



NATIONAL BANK OF GREECE

# Economic Analysis Division Emerging Markets Analysis

## Special Issue

### SEE-5 Banking Sector 2021 Overview & Outlook

Romania, Bulgaria, Serbia, North Macedonia, Albania



NBG - Economic Analysis Division

Emerging Markets Analysis

Head: Konstantinos Romanos-Louizos

☎ : +30 210 33 41 225

✉ : [romanos.louizos.k@nbg.gr](mailto:romanos.louizos.k@nbg.gr)

Louiza Troupi

☎ : +30 210 33 41 696

✉ : [troupi.louiza@nbg.gr](mailto:troupi.louiza@nbg.gr)

Georgios Ntinenis

✉ : [ntinenis.georgios@nbg.gr](mailto:ntinenis.georgios@nbg.gr)



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Special Issue

2021 Overview

Macroeconomic Environment .....	1
Banking Sector Activity .....	2
Profitability .....	4

Outlook

Macroeconomic Environment .....	6
Banking Sector Profitability .....	7

General Information .....	9
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July 2022

Economic Analysis Division  
Emerging Markets Analysis

Special Issue

2021 Overview

Macroeconomic Environment  
Banking Sector Activity  
Profitability

Outlook

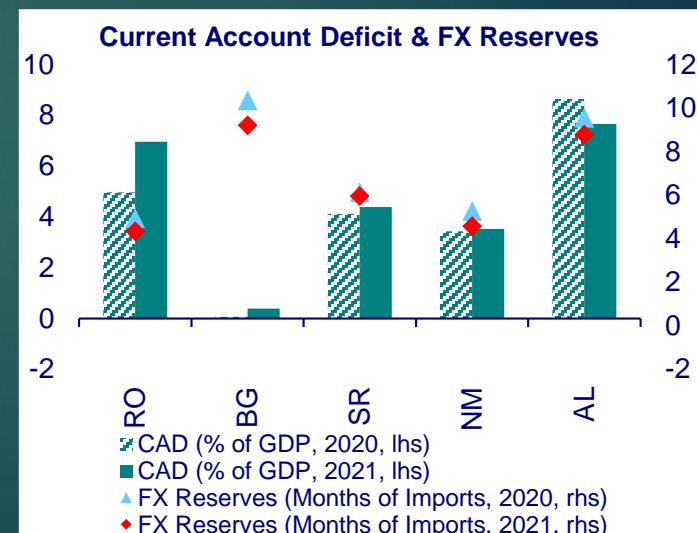
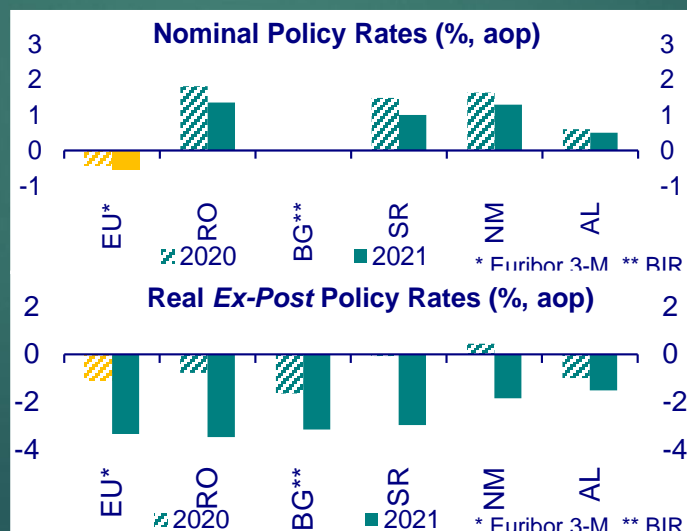
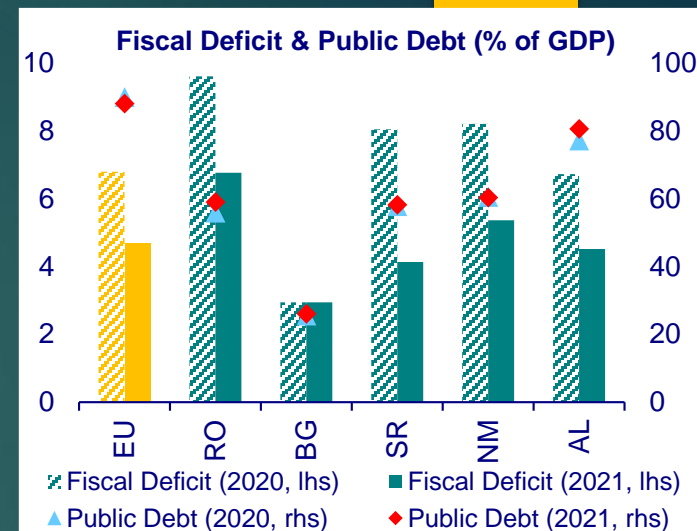
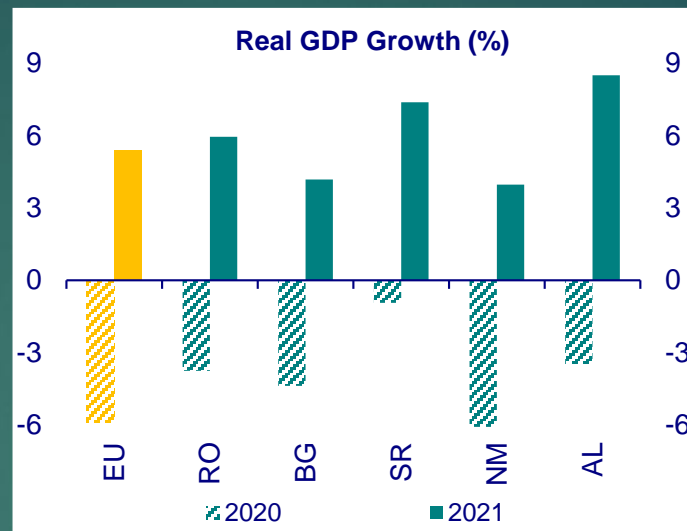
Macroeconomic Environment  
Banking Sector Profitability

General Information

# Macroeconomic Environment - 2021 Overview

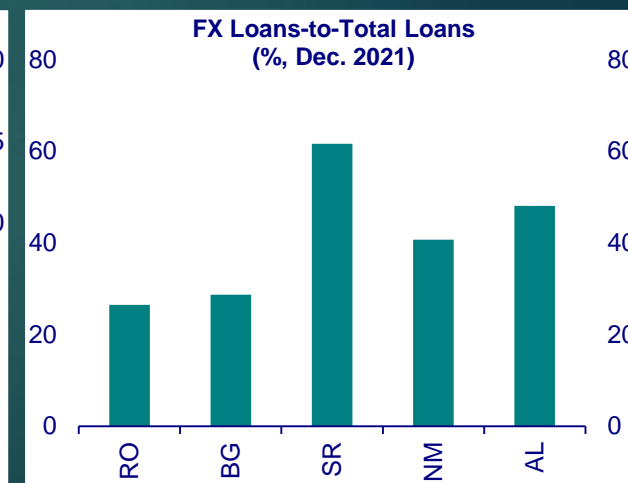
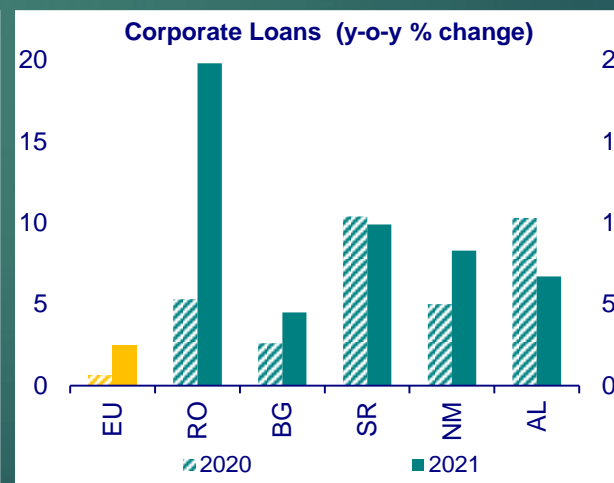
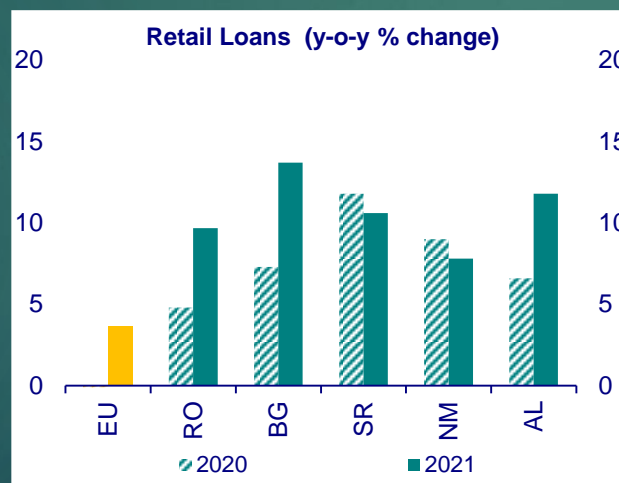
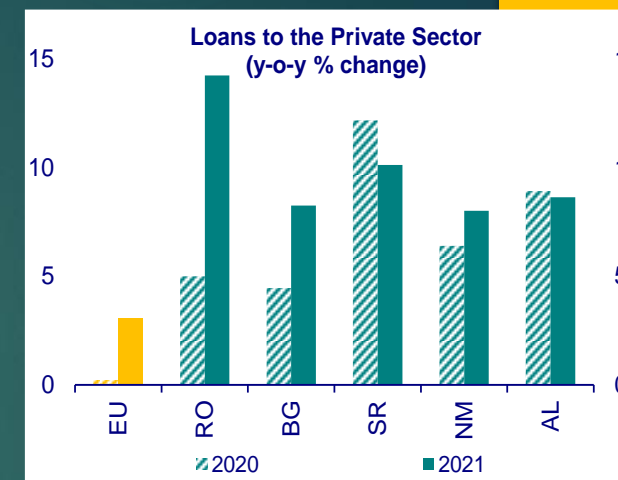
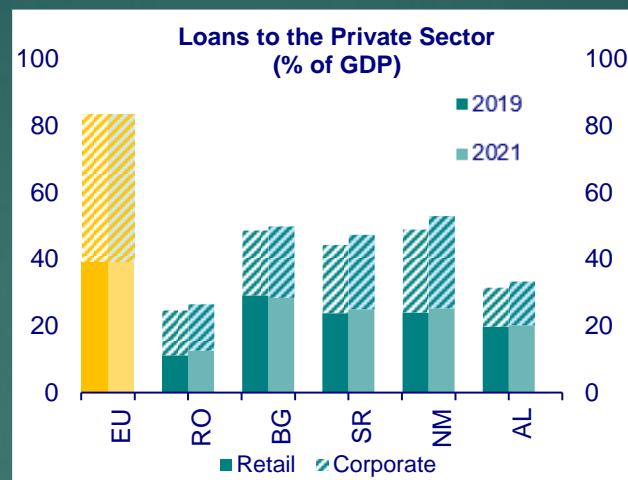
SEE-5 banks' operating environment improved sharply in 2021, reflecting economic recovery from the COVID-19 shock,

- ✓ Economic growth rebounded in SEE-5 in 2021 (GDP, up 5.9% against a decline of 3.5% in 2020), with all the economies (except North Macedonia) recouping their COVID-19-induced losses. Albania recorded the highest growth rate, supported by a (weather-induced) spike in renewable energy production, followed by Serbia, which has been by far the best performer since the beginning of the pandemic
- ✓ Economic recovery was accompanied by a pick-up in inflation to 4.4% on average in 2021 from 2.2% in 2020, reflecting resilient demand, unfavourable base effects from the reopening of the economies, higher global energy prices and the impact of COVID-19-related disruptions in global supply chains
- ✓ Following economic recovery and the phasing-out of the measures enacted in 2020, fiscal balances improved in all the countries under review (except Bulgaria) in 2021, yet remained well above their pre-COVID-19 levels. As a result, the gross public debt-to-GDP ratios rose marginally to new highs in all the countries under review, remaining, however, below the EU threshold of 60% (except Albania)
- ✓ Regional central banks maintained their key rates at record-low levels during most part of 2021, ensuring ultra-accommodative financing conditions. A gradual withdrawal of excess liquidity started only towards the end of 2021
- ✓ Reflecting strengthening domestic demand, external imbalances in all the countries under review (except Albania) widened in 2021. However, against the backdrop of abundant global liquidity, SEE-5 economies managed to cover their external financing needs, containing depreciation pressures on their currencies and keeping FX reserves at adequate levels



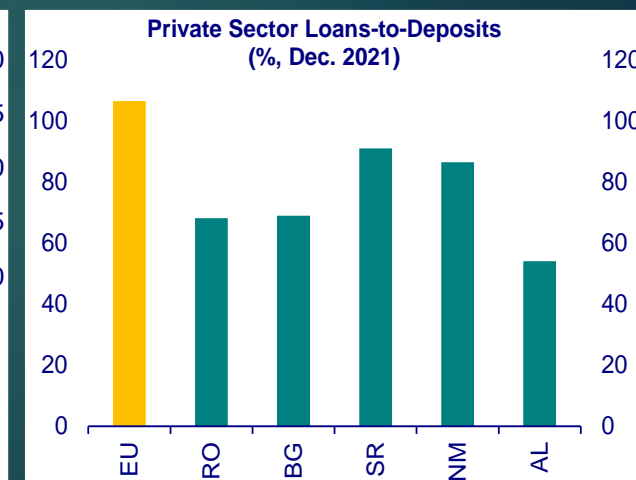
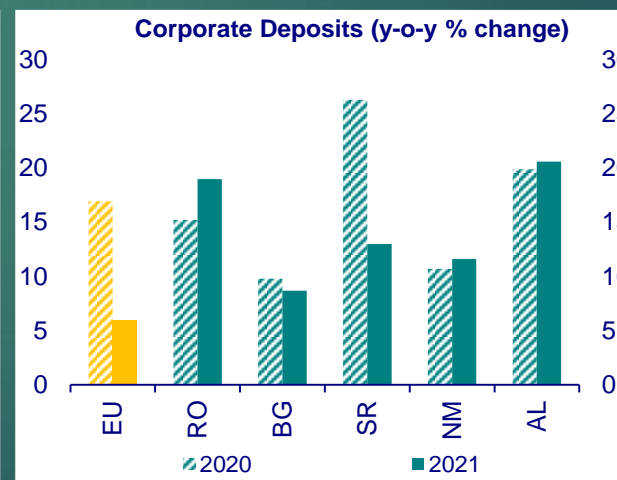
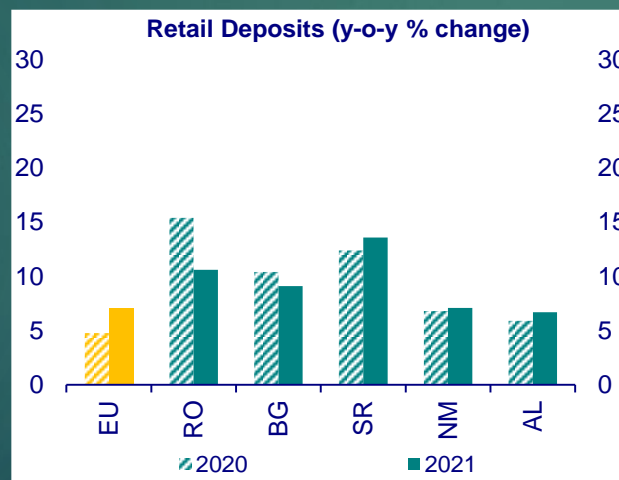
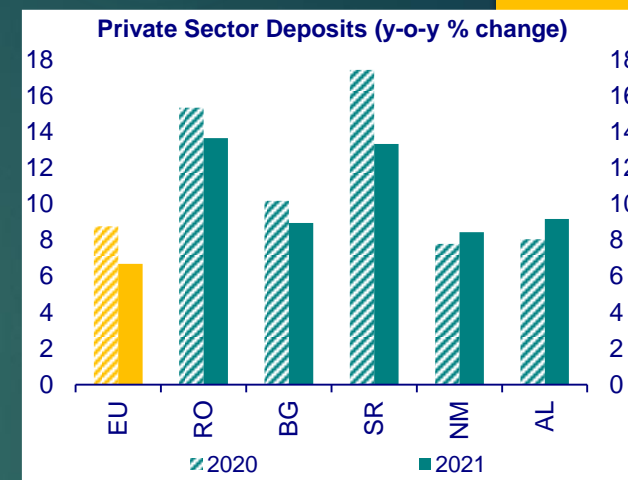
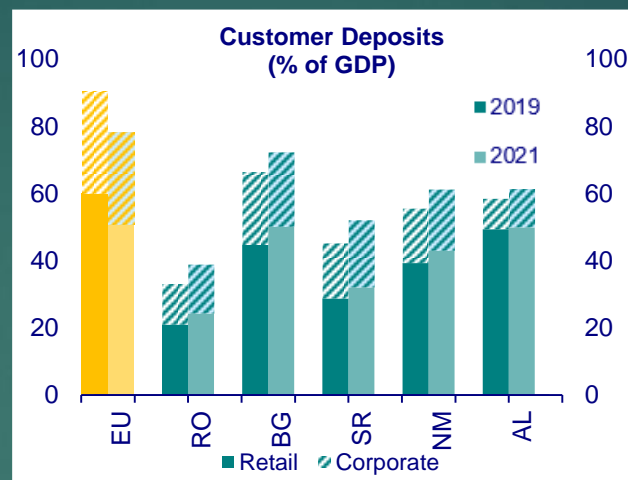
Sources: EBA, National Central Banks & NBG estimates

- ✓ Despite the gradual roll-back of state-sponsored COVID-19 support packages (including, *inter alia*, loan guarantee schemes and subsidized lending to affected entities), credit expansion picked-up in 2021 in SEE-5 (but for Serbia and Albania, where it continued on a solid footing, nonetheless), in line with economic recovery
- ✓ From a segment perspective, retail lending (mainly housing loans) has been the main driver behind credit expansion in Bulgaria, Serbia and Albania. The rebound in corporate lending in Romania was attributed to the much more effective use of the state loan guarantee scheme for SMEs (due to expire in mid-2022), following the recalibration of its terms
- ✓ Still, financial intermediation remains low in SEE-5, especially in Romania and Albania
- ✓ The retail segment appears to be the most underpenetrated. On the other hand, the penetration rates in the corporate segment are understated since a significant share of lending comes from foreign banks and parent companies
- ✓ Loan euroization is low in Romania and Bulgaria. In contrast, albeit decreasing, the proportion of FX lending in total lending remains high in Serbia



“ ... while deposit growth remained strong ”

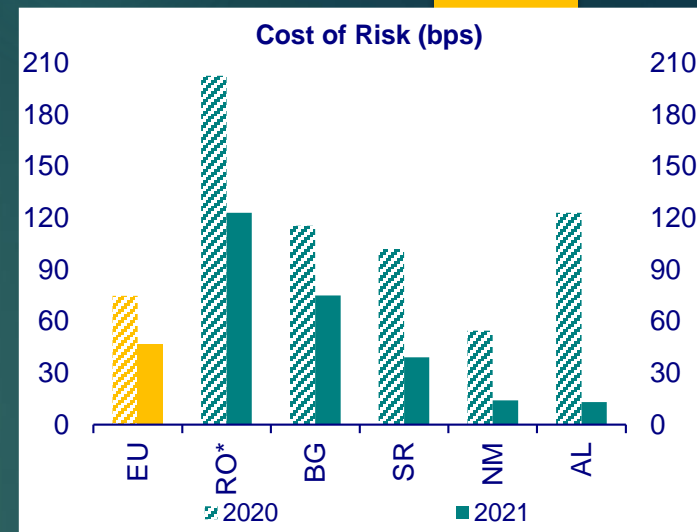
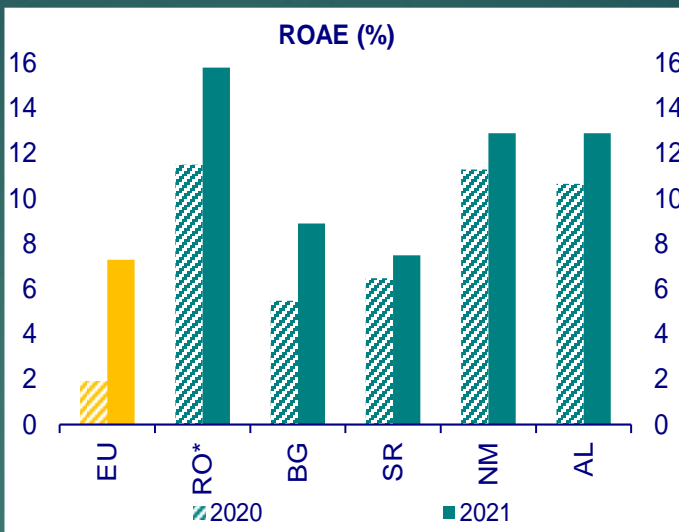
- ✓ Amid robust economic growth, deposits continued to increase at a strong pace in 2021 in SEE-5, despite the gradual unwinding of COVID-19 emergency measures enacted to support household income and corporate liquidity
- ✓ As a result, the deposit-to-GDP ratio remained at record-high levels in SEE-5, well above its pre-COVID-19 standards
- ✓ Deposit penetration in Bulgaria is close to the EU average (c. 80% of GDP). In contrast, Romania remains the less penetrated market not only in the region but also in the EU
- ✓ Deposit growth was broadly equal to lending growth in all the countries under review, except Serbia
- ✓ Consequently, after plunging in 2020, mainly due to “forced” savings accumulated, the loan-to-deposit ratio broadly stabilised in all the countries under review in 2021, except Serbia, where it eased further
- ✓ Importantly, all banking systems in SEE-5 remain liquid, with their loan-to-deposit ratio standing below the critical 100% threshold, especially in Albania (54%)



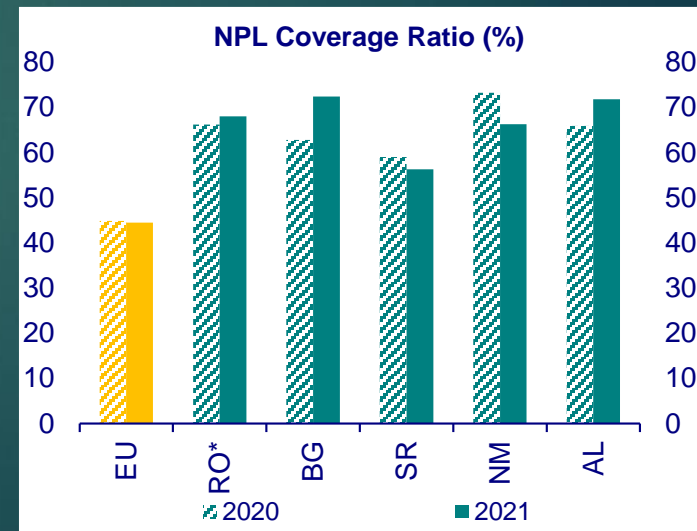
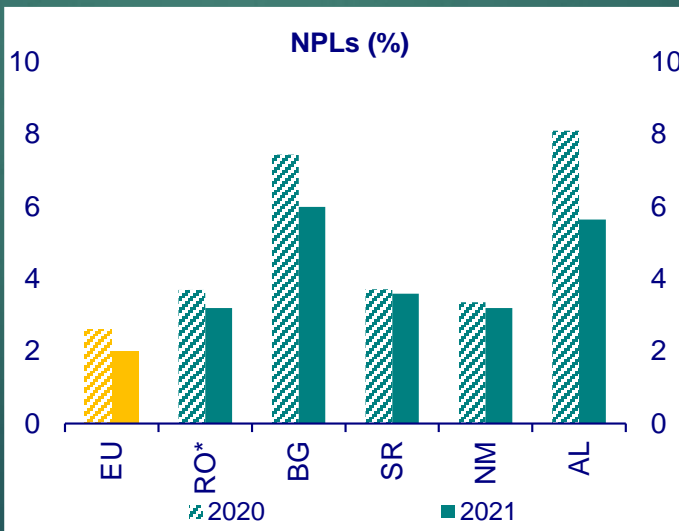
Sources: EBA, National Central Banks & NBG estimates

## Profitability strengthened in 2021, driven by lower provisioning charges

- ✓ Against the backdrop of economic recovery, bank profitability improved sharply in 2021, with SEE-5 banks continuing to outperform EU banks
- ✓ The sharp drop in provisioning charges was the main driver behind stronger profitability. Indeed, with the economies recouping their COVID-19-induced losses, pressure on households' and corporates' repayment capacity eased markedly in 2021. As a result, and in view of the front-loading of loan loss provisioning at the onset of the pandemic, banks reduced sharply their cost of risk
- ✓ Reflecting spillovers from economic recovery, on the one hand, and fast credit expansion, on the other hand, the NPL ratios fell to multi-year lows in 2021 in SEE-5, despite the expiry of the central banks' forbearance measures (including debt payment moratoria). Nevertheless, they remain markedly above the EU average (2.0%). Note that a still significant stock of legacy NPLs remains in Bulgaria (6.0%) and Albania (5.6%)
- ✓ Although NPLs in SEE-5 remain elevated by EU standards, their coverage ratio -- ranging from 56% (Serbia) to 72% (Bulgaria, Albania) -- exceeds markedly the EU average (45%), reflecting, *inter alia*, the relatively lower quality of non-performing and underperforming loans

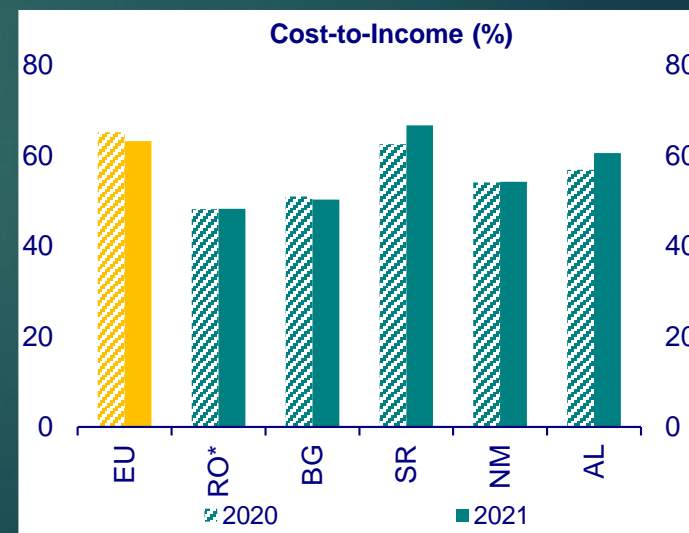
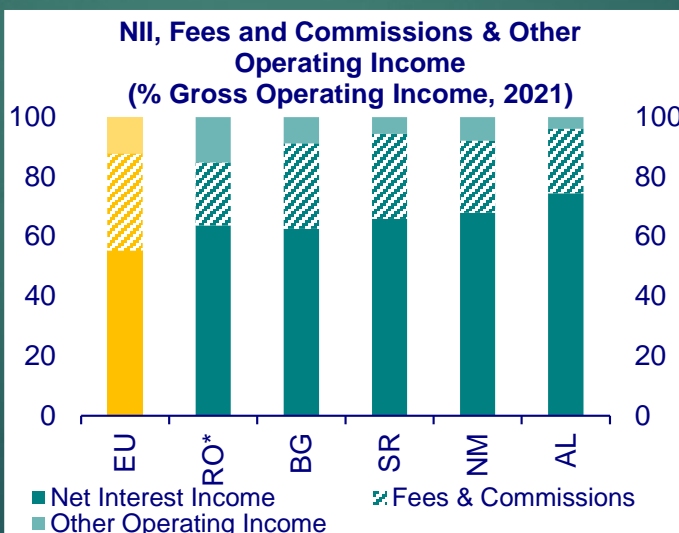
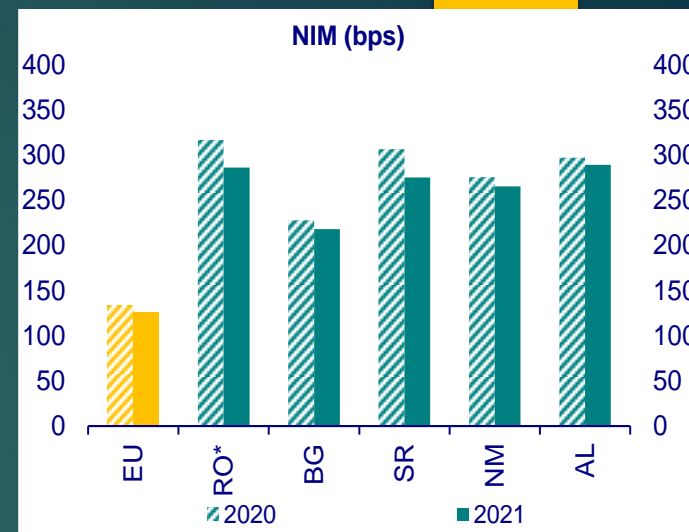
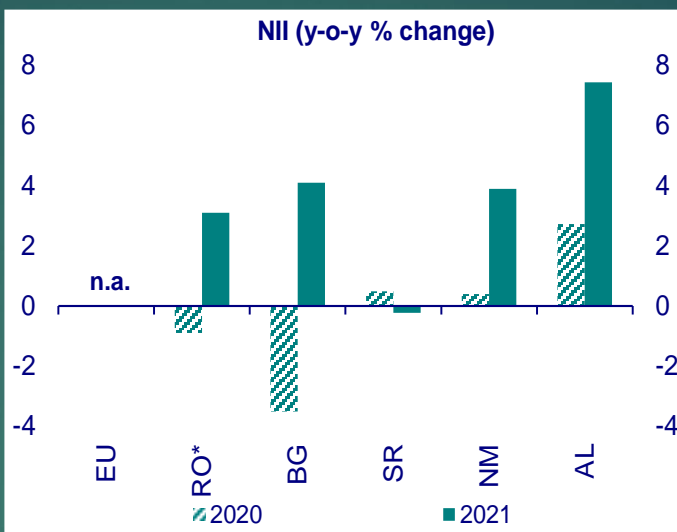


## Asset quality improved, despite the expiry of debt moratoria



\*3 largest banks, together accounting for c. 43% of the banking system's assets

- ✓ Net interest income (NII), which accounts for the bulk of pre-provision income (PPI), strengthened modestly in all the banking systems under review in 2021 (but for the Serbian, where it remained broadly flat). The (gradual) resumption of deferred debt payments and solid lending growth underpinned this performance
- ✓ Unsurprisingly, amid low interest rates, the expansion in banks' loan portfolio came at the expense of a somewhat lower net interest margin (NIM). Romanian and Albanian banks continued to enjoy the largest NIM (c. 290 bps) in the region, while Bulgarian banks the lowest (220 bps), with the latter, however, remaining nearly double that of EU banks
- ✓ Net non-interest income (NNII, mainly fees & commissions) also strengthened in 2021, in line with the rebound in economic activity and the rise in electronic transactions
- ✓ Profitability would have been stronger had operating expenses jumped in 2021, in line, *inter alia*, with rising inflation and increased IT spending. In Serbia, one-off expenses related to legal costs & provisions for pending lawsuits weighed significantly on banks' results
- ✓ The Cost-to-Income (C/I) ratio for Romanian, Bulgarian and North Macedonian banks remained broadly flat in 2021, outperforming the EU average (63%). Albeit deteriorating, the efficiency of the Serbian and Albanian banks was comparable with that of EU banks





Economic Analysis Division  
Emerging Markets Analysis

Special Issue

2021 Overview

Macroeconomic Environment  
Banking Sector Activity  
Profitability

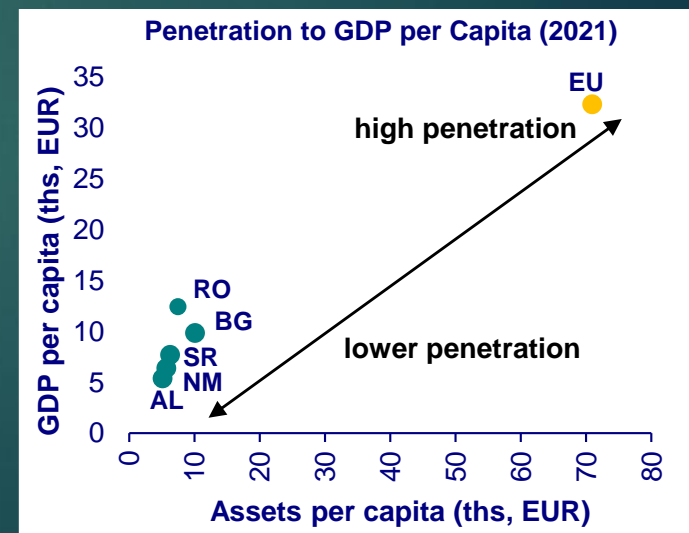
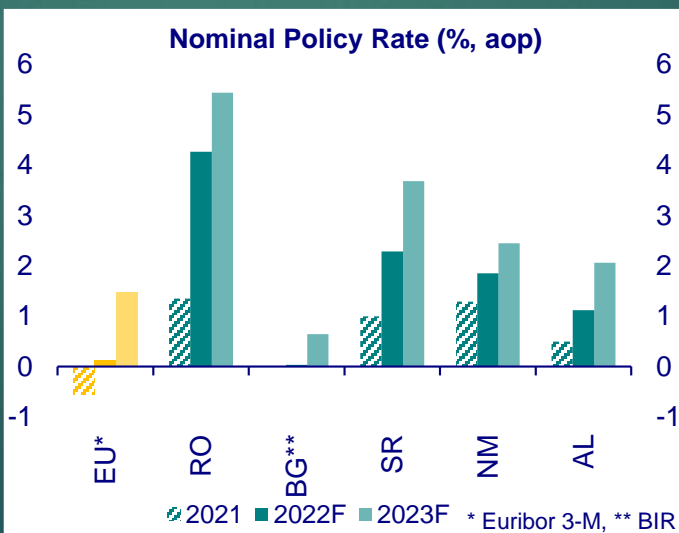
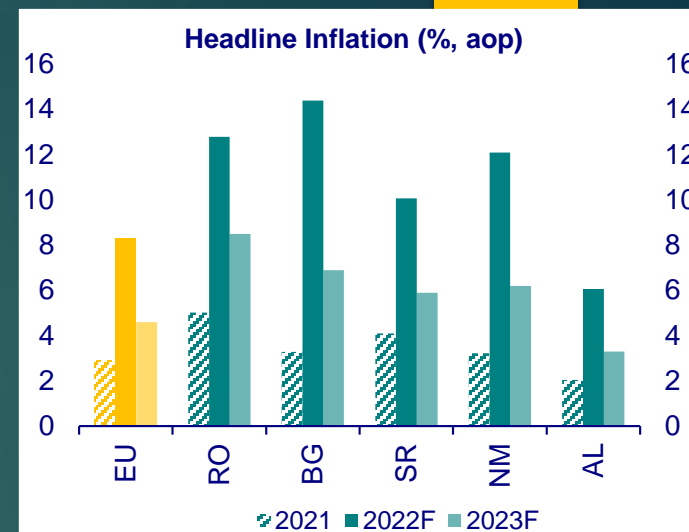
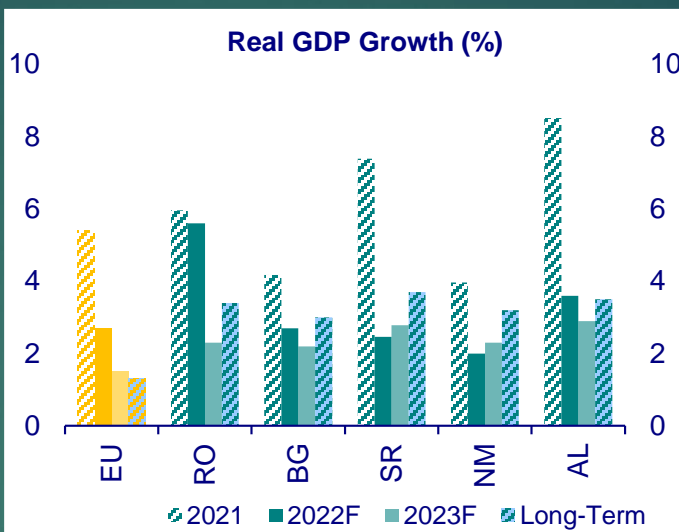
Outlook

Macroeconomic Environment  
Banking Sector Profitability

General Information

“Despite higher inflation and slowing, but still healthy, economic growth,...”

- ✓ Economic growth is set to moderate markedly in 2022 in SEE-5, mainly reflecting the impact of a negative terms-of-trade shock from higher global commodity prices in the aftermath of the Russia-Ukraine conflict
- ✓ With inflation expected to hit multi-year highs in all the economies under review, and pressure on domestic currencies building up, on the back of surging global risk aversion and widening external imbalances, regional central banks cannot but tighten their stance further in the period ahead, despite strong downside risks to economic growth
- ✓ Fiscal consolidation is set to slow down (or even pause) in 2022 in most of the economies under review, so as to allow the budget to absorb part of the higher energy bill
- ✓ Visibility remains low when it comes to longer-term forecasts. Assuming some easing of price pressures in 2023, we see economic momentum gaining steam, despite the significant (lagged) impact of the ongoing monetary policy tightening. Still, we expect GDP growth to remain subdued in 2023, reflecting the impact of a much smaller carry-over effect from previous year
- ✓ Should the implications of the ongoing geopolitical tensions prove to be harsher than assumed (e.g. involving physical disruptions to energy supply), economic growth could come in lower than projected
- ✓ Convergence with the EU is expected to continue at a fast pace in the longer-term, with the potential GDP growth rates ranging between 3.0% (Bulgaria) and 3.7% (Serbia), well above that of the EU (c. 1.2%).

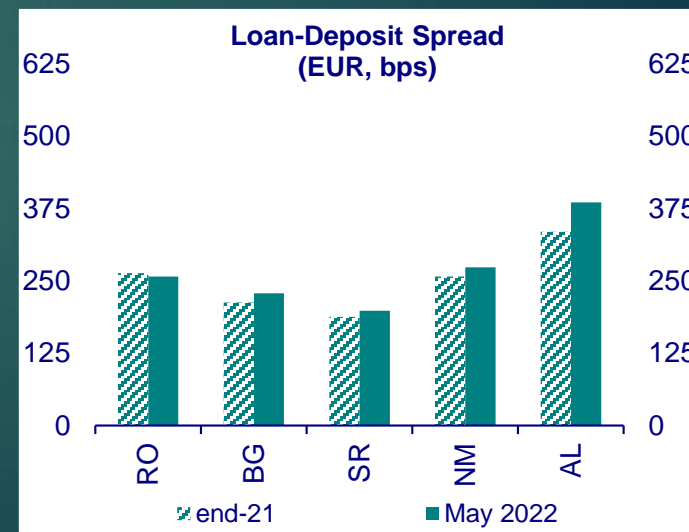
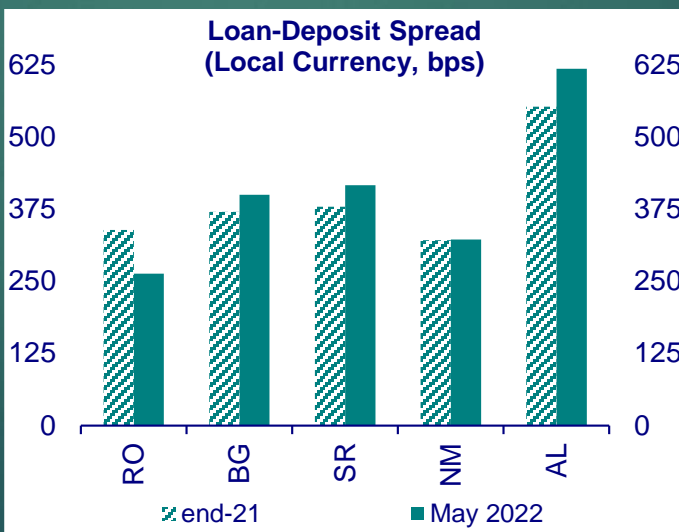
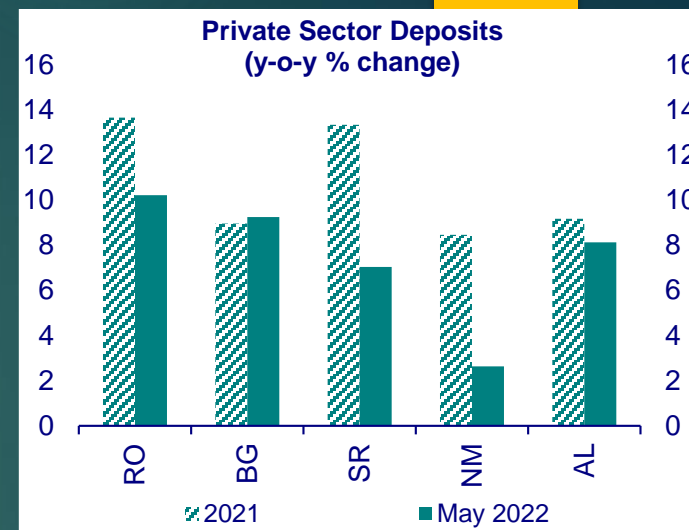
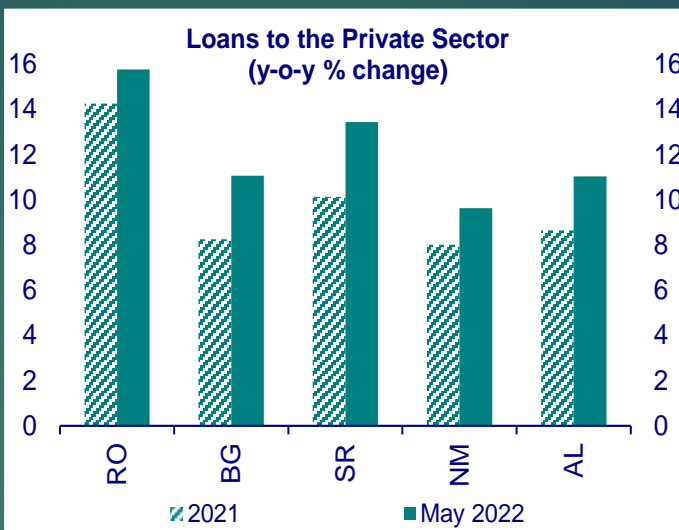


Sources: EBA, National Central Banks & NBG estimates

## Banking Sector Profitability - Outlook

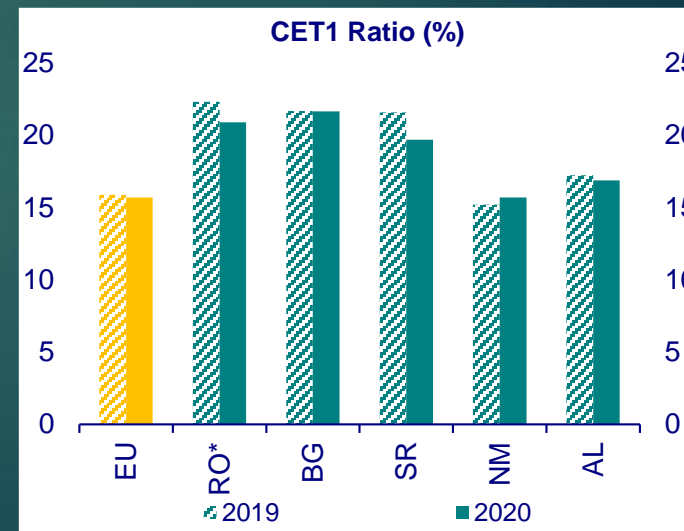
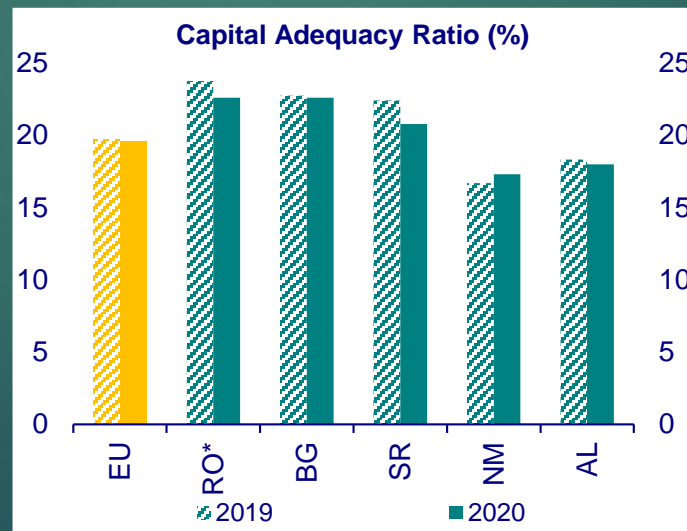
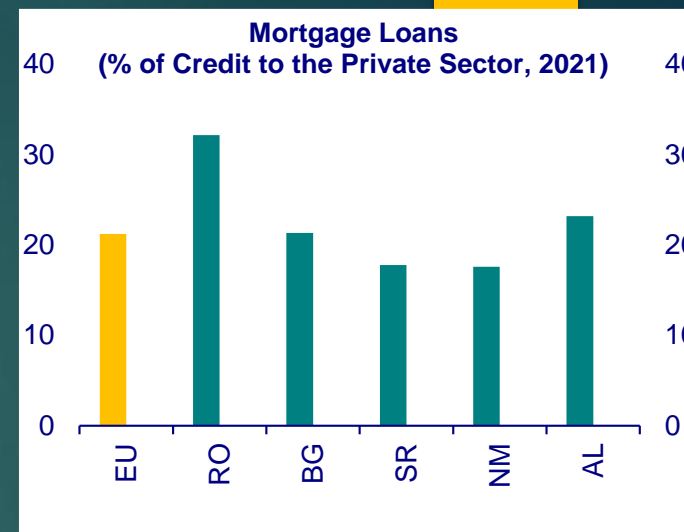
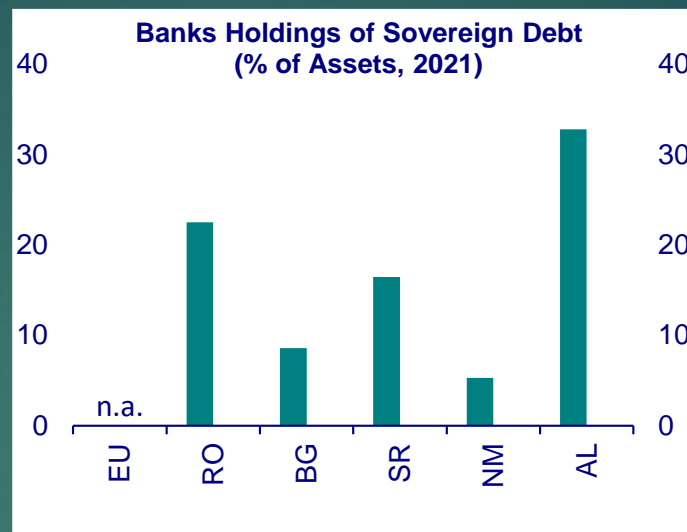
- ✓ Amid heightened uncertainty, and with record-high inflation and rising interest rates testing the private sector's repayment capacity, we expect banks to build up provisions at a faster -- yet still controlled -- pace in the period ahead
- ✓ Importantly, the already elevated NPL coverage ratios should provide a buffer against a potential deterioration in asset quality
- ✓ Being well positioned in terms of liquidity, and in view of the large share of current accounts in total customer deposits, SEE banks should see their NIM strengthening in the period ahead, reflecting faster repricing of loans in an environment of rising interest rates. Year-to-date data seem to confirm this trend in all the countries under review, except Romania
- ✓ Following a strong start to the year, credit uptake cannot but be affected by slowing economic growth and gradually tightening financing conditions (as implied by rising interest rates and central banks' more stringent macroprudential policies). As a result, we see lending growth in SEE-5 decelerating markedly in 2023, but then recovering to its pre-pandemic 2-year average (i.e. 6.0-8.0%), helping lift the respective penetration rates closer to the EU average
- ✓ In Romania and Bulgaria, corporate credit demand is set to remain strong in the period ahead, reflecting the sector's need to co-finance the investment projects included in the countries' Recovery & Resilience Plans
- ✓ Recourse to the savings accumulated during the COVID-19 crisis as a means to counter the inflation shock suggests that deposit growth should decelerate, at least in the short-term.

“ ... the outlook for the SEE-5 banking sector remains positive, ... ”



Sources: EBA, National Central Banks & NBG estimates

- ✓ Rising sovereign debt yields are due to weigh on banks' profitability (mostly via other comprehensive income), in view of the deep sovereign-bank nexus (i.e. exposure to Government debt). Albanian banks have by far the larger holdings of Government paper in the region (equivalent to over 30% of their assets, a share broadly equal to that of loans. The Central Bank of Serbia has already announced a temporary measure mitigating the impact of losses from securities revaluation on banks' capital
- ✓ The jump in inflation, together with the continuing digital transformation of the banking system, mean that operating expenses cannot but remain on upward trend in the period ahead. The ongoing streamlining of branches, together with staff optimization, should help banks contain their operating expenses in the long-term.
- ✓ Importantly, the direct exposure of all the banking systems under review to Russia & Ukraine is minimal
- ✓ Romania's high exposure to the real estate sector represents a vulnerability. On a positive note, real estate valuations appear to be broadly fair for the time being in all the economies under review
- ✓ All banking systems under review are well-capitalised, with CET1 accounting for more than 90% of their total capital, suggesting that there is significant headroom to absorb any potential stress



Sources: EBA, National Central Banks & NBG estimates

Economic Analysis Division  
Emerging Markets Analysis

Special Issue






2021 Overview

Macroeconomic Environment  
Banking Sector Activity  
Profitability

Outlook

Macroeconomic Environment  
Banking Sector Profitability











General Information

	 Romania	 Bulgaria	 Serbia	 North Macedonia	 Albania
Population (2021, mn)	19.3	6.9	6.9	1.8	2.9
GDP (2021, EUR, bn)	240.3	67.9	53.4	11.8	15.5
GDP per Capita (2021, EUR)	12,432	9,872	7,723	6,399	5,404
S&P / Moody's / Fitch	BBB- / Baa3 / BBB-	BBB / Baa2 / BBB	BB+ / Ba2 / BB+	BB- / NR / BB+	B+ / B1 / NR

Banking Sector Indicators (2021)					
	Romania (RO)	Bulgaria (BG)	Serbia (SR)	North Macedonia (NM)	Albania (AL)
Ownership: Number of Banks					
Number of Banks	34 <sup>a</sup>	25	23	13	12
Foreign Owned	27	16	19	7	8
State Owned	3	2	2	1	0
Ownership: Share in Assets (%)					
Foreign Owned	68.2%	77.0%	87.0%	65.6%	70.0%
State Owned	11.5%	3.9%	7.3%	2.3%	0.0%
Concentration: 5 Largest Banks' Market Share (%)					
Assets	56.2% <sup>b</sup>	66.9%	56.9%	81.0%	75.6%
Branch Network & Number of Employees					
Branches	3,690	3,748	1,515	403 <sup>d</sup>	421
Number of Employees	51,639	27,364	22,550	5,753 <sup>d</sup>	6,576
Intermediation (% of GDP)					
Assets	59.7 <sup>c</sup>	102.0	80.5	88.3	93.9
o/w Credit to Private Sector	26.5 <sup>c</sup>	49.9	47.4	53.0	33.3
Deposits	38.9 <sup>c</sup>	72.3	52.1	61.2	66.1

- ✓ Strong foreign presence in SEE-5
- ✓ M&A activity continued in Serbia in 2021, with the total number of banks operating in the market dropping by 3
- ✓ Market concentration appears to be moderate in Romania, Bulgaria and Serbia, suggesting that there is scope for further consolidation in the sector

# General Information

	 Romania 	 Bulgaria 	 Serbia 	 North Macedonia 	 Albania 
Population (2021, mn)	19.3	6.9	6.9	1.8	2.9
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S&P / Moody's / Fitch	BBB- / Baa3 / BBB-	BBB / Baa2 / BBB	BB+ / Ba2 / BB+	BB- / NR / BB+	B+ / B1 / NR

Banking Sector Indicators (2021)					
	Romania (RO)	Bulgaria (BG)	Serbia (SR)	North Macedonia (NM)	Albania (AL)
Liquidity					
Liquidity Coverage Ratio (%)	314.2	274.1	199.8	292.2	n.a.
Asset Quality					
NPLs (%)	3.2 <sup>c</sup>	6.0	3.6	3.2	5.7
NPL Coverage (%)	68.0 <sup>c</sup>	72.4	56.3	66.3	71.9
Efficiency					
Cost / Income (%)	48.0 <sup>c</sup>	50.3	66.7	54.2	60.6
Leverage & Capital Adequacy					
Leverage Ratio (Tier 1)	15.8 <sup>c</sup>	8.9	7.5	12.9	12.9
Tier 1 Capital Ratio (%)	20.9 <sup>c</sup>	21.7	19.7	15.7	16.9
CAD (%)	22.6 <sup>c</sup>	22.6	20.8	17.3	18.0
Profitability					
NIM (bps)	286 <sup>c</sup>	218	275	265	289
ROAE (%)	15.8 <sup>c</sup>	8.9	7.8	12.9	12.9
ROAA (%)	1.7 <sup>c</sup>	1.1	1.2	1.5	1.4

✓ Strong profitability, together a highly liquid position and a solid capital base, provides the SEE-5 banking sector with a significant buffer against potential shocks

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