

Financial market crisis and its impact on Raiffeisen International

Already smoldering since 2007, the financial market crisis worsened significantly in the third quarter of this year. The collapse or last-minute rescue of several well-known institutions within a handful of days not only caused stock prices to tumble, but also heavily shook confidence in the global financial system as a whole. Reacting to that, many countries have created facilities – some worth hundreds of billions – with which they can intervene, if necessary, to stabilize the market. In Austria, as in other European countries, the package of measures consists of improved access to liquidity through guarantees of bank bonds and measures to strengthen the equity positions of banks.

At first, the crisis seemed limited to the financial sector. However, it was quickly recognized in September and October that the real economy would also be affected. Consequently, growth forecasts for 2009 have been corrected significantly downward worldwide. Meanwhile, many market participants no longer rule out a recession in Western Europe and the United States. It is still unclear at present how deep the decline will actually be and how long it will last. The emerging markets, including those of Central and Eastern Europe, are also affected by this development. That is evident in countries like Hungary and Ukraine, which additionally have to struggle with economic problems. Although the economies of Central and Eastern Europe have so far grown much faster than those of Western industrialized countries, that growth is likely to slow appreciably in the near future.

Despite the current turmoil, Raiffeisen International has a functioning business model. Financing costs have risen, and refinancing has become considerably more demanding due to the erosion of confidence among banks, but Raiffeisen International has so far registered hardly any direct effects of the financial crisis on its business or earnings. It may nevertheless be expected that weaker economic development in the markets of Central and Eastern Europe will probably have a dampening influence on Raiffeisen International's business growth in the year ahead.