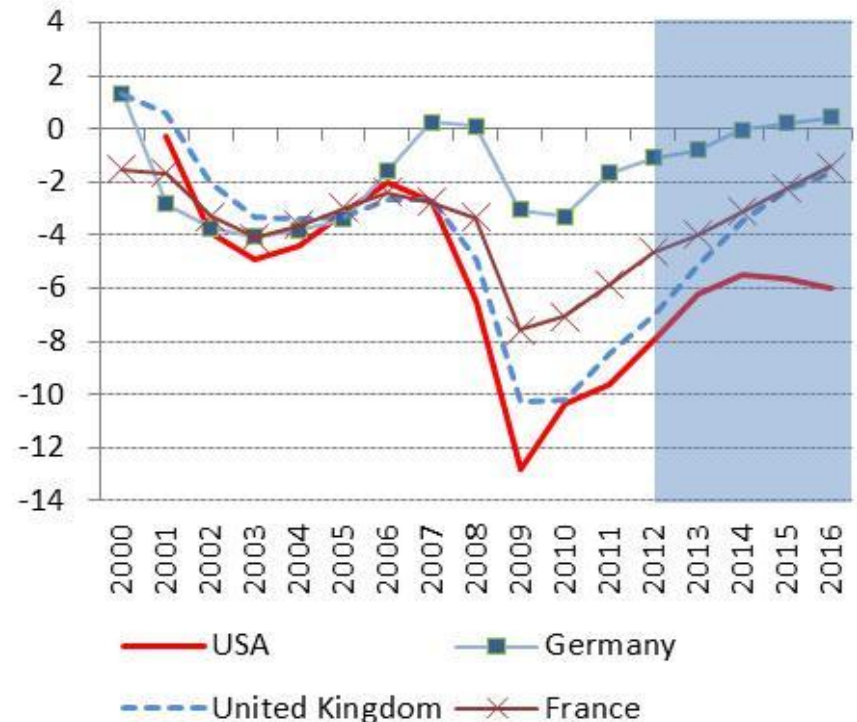
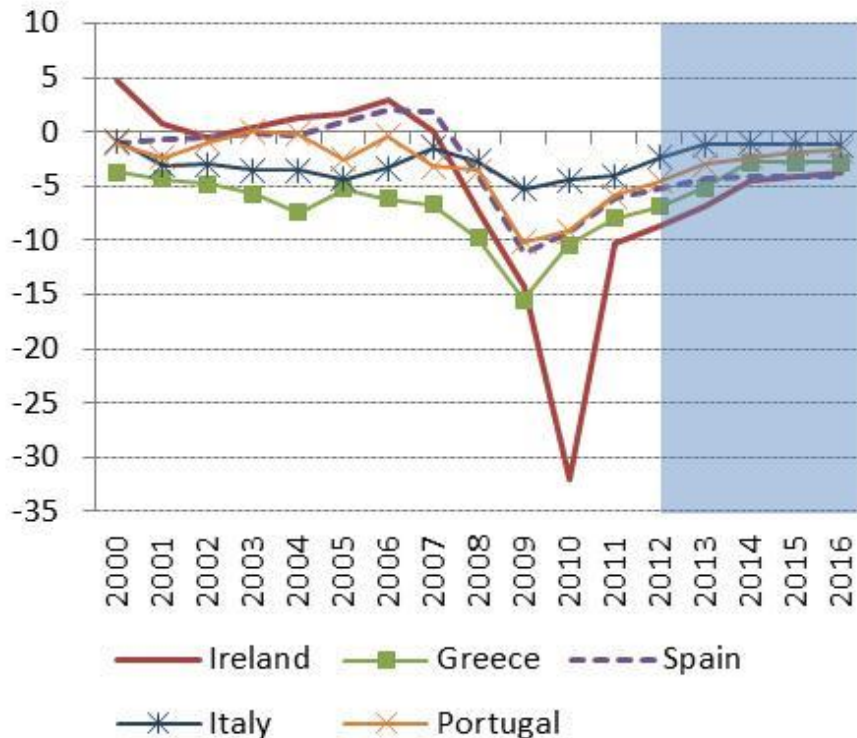


**USA**  
*(social security included In % of GDP)*



# Deleveraging must take place in the public sector

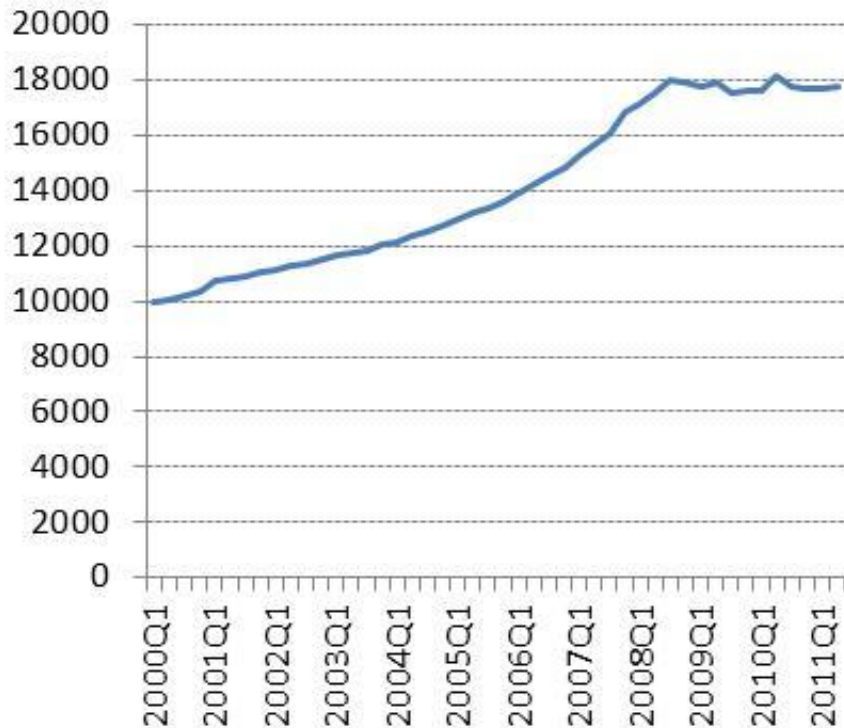
## Government deficit to GDP (%)



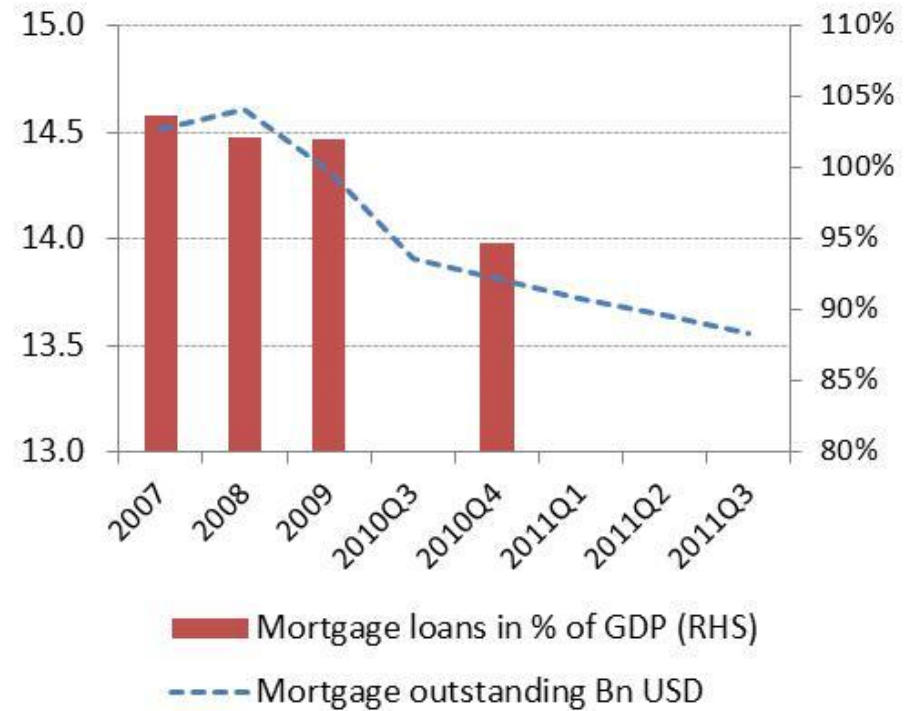
Source: IMF WEO forecast

# High indebtedness leads to deleveraging in the banking sector

Bank loans total in the Eurozone  
(billion EUR)

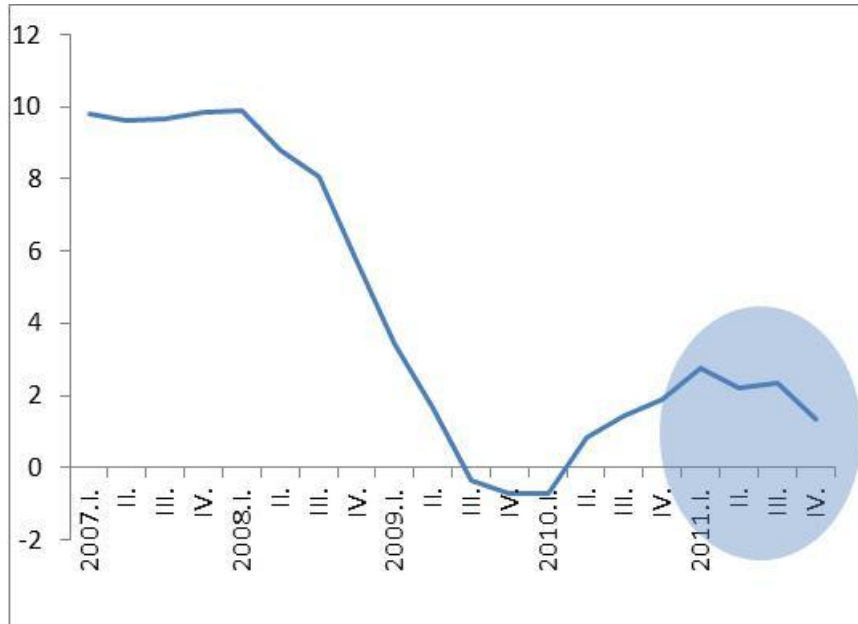


Deleveraging in the mortgage market  
In the USA

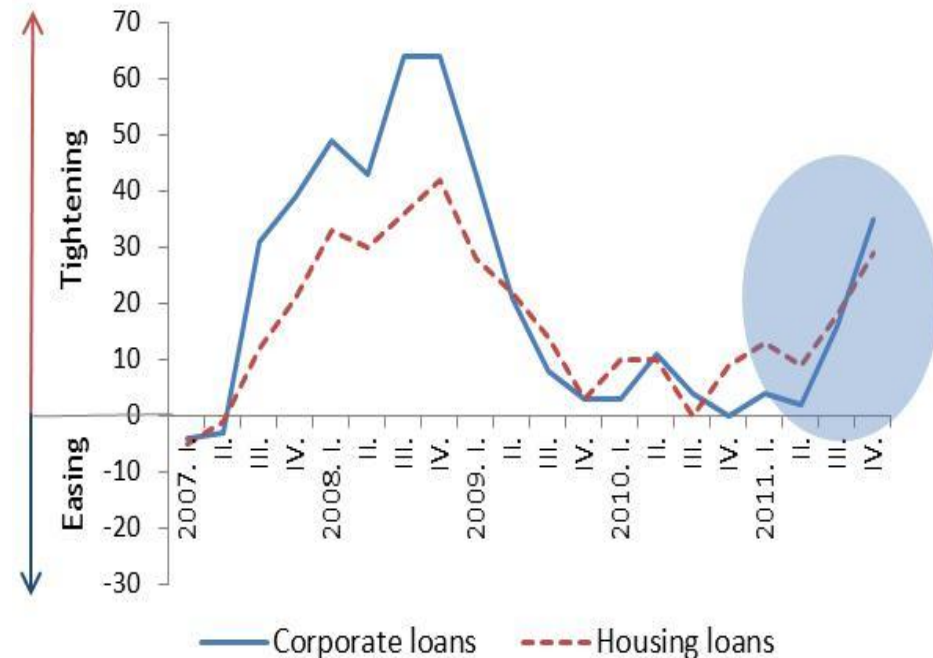


# Confidence crisis in the euro area affecting the banking sector

## Deleveraging in the euro area private sector lending (y/y %)



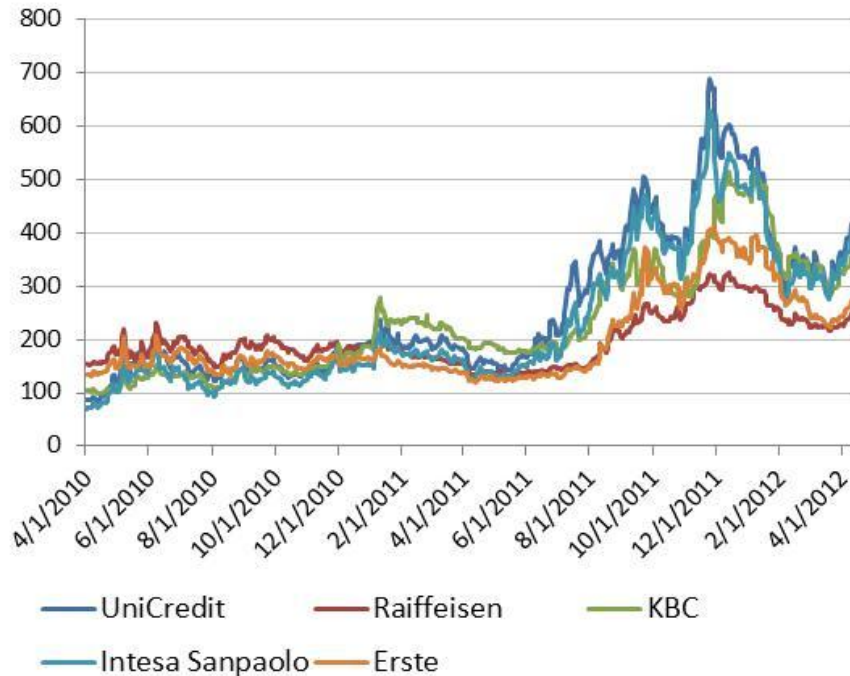
## Tight credit conditions



- *Second round of slowdown in private sector lending in 2<sup>nd</sup> half of 2011, divergence among countries*
- *Due to ECB actions (LTRO) and the positive results of June 28-29 Council conclusion credit conditions might ease in 2012*

# Challenging environment for CEE parent banks in 2012

5 year CDS spread of the banks active in the region



Growth forecast

| Country         | 2012 |
|-----------------|------|
| Austria         | 0.9  |
| Belgium         | 0.0  |
| Italy           | -1.9 |
| Bulgaria        | 0.8  |
| Czech Republic  | 0.1  |
| Hungary         | 0.0  |
| Poland          | 2.6  |
| Romania         | 1.5  |
| Slovak Republic | 2.4  |

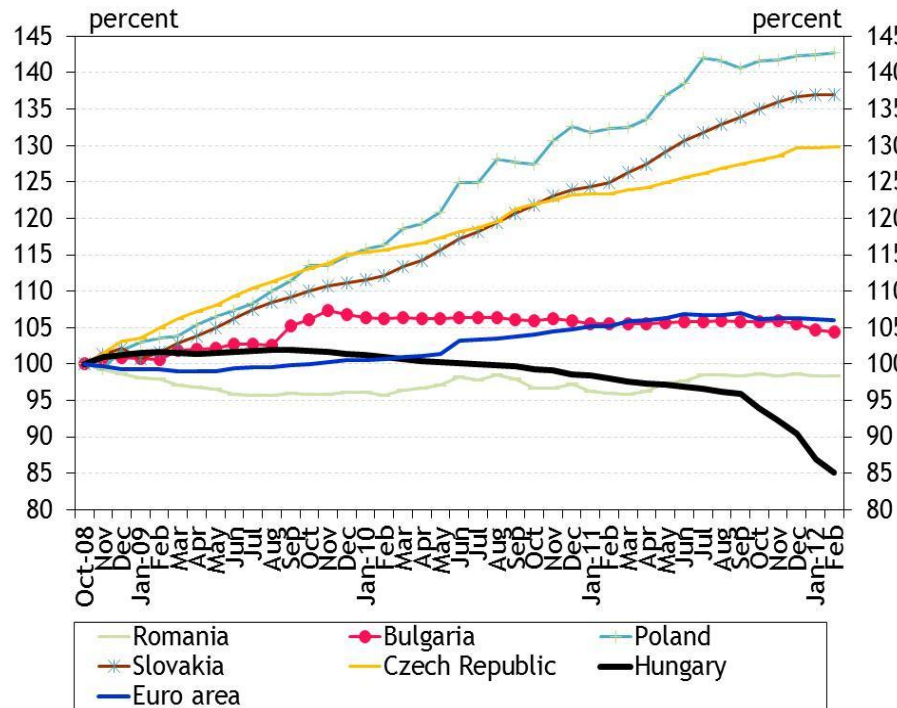
- *Confidence crisis has a significant drag on banks active in the CEE region*
- *Macroeconomic outlook is gloomy for 2012*

Source: Bloomberg, IMF WEO

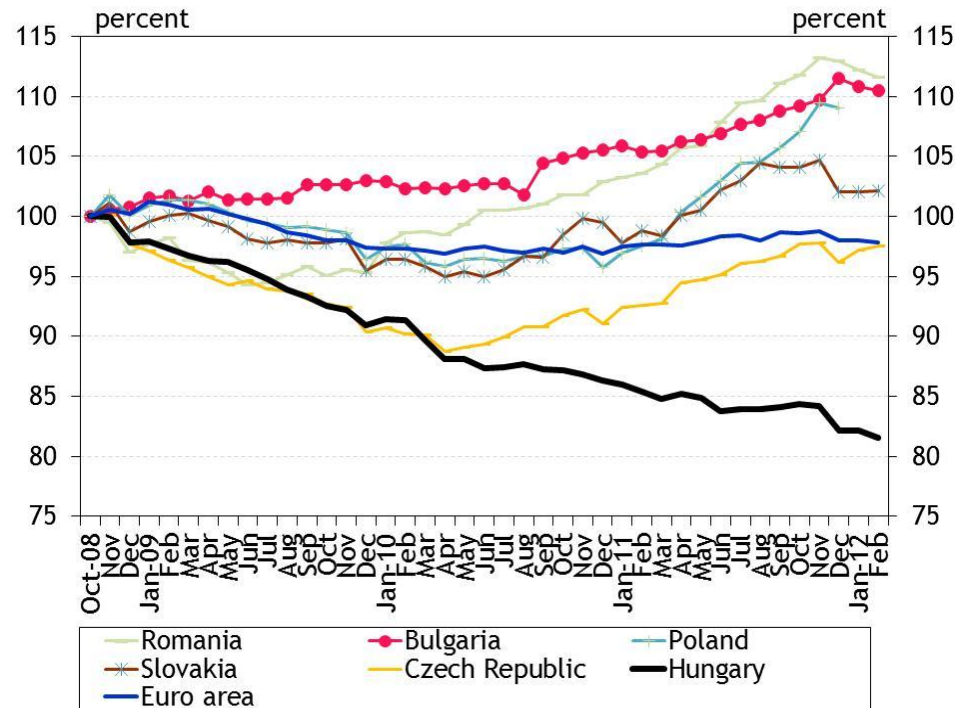


# CEE private sector lending

## Household lending (Oct. 2008 = 100)



## Corporate lending (Oct. 2008 = 100)

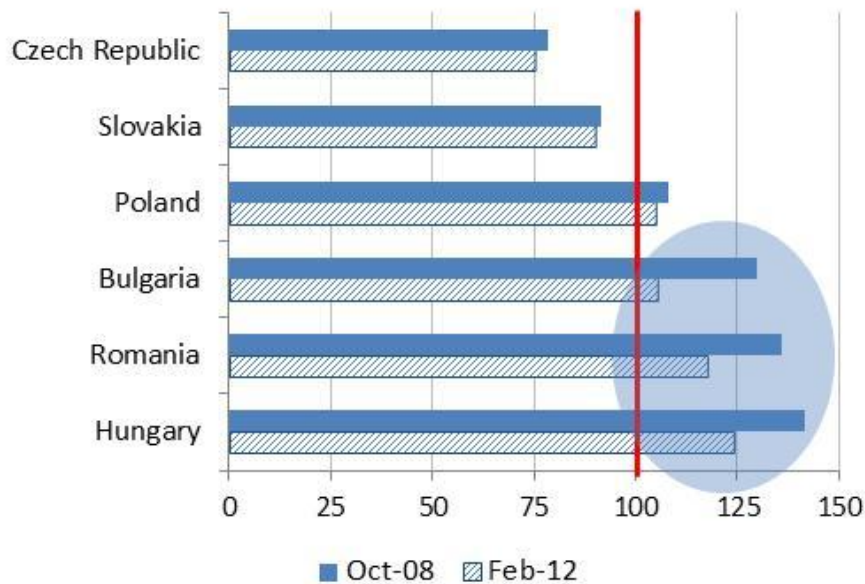


- Crisis had significant balance sheet adjustments in the CEE region, especially where LTD ratio was above 100%

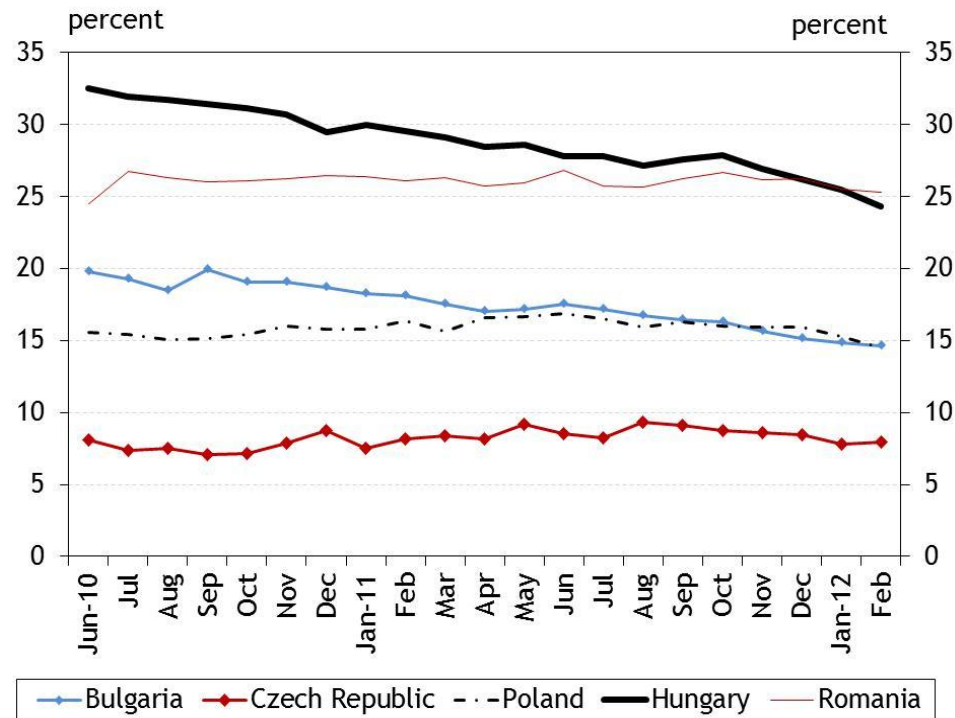


# Foreign participation is key for CEE banks

## Adjustment in the loan-to-deposit ratio (%)



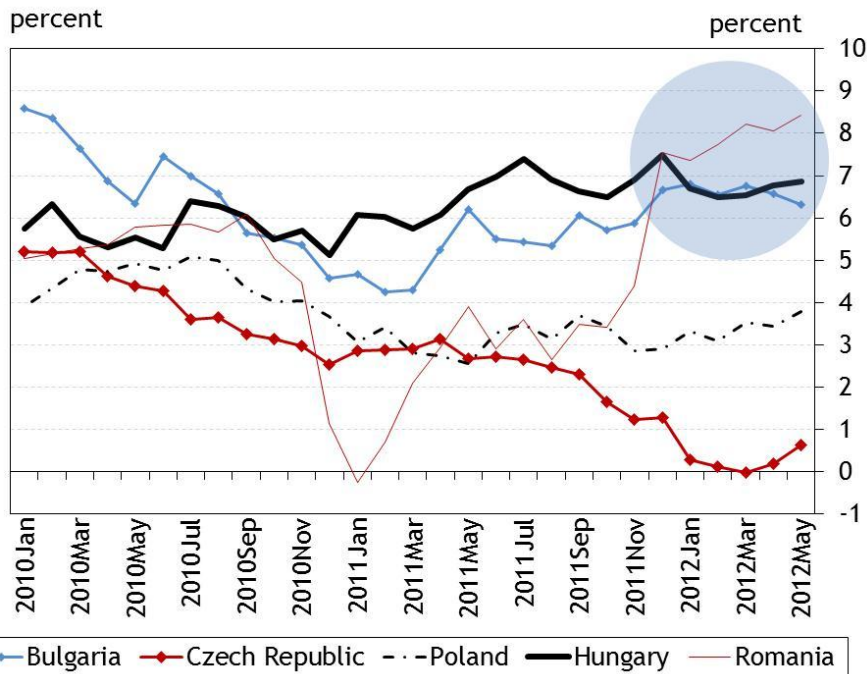
## Foreign funds relative to total assets (%)



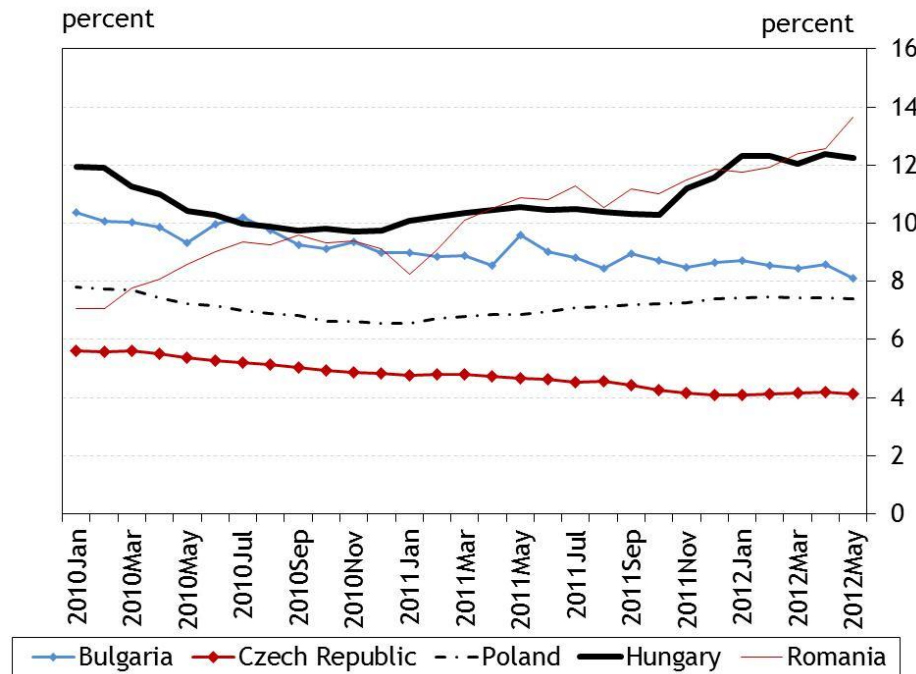
- *Crisis had significant balance sheet adjustments in the CEE region, especially where LTD ratio was above 100%*
- *In several countries large LTD adjustment lead to a decrease of foreign funds in the banking sector, still external financing is significant*

# High real interest rate slows down recovery

Real interest rate (%), household mortgage loans in domestic currency



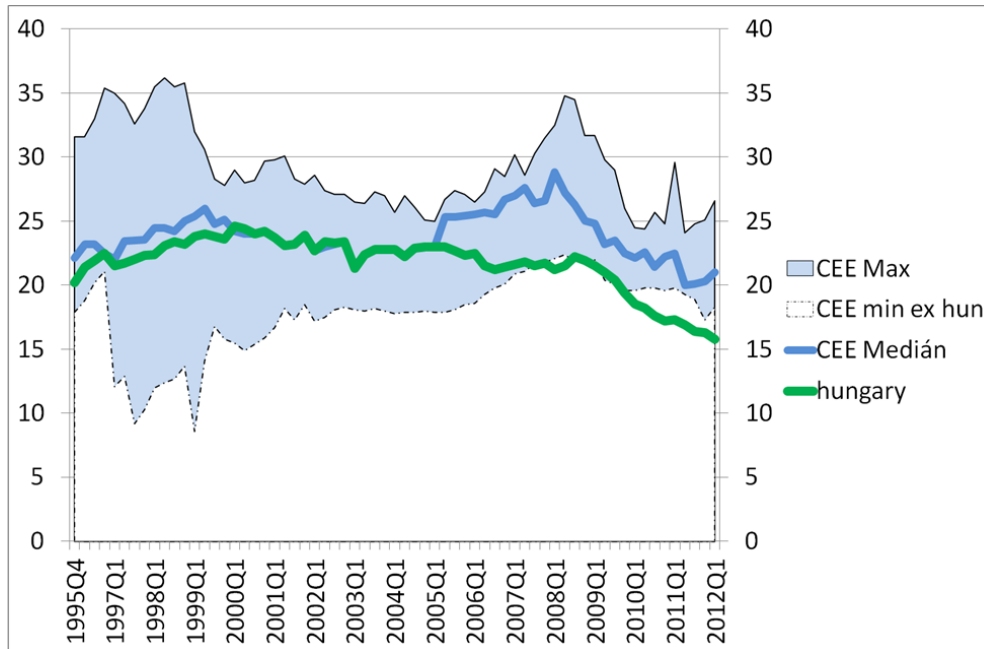
Nominal interest rate (%), household mortgage loans in domestic currency



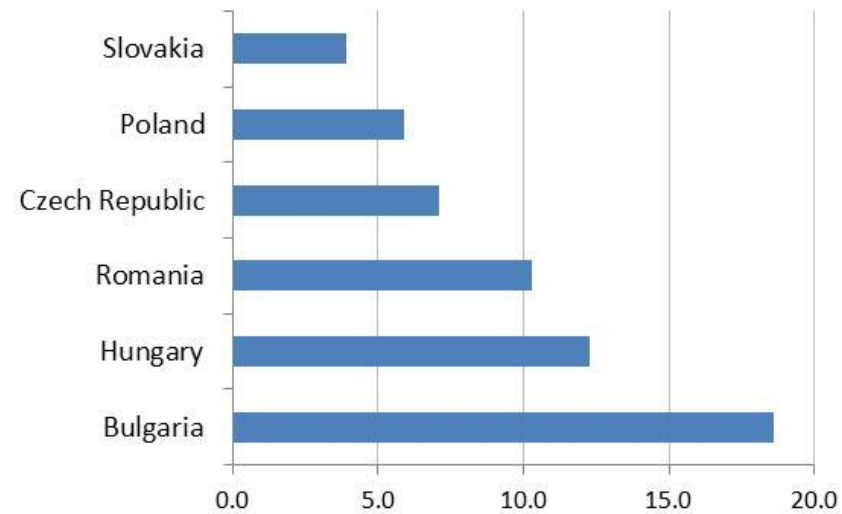
Source: ECB

# A need for strenghtening the banking sector

## Investment (% of GDP)



## Non-performing loans (%) (June 2011)



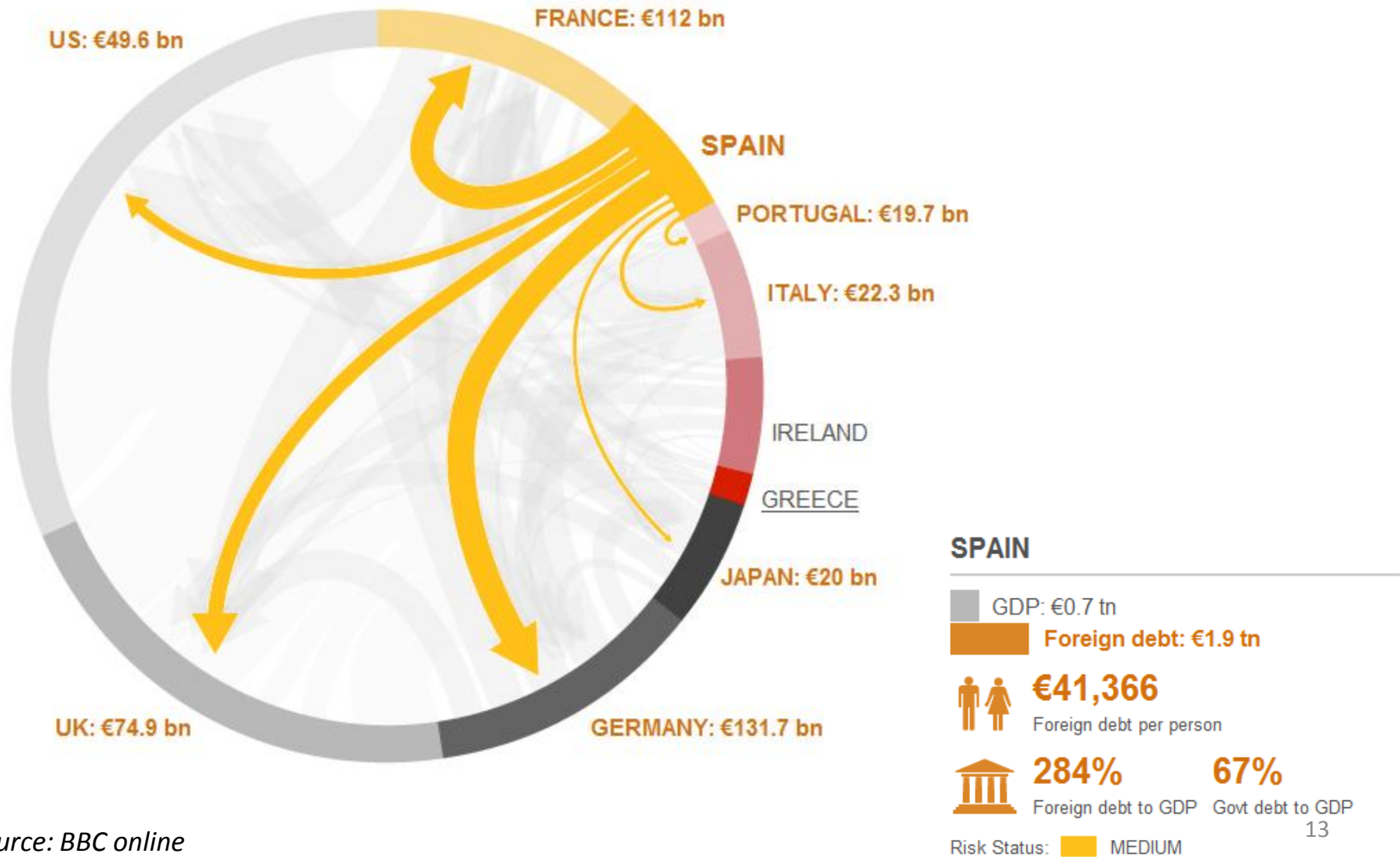
- *Investment rates are below pre crisis levels*
- *Meanwhile vulnerability increased in the most hit countries*

Source: IMF, MNB Financial Stability Report

## The way forward

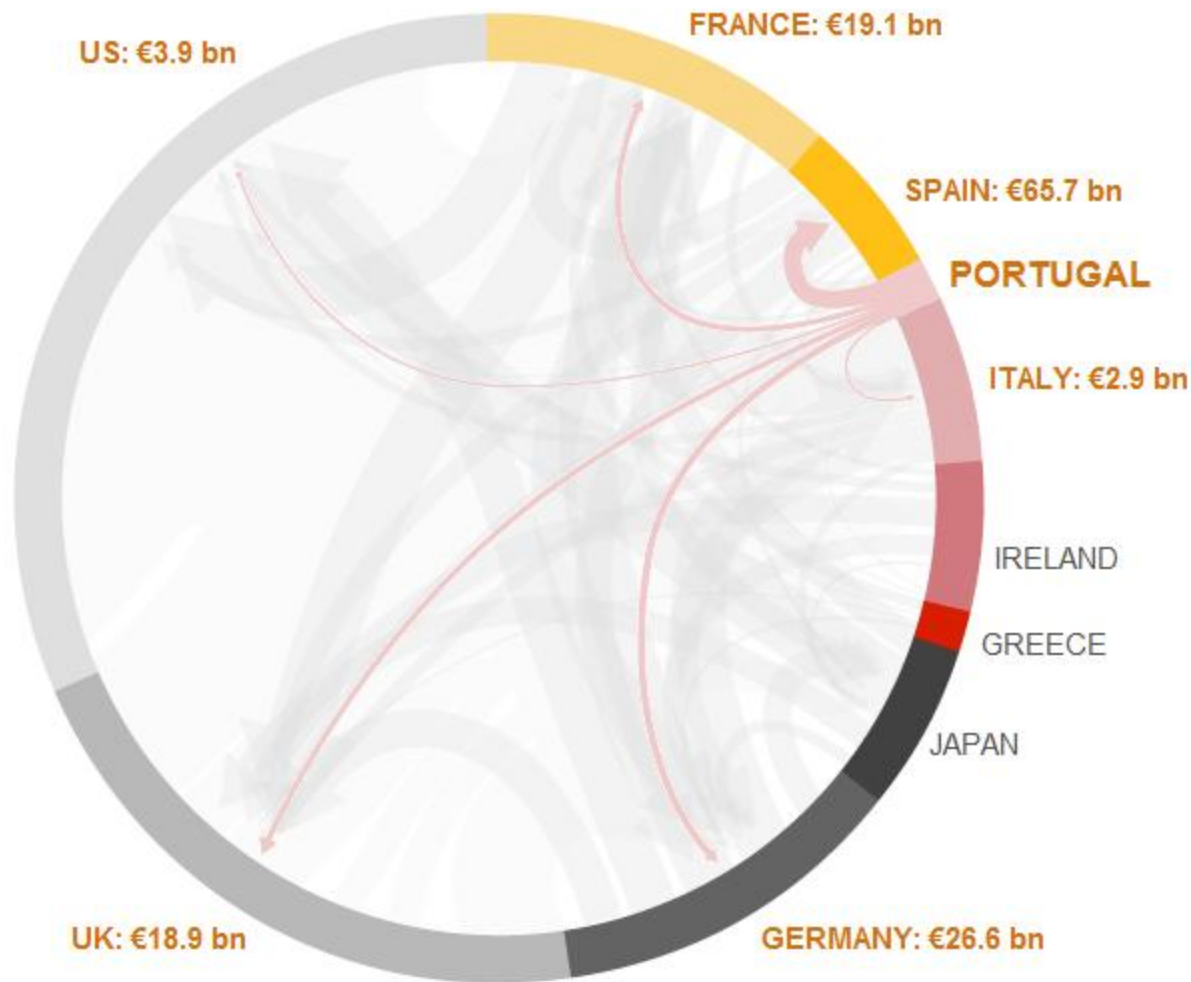
- Banking union is a must to strengthen confidence and complete EMU
- EU level macroprudential policy coordination ("6 pack")

# Spain gross external debt financing by the origin of foreign banks



Source: BBC online

# Portugal gross external debt financing by the origin of foreign banks



## PORTUGAL

GDP: €0.2 tn

Foreign debt: €0.4 tn



**€38,081**

Foreign debt per person



**251%**

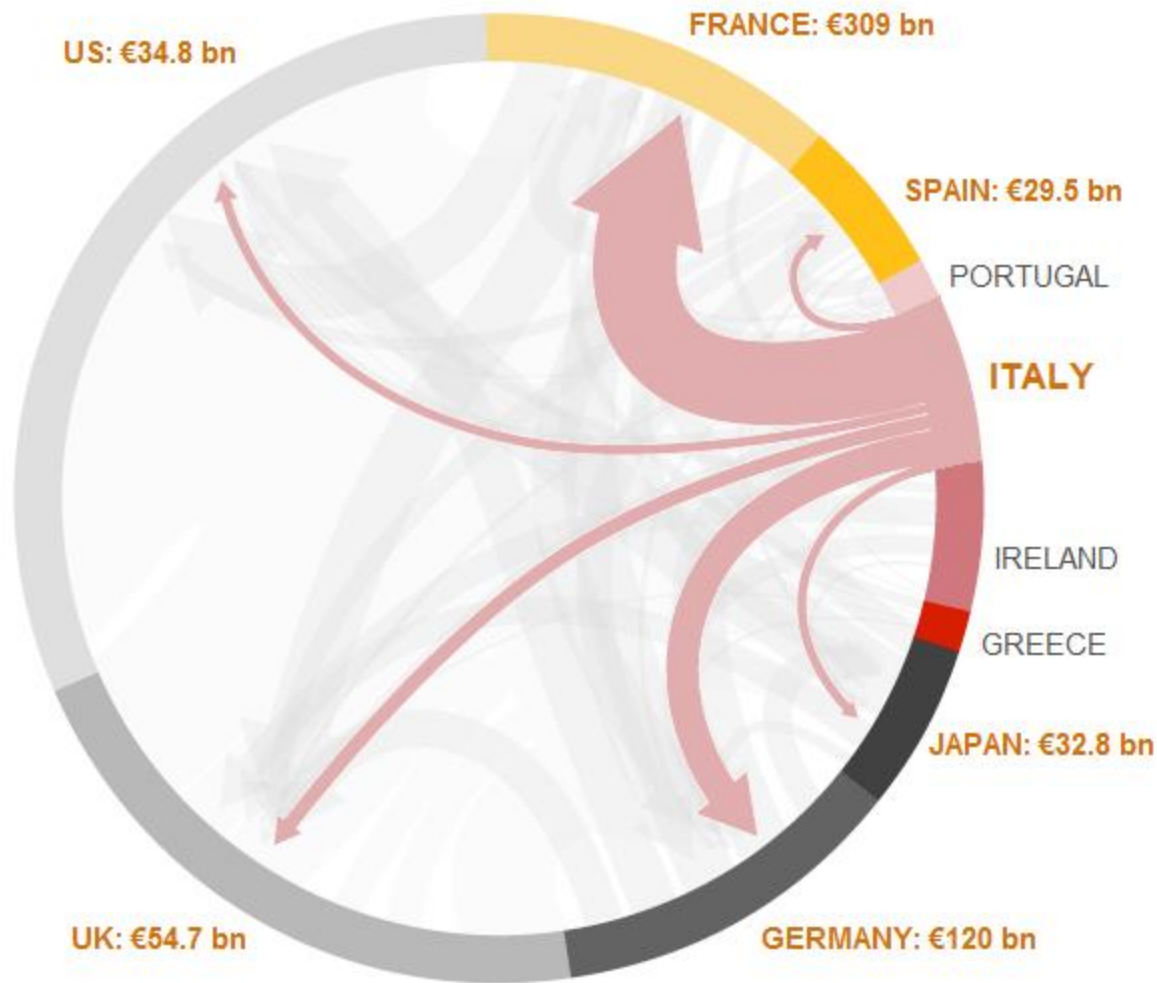
Foreign debt to GDP

**106%**

Govt debt to GDP

Risk Status: ■ HIGH

# Italy gross external debt financing by the origin of foreign banks



## ITALY

GDP: €1.2 tn

Foreign debt: €2 tn

€32,875

Foreign debt per person

163%

Foreign debt to GDP

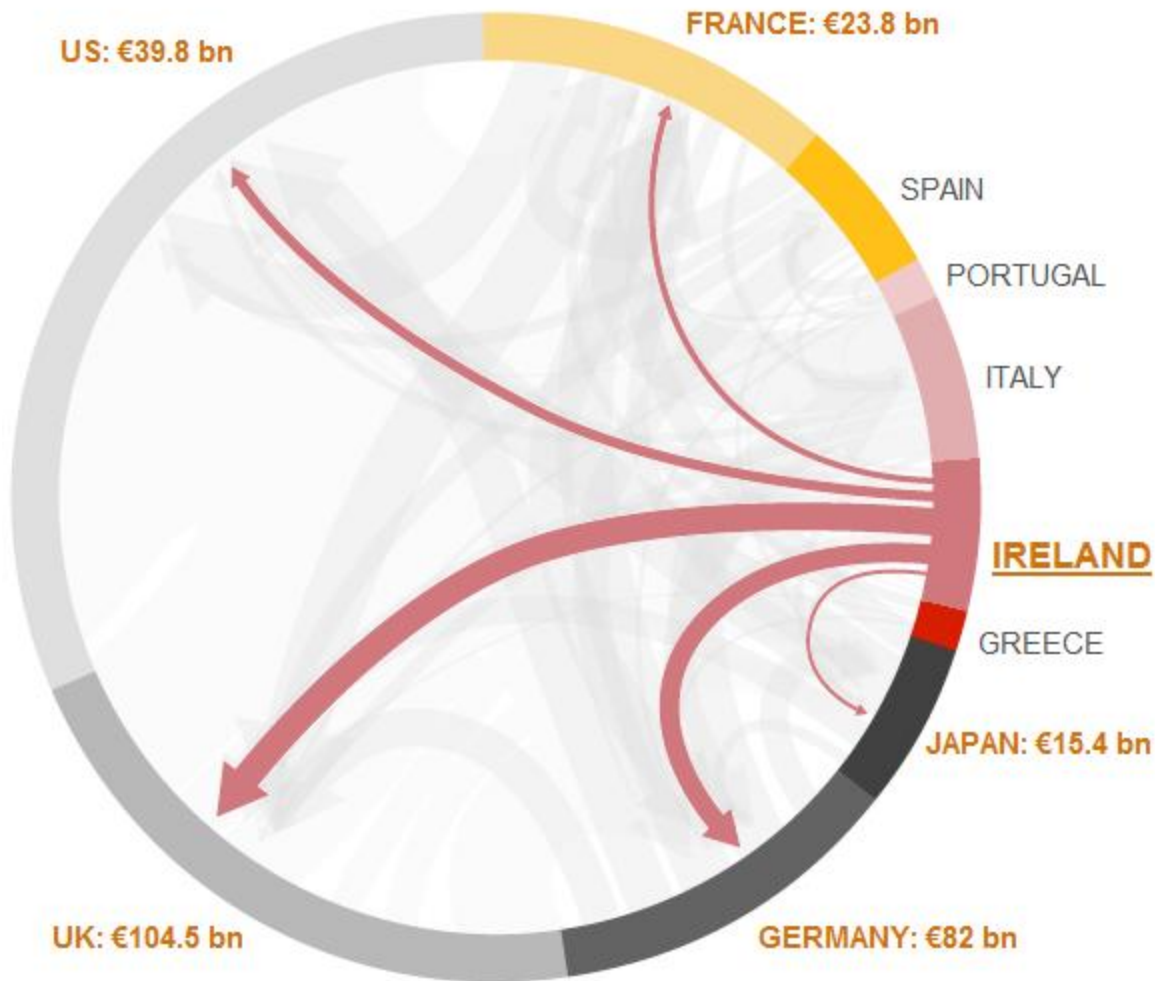
121%

Govt debt to GDP

Risk Status: HIGH



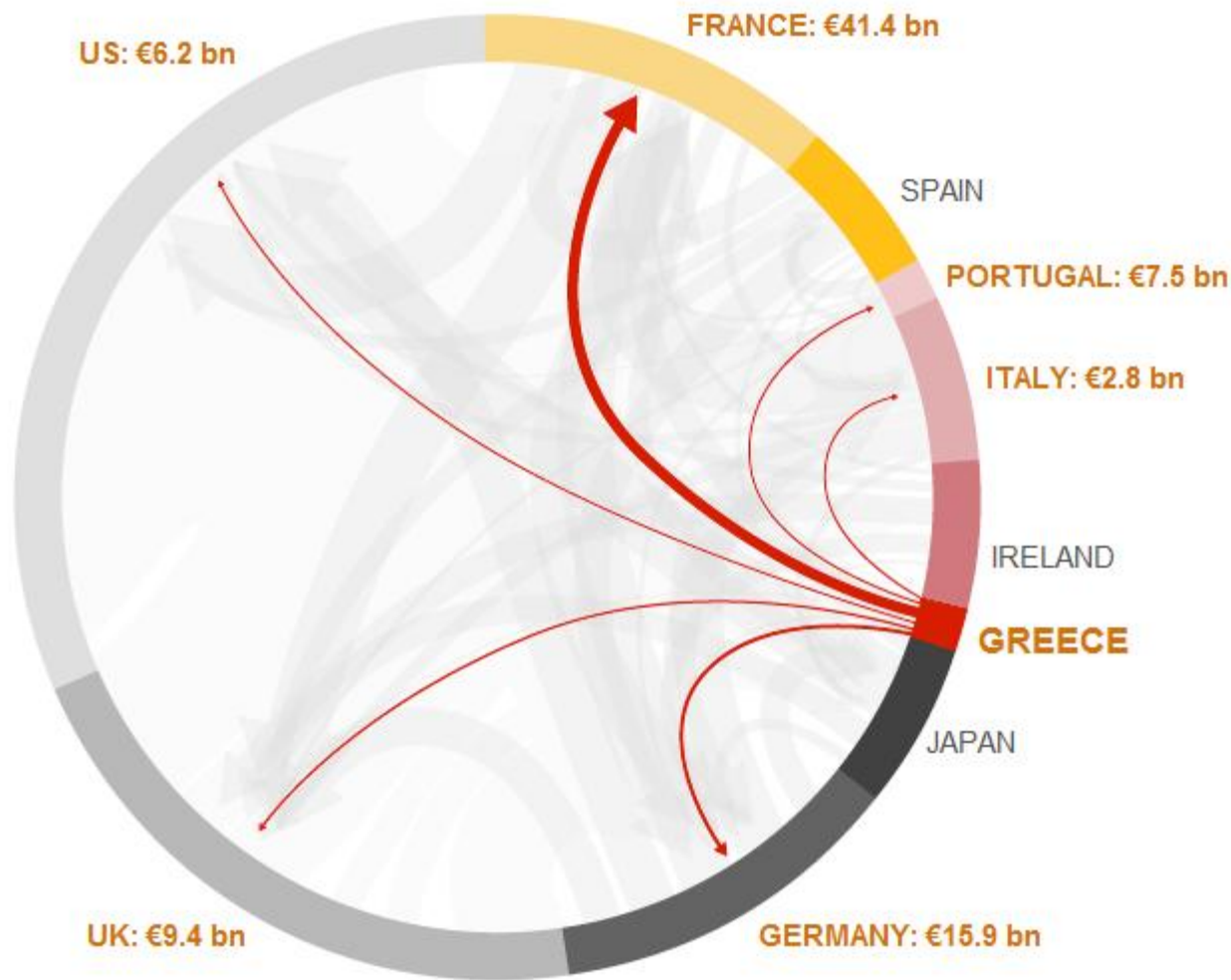
# Ireland gross external debt financing by the origin of foreign banks



## IRELAND



# Greece gross external debt financing by the origin of foreign banks



## GREECE

GDP: €0.2 tn

Foreign debt: €0.4 tn



**€38,073**

Foreign debt per person



**252%**

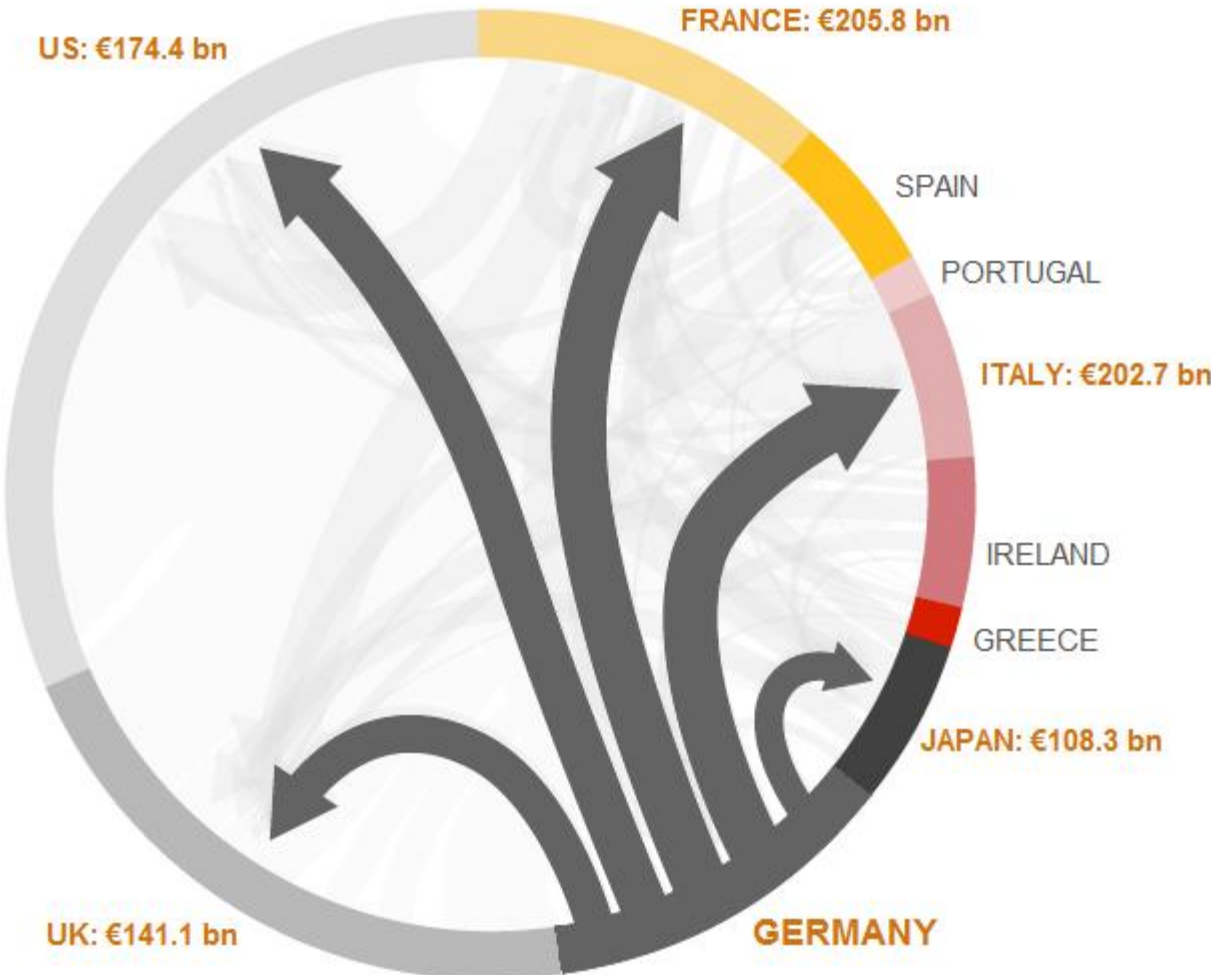
Foreign debt to GDP

**166%**

Govt debt to GDP

Risk Status: ■ HIGH

# Germany gross external debt financing by the origin of foreign banks



## GERMANY

GDP: €2.4 tn  
 Foreign debt: €4.2 tn

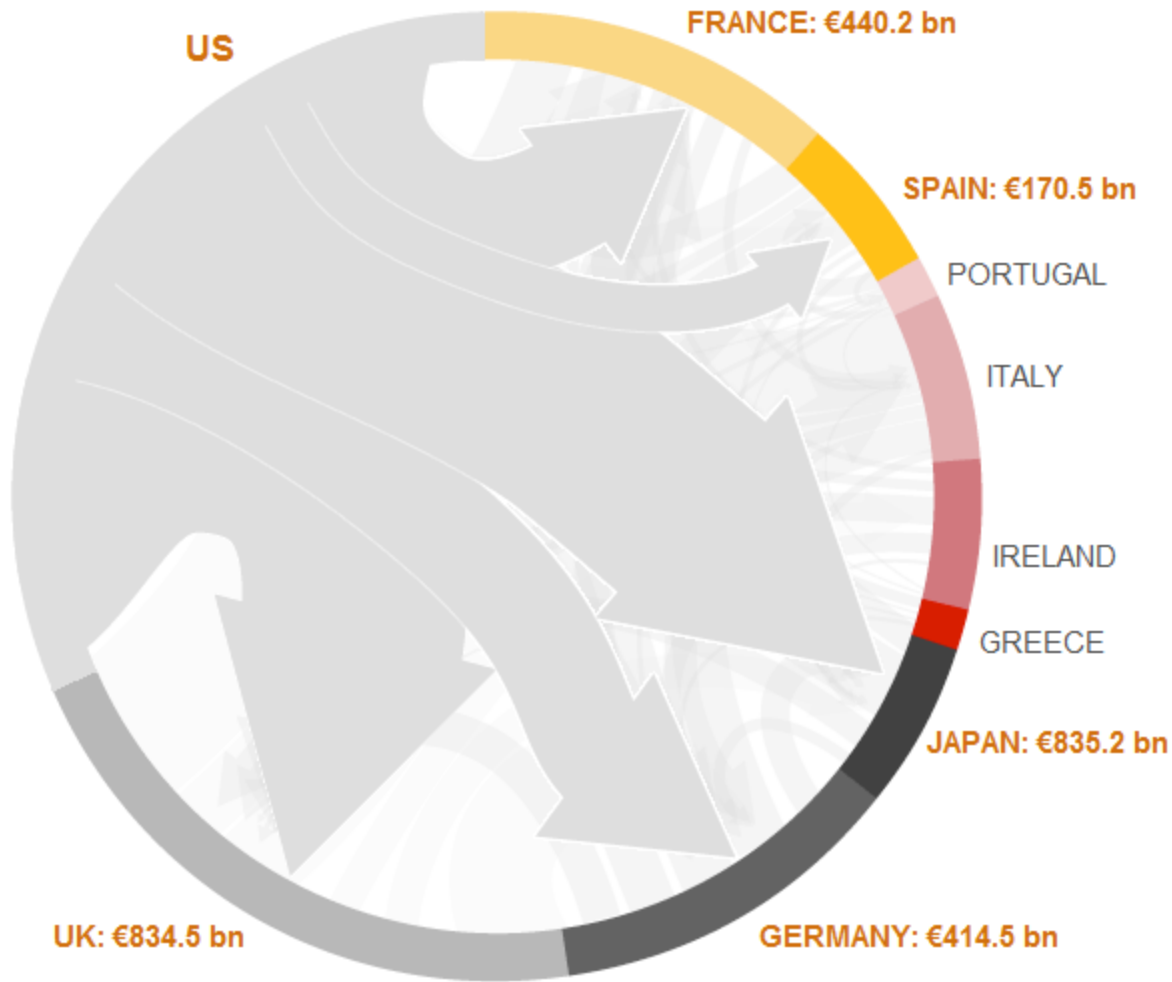
€50,659  
 Foreign debt per person

176%      83%  
 Foreign debt to GDP      Govt debt to GDP

Risk Status:  LOW

Source: BBC online

# US gross external debt financing by the origin of foreign banks



## US

GDP: €10.8 tn

Foreign debt: €10.9 tn



**€35,156**

Foreign debt per person



**101%**

Foreign debt to GDP

**100%**

Govt debt to GDP

Risk Status:  LOW

## The way forward for the CEE region

- "Vienna 2": parent bank commitment is key for CEE countries to avoid credit crunch but further adjustment in LTD ratios are likely

But how to achieve?

