

Press release

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# Gross misrepresentation of BIS data on CEE - Separating fact from fiction on region's indebtedness

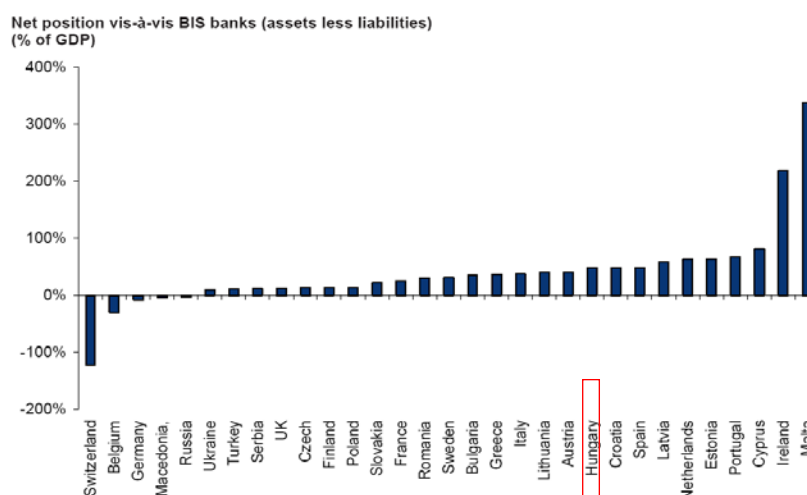
- CEE region bashed over misinterpreted data
- Debt levels in CEE significantly lower than in Western Europe
- External financing needs lower than generally perceived

Recent weeks have brought a massive number of negative stories on CEE, calling the region a hotspot of problems for Eurozone. Frequent concerns stated that CEE is highly indebted, or that specific countries could incur heavy losses as a consequence of their exposure to the region. On top of that, alarming news that Eastern Europe has borrowed \$1.7 trillion abroad and has to repay or roll over \$400bn in 2009 have been fuelling these concerns. Based on an in-depth look at the datasets, methodology and logic behind these figures<sup>1</sup>, Erste Group analysts say data consolidated by BIS have been heavily misinterpreted, leading to an overblown scenario on CEE indebtedness.

## CEE region bashed over misinterpreted data

*"The major distinction that needs to be made regarding the \$ 1.7 trillion figure is the fact that it includes both money borrowed from abroad, as well as loans provided (and funded) by local subsidiaries of foreign banks on local markets",* points out Juraj Kotian, co-Head Macro/Fixed Income Research CEE at Erste Group.

For example, the Czech economy has borrowed from BIS reporting banks only \$55bn, while having lent them \$26bn. Thus, the net borrowing is only \$29bn, which represents merely 1/7 of the \$ 191 bn total foreign claims included in the BIS consolidated reporting. The second example of misleading interpretation of BIS data is "Austria's lending" to Eastern Europe at 70-80% of GDP. The vast majority of claims included in this figure are assets booked locally and funded locally (at least 2/3 on average for countries where Austrian banks are present). This is often misinterpreted as cross-border financing or funding the region.



Source: BIS, Erste Group Research

However, the ratio does not actually reflect the funding of the CEE region.

Erste Group analysts indicate that the net external debt (amounts owed externally minus amounts lent externally) rather than gross external debt should be the benchmark when analyzing funding issues. Thus, net positions to BIS reporting banks (meaning the net external debt minus intercompany loans, counted as FDIs) give a comparable picture of countries' external indebtedness. For instance, this

<sup>1</sup> According to Bank for International Settlements <http://www.bis.org/statistics/provbstats.pdf>

analysis shows that the net external debt of Hungary is not a big issue in the international context, while it is even lower than in six Eurozone countries.

While the indebtedness levels are not alarming, Erste Group analysts say the real challenge for Eastern Europe will be maintaining the capital inflows of the past years. However, they point that the slowdown of capital inflows will also generate an improvement of current account deficits.

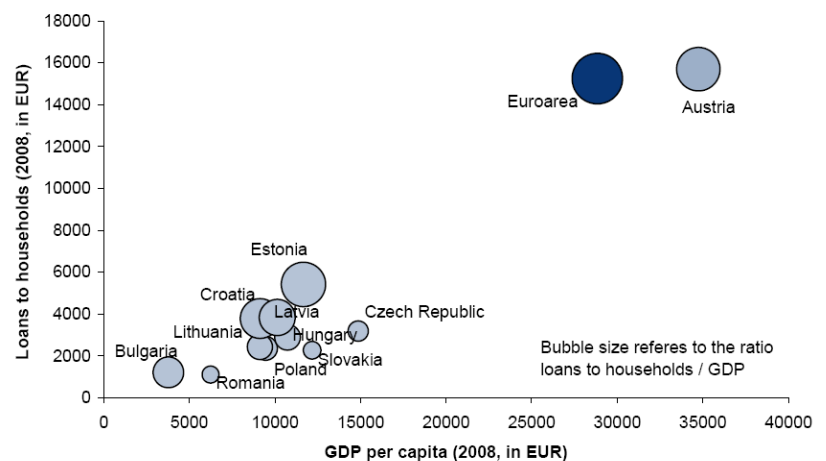
### Debt levels in CEE significantly lower than in Western Europe

“While extensively analyzing the BIS data, we found out that CEE’s indebtedness and dependence on foreign funding is actually negligible compared to Western Europe’s. For instance, several West-European countries “have borrowed abroad” more (Germany \$2.3 trillion, Netherland \$1.9 trillion, UK \$4.5 trillion) than the whole Eastern Europe region consisting of 20 countries including Ukraine, Turkey and Russia”, Erste Group analysts explain. “Some mid-size Western Europe countries have to repay or roll over this year even a higher amount of debt (Belgium \$375bn, Ireland \$477bn and Netherlands \$550bn) than the whole Eastern Europe”, Erste Group analysts continue.

### External financing needs in CEE lower than generally perceived

“The impression one might get from recent reports is that CEE is a highly indebted region. The very opposite is true: countries within CEE with the highest debt levels are only close to the average of Eurozone,” highlights Rainer Singer, co-Head CEE Macro/Fixed Income Research at Erste Group. The low level of indebtedness is key, as it increases the likelihood for the debt to be serviced. With loans having a low portion of GDP, monthly loan repayments also have a relatively low portion of household budgets. This makes CEE households more flexible in adjusting to the economic slowdown.

Loans to households per capita vs. GDP per capita (2008, in EUR)



Source: ECB, Erste Group Research

Erste Group analysts point out that **public debt in CEE is substantially lower compared to Western European countries**. In the current circumstances financing will remain tight, but, **the overall low level of indebtedness reduces the risk of default tremendously**. As the level is low in absolute and relative terms, there is room to increase the debt (not financed by the market) without derailing public finances, they conclude

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