

## Box 2

### Lower oil prices and their implications for financial stability in the euro area

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The oil market has seen an upheaval since mid-2014, exhibiting a more than 50% peak-to-trough drop in prices (see Chart A). Despite a relatively benign global volatility environment and some recovery since early 2015, going forward, prices are likely to remain below the highs observed after the 2009 recovery, in particular given the supply and price elasticity of North American unconventional oil. The net impact on the global economy, including the euro area, is expected to be beneficial on average given positive growth effects, but its distribution will be clearly asymmetric between oil-exporting and oil-importing economies (see Chart B). Oil-exporting emerging economies<sup>4</sup> seem particularly vulnerable given less diversified economic structures and high oil dependency, notwithstanding varying levels of fiscal space and reserves to cope with related challenges. In this environment, the direct linkages of euro area banks require monitoring from a financial stability perspective. Such linkages comprise the exposure, investment and ownership channels, including petrodollar flows in the form of debt and/or equity funding.

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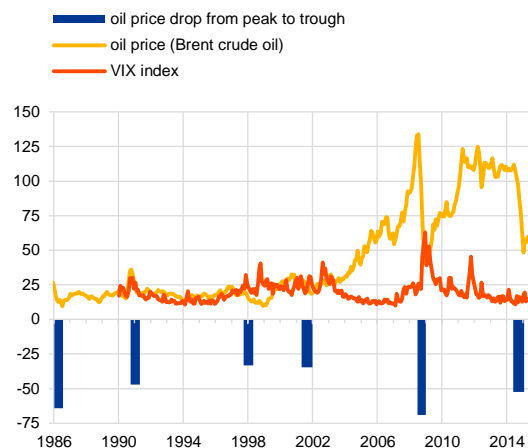
<sup>4</sup> According to the US Energy Information Administration, the world's largest net oil-exporting emerging economies in 2013 with exports of more than 1,000 barrels a day were, in descending order, Saudi Arabia, Russia, the United Arab Emirates, Kuwait, Iraq, Nigeria, Venezuela, Qatar, Angola, Kazakhstan, Algeria and Iran.

### Chart A

Sharp drop in oil prices amid a relatively benign global volatility environment

#### Developments in the oil price and the VIX index

(Jan. 1986 – Apr. 2015; US dollars per barrel, percentages)



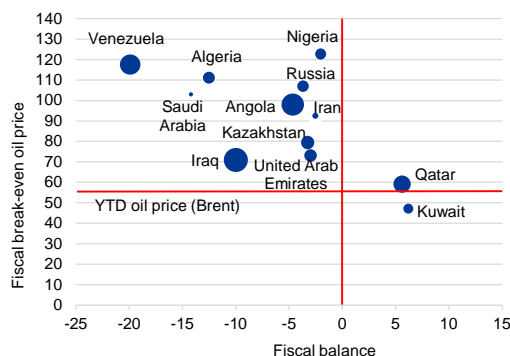
Source: Bloomberg.

### Chart B

Persistent low oil prices may challenge the macro-fiscal stability of major oil exporters

#### Forecast fiscal balance and fiscal break-even oil price of major oil-exporting emerging economies

(2015 forecasts, percentage of GDP and US dollars per barrel)



Sources: Bloomberg, Deutsche Bank and IMF.  
 Note: The size of the bubble represents the general government debt as a percentage of GDP.

On the assets side of euro area bank balance sheets, BIS data suggest a rather modest and manageable exposure to oil-exporting emerging economies. Nonetheless, the variability across country-specific exposures is evident and can lead to the emergence of pockets of localised risk. Under a tail-risk scenario, these pockets of risk could be amplified by broader shifts in investor sentiment, with spillovers across emerging markets and a negative feedback loop with the world economy, and could implicitly affect euro area financial stability. That said, euro area banks' claims on the world's major oil-exporting emerging economies amounted on average to some 2.5% of their total foreign claims as at end-2014, with Portugal and Austria having the largest relative exposures. These countries were the most exposed also relative to their GDP (see Chart C). The countries to which euro area banks are exposed the most are Russia, Saudi Arabia and the United Arab Emirates.

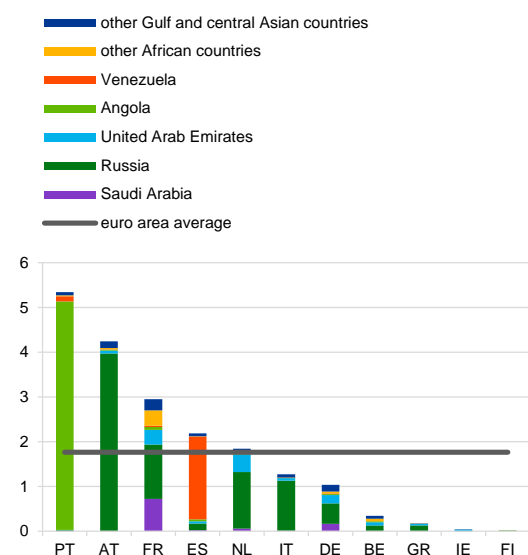
Similarly, euro area banks' direct exposure to the oil and gas sector appears to be relatively small and concentrated in a few institutions. Zooming in on the syndicated loan market, euro area banks arrange about one-fifth of the USD 1.8 trillion global syndicated loan market for oil and gas (about half of the share of North American banks). French banks (BNP Paribas, Crédit Agricole and Société Générale), followed by Deutsche Bank and ING, appear to be the most active in absolute terms. However, the level of exposure concentration seems limited, with the share of oil and gas in total syndicated loan commitments exceeding 15% only for ABN AMRO, Natixis and BBVA (see Chart D). The regional distribution of oil and gas borrowers appears almost equally divided between the Americas (50%) and Europe, the Middle East and Africa (44%).

### Chart C

Euro area banks' overall exposures to oil-exporting economies seem relatively modest, but cross-country heterogeneity is high

#### Claims of BIS reporting banks on major oil-exporting economies

(Q4 2014; percentage of GDP, immediate borrower basis)



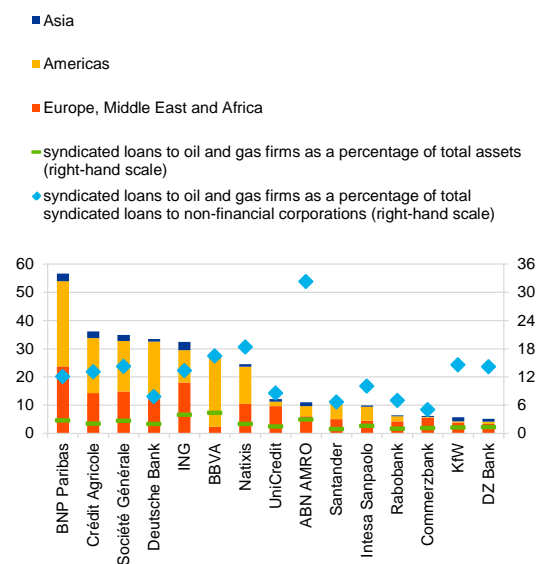
Sources: BIS consolidated banking statistics and ECB calculations.  
 Note: Values are reported on an immediate borrower basis instead of the ultimate risk basis given better data coverage. Figures comprise total exposures to the sovereign as well as the financial and non-financial private sectors. Other Gulf and central Asian countries include Kazakhstan, Kuwait, Iraq, Iran and Qatar, while other African countries comprise Algeria and Nigeria. Russian exposure data for Austria refer to the latest observation point from the third quarter of 2012. The euro area average is the average value of the eleven countries shown in the chart.

### Chart D

Syndicated loan commitments to the oil and gas sector are small and concentrated in a few institutions

#### Syndicated loan commitments of major euro area banks

(outstanding amounts due after 1 March 2015; USD billions, percentages)



Sources: Dealogic and ECB calculations.

On the liabilities side of euro area bank balance sheets, investment risks may emerge to the extent that petrodollars represent a source of funding (see Chart E). In the event of limited alternative funding sources (e.g. wholesale), decelerating petrodollar inflows or even potential outflows could result in balance sheet pressures which, in turn, could trigger asset divestments and downward pressure on prices. Ownership risks may arise via the equity stakes of investors from oil-exporting economies (often sovereign wealth funds) in euro area banks (see Table A). Notwithstanding the generally long-term nature of this type of investment, divestments may be triggered by a prolonged period of low oil prices and the related need for a major rebalancing in home countries.

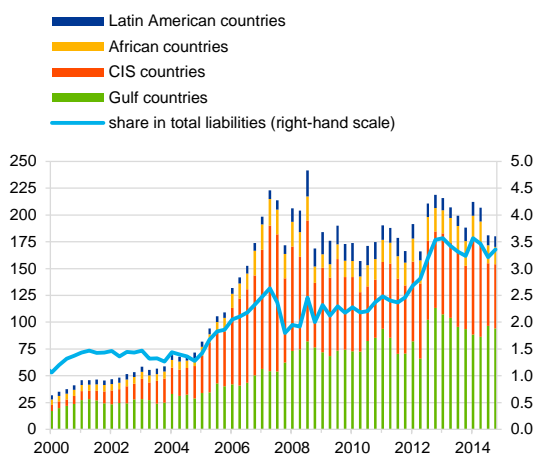
All in all, the direct transmission channels of lower oil prices to euro area banks would suggest only limited associated challenges to euro area financial stability. Nevertheless, country and sector-specific exposure concentrations as well as banks' funding profiles should be monitored carefully, especially as any related vulnerabilities can be amplified by indirect effects stemming from a fragile global growth environment, policy asymmetries in advanced economies and geopolitical tensions.

## Chart E

Increasing, but still relatively low importance of oil exporters as a funding source for euro area banks

### BIS reporting banks' liabilities to major oil-exporting emerging markets

(Q1 2000 – Q4 2014; USD billions, percentages)



Source: BIS.

Notes: Liabilities comprise loans and deposits. Gulf countries include Kuwait, Iraq, Iran, Qatar, the United Arab Emirates and Saudi Arabia. African countries comprise Algeria, Angola and Nigeria, while the Commonwealth of Independent States (CIS) and Latin American countries cover Russia and Kazakhstan as well as Venezuela, respectively.

## Table A

Investors from oil-exporting economies have shown interest in acquiring stakes in euro area banks in the aftermath of the financial crisis

### Selected ownership stakes held by investors from oil-exporting countries in selected euro area banks

(2014; EUR billions, percentage of capital)

Bank	Owner	Country	Investment volume
Deutsche Bank (DE)	Paramount Holdings Services	Qatar	1.75 billion / 5.8%
Alpha Bank (GR)	Paramount Holdings Services	Qatar	n.a. / 9%
BIL (LU)	Precision Capital	Qatar	n.a. / 90%
UniCredit (IT)	Aabar Investments	Abu Dhabi	1.0 billion / 5.0%
UniCredit (IT)	Central Bank of Libya	Libya	0.6 billion / 2.9%

Sources: Banks' annual reports.

Note: Data for Alpha Bank are on a full warrant basis as of June 2013.