Selected Abstracts

The selected abstracts below alert readers to studies on CEE topics in other OeNB publications. You may find the full-length contributions at *www.oenb.at*.

Banking in Belarus – On a Trajectory of its Own?

Stephan Barisitz

This study analyzes the functions and development of the Belarusian banking system in recent years, with a special focus on the current situation, which is characterized by a sharp deterioration of the country's terms of trade in early 2007. Since the mid-1990s, the "Belarussian economic model" has consisted of a mixture of market elements with rigorous state interventionism and outright remnants of the centrally planned economy. About three-quarters of the country's economy and four-fifths of its banking sector remain state owned. Thanks to a surprisingly favorable industrial legacy and to very advantageous terms of trade including outside subsidies in recent years, the "model" has delivered impressive growth and has slashed poverty. Credit institutions – particularly the largest ones – serve as instruments to carry out directed lending to finance fixed investment projects in various areas targeted by the state. From time to time, the authorities step in and bail out the most troubled players. The only major foreign acquisition in the sector to date was the purchase of Priorbank (the fourth-largest credit institution) by Raiffeisen Zentralbank (of Austria) in 2002. Most recently (since 2004) Belarusian banks appear to have joined, to some degree, the credit boom reigning in all of the country's neighbors. The external shock of early 2007 (Russia's sharp increase of energy prices) threatens to erode the quality of credits and to put pressure on the Belarusian ruble, thereby undermining the stability of the sector. The authorities have so far reacted by soliciting external financial assistance and by trying to attract FDI by selling some key enterprises – including some medium-sized banks – to foreigners, mostly Russians.

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Determinants of Bank Interest Margins of CEE Banks

Markus Schwaiger,
David Liebeg

Banks' interest margins are among the most important indicators of the cost of financial intermediation. This paper investigates the determinants of banks' interest margins in Central and Eastern Europe (CEE). Given the run-up to EU entry and EU membership itself, dynamics in the banking sector in CEE have developed rather differently than in other emerging market economies. We document that, in contrast to the literature, foreign ownership has a positive effect on interest margins, whereas state ownership proves to be irrelevant. Banks' pricing of loans and deposits, however, is risk-adjusted in CEE – we detect positive risk premia for both interest and credit risk. However, our data provide some evidence for moral hazard behavior. Moreover, the decreasing interest margins in the region during the first half of the current decade seem to be caused by a decrease in operating costs as well as an increase of efficiency levels and rapid financial deepening.

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