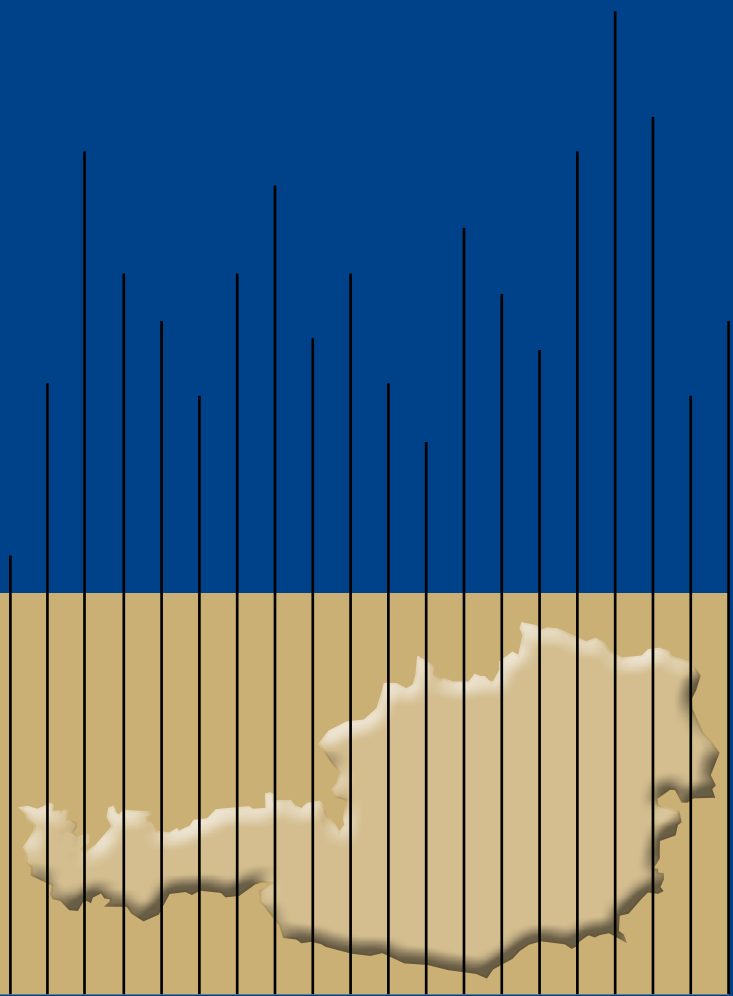
OESTERREICHISCHE NATIONALBANK
EUROSYSTEM

FACTS ON AUSTRIA AND ITS BANKS



Stability and Security.

March 2020

Contents

NOTE
The data observations made in this edition of "Facts on Austria and its banks" reflect conditions in early March. Hence, this publication does not yet cover the economic fallout from the coronavirus pandemic, including its impact on the banking system. The corona-related developments and measures will be addressed in the fall 2020 edition.

Meanwhile, news and updates on the coronavirus impact are being provided on our website at www.oenb.at as they become available.

Cutoff date for key indicators: March 31, 2020.

Key indicators

Cut-off date: March 31, 2020.

Table 1

Key indicators for the Austrian economy

	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19	2016	2017	2018	2019
	EUR billion (four-quarter moving sums)								
Economic activity									
Nominal GDP	385.8	389.3	392.7	395.7	398.4	357.5	371.2	385.8	398.4
	Change on previous period in % (real)								
GDP	0.6	0.4	0.2	0.2	0.3	2.0	2.6	2.3	1.5
Private consumption	0.3	0.4	0.3	0.3	0.3	1.6	1.7	1.1	1.2
Public consumption	0.2	0.2	0.2	0.3	0.4	1.6	1.2	0.8	0.9
Gross fixed capital formation	1.1	0.9	0.2	0.1	0.4	3.8	3.7	4.2	2.8
Exports of goods and services	0.8	0.7	0.3	0.3	0.2	3.2	5.0	5.9	2.6
Exports of goods	0.4	0.6	0.5	0.7	0.3	3.1	5.2	6.2	2.6
Imports of goods and services	0.9	0.7	0.5	0.3	0.1	4.1	4.7	4.5	2.8
Imports of goods	0.8	0.7	0.6	0.9	0.4	3.9	3.8	3.9	3.1
	% of nominal GDP								
Current account balance	×	×	×	×	×	2.7	1.6	2.3	2.6
Prices	*Annual change in %*								
HICP inflation	2.1	1.6	1.7	1.3	1.4	1.0	2.2	2.1	1.5
Compensation per employee	3.0	2.9	2.8	0.7	0.5	2.3	1.7	2.8	2.8
Unit labor costs	2.4	2.5	2.3	0.7	0.5	1.6	0.7	2.3	2.4
Productivity	0.5	0.4	0.5	0.1	0.1	0.8	0.9	0.6	0.4
Income and savings	*Annual change in %*								
Real disposable household income	0.4	0.0	–0.0	0.1	0.9	2.6	1.2	1.4	1.1
	% of nominal disposable household income								
Saving ratio	×	×	×	×	×	7.7	7.3	7.7	7.5
Labor market	*Change on previous period in %*								
Payroll employment	0.5	0.4	0.4	0.2	0.2	1.5	1.9	2.2	1.5
	% of labor supply								
Unemployment rate (Eurostat)	4.7	4.7	4.6	4.5	4.3	6.0	5.5	4.9	4.5
Public finances	*% of nominal GDP*								
Budget balance	×	×	×	×	×	–1.5	–0.8	0.2	0.7
Goverment debt	×	×	×	×	×	82.9	78.3	74.0	70.4

Source: OeNB, Eurostat, Statistics Austria, WIFO.

Note: Quarterly data are Quarterly National Accounts (QNA) data from February 28, 2020. X = data not available.

Table 2

Key indicators for Austrian banks

Austrian banking system – consolidated	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19	2016	2017	2018	2019
Structure	*EUR billion*								
Total assets[1]	986.0	1,007.8	1,019.0	1,033.0	1,032.3	946.2	948.9	986.0	1,032.3
Exposure to CESEE[2]	217.1	219.8	226.4	230.6	233.3	193.3	210.9	217.1	233.3
Number of credit institutions in Austria	597.0	596.0	592.0	579.0	573.0	672.0	628.0	597.0	573.0
Number of inhabitants per bank branch in Austria	2,429.0	2,444.0	2,482.0	2,482.0	2,510.0	2,226.0	2,330.0	2,429.0	2,510.0
Solvency[1]	*EUR billion*								
Equity capital	86.5	87.9	89.4	89.0	90.9	80.7	85.0	86.5	90.9
	% of risk-weighted assets								
Solvency ratio	18.6	18.6	18.7	18.3	18.7	18.2	18.9	18.6	18.7
Tier-1 capital ratio	16.0	16.1	16.3	15.9	16.3	14.9	15.9	16.0	16.3
Common equity tier 1 ratio (CET-1)	15.4	15.3	15.5	15.2	15.6	14.9	15.6	15.4	15.6
	% of selected balance sheet items								
Leverage[3]	7.7	7.7	7.9	7.6	7.6	7.6	7.7	7.7	7.6
Profitability[1]	*EUR billion*								
Net result after tax	6.9	1.6	3.5	5.3	6.7	5.0	6.6	6.9	6.7
	%								
Return on assets (annualized)[4]	0.8	0.7	0.8	0.8	0.7	0.6	0.8	0.8	0.7
Cost-to-income ratio	65.2	69.4	65.3	64.4	66.9	74.5	64.6	65.2	66.9
Credit quality[1,5]	*%*								
Loan loss provision ratio	1.8	1.7	1.6	1.5	1.5	3.2	2.2	1.8	1.5
Nonperforming loan ratio (NPL ratio)	2.6	2.5	2.3	2.2	2.2	5.1	3.4	2.6	2.2
Credit developments	*%*								
Annual growth of credit to nonbanks in Austria	4.6	4.5	4.3	4.7	4.3	1.6	3.0	4.6	4.3
Share of foreign currency loans in Austria	5.8	5.8	5.6	5.5	5.3	9.0	6.5	5.8	5.3
Austrian banks' subsidiaries in CESEE[1]	*EUR billion*								
Net profit/loss after tax (aggregated)	2.9	0.7	1.3	2.1	2.8	2.4	2.6	2.9	2.8
	%								
Return on assets (annualized)[4]	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.4	1.3
Cost-to-income ratio	51.5	56.1	52.2	51.1	52.3	52.7	53.3	51.5	52.3
Loan loss provision ratio[5]	2.7	2.5	2.4	2.2	2.2	6.1	3.3	2.7	2.2
Nonperforming loan ratio (NPL ratio)[5]	3.2	3.0	2.8	2.5	2.4	8.6	4.5	3.2	2.4
Share of foreign currency loans	25.4	×	24.4	×	23.5	30.0	27.0	25.4	23.5
Loan-to-deposit ratio	78.6	80.2	79.4	79.6	79.8	80.2	79.1	78.6	79.8

Financial assets of Austrian households and nonfinancial corporations

	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19	2016	2017	2018	2019
Households	*EUR billion*								
Financial assets	674.5	693.3	702.1	707.6	716.3	636.7	668.4	674.5	716.3
Financial liabilities (loans)	188.4	189.2	191.0	193.3	194.5	179.6	182.9	188.4	194.5
of which foreign currency loans	15.0	14.6	14.3	14.1	13.6	21.2	16.5	15.0	13.6
of which foreign currency housing loans	12.9	12.6	12.3	12.2	11.8	17.8	14.1	12.9	11.8
Nonfinancial corporations	*EUR billion*								
Financial assets	551.6	560.0	564.5	561.2	564.0	508.4	530.2	551.6	564.0
Financial liabilities	844.4	861.8	870.4	866.9	868.7	756.7	822.1	844.4	868.7
of which loans and securities (other than shares and other equity)	402.5	410.3	416.4	411.0	411.7	369.7	382.7	402.5	411.7
of which shares and other equity	291.1	296.2	297.7	298.3	298.2	242.4	278.6	291.1	298.2
	EUR billion (four-quarter moving sums)								
Gross operating surplus and mixed income	90.8	91.0	90.9	91.2	91.0	84.2	87.0	90.8	91.0

Source: OeNB, Statistics Austria.

[1] *Due to the restructuring of the CESEE business of UniCredit Bank Austria in 2016, data comparability is limited.*
[2] *Exposure of majority Austrian-owned banks (BIS definition).*
[3] *Defined according to Basel III.*
[4] *Based on data as reported in FINREP, including total loans and advances, since Q2/2017.*
[5] *End-of-period profit/loss expected for the full year after tax and before minority interests as a percentage of average total assets.*

Note: For more detailed data, see the OeNB's Financial Stability Reports. X = data not available.

Overview

Austrian economy among top performers in the euro area

- *Having peaked at 2.7% in 2017, Austrian economic growth slowed to 2.3% in 2018 due to a difficult external environment, and further to 1.5% in 2019 (while outperforming euro area growth by 0.3 percentage points both in 2018 and 2019).*
- *Austria's economy continues to be broadly diversified and sectorally balanced.*
- *The cyclical upturn that had started in early 2016 induced strong employment growth and a sustained decrease in unemployment. Between summer 2016 and the end of 2019, the unemployment rate (EU definition) dropped from 6.2% to 4.3% – thus reinforcing Austria's excellent record of social stability, which rests on high employment, low unemployment by international standards and a low frequency of strikes.*
- *With an average inflation rate of 1.8% since the euro's introduction in 1999, Austria has been among those countries that have managed to maintain price stability in line with the Eurosystem's definition (i.e. HICP inflation at a rate below, but close to, 2% over the medium term). In 2019, Austria recorded an HICP inflation rate of 1.5%.*
- *Austria's real estate market has been buoyant since the mid-2000s. By now, real estate price growth in Austria, especially in Vienna, is less and less explainable by economic fundamentals. However, the strong price growth seen in recent years has not gone hand in hand with a – by historical standards – above-average increase in lending to households.*
- *Having dropped sharply after the economic crisis that emerged in 2008, Austria's saving ratio stood at 7.5% of real disposable household income in 2019, which is still a high level compared with euro area peers. Financial assets held by households totaled EUR 716.3 billion or 180% of GDP.*
- *Austria's foreign trade in goods is well diversified both by region and product type. In 2019, more than half of foreign trade involved other euro area countries and was therefore not exposed to any direct exchange rate risks. After Germany, which still accounted for an export share of 29% in 2019, CESEE is Austria's second most important export market. The share of goods exports to this region rose from 15% in 1996 to 21.5% in 2019. Foreign trade has also been supported by stable price competitiveness.*
- *The steady string of current account surpluses seen since 2002 (2019: 2.6% of GDP) confirms the international competitiveness of the Austrian economy. At the same time, the current account balance has remained within the boundaries defined by Eurostat as identifying an economy as macroeconomically balanced. Austria's net international investment position is positive, standing at EUR 38 billion (9.6% of GDP) in 2019.*
- *Austria's budget balance ratio was +0.7% of GDP in 2019 – a significant improvement compared to 2018, mainly due to the favorable economic environment and the further decline in interest expenses. In parallel, the debt ratio, which has been declining since 2016, dropped by as much as 4 percentage points, to 70.4% of GDP. The key drivers, apart from the budget surplus, were high GDP growth and the wind-down of assets held by state-owned "bad banks."*

Austrian banks benefited from favorable economic conditions in 2019

- *The performance of Austrian banks until the end of 2019 essentially reflects the positive developments supported by benign cyclical conditions in recent years. In particular, Austrian banks managed to significantly improve their profitability as credit risk costs dropped to historical lows and credit growth rebounded. Moreover, banks doubled their capitalization during the past ten years, and they also managed to improve their liquidity positions. Thus, Austrian banks are in much better shape than they were before the financial and economic crisis emerging in 2008. This trend has been supported by comprehensive (macro)prudential measures, including the activation of the systemic risk buffer and the buffer for other systemically important banks (O-SIIs), the communication of supervisory expectations on* *sustainable real estate financing, supervisory guidance on strengthening the sustainability of the business models of large internationally active Austrian banks (Sustainability Package) and the measures adopted to contain foreign currency lending in Austria and in CESEE. Note that all observations made here are based on 2019 data (see Contents).*

- *In 2019, the profitability of credit institutions in Austria benefited from favorable economic conditions, rising credit growth and the historically low credit risk costs reflecting the low level of interest rates. Austrian banks thus achieved a consolidated (after tax) profit of EUR 6.7 billion. However, underlying structural challenges continue to be an issue for the banking sector despite the positive developments observed in recent years. Furthermore, the historically low credit costs are not sustainable.*
- *Austrian banks' subsidiaries in CESEE continued to benefit from relatively benign economic conditions in CESEE. Their credit growth rate (loans after provisioning) amounted to 10.2% in 2019. This development was mainly driven by subsidiaries in Czechia, Russia, Slovakia and Hungary. Aggregate net profit (after tax) increased comparatively strongly year on year for Austrian banks' subsidiaries in Czechia (17%), Russia (12%) and Slovakia (7%).*
- *Bank lending to nonfinancial corporations has been accelerating in Austria since mid-2017. In 2019, corporate lending grew by 6.2% year on year, and lending to households by 4.2%. The key growth drivers were loans to real estate-related sectors and mortgage loans to households.*
- *Systemic risks arising from residential housing financing have remained limited in Austria. To ensure that this will remain the case, sustainable lending standards are essential. Consistent compliance with supervisory expectations will be crucial for safeguarding financial stability in Austria. The OeNB continues to monitor developments in real estate markets and banks' compliance with the standards for sustainable lending communicated by Austria's Financial Market Stability Board (FMSB).*
- *Credit quality continued to improve in 2019, with the ratio of nonperforming loans coming to 2.2% on a consolidated basis, or to 1.7% for domestic loans and to 2.4% for loans extended by CESEE-based subsidiaries of Austrian banks.*
- *In 2019, Austrian banks reported a consolidated common equity tier 1 (CET1) ratio of 15.6%. Rising loan growth and increasing dividend payouts have been making it more difficult for banks to keep building up capital buffers further. Compared with pre-crisis levels, however, Austrian banks have more than doubled their capital ratios, in line with tighter market and regulatory requirements.*
- *Austria's financial sector was assessed under the IMF's Financial Sector Assessment Program (FSAP) in 2019. In essence, Austria's financial system was found to be resilient against shocks. Austria was given an excellent report both as a financial center and as regards the supervisory structure in place. According to the key recommendations derived from the FSAP, remaining structural vulnerabilities include complex bank ownership structures and financial interlinkages within Austria's financial system as well as its dependency on the profitability of operations in CESEE. The IMF moreover recommended that supervisors should enhance monitoring related to intra-group transactions, spillover risks and the adequacy of prudential buffers; and that supervisors should also be empowered to address unsustainable business models. Last but not least, the IMF underscored the need to close data gaps regarding the real estate and nonfinancial corporate sectors, ensure the adequacy of supervisory resources, and continue enhancing the framework for banking resolution.*

1 Austria's economic performance above euro area average

1.1 Solid macroeconomic performance in 2018 and 2019

Robust domestic demand protected Austria from global headwinds

After a period of four years (2012 to 2015) with very low GDP growth rates, the Austrian economy embarked on a recovery in early 2016, initiated by the start of a new and historically long-lived investment cycle. Following an income tax reform (2016) boosting real disposable household income, private consumption growth picked up, and continued to be driven by strong employment and wage growth. As export growth accelerated as well from early 2017 onward, the economic upturn became broad-based. The combination of high domestic and foreign demand resulted in the strongest economic momentum since 2011, with GDP growth reaching 2.6% in 2017. In the course of 2018, however, domestic growth weakened amid the slowdown in global economic momentum, including European economic headwinds. As a consequence, GDP growth declined to 2.3% in 2018 and to 1.5% in 2019. The factors that weighed most heavily on the Austrian economy included the global trade war, the slowdown in Germany, the stagnation of the Italian economy and the high uncertainty surrounding Brexit.

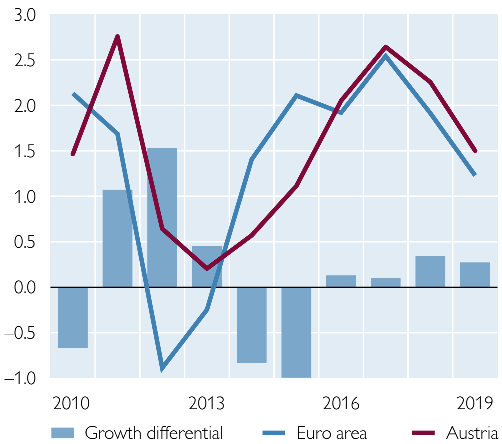
Sectoral structure of the Austrian economy is well balanced

Given that Austria is a highly developed economy, the tertiary sector plays a crucial role. The largest share of gross value added – slightly above 30% – stems from private sector services: information and communication, financial and insurance activities, real estate activities, other business activities and other services. The runners-up, accounting for slightly more than 20% each, are activities classified

Chart 1

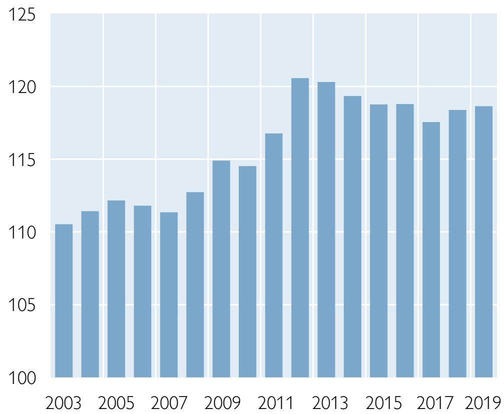
Growth differential between Austria and the euro area

Real GDP: annual change in %; growth differential in percentage points



Austrian GDP per capita relative to the EU-15

GDP per capita at purchasing power standards; euro area = 100



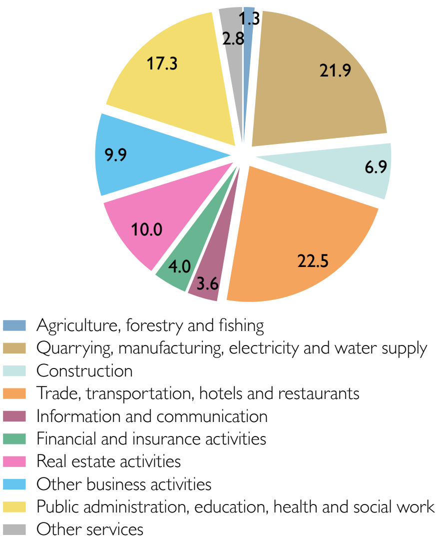
Source: Eurostat, WIFO.

under "quarrying, manufacturing, electricity and water supply" and "trade, transportation, hotels and restaurants." Furthermore, manufacturing in Austria is characterized by a large variety of industries. By European standards, construction's contribution to gross value added is high (almost 7%).

Chart 2

Gross value added in Austria in 2019

% of total gross value added, at current prices



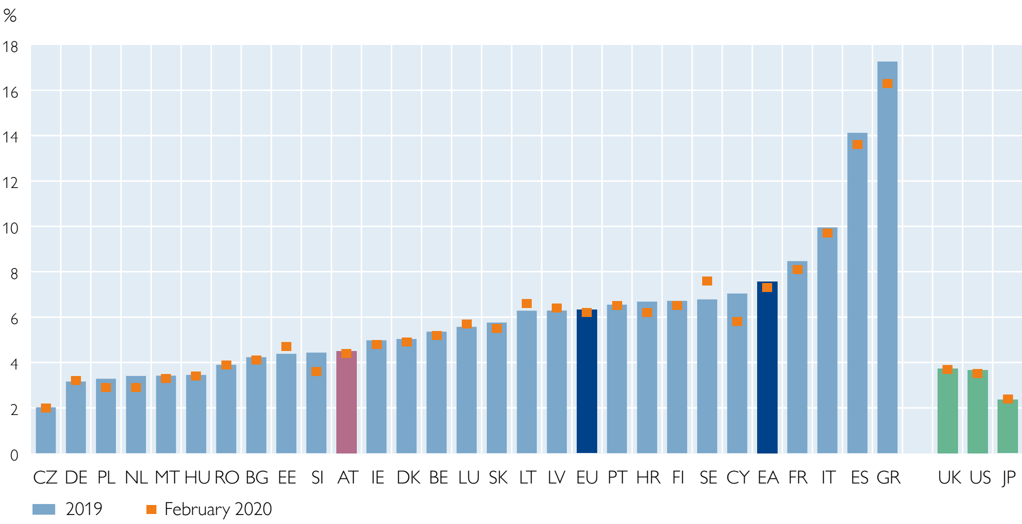
Source: Statistics Austria.

Upswing led to sustained decrease in unemployment

As the economy gathered momentum in 2016, employment growth accelerated, reaching 1.9% in 2017 and 2.3% in 2018 – the highest rate since 1991. In line with the weakening economy, growth then declined to 1.5% in 2019. From mid-2016 onward, the economic upswing was robust enough to keep unemployment on a downward path despite strong labor supply growth. The jobless rate thus dropped from 6.2% in the summer of 2016 to 4.3% in the fourth quarter of 2019. In an EU-wide comparison, Austria ranked among the countries with the lowest unemployment rates in 2019. The Austrian labor market is characterized by a high level of flexibility (in European terms) and a balancing of interests between employers and employees. Hence, Austria is also among the best performers worldwide in rankings of alternative indicators that measure, for instance, social stability (such as the frequency of strikes).

Chart 3

Unemployment rates

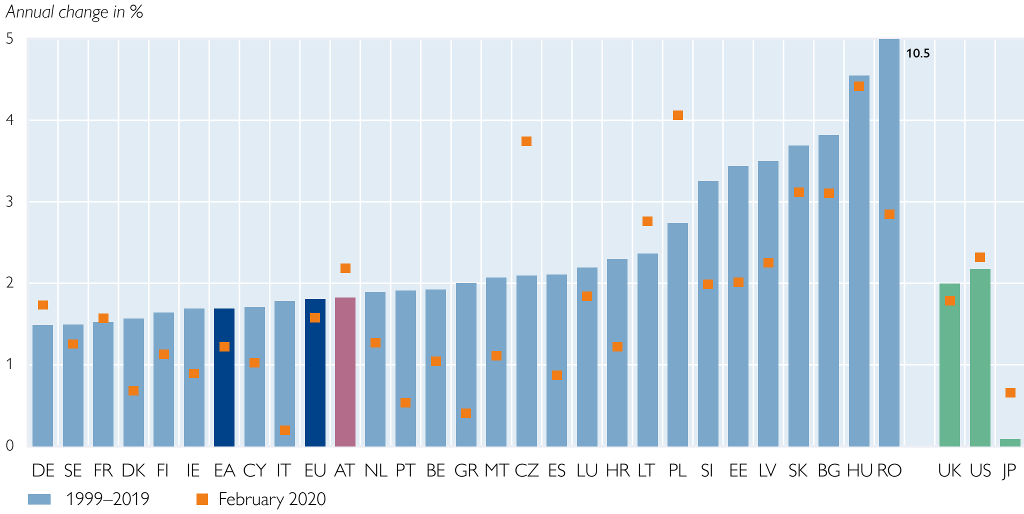


Source: Eurostat.

Note: GR, UK: Dec. 2019, EE, HU: Jan. 2020.

Chart 4

HICP inflation rate



Source: Eurostat, Statistics Bureau of Japan, U.S. Bureau of Labor Statistics.

Note: JP and UK: Jan. 2020.

Inflation difference vis-à-vis the euro area narrowed further in 2019

Recording an average inflation rate of 1.8% since the euro's introduction in 1999, Austria has been among those countries that have managed to maintain price stability in line with the Eurosystem's definition (i.e. HICP inflation at a rate below, but close to, 2% over the medium term). The inflation gap to Germany (+0.1 percentage points) and the euro area (+0.3 percentage points) narrowed further.

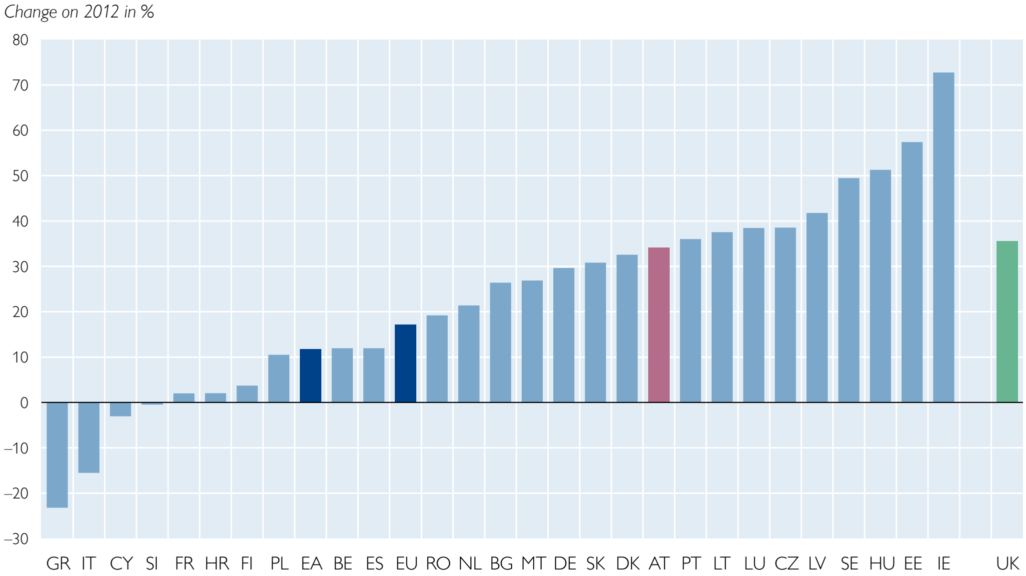
Real estate prices continue to grow rapidly

Austria's real estate market was characterized by a high volume of real estate transactions in 2019 accompanied by a weaker price momentum. The number of property purchases registered in the land register rose by 7.4% in 2019. In contrast, the upward pressure on residential property prices weakened from +6.9% in 2018 to +3.9% in 2019. This is primarily due to a significant slowdown in house price inflation in the federal provinces excluding Vienna, while price increases in Vienna were still high at +4.9%.

The key drivers of real estate prices in recent years include demographic developments, which fueled demand for housing, and the subdued growth of residential construction up to 2016. Together, these trends contributed to the emergence of substantial excess demand for residential property. Since 2016, both stronger growth of investment in residential construction and easing demographic pressures have helped reduce excess demand. However, demand is still supported by continued favorable financing conditions and the persistent low level of interest rates. Therefore, residential property price growth, especially in Vienna, has been increasingly deviating from fundamentals covered bythe OeNB's fundamentals indicator for residential property prices.

Chart 5

Change in house prices between 2012 and 2018



Source: ECB.

Note: Prices of new and existing dwellings (current prices); SI: 2017.

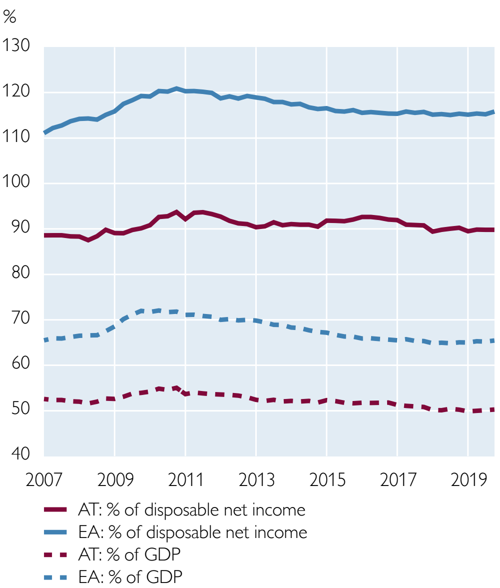
That said, price growth has not gone hand in hand with an above-average increase in real estate lending. The growth of outstanding real estate loans to households has been almost unchanged between 4½% and 5% since 2015 but accelerated slightly during the second half of 2019, reaching 5.7% in December 2019. By international standards, Austrian households' debt is low and stable. The two most important risk factors in household borrowing – the high shares of bullet loans in foreign currency and variable rate loans – have diminished significantly in recent years. The share of foreign currency loans in the total stock of housing loans amounted to no more than 10% in 2019, compared to 38% in 2009. Likewise, the share of variable rate loans (with an initial rate fixation period of up to 1 year) in new loans dropped from 84% in 2014 to 44% in 2019. Also, Austrian households' debt-servicing capacity is strong by international standards, as evidenced by Household Finance and Consumption Survey (HFCS) data.

Household and corporate sectors: high levels of financial assets, low debt

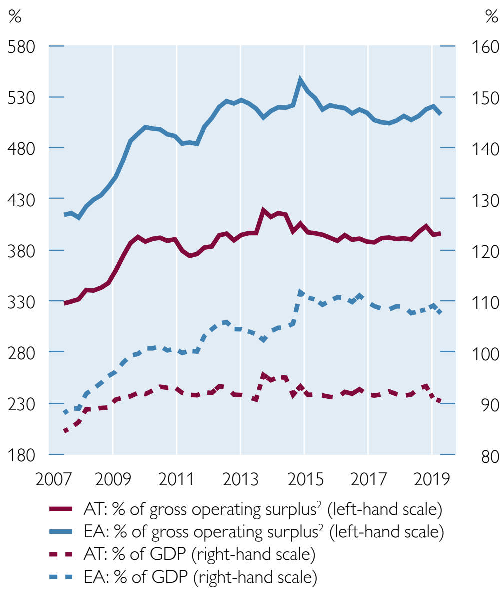
In 2019, households saved about 7.5% of their net disposable income. With total financial assets amounting to some EUR 716.3 billion (180.0% of GDP) at the end of 2019, the household sector is a key supplier of capital to other sectors in Austria. Households' debt totaled 50.2% of GDP in the fourth quarter of 2019, which is clearly below the euro area average of 65.4%. The corporate debt ratio reached 396% of gross operating surplus or 90.4% of Austrian GDP in the fourth quarter of 2019, which is also well below the euro area average (512.3% of gross operating surplus and 107.6% of GDP).

Chart 6

Household debt



Corporate debt[1]



Source: ECB.

[1] *Short- and long-term loans, money and capital market instruments.*
[2] *Including mixed income of the self-employed.*

1.2 Current account surpluses confirm international competitiveness of Austrian economy

Price competitiveness of Austrian economy is stable

The Austrian economy's price competitiveness as measured by the real effective exchange rate (REER)[1] has hardly changed over the past ten years. Nominal unit labor costs rose almost on a par with rates in Germany. In the euro area as whole, unit labor costs grew less rapidly, against the background of structural adjustments after the economic crisis. In terms of productivity per hour, Austria, Germany and the euro area recorded highly similar growth rates from 2011 onward. Hourly wage growth used to be closely aligned between Austria, Germany and the euro area, before euro area growth fell behind from 2013 on.

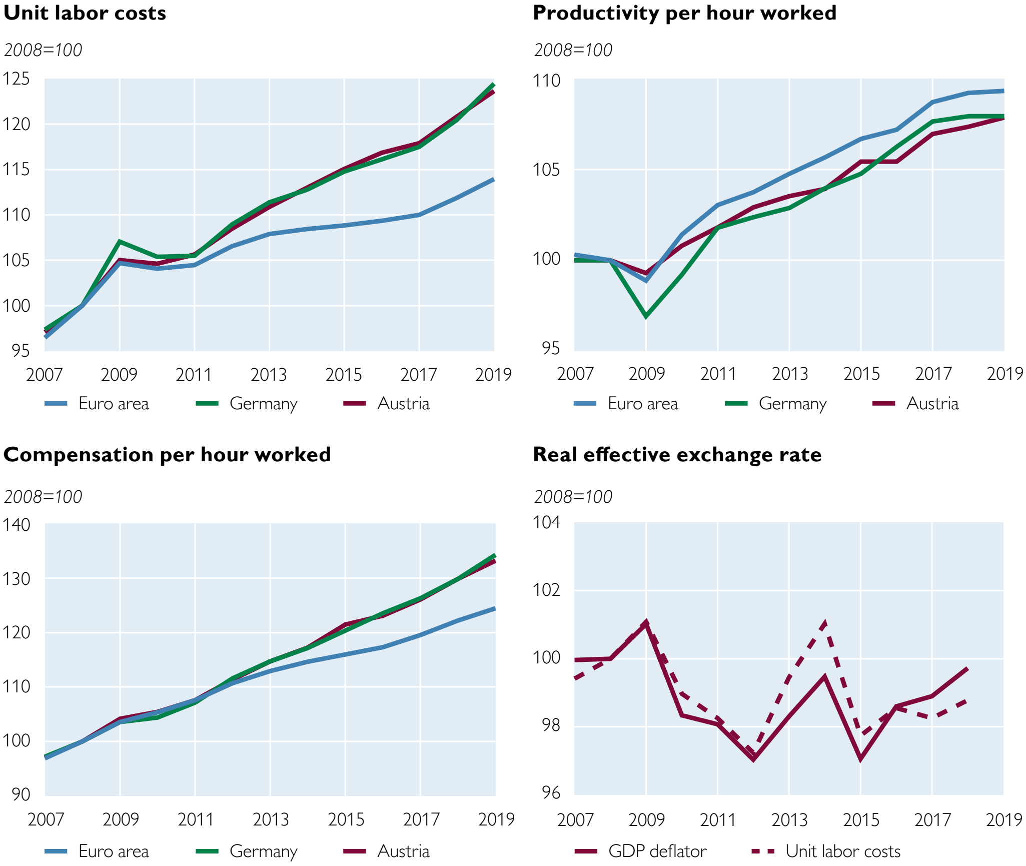
Austria's external trade is regionally diversified, exposure to foreign exchange risk is low

In 2019, more than half of Austria's goods exports went to the euro area, which meant that they were not exposed to any direct exchange rate risk. Among Austria's trading partners in the euro area, Germany continues to stand out with a share of 29.4% in Austria's total goods exports, followed by Italy, which accounts for a share of 6.3%. Furthermore, CESEE is a very important export market for Austria. Exports to the region have expanded rapidly in the past years. While the share of goods exported to the euro area started to decline in 1996, the share of goods exported to CESEE has been increasing (1996: 15%, 2019: 21.5%). This region's

[1] *The REER is defined as the nominal exchange rate for the manufactory industry, deflated with the GDP deflator (price competitiveness) and by unit labor costs (cost competitiveness) for the total economy, for all euro area countries and Austria's 19 most important trading partners outside the euro area. Source: ECB.*

Chart 7

International competitiveness



Source: Eurostat; real effective exchange rate: ECB.

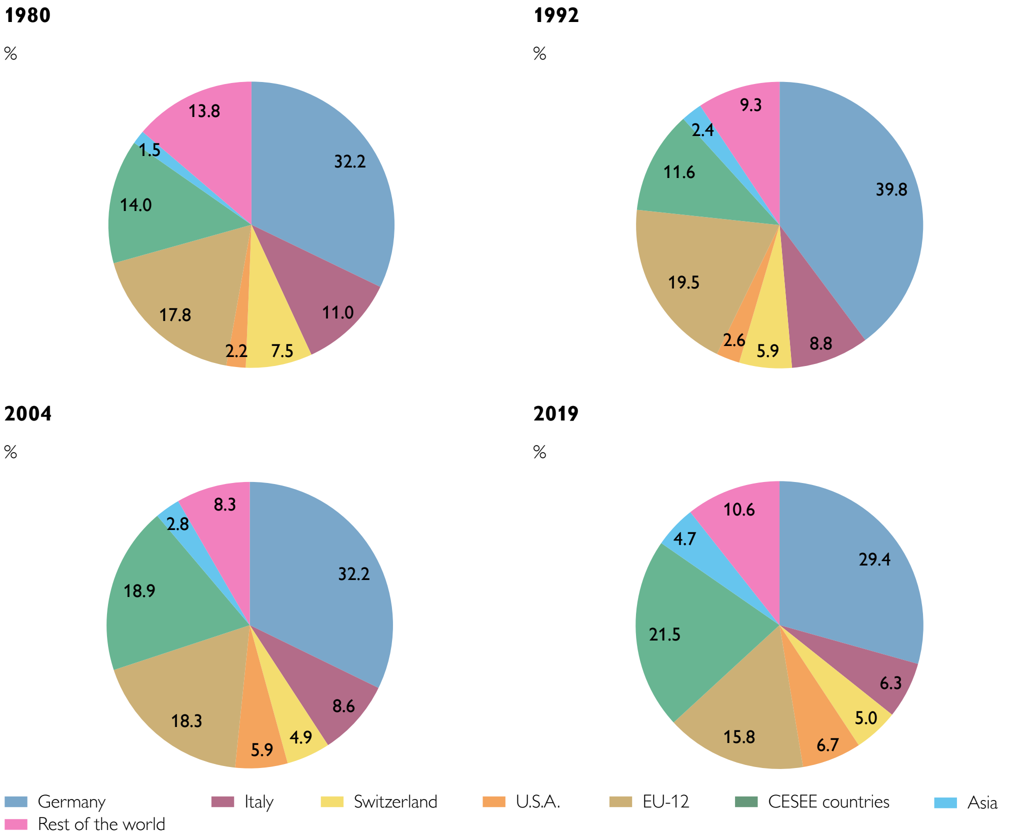
growth advantage over the euro area was 2.4 percentage points in 2019. Next to CESEE, the U.S.A., Switzerland and Asia rank among Austria's most important export markets outside the euro area.

The sectoral structure of Austria's external trade follows the pattern typically observed in highly industrialized nations. At 43%, machinery and transport equipment make up the lion's share of Austria's goods exports. Other important pillars of Austrian export activity include manufactured goods, chemicals, and commodities and transactions not classified elsewhere, which together account for some 46% of goods exports.

Next to goods exports, which make up 73% of total exports, services exports (27%) also play an important role. In 2019, service exports (+5.3%, nominal, not seasonally adjusted, QNA) achieved significantly higher growth than goods exports (+2.2 %). The surplus on the balance of goods (EUR 4.2 billion) was below the surplus on the balance of services (EUR 10.0 billion). The balance of services was substantially driven by the tourism sector: Overnight stays saw a new record high in 2019. Other services exports, e.g. exports of business-related services, expanded vigorously as well: According to the technology balance of payments, Austria exported technology-related know-how worth EUR 3.7 billion (net) or 1% of GDP in 2019.

Chart 8

Regional pattern of Austrian goods exports 1980–2019



Source: Statistics Austria..

Note: Asia: CN, JP, KR; EU-12: BE, DK, FI, FR, GR, IE, LU, NL, PT, ES, SE, UK; CESEE countries: BG, EE, LV, LT, PL, RO, SK, SI, CZ, HU, AL, BA, HR, ME, RS, BY, MD, RU, UA.

Current account surpluses confirm Austria's international competitiveness

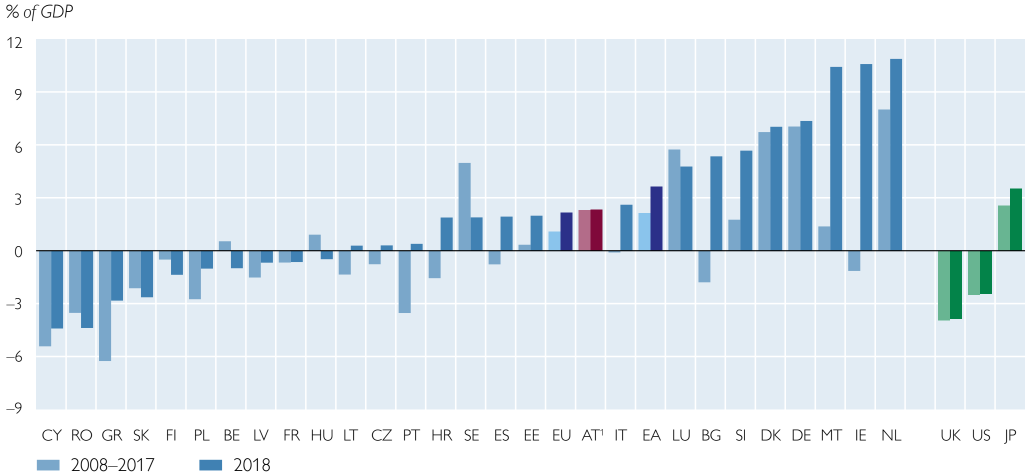
Austria has constantly recorded current account surpluses since 2002. In 2019, the current account surplus amounted to EUR 10.5 billion or 2.6% of GDP. At the same time, the current account balance has remained within the boundaries defined by Eurostat as identifying an economy as macroeconomically balanced.

Austria's net international investment position positive since 2013

Sustained current account surpluses – adding up to a cumulated surplus of EUR 133 billion since 2002 – have enabled Austria to steadily improve its net international investment position (IIP). In 2013, Austria's net IIP entered positive territory, and in 2019, it came to EUR 38 billion (9.6% of GDP). Overall, Austria's net IIP is fairly balanced, compared to high deficits in Ireland, Greece and Cyprus and high surpluses in Malta, Germany and the Netherlands.

Chart 9

Current account balances of EU Member States, the U.S.A. and Japan



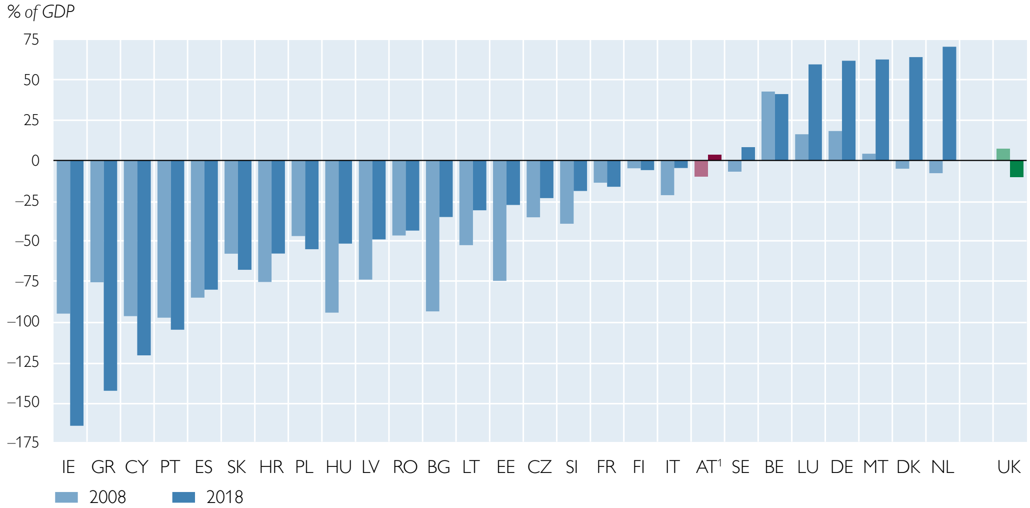
Source: Eurostat.

[1] Austria, 2019: 2.6%, Source: OeNB, Eurostat.

Note: U.S.A. and Japan: averages derived from European Commission and IMF data.

Chart 10

Net international investment position



Source: Eurostat, ECB (SDW).

[1] Austria, 2019: 9.6%, Source: OeNB, Eurostat.

1.3 Second budget surplus in a row thanks to good economic situation

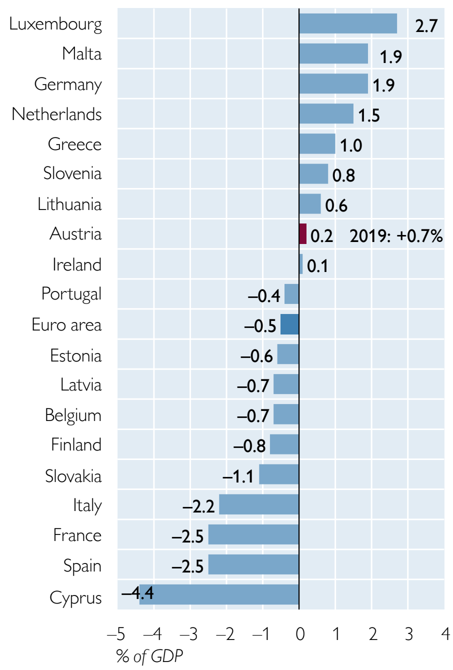
The general government budget balance amounted to +0.7% of GDP in 2019 (compared with +0.2% of GDP in 2018). This is the second general government surplus in a row. The significant improvement in 2019 was essentially due to the favorable economic environment and the further decline in interest expenses. Particularly, labor income-related revenues increased considerably: wage taxes rose by 4.5% year on year despite higher tax relief provided for families with children.

Austria's debt ratio started to decline in 2016. The significant annual decline by roughly 4 percentage points to 70.4% of GDP in 2019 is attributable to the budget surplus as well as high nominal GDP growth and the recovery of assets from the state's bad banks.

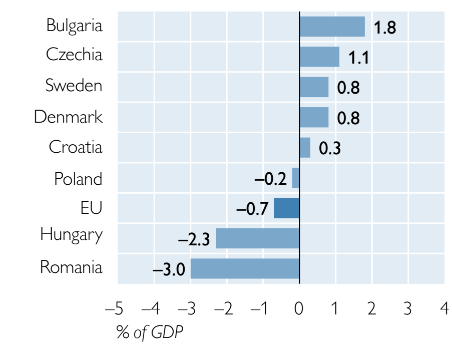
Chart 11

Budget balances of EU Member States in 2018

Euro area countries



Non-euro area countries

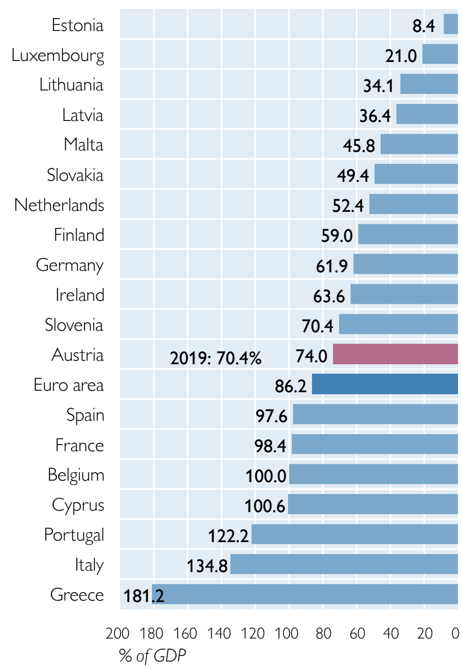


Source: Eurostat.

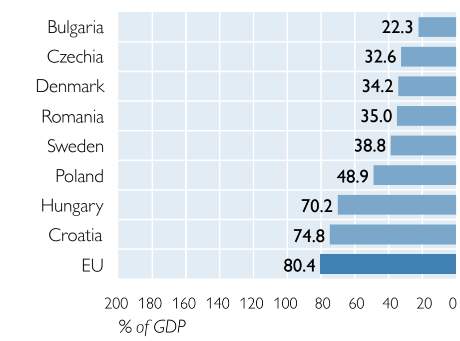
Chart 12

Public debt of EU Member States in 2018

Euro area countries



Non-euro area countries



Source: Eurostat.

Austria achieved a structural budget surplus in 2019

Under the preventive arm of the Stability and Growth Pact of the European fiscal framework, Austria is required to target a structural budget balance of –0.5% of GDP. Based on the latest output gap estimates of the European Commission of November 2019, Austria overachieved this target with a structural surplus of 0.3% of GDP in 2019.

Table 1

EU fiscal governance requirements

	Release	2015	2016	2017	2018	2019	Source	Requirement
		% of GDP						
Budget balance	March 2020	–1.0	–1.5	–0.8	0.2	0.7	Statistics Austria	>= –3% of GDP
Public debt	March 2020	84.9	82.9	78.3	74.0	70.4	Statistics Austria	from 2017: reduction of difference to 60% of GDP by an average 1/20 per year
Structural balance	March 2020	0.1	–1.1	–0.9	–0.3	0.3	EC	from 2017: MTO (target value) is –0.5% of GDP

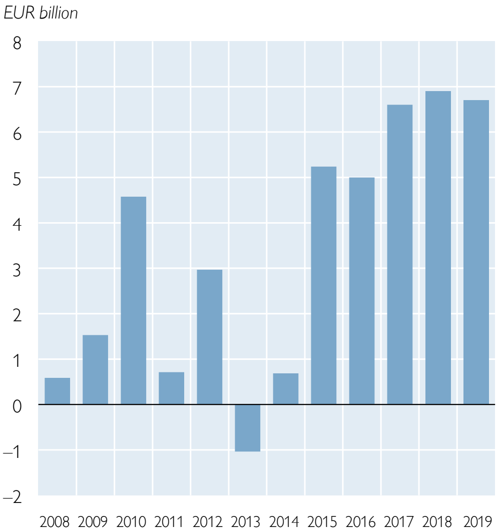
Source: Statistics Austria, European Commission.

2 Austrian banks benefited from favorable economic conditions in 2019[2]

2.1 Profitability and capitalization of Austrian banks

Chart 13

Consolidated net profit of Austrian banks



Source: OeNB.

Historically low risk costs as a key profit driver for Austrian banks

Austrian credit institutions managed to improve their profitability significantly in recent years due to the favorable economic conditions prevailing in Austria and in Central, Eastern and Southeastern Europe (CESEE), rising credit growth and the historically low credit risk costs reflecting the low level of interest rates. In 2019, Austrian banks achieved consolidated (after tax) profits of EUR 6.7 billion, which is about 3% less than the corresponding result for 2018. The return on average assets came to 0.7%, which is slightly lower than in 2018. Net interest income benefited from credit growth but continued to be affected by the low interest rate environment.

However, underlying structural challenges continue to be an issue for the banking sector despite the positive developments observed in recent years. Furthermore, the historically low credit costs are not sustainable.

Table 2

Aggregated profit and loss account of Austrian banks, consolidated

	2011	2012	2013	2014	2015	2016	2017	2018	2019
	EUR billion								
Net interest income	20.4	19.3	18.6	19.3	18.3	14.6	14.5	15.2	15.6
Fee and commission income	7.6	7.3	7.6	7.7	7.7	6.6	6.9	7.1	7.2
Trading income	0.8	1.1	0.7	0.4	–0.0	0.1	0.1	–0.6	–0.3
Operating profit	10.4	12.1	8.0	8.9	10.5	5.7	8.1	8.4	8.3
Net result after tax	0.7	3.0	–1.0	0.7	5.2	5.0	6.6	6.9	6.7

Source: OeNB.

Note: For figures as of end-2016 comparability with previous figures is limited due to the restructuring of UniCredit Bank Austria in 2016.

[2] *For detailed analyses, see the OeNB's Financial Stability Reports.*

Credit growth of Austrian banks in Austria continued in 2019

Bank lending to nonfinancial corporations has been accelerating in Austria since mid-2017. In 2019, corporate lending grew by 6.2% year on year, and lending to households by 4.2%. The key drivers for loan growth were loans to real estate-related sectors and mortgage loans to households.

Nonperforming loan ratios brought down to low levels

In 2019, the ratio of nonperforming loans improved further, coming to 2.2% on a consolidated basis, or to 1.7% for domestic loans and to 2.4% for loans extended by CESEE-based subsidiaries of Austrian banks.

Capitalization at solid levels

In 2019, Austrian banks reported a consolidated common equity tier 1 (CET1) ratio of 15.6%. Rising loan growth and increasing dividend payouts have been making it more difficult for banks to keep building up capital buffers further. Compared with pre-crisis levels, however, Austrian banks have more than doubled their capital ratios, in line with tighter market and regulatory requirements.

2.2 Austrian banks' foreign operations focus on CESEE

After the first three quarters of 2019, the consolidated foreign claims of banks in Austrian majority ownership[3] totaled EUR 363 billion, with the share of claims on CESEE amounting to 63% thereof. In this period, the consolidated foreign claims of Austrian banks on CESEE increased by 5.4% year on year, thus accounting for 24% of the aggregate CESEE-related claims of EU-15 banks (see chart 14).

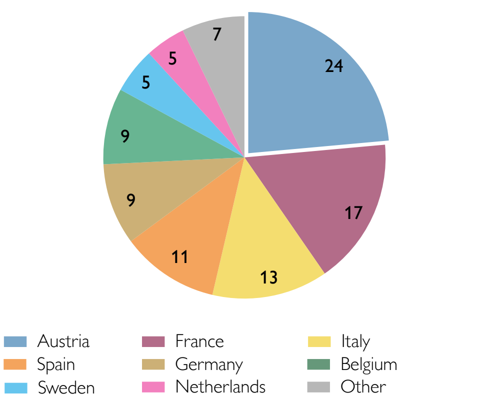
Profitability of Austrian banks' CESEE subsidiaries benefited from benign economic conditions in 2019

Austrian banks' subsidiaries in CESEE continued to benefit from relatively benign economic conditions in CESEE. Credit growth (loans after provisioning) of Austrian subsidiaries in CESEE was 10.2% in 2019, while total assets grew by 7.9%. This development was mainly driven by subsidiaries in Czechia, Russia, Slovakia and Hungary, countries that have implemented a range of prudential measures to cope with credit lending-related risks. Risk mitigation remains vital, by all means.

Chart 14

EU-15 banks' shares in total exposure to CESEE

Total: EUR 978 billion



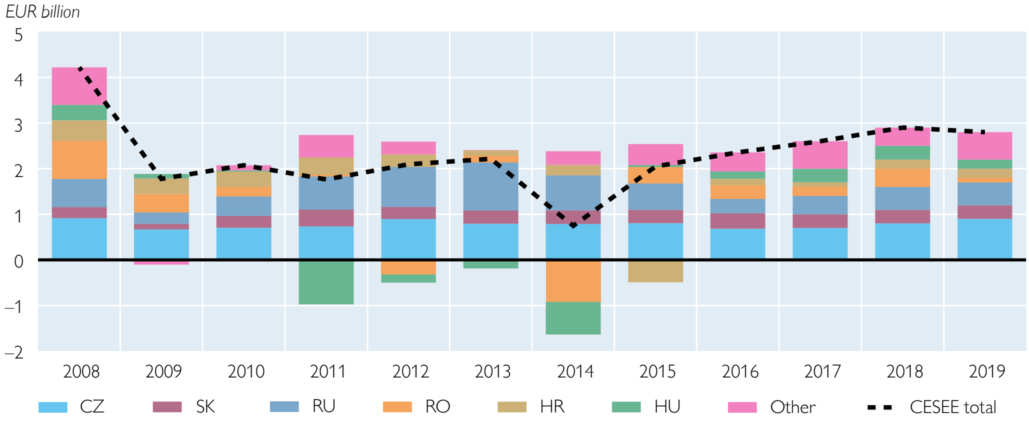
Source: BIS.

Note: Q3 2019. Data include banks in majority domestic ownership.

[3] *Consolidated foreign claims (immediate counterparty basis) as defined by the Bank for International Settlements (BIS).*

Chart 15

Net results of Austrian subsidiaries in CESEE



Source: OeNB.

The aggregate net profit (after tax) of Austrian banks' CESEE subsidiaries amounted to EUR 2.8 billion in 2019. The annual increase in net results (after tax) was still comparatively strong for subsidiaries in Czechia (+17%), Russia (+12%) and Slovakia (+7%).

2.3 Macroprudential measures strengthen financial stability

Ensuring sustainable lending standards for real estate financing in Austria is crucial

So far, the systemic risks arising from residential housing financing have remained limited in Austria. Ensuring that this will remain the case, by ensuring sustainable lending standards, is thus very important.

Based on OeNB analyses, Austria's Financial Market Stability Board (FMSB) prepared a preliminary evaluation of how well the communication of supervisory expectations on sustainable real estate financing[4] has been received by the market. This evaluation yielded mixed evidence on how effectively these expectations have been translated into banks' lending standards. Starting from high levels, loan-to-value ratios and maturities were found to have improved slightly for banks' new lending business. However, this was not the case for the debt service ratio, and the analysis of systemic risks even yielded signs of rising risk. Consistent compliance with supervisory expectations will be crucial for safeguarding financial stability in Austria. From an international perspective, the IMF, the European Systemic Risk Board (ESRB) and the ECB see the risks arising from real estate financing as a key challenge for financial stability in Austria. The OECD has even called for binding measures in this respect.

[4] *On the OeNB's initiative, the FMSB quantified its understanding of sustainable lending in its meeting of September 21, 2018.*

The OeNB will therefore continue to monitor developments in real estate markets and banks' compliance with sustainable lending standards communicated by the FMSB. In 2019, the OeNB and the Financial Market Authority (FMA) completed work on developing a reporting framework for collecting data on residential housing loans.

Macroprudential capital buffers strengthen financial stability

Austria's macroprudential policy measures also include a systemic risk buffer (SyRB) aimed at mitigating noncyclical long-term risks. This buffer has been activated for 13 Austrian banks on a consolidated level, ranging from 0.5% to 2% of risk-weighted assets.[5] The SyRB was implemented in early 2016 with a view to addressing two risk channels: systemic vulnerabilities and systemic cluster risk. Systemic risk emerges in the context of capitalization, banking sector size, the size of foreign exposures as well as banking groups' ownership and group structure. The banks that have to hold a SyRB managed to build up the required capital while continuing to lend dynamically.

Every year, the OeNB also evaluates the relevance of other systemically important banks (O-SIIs) for Austria's financial system and assesses whether the malfunctioning or failure of such banks could trigger systemic risks that would require corresponding action. The FMSB renewed its recommendation in this respect in September 2019, leaving both the banks identified for activation of O-SII buffers and the size of the buffers unchanged. Where both the SyRB and the O-SII buffer might be applicable, the higher of the two rates applies at present. This will change with the new capital buffer regime under the Capital Requirements Directive (CRD) V, which is to be implemented by end-2020. Under the CRD V, the two buffers will be additive.

Also, following a regular review, it was decided on the basis of OeNB analyses that the countercyclical capital buffer (CCyB) was to be maintained at 0% of risk-weighted assets in the absence of excessive credit growth (FMSB meeting of December 13, 2019).

[5] *Given that systemic risks may materialize both at the consolidated and the unconsolidated level and that, in particular within cross-border banking groups, capital allocation may be constrained in times of crisis, the systemic risk buffer was activated for 7 banks also at the unconsolidated level on January 1, 2018.*

Box 1

Austria's Financial Market Stability Board and its contribution to mitigating systemic risk in the past five years

Austria's Financial Market Stability Board (FMSB) was established in 2014 as a decision-making body on macroprudential issues with a view to mitigating systemic risk. The OeNB, which has one seat on the board, provides the secretariat and prepares the meetings. In this capacity, the OeNB is responsible for analyzing and identifying systemic risks as well as drafting the FMSB's recommendations and risk warnings. Any measures subsequently adopted by the FMA based on FMSB recommendations are likewise based on the OeNB's expert opinions.

Key policy measures developed by the FMSB include the activation of the systemic risk buffer and of the buffer for other systemically important institutions (O-SIIs) in 2016, which are aimed at reducing systemic risk and the potential cost of banking crises. These two macroeconomic capital buffers have been instrumental in raising the resilience of Austria's financial system. In September 2018, the FMSB moreover quantified criteria for sustainable real estate lending standards, thus contributing to the mitigation of systemic risk that may be induced by residential housing loans. As evidenced by a study published by OeNB experts,[6] the benefits of macroprudential measures clearly outweigh the corresponding costs in Austria. Assessments provided by international financial institutions (the IMF, the OECD and the European Commission) and rating agencies attest to the effectiveness of the measures Austrian banks implemented on the OeNB's initiative aimed at making banks more resilient. Austria's banking system is among the most stable ones worldwide.[7]

Foreign currency loans in Austria and CESEE continue to decline

Supervisory measures adopted early on by the OeNB and the FMA have contributed to the fact that foreign currency loans extended in Austria no longer pose a systemic risk. At end-2019, the volume of foreign currency loans outstanding to households amounted to EUR 13.6 billion. This corresponds to a foreign currency loan share of 8.1%, down from 9.3% in December 2018.

The volume of foreign currency loans extended by Austrian banks' CESEE subsidiaries dropped by slightly more than two-thirds from end-2010 to end-2019, to EUR 29.8 billion. This translates into a 23.5% share of foreign currency loans in total lending. 83% of all foreign currency loans were euro-denominated at year end-2019.

Refinancing situation of Austrian banks' CESEE subsidiaries is balanced

The OeNB's and FMA's supervisory guidance on strengthening the sustainability of the business models of large internationally active Austrian banks (Sustainability Package) aims at strengthening foreign subsidiaries' stable local funding base and aligning it with credit growth, thereby reinforcing financial stability both in the host countries and in Austria. This guidance was first launched in 2012 and continues to apply, subject to some adjustments. The ongoing supervision of Austrian banks confirms that their CESEE subsidiaries have a balanced funding base; in 2019, the loan-to-deposit ratio of CESEE subsidiaries stood at about 80%, compared with 106% at the end of 2011.

[6] *Posch M., S. Schmitz and P. Strobl. 2018. Strengthening the euro area by addressing flawed incentives in the financial system. In: Monetary Policy & the Economy Q2/18. OeNB. 34–50.*

[7] *Standard & Poor's, May 2018.*

Box 2

Risk resilience of Austria's banking sector confirmed by the IMF's FSAP and by stress tests

Austria's financial sector was assessed under the IMF's Financial Sector Assessment Program (FSAP) in 2019. This assessment was obligatory as the domestic financial sector is deemed to be systemically important. FSAP reviews have been designed to evaluate: (1) major risks to macrofinancial stability, (2) the quality of the regulatory and supervisory framework, and (3) the domestic capacity to manage and resolve financial crises. Another integral part of the FSAP is the review of progress made with regard to combating money laundering and terrorist financing.

In essence, Austria's financial system was found to be resilient against shocks in the 2019 FSAP. Austria was given an excellent report both as a financial center and as regards the supervisory structure in place. According to the key recommendations derived from the FSAP, remaining structural vulnerabilities include complex bank ownership structures and financial interlinkages within Austria's financial system as well as its dependency on the profitability of operations in CESEE. The IMF moreover recommended that supervisors should enhance monitoring related to intra-group transactions, spillover risks and the adequacy of prudential buffers; and that supervisors should also be empowered to address unsustainable business models. Last but not least, the IMF underscored the need to close data gaps regarding the real estate and nonfinancial corporate sectors, ensure the adequacy of supervisory resources, and continue enhancing the framework for banking resolution.

Like every year, the OeNB conducted banking stress tests in 2019 in line with its financial stability and banking supervision mandate. The banking sector stress tests were performed in cooperation with the IMF under the FSAP and once more confirmed the overall resilience of Austria's financial sector. For the first time, stress tests for individual banks were used in 2019 to calibrate Pillar 2 Guidance (P2G) for less significant institutions. Thus, the stress tests contribute to ensuring that banks with riskier business models will be adequately capitalized.

3 Annex of tables

Table A1

Real GDP[1]

	2011	2012	2013	2014	2015	2016	2017	2018	2019
	Annual change in %								
Austria	2.9	0.7	0.0	0.7	1.0	2.1	2.5	2.4	1.6
Euro area	1.7	–0.9	–0.2	1.4	2.1	1.9	2.5	1.9	1.2
EU	1.8	–0.4	0.3	1.7	2.3	2.0	2.6	2.0	1.5

Consumer price indices

	2011	2012	2013	2014	2015	2016	2017	2018	2019
	Annual change in %								
Austria	3.6	2.6	2.1	1.5	0.8	1.0	2.2	2.1	1.5
Euro area	2.7	2.5	1.4	0.4	0.2	0.2	1.5	1.8	1.2
EU	3.1	2.6	1.5	0.6	0.1	0.2	1.7	1.9	1.5

Unemployment rates

	2011	2012	2013	2014	2015	2016	2017	2018	2019
	% of labor force								
Austria	4.6	4.9	5.4	5.6	5.7	6.0	5.5	4.9	4.5
Euro area	10.2	11.4	12.0	11.6	10.9	10.0	9.1	8.2	7.6
EU	9.7	10.5	10.9	10.2	9.4	8.6	7.6	6.8	6.4

Current account balances

	2011	2012	2013	2014	2015	2016	2017	2018	2019
	% of GDP								
Austria	1.6	1.5	1.9	2.5	1.7	2.7	1.6	2.3	2.6
Euro area	0.9	2.3	2.8	3.1	3.5	3.6	3.8	3.8	×
EU	0.5	1.3	1.7	1.7	1.9	2.0	2.4	2.2	×

Budget balances

	2011	2012	2013	2014	2015	2016	2017	2018	2019
	% of GDP								
Austria	–2.6	–2.2	–2.0	–2.7	–1.0	–1.5	–0.8	0.2	0.7
Euro area	–4.2	–3.7	–3.0	–2.5	–2.0	–1.5	–0.9	–0.5	×
EU	–4.6	–4.3	–3.3	–2.9	–2.4	–1.7	–1.0	–0.7	×

Government debt ratios

	2011	2012	2013	2014	2015	2016	2017	2018	2019
	% of GDP								
Austria	82.4	81.9	81.3	84.0	84.9	82.9	78.3	74.0	70.4
Euro area	87.8	90.9	92.8	93.0	91.0	90.2	87.9	86.1	×
EU	82.0	84.4	86.3	87.0	84.9	83.8	82.1	80.4	×

Source: Eurostat, Statistics Austria, IMF.

Note: x = data not available; EU-data incl. UK; GDP data for Austria can deviate from data shown in the key indicators table, as Eurostat data are shown here.

Table A2

General government interest payments

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	% of GDP									
Austria	2.9	2.8	2.7	2.6	2.4	2.3	2.1	1.8	1.6	1.4

Household debt

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	% of disposable net income									
Austria	93.7	93.3	91.1	90.8	90.5	92.1	92.1	90.8	90.3	89.8
Euro area	120.9	119.9	119.2	117.9	116.4	116.2	115.4	115.8	115.3	115.8
	% of GDP									
Austria	55.0	53.6	53.0	52.0	51.8	51.6	51.8	50.8	50.2	50.2
Euro area	71.8	70.7	70.0	68.9	67.4	66.3	65.7	65.3	65.1	65.4

Corporate debt

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	% of gross operating surplus									
Austria	390.3	382.2	389.2	418.5	398.0	394.8	389.8	391.4	390.1	396.0
Euro area	491.2	500.2	523.0	509.3	521.2	517.0	513.3	504.6	506.9	512.3
	% of GDP									
Austria	93.1	92.2	91.7	95.6	91.7	91.5	91.9	91.8	91.7	90.4
Euro area	100.7	103.1	104.5	102.4	105.6	109.2	109.8	108.5	107.6	107.6

Residential property price index

	2015	2016	2017	2018	2019	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19
	Index 2000=100									
Austria excluding Vienna	152.9	166.7	174.9	189.8	194.8	193.9	193.8	193.7	195.2	196.3
Vienna	209.2	217.2	220.4	232.0	243.2	234.8	240.3	245.4	242.4	244.9
	Annual change in %									
Austria excluding Vienna	5.1	9.1	4.9	8.5	2.6	8.5	4.1	3.6	1.7	1.2
Vienna	2.2	3.8	1.5	5.2	4.9	6.7	5.5	7.0	2.7	4.3

Source: OeNB, Austria Immobilienbörse, Prof. Wolfgang Feilmayr, Department of Spatial Planning, Vienna University of Technology.

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