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.

The Russian banking sector – heightened risks in a difficult environment

Stephan Barisitz

The Russian banking sector has passed from excessive retail credit growth (up to early 2014) to a general contraction of credit (2015). This recent decrease is to a certain degree attributable to Western sanctions cutting off leading banks from cheap refinancing, but most notably to the steep fall of the oil price. The latter caused the ruble to plunge and pushed the Russian economy into recession. Temporary financial instability was reined in by the Bank of Russia's sharp increase of the key rate (largely reversed recently) and by expanding deposit insurance coverage. Liquidity injections, foreign currency repurchase agreements, and the recapitalization of a number of systemic banks also helped. Moreover, a degree of regulatory forbearance was introduced. As the economy shrinks, nonperforming loans are inevitably rising and profitability is declining. The banking sector is primarily exposed to credit risk, followed by liquidity and exchange rate risk. Connected lending is a structural problem now being finally tackled. Shock absorbers have eroded but still provide leeway: deposits are sizable and depositor confidence seems to have returned. Russian banks have a positive net external creditor position. Public debt is low and the country – notwithstanding terms-of-trade losses – continues to boast current account surpluses. Foreign currency reserves – after declining – have restabilized and remain substantial.

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