

Financial Sector:  
**Deepening, Resilience and Challenges**

**The Western Balkans:  
15 Years of Economic Transition**



Vienna

March 10, 2015

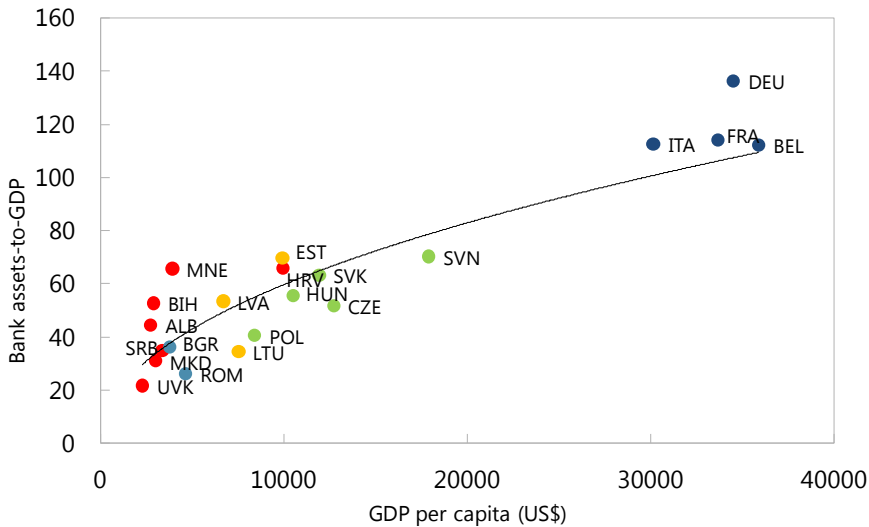
Nadeem Ilahi  
Deputy Division Chief  
European Department, IMF

# WBS financial depth is low, particularly in non-banks



## Bank Assets and Income per Capita

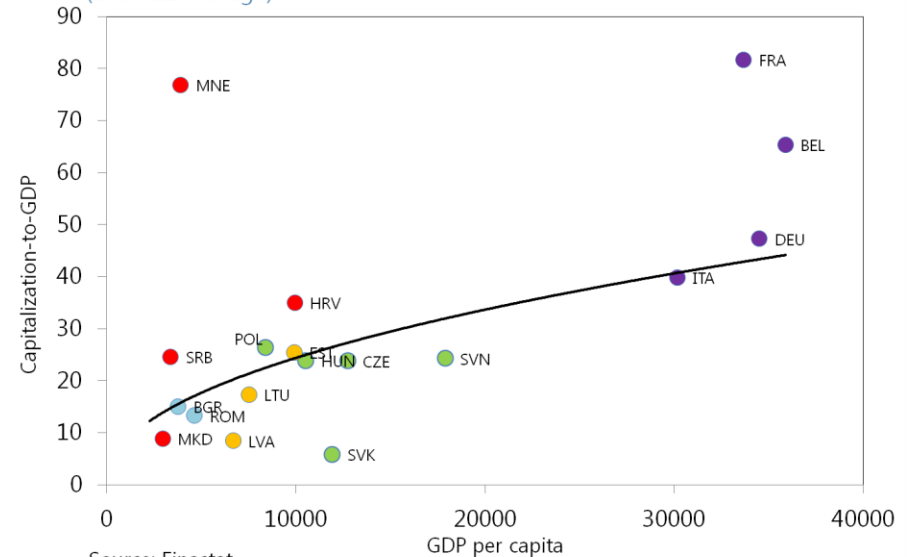
(2000-11 average)



Source: World Bank Global Financial Development Database (GFDD).

## Stock Market Capitalization and Level of Economic Development

(2000-11 average)



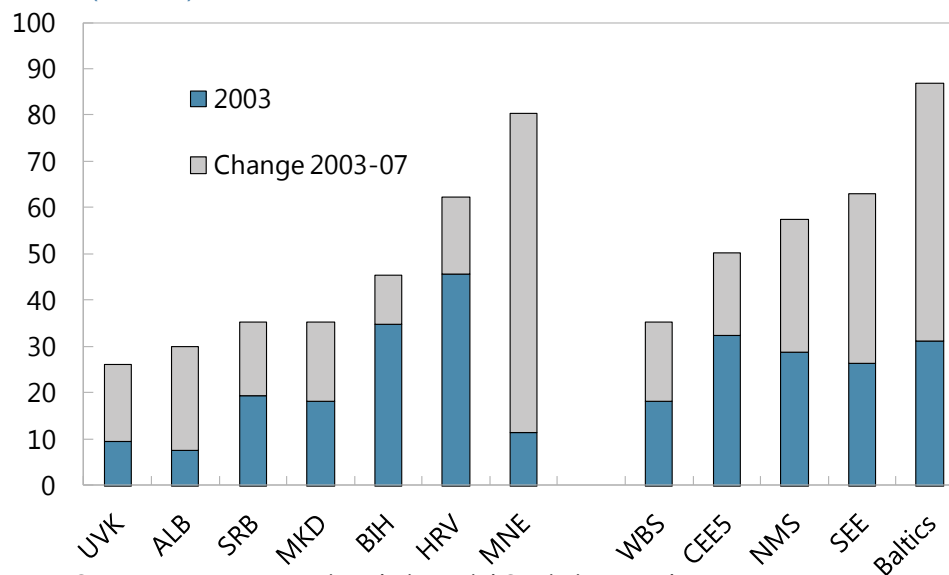
Source: Finastat.

# Bank credit in WBS was low in 2008, despite strong growth since 2003...



## Credit to GDP Ratio

(Percent)



Source: IMF's International Financial Statistics Database.

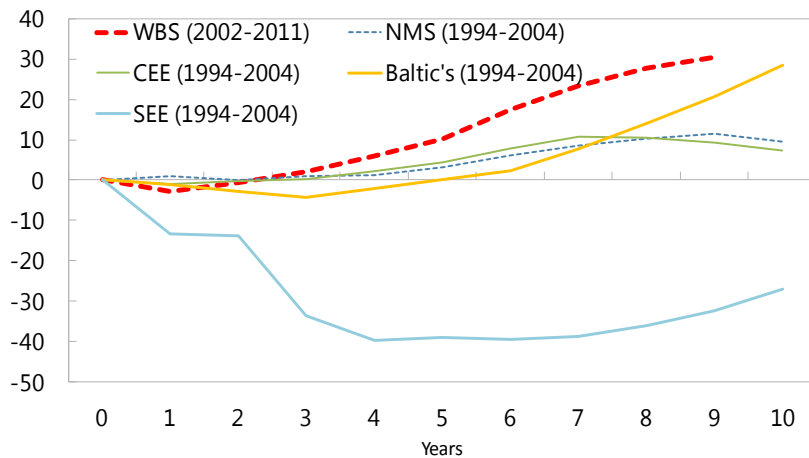
1/ Group medians.

# ...regardless, credit deepening has been significant since 2002



## Credit Deepening <sup>1/</sup>

(Bank credit to private sector, in percent of GDP cumulative change)

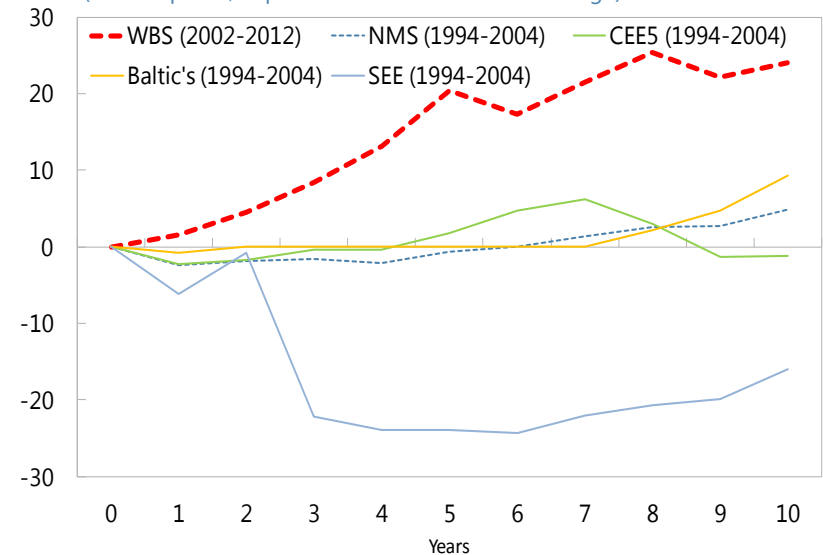


Source: World Bank FinStat Database.

<sup>1/</sup> Change since average transition index >3 (1994 for NMS and 2002 for WBS).

## Deposit Deepening

(Bank deposits, in percent of GDP cumulative change)

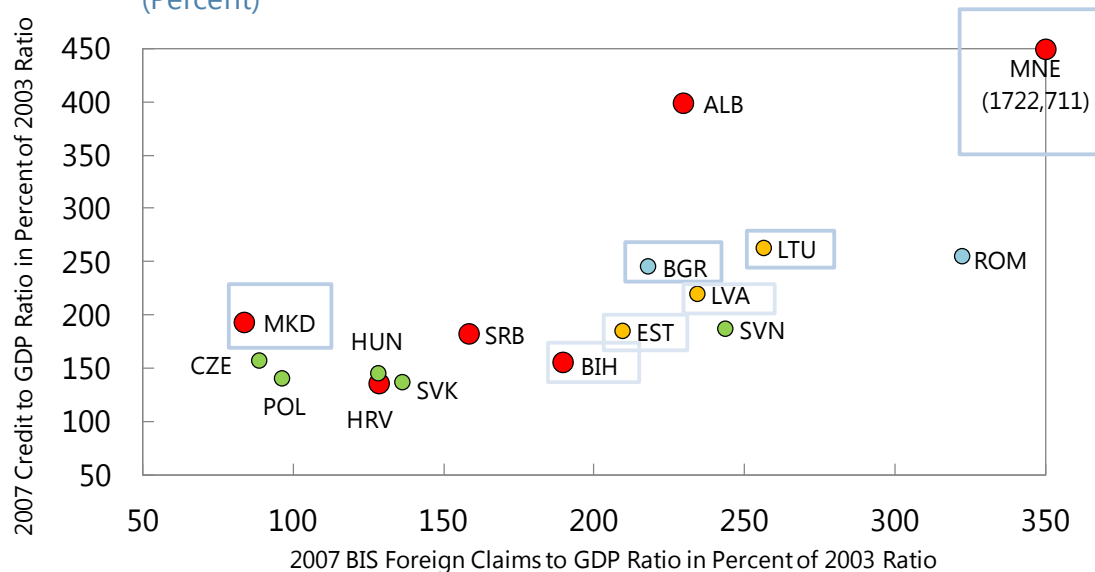


Source: World Bank FinStat Database.

# WBS credit growth was not funded by wholesale foreign funding



## Foreign Bank Financing and Private Sector Credit (Percent)



Sources: BIS locational statistics and IMF, International Financial Statistics Database.

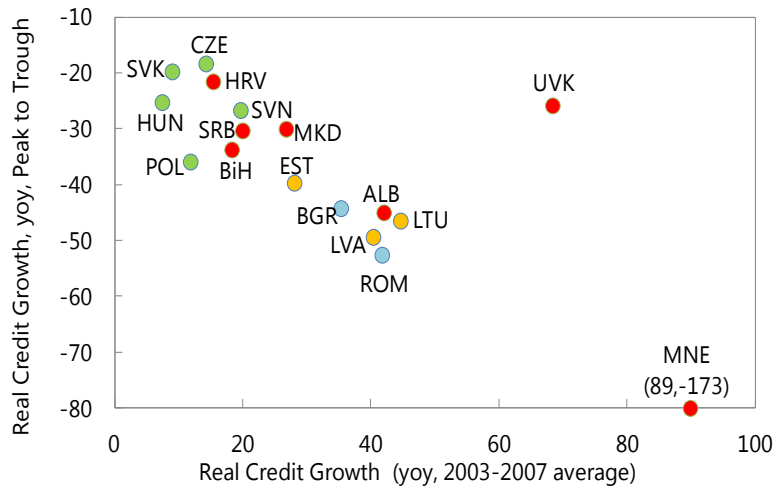
Note: Montenegro data start in 2006. Blue boxes represent countries with fixed or pegged exchange rate regimes, or those using the euro. Countries in red circles represent Western Balkan states.

# Post-crisis credit bust has been milder in WBS also...



### Credit Boom and Credit Bust

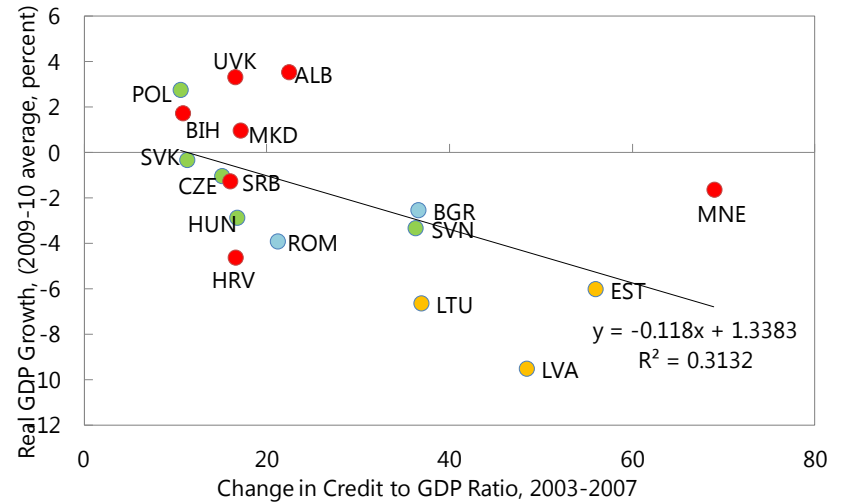
(Percent)



Sources: BIS and IMF, International Financial Statistics Database.  
 Note: yoy = year-on-year percent change.

### Credit Growth and Output Growth

(Percent)

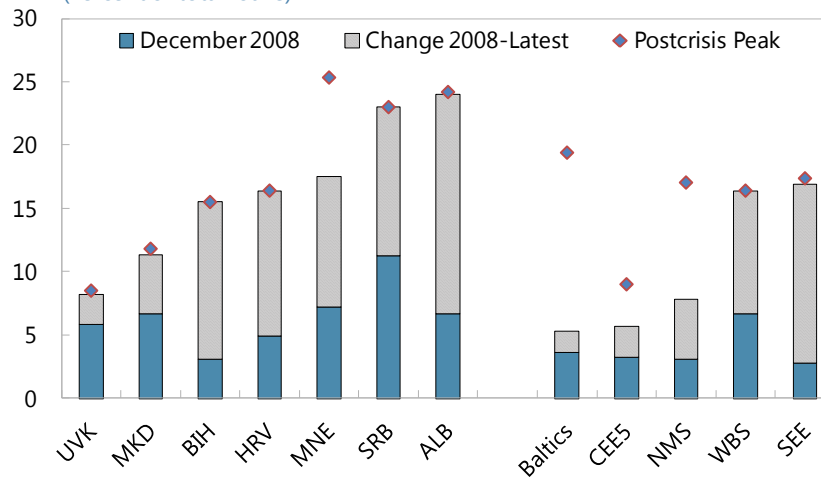


Source: IMF's International Financial Statistics Database.

# ...but NPLs are a lingering legacy



## Non-Performing Loans (Percent of total loans)



Sources: IMF, Financial Soundness Indicators Database; and country authorities.  
Note: Group medians. Definition of NPL may differ by country.

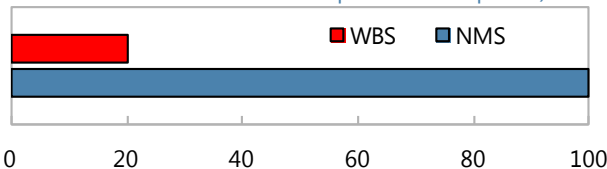
# WBS lag on risk-based regulation and supervision...



## Bank Regulation and Supervision <sup>1/</sup>

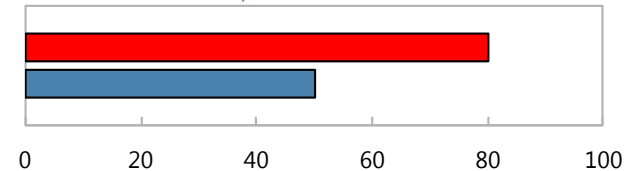
### Information Disclosure

(Percent of central banks that mandate commercial banks to disclose transactions with related parties to the public)



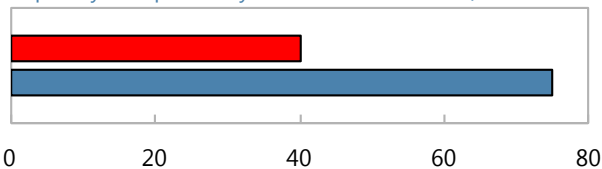
### Bank Governance

(Percent of central banks that mandate the establishment of an audit committee)



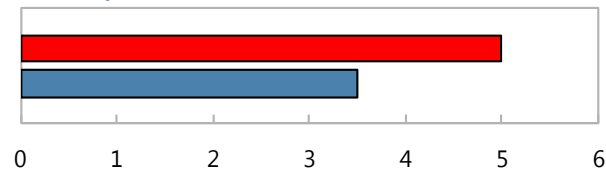
### Supervision Intensity

(Percent of central banks that explicitly link the intensity and frequency of supervisory activities to bank risk)



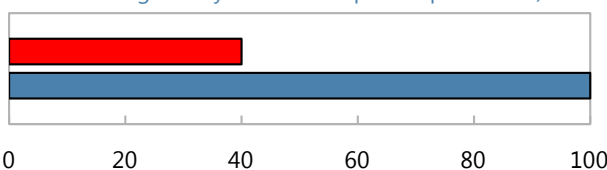
### Supervision: Onsite

(Median number of onsite examinations that were performed in the last 5 years)



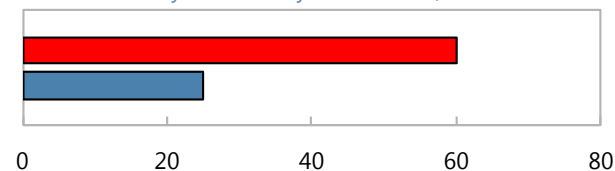
### Capital Requirements and Risk

(Percent of central banks that cover credit and market risk in the current regulatory minimum capital requirements)



### Supervision of Systemic Banks

(Percent of central banks that say they supervise systemic banks differently than non-systemic banks)



Source: World Bank, *Bank Regulation and Supervision Survey* (database), 2011

<sup>1/</sup> Data are for 2011 except for that of onsite supervision which are 2006-10.

Note: The WBS group excludes Albania and Kosovo. The NMS group excludes Czech Republic and Poland.