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OIL PRICE EXPOSURE OF CEE FINANCIAL COMPANIES

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Abstract

In recent years an alarming situation concerning the global financial markets is represented by the fact that Brent crude oil price and stock prices created the impression that they are strongly correlated. Besides, crude oil represents an indispensable and critical resource for the world economy and European Union member countries are net oil importers. In this general framework, the main purpose of this paper is to investigate the exposure to oil price risk of financial companies listed on stock exchanges from Central and Eastern European countries using monthly datasets covering the period between January 2011 and December 2018. The empirical analysis includes financial companies from seven economies from Central and Eastern Europe, all EU members and oil importers: Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia. We use Brent crude oil prices, companies' stock returns, local stock market indices, the Dow Jones Europe Financials Index and foreign exchange rates of the domestic currencies against the US dollar, as well as an index that capture the financial sector – related stress (CLIFS) in order to shed light on the idiosyncrasies of the oil price – returns relationship. The relevance of financial companies' exposures to oil price changes is identified using the panel data methodology in a traditional OLS structure, as well as in a dynamic ARDL panel estimation that capture the long-run versus the short-run exposure of CEE financial companies to oil price risk. Our results suggest that oil price fluctuations impact the stock prices of financial companies from CEE countries, but the link between stock return and oil price risk has some specificities and is mostly observable on the long run. The oil price changes have a negative impact on companies' stock returns, thus proving that they should be understood as a risk factor for the financial sector. At the same time, our results indirectly highlight the ubiquitous exposure of CEE economies to market risk factors and the worrying role of economy-wide risk transmitter of the financial sector.

Keywords: Oil price, Exposure, Central and Eastern Europe, Financial sector.

JEL Classification : F23, G15, G32

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