The Priorities of Deleveraging in the Euro Area and Austria and Its Implications for CESEE

Bank deleveraging is often used synonymously for a reduction in the supply of credit to the real economy, which hampers economic growth. In this paper, we investigate this hypothesis empirically. We define deleveraging as the increasing ratio of capital to total assets and aim at identifying the priorities of recent deleveraging in the euro area and Austria and its implications for Central, Eastern and Southeastern Europe (CESEE). The data analysis utilizes ECB balance sheet data for monetary financial institutions (MFIs) for the euro area and Austria; reporting data of Austrian banks at the consolidated level and BIS locational statistics are employed to study the impact of deleveraging on credit to the real economy in CESEE. We focus on the crisis and postcrisis period from October 2008 to February 2014 (latest available data). In addition, we study developments in the precrisis period from June 2003 to October 2008.

The data reveal that banks in the euro area and Austria did in fact deleverage. In the crisis and postcrisis period, the priorities of deleveraging are similar in the euro area and in Austria. The process was predominantly driven by the numerator (capital), which contributed 88% to deleveraging in the euro area and 73% in Austria.

The denominator of leverage (total assets) contributed the remaining shares. In both samples, the decrease in total assets was driven by reductions in interbank lending and external assets. Funding for the real economy increased in the euro area and in Austria.

As external asset reductions play a major role in deleveraging in both the euro area and Austria, we analyze the relevant developments in CESEE in detail. The priorities of Austrian banks’ deleveraging in CESEE are similar to those of banks in the euro area and Austria: They were driven by capital increases (99%). The small reduction of total assets in the sample was due to reductions of interbank lending, cash and central bank reserves; funding for households and nonfinancial corporations slightly increased. In line with developments in the euro area and in Austria, banks’ sovereign exposure in CESEE increased, too. However, at the disaggregate level, Austrian banks reduced their activities in some countries during the past five years. But these reductions did not translate into decreasing funding for households and nonfinancial corporations in these countries.

We conclude that from a macroprudential perspective, euro area and Austrian banks as well as their subsidiaries in CESEE have set the right priorities in deleveraging since October 2008.

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Macrofinancial Developments in Ukraine, Russia and Turkey from an Austrian Financial Stability Perspective

Recent bouts of international financial market volatility and adverse geopolitical developments have put the spotlight on Ukraine, Russia and Turkey. While Austrian banks benefited from a benign macrofinancial environment in Russia and Turkey, in particular with regard to the swift recovery from the 2008–09 crisis period, they are burdened by legacy issues of the last credit boom in Ukraine. By discussing macrofinancial developments in Ukraine, Russia and Turkey, this study sets the scene for a more in-depth analysis of Austrian banks’ activities in these countries.

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Capital Market Development in CESEE and the Need for Further Reform

Domestic capital markets in Central, Eastern and Southeastern Europe (CESEE) are still less developed than capital markets in more advanced economies. Unhedged foreign currency borrowing and dependence on external funding have been among the key vulnerabilities in CESEE during the global economic crisis. Therefore, there is a need for better developed local capital markets in the region, additional sources of domestic funding, and a reduction in foreign exchange exposure in domestic financial markets. International initiatives, such as the Vienna Initiative or the EBRD Local Currency and Capital Markets Development Initiative, support local capital market development in the region. Well-developed capital markets are not only a crucial component for generating economic output, but also foster more stable growth through the ability of diversified financial sources to offset a slowdown of economic activity caused by a credit crunch.

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Austria Holds Intra-EU Export Market Shares almost Constant despite Difficult Economic Environment

Before the global recession, export growth outperformed economic growth across the EU. The economic crisis hit almost all EU countries through a steep fall in exports, especially exports of goods. Yet, as shown in this article, almost all countries in Europe were hit by the slump in exports simultaneously; hence, intra-EU export market shares were left broadly unchanged by the crisis. This article presents a market share analysis for both goods and services and explores some underlying factors for these developments. From a regional perspective, Central, Eastern and Southeastern European (CESEE) countries gained market shares in the period 2004 to 2012 at the expense of major pre-2004 EU countries (the U.K., France and Italy). From a product perspective, service market shares developed broadly in line with goods market shares. At the same time, service-oriented countries were able to compensate losses in goods market shares by expanding service market shares. Austria managed to keep its market share position almost constant, benefiting most from trade links with Germany. At the product level, Austria strengthened its exports of high-technology good products.

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