

Selected Abstracts

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Investor Commitment Tested by Deep Crisis: Banking Development in Ukraine

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Ukraine's banking sector was strongly hit by the global economic crisis which began in September 2008 and triggered an extreme output contraction (–20%) in the first quarter of 2009 and a sharp depreciation of the Ukrainian hryvnia (–35%). Loss of confidence in the banking sector and deposit withdrawals (about one-fifth of total deposits) were reined in by large-scale liquidity support by the National Bank of Ukraine (NBU), administrative measures and macroeconomic adjustment (unwinding of the current account disequilibrium) in the spring of 2009. However, credit growth (month on month) ground to a halt in early 2009 and confidence in the hryvnia remains fragile in a situation where about 50% of private sector credit stock is denominated in foreign currency. The authorities' bank recapitalization program, assisted by the structural conditionality of an IMF Stand-By Arrangement, should help banks cope with the persisting deep recession and strongly rising nonperforming loans. While political instability in the run-up to the presidential election early in 2010 could yet derail bank rehabilitation, credit institutions have substantially raised provisioning and started cutting costs and restructuring overdue loans. Continuing support by international financial institutions and sustained commitment by foreign (including Austrian) parent banks and corporations also represent key stabilizing factors.

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