EU10 October 2009

In Focus: EU-10 Banking Sector Credit Losses[14]

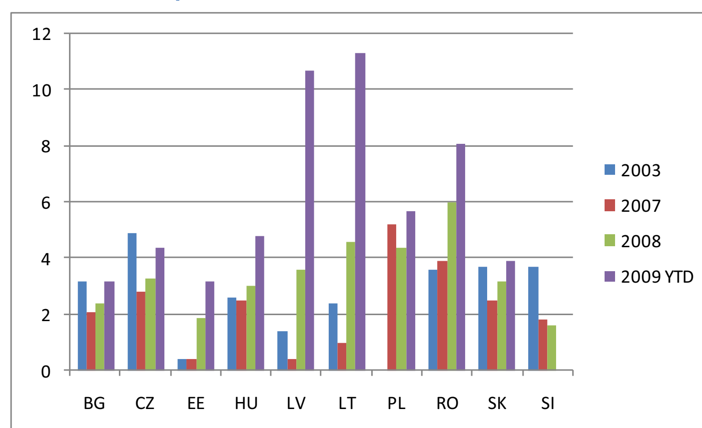
A year after the collapse of Lehman Brothers, the situation in the banking sector in the EU10, one of the channels through which the global financial crisis affected the region, seems to have largely stabilized. Earlier concerns about the strength of the commitment of the foreign parent banks in the region to continue supporting their local subsidiaries have diminished. The risk of a sudden withdrawal of foreign financing is now substantially lower. Concerns about liquidity and solvency of the sector have also lessened, largely owing to forceful interventions by the regional central banks, governments and international institutions. However, the banking sector is not out of the woods yet. In particular, there is a growing concern about the impact of the rising banking credit losses resulting from the economic downturn on banking sector's stability. This note provides an estimate of the likely credit losses in the region if economic conditions were to deteriorate even further and discusses factors that may affect the final credit cost.

The main conclusions emerging from this analysis, building in part on a forthcoming book prepared by the World Bank[15], are:

- even if the macroeconomic environment were to worsen, credit losses in the EU10 banking sector are likely to be substantial but remain manageable, particularly with continued support from parent banks and the domestic authorities;
- expected rise in corporate credit losses is likely to be mitigated by a relatively low corporate leverage and high interest cover, although not in all countries;
- household debt is vulnerable to default, but the risk is partly offset by a still low household indebtedness, in particular when compared to advanced countries in the region.

Bank losses are increasing in the region as corporations and households are facing increasing difficulties in servicing debt. Banks are seeing their loan portfolio deteriorate as firms are hit by the collapse of demand and higher costs of financing while households are affected by rising unemployment and increased debt burden following large currency depreciations. In Latvia, the hardest hit country in the region, non-performing loans (NPLs) have increased from 3.6% at end-2008 to more than 10% in May 2009 (Figure 4). On a broader definition including substandard, doubtful and lost loans, NPLs in Latvia as of end-March reached nearly 25% (and 15% in Romania), not far from earlier banking crises in Asia, Russia, and Latin America where NPLs exceeded 30% (see Table 7). Given that the economic recovery in the region is likely to remain tepid, NPLs are set to rise further.

Figure 54. Non-performing loans in EU10 countries, 2007-2009 YTD, in percent of bank loans



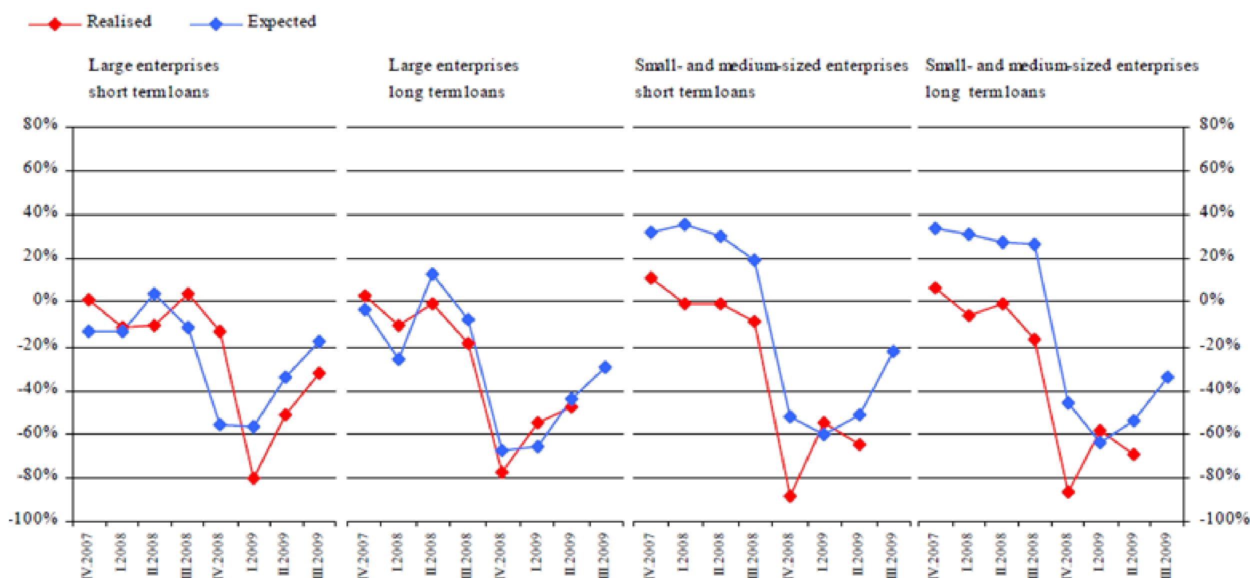
Source: IMF Global Financial Stability Report (October 2009) and National Bank of Romania.

Rising bank losses may undermine the impending economic recovery, as banks reduce lending to companies and households to secure their capital base, improve liquidity, and reduce new risks. Banks in the region have already substantially tightened lending criteria, increased credit margins, and reduced access to credit, particularly for small and medium enterprises. In Poland, a country the least affected by the crisis,

[14] Prepred by Marcin Piątkowski.
[15] Mitra, Selowsky, and Zalduendo, 2009, *Turmoil at Twenty*, The World Bank (Washington DC: The World Bank Press).

banks continued to tighten credit lending criteria for enterprises even in the third quarter of 2009 (Figure 41)[16]. The uncertainty about future developments in the corporate and household market, especially as regards the impact of rising unemployment, additionally constrains bank funding available in the economy.

Figure 55. Poland: Loan Officers Survey of Corporate Credit Lending Criteria, 4Q2007-3Q2009



Note: Figures present the net percentage. A negative value of the index indicates that banks tighten lending policy or demand for loans falls.

Source: National Bank of Poland

While the full impact of the crisis on asset quality in the region is still unknown, past banking and currency crises offer a rough guide to assess underlying risks. This should be viewed as an illustration of the possible risks in a worsening economic environment, including a currency crisis. The focus is on banking crises where declines in GDP in the year following the onset of the crisis exceeded 5 percent and that were accompanied by a currency crisis. In such cases, the non-performing loans on average rise to 30 percent (Table 7). These are assumed to be a proxy for the *probability of default*. In addition, *recovery rates* are assumed to be roughly 40 percent on mortgages, in line with the marked declines that have occurred in housing prices, and 15 percent on loans to firms, which broadly matches the average assumption made by the Swedish Riksbank on the exposure of Swedish banks to the Baltic States.[17] The shares of households and firms in the total loan portfolio—a measure of exposure—are provided by broad characterization of the consolidated banking sectors in ECA countries. A preferable approach no doubt would be to calibrate the recovery rate by sector and country depending on country-specific bankruptcy resolution frameworks and other institutional characteristics that impact recovery rates, but such data is only available to banking supervision authorities of each individual country.[18]

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[16] Although fewer banks than before expect to further tighten credit policy in the coming quarter.

[17] Sveriges Riksbank (2009), *Financial Stability Report*, March 2009.

[18] Many countries in the region have conducted their own banking sector stress tests based on adverse macroeconomic scenarios. The stress tests show that banking sectors would generally be able to accommodate the projected increase in credit losses.

Table 7. List of Banking and Currency Crisis Countries

Country	Crisis year	NPLs (% of all loans)	Country	Crisis year	NPLs (% of all loans)
	Banking and Currency Crisis			Banking Crisis Only	
Argentina	1980	9.0	Argentina	1995	17.0
Argentina	1989	27.0	Bolivia	1994	6.2
Argentina	2001	20.1	Colombia	1982	4.1
Brazil	1994	16.0	Colombia	1998	14.0
Bulgaria	1996	75.0	Croatia	1998	10.5
Chile	1981	35.6	Czech Republic	1996	18.0
Dominican Republic	2003	9.0	Finland	1991	13.0
Ecuador	1998	40.0	Japan	1997	35.0
Estonia	1991	7.0	Latvia	1995	20.0
Indonesia	1997	32.5	Lithuania	1995	32.2
Jamaica	1996	28.9	Nicaragua	2000	12.7
Korea	1997	35.0	Norway	1991	16.4
Malaysia	1997	30.0	Paraguay	1995	8.1
Mexico	1994	18.9	Sri Lanka	1989	35.0
Philippines	1997	20.0	Thailand	1997	33.0
Russia	1998	40.0	Vietnam	1997	35.0
Sweden	1991	13.0			
Turkey	2000	27.6			
Ukraine	1998	62.4			
Uruguay	2002	36.3			
Venezuela	1994	24.0			
Average		28.9	Average		19.4
Median		27.6	Median		16.7

Source: Laeven and Valencia (2008) [19].

The result of the analysis suggests that the credit losses in EU10 countries may be substantial but still remain manageable. In a scenario based on past banking and currency crises, the estimated losses vary from 9 percent of GDP in Romania to 21 percent of GDP in Estonia, with an average of some 13 percent of GDP for emerging Europe as a whole, comprising EU10 and other countries in Central and Eastern Europe (Table 8). The variation across countries is largely accounted for by the size of the loan portfolio that is the share of credit in GDP. Of course the scenario could be more optimistic about recovery rates. For example, housing prices in many countries in the region have not declined as much and banks might choose not to proceed immediately to sell these assets to avoid worsening housing market conditions. In a scenario in which recovery rates in mortgages average 75 percent, credit losses would range anywhere from 6 to 16 percentage points of GDP.[20] Importantly, non-performing loans in the EU10 at this stage of the crisis are much lower than recorded during recorded during earlier banking crises, where NPLs peaked at 32 percent in Indonesia, 35 percent in Korea, 30 percent in Malaysia during the East Asian crisis, and at 40 percent in Russia and 36 percent in Uruguay during their crises in the late 1990's and early 2000's (Figure 56).[21] In EU10 countries with pegged exchange rate regimes and large unhedged FX liabilities, NPLs

[19] Laeven and Valencia (2008), "Systemic Banking Crises: A New Database," IMF, WP/08/224. Estonia had a currency crisis in 1991 and a banking crisis in 1992.
[20] The adopted methodology does not take into account the individual country circumstances, which are discussed in the following sections, and should be seen as an illustration in a scenario in which economic developments take a turn for the worst.
[21] The increases observed in past capital account crises reflect a combination of both increased and widespread corporate distress, as well as the introduction of better loan classification standards for financial institutions.

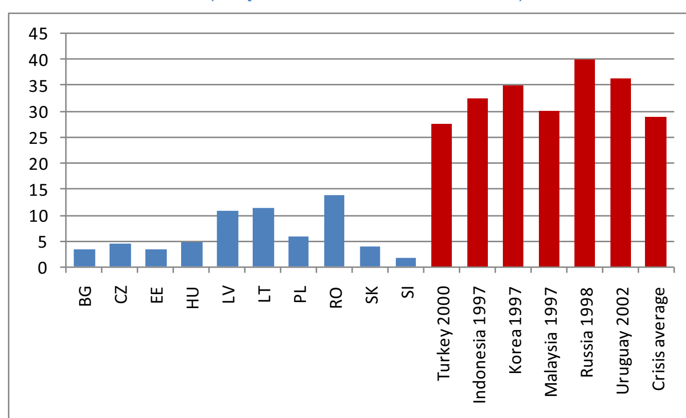
Table 8. Credit Losses—Extrapolating from Past Crisis Events

	Share of lending to		Outstanding private credit		Alternative	Losses (w/ NPLs)	
	HH	Firms	in bill. LCU	in % GDP	assumptions	in bill. LCU	in % GDP
Belarus 2/	0.25	0.75	37159	29	NPLs 3/	8632	7
Bulgaria	0.35	0.65	50	74	29.50	11	17
Croatia	0.50	0.50	222	65		48	14
Czech Republic	0.40	0.60	1947	53	LRGD - HH 4/	431	12
Estonia 1/	0.50	0.50	245	99	0.40	52	21
FYR Macedonia	0.40	0.60	175	44		39	10
Hungary	0.40	0.60	18527	69	LRGD - Firms 5/	4099	15
Kazakhstan 2/	0.25	0.75	7972	50	0.15	1852	12
Latvia 1/	0.50	0.50	15	90		3	19
Lithuania 1/	0.45	0.55	70	63		15	14
Montenegro	0.40	0.60	3	81		1	18
Poland	0.40	0.60	633	50		140	11
Romania	0.40	0.60	194	38		43	9
Russia 2/	0.30	0.70	17102	41		3910	9
Serbia	0.40	0.60	1072	38		237	8
Turkey 2/	0.30	0.70	310	33		71	7
Ukraine 2/	0.30	0.70	700	74		160	17
Average				58			13
Median				53			12

1/ Assumes somewhat higher role of mortgage lending given developments in housing prices.
2/ Assumes a lower share of HH lending; loans to corporates still dominate.
3/ NPLs are assumed to match the levels observsed in the Laeven and Valencia database for cases with a currency crisis; in effect this is broadly equivalent to cases where the decline in GDP in period t+1 is at least 5 percent.
4/ Assumes loan-to-value ratios of one and a revery rate of only 40 percent given the decline in housing prices.
5/ The loss recovery given default is set at the average level observed during the Asian crisis.

Source: Mitra, Selowsky, and Zalduendo, 2009, Turmoil at Twenty, The World Bank (Washington DC: The World Bank Press).

Figure 56. Non-performing loans in the EU10 in 2009 and Historical Data for Banking and Currency Crisis Countries (in percent of bank loans)



Note: Crisis average taken from Table 7.

Source: IMF Global Financial Stability Report, October 2009 for the EU10; Table 7 for other countries.

Banking sector losses may be mitigated by a relatively low corporate leverage. Debt leverage of non-financial companies, as measured by the ratio of total debt to total assets, is lower in EU10 countries than in emerging markets three years prior to, during, and three years following the year in which they experienced a capital accounts crisis.[22] The leverage is also lower than in the four EU cohesion countries—Greece, Ireland,

[22] For details on the DataStream (WorldScope) data; refer to Mitra, Selowsky and Zalduendo (2009), op.cit.

Spain and Portugal—that have been hard hit by the current crisis (Table 9). Overall leverage in Poland and Czech Republic remained moderate throughout the period. Leverage was much higher Hungary, but it was still about half of the elevated levels seen in East Asia during its crisis in 1997-98 and was also generally lower than in Argentina (2001), Brazil (1998), Mexico (1995), and Turkey (2001) in the years of their crisis. Table 10, based on Bloomberg database and covering a wider set of countries in the region,[23] presents a similar picture: even EU10 countries with the highest leverage have a total debt to total assets ratio that is broadly similar to those in East Asia and somewhat less than in EU15 countries in 2008.

Table 9. Non-Financial Corporate Leverage—Recent History for Selected EU10 Countries and Crisis Years for Comparator Countries (median values)

	Number of Firms 1/	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Czech Republic	31	23.9	18.0	12.8	10.3	8.9	10.1	10.8	9.7	8.9	11.6
Hungary	33	11.1	17.4	11.7	12.8	17.2	17.1	15.7	21.1	13.2	27.6
Poland	167	11.7	13.0	16.5	17.7	18.3	15.9	15.6	15.9	15.5	17.1
Turkey	182	25.5	27.5	26.2	25.1	19.7	16.7	16.7	19.2	16.5	21.7
Greece	268	20.2	20.4	26.8	28.0	29.5	29.2	31.9	30.2	32.6	34.4
Ireland	68	25.5	27.4	30.6	29.3	28.7	23.5	27.0	29.3	28.4	34.7
Portugal	64	29.3	32.4	35.6	37.1	35.2	35.2	34.8	38.9	40.8	46.3
Spain	163	20.4	23.2	24.0	26.0	27.7	28.1	31.9	33.0	33.3	34.1
		Period ('t' represent the year of the crisis) 2/									
		t-3	t-2	t-1	t	t+1	t+2	t+3			
Korea (1997)	442	44.1	45.1	46.1	50.5	44.6	33.4	31.1			
Thailand (1997)	273	32.6	37.7	40.9	53.1	45.1	41.1	43.4			
Indonesia (1997)	171	28.6	31.6	34.7	51.8	61.3	50.3	47.1			
Argentina (2001)	78	33.4	30.6	31.2	27.7	31.4	25.8	23.1			
Brazil (1998)	257	18.0	24.3	26.1	27.3	26.2	26.1	31.4			
Mexico (1995)	82	28.7	29.9	31.1	31.9	28.3	28.7	28.0			
Turkey (2001)	158	24.1	25.5	27.5	26.2	25.1	19.7	16.7			

Source: DataStream

Notes: 1) Average over period, 2) Crisis year is defined as "t" and is indicated in parenthesis next to the corresponding country

Table 10. Non-Financial Corporate Leverage in ECA Countries (median values)

ECA Countries			Other Countries		
	Number of Firms	2008		Number of Firms	2008
Bulgaria	142	16.4	Korea	116	27.8
Croatia	201	26.5	Thailand	364	24.9
Czech Republic	13	10.8	Indonesia	244	30.2
Estonia	14	26.2			
Hungary	24	19.5	Argentina	78	21.2
Latvia	23	25.6	Brazil	313	28.0
Lithuania	34	29.4	Mexico	83	23.5
Macedonia	30	18.6			
Poland	247	14.8	Portugal	53	41.1
Romania	151	18.5	Ireland	44	26.9
Russia	713	23.5	Greece	255	33.5
Slovakia	11	13.7	Spain	115	27.5
Slovenia	41	31.9			
Turkey	219	20.6			
Ukraine	193	17.5			

Source: Bloomberg.

Source: Bloomberg

[23] See "Turmoil at Twenty", op. cit.

High interest coverage ratio will also help reduce losses, although not for all countries. In the same context as the previous table on corporate leverage, Table 11 reports the interest coverage ratio, that is the ratio of EBIT (earnings before interest and tax) to total interest expense, for selected EU10 countries and emerging market countries three years prior to, during, and three years following the year in which they experienced a capital accounts crisis. The table also reports the ratio for the selected EU15 countries. Table shows that only in Hungary the interest coverage ratio fell sharply to reach a low of 1.3 in 2008, a figure comparable to the lows reached in East Asia during its crisis and in Turkey in 2001. Interest coverage ratio in Poland and the Czech Republic was at a comfortable level, reflecting the overall milder impact of the crisis on the real sector. Table 12 shows the same ratio for a wider set of countries; it is the lowest in Croatia, Slovenia, Latvia and Hungary and the highest in the Czech Republic, Estonia, Poland, Romania and the Slovak Republic. The table also reports the proportion of firms that had interest coverage less than unity, i.e., where EBIT did not cover interest expense. Worryingly, half of the surveyed companies in Hungary had insufficient earnings to fully cover interest expense, which was the worst result among all the surveyed countries except for Croatia.

Table 11. Interest Coverage in Non-Financial Firms—Recent History for ECA and Cohesion countries and Crisis Years for Comparator Countries (in percent; median values)

	Number of Firms 1/	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Czech Republic	33	1.7	4.0	3.8	4.6	6.1	8.1	6.6	11.7	14.1	22.3
Hungary	34	5.5	5.9	5.7	4.7	4.8	3.4	4.1	5.1	4.2	1.3
Poland	240	3.6	2.1	1.5	2.1	3.7	6.0	6.4	9.4	11.5	4.8
Turkey	194	1.7	2.3	1.2	1.8	3.2	3.1	3.7	3.3	4.5	2.2
Greece	281	6.0	5.8	3.9	3.1	2.9	3.2	2.9	3.1	3.0	1.7
Ireland	70	4.4	3.8	2.0	1.4	2.6	3.1	3.7	4.0	4.4	1.5
Portugal	65	4.1	2.9	2.4	1.8	2.0	3.1	3.2	3.0	2.5	1.3
Spain	166	7.2	5.8	4.5	3.8	5.0	5.8	5.9	4.6	3.5	2.3
		Period ('t' represent the year of the crisis) 2/									
		t-3	t-2	t-1	t	t+1	t+2	t+3			
Korea (1997)	436	1.4	1.4	1.2	1.1	1.1	1.7	1.8			
Thailand (1997)	259	4.1	3.2	2.2	1.2	1.6	1.0	1.5			
Indonesia (1997)	169	4.2	3.3	2.6	1.0	0.1	1.8	0.6			
Argentina (2001)	468	3.3	1.9	1.4	1.2	0.1	1.6	2.2			
Brazil (1998)	255	1.6	1.6	1.8	1.3	0.9	1.4	1.2			
Mexico (1995)	73	3.2	2.7	1.1	1.8	3.1	3.1	1.7			
Turkey (2001)	170	2.4	1.7	2.3	1.2	1.8	3.2	3.1			

Source: DataStream

Notes: 1) Average over period, 2) Crisis year is defined as "t" and is indicated in parenthesis next to the corresponding country

Table 12. Interest Coverage Ratio in Non-Financial Firms (in percent; median values)

	ECA Countries				Other Countries		
	Number of Firms	Less than one percent 1/	2008		Number of Firms	Less than one percent 1/	2008
Bulgaria	123	34	2.1	Korea	1550	39	2.2
Croatia	204	52	0.8	Thailand	397	33	3.5
Czech Republic	16	6	33.3	Indonesia	243	20	2.7
Estonia	13	15	5.5				
Hungary	14	50	1.5	Argentina	83	24	3.1
Latvia	24	38	1.5	Brazil	157	27	2.6
Lithuania	31	32	2.8	Mexico	96	19	3.9
Macedonia	30	50	1.1				
Poland	319	28	4.2	Portugal	49	37	1.5
Romania	186	28	3.5	Ireland	51	35	2.1
Russia	705	19	5.5	Greece	256	31	2.1
Slovakia	9	33	3.3	Spain	81	23	3.1
Slovenia	38	32	2.0				
Turkey	214	45	1.3				
Ukraine	46	41	2.0				

Source: Bloomberg

Notes: 1) Proportion of firm with an interest coverage ratio of less than 1 percent

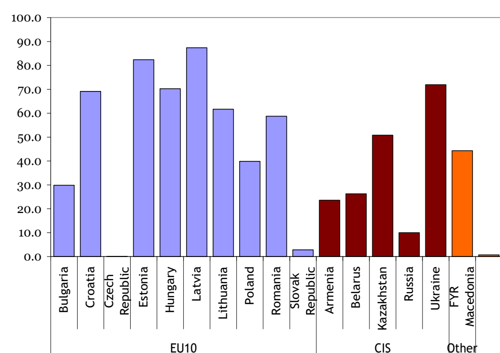
Household debt may be vulnerable to default. This reflects the fact that much of the rapid expansion of credit in EU10 countries throughout the last decade was driven by the household sector. The ratio of lending to households to lending to corporations doubled in most countries between 2003 and 2008 (Table 13). Furthermore, mortgage lending as a share of lending to households increased sharply during the period. Lastly, mortgage loans are vulnerable to exchange rates (Figure 57) and interest rates shocks (Figure 58) as well as falling real estate prices (Figure 59).[24]

Table 13. Growth of Credit to Households and Corporations, 2003-2008

	Average Growth of Credit to Households 2003-2008	Average Growth of Credit to Corporations 2003-2008	Ratios of Lending to Households to Lending to Corporates		Share of Housing Loans in Total Household Lending	
			2003	2008	2003	2008
Bulgaria	40.7%	57.3%	37.2%	59.0%	-	42.8%
Czech Republic	26.5%	11.8%	69.1%	126.2%	65.4%	70.3%
Estonia	38.7%	32.3%	82.5%	103.3%	77.6%	80.5%
Hungary	21.3%	7.2%	52.9%	95.0%	64.3%	50.7%
Latvia	44.1%	28.0%	50.3%	87.8%	64.0%	78.9%
Lithuania	59.1%	30.6%	28.9%	75.1%	76.4%	69.3%
Poland	27.5%	13.3%	101.8%	181.8%	30.1%	52.5%
Romania			-	104.9%	-	21.1%
Slovak Republic	28.2%	9.8%	39.8%	84.3%	68.9%	67.7%
Russia	59.4%	26.6%	11.4%	33.2%	-	27.6%
Turkey	45.4%	23.6%	36.9%	78.9%	27.2%	32.5%
Ukraine	83.8%	46.6%	33.6%	63.2%	24.9%	31.5%

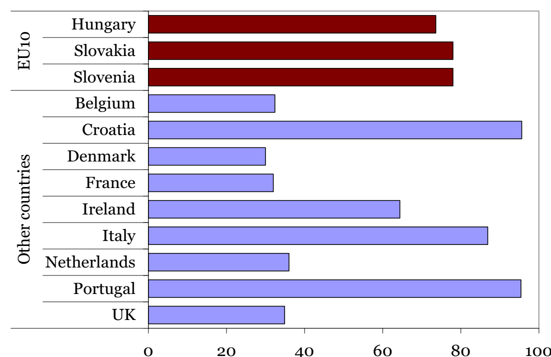
Source: IFS and Central Banks

Figure 57. Foreign Currency Denominated Loans 2008 (in percent of bank loans to households)



Source: Central Banks, World Bank staff calculations

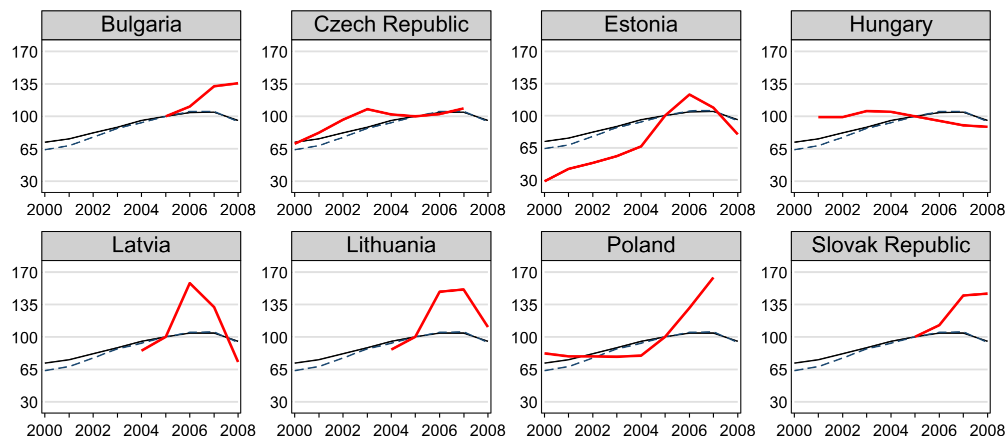
Figure 58. Mortgage Loans with Adjustable Interest Rates 2006 (in percent of all housing loans)



Source: IMF; OECD; and National Central Banks

24 World Bank 2009, "The Crisis Hits Home: Stress Testing Households in Europe and Central Asia".

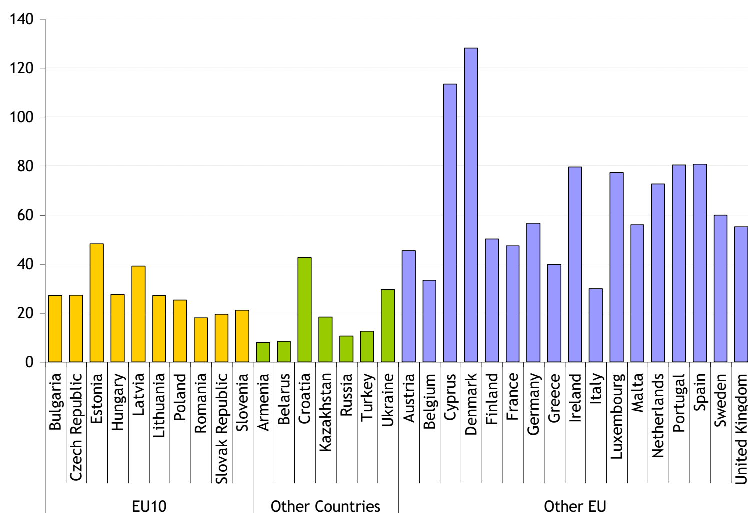
Figure 59. Real Housing Price Developments, 2005=100, (red line for country; solid black for benchmark mean; dash line for benchmark median)



Source: Global Property Guide based on data from statistical offices and real estate companies. Benchmark countries are France, Germany, Ireland, Spain, and the United Kingdom.

However, despite recent high growth rates, household indebtedness is generally still low, thus reducing potential for banking losses. Household debt in EU10 countries represents on average over a quarter of GDP but there is significant cross-country variation, with the figure reaching above 40 percent in some countries (Figure 60). These ratios are below the present average of about 65 percent of GDP for the EU15 and closer to those for Ireland, Italy, Portugal and Spain during the late1990s. Moreover, mortgage interest service burden on the poorest households, most vulnerable to a credit default, are on a moderate level of 7 to 13 percent of household income. Importantly, the fraction of household with mortgages in the poorest quintile is quite small.

Figure 60. Household Debt, 2008 (% of GDP, end of period)



Source: European Central Bank; National Central Banks; IMF; and UniCredit.

Many countries are experimenting with measures that may additionally help limit household defaults and thus reduce credit losses. In Hungary, the authorities have argued for agreements where banks convert foreign-exchange denominated loans to households into local currency loans without penalty, capitalize the increase in mortgage payments arising from the conversion and potentially extend the term of the loan for creditworthy borrowers. The option however has not been widely exercised on account of forint interest rates still being substantially higher than euro rates. Hungary has also introduced legislation to provide temporary state guarantees for mortgage payments of the unemployed and submitted legislation to

Parliament to expand the partial mortgage debt servicing guarantee scheme for the unemployed to other debtors whose payment capacity has been temporarily impaired by the financial crisis. Poland introduced a similar scheme for mortgage repayment among the newly unemployed. Romania has sought an agreement with commercial banks to facilitate the restructuring of debt contracted in foreign currency by adjusting the maturity and repayment schedule of the debt, including offering the option to voluntarily convert it into domestic currency. In Latvia, the authorities are considering to provide a partial state guarantee for mortgage loans restructured under certain guidelines that is intended to relieve borrowers' debt service to a level commensurate with their capacity to pay. As justified as some of these initiatives are, the use of public monies should be carefully targeted based on need as public resources are limited. They should also be informed by medium-term repayment capacity. Indeed, where the circumstances are such that repayment capacity has ceased, recognizing early such circumstance by banks provisioning against loan losses should not be postponed.

Banks in the region seem to be able to accommodate rising losses. Capital adequacy ratios are significantly above the mandatory 8% floor in all countries in the region. Losses on loans have been largely provisioned. Bank's profitability remained positive in most countries in the region, providing additional cushion against losses (Table 14). Crucially, foreign parent banks have so far continued to support their local subsidiaries with injections of both capital and liquidity. So did central banks, governments, and international institutions such as the World Bank, European Investment Bank and the EBRD.[25]

Table 14. Banking sector's stability and profitability indicators for the EU10 and selected countries, 2003-2009

	Capital adequacy 1/				Loan provisions 2/				Return on equity			
	2003	2007	2008	2009	2003	2007	2008	2009	2003	2007	2008	2009
Bulgaria	22	13.9	14.9	16.5	50	…	…	…	22.7	24.8	23.1	15.7
Czech Republic	14.5	11.5	12.3	13.7	76.7	70.4	67.5	61.3	23.8	25.4	21.7	23.4
Estonia	12.5	10.8	13.3	15.2	214.5	…	…	…	14.1	30	13.2	8.7
Hungary	11.8	10.4	11.1	12.3	47.3	58.1	59.6	52.6	19.3	18.1	11.6	15.3
Latvia	11.7	11.1	11.8	12.8	89.4	129.8	61.3	40.7	16.7	24.3	4.6	-19.7
Lithuania	13.2	10.9	12.9	13.9	…	…	…	…	11.4	27.3	16.1	-1
Poland	13.8	12	11.2	11.7	53.4	…	…	…	5.8	22.4	20.7	15.6
Romania	21.1	13.8	12.3	…	12.6	25.7	28.7	…	20	11.5	18.1	…
Slovak Republic	22.4	12.8	11.1	12.2	85.8	93.3	91.4	88.3	10.8	16.6	14.1	4.1
Slovenia	11.5	11.2	10.5	…	81	…	…	…	11.9	16.3	9	…
Russia	19.1	15.5	16.8	18.5	118	144	118.4	90.8	17.8	22.7	13.3	3.6
Turkey	30.9	19	18.1	19.2	88.6	88.4	81.4	79.4	16	21.6	16.6	25.1
Ukraine	15.2	13.9	14	14.5	22.3	26.3	29.6	29.8	7.6	12.7	8.5	-24.5
Austria	14.5	11.8	12.7	12.9	68	76.4	64	63	7	17	2.6	…

Source: IMF Global Financial Stability Report, October 2009

Notes: 1) Risk weighted capital assets ratio, 2) Bank provisions to non-performing loans

However, given that risks to the banking sector's stability remain elevated, continued support from private and public sources is needed. EU10 countries remain vulnerable to shifts in global market sentiment and potential growth reversals. There are number of ways to minimize the risks of the return of market turbulence and support the impending recovery. First, foreign parent banks need to continue to support their subsidiaries in EU10 countries, whenever needed. Second, central banks and governments need to remain vigilant to liquidity and solvency risks in the banking sector. Third, governments should follow through on their programs aimed at lowering the risk of credit default of the most vulnerable households. Lastly, financial supervision authorities need to learn from the lessons of the previous banking crises and facilitate orderly restructuring of the corporate and household debt. Greater collaboration between home and host supervisory banking authorities would also be helpful.

[25] The three institutions have pledged to provide up to €24.5 billion to support the banking sectors in Central and Eastern Europe and to fund lending to businesses hit by the global economic crisis.