



OESTERREICHISCHE NATIONALBANK  
EUROSYSTEM

# Crisis Management – General Reflections and the Austrian Experience

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## Outline

- **The crisis in a nutshell**
- **The reaction of Austrian economic policy**
- **The crisis in Central, Eastern and Southeastern Europe (CESEE)**
- **The crisis in CESEE from the perspective of Austrian banks**

# The crisis in a nutshell

## Initial conditions and trigger of the crisis

### Initial conditions

- **High saving levels and low interest rates → “search for yield”**
- **Securitization of assets + underregulation of financial markets  
→ complex, hard-to-value assets and increasing interconnection  
of financial institutions around the globe**
- **Leveraging increases vulnerability of MFIs**

### Trigger

- **Problems on U.S. subprime market caused initial losses**

## Amplification and contagion

- **Financing problems of MFIs in short-term money markets**
  - “Fire sales” of assets
  - Decrease of asset prices (esp. of complex, hard-to-value papers)
  - Decline of equity
- **Need to improve capital ratio → deleveraging by selling assets and/or reducing lending**
- **Feedback loop between financial and real sectors of the economy**
- **Global deleveraging → large-scale capital outflows from emerging economies**

## Needs for policy action

### Financial institutions

- Decline of equity → Need to recapitalize financial institutions
- Decline in confidence → Deposit insurance to prevent bank runs
- Collapse of interbank market → Measures to restore liquidity
- Toxic assets → Framework for valuing and disposing of toxic assets

### Nonfinancial sector

- Contagion of real economy → Fiscal and monetary policy measures to dampen economic downturn

### Emerging economies

- Capital outflows, capital account pressures → Financial support

# The reaction of Austrian economic policy

## The Austrian banking support package

**Capital measures: EUR 15 billion to strengthen capital base of Austrian banks**

**Agreed capital measures amount to EUR 6.9 billion (paid out: EUR 4.7 billion):**

- HGAA: EUR 900 million participation capital
- Erste Group: EUR 2.7 billion participation capital (+ hybrid capital)
- RZB: EUR 1.75 billion participation capital
- VBAG: EUR 1 billion participation capital
- BAWAG: EUR 0.55 billion participation capital (+ EUR 0.4 billion asset guarantees)

**Liquidity measures: EUR 65 billion for clearing bank and bond guarantees**

- Bank bonds issued under state guarantee amount to EUR 15.65 billion
- Austrian clearing bank allotted a total amount of about EUR 6 billion

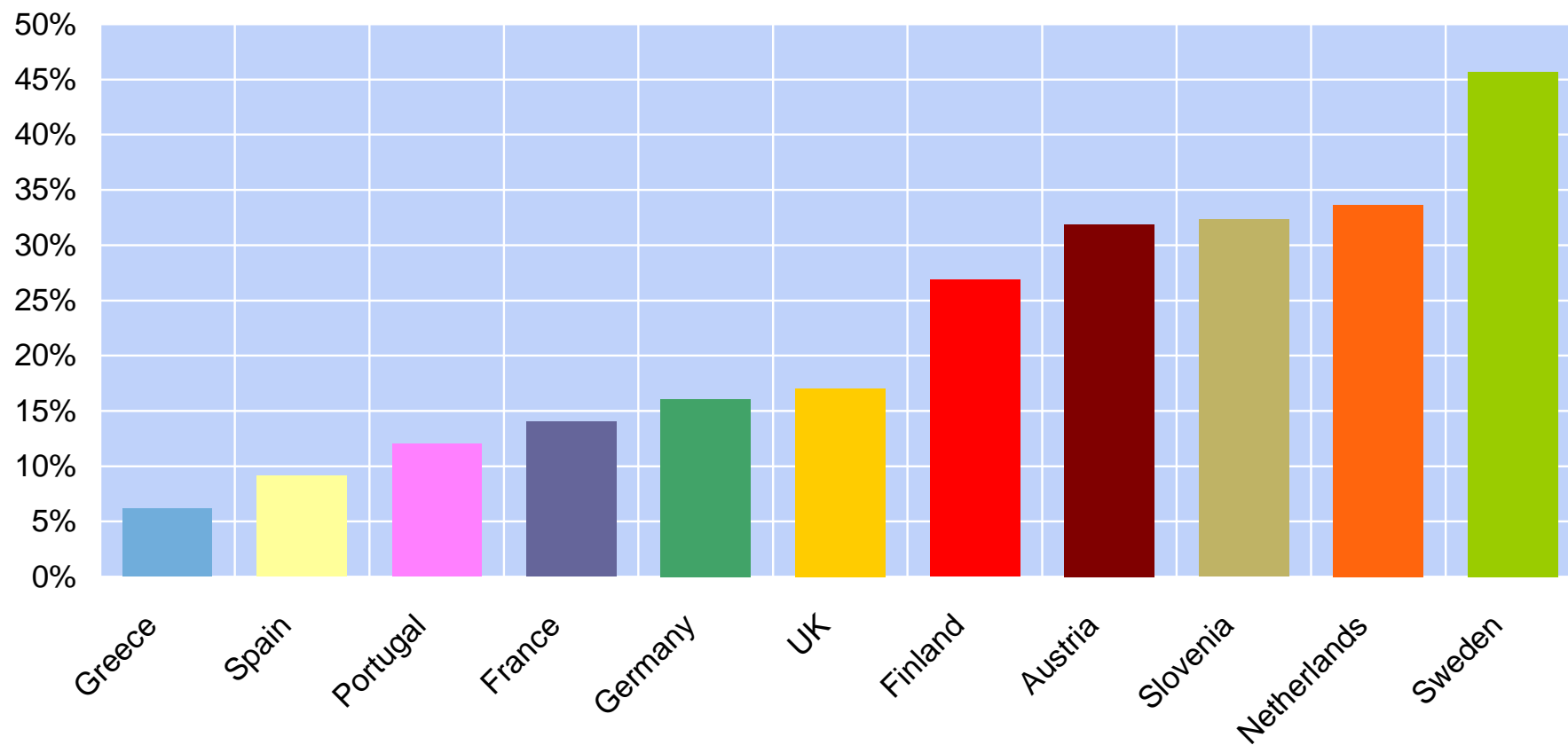
**Deposit insurance: deposit guarantee raised by EUR 10 billion**

**Guarantees for nonfinancial corporations: EUR 10 billion**

## The Austrian bank stabilization package – international comparison

### Bank stabilization packages in Europe

*in % of GDP*



*Source: OeNB.*

## The role of fiscal policy in times of crisis

- **Scope of crisis requires discretionary fiscal policy measures**
  - Traditional monetary policy hits the zero lower bound
  - Automatic stabilizers help, but are not large enough
  - Output gap expected to remain negative for a longer period
    - Implementation lag of discretionary fiscal policy less problematic
  - Threat of hysteresis effects (increase in NAIRU) via reduction in human capital
  
- **Potential for larger multipliers**
  - Low capacity utilization
  - High number of liquidity-constrained households/firms

## The Austrian fiscal stimulus package

### Estimated Growth and Employment Effects of Economic Stimulus and Tax Reform Measures

Measures	Volume		Employment <sup>1</sup>		GDP	
	in EUR million		in persons		in % of baseline solution	
	2009	2010	2009	2010	2009	2010
Consumption-stimulating measures	4.360	4.310	9.312	17.840	0,57	0,89
<i>of which: tax reform</i>	2.910	3.060	5.508	11.718	0,33	0,60
Investment incentives and export facilitation	1.395	1.385	590	1.079	0,05	0,07
Investment in infrastructure	580	745	2.698	6.299	0,16	0,33
Job support measures <sup>1</sup>	275	275	-	-	0,04	0,06
<b>Total</b>	<b>6.610</b>	<b>6.715</b>	<b>12.600</b>	<b>25.218</b>	<b>0,82</b>	<b>1,36</b>
of which: relevant for deficit	4.095	4.758				

Source: Austrian Finance Ministry, OeNB.

<sup>1</sup> The job support effects of short-term working rules and of the job support initiatives cannot be quantified at present.

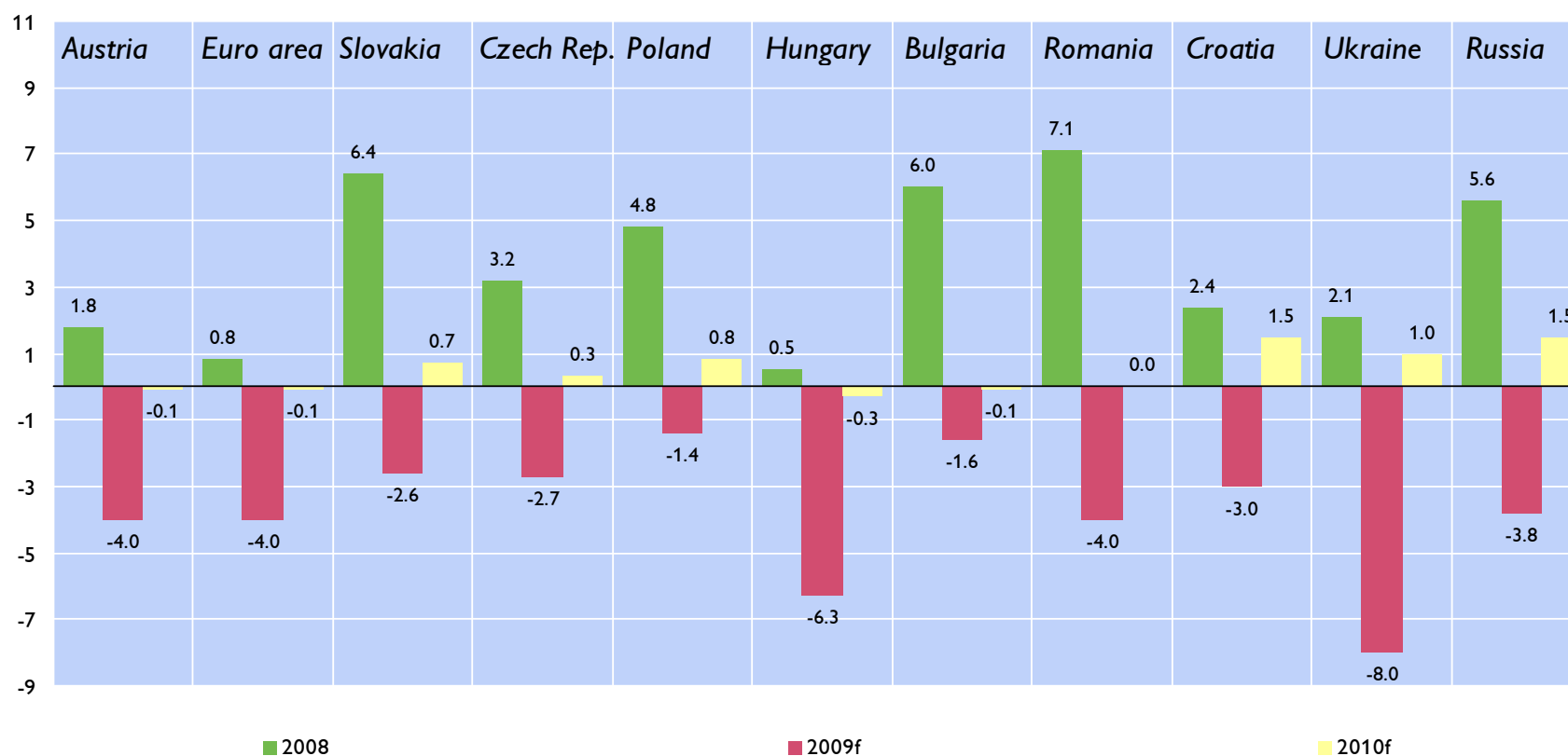
Note: Simulation with the OeNB's macro model (AQM). Volumes are annual totals (reflecting increases over the 2007 budget), effects on

# The crisis in Central Eastern and Southeastern Europe (CESEE)

# CESEE output expected to shrink in 2009

## GDP forecast

at constant prices, year-on-year percentage change

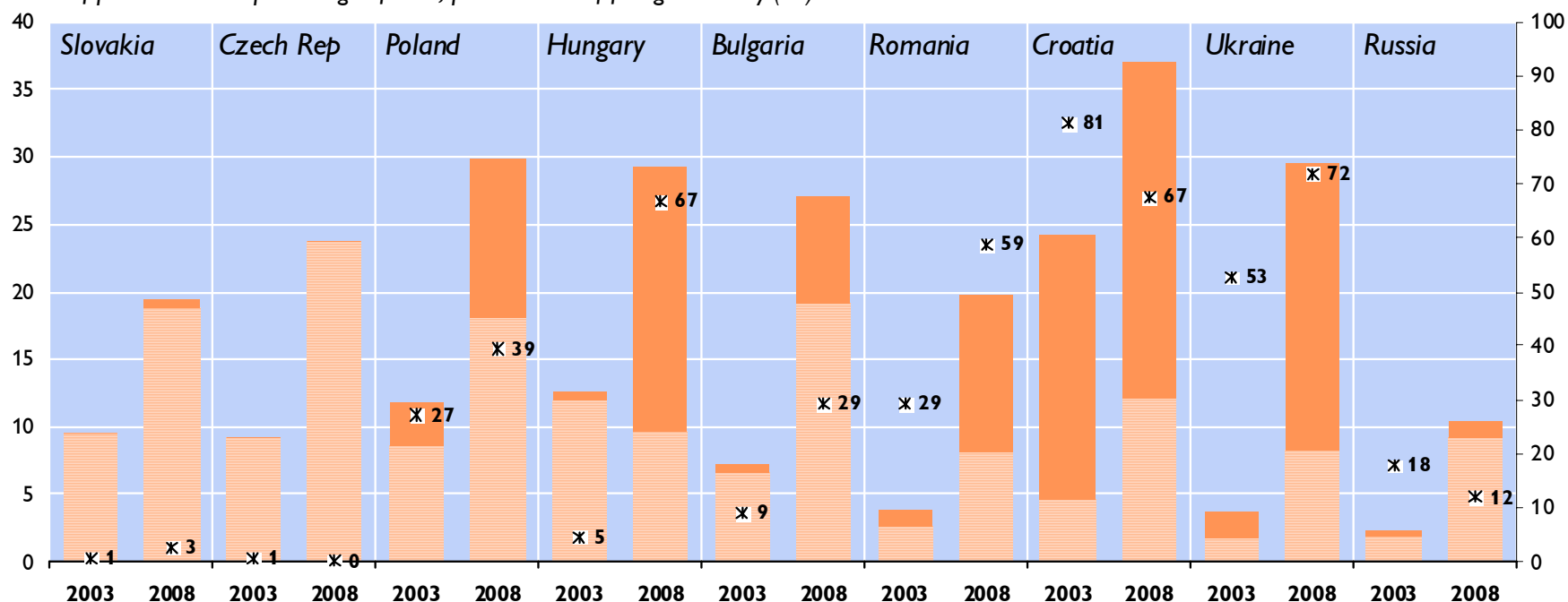


Source: European Commission (Spring Forecast), May 2009. For Ukraine: IMF (World Economic Outlook), April 2009.

# High share of foreign currency credit in some CESEE and CIS countries constitutes a major risk ...

## Outstanding total credit to households

end-of-period stock as percentage of GDP; points: share of foreign currency (FC) credit in total credit to households



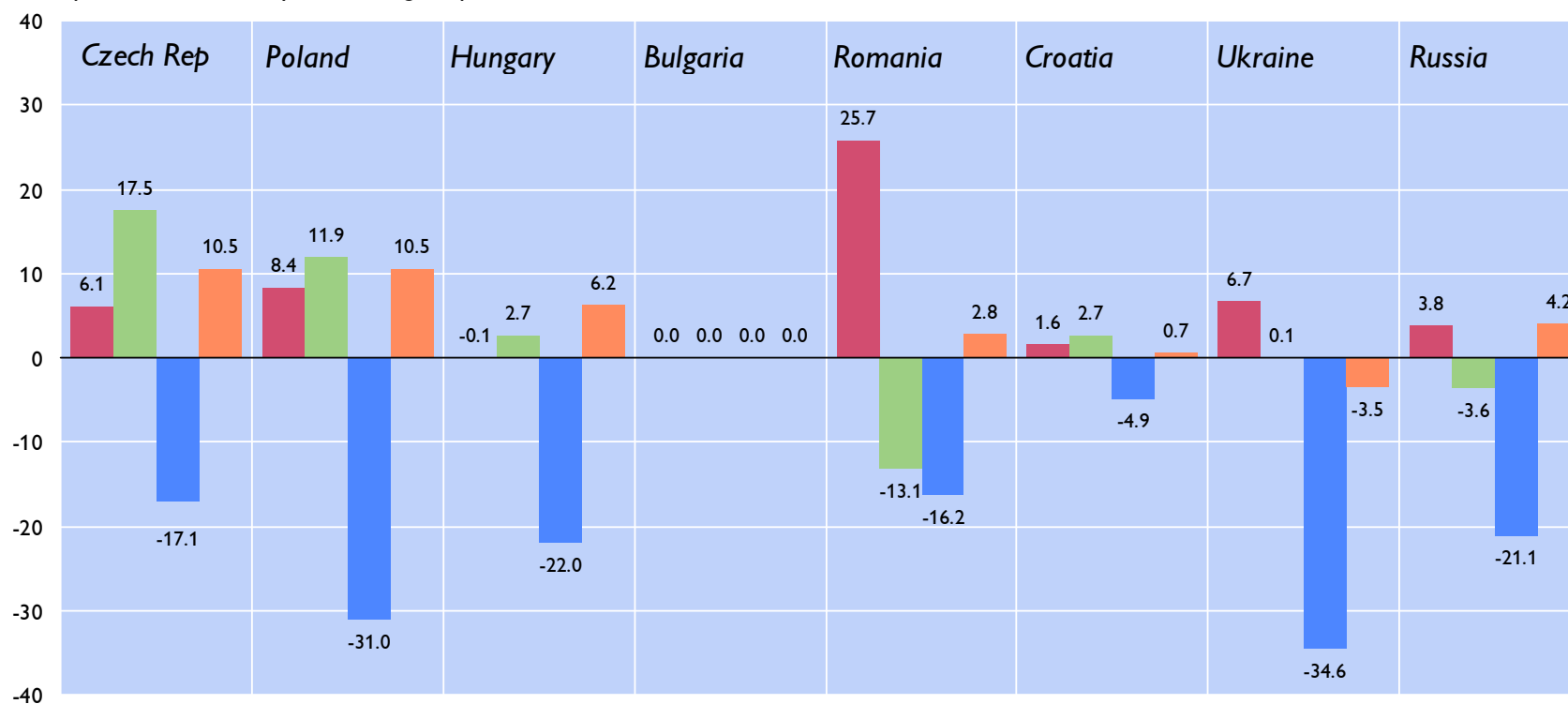
■ Domestic LC credit to households 
 ■ Domestic FC credit to households 
 \* Share of FC credit in total credit to households (rhs)

Source: ECB, Eurostat, National central banks, National statistical offices, OeNB. Note: Foreign currency credit includes both foreign currency-denominated and foreign currency-linked

# ... in case of sudden exchange rate depreciations

## National currencies and the euro

Euro per national currency unit, change in percent



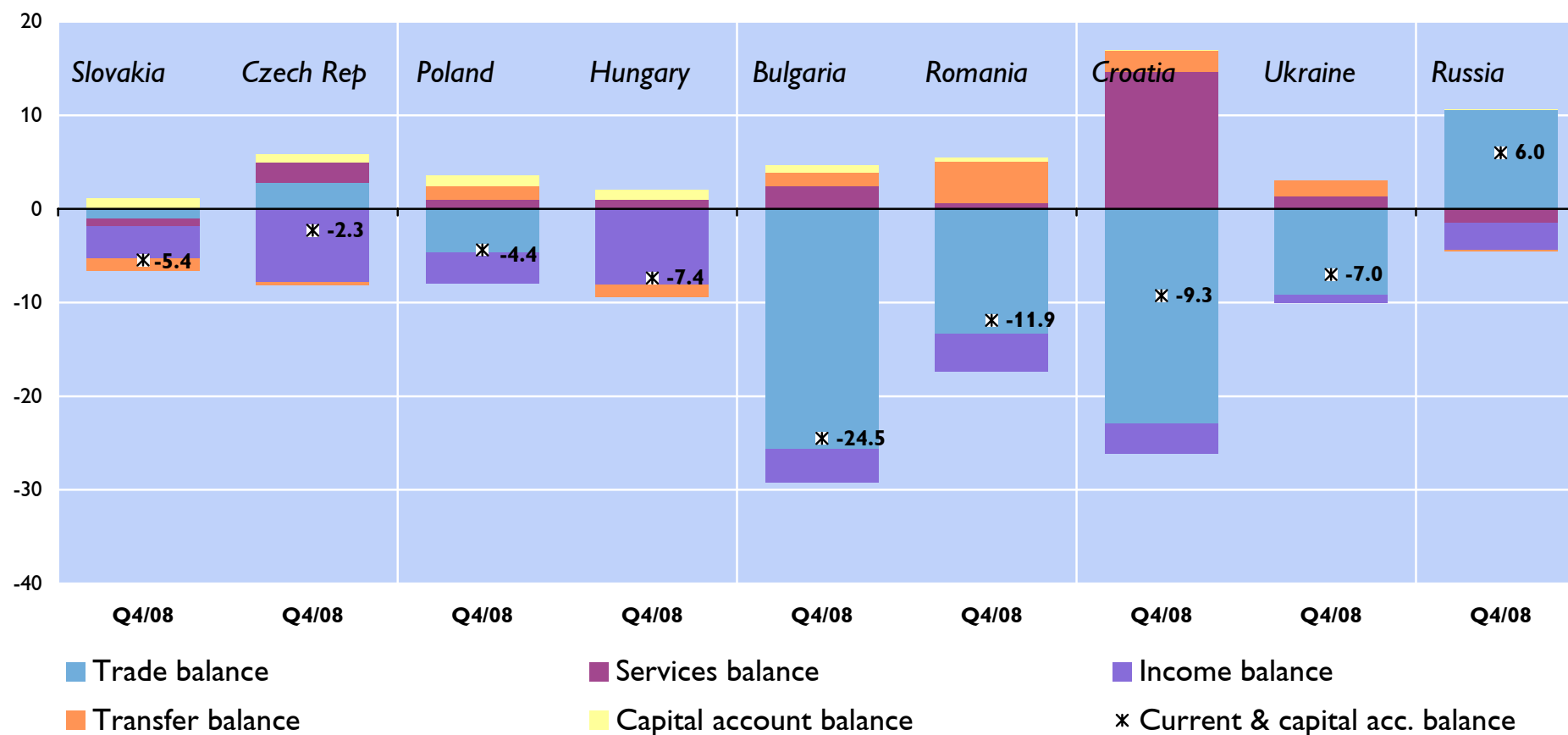
■ 31 Dec 2004 to 29 June 2007 ■ 29 June 2007 to 12 Sept 2008 ■ 12 Sept 2008 to 17 Feb 2009 ■ 17 Feb 2009 to 29 April 2009

Source: Thomson Financial, OeNB.

# Huge current account deficits in some CESEE and CIS countries

## Current and capital account balance and its components

four quarter rolling sum in % of 4q rolling sum of GDP; points for total current and capital account balance (i.e. sum of sub-

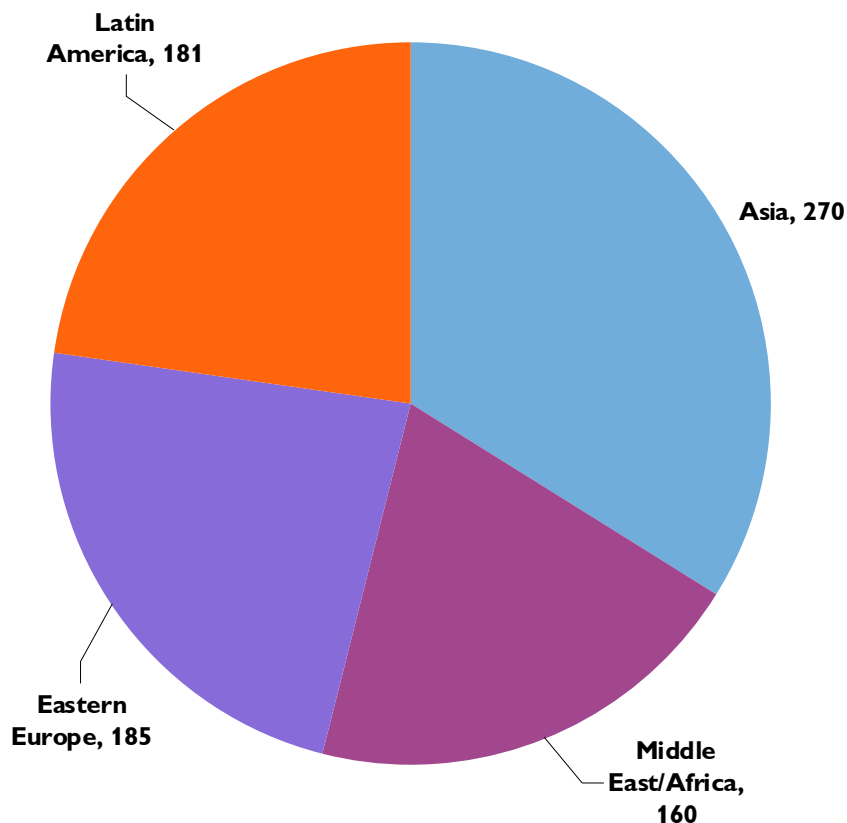


Source: Eurostat, National central banks, OeNB.

# Crisis leads to high write-downs in emerging markets

## Estimated write-downs for banks in emerging markets

(by country of origin, in billion USD)



Source: IMF.

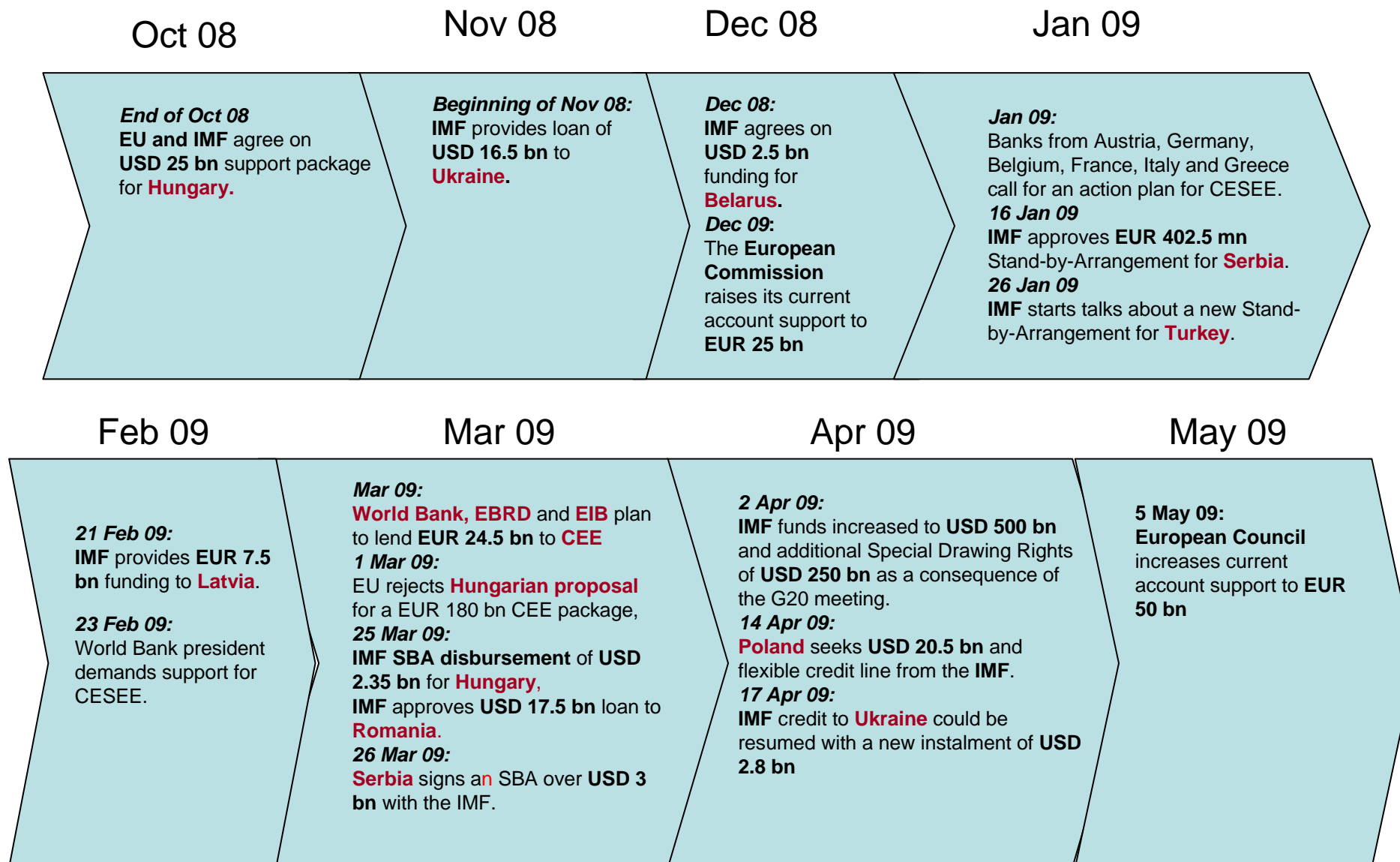
### ▪ IMF estimates for Eastern Europe

- Include local banks
- Include foreign owned subsidiaries
- Direct cross border credits are not considered!

### ▪ Write downs for banks in emerging markets 796 billion USD

- Eastern Europe: 185 billion USD

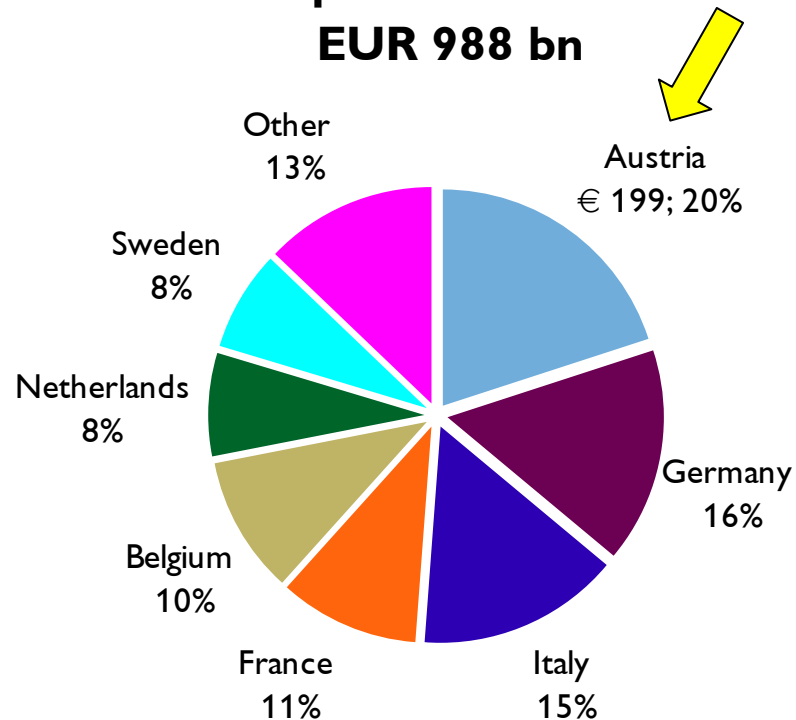
# International response to the crisis – timeline of events with a focus on CESEE



# The crisis in CESEE from the perspective of Austrian banks

## Austrian banks' exposure to CESEE and CIS markets is high...

### CESEE-Exposure of EU-15 banks EUR 988 bn



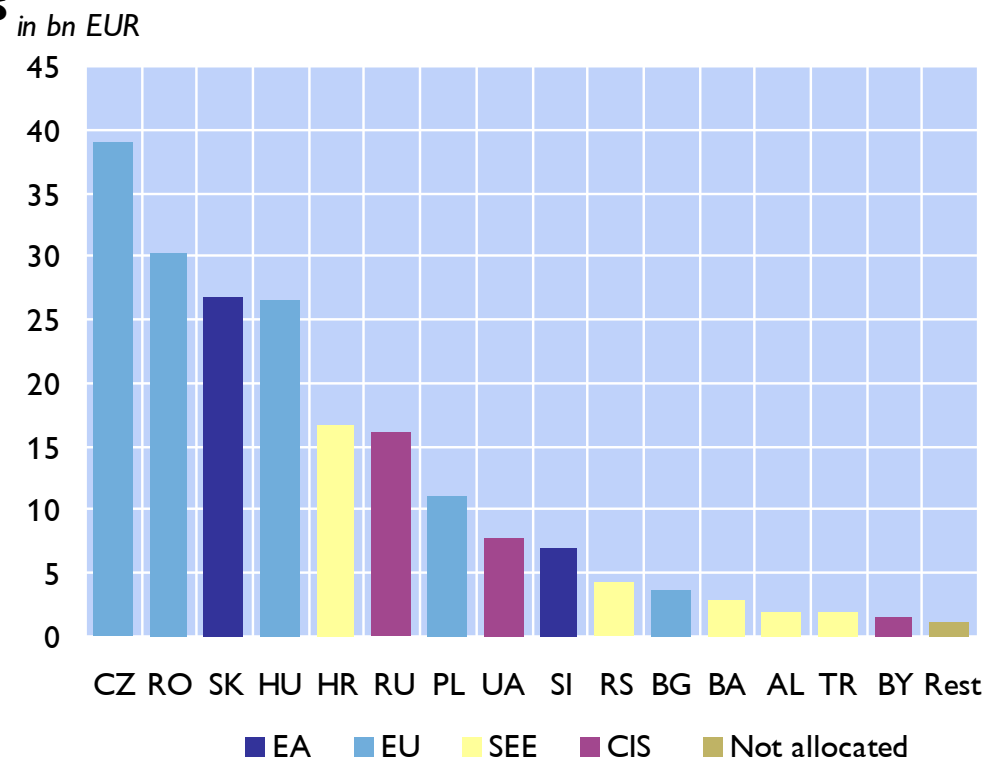
Source: BIS, 2008Q04 (provisional data); in bn EUR resp. in %.

- Austrian banks dominate lending to new Member States, but not to SEE and CIS
- EU banks' lending to CESEE decreased by 4.4% in the fourth quarter of 2008
- The decline in Western banks' exposure to CESEE corresponds to developments in other emerging markets

## ... but exposure is broadly diversified across countries ...

- **CESEE is a heterogeneous region and the exposure of Austrian banks is broadly diversified**
- **Total exposure of Austrian banks to CESEE: EUR 199 billion [incl. UnicreditBA and HGAA: ~ EUR 293 billion]**
- **Austrian banks' exposure is broadly diversified but focused on new EU Member States (3/4 of exposure)**
- **About 20% of EU-15 banks' total exposure to CESEE**

### Exposure of Austrian banks to CESEE

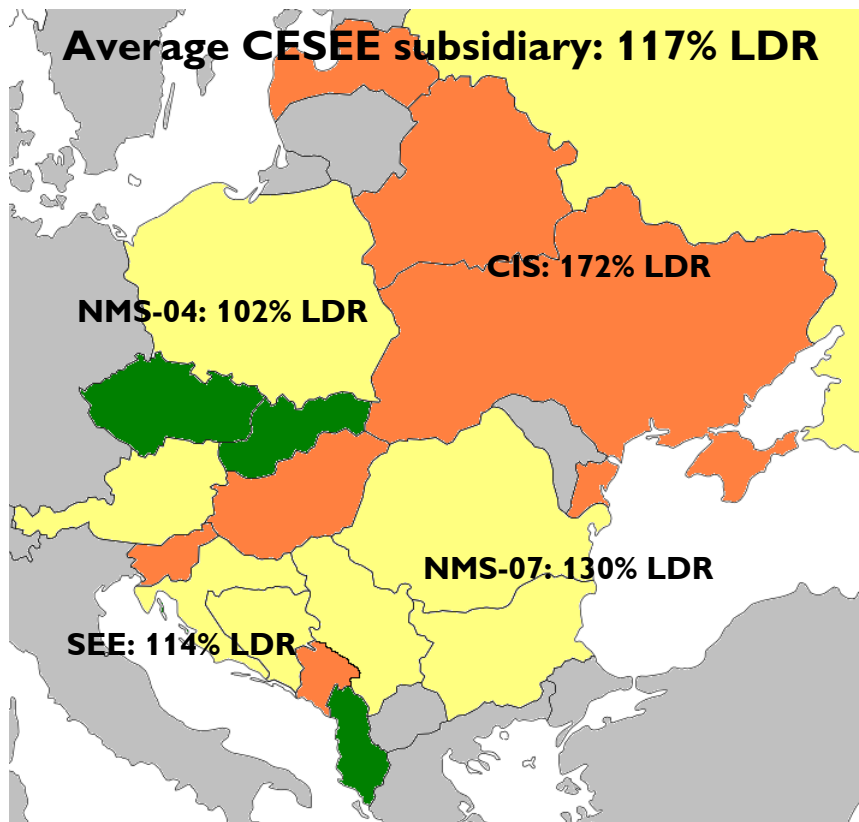


Quelle: BIZ, 2008Q04.

# ... and subsidiaries in CESEE have a solid local funding basis

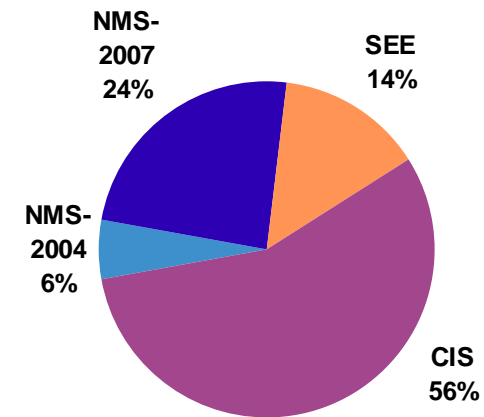
## Loan-to-deposit ratio of nonbanks in %

■ < 100, 
 ■ < 150, 
 ■ 150 =<

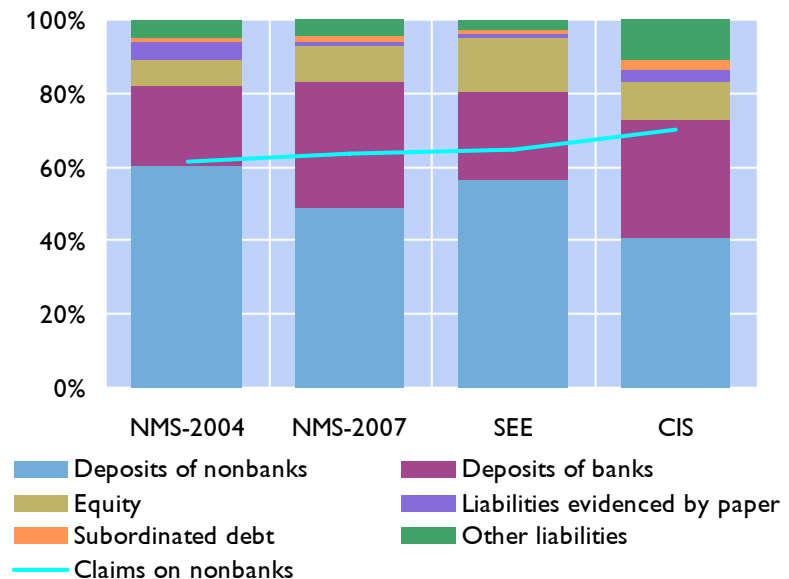


Source: OeNB, unconsolidated figures, Q4 2008.

## Deposit Gap in 2008Q4



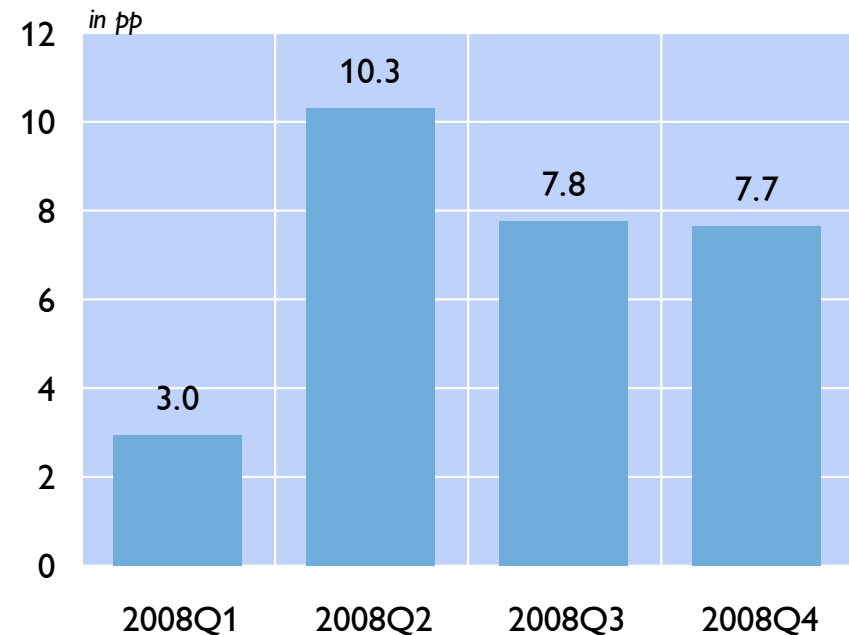
## Refinancing of CESEE subsidiaries



## Austrian banks continue to support subsidiaries in CESEE

- Questionnaire sent to five major banks shows that net position increased further in 2008
- Austrian banks intend to keep their net position in most CESEE markets stable/increasing
- Efforts aiming at macroeconomic stabilization have to complement bank liquidity provision

**Quarterly Growth Rates  
of Net Exposure to CESEE Subsidiaries**



## Summary

- **Crisis called for fast and coordinated policy reaction**
- **Austrian bank stabilization package guarantees functioning of the Austrian banking sector**
- **Fiscal package in Austria helps dampen adverse impact on real economy**
- **Impact of crisis on CESEE region is heterogeneous**
- **Financial support to CESEE provided by international institutions helps stabilize the region**
- **Exposure is high, but diversified; local funding base of Austrian banks in CESEE is solid**
- **In line with their strategic objectives, Austrian banks continue to support subsidiaries in CESEE**



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