

How are Viennese Banks Handling Risks of Eastern European Loans

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Structure

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- **Introduction to Issue**
 - Why is this important to Vienna and Austria
 - What processes led to this exposure
- **Research Question**
 - How did Austrian banks reduce their large emerging market risk exposures, and how has this affected the region.
- **Research Design**
 - Case studies of financial companies based in Vienna
 - ✦ Raiffeisen Bank
 - ✦ Erste Bank
 - ✦ Volksbank

Austrian Banking Background

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- Currently building a history of the development of Vienna as a financial center between 1989 and 2008
- Growth initially Greenfield oriented: Banks built subsidiaries from ground up.
- Privatization of large state owned banks led to rapid consolidation of market share in foreign firms 77% by
 - ✦ Total banking assets in CEE 10 and Croatia Grew from 200 billion Euros to 800 billion Euros between 1995 and 2007 (300%)
 - ✦ Austrian total banking assets grew by only 130% over same period

Austrian Banking Background

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- **Austrian banks heavily invested in CEE -10 + Croatia**
 - Battle for market share led to heavy consolidation in marketplaces.
- **Purchasing remaining banks in emerging markets only available outside of more stable marketplaces. (Kazakhstan, Russia, Ukraine, Romania, Bulgaria)**
 - Western banks pay multiple times what they paid before for banks in stable marketplaces

Paul Krugman

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- **Nobel Prize winner 2008 for work on trade theory and globalization**
- **NY Times Columnist**
- **Princeton professor of international affairs and economics**

The Crash

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- Loans made to less stable countries would be riskier for the Austrian economy
- Currency instability amongst countries not in the EMU caused concern over the loans within those countries. Hungary was a particular concern with inflation in the Florint

Question to Answer

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- **How did Austrian banks reduce their large emerging market risk exposures, and how has this affected the region.**
 - Are the banks doing an adequate job of addressing potential risks within their marketplaces?
 - How do banks increasing balance sheets internationally effect the headquarters

Units of Analysis

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- **Banks Headquartered in Vienna, Austria**
 - Banks with foreign owners would likely have less of a local link
 - Is the Viennese Economy effected by the greater regional developments?
 - Do they have sufficient capital reserves
 - How do the banks handle risk amongst countries?

Research Design

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- **Case Study format – Raiffeisen, Erste and Volksbank**
 - Synthesize back-story on banks from 1989 onwards
 - Conduct interviews with WIFO, pertaining to local banking effects on Viennese Economy
 - Conduct interviews with OeNB about current effects of investments
 - Interview members from each bank

What do I expect?

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- Banks were able to continue to make money in the east despite more expensive credit.
- All Erste bank subsidiaries other than Ukraine were able to operate profitably
 - What are the best practices that these banks are employing and do these practices directly effect the region through employment or otherwise?