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 economies⁴ 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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⁴ 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.
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%).
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)

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)

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

Sources: Banks’ annual reports.
Note: Data for Alpha Bank are on a full warrant basis as of June 2013.