

# Seven perspectives on deleveraging

Bogdan Chiriacescu  
Financial Stability Department  
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**BANCA NAȚIONALĂ ROMÂNIEI**



## Stylized facts

Report by McKinsey Global Institute (2010):

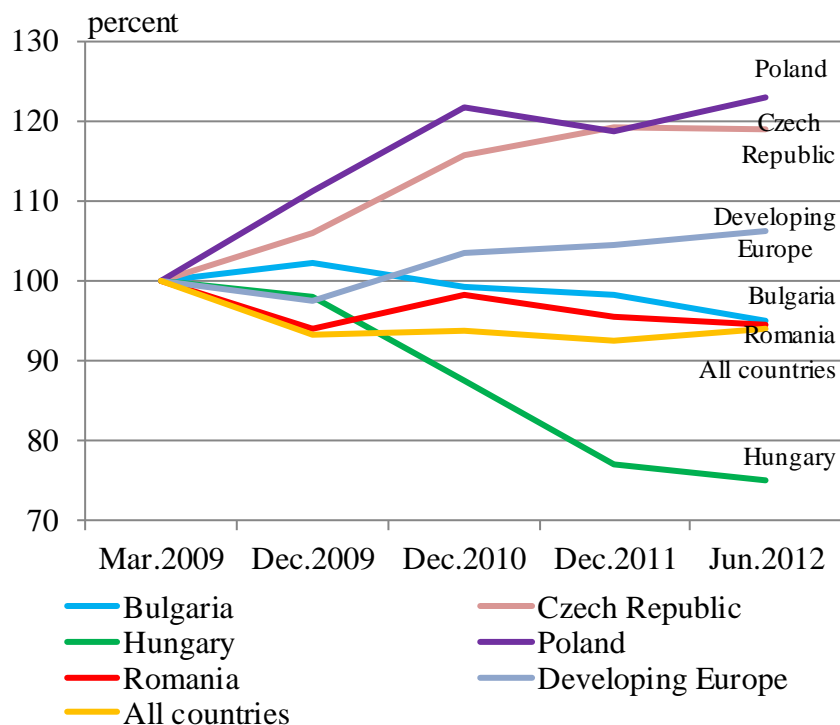
- Almost every major financial crisis in modern history has been followed by a significant period of deleveraging
- Significant episode of deleveraging - the ratio of total debt to GDP declines for at least three consecutive years and falls by 10 percent or more
- 45 such episodes since 1930 that lasted 6 to 7 years on average and total debt to GDP decreased by 25%
- Usually deleveraging begins a few years after the start of the crisis

# SEVEN PERSPECTIVES ON DELEVERAGING

1. European banks' exposures on Romania
2. External financing of the Romanian banks
3. Credit to GDP
4. Leverage ratio
5. Loan-to-deposit ratio
6. Non-financial private sector indebtedness
7. Asset sales

# 1<sup>st</sup> perspective (a): Bank exposures on CESEE countries (BIS data)

## European banks' exposures (% of March 2009 level)



- European banks' exposures on aggregate (vis-a-vis all countries) are at 94% of the March 2009 level (1st Vienna Initiative), without clear signs of reductions in recent period
- Developing Europe (28 countries) benefited, on aggregate, of more financing from European banks (at 106% of the March 2009 level)
- Bank exposures on Romania are currently at 94,4% of the March 2009 level

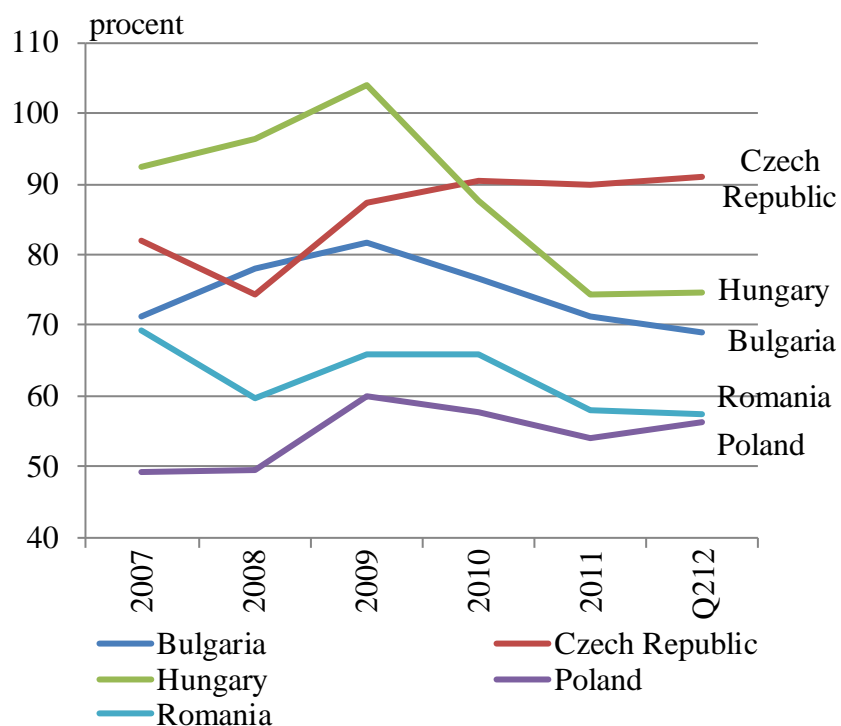
Note: Exposures are denominated in euro

Source: BIS, Bloomberg, NBR calculations



# 1<sup>st</sup> perspective (b): Bank exposures on CESEE countries (BIS data)

## European banks' exposures (% of GDP)



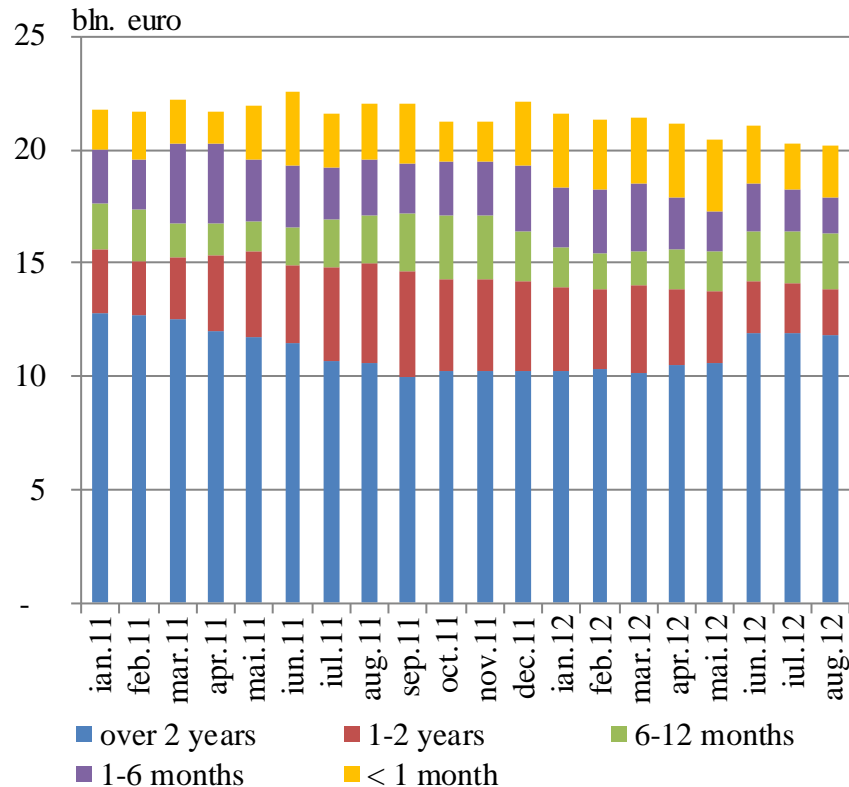
- European bank exposures to GDP by country suggests that from 2009 onwards most countries registered deleveraging trends
- Generally the adjustment magnitude of this indicator was proportional to the initial level
- Given different levels of exposures among countries (between 50% and 90% of GDP), the deleveraging future trends (magnitude and duration) could depend on the current level of indebtedness

Note: Exposures are denominated in euro

Source: BIS, Bloomberg, NBR calculations

## 2<sup>nd</sup> perspective (a): Romanian banks' external financing

External liabilities of Romanian banks  
from non-resident financial institutions

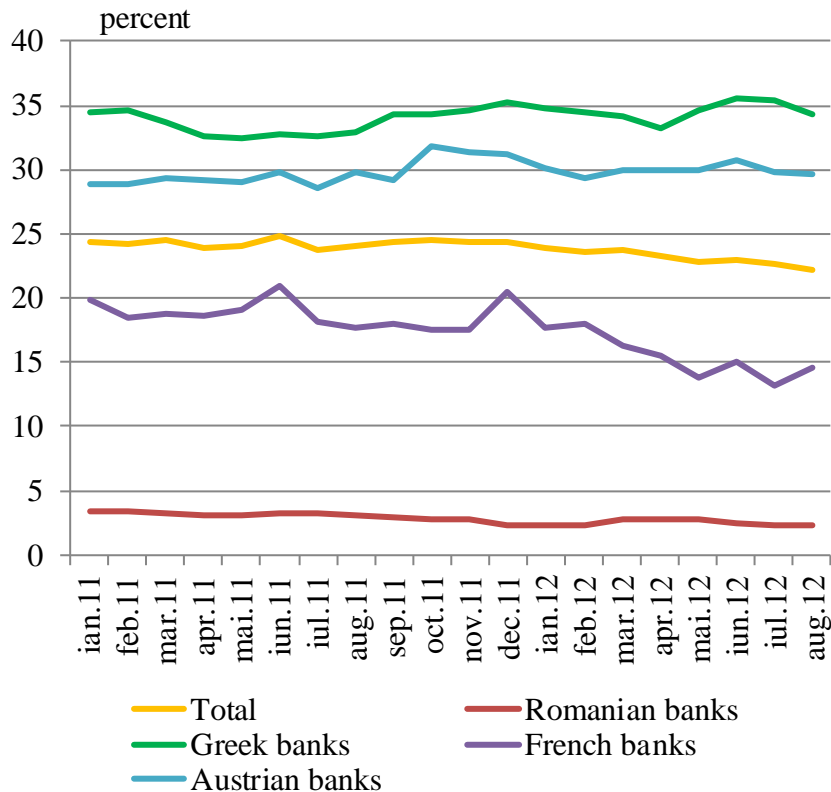


- Romanian banks' financing from non-resident financial institutions decreased by 8,9% (2 bln. euros) during December 2011 – August 2012, especially on the segment of short term financing (up to 6 months)
- There was an increase of the share of long term financing (more than 2 years)

Source: NBR (banks reporting to the Supervision Department)

## 2<sup>nd</sup> perspective (b): Romanian banks' external financing

External liabilities in total assets  
(banks split by the origin of their capital)

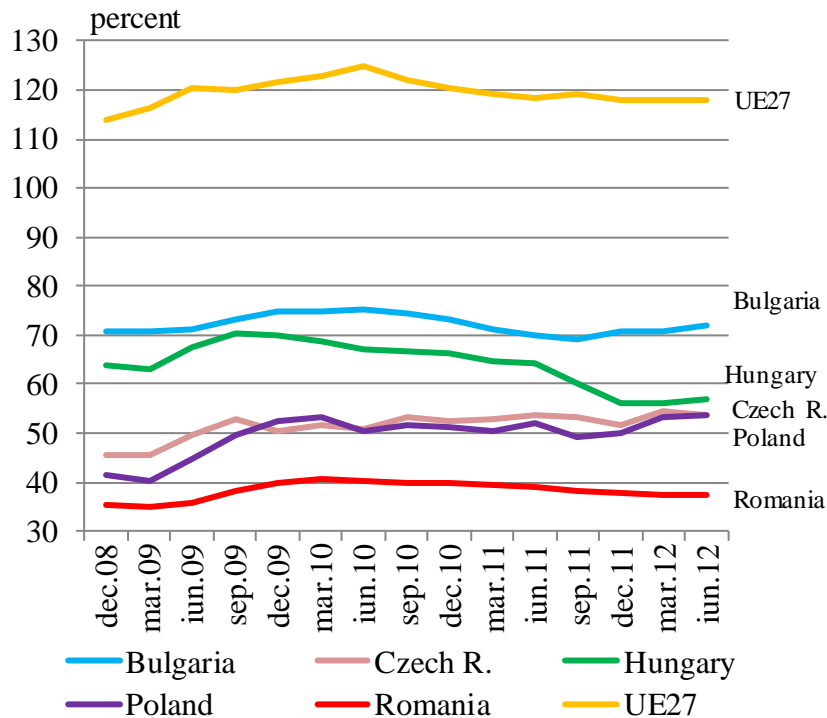


- The share of external liabilities in total assets embarked on a slight downtrend in 2012
- This tendency is most visible for French-capital banks, whereas for Greek, Austrian and Romanian-capital banks, the level remained broadly unchanged
- Greek and Austrian-capital banks are the most dependent on external financing

Source: NBR Monetary Survey

# 3<sup>rd</sup> perspective: Credit-to-GDP

## Private Credit\*-to-GDP\*\*



- Credit-to-GDP is above the December 2008 level for most EU countries, with one exception (Hungary)
- The uptrend manifested in 2009 is mainly explained by the decreasing GDP
- The slight downtrend afterwards is again attributable to some extent to the recovery in GDP, with credit remaining rather stable

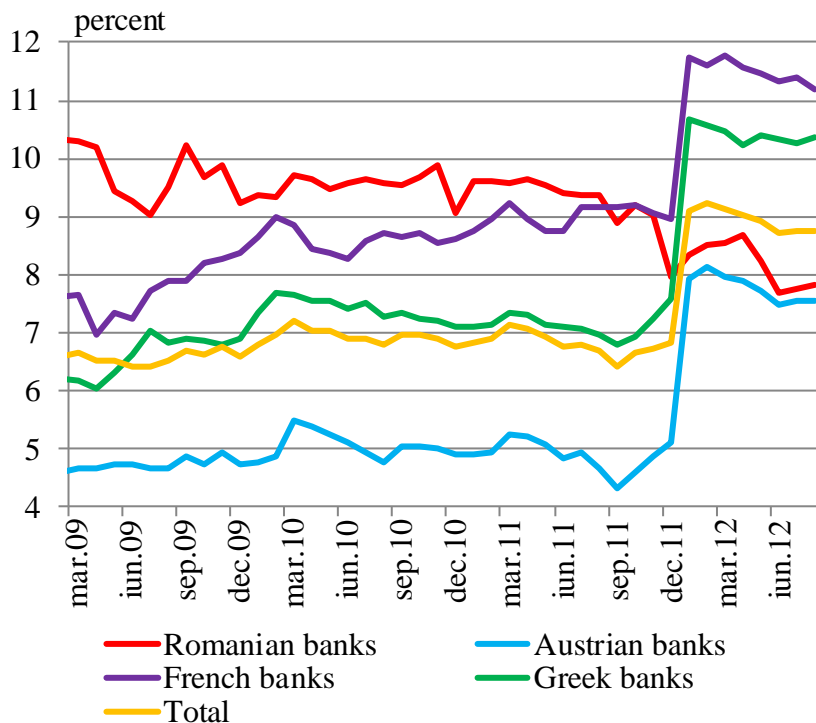
Source: ECB, Eurostat, NBR calculations

Note: \*Non-government credit, \*\*Annualized GDP



# 4<sup>th</sup> perspective: Leverage ratio

Leverage ratio\*  
(banks split by the origin of capital)



- Leverage ratio evolved in an orderly manner, the jump in this indicator being attributable to the IFRS implementation starting January 2012
- Deleveraging trends for French-capital banks
- Leveraging trends for Romanian-capital banks
- Relatively stable dynamics for Austrian and Greek-capital banks

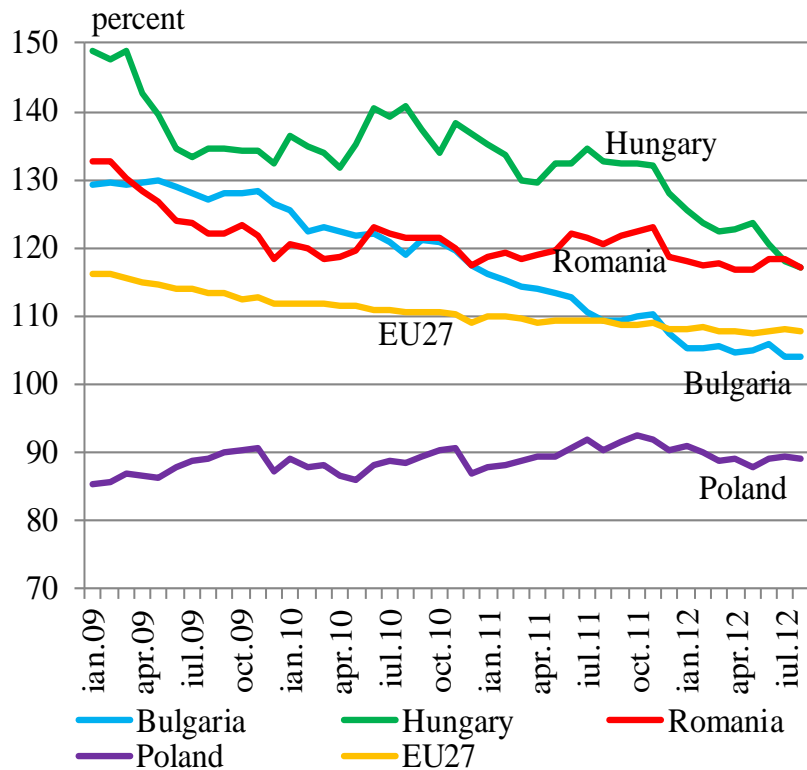
Note: \*Leverage ratio = Own funds / Total assets

The jump in leverage ratio is attributable to implementing IFRS

Source: NBR, NBR calculations

# 5<sup>th</sup> perspective (a): Loan-to-deposit ratio (LTD)

## LTD\* – regional comparison



- LTD ratio knew an important adjustment in Hungary and Bulgaria
- Romania and Hungary register the highest LTD ratios in the region, and also compared to the EU27 average

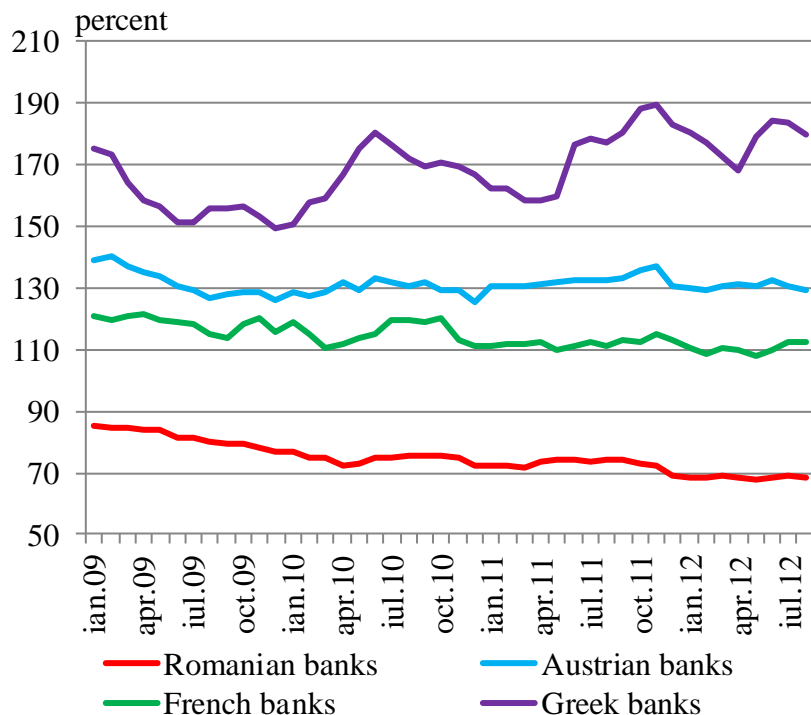
Note: \* LTD for non-government sector

Source: ECB, NBR calculations

## 5<sup>th</sup> perspective (b): Loan-to-deposit ratio

LTD\*

(Romanian banks by the origin of capital)



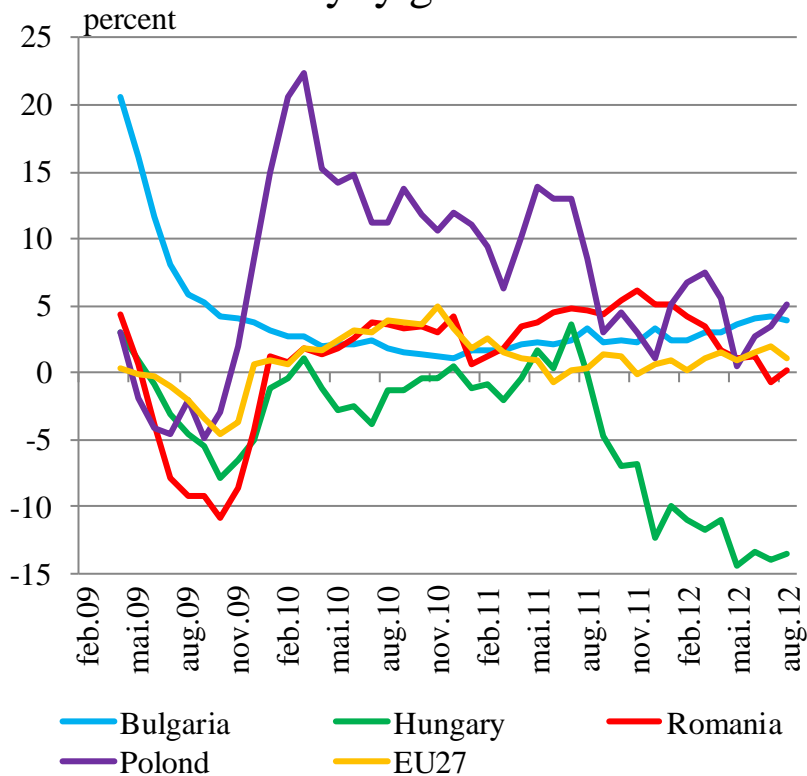
- Most visible trend of decreasing LTD is for the Romanian-capital banks, but is mainly attributable to increasing deposits based on confidence considerations
- For Austrian and French-capital banks there is a fairly stable evolution of LTD ratio

Note: \* LTD for the non-government sector

Source: Monetary Survey, NBR calculations

# 6<sup>th</sup> perspective (a): Non-government bank credit dynamics – regional perspective

Non-financial private sector credit,  
yoy growth

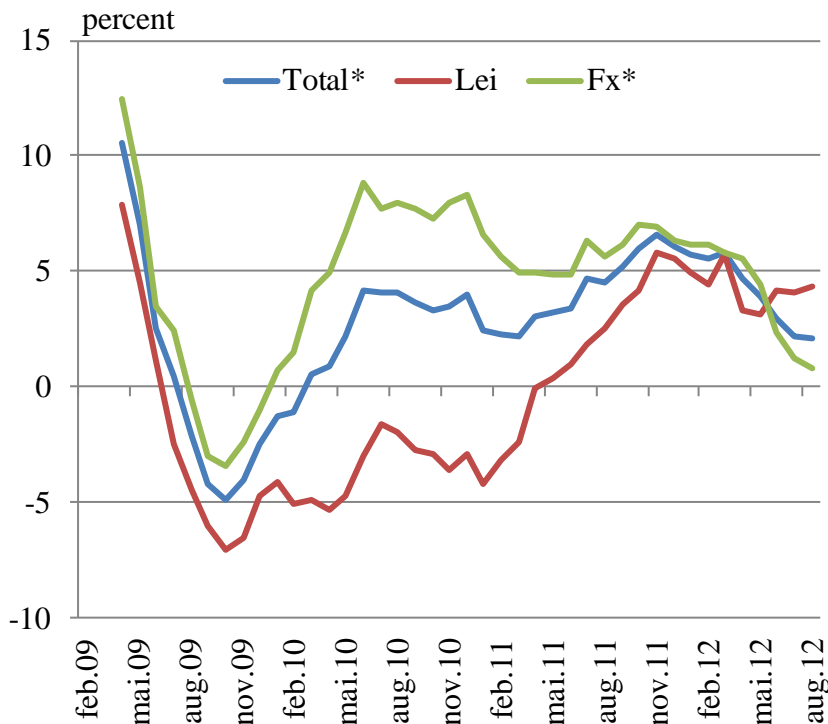


- Credit growth for most countries remains in the positive area, but registers small numbers, up to maximum 5% (with one exception, Hungary, that is in the negative territory)

Source: ECB, NBR calculations

# 6<sup>th</sup> perspective (b): Non-government bank credit dynamics in Romania

Non-financial private sector credit,  
by currency, yoy growth



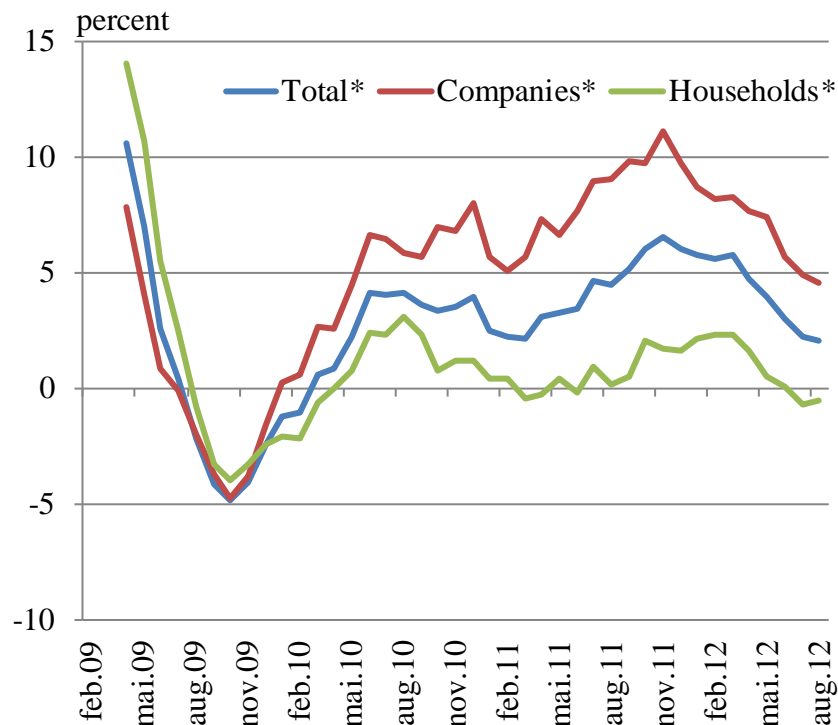
- Private sector lending remains in the positive territory of growth, although the trend is negative
- The main engine of lending was the domestic currency loans (81,6% of the consumer loans and 57% of the companies loans granted during January – September 2012)
- The FX loans have started to lose ground against leu loans

Note: \*Series adjusted for FX movements

Source: NBR Monetary Survey, NBR calculations

# 6<sup>th</sup> perspective (c): Non-government bank credit dynamics in Romania

Non-financial private sector credit,  
by debtor, yoy growth



- Most of the new lending is channeled to companies
- Lending to households recently entered into negative growth area
- Banks business models are changing, lending more to tradables sectors in local currency

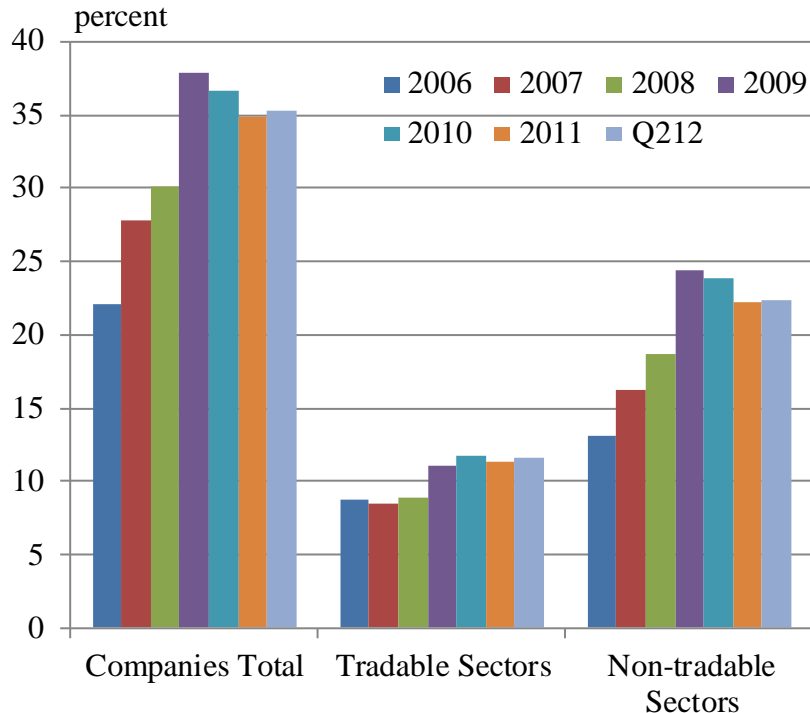
Note: \*Series adjusted for FX movements

Source: NBR Monetary Survey, NBR calculations



## 6<sup>th</sup> perspective (d): Companies' debt

### Companies DEBT\* to GDP



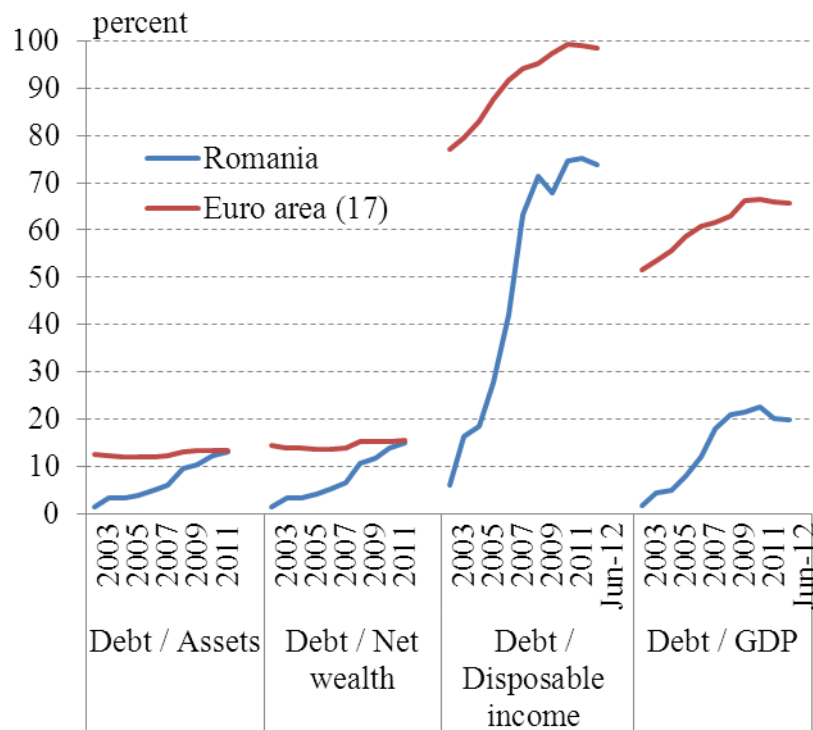
- Debt to GDP dynamics reveal deleveraging trends starting 2010 for the corporate sector
- Both leveraging before the crisis and deleveraging afterwards for the corporate sector can be attributable almost entirely to the non-tradable sector (real estate in particular)

Note: \* Debt - domestic credit from banks and NBFIs, and external debt from financial institutions

Source: NBR, NBR calculations

## 6<sup>th</sup> perspective (e): Households' debt

### Household indebtedness

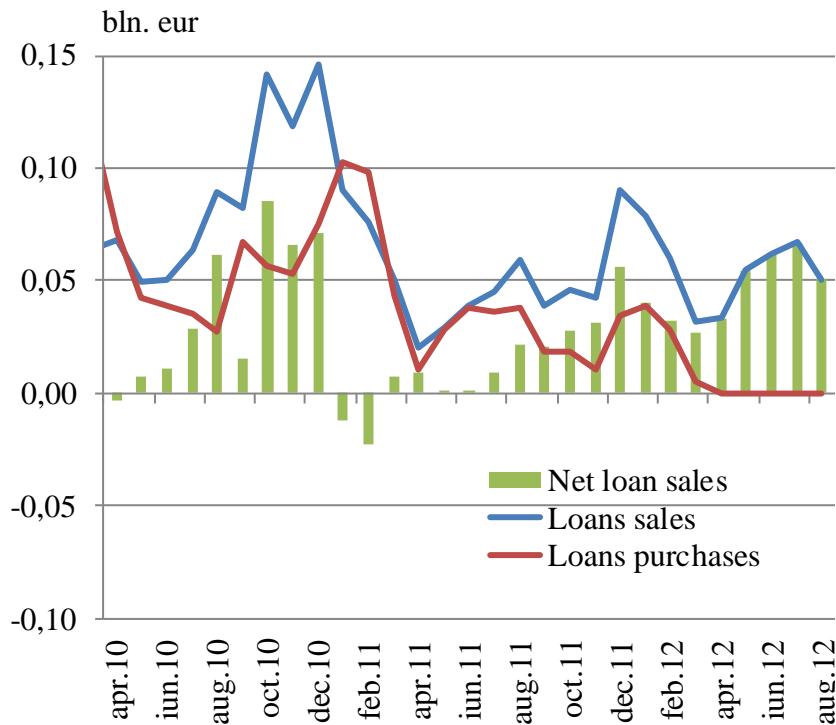


- Rapid growth and high level of households' indebtedness does not support additional substantial indebtedness for the household sector
- The bulk of the debt service repays the consumer loans (89% of the total debt service in June 2012), and repays the FX loans (55% of the total debt service in June 2012)

Source: ECB, NBR, NIS, NBR calculations

# 7<sup>th</sup> perspective: Asset sales

## Loans sales and purchases



*Note: Series are compiled as 3-month moving average*  
*Source: NBR Monetary Survey, NBR calculations*

- The volume of loans' net sales is not challenging
- The main driver of this activity is to improve the quality of loan portfolio (banks sell non-performing loans and buy-back good quality portfolios)
- 80% of the sold portfolio in 2011 was non-performing (of which 2/3 were households' loans and 1/3 companies' loans)
- 84% of the households loans is sold outside the group, and the discount is around 88%
- 83% of the companies loans is sold inside group, with a discount of about 45%