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 Pecking-Order of Deleveraging in the Euro Area and Austria, and Its Implications for CESEE

Judith Eidenberger,
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Bank deleveraging is often used synonymously for a reduction of credit supply to the real economy which hampers economic growth. We investigate this hypothesis empirically, with a view to identifying a pecking order of deleveraging – i.e. the increase in the capital-to-assets ratio – in the euro area and Austria and its implications for CESEE. We focus on the postcrisis period from October 2008 to February 2014 and complete the picture with a precrisis analysis starting in June 2003.

In the postcrisis period, we find the pecking order of deleveraging to have been similar in the euro area and in Austria and the process to have been positive from a macroprudential perspective. Deleveraging was mainly driven by a decrease in capital, which contributed 88% in the euro area and 73% in Austria. Yet the other part of the decrease reflects the decrease of total assets, which was driven by reductions in interbank lending and external assets, while funding for the real economy increased in the euro area and in Austria.

With specific regard to the deleveraging of Austrian banks in CESEE, the pecking order also mirrors the pattern established in the euro area and Austria. It was also 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 increased slightly. Similar to the euro area and Austria, the banks' sovereign exposure increased, too. At the disaggregate level, however, Austrian banks reduced their activities in some countries during the past five years. But these reductions did not translate into decreases of funding for households and nonfinancial corporations.

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

Tina Wittenberger,
Daniela Widhalm,
Mathias Lahnsteiner,
Stephan Barisitz

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 2008–2009 crisis, 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 Countries and the Need for Further Reform

Krisztina Jäger-Gyovai

Capital markets in CESEE continue to be 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 local 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 the credit crunch.

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Intra-EU Export Market Shares Almost Untouched by the Economic Crisis

Klaus Vondra

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, intra-EU export market shares were left broadly unchanged by the crisis. From a regional perspective, CESEE countries gained market shares in the period 2004–2012 at the expense of major old 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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Foreign Currency Borrowing and Knowledge about Exchange Rate Risk

Elisabeth Beckmann, Helmut Stix

Foreign currency borrowing is widespread in many regions of the world. This raises the question whether unhedged borrowers do not understand the exchange rate risk emanating from such loans. Employing household-level microdata from eight Central and Eastern European countries we study how agents' knowledge about how exchange rate risk affects the currency denomination of loans. Results show, first, that a majority of respondents is aware that depreciations increase loan instalments. Second, we find that knowledge about the exchange rate risk lowers the demand for foreign currency borrowing. To assess the causal effect of literacy on loan demand we utilize information on agents' exchange rate expectations. Overall, results suggest that financial literacy exerts a strong impact on the choice of the loan currency. However, from an aggregate perspective, a misunderstanding of the underlying risks is not the main cause of foreign currency borrowing.

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