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 profitability of Austrian banking subsidiaries in CESEE: driving forces, current challenges and opportunities

Stefan Kavan, Gernot Ebner, Eleonora Endlich, Andreas Greiner, Manuel Gruber, Günther Hobl, Martin Ohms, Vanessa Redak, Alexandra Schober-Rhomberg, Paul Stockert, Daniela Widhalm, Tina Wittenberger

This study analyzes the driving forces behind the profitability of Austrian banking subsidiaries in Central, Eastern and Southeastern Europe (CESEE) from 2003 to 2015, with a particular focus on the aftermath of the global financial crisis, which marked a turning point for their risk-return characteristics. We start off with an analysis of operating income and expense trends and delve into an analysis of credit risk costs. Then we look at large extraordinary one-off cost items before summing up with a long-term revenue bridge and an analysis of the most recent risk-return metrics. Overall, we find that the subsidiaries generated substantial profits, which have to be seen in the light of significant writedowns of their book values at the parent level. Regarding current challenges, operating profits are under pressure from falling net interest margins and fading organic growth, while remaining foreign currency loans might lead to further one-off costs, which in the past offset efficiency improvements. Credit risk also remains high in some countries, but a positive trend has emerged over the past years and provisioning levels have improved. One lesson learned in this respect is that rapid credit growth before the crisis had typically led to high nonperforming loan (NPL) ratios, which now weigh on some subsidiaries' ability to lend. Looking forward, banks continue to face a challenging environment in the CESEE region with little low-hanging fruit, as the speed of macroeconomic catching-up has slowed and low interest rates have taken hold. Therefore, Austrian banks' subsidiaries should diversify their income base, maintain their operating cost discipline and continue to strive for risk-adequately priced products in order to keep their profitability on a sustainable footing.

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Determinants of Credit Constrained Firms: Evidence from Central and Eastern Europe Region

Apostolos Thomadakis

Based on survey data covering 6,547 firms in 10 Central and Eastern European countries we examine the impact of the banking sector environment, as well as the institutional and regulatory environment, on credit constrained firms. We find that small and foreign-owned firms are less likely to demand credit compared to audited and innovative firms. On the other hand, small, medium, publicly listed, sole proprietorship and foreign-owned firms had a higher probability of being credit constrained in 2008–2009 than in 2012–2014. The banking sector's environment analysis reveals that firms operating in more concentrated banking markets are less likely to be credit constrained. However, higher capital requirements, increased levels of loan loss reserves and a higher presence of foreign banks have a negative impact on the availability of bank credit. The evaluation of the institutional and regulatory environment in which firms operate shows that credit information sharing is negatively correlated with access to credit. Furthermore, we show that banking sector contestability can mitigate this negative effect. Finally, we find that in a better credit information sharing environment, foreign banks are more likely to provide credit.

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