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## **Changing financial exposure of the CESEE region: Taking a stock on the external vulnerability profile<sup>2</sup>**

**The aim of this note is to take stock on the external financial exposure of the CESEE group of countries<sup>3</sup> and provide some insights into the main risks stemming from the potential changes in the global monetary and financial conditions.** The expected increase of the US policy rate may have implications for global financial markets, thus posing challenges for the countries of the CESEE region. In this context, the note investigates the size and the composition of the post-crisis adjustment in the external position of this group of countries trying to highlight the main challenges related to the prospective changes in the external funding conditions.

**The process of financial globalization, measured as the degree to which the economies are linked through cross-border financial holdings has increased sharply in the last three decades.** The financial integration process, in principle, yields many benefits, ranging from risk sharing, financial development, rise of the economic efficiency, and thus promotion of higher growth rates. Yet, rising financial flows are also bringing potential risks. As they tend to be pro-cyclical, they can make the macro-management more complicated, increase the financial fragility and make the economy more susceptible to external shocks. Whether the potential risks will come to the fore, is to a large extent conditioned on the country's economic fundamentals, the quality of the institutional setup, but above all, it is conditioned on the size, the speed and structure of financial flows. The crisis of the emerging economies in 1990s, and the most recent crisis as well, have stressed the possibility of capital flows volatility and sudden reversal, with profound economic and social consequences. The conventional wisdom points to the fact that the size of flows should match the absorption capacity of the economy, the longer term financial flows should be favored more, as they are less prone to sudden reversals, and the structural allocation should be leaned more towards tradable and productive segments.

**The rising financial integration is a marked feature of the CESEE region.** The real convergence process of these countries was underpinned by sizeable financial flows. The entrance of foreign capital, through different channels, supported the financial development and the growth agenda of the region. In some countries, one of the important channels through which the financial flows were allocated was the **foreign exposure of the banking system**. The early process of transition in all countries brought increasing foreign presence in the domestic banking system. In some of the countries, their impact to the financial integration was direct, taking the form of additional capitalization or foreign borrowing. In others, the impact was indirect, as the foreign bank presence encourages private foreign companies to increase their exposure to the country, through direct or portfolio investments. With the rising number of

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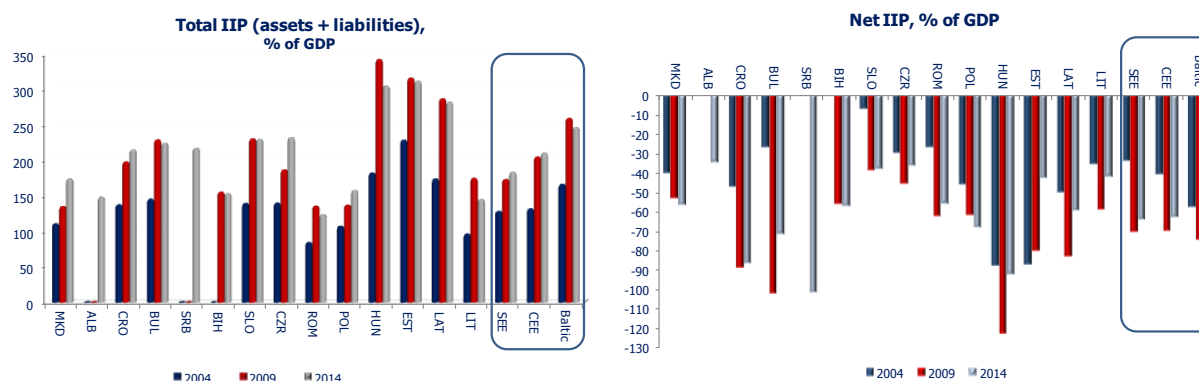
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<sup>3</sup> Includes Macedonia, Albania, Croatia, Bulgaria, Romania, Bosnia and Herzegovina, Serbia, Slovenia, Czech Republic, Poland, Estonia, Hungary, Lithuania, Latvia.

foreign entities in the economy, the access to the international capital market becomes greater, and the size and the volatility of the financial flows increase.

Chart 1: Level of financial integration\*

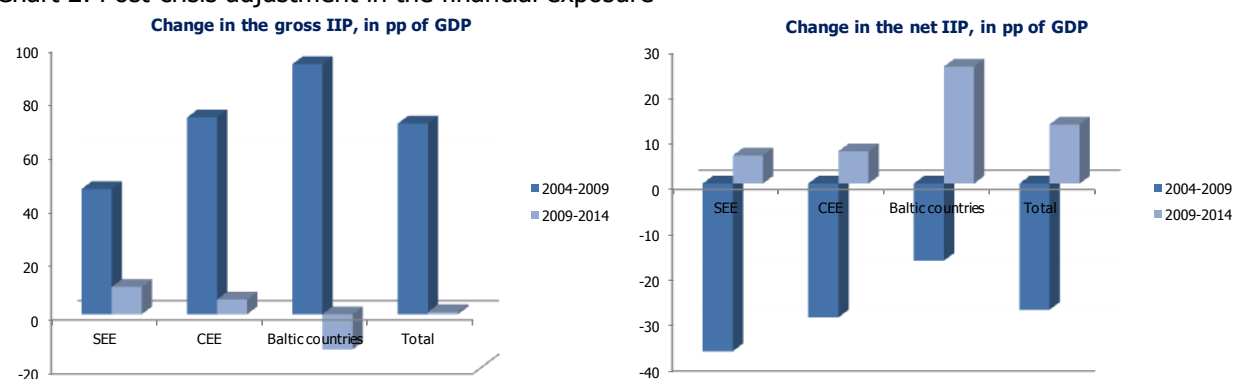


Source: Central banks' websites. \*Data for Albania, Bosnia, Slovenia and Hungary available up to 2013 only.

**In the period following the global crisis, in general, the trend of rising financial integration of the region was discontinued and it remained broadly stagnant, albeit at a high level.** The financial integration process did not proceed at the pace observed before the crisis, neither a sharp reversal took place. The data on the gross international investment position<sup>4</sup>, as a proxy for the level of financial integration for the CESEE region shows sharp rise of the financial integration until 2009. On average, for the region, the gross position increased by 70 p.p. of GDP in only a five year horizon, from 2004 to 2009. After this point, on average in time it remained muted. A similar conclusion can be derived through the observation of the net international investment positions. Before the crisis, the region was going through a process of significant widening of the negative net international position, a process which was to a some extent reversed in the aftermath of the crisis. In fact, a strong rise in the gross liabilities was observed until 2009, while after the emergence of the crisis, a downward adjustment was observed. However, averages may mask notable differences. Going granular, albeit the rapidly rising financial integration before the crisis was typical for all subgroups of countries, yet in the Baltic States, it was much more pronounced and double the pace of the SEE countries. As one should probably expect, the post-crisis downward adjustment was the largest in the Baltic States, while in the other two groups it continued to increase, but at a far slower pace than before. On a country by country level, the sharpest adjustment took place in Hungary (34 p.p. of GDP decline in the international liabilities in the period 2009-2014). The stagnation of the financial integration process in the region did not come as a surprise. In all countries, it was a result of the adverse real and financial sector developments in the advanced economies, especially the EU economies that have close financial and trade ties with the CESEE region, the general skepticism of the international investors and the lack of confidence. In some of the countries, the general investors' risk aversion was additionally compounded by the country- specific built-in imbalances.

<sup>4</sup> Gross international investment position refers to the sum of the assets and liabilities, taken from the statistics on the International Investment Position.

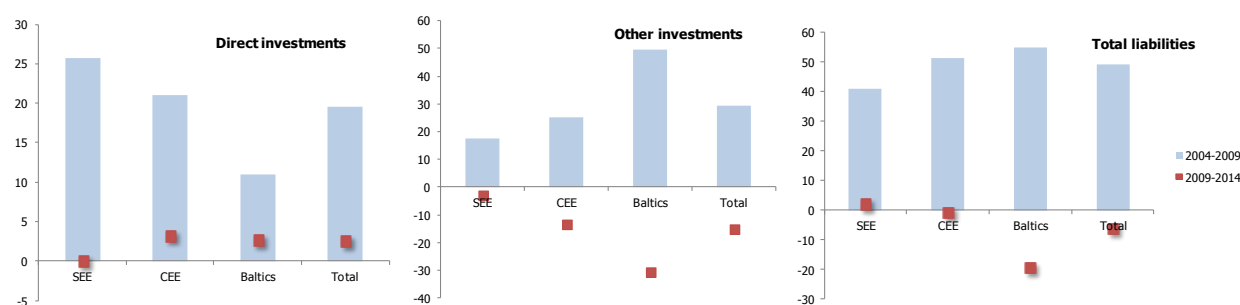
Chart 2: Post-crisis adjustment in the financial exposure



Source: Central banks' websites. Authors' own calculation.

**Apart from the aggregate perspective, what is also quite important in assessing the changes in the financial exposure of the region is the structural perspective, or the channels through which the pre-crisis financial integration took place, and through which the subsequent adjustment occurred.** This more granular view is important, as it can reveal whether the pre-crisis mode of the rising financial exposure elevated the external vulnerability of the region, and hence whether the adjustment which followed was more abrupt and costly in economic terms. For instance, the larger weight of direct investment should in principle improve the external risk profile of the country, as the probability for sudden reversal is low, and in general it does not yield future financing requirements for repayment of the obligations due. This is not the case with portfolio investments, or the debt creating flows, where the risk is higher, both in terms of sudden reversals and rising future payment burden.

Chart 3: Changes in total liabilities and selected components of the international liability position in p.p. of GDP



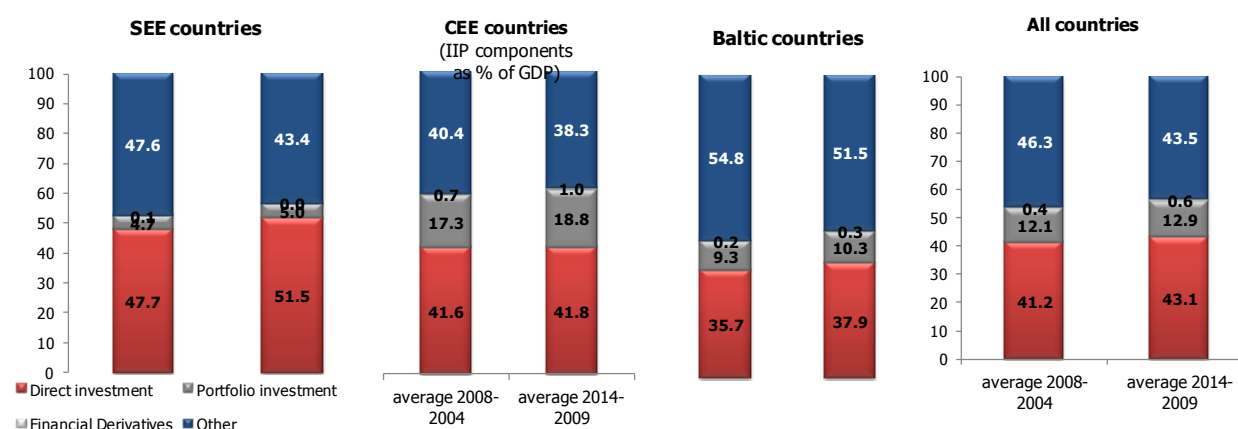
Source: International Investment Position Statistics, central banks' websites. Authors' own calculation.

**The experience of the CESEE region in terms of changes in the structure of the external exposure is rather mixed, albeit on average, for the region, a slight improvement in the post-crisis period is observed.** For the region as a whole, before the crisis, the role of the direct investments and debt creating flows<sup>5</sup> in creating international liabilities was rather balanced. The post-crisis adjustment, as expected, mostly took place through deleveraging, with the debt creating flows decreasing (chart 3). For the SEE group of countries, the role of the direct investments was somewhat larger, as they were still going through the "expansion phase" when it comes to this type of flows, being strengthened with the uncompleted privatization process. In the aftermath of the acute phase of the crisis, all of the sources of creation of international liabilities remained muted. On the other side of the

<sup>5</sup> Debt creating flows are only approximated through the "other investment" category in the liability position within the International Investment Position Statistics.

spectrum are the Baltic States, in which the debt flows were massive before the crisis, and the "hard lending" post-crisis adjustment took place through the deleveraging channel. CEE and Baltic countries have additional intrinsic feature, as the portfolio flows are stronger compared to the SEE group, possibly related to the depth of the domestic financial markets. Yet, what is quite interesting is that this component proceeded to grow after the crisis, amidst global liquidity glut, possibly stronger fundamentals in some of the countries, and relatively low yields in the more advanced economies. **Given the dynamics of its components, the structure of the international liability position of the CESEE region somewhat improved in the aftermath of the crisis.** The share of direct investments increased, while the share of the debt creating components was reduced. Referring to the groups of countries, the SEE countries retained their "less susceptible to risks" structure, with half of the liabilities referring to direct investments (chart 4). On the other hand, within the Baltic States debt components remained dominant.

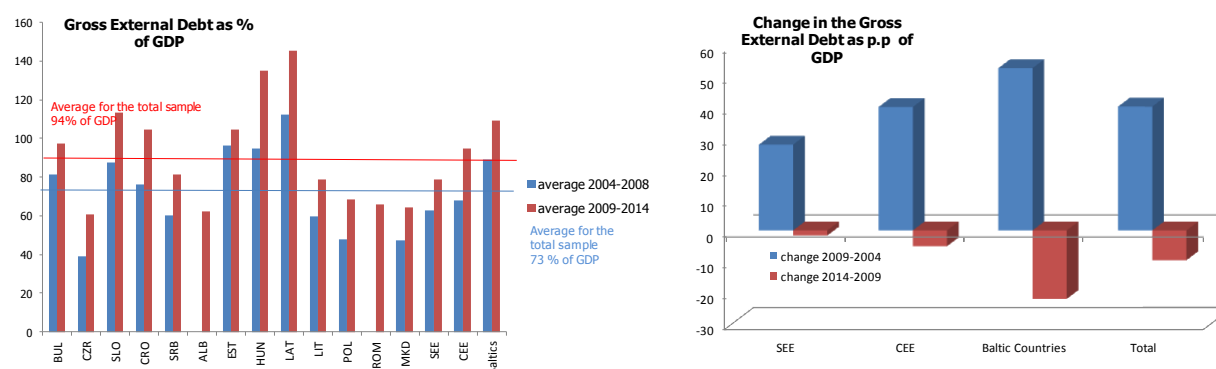
Chart 4: Structure of the international investment position by instrument (as % of GDP)



Source: International Investment Position Statistics, central banks' websites. Authors' own calculation.

**Against the background of the deleveraging process, there has been a downward adjustment of the external debt level in some of the countries.** We are scrutinizing the external debt data, as they can provide more insight into the size and the structure of the external vulnerabilities of the country. It can provide standpoints on the overall indebtedness and hence the solvency of the economy, more insight about the debt profile of different sectors, which is of a crucial importance when designing policy measures, and its term structure can also provide an indication on the potential rollover risks. The external indebtedness of the region was rapidly rising, before the crisis stroked, with the external debt in many of the countries exceeding 100% of GDP in 2009. Some of these countries deleveraged substantially, albeit their external debt positions remained vulnerable. For the region as a whole, out of 40 p.p. of GDP rise in the external debt in 2004 to 2009 period, around quarter was reversed after the peak of the global crisis. Again, the Baltic States were the major "adjustor", while in the other two groups of countries the change was relatively weak. Admittedly, not all of the countries in the group managed to downsize their position. In some of them, the debt continued to rise, on the backdrop of the existing initial space. In others, Slovenia being striking example, despite the sharp rise before the crisis, the external debt continued to rise, thus reaching a level of 120% of GDP in 2014.

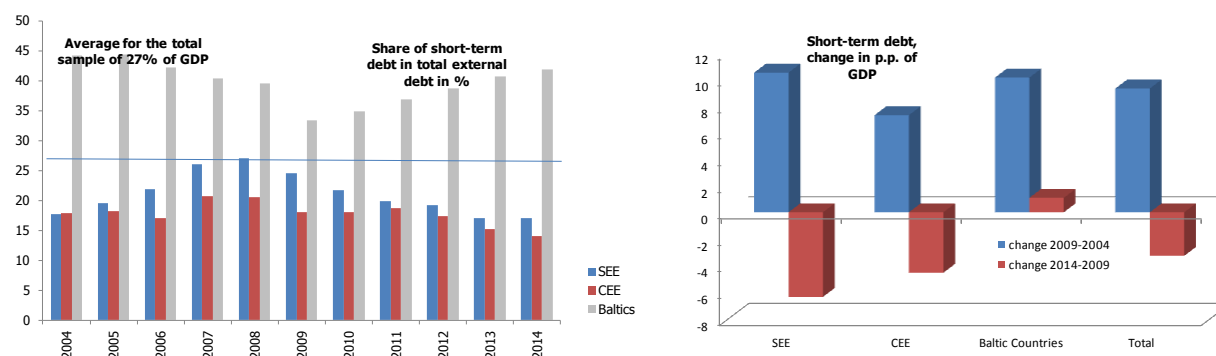
Chart 5: Gross External Debt



Source: External Debt Statistics, central banks' websites. Authors' own calculation.

**The changes in the external debt position, both before and after the crisis, mainly took place through alteration of the long-term debt, while the change in short-term debt explained around one third of the total change.** Short-term debt, which can be treated as an indicator of rising external vulnerabilities, and magnifying rollover risk, was rising before the crisis, and was reduced partially afterwards. **The screening of the share of short-term debt in total external indebtedness reveals positive shifts in the aftermath of the crisis.** In the pre-crisis period, its share was rising, averaging 29%, with the peak share of 30% reached in 2007 and 2008. After the sharp downward adjustment seen in 2009 (to 26% of the total external debt), the share of short-term debt was fairly stable. The subgroup analysis for the post-crisis period points to a lower short-term debt share in the CEE and SEE countries compared to the average for the region. On the other hand, in the Baltic States, after the significant reduction before the crisis, a reversal was seen in the aftermath, and hence the share of the short-term debt in the total external debt remained well above the average for the group.

Chart 6: Short-term external debt

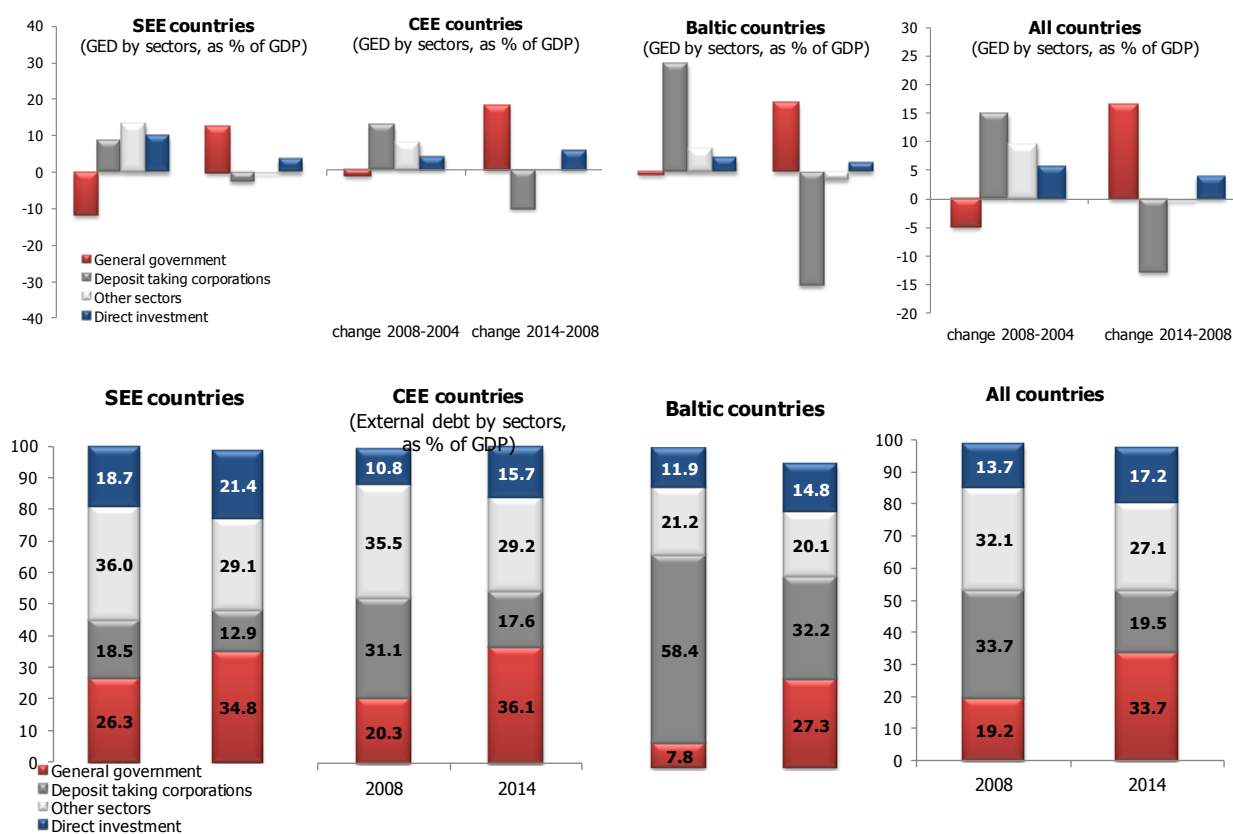


Source: External Debt Statistics, central banks' websites. Authors' own calculation.

**Although the weight of the short-term debt in the total debt, and particularly combined with the level of available foreign reserves, can be a useful indication of the vulnerability profile of the economy, still it does not always provide the comprehensive view on the external vulnerabilities which might be latently being built in the economy.** *"Average maturity masks important differences in the sectoral composition of debt. For example, countries with limited debt mostly*

in the form of private trade credit will show a relatively short average maturity, but will not necessarily be particularly vulnerable<sup>6</sup>. Also, the term maturity should be augmented with the sector by sector debt composition, as this is of a crucial importance for detecting the most vulnerable sectors, and for providing an adequate policy response. If the public sector external borrowing undermines the external position of the economy, fiscal consolidation might be the correct step forward. Financial and non-financial private sector can also underpin the external borrowing to an extent which creates large vulnerabilities in the economy and a risk of hard-lending. At the same time, the recent crisis showed that the excessive risk taken by the private sector might translate into a fiscal burden, thus aggravating the imbalances in the economy.

Chart 7: Sector by sector perspective of the external debt position



Source: External Debt Statistics, central banks' websites. Authors' own calculation.

**What do the shifts in the sector by sector profile of the region reveal?** The rise of the external debt in the pre-crisis period was driven primarily by the private sector borrowing. The structure differs among the different country groups. In the SEE group of countries, in parallel with the increase in financial and non-financial private sector debt, the intercompany lending was rising strongly as well, thus adding higher quality to the debt flows and lessening the susceptibility to shocks. The latter was confirmed with the occurrence of the crisis, since contrary to other private debt flows, intercompany lending continued to flow in the region. In the CEE group of countries, and in particular in the Baltic States, the role of the financial sector in creating cross-border debt flows was dominant. Most of the international flows were channeled through the financial sector, and the occurrence of the crisis brought

<sup>6</sup> IMF, Debt and Reserve Related Indicators of External Vulnerability, 2000.

the deleveraging issue of the banks to the fore. The need to repair banks balance sheets, and the discontinued international financing of the banks in some of the countries impaired credit flows to the private sector, and hence the growth potential as well. What is common for all three groups of countries is the pattern of the government debt. Before the crisis occurred, government external debt was declining, reflecting the more prudent fiscal positions, amidst positive growth momentum. As the economies entered recession and the fiscal policy took large part of the burden to support the economy through discretionary measure, the fiscal financing needs rose sharply. Hence, the fiscal impulse after the crisis translated into rising external debt, thus aggravating external vulnerabilities as well. Bearing in mind that at this very moment some of the countries are struggling with fiscal sustainability issues, apparently addressing the fiscal issues can alleviate some of the external weakness, as well. In fact, in some of the countries, the current state points to a "double-debt issues", with both the external and the general government debt being above the critical threshold of around 50% of GDP (Serbia, Croatia, Hungary, Albania, Slovenia).

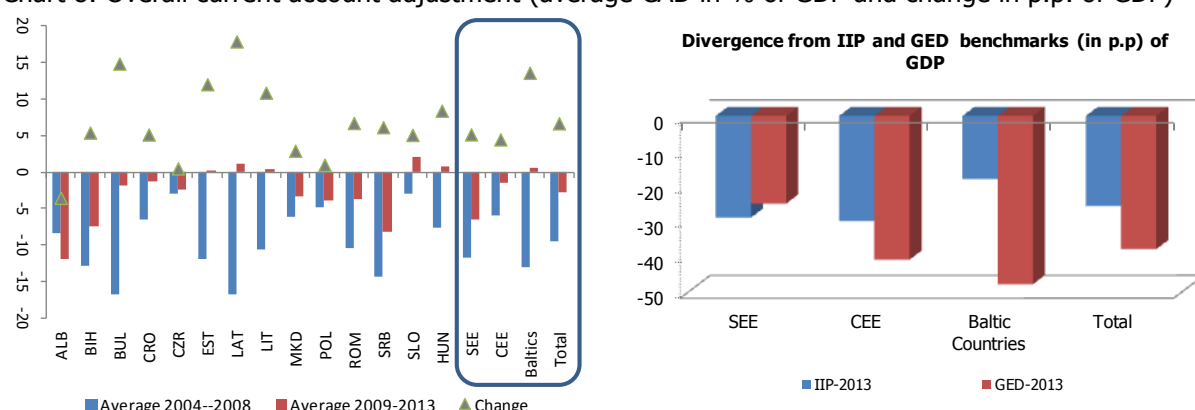
**The financial exposure remained strongest to the European Union countries, with 80-90% of the total external funding coming from the EU<sup>7</sup>, emphasizing the highest susceptibility of the region to shocks in the EU.** Given the still subdued growth perspective in the EU, the monetary policy is expected to remain accommodative for an extended period and thus no immanent pressures through this channel for financial markets are expected. Still, the experience indicates that the key policy rates and the benchmark bond market rates in the advanced economies may have implications for the emerging economies. Thus, the risk from rising short-term US rate should not be underestimated.

**The post crisis stagnation in the financial exposure of the CESEE region, to some extent can be perceived as a cyclical adjustment, on the backdrop of the falling demand, shrinking current account imbalances, and overall lower external financing requirements.** As the crisis started, foreign investors become more reluctant to expose to risks, which induced downward adjustment of the demand in the economy. Yet, the demand adjustment was also self-driven, as with the lack of confidence and rising uncertainty economic agents restrain from consuming and investing, and from exposing themselves to additional leverage. As excessive demand started to adjust, it contributed towards correction of the current account excesses as well. The adjustment of the current account deficit was sharp, with close to 7 p.p. of GDP for the total sample, on average in the 2009-2013 period, compared to the average deficit in 2004-2008, with almost the whole adjustment occurring in 2009, after which the current account gap is relatively stable and gravitating around 2.5% of GDP. As the pre-crisis fundamentals were mostly impaired in the Baltic States, the current account adjustment was of the largest magnitude in this group (14 p.p. of GDP), while in the other two groups of countries it was lesser and of a similar size (around 5 p.p. of GDP). Hence, the external vulnerabilities, measured through the current account imbalances only, seemed to have eased quite significantly. **The current account gap in 2013, in the region as a whole, is significantly below the lower threshold of deficit in the current account of 4% of GDP, set within the macroeconomic imbalances procedure of the EC (exceptions: Albania and Bosnia).**

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<sup>7</sup> IMF, Regional Economic Issue, Central, Eastern and Southeastern Europe, April 2014.

Chart 8: Overall current account adjustment (average CAD in % of GDP and change in p.p. of GDP)



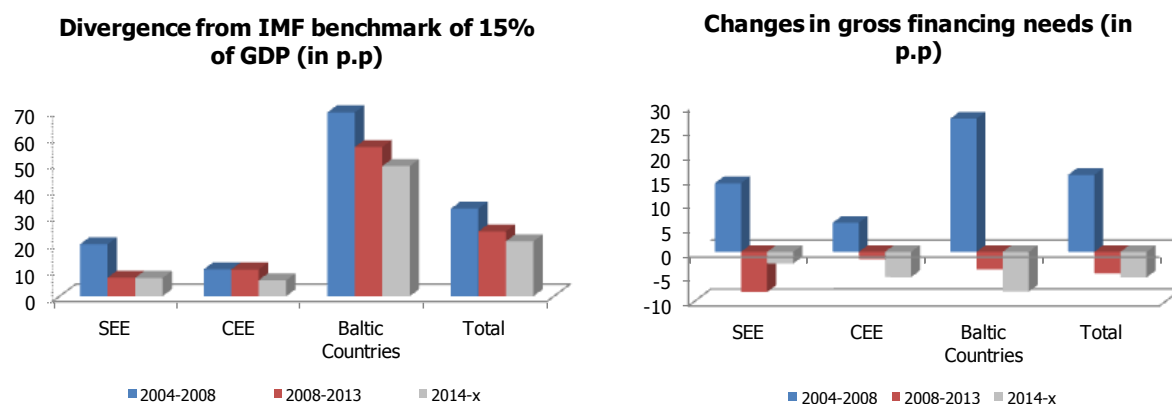
Source: IMF World Economic Outlook Database, October 2014, central banks' websites. Negative gap in IIP and GED indicates worse off position compared to the benchmark (-35% of GDP for the IIP, set by the European Commission and 50% of GDP for the gross external debt).

**Despite the general notion of stagnation in the financial exposure of the countries in the region after the peak of the crisis, and their low current account gap as an indication for a currently low external imbalances, the thesis that the region as a whole has entrenched external vulnerabilities cannot be ruled out.** The pre-crisis expansion in the financial integration increased the negative IIP position and the level of external debt. This process cannot be reversed quite easily, as large part of the debt increase is led by long-term debt, and the post-crisis data do confirm this notion. **The negative IIP, on average for the region, is almost double the threshold of -35% of GDP, set within the macroeconomic imbalances procedure of the EC.** Although large part of the international liability position refers to direct investments, yet, substantial part of the liabilities stems from debt component. The overall external indebtedness of the region exceeds the conservatively set benchmark of 50% of GDP in all of the countries, with some of them (Bulgaria, Slovenia, Croatia, Latvia, Serbia, Estonia, Hungary), being far away from this critical point. **In fact, many of the countries in the region entered the crisis stacked with stocks "issues" when it comes to external vulnerability.** It reduced the room for maneuver in some of them, while others proceeded to mount the external "pile", mostly through the rising fiscal imbalances. Hence, the balance sheet of the region with the rest of the world does not seem strong enough, and their susceptibility to shocks has not diminished. The exposure to exchange rate risks and to changes in the terms of financing and investors' sentiment, amid large negative IIPs and external debt, is substantial. **Yet, not only has the "stock approach" revealed the underlying vulnerability of the external profile of the region. A similar inference can be drawn through some of the "flow" indicators.** Despite the significant shrink that took place in the 2008-2013 period, the indicator for gross external financing needs<sup>8</sup>, still points to a relatively large "divergence gap" from the IMF benchmark of 15% of GDP. Currently, the gap is roughly estimated to around 25 p.p. of GDP for the total sample, with the Baltic States being the group that contributes the most to this outcome. Still, a positive gap, though much lower, is also observed in the other two groups of countries.

<sup>8</sup> Includes: current account deficit, stock of the short-term debt and medium- and long-term debt repayments due within a year.



Chart 9: Divergence from the IMF benchmark and changes in the gross financing needs (in p.p)



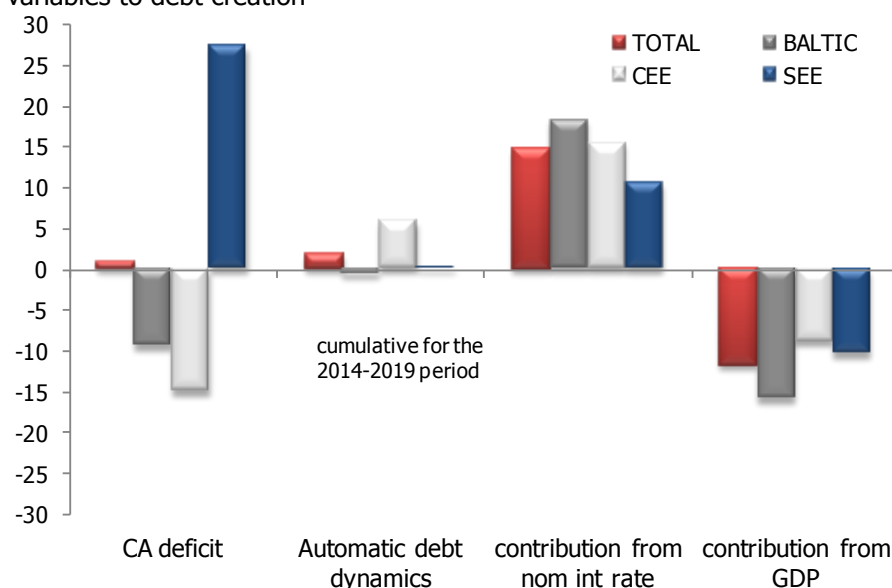
Source: IMF's external sustainability frameworks for selected countries

**According to the IMF's external sustainability framework<sup>9</sup>, the underlying vulnerability of the external profile of the region will also prevail in the years to come.** Even though a further decline in the gross external financing needs is to be expected in the following period, the positive "divergence gap" will remain. Namely, it is envisaged that the financing needs would on average decline by approximately 5 p.p. of GDP, while the need for external financing is expected to be 20 p.p. of GDP above the "optimal level". The most notable divergence is observed in the Baltic countries (of around 50 p.p. above benchmark) and around 7 p.p. for the CEE and SEE countries. These figures are not negligible and emphasize that external vulnerability will remain as one of the main issues for the future.

**The underlying factor that will continue to create need for financing will be the gradual increase in the current account deficits, but also the automatic debt dynamics.** The expectation of future global economic recovery and improved domestic conditions will generate current account pressures. At the same time, there will be relatively high burden from the interest payments on the debt dynamics. Growth will resume with domestic demand being its key driver. The reasons will vary from region to region, but are mostly linked with the expected expanding of the private consumption and higher investment due to improved confidence. However, the expected growth pace will not be enough to neutralize the burden from the interest payments, which leads to a modest, yet positive contribution of the automatic debt dynamics. Analyzing by group of countries, there are certain differences. For example, the SEE countries will face relatively higher demand pressures on the current account than the CEE countries and the Baltic States, in which the current account position is not expected to put pressure on external debt creation. On the other hand, the contribution from the interest rates is the main factor that leads to future debt creation.

<sup>9</sup> Taken from the latest available IMF article IV country reports.

Chart 10: Selected indicators from the IMF's external sustainability framework, contribution from the variables to debt creation



Source: IMF's external sustainability frameworks for selected countries

**Apparently, the region continues to face weaknesses in the external sector, observed both through the stock position and some of the flow indicators. The larger the vulnerabilities, the higher the susceptibility to potential shocks.** With the protracted global crisis and the elevated uncertainty being a main feature of the economic environment for the region, the probability for adverse shocks is still high. The recent experience showed that the larger the imbalances are, the more painful the afterward adjustment is. This thesis, which was more or less obvious from the data observation, was also tested formally on a sample of 67 developed and developing countries by Lane and Milesi-Feretti, 2011. They conclude that the post-crisis current account downward adjustment is related to the size of the pre-crisis excesses (difference between the actual and the equilibrium current account) and the size of the stock imbalances (with net foreign assets/liability position used as a proxy). The larger they are, the larger the current account adjustment is, primarily made through sharp correction in domestic demand. **We test the same hypothesis on the country sample which is considered in this note<sup>10</sup>. As the sample is small, the results should be taken with caution and interpreted only as an indication. We are employing this empirical tool, just as an additional support to the notion that the external vulnerabilities should be in check and buffers should exist, so as to preclude economic harm. As a first step,** panel estimation is used to estimate a pre-crisis current account function, by factoring in some of the traditional current account determinants<sup>11</sup>. The fitted value of the regression is used to approximate the equilibrium current account, and the difference between the actual average current account in the pre crisis period (2005-2008) and the equilibrium one is marked as a current account gap. **As a second step,** the post-crisis current account adjustment (change in 2012 to the 2005-2008 average) is regressed on the current account gap and the net foreign assets position, as a proxy for the stock vulnerabilities. The scatter plot below illustrates the dispersion of the countries with respect to the current account gap. Some of them were above the equilibrium before the crisis, while

<sup>10</sup> The "note" sample in the estimation is expanded with Montenegro data.

<sup>11</sup> Fiscal Balance, GDP growth, GDP per capita and dummy variable to capture the crisis effects in 2009, and other country-specific crisis years.

others were below it. Yet, what is important is that the data do confirm that countries with larger pre crisis excesses adjusted more after the onset of the crisis. In line with the findings of Lane and Milesi-Feretti, 2011, both coefficients in front of the current account gap and the stock of net-foreign assets are negative, implying lesser current account adjustment when the prior flow and stock excesses are lower.

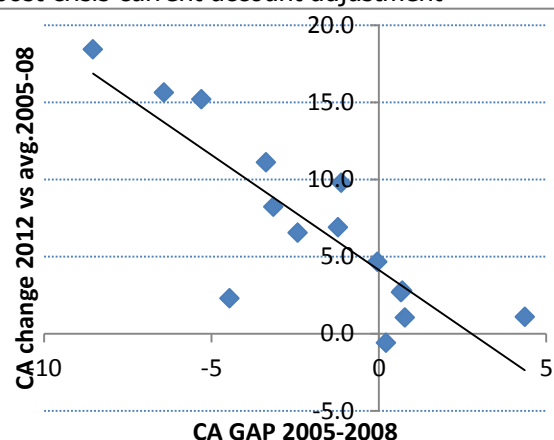
Chart 11: Estimation output and current account gap versus post crisis current account adjustment

Table 1. Current Account Adjustments, 2012 vs 2005-08

	(1)	(2)
	NBRM estimation	Lane, Milesi Feretti estimation <sup>1</sup>
CAGAP	-1.38** (0.37)	-0.57*** (0.12)
NFA 2004-07	-0.09 (0.08)	-0.01 (0.01)
Constant	5.49** (1.23)	0.01** (0.01)

Note: \*\*, \*\*\* denote significance at 10, 5 and 1 percent levels respectively

<sup>1</sup> The Current Account Adjustment is for 2010 vs 2005-08



## Conclusion

The note aimed at taking a stock on the current external exposure of the CESEE group of countries and pinpointing some of the possible areas of weaknesses. Although it tackled some of the issues at their surface, still it confirmed the existence of significant external vulnerabilities in the region, in some of the countries compounded with underlying fiscal imbalances. Many of the countries in the sample entered the crisis with large "stock" and "flow" vulnerabilities. Despite the fact that after the occurrence of the crisis some adjustment was observed, it was not strong enough to correct the imbalances to acceptable level. The region is facing wide negative international investment position, which to a certain extent is understandable. It is a growing region, which needs additional financing resources to finance its growth and to ensure better productivity in the medium run. Hence, it was not surprising that at the beginning of the recent crisis almost all of the countries have been faced with negative and growing net international investment position. Yet, the pattern of the IIP was also mimicked by the pattern of the external debt, being the most vulnerable area when it comes to the cross-border flows. With many of the countries "caught" in the trap of high external debt and large gross external financing needs, their vulnerability to potential shocks is large. At the current juncture, when the financial markets are volatile, investor sentiment is not firm, and tighter stance of the US monetary policy is forthcoming, the global financial conditions might become less favorable for the region countries, testing their resilience to shocks. Not only should the international financial markets be considered a potential menace. With the European economy being still stressed, and not very likely to have more vivid growth in the near term, and the Ukraine crisis lingering, the risks around the growth prospects of the region are leaned downwards. The recent changes in the global financial regulatory framework also pose risks to the growth prospects of the region, as they can adversely affect the availability and cost of credit financing. The financial structure in these countries is rather simple, and dominated by the banking system, meaning that the retrenchment of credit financing might impair growth prospects. This could additionally aggravate the external debt

dynamics. The recent experience, as well as the empirical research, pinpoint the need to secure buffers for dealing with shocks. For an economy which has strong and less vulnerable balance sheet, it is easier to adjust, if potential shock occurs. When the mismatches are manageable, the need for abrupt adjustment is low, same as the net-demand effects. Hence, given the susceptibility to depreciation, tightening financing conditions, and hence possible deterioration in their external financial balance sheets, for some of the countries in the sample it is important to minimize the risks arising from their large external exposure. Having strong government balance sheet, conducting prudent public debt management, building reserves at a level adequate for cushioning against shocks, enhancing prudential regulation for limiting excessive risk-taking, developing domestic financial markets for providing funds internally in domestic currency, are part of the "tools" for ensuring sustainable and strong balance sheet of the economy.

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## Statistical Appendix

Gross External Debt Position, as % of GDP											
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014*
Albania	-	-	-	-	-	-	-	-	58	64	65
Bulgaria	62	67	78	94	105	108	103	94	94	92	94
Croatia	69	72	75	78	86	102	105	105	104	106	105
Czech Republic	36	38	37	39	45	52	58	58	63	66	67
Estonia	77	86	96	107	115	122	112	102	102	93	96
Hungary	73	81	97	105	118	153	146	137	131	120	123
Latvia	89	100	115	128	130	157	165	145	137	131	137
Lithuania	43	50	59	71	73	88	87	81	79	70	68
Macedonia	45	50	46	47	49	56	58	64	68	64	75
Poland	47	46	47	51	48	63	67	68	73	71	70
Romania	-	-	-	-	-	-	-	-	-	69	63
Serbia	51	62	61	61	65	77	85	77	86	81	82
Slovenia	-	70	77	99	104	112	113	109	115	111	120

Sources: National Central Banks

\* Data for 2014 is the latest available data of the stock of debt. For Bulgaria, Slovenia and Serbia it is November 2014, for Croatia it is October 2014, and for the rest of the countries is September 2014.

Gross External Debt Position, as % of GDP												
		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014*
Albania	Short-Term	-	-	-	-	-	-	-	-	12	12	12
	Long-Term	-	-	-	-	-	-	-	-	46	52	53
Bulgaria	Short-Term	12	17	23	30	36	35	31	26	26	24	22
	Long-Term	50	50	55	64	69	74	72	68	68	69	72
Croatia	Short-Term	7	8	9	7	10	9	10	11	8	8	6
	Long-Term	63	64	65	70	76	93	95	94	96	99	100
Czech Republic	Short-Term	12	12	10	12	18	18	20	22	22	25	26
	Long-Term	24	26	27	28	27	34	38	36	41	41	41
Estonia	Short-Term	22	29	33	32	42	43	41	46	48	43	41
	Long-Term	55	57	62	75	73	79	71	56	54	50	54
Hungary	Short-Term	15	18	19	23	19	22	26	25	18	17	17
	Long-Term	58	63	78	82	100	132	121	112	113	103	106
Latvia	Short-Term	51	49	50	55	44	39	53	45	50	53	63
	Long-Term	38	51	64	73	87	119	113	100	87	77	74
Lithuania	Short-Term	20	27	30	37	40	41	34	30	26	23	22
	Long-Term	24	24	29	35	33	46	53	51	53	46	46
Macedonia	Short-Term	14	13	13	19	17	18	16	19	20	15	20
	Long-Term	32	37	32	28	32	38	42	46	48	49	55
Poland	Short-Term	6	6	7	10	10	12	10	9	8	9	8
	Long-Term	41	40	41	41	38	51	57	58	64	63	62
Romania	Short-Term	-	-	-	-	-	-	-	-	-	8	7
	Long-Term	-	-	-	-	-	-	-	-	-	61	56
Serbia	Short-Term	2	5	4	4	6	6	6	2	2	1	0
	Long-Term	49	57	57	57	59	71	79	75	85	80	82
Slovenia	Short-Term	-	12	12	26	26	26	23	22	29	17	13
	Long-Term	-	58	65	73	78	86	90	87	86	95	106

Sources: National Central Banks

\* Data for 2014 is the latest available data of the stock of debt. For Bulgaria, Slovenia and Serbia it is November 2014, for Croatia it is October 2014, and for the rest of the countries is September 2014.

International Investment Position - Assets, in % of GDP											
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014*
Albania	-	-	-	-	-	-	-	-	47	57	-
Bosnia and Herzegovina	-	45	49	57	50	50	48	45	45	48	-
Bulgaria	60	57	66	64	59	64	65	64	71	73	77
Croatia	46	45	46	50	47	55	54	53	54	57	64
Czech Republic	56	62	58	60	64	71	76	74	83	93	98
Estonia	72	87	95	106	104	118	121	123	132	130	135
Hungary	48	56	68	73	82	110	110	111	108	107	-
Latvia	62	66	73	81	76	102	116	103	104	102	112
Lithuania	31	38	45	49	43	58	61	58	55	52	52
Macedonia	36	43	47	46	38	41	46	55	56	50	59
Poland	31	34	35	37	29	38	44	44	47	44	45
Romania	29	32	33	30	28	37	41	40	39	36	34
Serbia	-	-	-	-	-	-	-	-	-	56	58
Slovenia	66	80	82	101	91	96	94	92	94	96	-

International Investment Position - Liabilities, in % of GDP											
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014*
Albania	-	-	-	-	-	-	-	-	90	92	-
Bosnia and Herzegovina	-	79	78	91	96	106	106	105	107	106	-
Bulgaria	87	101	124	145	158	166	160	150	150	150	148
Croatia	93	101	123	143	122	144	149	145	145	146	151
Czech Republic	85	89	91	101	101	117	124	120	131	133	135
Estonia	158	171	168	177	180	199	192	179	184	177	178
Hungary	135	148	175	177	183	233	223	208	211	199	-
Latvia	112	126	143	156	155	186	197	177	171	167	171
Lithuania	66	80	93	104	95	117	117	111	108	99	94
Macedonia	76	83	81	85	86	95	97	107	111	107	116
Poland	77	78	82	89	77	100	110	104	115	114	113
Romania	56	61	71	73	77	99	103	104	107	97	90
Serbia	-	-	-	-	-	-	-	-	-	153	160
Slovenia	74	91	99	122	126	135	136	133	139	134	-

International Investment Position - Net, in % of GDP											
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014*
Albania	-	-	-	-	-	-	-	-	-43	-35	-
Bosnia and Herzegovina	-	-34	-29	-35	-47	-56	-58	-60	-62	-57	-
Bulgaria	-27	-44	-58	-81	-98	-102	-95	-86	-79	-77	-72
Croatia	-47	-57	-77	-93	-75	-89	-95	-92	-91	-89	-87
Czech Republic	-30	-28	-33	-40	-37	-46	-49	-46	-48	-41	-37
Estonia	-86	-85	-73	-71	-75	-80	-71	-56	-52	-47	-43
Hungary	-87	-92	-107	-103	-100	-123	-113	-97	-103	-92	-
Latvia	-50	-60	-70	-75	-79	-83	-81	-73	-67	-65	-60
Lithuania	-36	-42	-48	-55	-52	-59	-56	-53	-54	-46	-42
Macedonia	-40	-40	-34	-39	-48	-53	-51	-53	-55	-56	-57
Poland	-46	-44	-46	-53	-48	-62	-67	-60	-68	-70	-68
Romania	-27	-29	-38	-44	-49	-62	-63	-64	-68	-61	-56
Serbia	-	-	-	-	-	-	-	-	-	-96	-101
Slovenia	-8	-11	-17	-21	-35	-39	-42	-40	-45	-38	-

International Investment Position - Total Assets and Liabilities, in % of GDP											
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014*
Albania	-	-	-	-	-	-	-	-	137	149	-
Bosnia and Herzegovina	-	124	128	148	146	156	153	150	152	154	-
Bulgaria	146	158	190	210	217	230	225	215	221	224	225
Croatia	138	146	168	193	169	199	203	199	199	203	216
Czech Republic	141	151	150	161	164	187	200	194	214	226	233
Estonia	229	258	262	283	284	317	313	302	316	306	312
Hungary	183	204	243	250	265	343	334	319	319	306	-
Latvia	175	192	216	236	231	288	314	280	275	269	283
Lithuania	97	118	137	153	138	176	179	169	163	151	146
Macedonia	112	125	128	131	124	136	143	162	167	157	175
Poland	108	112	117	126	106	138	154	148	162	158	158
Romania	85	93	103	103	105	136	144	144	146	134	124
Serbia	-	-	-	-	-	-	-	-	-	209	218
Slovenia	140	170	180	224	216	231	231	225	233	230	-

\* Note: Data for 2014, as of Q3 2014, except for Romania (Q2 2014).

Source: National central banks.

International Investment Position - Composition of Liabilities, in % of GDP												
		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014*
Albania	Total liabilities	-	-	-	-	-	-	-	-	90	92	-
	Direct investment	-	-	-	-	-	-	-	-	41	44	-
	Portfolio investment	-	-	-	-	-	-	-	-	7	7	-
	Financial derivatives	-	-	-	-	-	-	-	-	0	0	-
	Other investment	-	-	-	-	-	-	-	-	42	41	-
Bosnia and Herzegovina	Total liabilities	-	79	78	91	96	106	106	105	107	106	-
	Direct investment	-	22	25	33	35	39	40	42	43	43	-
	Portfolio investment	-	1	1	1	1	3	3	2	2	2	-
	Financial derivatives	-	-	-	-	-	-	-	-	-	-	-
	Other investment	-	55	52	57	60	64	63	60	61	61	-
Bulgaria	Total liabilities	87	101	124	145	158	166	160	150	150	150	148
	Direct investment	36	50	67	84	89	98	98	95	94	96	93
	Portfolio investment	12	10	10	8	5	5	5	4	5	6	9
	Financial derivatives	1	0	0	0	0	0	0	0	0	0	0
	Other investment	37	41	46	54	63	63	58	51	52	49	46
Croatia	Total liabilities	93	101	123	143	122	144	149	145	145	146	151
	Direct investment	25	31	50	68	43	53	55	50	52	51	57
	Portfolio investment	18	16	15	16	12	15	16	16	21	25	25
	Financial derivatives	0	0	0	0	0	0	0	0	1	1	0
	Other investment	49	54	58	59	67	77	77	79	72	69	68
Czech Republic	Total liabilities	85	89	91	101	101	117	124	120	131	133	135
	Direct investment	46	49	51	58	59	70	74	70	79	78	78
	Portfolio investment	14	14	15	16	12	17	21	20	23	24	24
	Financial derivatives	1	1	1	2	4	3	3	3	3	2	2
	Other investment	24	25	24	25	26	27	26	26	27	29	30
Estonia	Total liabilities	158	171	168	177	180	199	192	179	184	177	178
	Direct investment	81	90	75	75	77	89	95	91	96	95	96
	Portfolio investment	34	25	22	19	13	9	10	8	10	11	11
	Financial derivatives	0	0	0	0	0	0	1	0	1	0	0
	Other investment	43	56	70	83	89	100	87	79	77	70	70
Hungary	Total liabilities	135	148	175	177	183	233	223	208	211	199	-
	Direct investment	60	64	75	75	77	101	94	89	97	97	-
	Portfolio investment	39	44	53	48	40	47	44	41	49	50	-
	Financial derivatives	2	2	2	2	4	3	5	5	4	4	-
	Other investment	34	39	44	51	61	81	81	73	61	48	-
Latvia	Total liabilities	112	126	143	156	155	186	197	177	171	167	171
	Direct investment	30	32	36	36	36	43	45	46	46	50	48
	Portfolio investment	7	7	8	6	5	7	7	7	15	14	22
	Financial derivatives	0	0	0	0	1	1	0	1	1	1	1
	Other investment	75	86	99	114	114	135	145	124	109	102	102
Lithuania	Total liabilities	66	80	93	104	95	117	117	111	108	99	94
	Direct investment	26	33	35	37	30	38	39	38	39	39	34
	Portfolio investment	11	12	14	14	9	19	27	27	32	26	28
	Financial derivatives	0	0	0	0	0	0	0	0	0	0	0
	Other investment	28	36	43	53	56	61	51	45	37	34	32
Macedonia	Total liabilities	76	83	81	85	86	95	97	107	111	107	116
	Direct investment	36	37	40	44	46	49	49	52	55	55	55
	Portfolio investment	1	5	5	5	4	6	6	4	5	3	9
	Financial derivatives	0	0	0	0	0	0	0	0	0	0	0
	Other investment	39	41	36	37	37	39	42	51	51	48	51
Poland	Total liabilities	77	78	82	89	77	100	110	104	115	114	113
	Direct investment	33	33	37	41	34	44	50	45	50	50	50
	Portfolio investment	20	25	24	23	15	23	28	26	34	33	34
	Financial derivatives	0	0	0	0	1	0	1	1	1	1	1
	Other investment	24	20	21	25	27	33	32	31	30	30	29
Romania	Total liabilities	56	61	71	73	77	99	103	104	107	97	90
	Direct investment	25	27	35	34	35	42	42	42	45	43	42
	Portfolio investment	6	6	5	4	3	4	5	6	9	12	12
	Financial derivatives	0	0	0	0	0	0	0	0	0	0	0
	Other investment	26	28	30	35	39	53	56	56	53	43	37
Serbia	Total liabilities	-	-	-	-	-	-	-	-	-	153	160
	Direct investment	-	-	-	-	-	-	-	-	-	71	75
	Portfolio investment	-	-	-	-	-	-	-	-	-	20	22
	Financial derivatives	-	-	-	-	-	-	-	-	-	0	0
	Other investment	-	-	-	-	-	-	-	-	-	62	62
Slovenia	Total liabilities	74	91	99	122	126	135	136	133	139	134	-
	Direct investment	21	23	23	24	25	26	27	29	30	29	-
	Portfolio investment	8	8	10	13	12	26	32	32	34	45	-
	Financial derivatives	0	0	0	0	1	1	1	1	1	0	-
	Other investment	45	59	65	85	88	83	76	71	75	60	-

\* Note: Data for 2014, as of Q3 2014, except for Romania (Q2 2014).

Source: National central banks.