



Private Sector Behavior and Its Financial and Macroeconomic Impacts: Discussion

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Towards Recovery and Sustainable Growth in the Altered Global Environment

- A negative relationship between debt and growth is documented in a wide range of empirical studies, although the exact magnitude and the threshold is debated.
- Monetary dollarization amplifies vulnerabilities in the economy (e.g. through the indirect FX risks); lender of last resort
- Interrelation of the cyclicity of the bank balance sheets and the business cycle

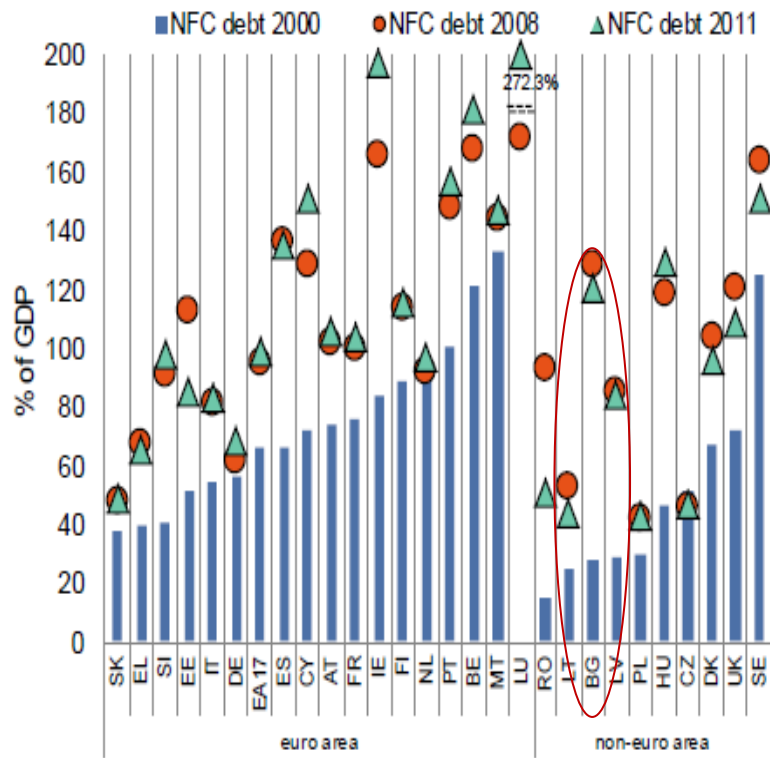
Paper I: Analysis of the Deleveraging Process of Non Financial Enterprises in Bulgaria

Why is the deleveraging of NFC important?

- High corporate indebtedness
 - drag on investment activity and profitability
 - threat to financial stability (increase of NPLs and bankruptcies)
 - potential losses to the sovereign
- The reduction of debt is crucial to redirect resources to more sustainable levels and more productive activities
- However, deleveraging has to be gradual and orderly, if not
 - Investment will suffer as companies concentrate on deleveraging and repairing their balance sheets
 - Unwillingness to take up new projects if the returns primarily benefit existing creditors rather than equity holders (Myers, 1977; Occhino, 2010).
 - Particularly problematic for SMEs

Stylised Facts

% of GDP



- Bulgaria: NFC debt came to some 115% of GDP in 2013
- Operational costs decrease (labour shedding), increase of profitability
- Demand pressures remain the predominant driver of firms' deleveraging decisions, credit conditions have tightened
- Banks' deleveraging, high NPLs (2013: 17.2%)
- Deleveraging affected firms' investment decisions, BUT overall macroeconomic impact could be partly mitigated by the strong export performance.
- **Macroeconomic Imbalances Procedure** (scoreboard, 11 indicators)-early warning system, preventive and corrective action=> Debt of NFC in Bulgaria remains high

Discussion

- Firm-level data (AMADEUS, etc.)
- Differentiation according to firm size (SMEs particularly vulnerable)
- Statements often based on correlations, but causality?
- Policy implications:
 - Alternative funding instruments (e.g. corporate bonds)
 - Credit bureaus (providing information, in particular SMEs)
 - Insolvency legislation/ corporate restructuring
 - Tax incentives for corporate restructuring
 - Structural reforms aiming at removing business bottlenecks and the promotion of market-friendly labour reforms buildup can play a critical role, especially in the medium term.
 - An institutional framework needs to be in place to prevent the build-up of new imbalances (capital structure that is more conducive to growth).

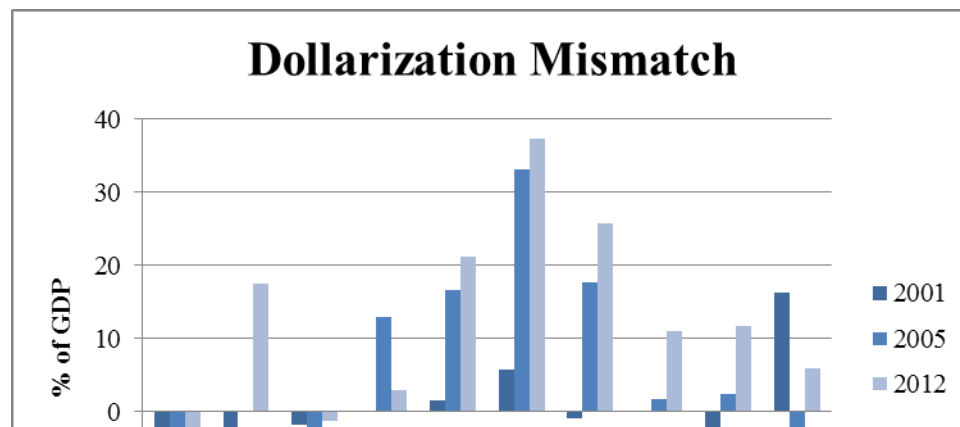
Paper II: Dollarization of Deposits in Short and Long Run: Evidence from CESE Countries

Policy Relevance

- The build-up of a considerable stock of foreign currency deposits, loans along with rapid credit growth in the private sector featured the convergence process of the CESEE countries in the last decade
- Deposit dollarization amplifies banking system's vulnerabilities
 - Mismatch of currency denomination of liabilities and assets
 - Indirect foreign currency risk when foreign positions are matched
- An appropriate de-dollarization strategy should be tailored acc. to the underlying drivers of dollarization

Stylized Facts

- The role of foreign currency has been asymmetric between loans and deposits; the share of FCD and the sectoral distribution differs among the CESEE countries
- Studies on CESEE and Latin America
 - high correlation between inflation and share of FCD;
 - phenomenon by hysteresis and habit persistence in households' portfolio decisions (Feige, 2003; Ize and Yeyati, 2003; Stix 2010a).
 - institutional view (Levy-Yeyati, 2006)
 - Meta-analyses of FCL (Crespo Cuaresma et al, 2011; Hake et al, 2014)



Discussion

- Results in a nutshell
 - Short run: FX depreciation and FX volatility (CHF deposits in PL?; FX volatility?)
 - Long run: Minimum Variance Portfolio (coefficients do not differ across countries?)
- Robustness checks (IR statistics)
- Definition of a long-run period: 2008-2013
- MVP also for countries with fix FX regime/ CB country (Basso, Calvo-Gonzales and Jurgilas, 2011); Sample of countries (RS, PL, HU, AL, CZ, RO)
- „Dinarization“-strategy in RS; Poland
- Persistence of the use of foreign currencies- related to past experiences (in contrast to MVP-forward-looking measure); same roots of dollarization?
 - Memories of inflation episodes (e.g. Stix. 2011, OeNB Euro Survey)
 - Remittances
 - Institutional characteristics

Paper III: Cross-Sectional Facts on Bank Balance Sheets over the Business Cycle

Stylized Facts

- Turkey –EU candidate country, economic developments diff from Western Balkans
- Financial system- bank-based with assets in 2013: 97% of GDP
- Predominant domestically-owned banks (75% of total assets)
- FX risk is limited as FX loans allowed only in the corporate sector
- Credit growth averaged 15% in the last three year
- Bank funding- mostly deposits but securities gain in pace, FX deposits- some 25% of total deposits as of 2013
- Reserach Question (correlations, a model)
 - How did the GDP growth impact the balance sheets (funding, assets, profitability) of the banks, 2003-2013?
 - Are there differences wrt bank size?

Cyclical behavior of balance sheets of the Turkish banks

- Asset growth of Turkish banks depends on their size (small banks-equity, large banks- almost exclusively deposits)
- Assets and deposits (small banks- procyclical, large banks- acyclical)
- Bank profitability (small banks- acyclical, large banks- acyclical)
- Analysis based on correlations of cyclical components but no causality analysis and hardly a policy recommendation

Discussion

- Motivation and policy implications
 - Growth of assets for large banks is strongly related to deposits
- Contribution to the literature of “Finance-Growth”-nexus but the relation to the first part of the paper is unclear
- Methodology
 - quantile regressions (Koenker and Basset, 1978) instead of FE, RE, focusing on the median, heterogeneous variances
 - Multilevel mixed models (particular appropriate for data organised

Thank you for your attention!