



NATIONAL BANK OF GREECE

Economic Analysis Division Emerging Markets Analysis

Special Issue

SEE-5 Banking Sector Overview 2020

Romania, Bulgaria, Serbia, North Macedonia, Albania



NBG - Economic Analysis Division

Emerging Markets Analysis

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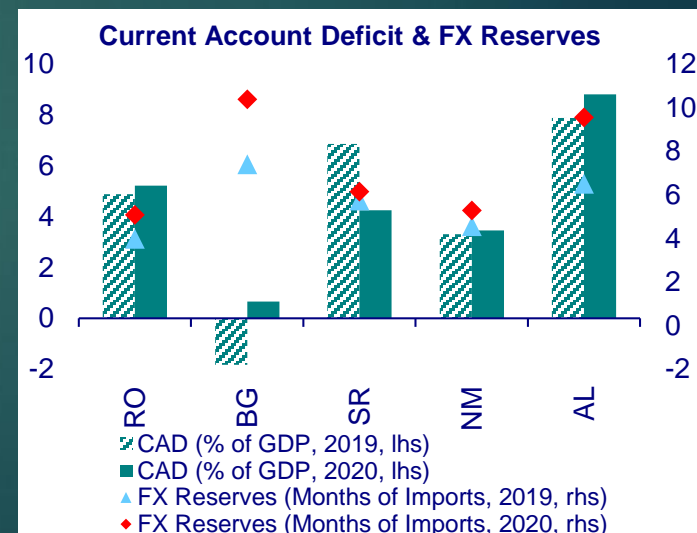
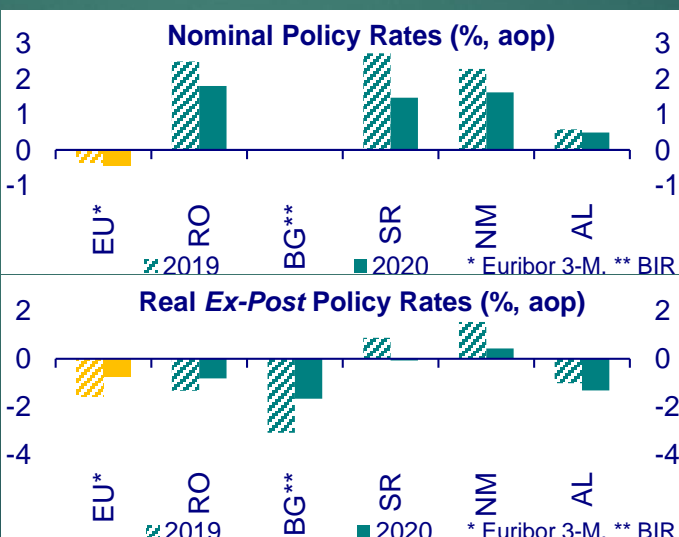
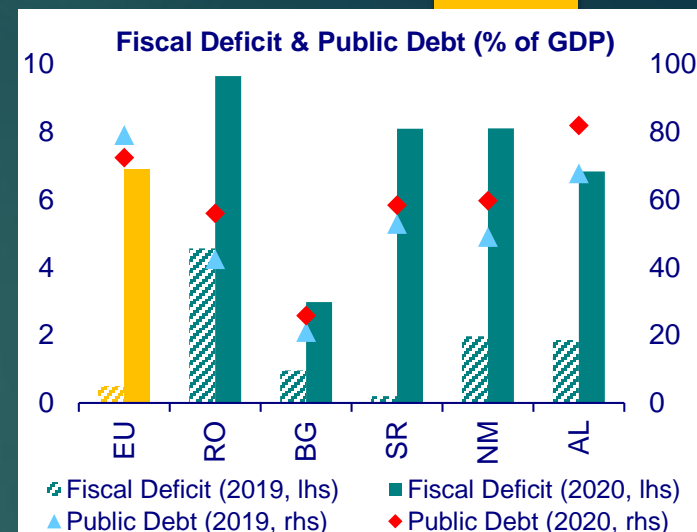
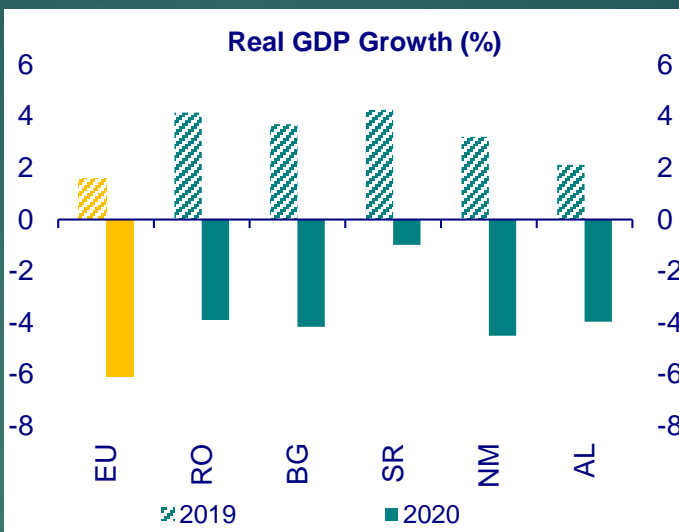
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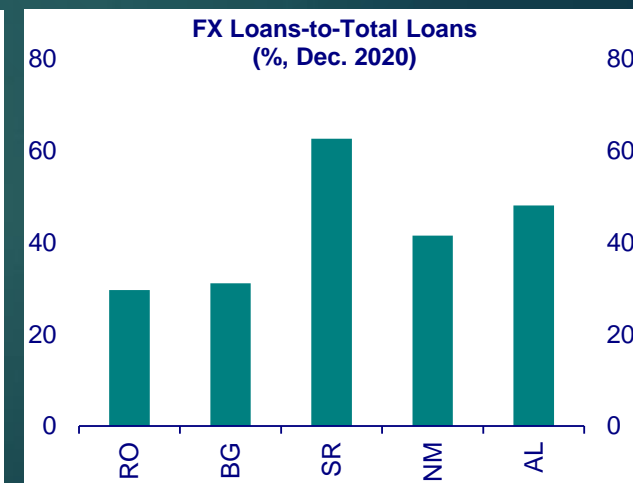
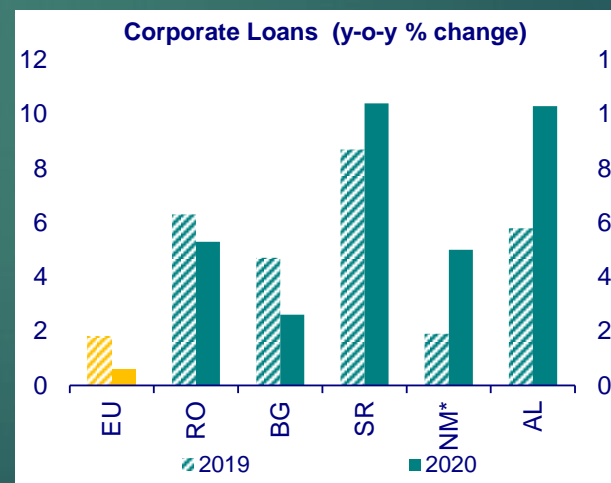
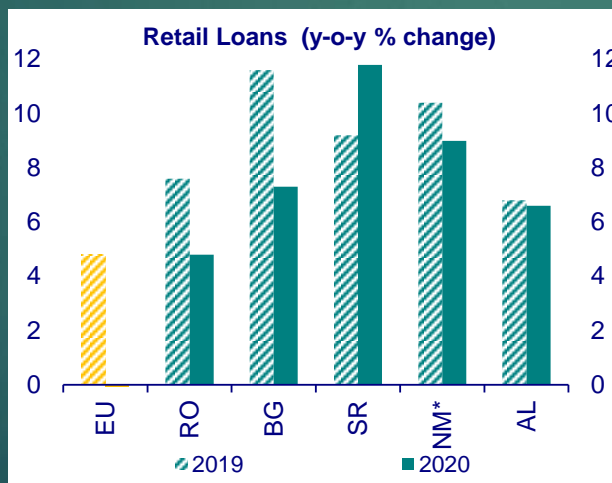
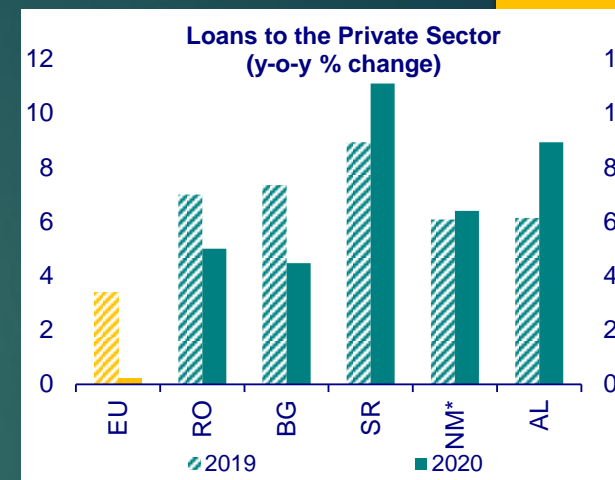
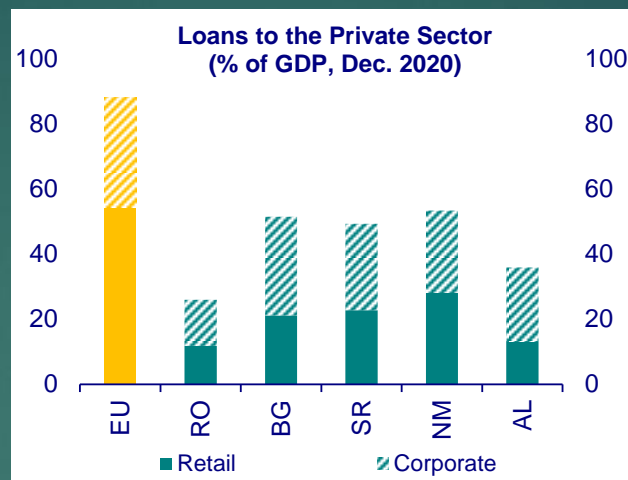
Economic activity in SEE-5 was severely affected by COVID-19

- ✓ Economic activity in SEE-5 was severely affected by COVID-19, with GDP dropping by 3.6% on average in 2020 against an expansion of 4.0% in 2019, outperforming, however, the EU average (down 6.1%). Serbia remained the best performer in the region (seeing a GDP contraction of just 1.0%), thanks to the diversified structure of its economy and the sizeable state support granted (see below)
- ✓ Economic recession was accompanied with a temporary drop in inflation to 2.2% on average in SEE-5 in 2020 from 3.3% in 2021
- ✓ Governments in SEE-5 adopted a comprehensive set of support measures to mitigate the impact of the pandemic, pushing up the budget deficit to 8.1% of GDP on average in 2020 from 3.2% in 2019. As a result of the fiscal deterioration and the economic recession, the gross public debt-to-GDP ratio jumped to 52.1% on average in SEE-5 at end-2020 from 42.3% at end-2019, below the EU threshold of 60%
- ✓ Regional central banks responded to the crisis with cuts in their key rates and a series of liquidity enhancing measures
- ✓ Despite weaker domestic demand, external imbalances in all the countries under review (but for Serbia) widened in 2020, driven, *inter alia*, by a plunge in tourist receipts (Albania, Bulgaria) and remittances (North Macedonia). However, against the backdrop of highly accommodative global financing conditions, SEE-5 economies managed to cover their external financing needs, containing depreciation pressures on domestic currencies and keeping FX reserves at adequate levels



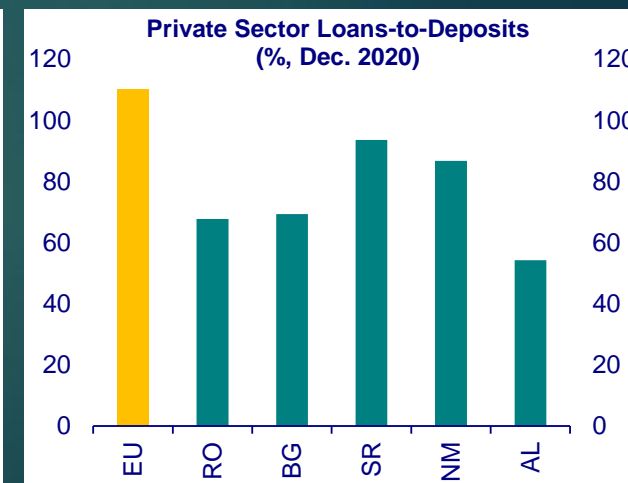
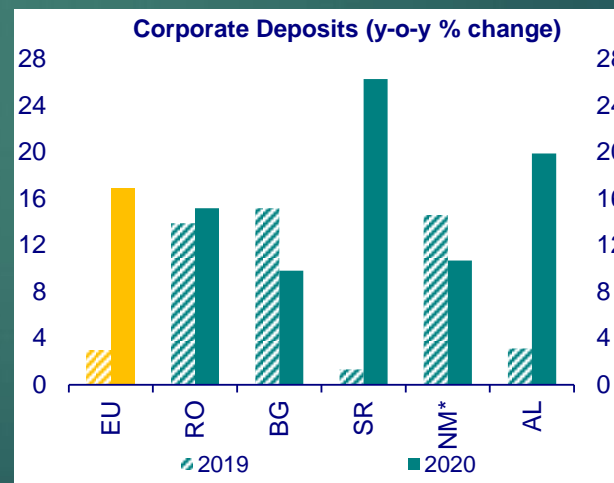
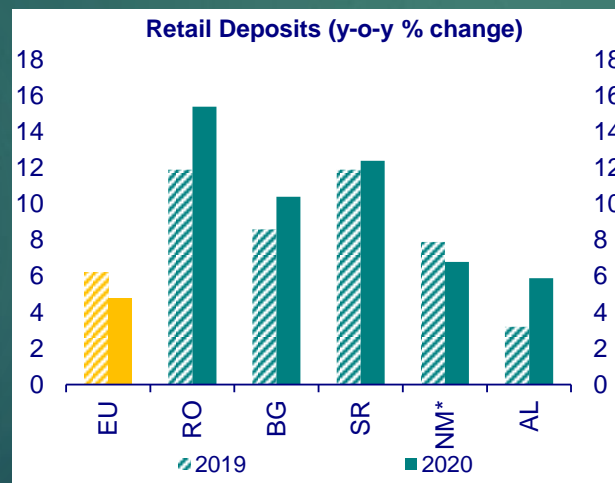
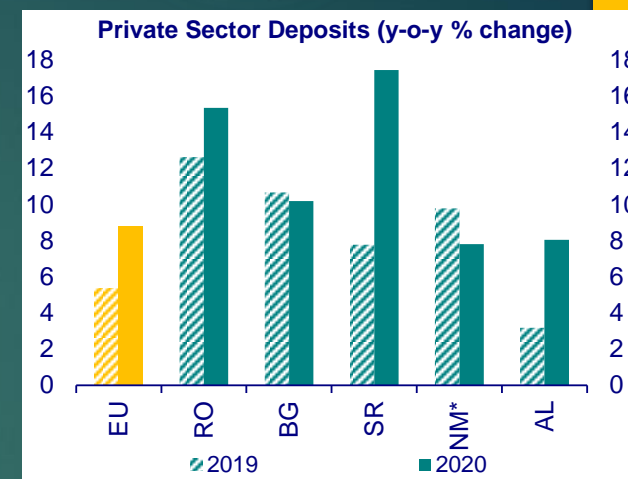
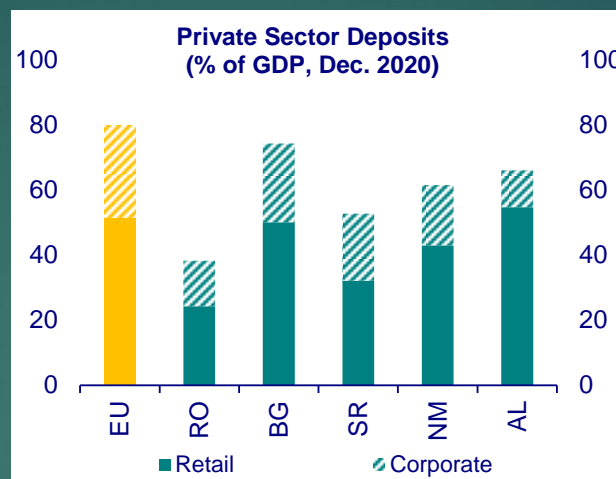
Credit to the private sector continued to expand at a solid pace in 2020 ...

- ✓ As part of their COVID-19 support packages, authorities in SEE-5 launched loan guarantee schemes, subsidized lending to affected entities, either directly (Romania, Bulgaria) or indirectly, through cuts in required reserve requirements (North Macedonia), and eased lending standards (Serbia)
- ✓ As a result, credit to the private sector continued to expand at a solid pace in 2020 (especially in Serbia and Albania)
- ✓ From a segment perspective, corporate lending has mostly benefited from the aforementioned measures
- ✓ Still, financial intermediation in SEE-5 remains low (especially in Romania and Albania), with the retail segment being the most underpenetrated
- ✓ Banking system's reliance on FX financing remains low in Romania and Bulgaria. In contrast, albeit decreasing, the proportion of FX lending in total lending remains high in Serbia



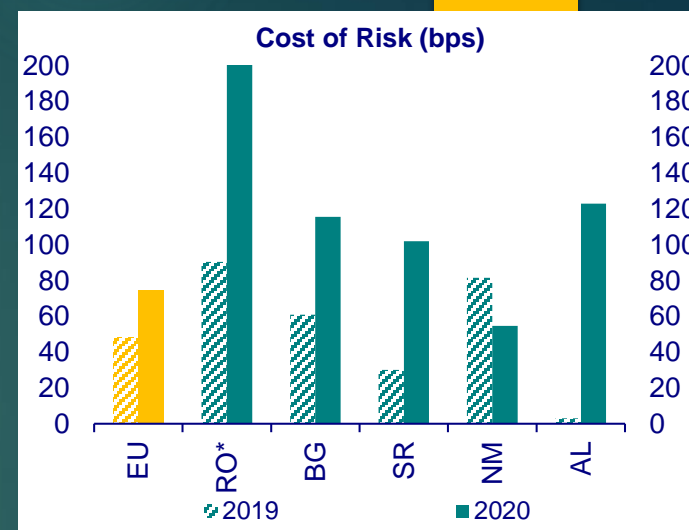
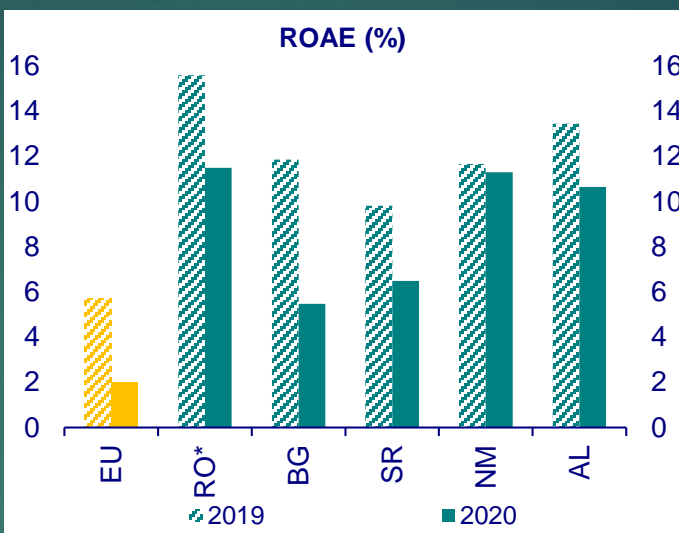
“ ... as did deposits ”

- ✓ Limited spending opportunities amid the pandemic, together with the impact of the emergency measures enacted to support household income and corporate liquidity, boosted deposit growth in 2020. The latter surpassed lending growth in all the countries under review, but for Albania
- ✓ These factors, combined with the plunge in economic activity, pushed up the deposit-to-GDP growth ratio to record-high levels in 2020
- ✓ Deposit penetration in Bulgaria is close to that in the EU (80% of GDP). In contrast, Romania remains the less penetrated market in the region
- ✓ All banking systems in SEE-5 remain liquid, with their loan-to-deposit ratio standing below the critical 100% threshold, especially in Albania (54%)

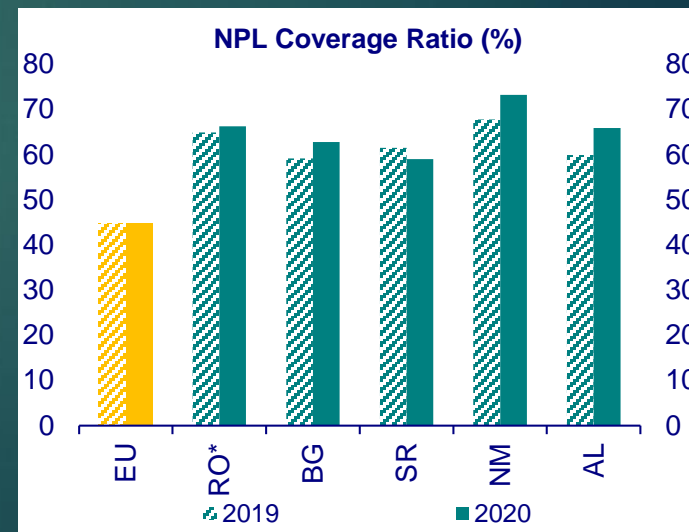
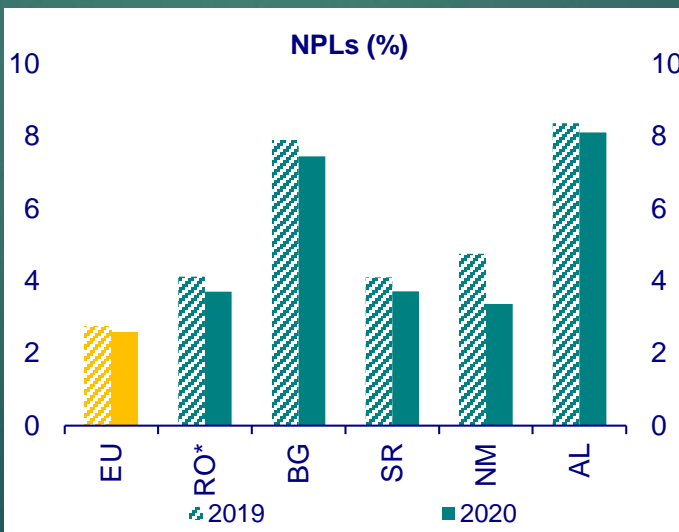


Bank profitability was hit by COVID-19 fallout in 2020, mainly through higher provisioning,...

- ✓ Following a robust performance over the past years, bank profitability in SEE-5 was hit by COVID-19 fallout in 2020. In North Macedonia, the deterioration in profitability and its drivers was masked by the removal of the (loss-making) Eurostandard Bank from the dataset, following the revocation of its license in August 2020, due to the lender's non-compliance with minimum capital requirements. Still, SEE-5 banks continued to outperform markedly EU banks, with ROAE in Romania, North Macedonia and Albania remaining in double-digits
- ✓ With the SEE-5 economies in recession, household and corporate balance sheets came under stress. As a result of higher credit risk, banks increased provisioning charges significantly in 2020, despite the subdued NPL ratio
- ✓ The introduction of debt payment moratoria (which are due to be rolled back within 2021), together with fast credit expansion, temporarily mitigated asset quality deterioration, with the NPL ratio falling to multi-year low levels, yet remaining markedly above the EU average (2.6%). Note that a still significant stock of legacy NPLs remains in Bulgaria (7.4%) and Albania (8.1%)
- ✓ Although NPLs in SEE-5 remain elevated by EU standards, their coverage ratio -- ranging from 59% (Serbia) to 73% (North Macedonia) -- exceeds markedly the EU average (45%), reflecting, *inter alia*, the relatively lower quality of NPLs



... despite the subdued NPL ratio

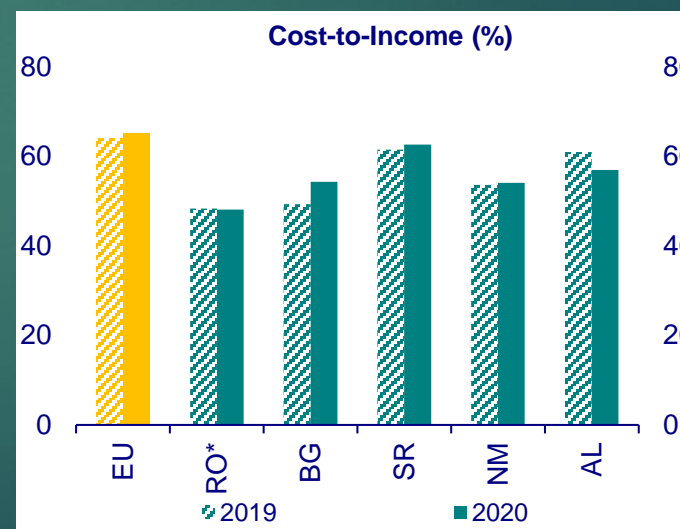
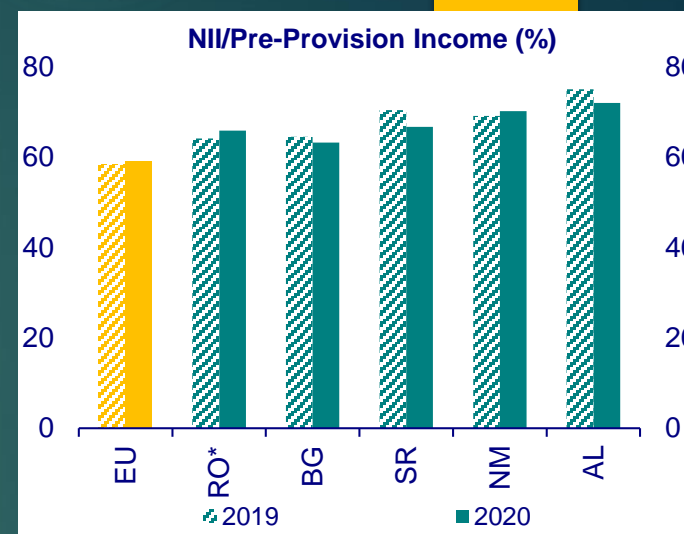
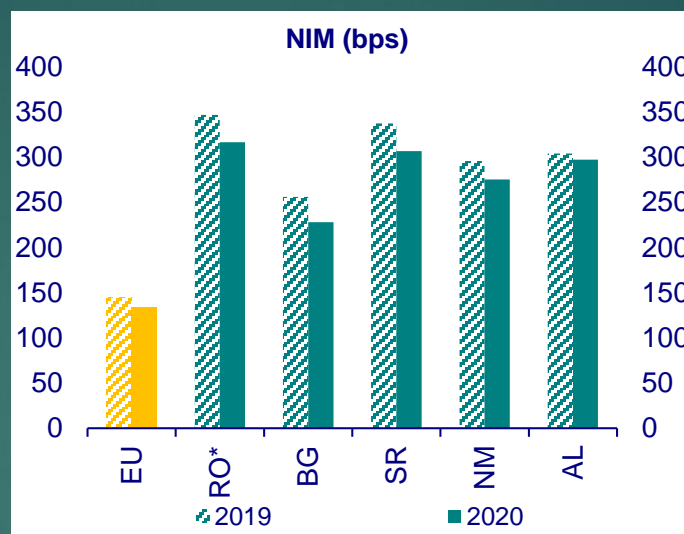


*3 largest banks, together accounting for c. 43% of the banking system's assets

Banking Sector Profitability

- ✓ Despite the income losses induced by central banks' forbearance measures, net interest income (NII), which accounts for the bulk of pre-provision income, is estimated to have remained broadly intact in 2020, supported by solid lending growth. Note that in Albania a significant part of NII comes from Government paper (with related holdings accounting for a sizeable 35% of total assets, a share broadly equal to that of loans)
- ✓ Unsurprisingly, the expansion in banks' loan portfolio came at the expense of a somewhat lower net interest margin (NIM). Romanian and Serbian banks continued to enjoy the largest NIM in the region (c. 310 bps), while Bulgarian banks the lowest (228 bps), with the latter, however, still remaining markedly higher than that of EU banks (133 bps)
- ✓ Net non-interest income (mainly fees and commissions) is estimated to have been affected in 2020, in line with the plunge in economic activity
- ✓ Adding to profitability pressures, operating expenses increased in 2020, on the back of higher COVID-19-related spending
- ✓ All said, the Cost-to-Income ratio for SEE banks (but for Albanian banks) deteriorated slightly in 2020, yet remained lower than that of EU banks (65%), ranging between 48% (Romania) and 63% (Serbia)

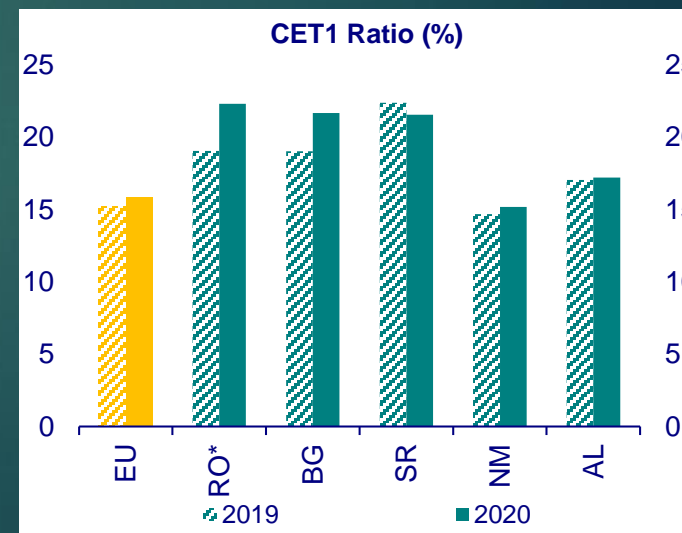
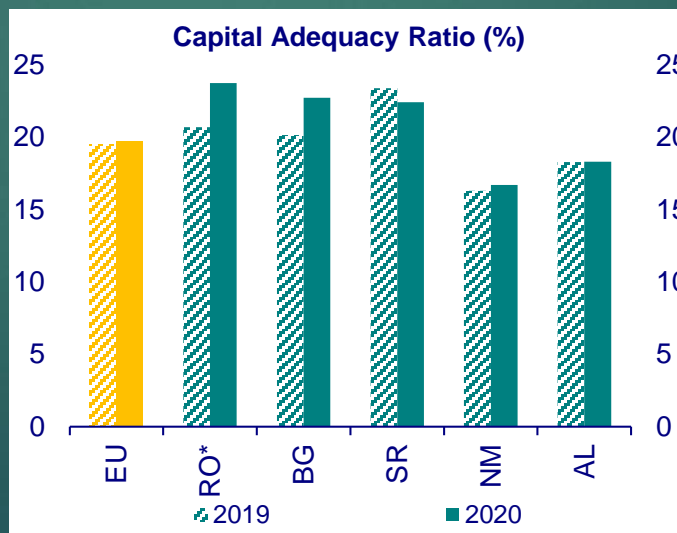
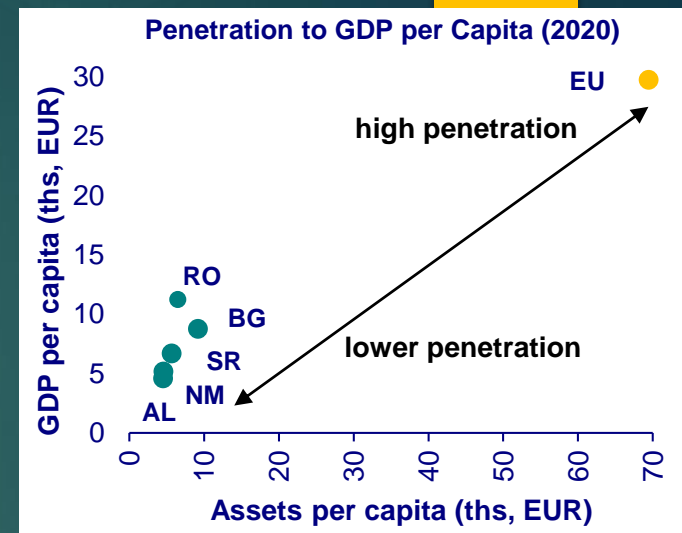
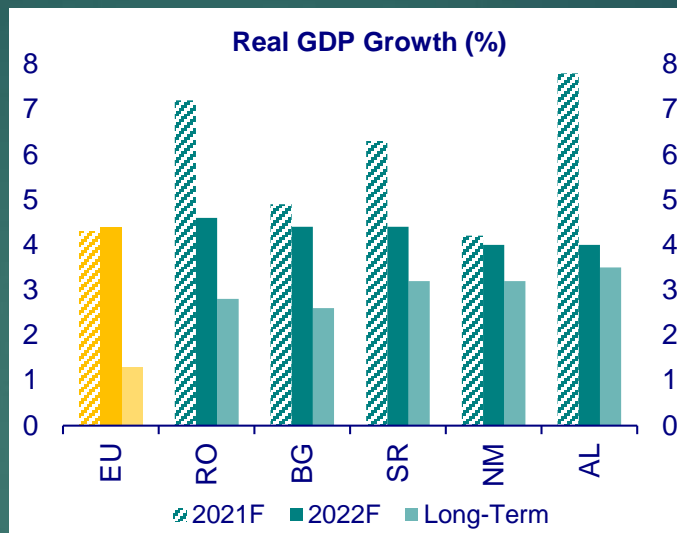
“ Pre-provision income came under (modest) pressure in FY:20, amid a weak operating environment ,”








Banking Sector Outlook

“Despite the repercussions of COVID-19 on NPL formation, SEE-5 bank profitability should remain strong in the period ahead, sustained by a solid credit growth”

- ✓ In the wake of the launch of a massive vaccination campaign and the gradual lift of restrictions, GDP growth in SEE-5 is set to rebound strongly in 2021 (up 6.6%), reflecting, *inter alia*, improved confidence and the release of pent-up demand. As a result, all the economies are expected to more than recoup their COVID-19-induced losses (or, in the case of North Macedonia, the bulk of them) by end-year. For 2022, we expect economic activity in SEE-5 to expand at a more measured pace, still above, however, of its long-term potential growth rate, despite the unwinding of fiscal and monetary stimuli. Convergence with the EU is expected to continue at a fast pace in the longer-term
- ✓ Against this backdrop, banking profitability is expected to recover in 2021, albeit sluggishly, due to still elevated provisioning needs, in the wake of the expiry of central banks' forbearance measures. The burden from COVID-19-related NPLs is set to diminish gradually over the next years
- ✓ Similarly, NII should grow in FY:21, albeit at a measured pace, reflecting the impact of the (partial) extension of debt payment moratoria and capped lending rates. Further recovery is expected in FY:22, in line with solid credit expansion
- ✓ The ongoing digital transformation should weigh on banks' operating expenses over the next few years
- ✓ Importantly, 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



General Information

	 Romania	 Bulgaria	 Serbia	 North Macedonia	 Albania
Population (2020, mn)	19.4	6.9	6.9	2.1	2.9
GDP (2020, EUR, bn)	218.3	64.8	46.5	11.4	13.0
GDP per Capita (2020, EUR)	11,251	9,436	6,703	5,461	4,547
S&P / Moody's / Fitch	BBB- / Baa3 / BBB-	BBB / Baa2 / BBB	BB+ / Ba2 / BB+	BB- / NR / BB+	B+ / B1 / NR

Banking Sector Indicators (2020)					
	Romania (RO)	Bulgaria (BG)	Serbia (SR)	North Macedonia (NM)	Albania (AL)
Ownership: Number of Banks					
Number of Banks	34 ^a	25	26	14	12
Foreign Owned	27	17	20	8	8
State Owned	3	2	3	1	0
Ownership: Share in Assets (%)					
Foreign Owned	70.5% ^b	76.0%	77.9%	66.0%	69.0%
State Owned	3.2% ^b	4.9%	6.4%	2.0%	0.0%
Concentration: 5 Largest Banks' Market Share (%)					
Assets	61.1% ^b	66.6%	52.2%	76.5%	76.0%
Intermediation (% of GDP)					
Assets	57.5 ^c	104.6	84.2	88.2	98.4
o/w Credit to Private Sector	25.9 ^c	51.5	49.4	53.4	35.9
Deposits	38.3 ^c	74.3	52.7	61.5	66.1
Asset Quality					
NPLs (%)	3.7 ^c	7.4	3.7	3.4	8.1
NPL Coverage (%)	66.2 ^c	62.8	59.0	73.2	65.9
Profitability & Capital Adequacy					
ROAE (%)	11.5 ^c	5.5	6.5	11.3	10.7
CAD (%)	23.8 ^c	22.7	22.4	16.7	18.3

✓ Strong foreign presence in SEE-5

✓ The large number of banks with very small market shares in Romania and, to a somewhat lesser extent, in Bulgaria and Serbia suggests that there is scope for further banking sector consolidation

Sources: EBA, National Central Banks & NBG estimates

a: excluding cooperative (37) and housing savings banks (2), b: 2019, c: 3 largest banks, together accounting for c. 43% of the banking system's assets

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