



Six Years After EU Enlargement— Austria and Its Eastern Neighbors

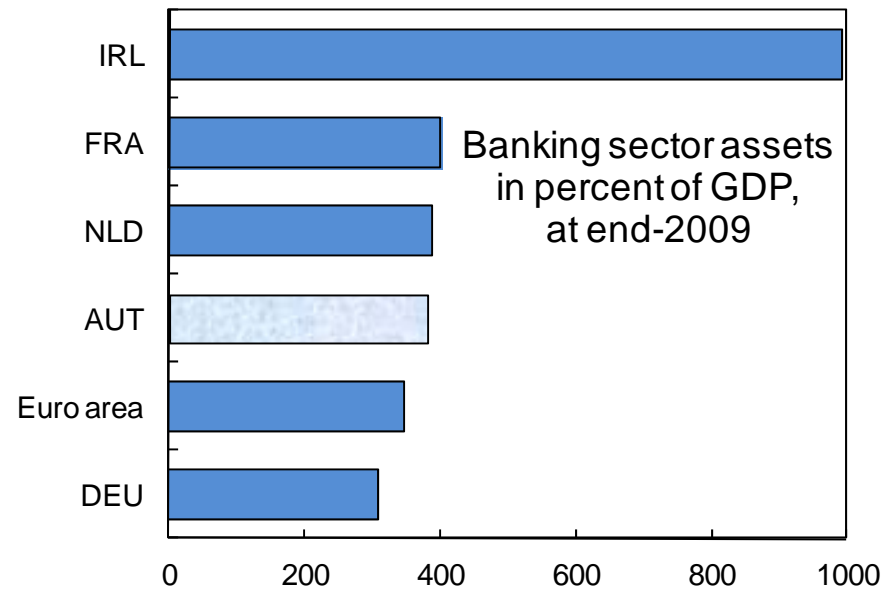
Session III—Financial Markets Discussion

Claire Waysand, Assistant Director
European Department
International Monetary Fund

*copyright rests
with the author

The size of the Austrian banking sector compared to its GDP is close to the euro area average

Austria is both home as well as host supervisor.



Sources: ECB's MFI statistics, nominal GDP from IMF staff.

But Austria's Exposure to CESE is significant with around 70 percent of GDP...

Austria: Exposure to CESE (Billion Euro)

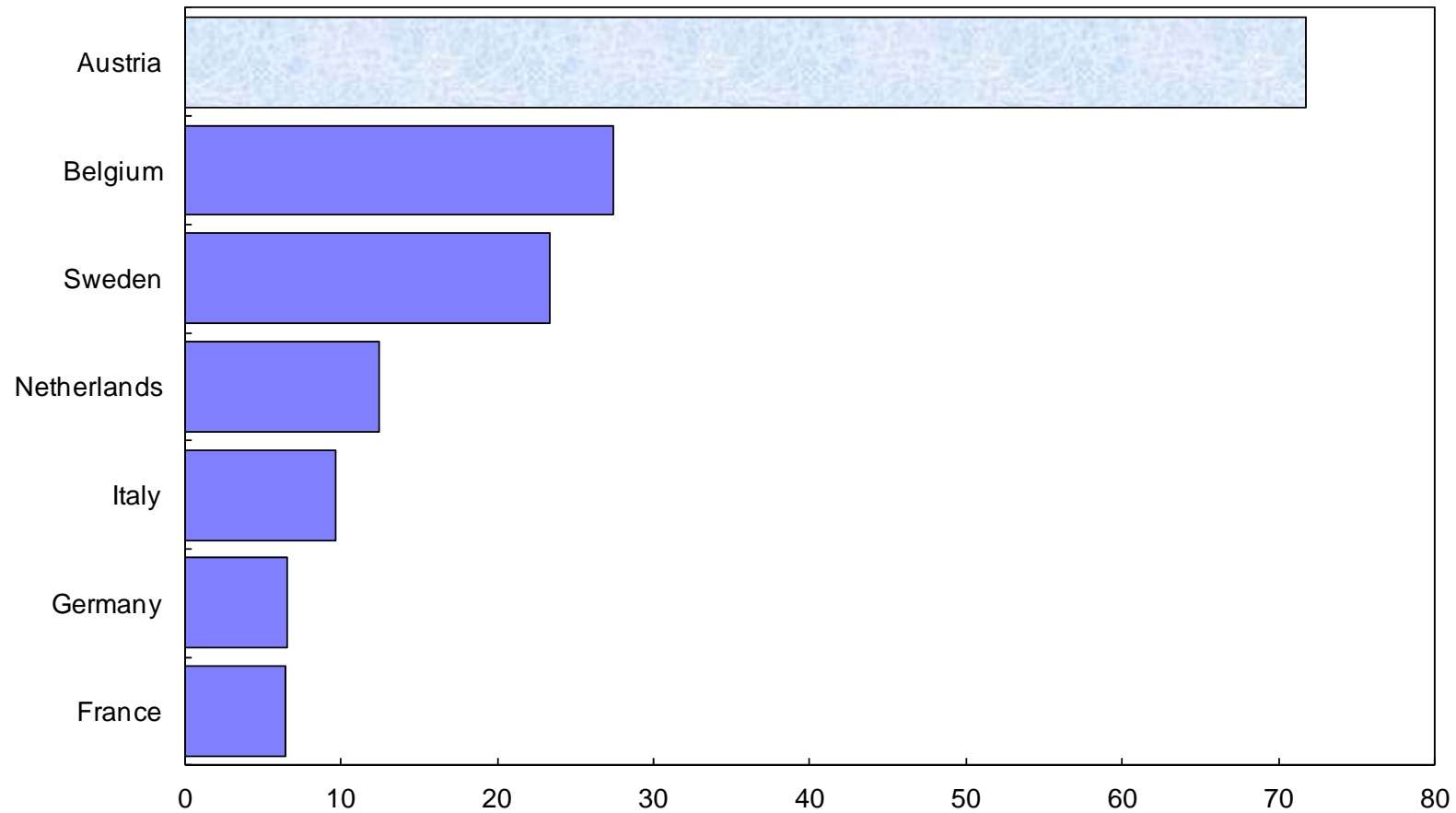
	Jun.2008	Sep.2008	Dec.2008	Mar.2009	Jun.2009	Sep.2009
All CESE	190.6	201.2	198.9	185.7	183.9	183.3
Czech Republic	41.3	42.6	39.0	39.3	39.4	43.3
Romania 1/	29.5	30.5	30.3	30.3	30.1	28.3
Hungary 1/	24.3	25.8	26.6	25.4	26.0	26.3
Slovakia	21.1	22.5	26.7	20.2	20.6	21.1
Croatia	15.9	16.6	16.6	16.8	17.5	17.3
Poland	10.9	11.7	11.1	9.5	9.6	9.7
Russia	15.2	15.6	16.2	15.0	12.8	9.6
Slovenia	6.8	7.1	7.0	6.9	6.9	7.1
Ukraine	8.2	10.0	7.8	7.9	7.3	6.6
Serbia 1/	4.8	5.3	4.2	4.1	4.2	4.0
Bulgaria	3.6	3.9	3.8	3.7	3.6	4.0
Bosnia and Herzegovina 1/	2.8	3.1	2.9	3.0	2.9	2.9
Belarus	1.3	1.6	1.6	1.4	1.2	1.3
Turkey	1.8	1.9	1.9	0.8	0.7	0.7
Latvia 1/	0.5	0.4	0.3	0.4	0.4	0.4
Moldova	0.2	0.2	0.3	0.2	0.2	0.2
Lithuania	0.2	0.2	0.2	0.2	0.2	0.2
Macedonia, FYR	0.1	0.1	0.2	0.2	0.2	0.2
Estonia	0.2	0.2	0.2	0.2	0.2	0.2
Montenegro	0.1	0.1	0.1	0.2	0.1	0.1
Albania	1.9	1.9	1.9

Source: BIS, Table 9B.

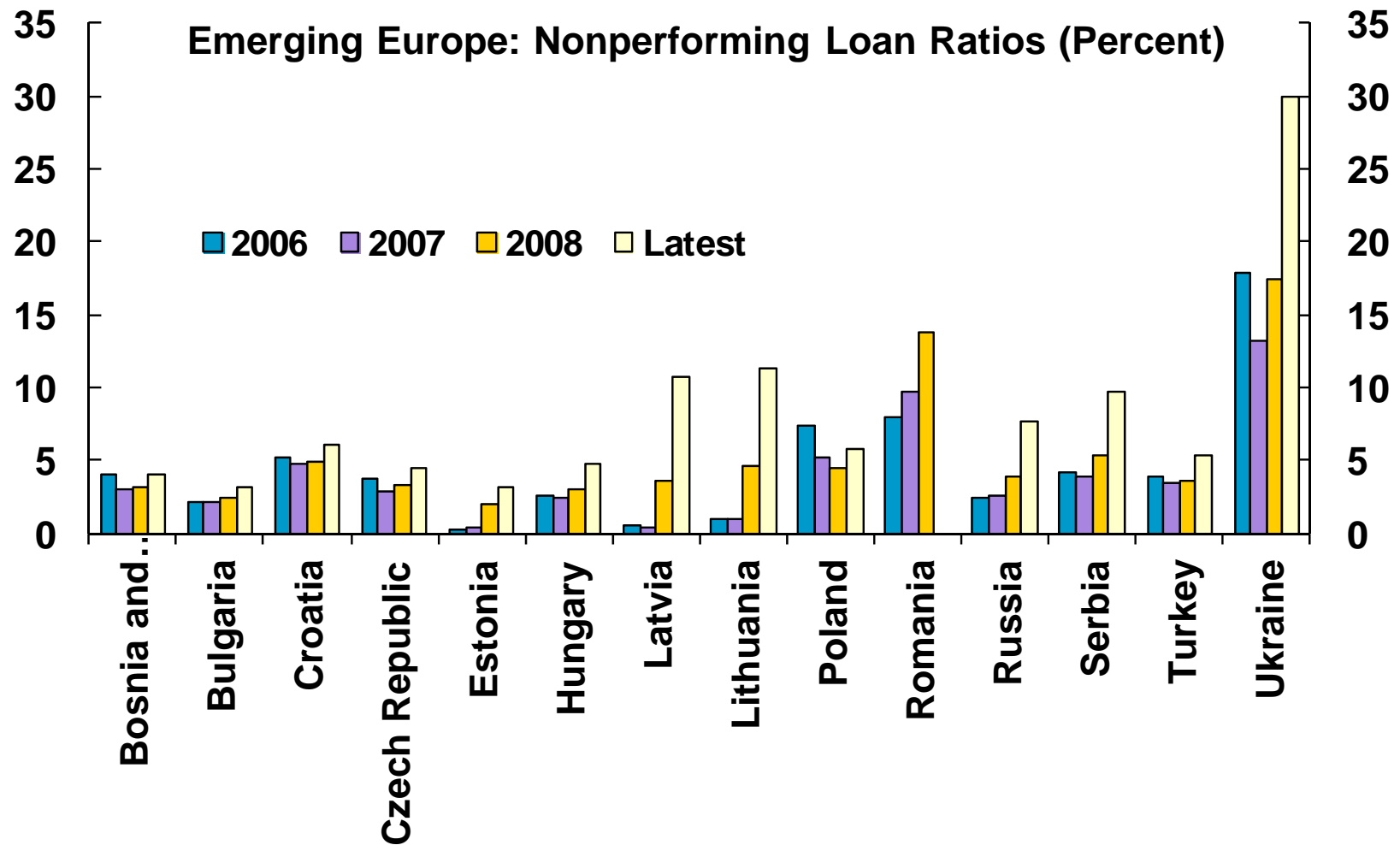
1/ Part of the European Bank Coordination Initiative ("Vienna Initiative").

...especially when compared to other countries

Foreign claims on CESE in % of 2009 GDP, Sept. 09



Austria has therefore been hit by the bust of the credit cycle in CESE



Source: National authorities and Vacher (2009).

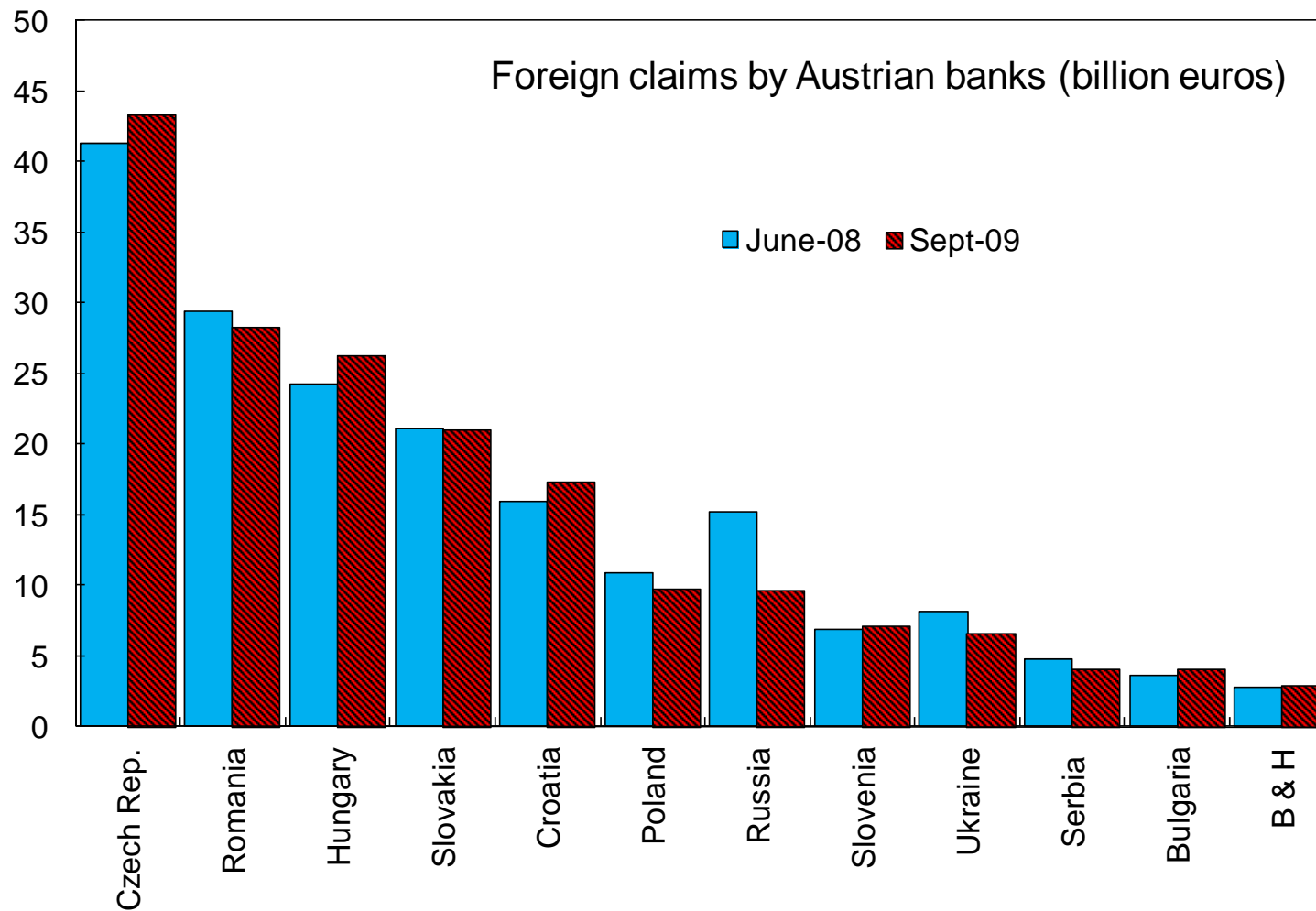
3/17/2010

Note: Due to differences in national accounting, taxation, and supervisory regimes, as well as changes in definition, 5 nonperforming loans are not strictly comparable across countries or with historical data.

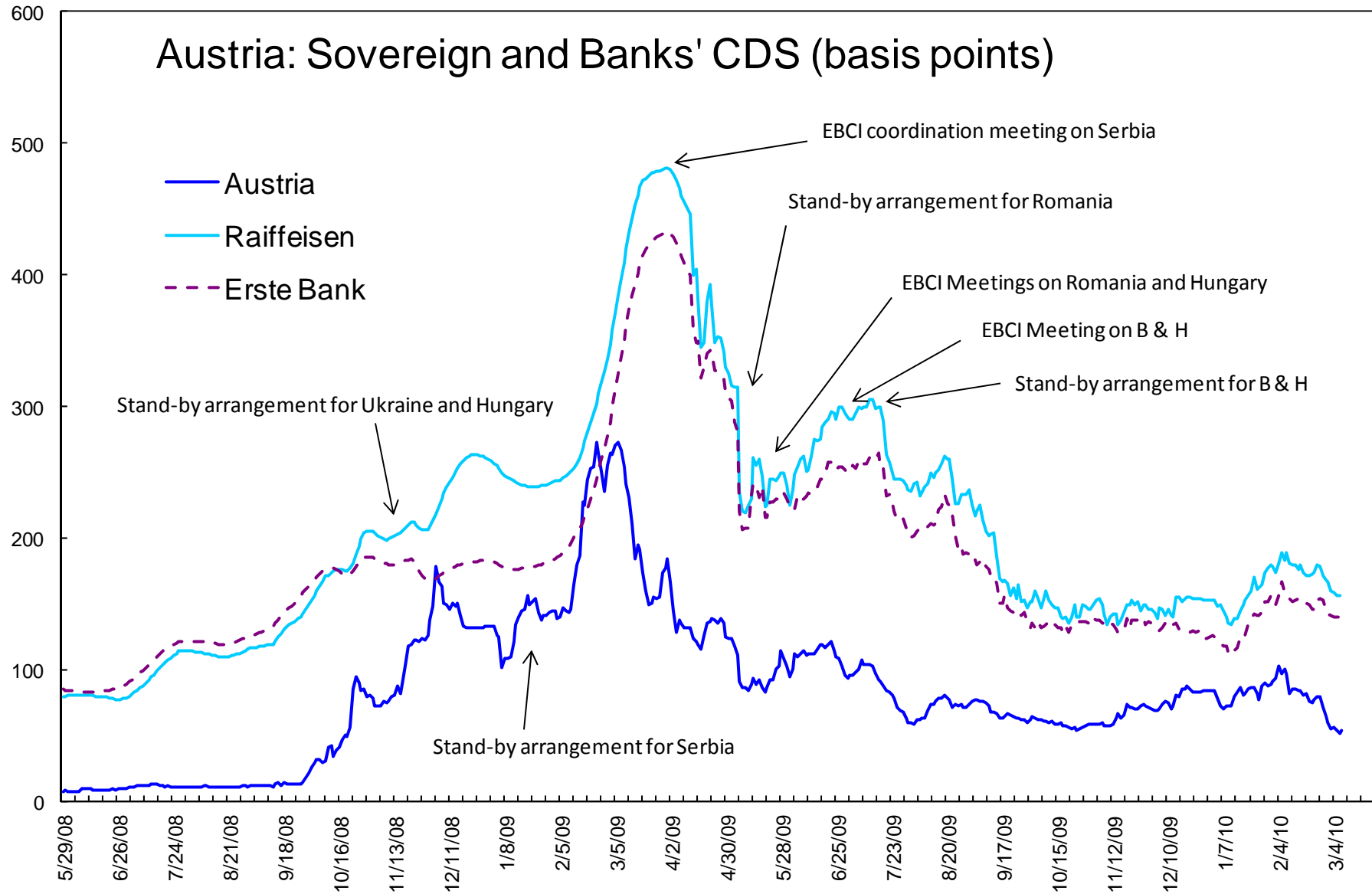
The macroeconomic stabilization of the region, together with the EBCI (“Vienna Initiative”) played an important role

- Joint EU/IMF programs
- European Banking Coordination Initiative (EBCI) helped...
 - ...stabilize the situation and
 - ...create a dialogue between different stakeholders
- Austrian banks broadly maintained exposure

Developments differ between countries



Austria: Sovereign and Banks' CDS (basis points)



Sources: Thomson Financial/DataStream and Bloomberg.

Lessons

Importance of spillovers between Austria and its neighbors.

Need of cooperation in crisis prevention.

→ More integrated supervisory framework.

→ Cooperation to reduce risks – including fx lending.

→ Macroprudential surveillance at relevant level –
ESRB.

Need of coordinated answers to the crises. Further steps?

Appendix

FX lending constitutes a specific risk factor

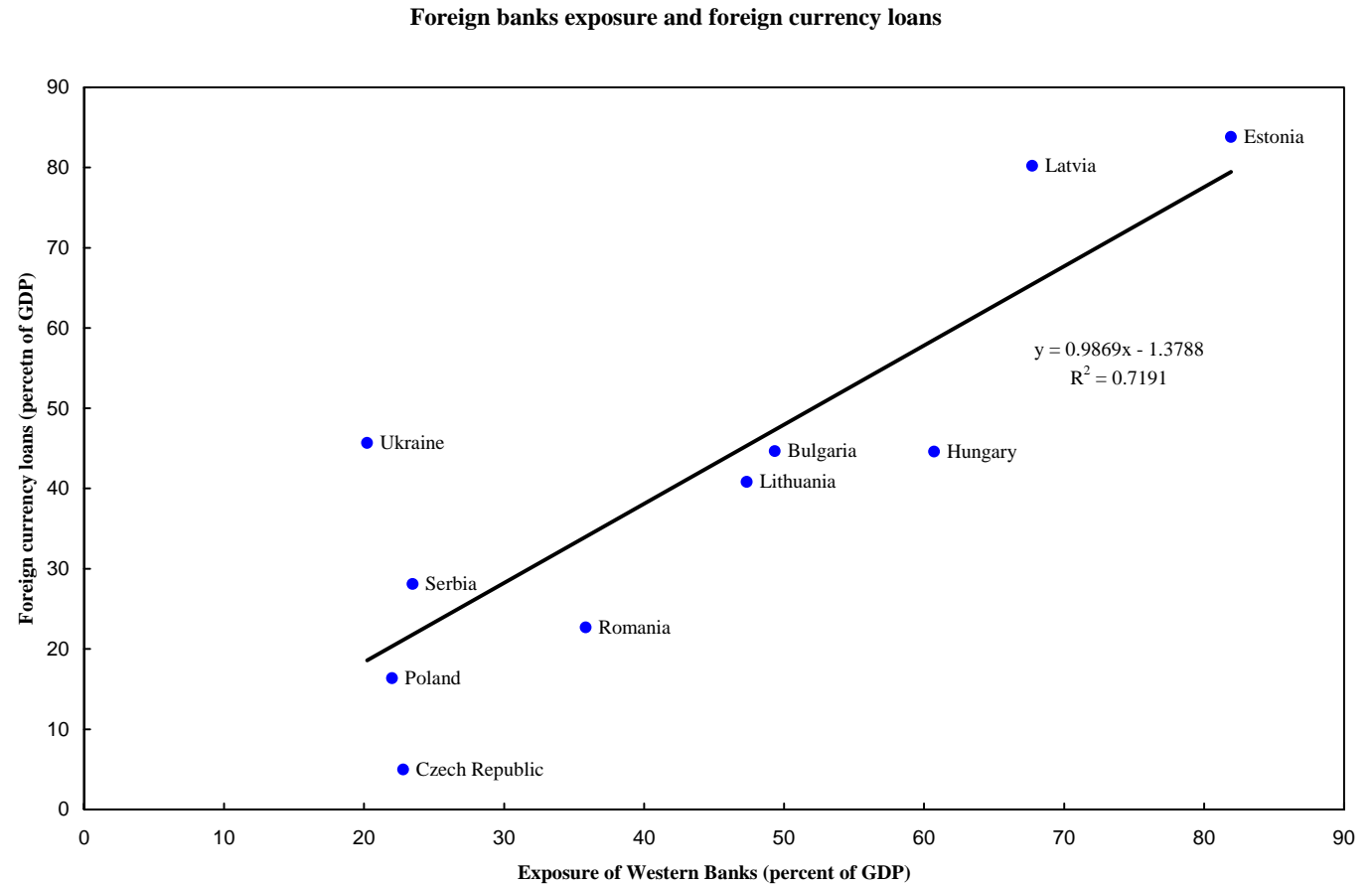
- Supply side: Loan euroization highest for countries
 - that saw large capital inflows and rapid credit growth
 - countries that reached very high loan to GDP ratios
- Demand side: lower fx interest rates and stable or appreciating exchange rates favor fx lending
- Half of Austrian lending to CESE was in fx (euros, CHF)
- Supranational approaches to address fx lending
 - Improve transparency for consumers and introduce specific capital requirements to discourage fx lending
 - Support and develop domestic currency funding markets through macro policies and regulation
 - Importance of stable macroeconomic policies

Fx lending remains an issue

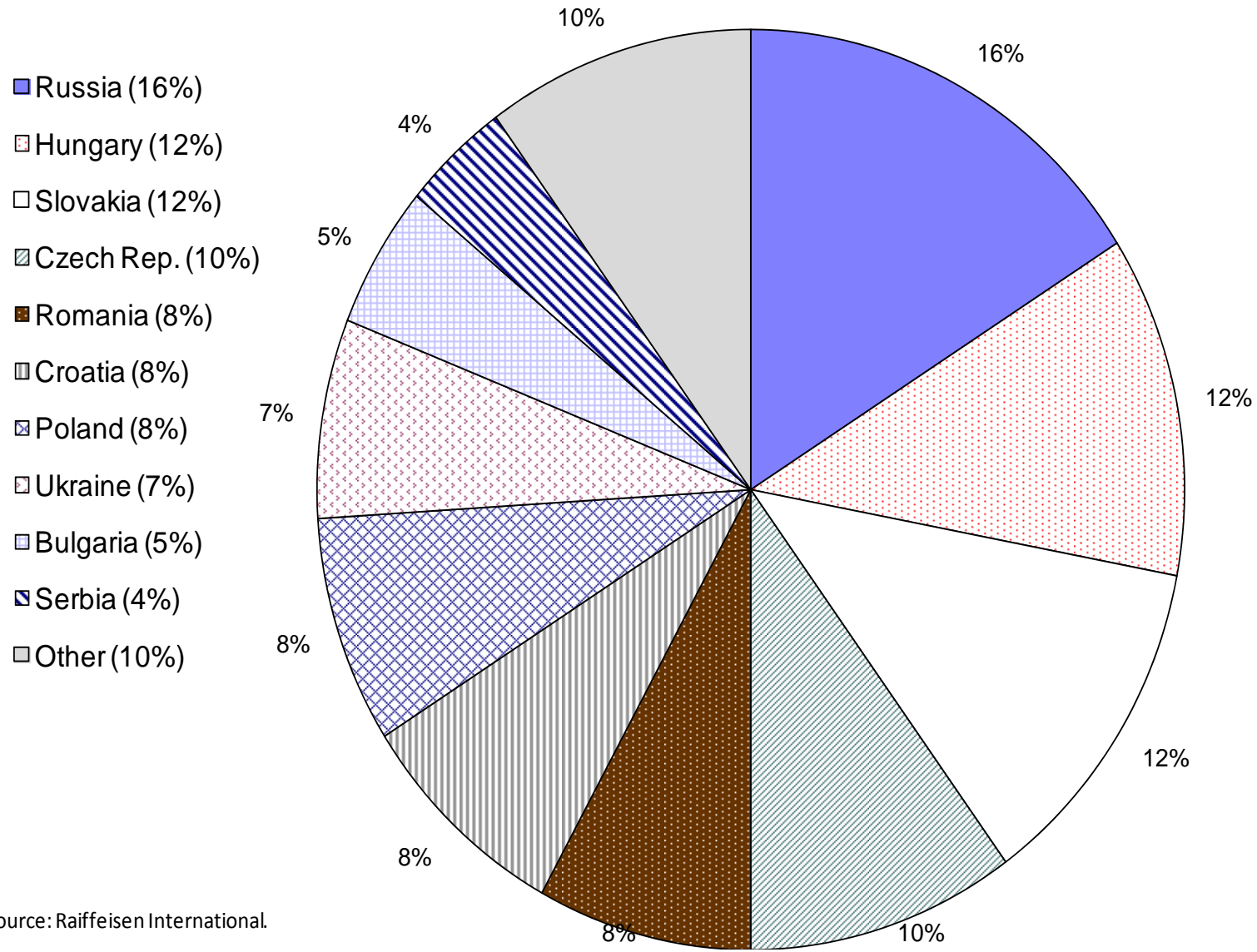
- Local currency use should be encouraged
 - Debt management and other policies need to create demand for long-term local currency
 - Sound macro policies are a ‘necessary condition’ for domestic currency market
- Re-emergence of credit booms fueled by capital inflows needs to be prevented

FX loans and exposure to Western Banks

Capital inflows play a key role: The higher the exposure of Western banks, the more domestic foreign currency loans

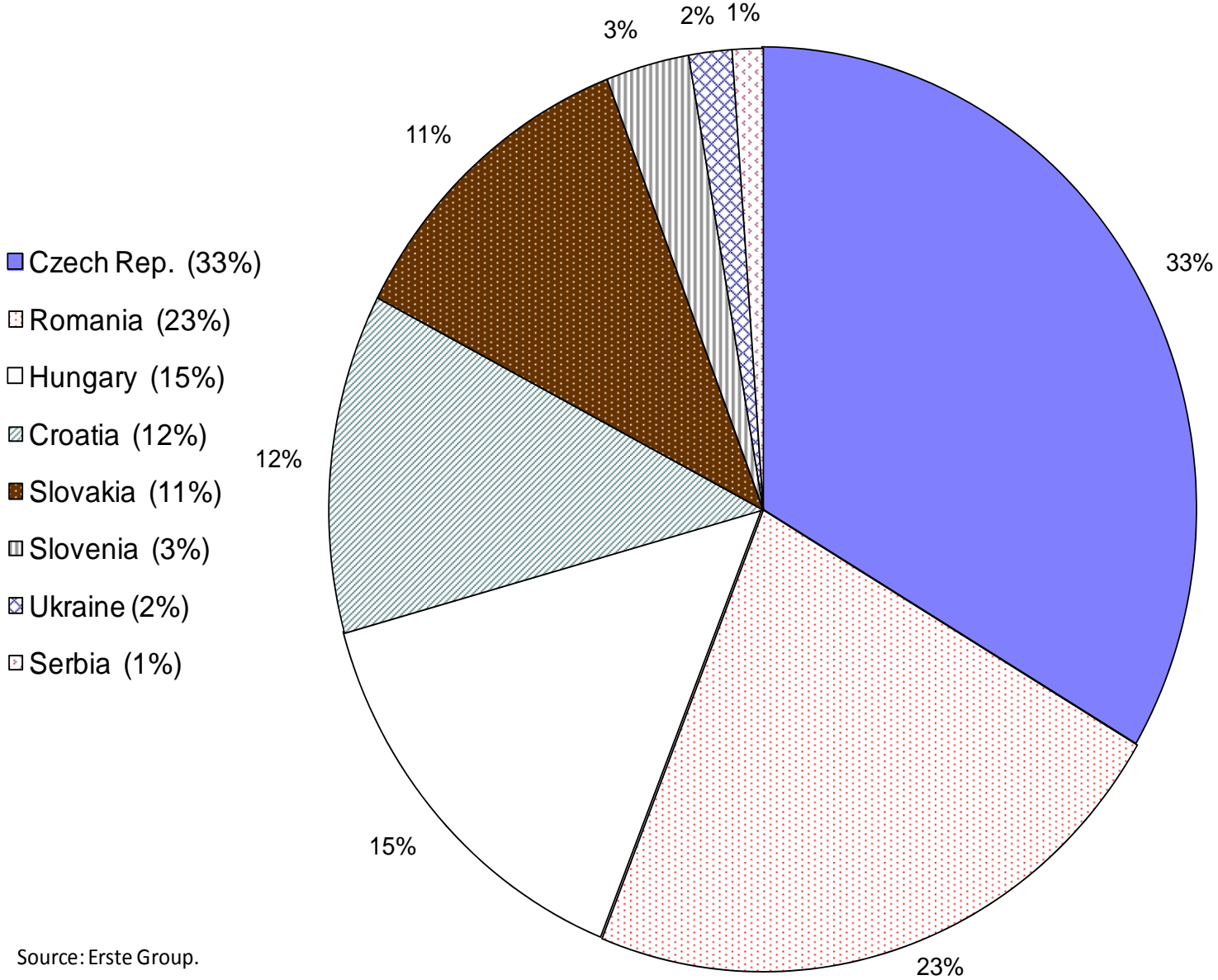


Raiffeisen International: CESE Loans (Eur 78 bn, Sept. 09)



Source: Raiffeisen International.

Erste Group: CESE Loans (Eur 58 bn, Dec. 09)



Source: Erste Group.