Austrian banks’ expansion to Central, Eastern and Southeastern Europe (CESEE)

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After the EU-accession of CESEE-countries in 2004, Austrian banks’ expansion gained substantial momentum

• **After 1989:** Austria’s large banks jumped at the opportunity of expanding their low-margin domestic operations by entering CESEE markets (e.g. CZ, HU, PL, SK and SI).

• **Before 2004:** The prospect of EU membership fueled reform mood and growth momentum.

• **2005 to 2008:** Dynamic loan growth generated high profits, but with downsides (e.g. FX-lending, funding via parent banks).

Source: OeNB.
2009 to 2015: During the global financial crisis, the rapid expansion’s risks materialized and Austrian supervisors reacted proactively

Rising (risk) costs at Austrian banking subsidiaries lead to macroprudential measures by Austrian authorities to mitigate risks to financial stability:

• 2010: Guidance on **FX-lending** to CESEE households

• 2012: Sustainability Package (**strengthen local stable funding**, avoid excessive credit growth)

• 2016: **Systemic risk buffer** at the parent level (address systemic vulnerabilities, e.g. systemic concentration risk from CESEE exposures)

Source: OeNB. *to private households and non-financial corporates.*

Note: Variable bank sample, i.a. caused by the restructuring at UniCredit Bank Austria.
2016 to 2019: Recovery and renewed (loan) growth in CESEE banking

- Renewed good profits, based on improved credit quality, but also **re-accelerating credit growth**.
- **New systemic challenges** necessitated macroprudential measures at the local level (e.g. countercyclical capital buffers, borrower-based mortgage measures).
- **Outlook:**
  - **Economic catching-up** in Austrian banks’ enlarged home market provides potential for significant growth and profits, …
  - …. but the long recovery (driven by credit growth) and the **impact of COVID-19** lead to numerous challenges.

Austrian banking subsidiaries in CESEE: NPL rate in selected countries and total profit

Source: OeNB. * These NPL rates are as of mid-2017, as they were not available for all economic sectors before that date.
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