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

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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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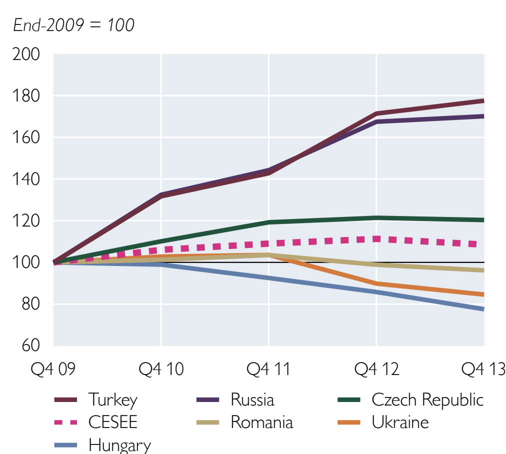
Austrian banks have early taken advantage of Austria's geographical proximity to the Central, Eastern and Southeastern European (CESEE) economies and expanded into the region over the past two decades. CESEE has been the key growth market for Austrian banks, which benefited strongly from the catching-up process in financial services. Having steadily reinforced their foreign business focus on the CESEE region, Austrian banks operated 63 fully consolidated retail-oriented subsidiaries in 18 countries in CESEE with total assets of EUR 265 billion at year-end 2013. Compared with other Western European banks, Austrian banks are among the biggest players, holding a market share of about 20% in CESEE, while Italian, French and German banks hold shares of 17%, 15% and 11%, respectively. Austrian banks' claims are largest on the Czech Republic, Croatia, Romania, Russia, Slovakia and Hungary. Turkey is also among the largest obligors when the estimated total exposure of Austrian banks in domestic and foreign ownership is taken into consideration.[2] The aggregate exposure to CESEE has grown moderately since 2009, but there have been large differences in how exposures to individual countries developed. While Austrian banks' foreign claims on Ukraine have decreased mark-

Chart 1

Austrian Banks' Exposure in CESEE

End-2009 = 100



Source: OeNB.

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[2] *Some of the data used for the analysis of Austrian banks' activities in Turkey were estimated on the basis of publicly available data as parts of these business figures are not fully covered by the Austrian supervisory reporting framework. This is due to the fact that the banks concerned do not run fully consolidated subsidiaries (but hold, e.g., equity interests in a joint venture).*

edly by 15%, exposures to Russia and Turkey have grown briskly by around 70% and 80%, respectively, since 2009. The following analysis will shed light on banking activities in Ukraine, Russia and Turkey.

Profitability of Austrian Banks' Subsidiaries Marked by Heterogeneous Developments in CESEE – Profits Increasingly Stem from Russia and Turkey

Austrian banks' activities in CESEE are important drivers of the domestic banking sector's profitability.[3] The higher profitability comes with higher risks, though. This becomes evident especially when comparing operations in individual countries. In the run-up to the crisis that started in 2008, the business of Austrian banks' subsidiaries was profitable in almost all CESEE countries. However, since the outbreak of the crisis, developments in the countries of the region have been heterogeneous. For example, macroeconomic as well as banking indicators such as credit quality and profitability deteriorated markedly in Ukraine. Austrian banks' subsidiaries operating in Ukraine posted outright losses of EUR 182 million in 2009, compared with precrisis profits of EUR 236 million (i.e. 2.5% RoA) in 2008. Although business recovered modestly in the following years (with a net loss of EUR 11 million and an RoA of –0.1% in 2013), banks are still faced with challenges related to the precrisis boom and the strong crisis impact; the amount of nonperforming loans is high and private sector credit demand is subdued due to already relatively elevated indebtedness and weaker macroeconomic conditions since the outbreak of the crisis. More recently, geopolitical risks arising from political developments in Ukraine may further weigh on banks' operating environment and hence on their activities.

The heterogeneity in CESEE becomes even more apparent when comparing developments in Ukraine with developments in Russia and Turkey. The latter two countries became more attractive to banks due to differing business cycles, a lower level of market penetration in some loan segments and a relatively lower level of private sector indebtedness. As a consequence, the main contributions to Austrian banks' profitability have increasingly stemmed from subsidiaries in Russia and from activities in Turkey. In both countries, profit growth is primarily linked to loan growth, with consumer loans playing an increasing part. The profitability of Austrian banks in Russia and in Turkey is markedly above the CESEE subsidiaries' average. Austrian banks' subsidiaries in Russia registered an RoA of 2.9% in the fourth quarter of 2013 compared to the Austrian subsidiaries' CESEE average of 0.8%. Accordingly, more than 40% of net profits of Austrian subsidiaries in CESEE stemmed from business in Russia at year-end 2013 (up from 14% in 2009) and an estimated profit share of probably more than 10% stemmed from activities in Turkey. These figures illustrate that Austrian banks rely quite strongly on profits from these two countries; as a result, they are particularly vulnerable to adverse local developments.

Austrian Banks Withdraw from Ukraine as the Macrofinancial and Political Environment Remains Challenging

Ukraine's banking sector was strongly hit by the crisis in 2008–09 and has not fully recovered since then; credit quality has remained very weak and profitability

[3] *See the Reports section for more information on the profitability of Austrian banks active in CESEE.*

low. There is continued deleveraging and derisking by Western European banks. In 2008, non-Russian foreign banks accounted for 40% of bank assets while in 2013 the corresponding figure was 16%; however, the respective share of Russian banks increased from 8% to 11%. Over the same period, Ukrainian state-owned banks increased their market share to 18%. Austrian subsidiaries' market share fell to 7% in 2013 from 14% in 2008 due to deleveraging and the sale of subsidiaries, which was in line with the withdrawal of other European banks from Ukraine. Currently, three Austrian subsidiaries are still active in Ukraine, their total assets amounting to EUR 8.2 billion in the fourth quarter of 2013 (down from EUR 11.8 billion in 2008). One of the three remaining subsidiaries is intended to be sold, however.

The loan portfolio of the Ukrainian banking system is dominated by corporate loans. The proportion of loans denominated in foreign currency – mainly in U.S. dollars and, to a lesser extent, in euro – has declined since 2009 but still accounted for 34% at end-2013. Foreign-owned banks operating in Ukraine still report the highest shares in foreign currency loans (FCLs).

Austrian banks' subsidiaries (excluding the aforementioned one that was put on sale) had outstanding loans of EUR 3.6 billion in 2013, more than two-thirds of which are corporate loans. In the household loan segment, mortgage loans represented 68%, whereas the share of consumer loans came to 16%. FCLs accounted for 45% of total loans. 59% of FCLs by Austrian banks were loans to corporations and 41% were loans to households. Moderate credit growth of 2% was registered in 2013 (year on year, exchange rate-adjusted), which was driven by corporate lending, whereas retail loans decreased. In general, loan growth in the Ukrainian banking sector has been rather low since end-2011 against the background of overall macroeconomic trends. New lending in the corporate segment was mostly supported by banks in Ukrainian ownership.

Due to the severe economic crisis, asset quality has deteriorated sharply since 2008. Nonperforming loans (NPLs),

Box 1

Macroeconomic Developments in Ukraine

Ukraine experienced one of the sharpest downturns in CESEE during the crisis period, with GDP plummeting by 14.8% in 2009. The subsequent, mainly private consumption-driven recovery in 2010 and 2011 was followed by stagnation in 2012 and 2013. After dropping to 1.5% in 2009, Ukraine's current account deficit widened continuously. In 2013, the current account gap reached 8.9% of GDP, and – together with considerable external debt service needs – contributed to an overall high level of external vulnerability. Following a sharp depreciation of the hryvnia from September 2008 to March 2009, the National Bank of Ukraine (NBU) pursued a relatively tight de facto peg against the U.S. dollar from early 2009 until early 2014. The NBU ran down its foreign currency reserves to very low levels (USD 15.4 billion in February 2014, covering only two months of imports) to keep the exchange rate stable, as the hryvnia repeatedly came under pressure. As pressures intensified further in January and February 2014, the NBU finally let the exchange rate float. From end-2013 to mid-April 2014, the currency lost more than 30% against the U.S. dollar. Against this background and pointing to the exchange rate pass-through on inflation, the NBU raised the discount rate by 300 basis points to 9.5% in mid-April. Since then the hryvnia has stabilized, also thanks to the IMF-led international support package.

according to the definition of the IMF (including substandard, doubtful and loss loans), reached about 40% of total loans in 2012. The NPL ratio of Austrian banks' subsidiaries is above that of other CESEE subsidiaries.

On the back of deleveraging, the system-wide loan-to-deposit ratio (LDR) came down from an extraordinarily high 223% in mid-2009 to 136% in 2013. The banking sector's net external liabilities declined from 16% to 5% of GDP, but both figures started to rise again in the course of 2013. Austrian subsidiaries' LDR came to 112% in September 2013.

The Ukrainian banking system reported a capital adequacy ratio of 18.3% in 2013, which is above the local regulatory minimum requirement of 10%. Austrian subsidiaries' capitalization remained stable in 2013 (18.7%) and is above the average of Austrian subsidiaries in CESEE (17.7%).

Recent political developments in Ukraine pose new challenges to banks in the country. There is a risk of deposit outflows as the current political and economic situation is very fragile and confidence in the banking sector is diminishing. During the times of violent clashes between the police and protesters in Kiev in early 2014, depositor confidence showed signs of erosion, as reflected by considerable deposit outflows in the first quarter of 2014 (–12% in exchange rate-adjusted terms). A larger deposit run was avoided by the National Bank of Ukraine restricting the withdrawal of foreign currency deposits and banks limiting cash withdrawals at ATMs. In April, the deposit market showed some signs of stabilization, but banks experienced continued deposit withdrawals in some eastern regions of Ukraine due to political unrest. A recurrent or further erosion of depositor confidence potentially limits the funding opportunities of Ukrainian banks and may eventually lead to a rise of committed intragroup funding by parent banks to their Ukrainian subsidiaries. Moreover, the Ukrainian central bank may act as a lender of last resort. Deteriorating asset quality due to further adverse developments would lead to growing credit provisioning, which in turn could weigh on the profitability of banks in Ukraine and, eventually, put a strain on their capital adequacy ratio.

Austrian Banks Stepped Up Activities in Russia, Benefiting from the Credit Boom

Since the crisis of 2008–09, the Russian banking sector has fared quite well. From 2011 on, lending has been a driving force of GDP growth. Retail lending, while still rather modest, grew most dynamically. The driving forces of the Russian credit boom have been the oil price recovery (from early 2009 to early 2012), relatively brisk domestic demand growth (partly driven by public wage adjustments) and financial deepening in the highly profitable retail sector on the demand side and the "deposit boom," increasing or high profits of natural resources enterprises and official liquidity assistance on the supply side.[4]

Austrian banks' subsidiaries in Russia held total assets of EUR 35 billion in 2013, corresponding to 13.2% of Austrian CESEE subsidiaries' total assets. This makes Russia the third most important market for Austrian banks (in terms of total assets), followed by the Czech Republic (24.5%) and Croatia (13.3%). Total assets of Austrian banks in Russia have grown by more than

[4] *For more details see Barisitz and Lahnsteiner (2010) as well as Barisitz (2013).*

50% since 2009 (compared to a growth rate of more than 70% for the entire Russian banking sector). Austrian banks commanded a market share of around 3% in 2013.

The loan portfolio of the Russian banking system is dominated by loans to nonfinancial corporations (around 70%), whereas retail loans make up about 30% (i.e. mortgage and consumer loans). The outstanding loans of Austrian banks' subsidiaries amounted to EUR 22.4 billion. Again, corporate loans represent the largest part (68%), followed by retail loans, accounting for around one-third. FCLs made by Austrian banks amounted to EUR 8.1 billion, 90% of which are denominated in U.S. dollars. 95% of FCLs were taken out by nonfinancial corporations. Compared to total loans, about half of the loans extended by Austrian subsidiaries to nonfinancial corporations are denominated in foreign currency. In comparison with Russian banks, Austrian subsidiaries have a significantly higher share of FCLs in total loans (36% vs. 18%).

The Russian banking system registered credit growth of 19% during 2013, mainly driven by retail loan growth (over 30% in 2013). Corporate loans increased by nearly 13% in 2013. Total loans of Austrian banks' subsidiaries in Russia grew by 8.1% to EUR 22.4 billion in 2013 (year on year), mainly driven by retail lending (+35% year on year), whereas corporate lending slightly decreased (–1%). Growth in the retail segment was to a large extent driven by consumer lending, whereas mortgage loans increased at a slower pace. 77% of retail loans (and 25% of

Box 2

Macroeconomic Developments in Russia

Since the global financial crisis of 2008–09, the Russian economy has benefited from slowly improving international economic activity, particularly from the strong recovery of the oil price and the improvement of the country's terms of trade. While Russian GDP had declined sharply in 2009 (–7.8%), it rebounded rather swiftly and in 2011 exceeded the precrisis level. Over time, growth was increasingly driven by domestic demand, particularly household consumption. The latter was stimulated by years of generous increases of public salaries and pensions as well as by lending activity, notably credit to households, which gathered momentum and from 2011 expanded in double-digit rates (in real terms). Large current account surpluses were achieved on the back of high oil prices. Although having risen recently, Russia's gross external debt remains at a relatively modest level (33.5% of GDP at end-2013), but considerably exceeds the amount of its still large foreign exchange reserves (EUR 355 billion or about 23% of GDP in mid-March 2014). The impact of the Ukrainian crisis and of Western sanctions have increased uncertainty, which further dampens the investment and growth outlook for Russia, at least in the short term.

Increased uncertainty was reflected in surging net private capital outflows from Russia (USD 50.6 billion in the first quarter of 2014) and an accelerated depreciation of the ruble in early 2014. As European banks are more active in Russia than in Ukraine, to them spillover effects from Russia are more relevant than spillover effects from Ukraine. Compared to other European banks, Austrian banks have the largest exposure (as a percentage of GDP) to Russia.

The impact of an accelerated depreciation of the ruble on the back of geopolitical risks has to be closely monitored. However, the shock-absorbing factors at the systemic level remain considerable, including a high level of deposits. Profitability is still high and the banking sector has a net external creditor position. The authorities still have room for maneuver: Russia boasts an almost balanced budget, very low public debt and still substantial (if shrinking) gross international reserves.

total loans) that Austrian banks' subsidiaries have made in Russia are consumer loans. Apart from the surge in consumer loans and the increase in personal indebtedness, the credit boom-related risks to the Russian banking sector are widespread connected lending and weak risk management capacities as well as potentially higher levels of nonperforming loans, modest provisioning and eroding capital adequacy. Starting from 2012, lending growth decelerated, which can be attributed to the general economic slowdown, but also to moral suasion and some prudential measures taken by the Central Bank of the Russian Federation (CBR).

Credit quality indicators look favorable but should be treated with caution during a credit boom, as they are lagging indicators and could deteriorate quickly. Austrian banks' loan loss provision ratio even improved since the outbreak of the crisis (by –3.0 percentage points to 3.3% between 2009 and 2013) due to strong credit growth and a reduction in the stock of loan loss provisions. The NPL ratio at Austrian banks' Russian subsidiaries was about 4% in 2013.

Loan growth appears to be largely funded by deposits, as indicated by the system-wide LDR amounting to about 100% in 2013. The Russian banking sectors' main funding sources are customer deposits of households (around 29% of total liabilities in 2013) and corporates (around 32%). Competition for deposits increased and put pressure on interest margins. Moreover, reliance on funding from government-related institutions – the largest part came from the CBR – rose to 11% of liabilities in 2013 from 9.2% in 2012. Russian state-owned banks attracted 79% of funding from government related sources in 2013. The LDR of Austrian subsidiaries amounted to almost 100% in 2013. Deposits at Austrian banks' subsidiaries in Russia made up 62% of total liabilities in 2013 and have increased by 73% since 2009. Loan growth funded by local stable funding sources is in line with the Austrian supervisory guidance[5] implemented in March 2012, which is aimed at strengthening the sustainability of the business models of large internationally active Austrian banks.

Aside from profitability and funding, capitalization serves as an important risk buffer. At the sector level, the capitalization of Russian banks declined. As of January 2014, the capital adequacy ratio was 12.9%, down from 13.7% at the beginning of 2013. According to estimates of the CBR, two-thirds of banking assets growth is attributable to credit growth, and one-third of the increase is related to regulatory changes. The capitalization of Austrian subsidiaries in Russia declined to 14.5% in 2013, from 16.1% in 2009, and was lower than the Austrian CESEE subsidiaries' average (17.7% in 2013). Likewise, the tier 1 ratio of Austrian subsidiaries in Russia was 12.8% in 2013 compared to the respective CESEE average of 15.5%.

Austrian Banks Increased Activities in Turkey and Benefit from the Credit Boom

Austrian banks have significant business interests in Turkey: On the one hand, there are cross-border direct lending and interbank credit lines, on the other hand, and more importantly, one Austrian bank operates a joint venture with a share in total assets amounting to EUR 22.1 billion in 2013. The joint

[5] *For further information see http://www.fma.gv.at/de/ueber-die-fma/presse/pressemitteilungen/pressemitteilungen-detail/article/nachhaltigkeitspaket-fuer-oesterreichs-banken-soll-finanzmarktstabilitaet-staerken.html.*

venture is the fourth largest bank in Turkey and has a market share of roughly 10%.

The system-wide loan portfolio in Turkey is dominated by loans to large nonfinancial corporations (42% in 2013), followed by retail loans with a share of around one-third and loans to SMEs (26%). The share of FCLs in total loans amounted to roughly 30% in 2013, which is lower than in other CESEE countries. Foreign currency lending has been strictly regulated in Turkey since 2009.[6] The majority of outstanding FCLs – which are mostly denominated in U.S. dollars – was extended to nonfinancial corporations. Overall, approximately half of the outstanding volume of corporate loans is denominated in foreign currency. Austrian banks' loan portfolio in Turkey broadly mirrors these patterns.

Next to high GDP growth, Turkey has experienced a credit boom since 2010. Annual credit growth averaged 24% (exchange rate-adjusted) between 2010 and 2013. Throughout the boom, credit terms were loosened, as banks were increasingly willing to lend to less creditworthy borrowers. According to Moody's, unsecured personal consumer credit has expanded by around 105% and credit card debt by 87% since 2010. At 113%, loans to SMEs also spurred credit growth during this period. Clearly, the unsecured consumer and SME segments are particularly vulnerable to a less benign economic environment. Austrian banks' activities in Turkey also involve high loan growth rates in the retail and in the nonfinancial corporate segments. Moreover, the Austrian joint venture bank has a significant market share in the fast-growing credit card business. Given the high credit growth rates, the Central Bank of the Republic of Turkey took a number of macroprudential measures, in particular to curb the growth of consumer loans (e.g. introduction of higher risk weights, higher provisioning requirements, credit card limits in

Box 3

Macroeconomic Developments in Turkey

Turkey's economy rebounded swiftly from the 2008–09 crisis period. Following a recession in 2009 (–4.8%), economic growth was buoyant in 2010 and 2011 (averaging 9%) before slowing down in 2012 and 2013 (averaging 3.3%). In 2013, the growth structure became increasingly unbalanced, as economic activity was driven by partly credit-financed domestic demand, while the contribution of net exports turned increasingly negative. Turkey's strong growth also helped keep the fiscal deficit (1.6% of GDP in 2013) and public debt (36% of GDP) at low levels. However, the current account deficit widened from 2.2% in 2009 to 8% of GDP in 2013. Turkey has become vulnerable to external shocks also due to the fact that the financing of the considerable current account gap has been fragile and strongly reliant on short-term capital inflows since 2009. In 2013, the lira repeatedly came under considerable pressure (mainly due to the U.S. Federal Reserve's first tapering announcement and rising political risks). The cumulative depreciation between mid-May 2013 and January 2014 amounted to 28.2% against the U.S. dollar and to 36.1% against the euro. On January 28, 2014, the Central Bank of the Republic of Turkey (CBRT) decided to raise the main policy rate from 4.5% to 10% p.a. Following this step, the lira stabilized and recovered a small part of its earlier losses until end-March.

[6] *There is a ban on foreign currency lending to households. Corporates, whether they are hedged or not, are allowed to borrow in foreign currency from local banks, provided that the foreign currency loan amount is greater than USD 5 million and that the maturity is longer than one year.*

Table 1

Selected Macrofinancial Indicators

	Russia			Ukraine			Turkey		
	2011	2012	2013	2011	2012	2013	2011	2012	2013[1]
	%								
Real GDP growth	4.3	3.4	1.3	5.2	0.3	–0.0	4.3	3.4	1.3
Inflation rate (average, year on year)	8.5	5.1	6.8	8.0	0.6	–0.3	6.5	9.0	7.5
	% of GDP								
Budget balance	1.5	0.4	–1.3	–2.8	–4.5	–4.5	–0.7	–1.8	–1.5
Public debt	11.7	12.7	13.4	36.8	37.4	41.0	39.1	36.2	35.8
Current account balance	5.2	2.8	1.6	–6.3	–8.2	–8.9	–9.7	–6.1	–8.0
External debt	30.5	31.0	33.5	83.3	75.3	77.0	42.3	41.8	44.1
Foreign currency reserves	28.2	26.2	23.5	21.0	13.7	11.0	12.3	14.7	15.4
Domestic private sector deposits	40.5	41.4	45.2	37.5	40.1	45.8	49.0	50.0	55.0
Domestic private sector credit	46.9	50.5	55.3	62.5	59.3	64.9	49.3	54.2	65.6
Banks' net external assets	2.8	2.0	2.7	–6.5	–3.2	–5.0	–8.5	–10.9	–17.4
BIS total consolidated claims[2]	11.2	11.6	11.8	22.2	17.1	14.6	25.9	26.6	25.9
	%								
Banks' capital adequacy ratio	14.7	13.7	13.5	18.9	18.1	18.3	15.5	17.2	14.6
Banks' return on assets	2.3	2.3	1.9	–0.6	0.5	0.3	2.2	2.4	2.0

Source: National statistical institutes, national central banks, IMF, BIS.

[1] *Last observation for external debt: Q3 13.*
[2] *Last observation: Q3 13.*

relation to income), which meanwhile started to show effects.

The banking system's NPL ratio is around 3%; Austrian banks active in Turkey report about the same NPL ratio. The relatively low ratio partly reflects rapid loan growth. In absolute terms, however, nonperforming loans have significantly risen – also at Austrian banks active in Turkey.

With loan growth outpacing deposit growth, the funding and liquidity situation in the Turkish banking sector has deteriorated over time. The system-wide LDR was 72% in 2009 but briskly rose to 119% in 2013. The banking systems' main funding source are deposits, representing 54% of total liabilities in 2013 (down from 61% in 2009). Corporate deposits, which accounted for 36% of total deposits in 2013, may be most sensitive to confidence-driven fluctuations. Turkish banks' funding profile, while still sound, has become less robust with loan growth outpacing deposit growth as banks have increasingly turned to wholesale markets, which renders them more vulnerable to international markets' volatility. Also, some banks shifted parts of their liquid assets such as government securities into loans. Net external liabilities amounted to 17.4% of GDP at end-2013, after the banking sector's external position had been almost balanced in 2008 and 2009. In addition, Turkey has a comparatively low national saving rate, therefore competition for deposits is fierce.

Beside profitability and funding, capitalization is an integral part of banks' risk-bearing capacity. The trend of decreasing capitalization in Turkey seems to be similar to that registered in Russia due to generally high loan growth and the fact that banks have started to focus on more profitable, but also riskier loan segments. Further regulatory initiatives of the Turkish supervisory authorities in terms of consumer loans (e.g. higher

RWAs) may translate into lower capital ratios. Also, in the light of unfavorable internal and external developments, such as political turmoil and diminishing liquidity in emerging markets worldwide, a slowdown in economic growth, deteriorations in credit quality and reductions in credit demand, the operating environment will become increasingly challenging for banks in Turkey.

Conclusions

Austrian banks are important players in CESEE and have benefited from diversified exposures in an increasingly heterogeneous region. Over the last years, a benign credit cycle in Russia and Turkey led to increased profits from these two economies; however, this makes the banks active in these two countries vulnerable to adverse local developments. Furthermore, in the recent past, profits have increasingly come from fast credit growth, mainly in consumer finance (including the credit card business, especially in Turkey). As this segment is particularly vulnerable to a less benign economic environment, it could be a drag on banks' profitability and weaken their capacity to improve capitalization. And although NPL ratios seem favorable, NPLs have started to deteriorate in absolute volumes.

Since the outbreak of the crisis in 2008, Austrian banks have reduced their exposure to Ukraine. Banks have faced severe headwinds in Ukraine due to the legacy of the past credit boom, weak macrofinancial conditions, the unstable political situation and geopolitical tensions. A further destabilization in Ukraine would put pressure on banks' funding, profitability and capitalization.

On top of the aforementioned vulnerabilities, increased geopolitical risks in Ukraine and Russia as well as domestic political turmoil in Turkey, macroeconomic imbalances, the general reduction in liquidity in emerging markets worldwide and deteriorating economic conditions will further affect banks' operating environment and activities. Banks should step up their risk buffers; although Austrian banks' risk-bearing capacity is higher than in 2008, capitalization needs to be improved further, given banks' risk profile and heightened external risks. Moreover, Austrian banks should further enhance their risk management practices. The developments in Ukraine, Russia and Turkey need to be monitored carefully and banks should proactively prepare for contingency situations.

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