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.

Austrian banks' expansion to Central, Eastern and Southeastern Europe Milestones – review and outlook

Stefan Kavan, Tina Wittenberger

Austria's largest banks jumped at the chance of expanding their low-margin domestic operations by entering Central, Eastern and Southeastern European (CESEE) markets soon after the fall of the Iron Curtain. By establishing new banks and/or acquiring stakes in existing banks, they were able to rapidly gain a foothold in the region and benefit from the reform mood and growth momentum fueled by the prospect of potential EU membership for CESEE economies. Dynamic loan growth generated high profits, but the rapid expansion was not without downsides. Much of the lending occurred in foreign currencies and was refinanced by the parent banks. The underlying risks materialized when the global financial and economic crisis emerged in 2008 and drove up costs, thus leading to a period of consolidation in the banking industry. Macroprudential measures designed to mitigate risks to financial stability were an important lesson learned by banking supervisors from the crisis, and Austria was no exception in this respect. With the economy recovering, the past few years have been characterized by an enhanced ability of clients to pay back their loans. However, the good profits have also been supported by re-accelerating credit growth, which has created new systemic challenges and necessitated macroprudential measures in some CESEE countries. The economic catching-up process in Austrian banks' enlarged home market continues to provide the potential for significant growth and profits. At the time of writing, profit conditions and loan portfolio quality were good. Yet, the long recovery driven by credit growth and the recent weakening of the economy also come with numerous challenges, which the banks in question and banking supervisors will have to address.

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Mapping financial vulnerability in CESEE: understanding risk-bearing capacities of households is key in times of crisis

Nicolas Albacete, Pirmin Fessler, Maximilian Propst

A crisis of the real economy – like the current crisis caused by the coronavirus pandemic – and the countermeasures taken by countries worldwide can lead to a severe financial crisis if the ability of debtors to pay back their debt is questionable. Necessary support and the costs involved in providing it directly depends on the financial buffer households have and their general risk-bearing capacity. It is crucial to understand both to be able to anticipate potential problems and prepare for mitigating their impact. Policies designed to mitigate the effects of income losses could benefit greatly from better knowledge of the exact nature of the nonlinearities involved. We analyze newly available micro data on households' balance sheets to examine financial vulnerability in Central, Eastern and Southeastern European (CESEE) countries and Austria. As Austrian banks have a high and increasing exposure in the region, households' risk-bearing capacities in CESEE are an important factor in determining credit risks of the banking sector in Austria. The Household Finance and Consumption Survey (HFCS) allows us to study the general indebtedness of households as well as borrower-level vulnerability in eight CESEE countries and compare them to Austria. While the share of households owning their homes is comparably large in these countries, the share of households holding mortgage debt is not particularly large. Uncollateralized debt levels, by contrast, vary greatly across the region, and some of the countries show rather high levels of loan-to-value ratios, which point to more generous credit standards in mortgage lending. Subtracting the assets of vulnerable households from their debt reveals that the levels of potential losses for banks are generally low. Furthermore, we use a machine learning approach to reweight the data, thereby decomposing the observed differences between CESEE and Austria into one part that can be explained by observable household characteristics and a remainder which might be linked to banks' different treatment of similar clients in different countries.

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