



ΤΡΑΠΕΖΑ ΤΗΣ ΕΛΛΑΔΟΣ
ΕΥΡΩΣΥΣΤΗΜΑ

“BANKING in the SEEEs: CRISIS EFFECTS, OUTLOOK & RISKS”

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**BoG – Oxford Un. Conference on:
“Challenges and Prospects of South East European Economies
in the wake of the financial crisis”**

Athens, October 16, 2009

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Chief Economist, Eurobank EFG Group***

BANKING in the SEEEs: CRISIS EFFECTS, OUTLOOK & RISKS

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I.

IS THE CRISIS OVER?

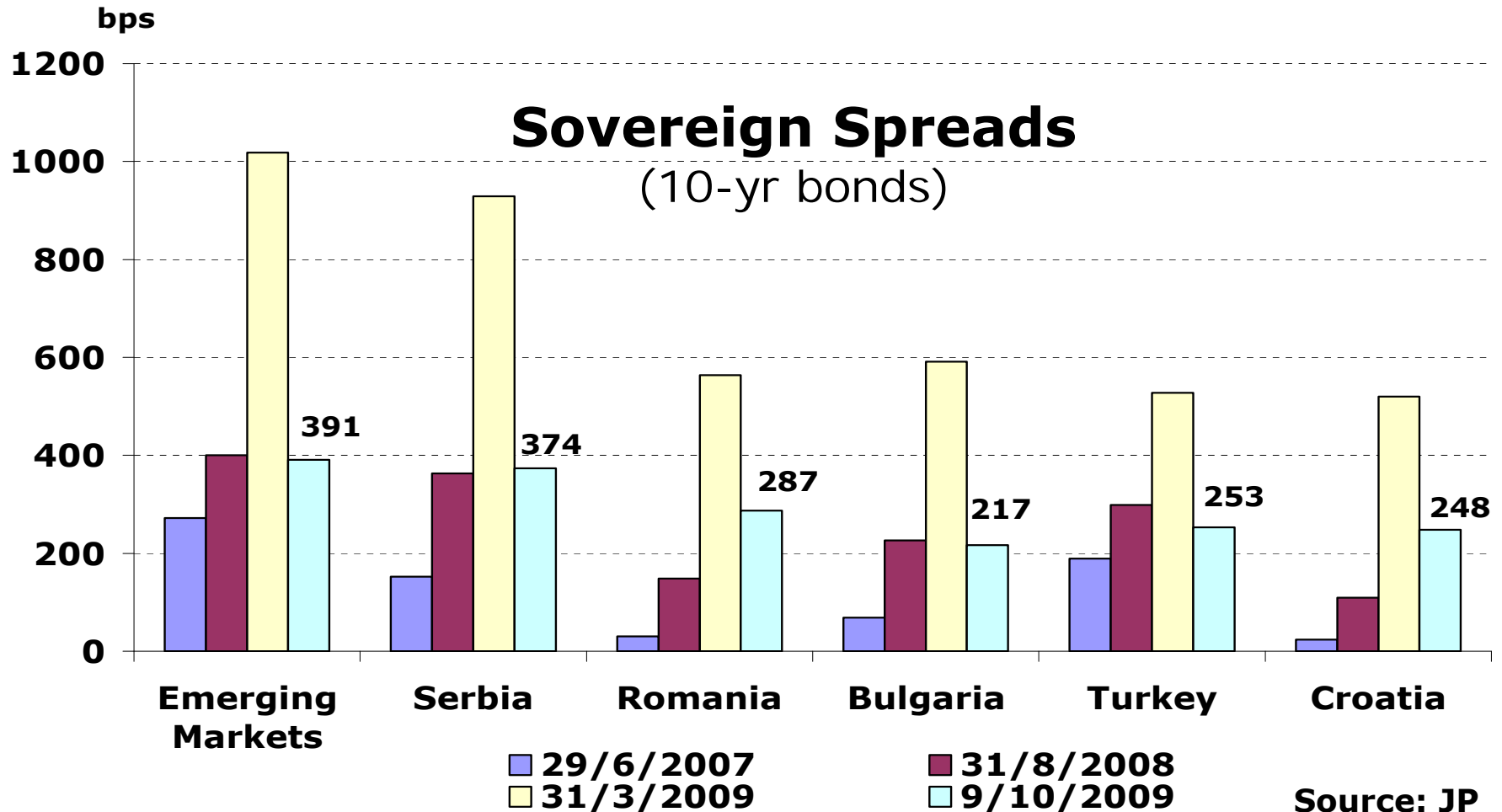
*“From the future of capitalism
to the future of capital requirements”*

What a difference 6 months have made in our discussions!

The Economist, October 3-10, 2009

I. Financial market fears ease, yet concerns remain for the SEE region

- ✓ Potential IMF funding leads sovereign spreads to decline at almost pre-Lehman levels



Source: JP Morgan EMBIG

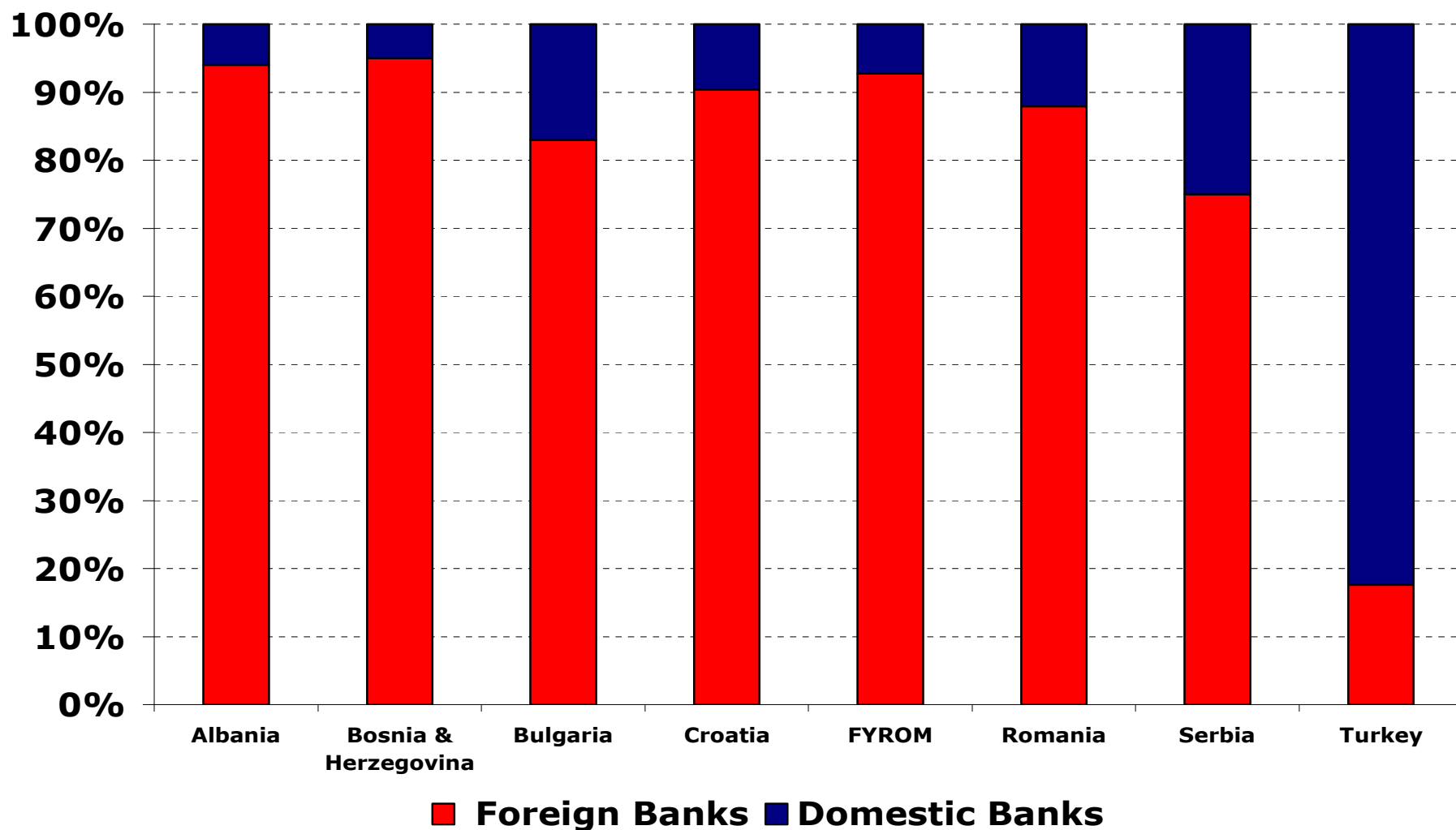
II.

BANKING in the SEEEs

The strong points

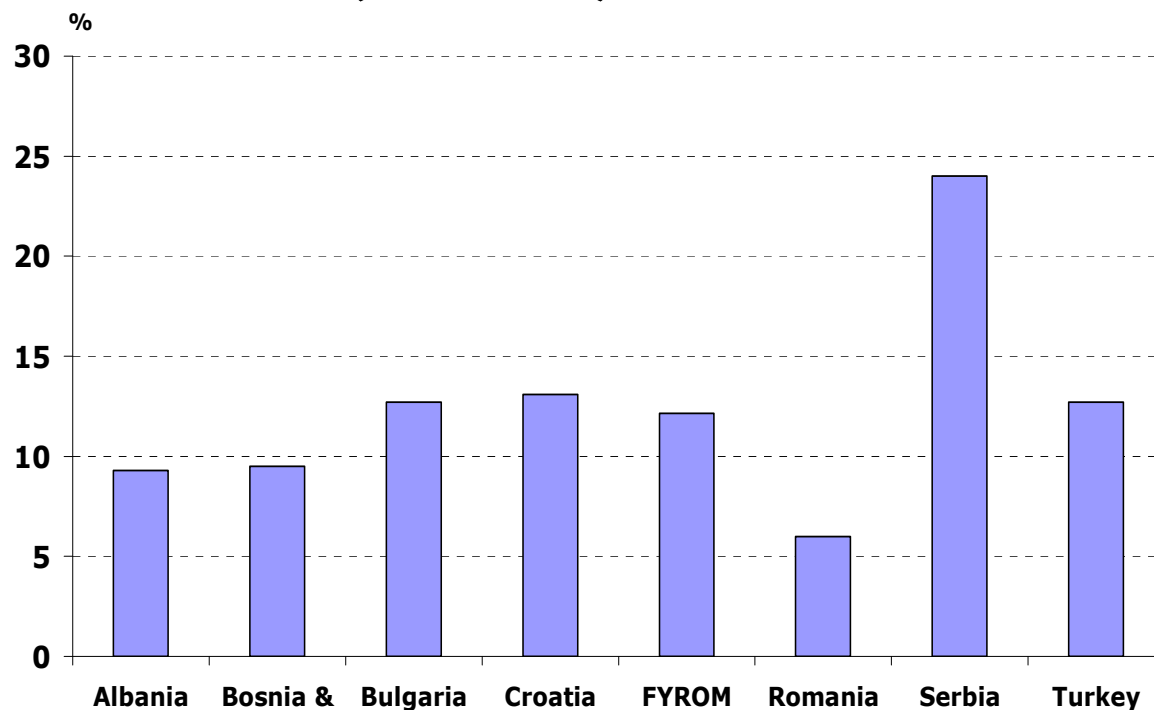
II. Large foreign ownership of banking sector

% ownership



II. Adequate capitalization

Bank Capital to Assets ratio (Q2 2009)



*FYROM, Romania and Serbia as of Q1 2009

Capital / Assets		
Austria	6.3	Q1 09
Belgium	3.4	Q1 09
Ireland	5.1	Q1 09
Germany	4.5	2008
Portugal	6.1	2008
Norway	4.2	2008
Sweden	4.7	2008
UK	4.4	2008
Greece	4.5	2008
Spain	6.4	2008

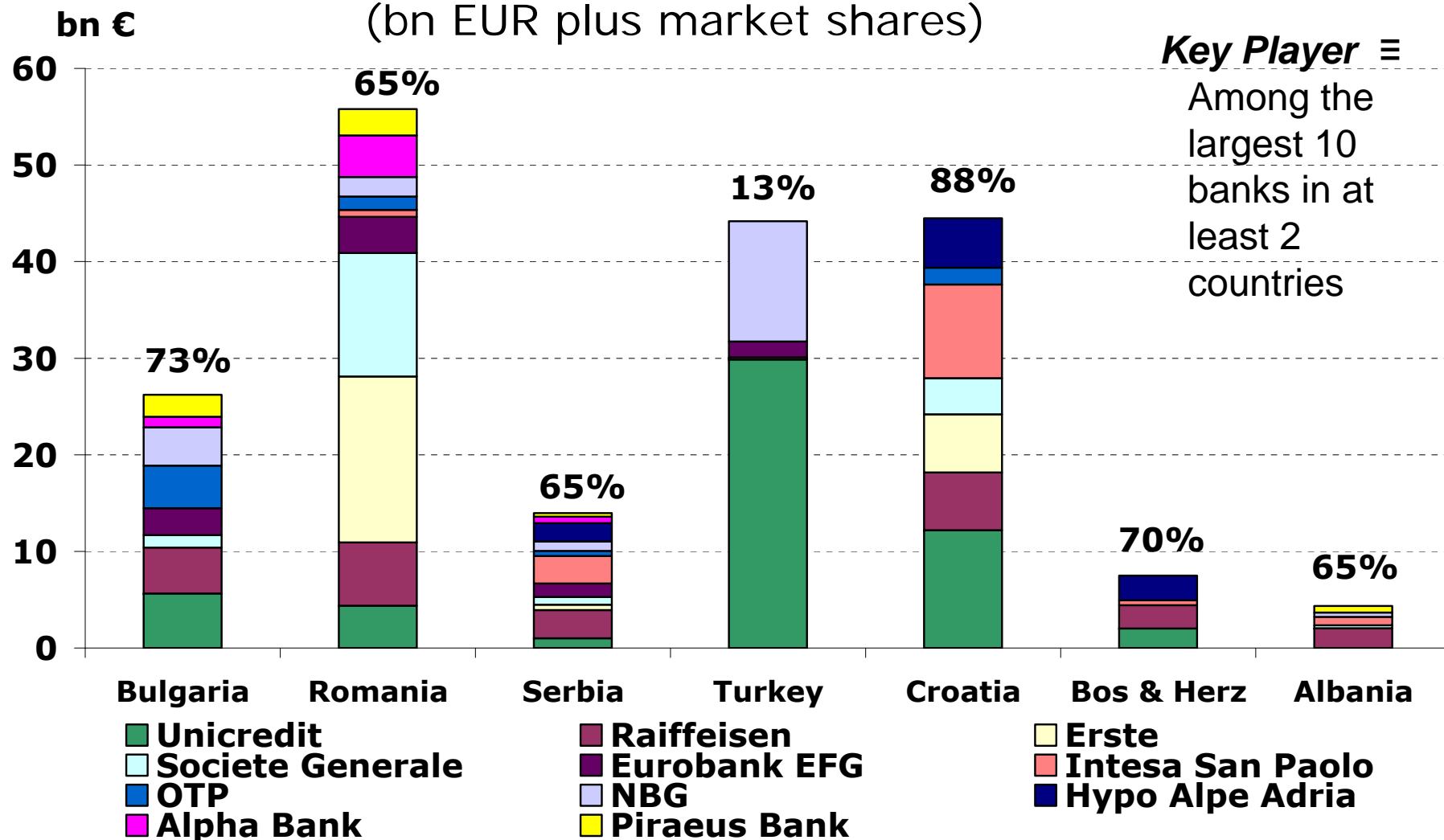
Source: Central Banks, Eurobank Research

✓ **Capital to assets ratio relatively stronger in SEE**

II. Key "systemic" players

Assets of key players in SEE countries

(bn EUR plus market shares)



II. Exposure of key players

Financial Institutions in SEE & Turkey (2008)

	Group Assets (bn EUR)	SEE Assets (bn EUR)	SEE Share (% Total Assets)	Group Capital Adequacy Ratio*	SEE Loans (bn EUR)	SEE Deposits (bn EUR)
Societe Generale	€ 1130.0	€ 19.4	1.7	11.6	€ 12.5	€ 10.1
Unicredit	1045.6	55.1	5.3	11.4	34.9	34.6
Intesa San Paolo	636.1	14.6	2.3	10.2	9.4	9.1
Erste	201.4	23.7	11.8	10.1	15.7	10.7
NBG	101.8	19.9	19.5	10.3	15.3	11.0
Raiffeisen	85.4	21.8	25.5	9.7	14.2	12.3
Eurobank EFG	82.2	9.6	11.6	10.4	6.0	5.9
Alpha Bank	65.3	6.1	9.3	10.1	6.5	2.8
Piraeus Bank	55.0	6.1	11.1	9.9	4.4	2.1
OTP	37.7	9.3	24.6	15.3	6.4	6.2
Hypo Alpe Adria	32.8	10.1	30.7	11.9	5.5	3.7

* Does not include preferred shares

Source: National Authorities, Raiffeisen Bank, Eurobank Research

II. European banks: Write-downs and capital increases

June 2007 – September 2009

	Banks	Loss	Capital Raised	Present in N.E.		Banks	Loss	Capital Raised	Present in N.E.
1	UBS	\$52.8	\$ 39.8		17	Natixis	\$ 9.2	\$ 8.4	
2	HSBC Holdings	50.1	28.4		18	DZ Bank	7.9	0.0	
3	HBOS	28.8	25.1		19	Anglo Irish	7.7	0.1	
4	RBS	28.3	54.4	✓	20	Hypo Real Estate	7.3	0.1	
5	Barclays	23.1	30.1		21	Dexia	6.9	9.4	✓
6	Bayerische	19.7	21.8		22	Unicredit	6.5	9.2	✓
7	Credit Suisse	19.4	12.8		23	Commerzbank	6.4	26.8	✓
8	Deutsche Bank	19.3	10.9	✓	24	Dresdner Bank	5.3	0.0	
9	ING Group	18.3	21.2	✓	25	Landesbank Baden Wurttemberg	4.8	0.0	
10	BNP Paribas	17.6	7.5	✓	26	HSH Nordbank	4.3	1.9	
11	IKB Deutsche	15.1	12.5		27	WestLB	4.1	7.4	
12	KBC Groep	12.9	8.1	✓	28	Rabobank	3.6	1.5	
13	Soc Gen	12.6	16.1	✓	29	Lloyds Banking Group	3.6	14.2	
14	Banco Santander	11.4	28.2		30	Northern Rock	3.3	5.5	
15	Fortis	9.7	23.6		31	Bank of Ireland	3.0	5.2	
16	Credit Agricole	9.4	13.1	✓					

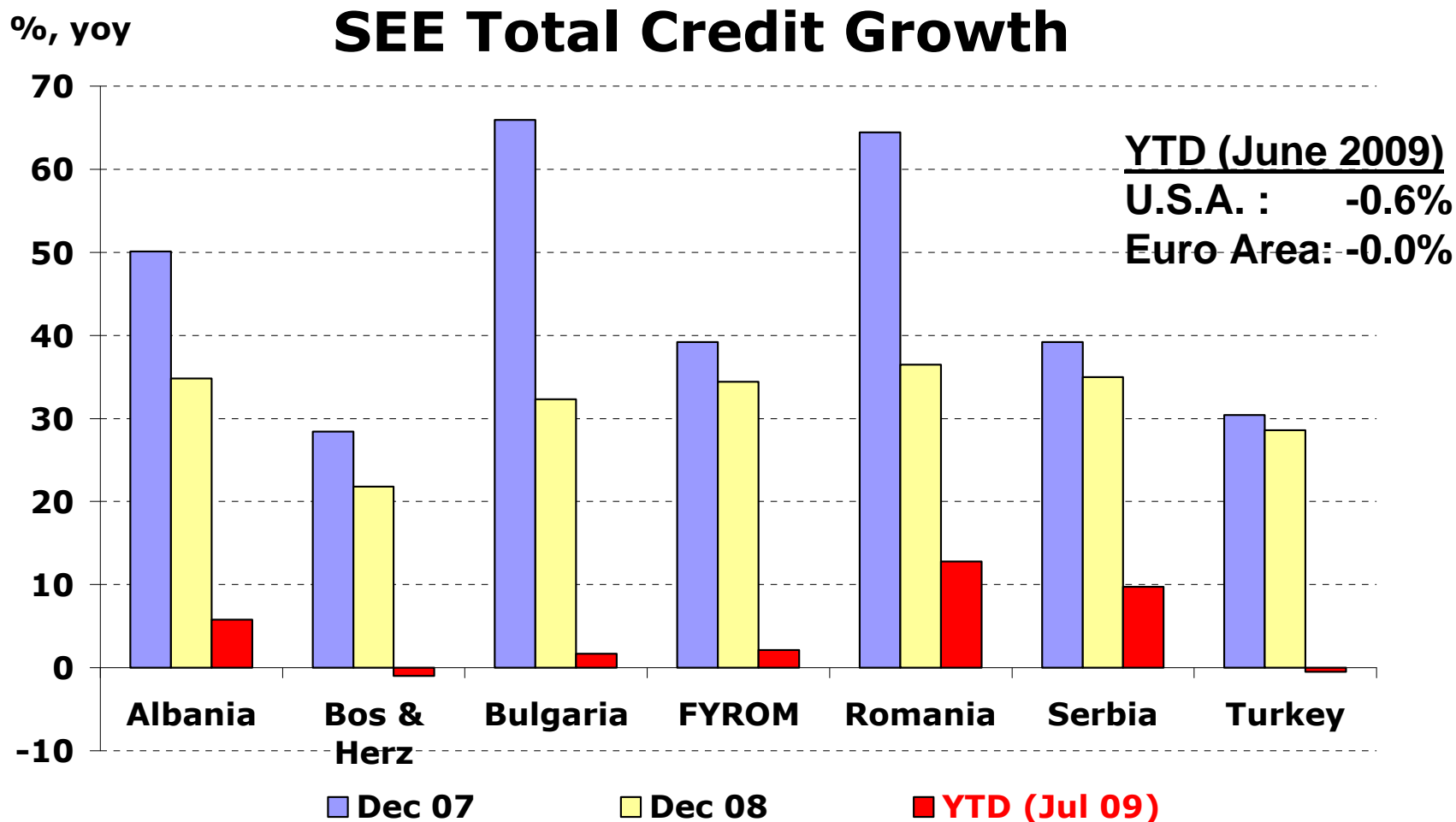
II. European banks: Write-downs and capital increases

	Banks	Loss	Capital Raised	Present in N.E.		Banks	Loss	Capital Raised	Present in N.E.
32	Allied Irish Banks	\$ 2.7	\$ 5.2		47	Standard Chartered	\$ 0.6	\$ 0.0	
33	Intesa Sanpaolo	2.7	3.7	✓	48	Norddeutsche Landesbank	0.6	0.0	
34	Landesbank Sachsen	2.6	0.0		49	Danske Bank	0.6	0.0	✓
35	Alliance & Leicester	2.6	0.0		50	Piraeus Bank	0.5	0.0	✓
36	Deutsche Postbank	2.5	1.5		51	Roskilde Bank	0.5	0.7	
37	Banco Bilbao Vizcaya Argentaria	2.5	0.0		52	Alpha Bank	0.5	0.0	✓
38	Banco Popolare	2.4	0.0		53	Landesbank Berlin	0.5	0.0	
39	ABN AMRO Holding	2.3	0.0	✓	54	NIBC Bank	0.5	0.0	
40	Bradford & Bingley	2.0	3.0		55	SEB	0.5	0.0	
41	DNB NOR ASA	1.8	0.0		56	Kommunalkredit Austria	0.1	0.0	
42	Banco Popular Esp	1.8	1.8		57	Aareal Bank AG	0.1	0.0	
43	Groupe Caisse d'Epargne	1.2	5.3		58	Kaupthing Bank	0.1	0.0	
44	EFG Eurobank	1.1	0.0	✓	59	Erste Group	0.0	0.6	✓
45	Landesbank Hessen-Thuringen	0.8	0.0			Total	467	465	
46	HVB Group	0.7	0.0						

III.

The Constraints on New Lending

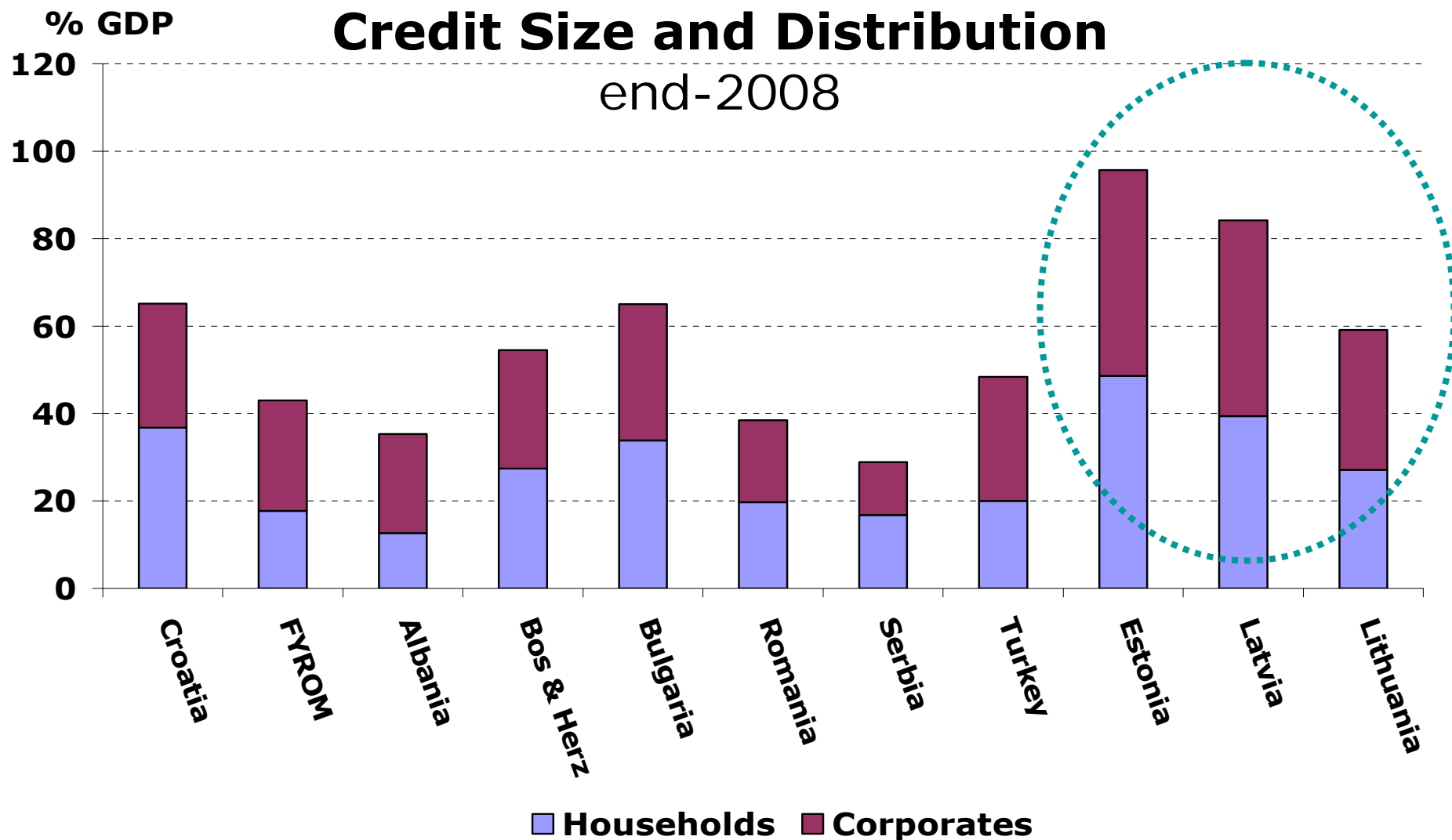
III. From huge credit growth rates to zero or negative expansion



Source: Central Banks, Eurobank Research

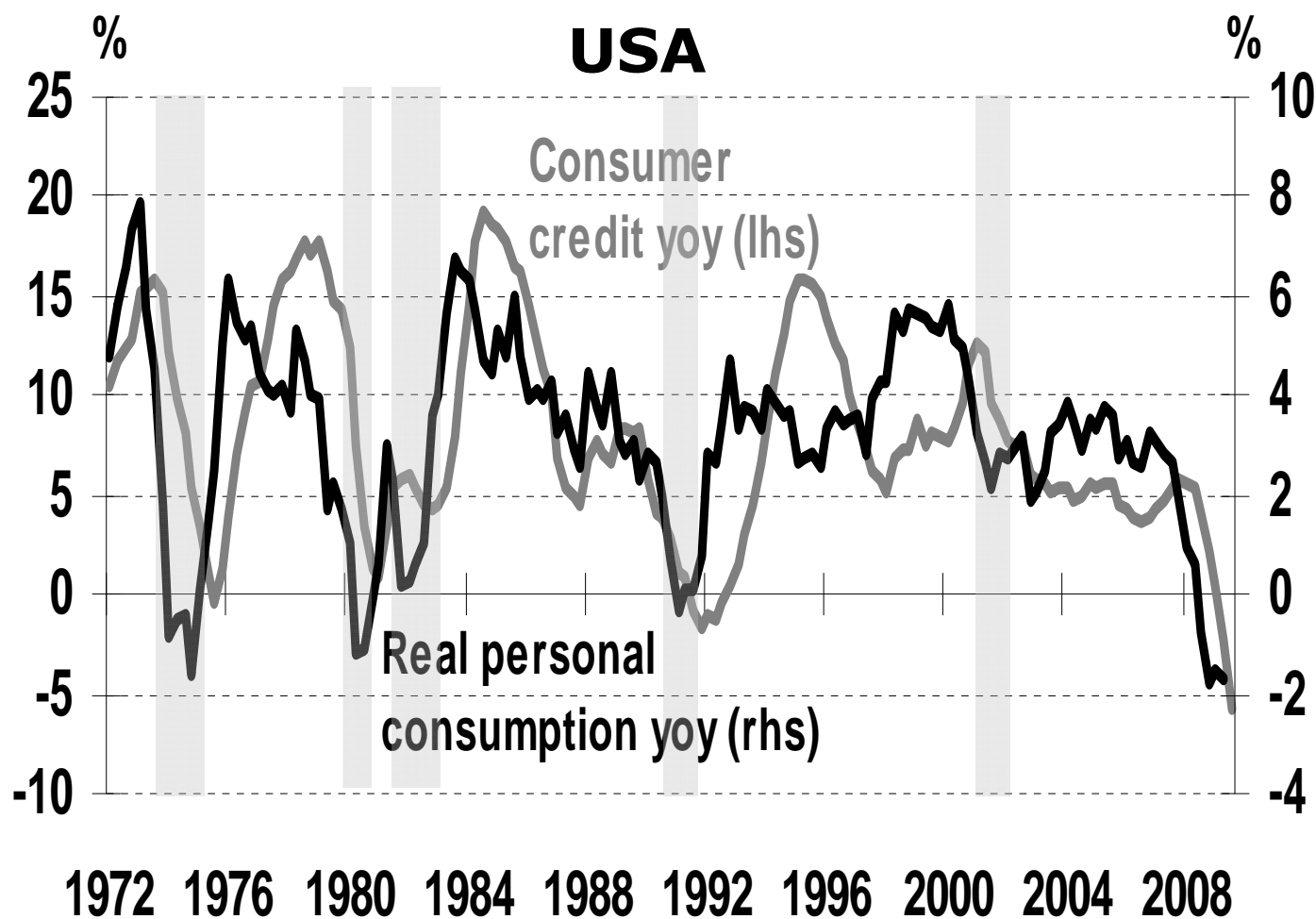
✓ The drop in SEE credit growth is more visible in 2009

III. Compared to the Baltics, credit did not reach unprecedented levels



III. Credit expansion follows a recovery

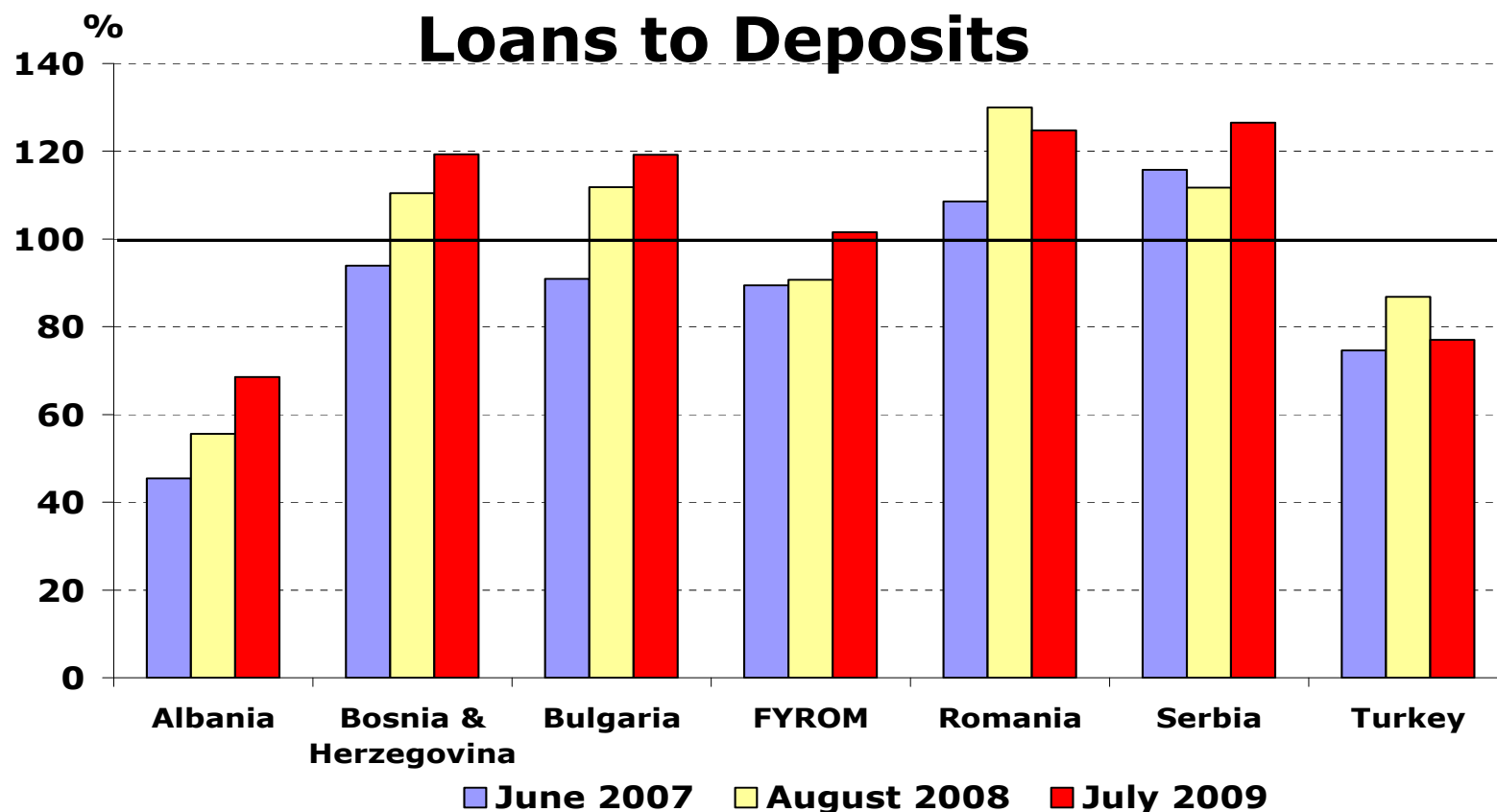
⇒ **SEEs cannot rely on banks to push them out of the recession**



Source: Federal Reserve, Eurobank EFG

- ✓ In 9 out of 10 previous US post-war recessions, real personal consumption has rebounded **3 quarters earlier** than consumer credit growth
- ✓ SEEs should therefore hope that good credit flows into their economies, **not any credit**

III. Liquidity is the first major constraint to credit expansion



Baltic States at July 2009

Latvia	105.0
Lithuania	183.3
Estonia	167.9

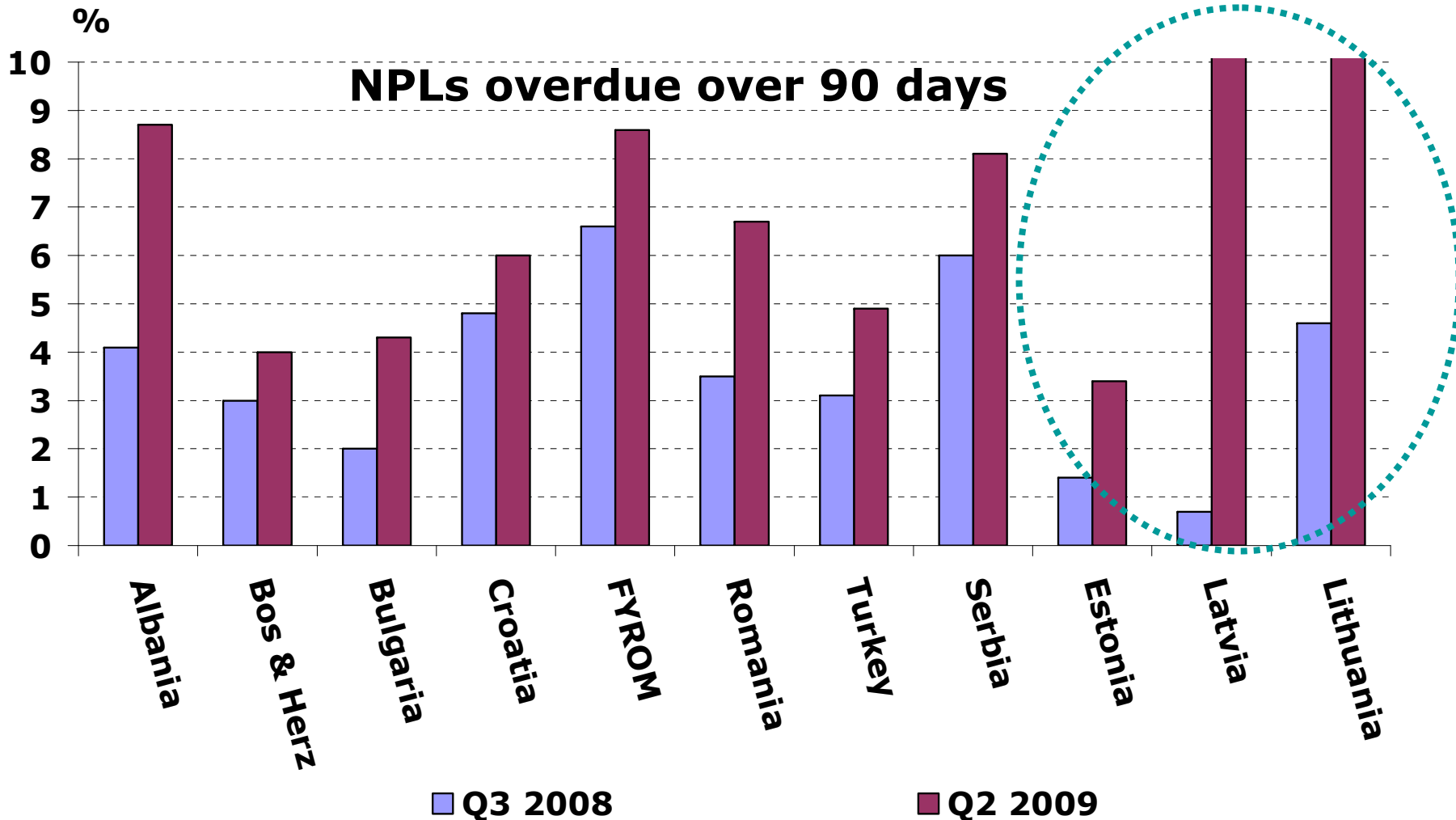
- ✓ Domestic deposits unable to support a large expansion in credit growth
- ✓ Difficult to bring liquidity from abroad

III. Government & Central Bank initiatives to strengthen lending

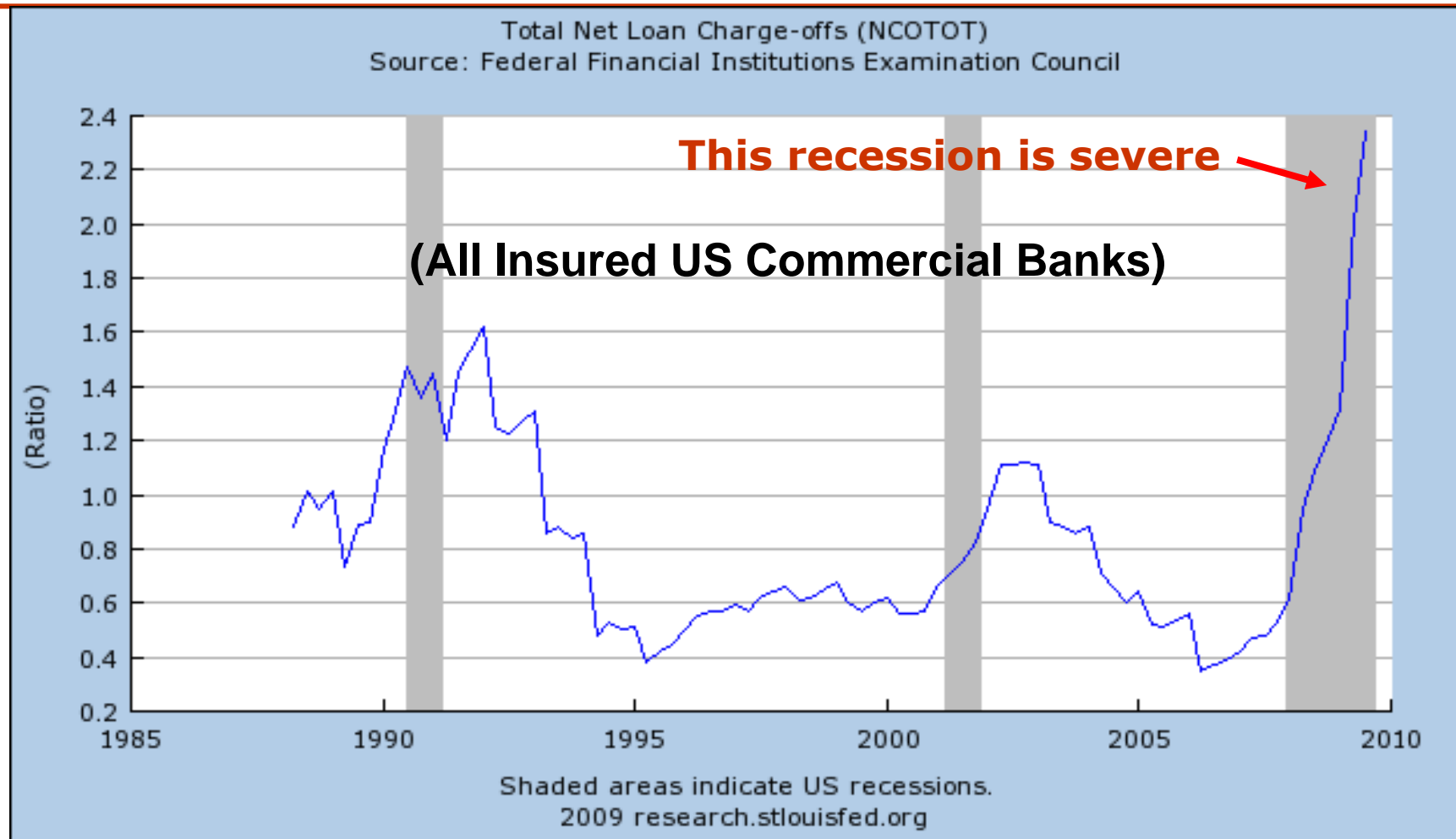
	Albania	Bosnia	Bulgaria	Romania	Serbia	Turkey
Deposits Guarantees	✓	✓	✓	✓	✓	✓
Minimum Reserve Requirements		✓	✓	✓	✓	✓
IMF Support		✓		✓	✓	
Special Lending Support	✓		✓	✓	✓	
Monetary policy easing	✓			✓	✓	✓
Other measures (tax, regulatory etc)	✓			✓	✓	✓

III. NPLs is the second major concern

✓ Not as high as in the Baltic region



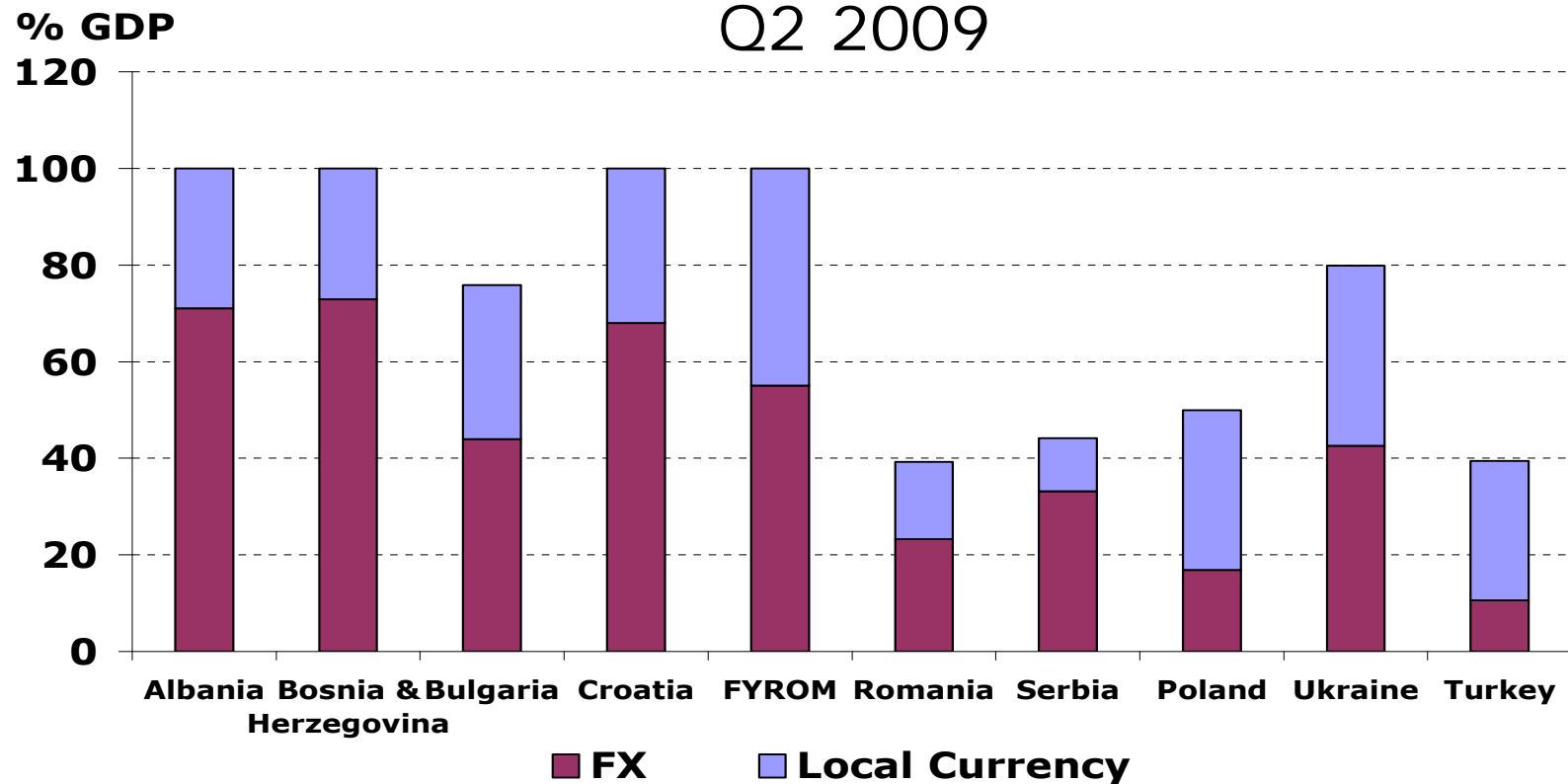
III. Evidence from US points to a cyclical increase in NPLs



Note: Loan losses divided by total loans (annualized quarterly data for all US banks).
Charge-offs are measured on a net basis, i.e. loan losses minus recoveries on loans previously charged off.

III. Large FX exposure increases vulnerability to NPLs

Total Credit Decomposition Q2 2009



* Albania, Croatia as of Q1 2009

- ✓ Currency board would be attacked in Baltic States first, before migrating to Bulgaria

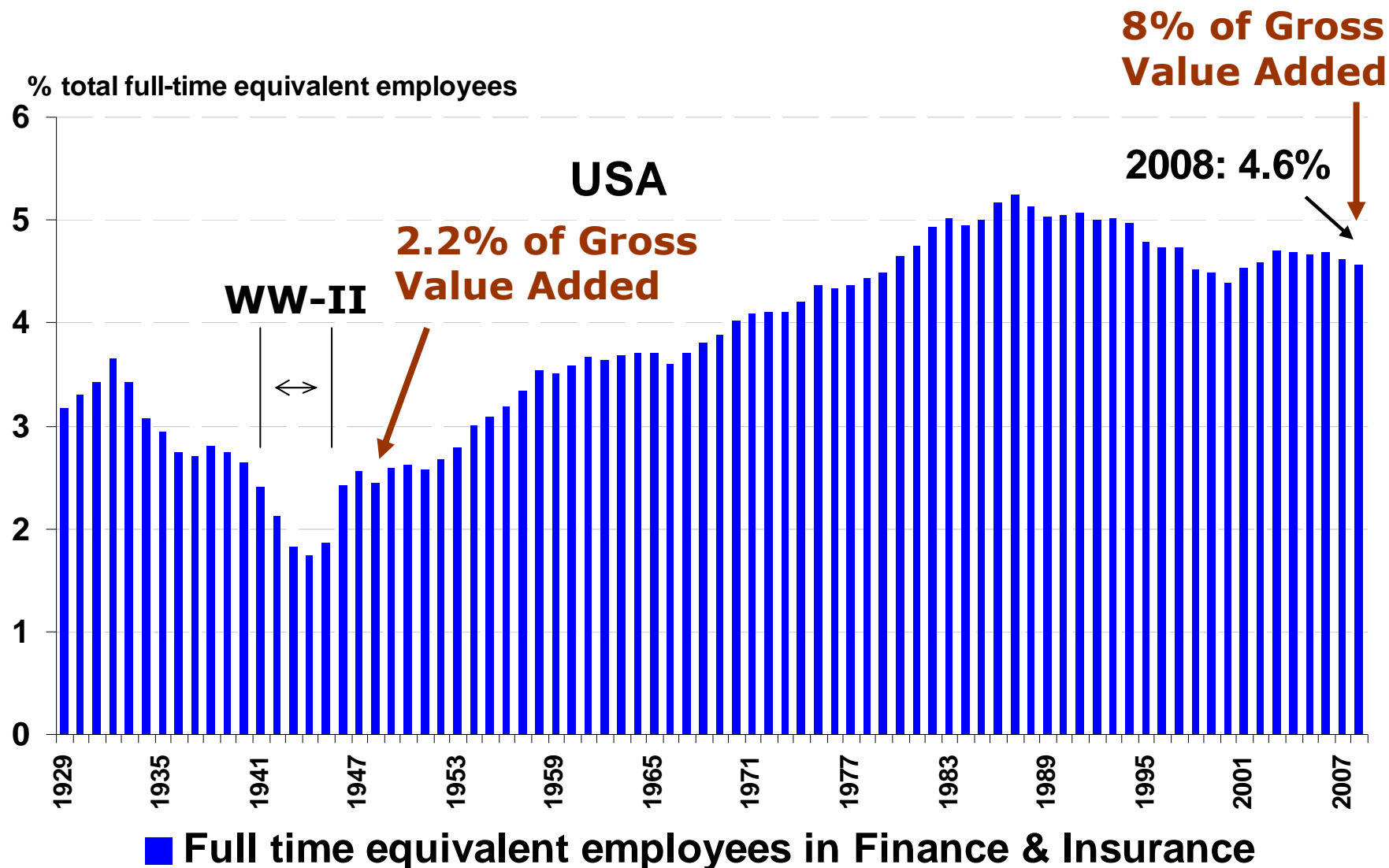
IV.

What is the Future of Banking?

SEE Banking will depend on:

- 1) Regional economic growth**
- 2) Evolution of global banking system**

IV. Will the expanding financial industry suffer?



Source: Bureau of Economic Analysis

- ✓ Economics: Slower global growth
- ✓ Politics: Economic & political power → Asia and G-20
- ✓ Global Regulation:
 - The Financial Stability Board gains power
 - A stronger IMF, better able to fight crises
 - Stricter regulation, easier implementation in Europe than in the US
- ✓ **G-20 decisions will affect banks**
- ❖ Yet Wall Street continues to hold considerable **political power against future regulatory restrictions**

IV. We need smart regulatory protection

- ✓ Aim should be to avoid the excesses of the financial sector without imposing too much cost
- ✓ Restrictions should be uniform across the globe and respect the **level-playing field**
- ✓ **Onerous restrictions may cause a new wave of future de-regulatory fervor**
- ✓ Some smart proposals by academics that bear a minimum cost

- ✓ The SEE region is bound to grow at high rates as the EU and EMU play important anchoring roles to political and policy decisions
- ✓ Banking will subsequently benefit from future local economic growth and contribute to that growth as well
- ✓ SEE banking did not participate in the excesses of international banking that led to the current crisis
- ✓ An expansion of bank lending will follow the exit from the current SEE recession
- ✓ The global financial system requires smart regulation which minimizes excess behavior without imposing too much cost
- ✓ The global financial system requires and a level-playing field

THANK YOU FOR YOUR ATTENTION!!

My thanks to the Research Department of Eurobank EFG for
able research assistance and support

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