CESEE-Related Abstracts
from Other OeNB Publications

The abstracts below alert readers to studies on CESEE topics in other OeNB publications. Please see www.oenb.at for the full-length versions of these studies.

Ukrainian Banks Face Heightened Uncertainty and Challenges

Following a sharp recession in 2009, the Ukrainian economy recovered in 2010 and 2011. In particular in 2011, domestic demand-led growth was accompanied by widening external imbalances. The economy’s external vulnerabilities – related to the current account deficit (2011: 5.6% of GDP) and the elevated foreign debt stock (77% of GDP) – entail risks for the banking sector, as exchange rate pressures against the hryvnia’s U.S. dollar peg have been recurrent and foreign exchange reserves declined in the second half of 2011. While the share of foreign currency loans in total loans has been steadily declining (thanks to a ban on extending new foreign currency loans to unhedged borrowers imposed by the National Bank of Ukraine in the fall of 2008), it remains sizeable (end-2011: 41%). Many of these loans are unhedged. The stabilization of nonperforming loans at a high level could be interrupted by a further deterioration of the economic situation or by a new bout of hryvnia depreciation. Moreover, the population’s confidence in the Ukrainian currency is prone to volatile swings. As deposit inflows have picked up and loan growth has remained subdued, the loan-to-deposit ratio has receded, but is still relatively high (end-2011: 163%). With the funding structure shifting to domestic deposits, the banking sector’s external position has improved (net external liabilities have fallen to 8% of total liabilities). In 2011, loan growth became positive in real terms again. Recapitalization efforts contributed to upholding capital adequacy. The banking sector’s profitability improved, but nevertheless stayed in negative territory.

Published in Financial Stability Report 23.

Intra-Group Cross-Border Credit and Roll-Over Risks in CESEE – Evidence from Austrian Banks

During the last decade several CESEE countries built up high external liabilities vis-à-vis foreign banking sectors, with Austrian banks being important creditors. The provision of cross-border credit allowed for rapid financial deepening in many of these countries but also led to a build-up of vulnerabilities to negative spillovers. This study points out that Austrian banks granted a considerable part of direct cross-border credit to affiliated borrowers in CESEE, in particular to their own bank subsidiaries. To our knowledge, this is the first paper that examines the differences between direct cross-border lending to affiliates and direct cross-border lending to nonaffiliates. Our analysis shows that intra-group cross-border credit from Austrian banks was more stable than lending to nonaffiliated borrowers during the 2008/09 financial crisis period. We argue that this is due to lower information asymmetries and parent banks’ efforts to provide their subsidiaries with liquidity in times of financial distress to support their investments.

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