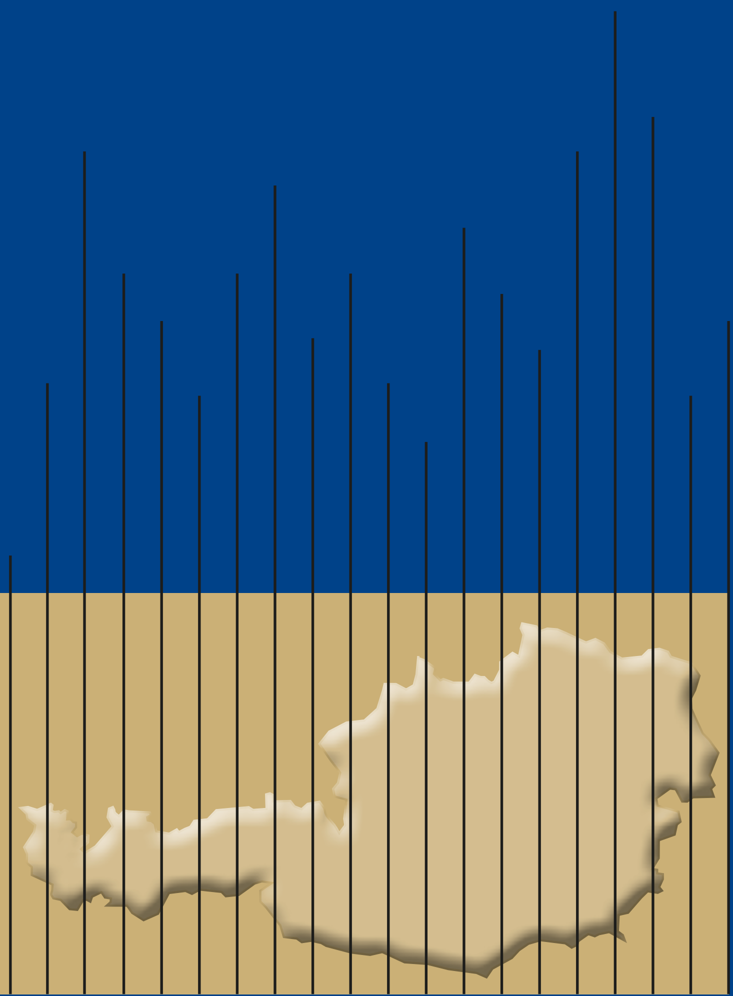
OESTERREICHISCHE NATIONALBANK
EUROSYSTEM

FACTS ON AUSTRIA AND ITS BANKS



Stability and Security.

October 2019 – Key indicators updated January 2020

Contents

Key indicators for the Austrian economy 4

Overview 6

1 Austria ranks among the top economies in the euro area 8

1.1 Austria maintains solid macroeconomic performance despite uncertainties 8

1.2 Current account surpluses confirm international competitiveness of Austrian economy 15

1.3 Significant decline in Austria's budget deficit and debt thanks to good economic situation 17

2 Austrian banks still benefit from benign economic conditions 20

2.1 Profitability and capitalization of Austrian banks 20

2.2 Austrian banks' foreign operations still focus on CESEE 21

2.3 Macroprudential measures strengthen financial stability 23

3 Annex of tables 26

Cutoff date for key indicators: January 15, 2020.

Cutoff date for the overview of major economic developments: October 3, 2019.

Key indicators for the Austrian economy

Cutoff date for data: January 15, 2020.

Table 1

Key indicators

	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	2019	2020	2021	2022
Economic activity	*EUR billion (four-quarter moving sums)*								
Nominal GDP	382.1	385.8	389.3	392.7	395.9	398.8	409.6	422.2	436.2
	Change on previous period in % (real)								
GDP	0.5	0.6	0.4	0.2	0.2	1.6	1.1	1.6 1)	1.6
Private consumption	0.2	0.3	0.4	0.3	0.2	1.2	1.3	1.3	1.4
Public consumption	0.1	–0.1	–0.1	0.0	0.2	0.1	1.1	1.0	1.0
Gross fixed capital formation	0.9	1.2	0.9	0.3	0.2	2.9	1.0	1.3	1.5
Exports of goods and services	1.0	0.8	0.8	0.6	0.7	3.1	1.7	2.8	2.9
Exports of goods	1.0	0.4	0.6	0.5	0.7	2.6	1.6	2.8	2.9
Imports of goods and services	1.0	0.9	0.8	0.8	0.6	3.4	1.8	2.4	2.5
Imports of goods	0.8	0.8	0.7	0.6	0.9	3.1	1.9	2.4	2.5
	% of nominal GDP								
Current account balance	×	×	×	×	×	2.2	2.3	2.5	2.9
Prices	*Annual change in %*								
HICP inflation	2.2	2.1	1.6	1.7	1.3	1.5	1.4	1.5	1.6
Compensation per employee	3.1	3.0	2.9	2.9	0.7	2.8	2.1	2.1	2.3
Unit labor costs	2.6	2.4	2.5	2.3	0.7	2.4	1.7	1.2	1.5
Productivity	0.5	0.6	0.5	0.6	0.1	0.4	0.4	0.8	0.8
Income and savings	*Annual change in %*								
Real disposable household income	0.9	0.4	0.0	–0.0	0.1	1.1	1.7	1.3	1.3
	% of nominal disposable household income								
Saving ratio	×	×	×	×	×	7.5	7.8	7.8	7.7
Labor market	*Change on previous period in %*								
Payroll employment	0.4	0.5	0.4	0.4	0.2	1.5	0.9	0.9	1.0
	% of labor supply								
Unemployment rate (Eurostat)	4.9	4.7	4.7	4.6	4.5	4.6	4.7	4.8	4.7
Public finances	*% of nominal GDP*								
Budget balance	×	×	×	×	×	0.5	0.2	0.2	0.6
Goverment debt	×	×	×	×	×	70.4	68.2	66.0	63.4

Source: OeNB, Eurostat, Statistics Austria, WIFO.

[1] Based on the Economic Indicator of August 2019, the OeNB expects GDP growth for 2020 to reach a maximum of 1½%.

Note: Quarterly data: QNA data from November 29, 2019. All data for 2019–2022 are based on the OeNB's December 2019 forecast. X=data not available.

Table 2

Key indicators for Austrian banks

Austrian banking system – consolidated	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	2015	2016	2017	2018
Structure	*EUR billion*								
Total assets[1]	981.4	986.0	1007.8	1019.0	1033.0	1056.7	946.2	948.9	986.0
Exposure to CESEE[2]	218.7	217.1	219.8	226.4	230.6	186.4	193.3	210.9	217.1
Number of credit institutions in Austria	613.0	597.0	596.0	592.0	579.0	738.0	672.0	628.0	597.0
Number of inhabitants per bank branch in Austria	2411.0	2429.0	2444.0	2482.0	2482.0	2107.0	2226.0	2330.0	2429.0
Solvency[1]	*EUR billion*								
Equity capital	84.3	86.5	87.9	89.4	89.0	87.8	80.7	85.0	86.5
	% of risk-weighted assets								
Solvency ratio	18.0	18.6	18.6	18.7	18.3	16.3	18.2	18.9	18.6
Tier-1 capital ratio	15.4	16.0	16.1	16.3	15.9	12.9	14.9	15.9	16.0
Common equity tier 1 ratio (CET1)	14.8	15.4	15.3	15.5	15.2	12.8	14.9	15.6	15.4
	% of selected balance sheet items								
Leverage[3]	7.5	7.7	7.7	7.9	7.6	6.3	7.6	7.7	7.7
Profitability[1]	*EUR billion*								
Net result after tax	5.5	6.9	1.6	3.5	5.3	5.2	5.0	6.6	6.9
	%								
Return on assets (annualized)[5]	0.8	0.8	0.7	0.8	0.8	0.5	0.6	0.8	0.8
Cost-to-income ratio	65.2	65.2	69.4	65.3	64.4	62.8	74.5	64.6	65.2
Credit quality[1,4]	*%*								
Loan loss provision ratio	1.9	1.8	1.7	1.6	1.5	4.0	3.2	2.2	1.8
Nonperforming loan ratio (NPL ratio)	2.9	2.6	2.5	2.3	2.2	6.5	5.1	3.4	2.6
Credit developments	*%*								
Annual growth of credit to nonbanks in Austria	4.6	4.6	4.5	4.3	4.7	1.1	1.6	3.0	4.6
Share of foreign currency loans in Austria	6.0	5.8	5.8	5.6	5.5	10.2	9.0	6.5	5.8
Austrian subsidiaries in CESEE[1]	*EUR billion*								
Net profit/loss after tax	2.4	2.9	0.7	1.3	2.1	2.0	2.4	2.6	2.9
	%								
Return on assets (annualized)[5]	1.5	1.4	1.3	1.3	1.3	0.7	1.3	1.3	1.4
Cost-to-income ratio	51.9	51.5	56.1	52.2	51.1	51.1	52.7	53.3	51.5
Loan loss provision ratio[4]	3.0	2.7	2.5	2.4	2.2	7.0	6.1	3.3	2.7
Nonperforming loan ratio (NPL ratio)[4]	3.8	3.2	3.0	2.8	2.5	11.5	8.6	4.5	3.2
Share of foreign currency loans[1]	×	25.4	×	24.4	×	38.0	30.0	27.0	25.4
Loan-to-deposit ratio[1]	82.2	78.6	80.2	79.4	79.6	88.4	80.2	79.1	78.6

Financial assets of households and nonfinancial corporations

	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	2015	2016	2017	2018
Households	*EUR billion*								
Financial assets	677.9	674.5	693.0	702.1	705.0	609.9	636.7	668.4	674.5
Financial liabilities (loans)	187.2	188.4	189.1	191.0	193.3	172.6	179.6	182.9	188.4
of which foreign currency loans	15.4	15.0	14.6	14.3	14.1	24.4	21.2	16.5	15.0
of which foreign currency housing loans	13.2	12.9	12.6	12.3	12.2	19.2	17.8	14.1	12.9
Nonfinancial corporations	*EUR billion*								
Financial assets	546.2	551.6	558.8	563.7	556.1	469.8	508.4	530.2	551.6
Financial liabilities	846.6	844.4	862.8	871.7	862.1	711.3	756.7	822.1	844.4
of which loans and securities (other than shares and other equity)	397.8	402.5	410.7	417.5	407.7	350.9	369.8	382.7	402.5
of which shares and other equity	414.0	410.0	418.9	420.7	423.6	331.3	357.0	409.6	410.0
	EUR billion (four-quarter moving sums)								
Gross operating surplus and mixed income	89.0	89.3	90.8	91.5	91.4	79.8	84.2	87.0	90.8

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] As of Q2 2017, data are based on FINREP, including total loans and advances.
[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: Please find more detailed data with respect to the Austrian banking system in the OeNB's Financial Stability Reports. X = data not available.

Overview

Austrian economy among top performers in the euro area

- *Having reached its cyclical peak in 2017, with a real GDP growth rate of 2.7%, Austrian economic growth slowed down in 2018, to 2.3%, as a result of a difficult external environment. While domestic demand continued to support real GDP growth, export momentum weakened significantly. Therefore, the OeNB has slightly revised downward the expectations of real growth in Austria for 2020 compared with its growth forecast of June 2018.*
- *Austria's economy continues to be characterized by a broadly diversified and sectorally balanced economic structure.*
- *The upturn has induced strong employment growth and a sustained decrease in unemployment. The unemployment rate (EU definition) dropped from 6.2% to 4.7% between summer 2016 and summer 2019. Austria maintains an excellent record of social stability, which rests on high employment, low unemployment by international standards and a low frequency of strikes.*
- *Recording an average inflation rate of 1.8% since the introduction of the euro in 1999, Austria has been among those countries that have successfully maintained 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 Austrian real estate market has been buoyant since the mid-2000s. According to the results of the OeNB fundamentals indicator for residential property prices, real estate price growth in Austria, especially in Vienna, can less and less be explained by economic fundamentals. However, the strong price growth seen in recent years has not been going hand in hand with a – by historical standards – above-average increase in lending to households.*
- *Austria's saving ratio dropped sharply after the economic crisis and stood at 7.5% of real disposable household income in 2018, which is still a high level compared to other euro area countries. Financial assets held by households totaled EUR 661.2 billion or 171% of GDP. The household sector's debt ratio stood at 50% of GDP in the second quarter of 2019. Corporate debt in Austria equaled 90% of GDP (Q1 2019). Both indicators are below the euro area average.*
- *Austria's foreign trade in goods is well diversified both by region and product type. In 2018, more than half of foreign trade took place with 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 more than 30% in 2018, Central, Eastern and Southeastern Europe (CESEE) is Austria's second most important export market. The share of goods exports to this region rose from 12% in 1992 to 21% in 2018. Foreign trade has also been supported by stable price competitiveness.*
- *The steady string of current account surpluses seen since 2002 (2018: 2.3% 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 and stood at EUR 14.2 billion (3.7% of GDP) in 2018.*
- *Austria's budget balance ratio was +0.1% of GDP in 2018. The significant improvement compared to 2017 was mainly due to the good economic environment and the further decline in interest expenses. The debt ratio has been declining since 2016. In 2018, the significant drop by just over 4 percentage points to 74.1% of GDP was not only due to the budget surplus but also due to the high GDP growth as well as the winding down of assets held by state-owned "bad banks."*
- *Austria continues to maintain an AAA sovereign rating with DBRS and holds an AA+ rating with Standard & Poor's, Fitch and Moody's (Aa1).*

Austrian banks still benefit from benign economic conditions

- *In 2018, the positive economic environment in Austria and CESEE was reflected in Austrian banks' results, which remained fairly strong in the first half of 2019. The consolidated net profit after tax amounted to EUR 3.5 billion in mid-2019, slightly down (by –2% year on year), however, due to a reduced reversal of impairment losses. A prudent management of profits (also with a view to capitalization) is necessary to ensure that profitability will remain sustainable even when the economy slows down.*
- *Austrian banks' subsidiaries in CESEE are still benefitting from relatively benign economic conditions in CESEE. The aggregate net profit after tax amounted to EUR 1.3 billion in the first half of 2019. Credit growth of Austrian subsidiaries in CESEE was 10.4% in June 2019 in a year-on-year comparison, and total assets grew by 8.1% in the same period. Risk mitigation remains vital, particularly in a competitive environment with high growth rates.*
- *Credit growth remained at a high level in Austria and continued to be solid in the first half of 2019. In June 2019, corporate loans increased by 7.2% compared to the previous year, and loans to households grew by 4.5%, with housing loans posting a slightly higher growth rate.*
- *Systemic risks emanating from real estate financing are limited in Austria at present, but compliance with sustainable lending standards is vital to ensure that such risks can be kept at bay also in the future. Therefore, on the OeNB's initiative, the Austrian Financial Market Stability Board (FMSB) quantified its understanding of sustainable lending in its meeting of September 21, 2018. After a first evaluation of banks' compliance with the FMSB's guidance, the FMSB concluded in its meeting of September 9, 2019, that, overall, the levels of loan-to-value ratios and loan maturities at origination have slightly improved. However, concerns remain regarding the high share of new loans with elevated debt service in relation to borrowers' income. The OeNB will continue to closely monitor developments in the real estate market as well as banks' compliance with the FMSB's understanding of sustainable lending.*
- *Credit quality continued to improve as the ratio of nonperforming loans (NPL) dropped further. At the consolidated level, it amounted to 2.3% and in the domestic business to 1.9% in mid-2019. Austrian banks' subsidiaries in CESEE posted an NPL ratio of 2.8% in mid-2019.*
- *By mid-2019, the consolidated common equity tier 1 (CET1) ratio of Austrian banks had increased to 15.5%, which is slightly above the previous year-end value.*

1 Austria ranks among the top economies in the euro area

1.1 Austria maintains solid macroeconomic performance despite uncertainties

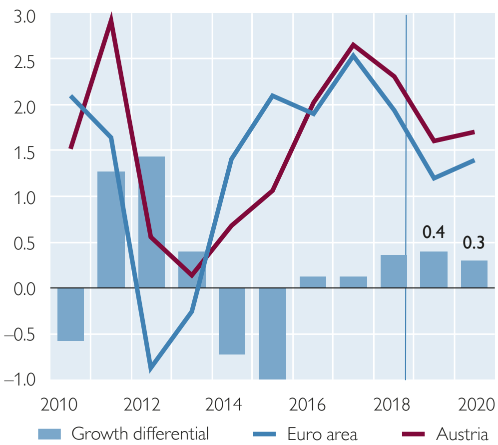
Robust domestic demand protects Austria from global headwinds

After a period of four years (2012 to 2015) with very low GDP growth rates, the Austrian economy embarked on a recovery at the beginning of 2016, which was initiated by an investment cycle. Following an income tax reform (2016), which boosted real disposable household income, private consumption growth picked up. The historically long-lived investment cycle and consumer demand driven by strong employment and wage growth, combined with accelerating export growth from early 2017 onward, contributed to a broad-based upturn in the domestic economy. The combination of high domestic and foreign demand resulted in the strongest economic momentum since 2011, with GDP growth reaching 2.7% in 2017. In the course of 2018, however, domestic growth weakened as a result of the slowdown in global economic momentum. As a consequence, GDP growth declined to 2.3% in 2018, which is still above the long-run average. Based on the OeNB Economic Indicator of August 2019, the OeNB expects GDP growth at 1½% in 2019. This robust growth figure shows that the Austrian economy has clearly decoupled from developments in Germany, where growth has weakened more significantly (see box 1 for details). Nonetheless, economic growth in Austria has been suffering from European and global headwinds. The factors that weigh most heavily on the Austrian economy include the global trade war, the slowdown in Germany, the stagnation of the Italian economy and the high uncertainty surrounding Brexit. All this increases the downside risks to the economic growth rate of 1½% expected for 2020 in the OeNB's June 2019 macroeconomic forecast. This assessment is in line with the latest forecasts from the economic research institutes WIFO and IHS,

Chart 1

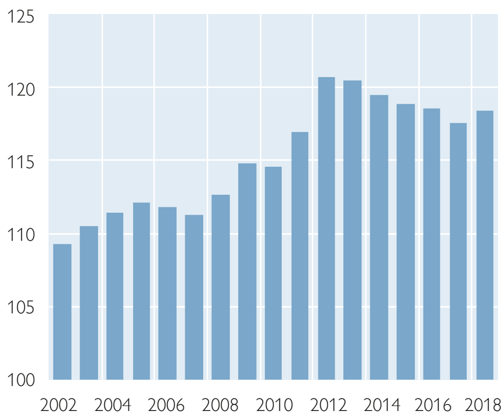
Growth differential between Austria and the euro area

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, IMF.

Note: Austria and euro area 2018 and 2019: IMF WEO, October 2019.

both of which predict economic growth of just under 1½% for 2020. This slightly more pessimistic outlook is more cautious than the current IMF forecast, which is based on now outdated, too optimistic, growth figures for 2018. Nevertheless, Austria will maintain its lead in terms of growth over the euro area in 2019 and 2020.

Box 1

Stagnant German economy increasingly weighs on growth in Austria

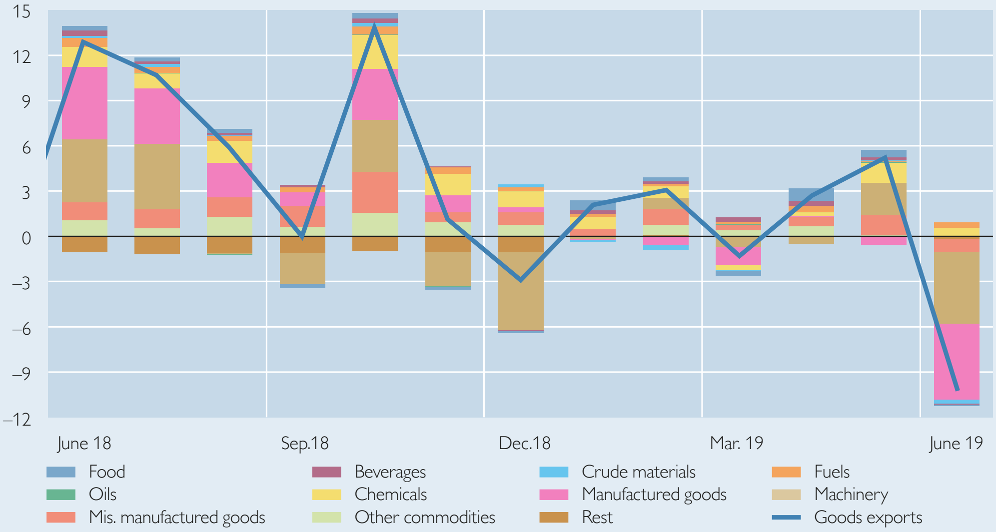
For the past two years, German economic growth has slowed considerably more than growth in Austria. Since Germany is Austrian exporters' most important market, Austria has been directly affected by weakening economic activity in Germany. According to OeNB estimates, a 1 percentage point fall in German GDP growth reduces GDP growth in Austria by about 0.2 percentage points. The left-hand part of the chart below shows the development of Austrian goods exports to Germany. The decline in Austrian exports of machinery and manufactured goods is the most visible sign of the feeble growth currently seen in Germany, which is, in turn, mostly the result of a fall in industrial output. The German industrial sector has been in a recession since end-2018, initially triggered by problems in the car industry that have since spread across large parts of the industrial sector over the course of 2019. Austrian industrial output growth, by contrast, was in positive territory up until April 2019, driven mostly by the chemical industry but also by the automotive sector. Industrial production also slumped in Austria in May 2019, however, and was stagnant in June and July.

A comparison of the current cycles of the German and the Austrian economies shows that the upswing started in Germany as early as 2013 and went hand in hand with an increasingly tight labor market. Given the major significance of the automotive industry, moreover, the German economy has been much more affected by problems facing the sector (emissions test cheating scandal), while in Austria, the automotive industry accounts for a comparatively small share in output. The German economy is also feeling the impact of weakening growth in China much more strongly since China is more important to German than to Austrian exporters. For this reason, the German export sector has been suffering noticeably from the consequences of

Chart A

Growth of Austrian goods exports to Germany is declining lately

Change on previous year in %, growth contributions in percentage points

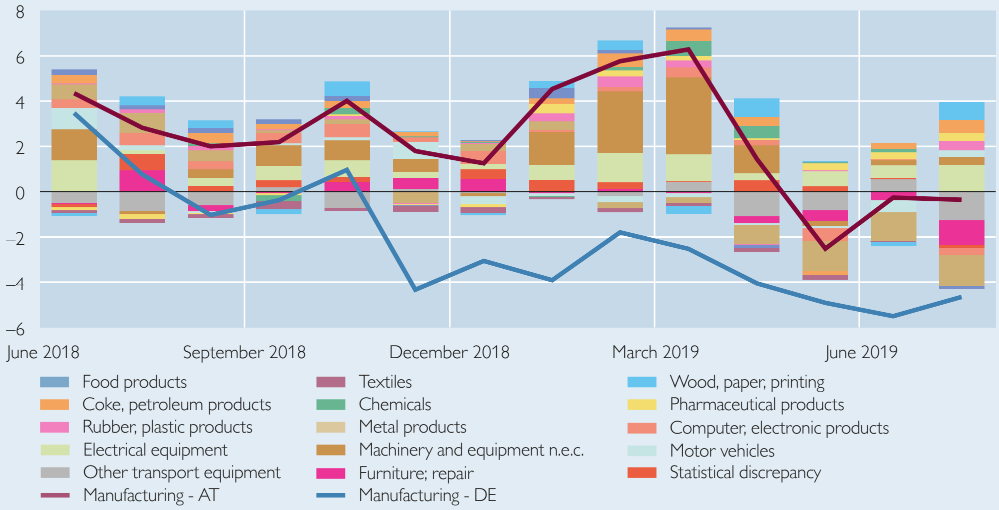


Source: Eurostat.

Chart B

Industrial production in Austria stronger than in Germany

Manufacturing: change on previous year in %; growth contributions for Austria in percentage points



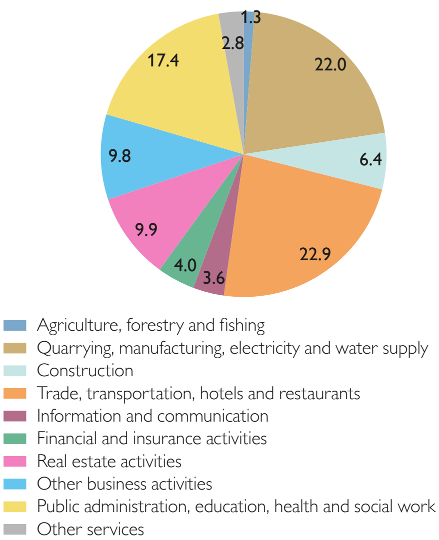
Source: Eurostat.

the trade conflict between the U.S.A. and China. Finally, Germany also has closer trade relations with the United Kingdom than Austria. As a result, the German economy has been affected more severely by Brexit-related uncertainties, while Austria has continued to benefit from the sustained robust growth in Central, Eastern and Southeastern Europe.

Chart 2

Gross value added in Austria in 2018

% of total gross value added, at current prices



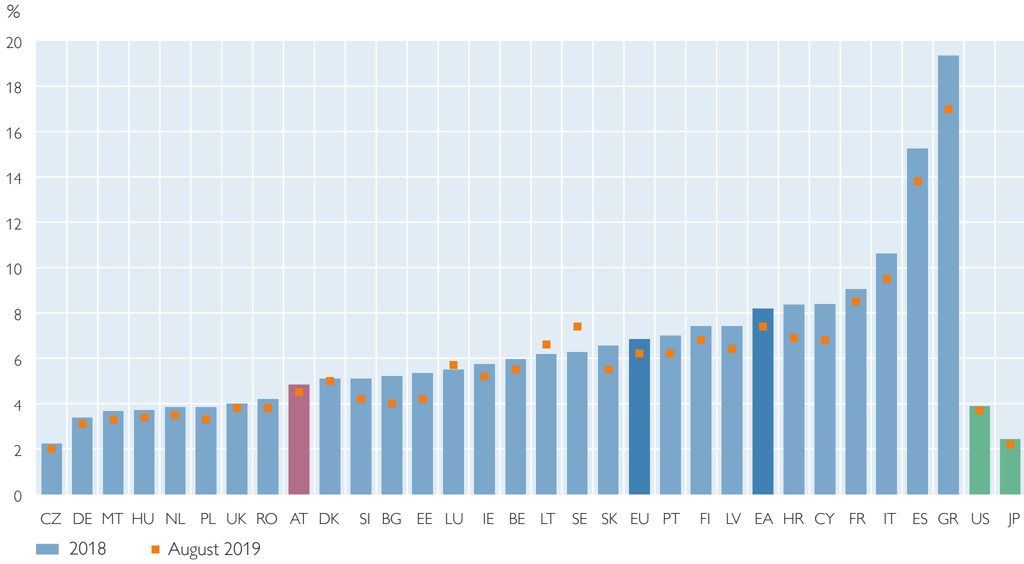
Source: Statistics Austria.

Sectoral structure of the Austrian economy is well balanced

Given that Austria is a highly developed economy, the tertiary sector plays a crucial role. Private sector services (information and communication, financial and insurance activities, real estate activities, other business activities and other services) contribute the largest share – slightly above 30% – to gross value added, followed by activities classified under "quarrying, manufacturing, electricity and water supply" as well as "trade, transportation, hotels and restaurants," which account for slightly more than 20% each. Furthermore, manufacturing in Austria is characterized by a large variety of industries. At 6½%, construction's contribution to gross value added is high by European standards.

Chart 3

Unemployment rates



Source: Eurostat.

Note: EE, HU: July 2019; GR, UK: June 2019.

Upswing leads 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. Since mid-2016, the economic upswing has been robust enough to keep unemployment firmly on a downward path even though labor supply keeps rising strongly. The jobless rate dropped from 6.2% in the summer of 2016 to 4.7% in the second quarter of 2019. In an EU-wide comparison, Austria ranked among the Member States with the lowest unemployment rates in 2018. 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).

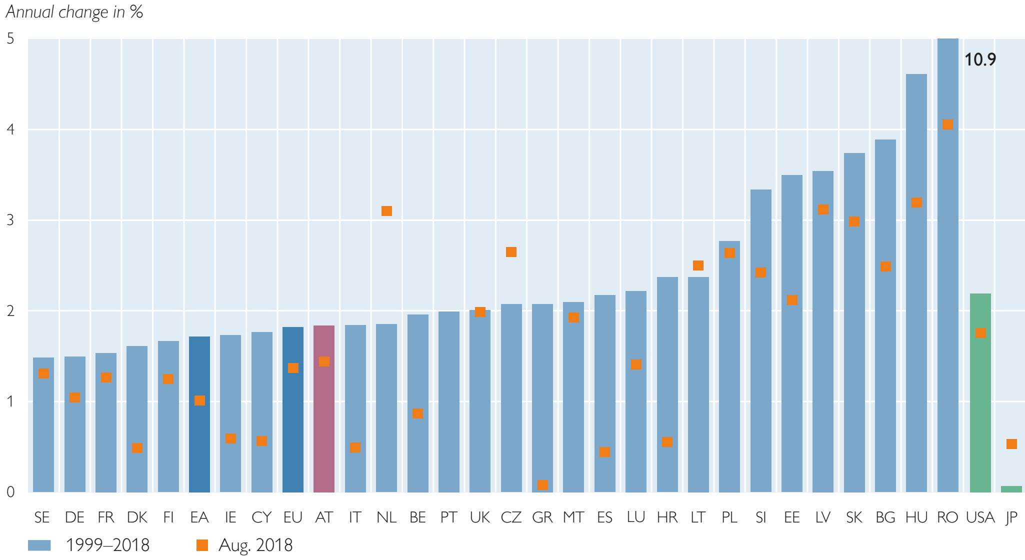
Inflation difference vis-à-vis the euro area gradually narrowed in 2018

Recording an average inflation rate of 1.8% since the introduction of the euro in 1999, Austria has been among those countries that have successfully maintained 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 its inflation forecast of early September 2019, the OeNB projects annual inflation to be 1.6% in both 2019 and 2020.

On September 12, 2019, the Governing Council of the ECB adopted a new comprehensive package of expansive monetary measures. The decision to do so was made based on the assessment of a more extended slowdown of the euro area economy than previously anticipated, persistent and salient downside risks to the growth outlook and a further delay in the convergence of inflation toward the medium-term inflation aim. The Governing Council agreed on the following five measures: (1) reducing the interest rate on the deposit facility by 10 basis points to

Chart 4

HICP inflation rate



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

Note: JP and UK: July 2019.

–0.5%, (2) restarting net purchases under the asset purchase program (APP) at a monthly pace of EUR 20 billion as from November 1, (3) continuing reinvesting, in full, the principal payments from maturing securities purchased under the APP, (4) changing the modalities of the new series of quarterly targeted longer-term refinancing operations (TLTRO III) and (5) introducing a two-tier system for reserve remuneration in which part of banks' holdings of excess liquidity will be exempt from the negative deposit facility rate. The ECB's chief economist Philip Lane judged this package of measures to be the most effective way to support the convergence of inflation.

Real estate prices continue to grow rapidly

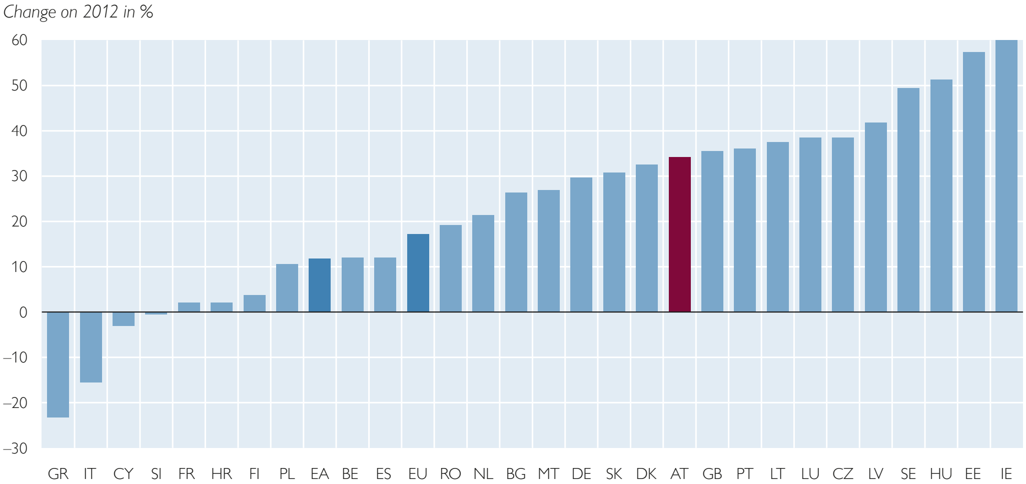
Prices in the Austrian real estate market have been growing very strongly over the past few years. 2018 saw residential property prices rise by 6.9%, after a moderate increase of 3.8% in 2017. In the first two quarters of 2019, the strong increase continued at +5.0% and +7.3%, respectively, with prices rising more rapidly in Vienna than in the rest of Austria.

Demographic developments that gave rise to increasing demand for housing have been among the main factors driving real estate price growth over the past few years. In addition to that, residential construction had been subdued up until 2016; together, these trends contributed to substantial excess demand for residential property. Since 2016, both stronger growth of investment in residential construction and less demographic pressure have helped reduce excess demand. However, demand is still supported by continued favorable financing conditions and the ongoing low interest environment. Therefore, residential property price growth, especially in Vienna, has been increasingly deviating from fundamentals that are part of the OeNB's fundamentals indicator for residential property prices.

That said, price growth has not been going 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 (2018: 4.8%). Also, Austrian households' debt is low, by international standards, and stable. The two most important risk factors in household borrowing – the high share

Chart 5

Change in house prices in EU Member States between 2012 and 2018



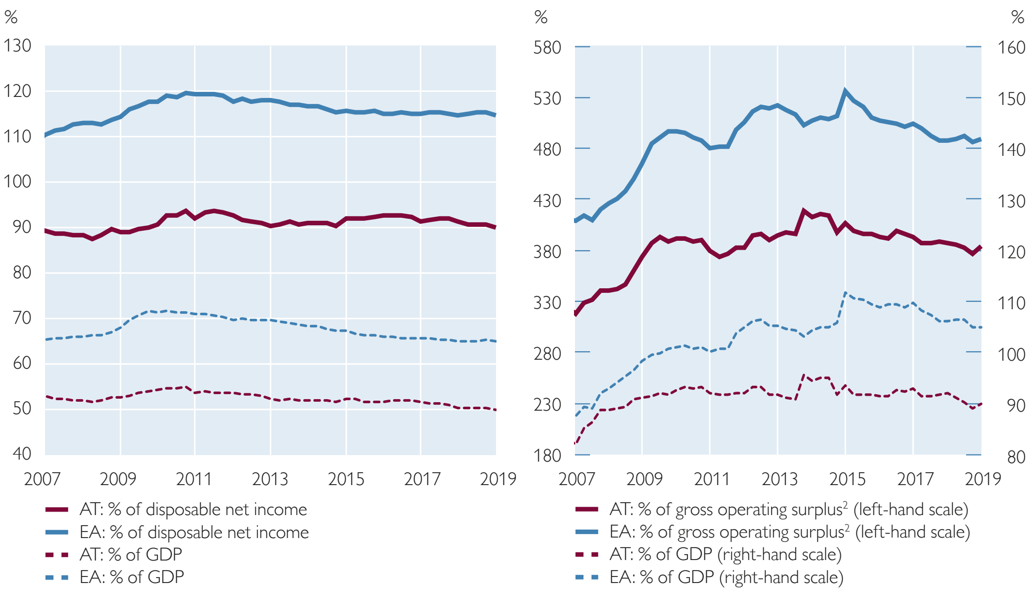
Source: ECB.

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

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.*

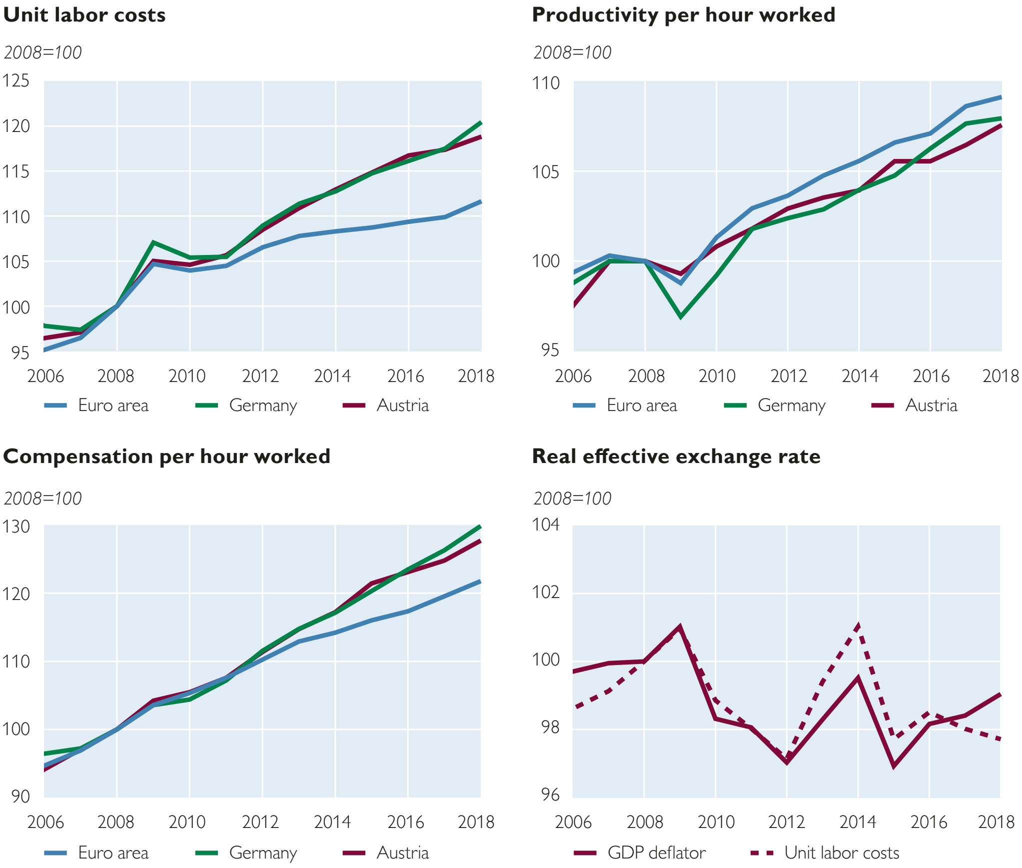
of both bullet loans in foreign currency and variable rate loans – have diminished significantly over the past few years. The share of foreign currency loans in the total stock of housing loans amounted to no more than 12% in 2018, compared to 38% in 2009, and the share of variable rate loans (with an initial rate fixation period of up to 1 year) in new loans dropped from 84% in 2014 to 44% in 2018. Also, Household Finance and Consumption Survey (HFCS) data show that Austrian households' debt-servicing capacity is strong by international standards.

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

In 2018, households saved about 7.5% of their net disposable income. With total financial assets amounting to some EUR 661.2 billion (171.0% of GDP) at the end of 2018, the household sector is a key supplier of capital to other sectors in Austria. Households' debt totaled 50.0% of GDP in the first quarter of 2019, which is clearly below the euro area average of 65.1%. Likewise, at 384.3% of gross operating surplus or 90.1% of GDP, corporate debt in Austria was lower than the euro area average (488.2% and 104.8%, respectively) in the first quarter of 2019.

Chart 7

International competitiveness



Source: Eurostat; real effective exchange rate: ECB.

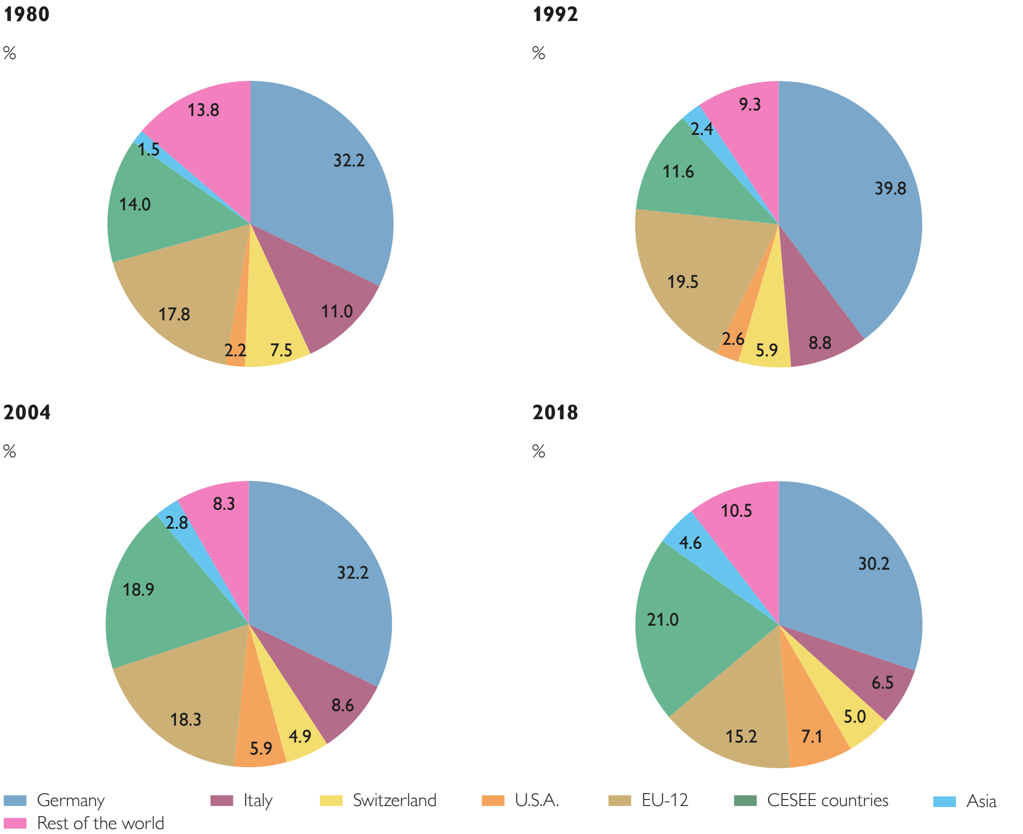
1.2 Current account surpluses confirm international competitiveness of Austrian economy

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. The 2% real-effective depreciation since 2008 means a slight improvement in competitiveness. Nominal unit labor costs have risen at rates comparable to those of Germany. In contrast, unit labor costs in the euro area grew less against the background of structural adjustments after the economic crisis. While productivity per hour in Austria, Germany and the euro area expanded at almost the same pace, hourly wage growth in the euro area was slower than in Austria and Germany.

Chart 8

Regional pattern of Austrian goods exports



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.

[1] *The REER is defined as the nominal exchange rate for the manufacturing 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.*

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

In 2018, 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 is still the most important one by far, with a share of 30% in Austria's total goods exports, followed by Italy, which accounts for a share of 6.5%. 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 has declined since 1996, the share of goods exported to CESEE has steadily increased (1996: 15%, 2017: 21%). Given that CESEE's growth advantage vis-à-vis the euro area has recently widened again (to 2 percentage points), the region will definitely remain a central growth market for Austrian exporters in the near future. 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 40%, 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 70% of total exports, services exports (30%) also play an important role. In recent years, goods exports have grown more strongly than services exports. However the positive balance of goods (EUR 4.5 billion) is still below the balance of services (EUR 10.3 billion). The balance of services was substantially driven by the tourism sector: Overnight stays have seen new record highs. 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 3.4 billion (net) or 1% of GDP in 2018.

Current account surpluses confirm Austria's international competitiveness

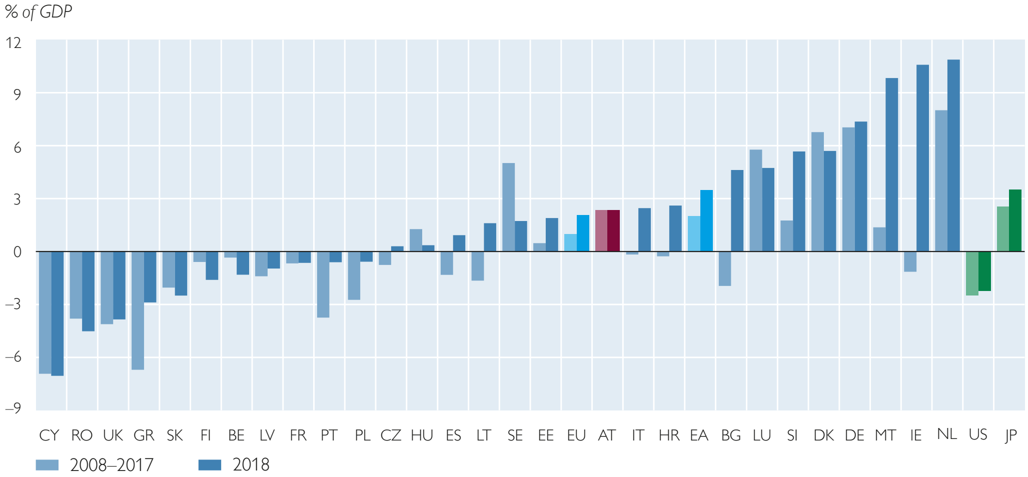
Austria has constantly recorded current account surpluses since 2002. In 2018, the current account surplus amounted to EUR 9.0 billion or 2.3% of GDP. At the same time, the current account balance has remained within the boundaries defined by Eurostat as identifying an economy as macroeconomically balanced. The increase of 0.8 percentage points (pp) compared to 2017 is mainly due to an improvement in the balance of goods (+0.5 pp) and the primary balance (+0.6 pp), while the balance of services (–0.1 pp) and the secondary income balance (–0.3 pp) declined slightly. In light of the strong competitiveness of the Austrian economy, all forecasts currently predict that Austria will continue to post current account surpluses in the coming years.

Austria's net international investment position positive since 2013

Due to its sustained current account surplus – since 2002 Austria has recorded a cumulated surplus of EUR 123 billion – Austria has steadily improved its net international investment position (IIP). In 2013, its net IIP entered positive territory, and in 2018, it came to EUR 14.2 billion (3.7% of GDP). Overall, Austria's net international investment position 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

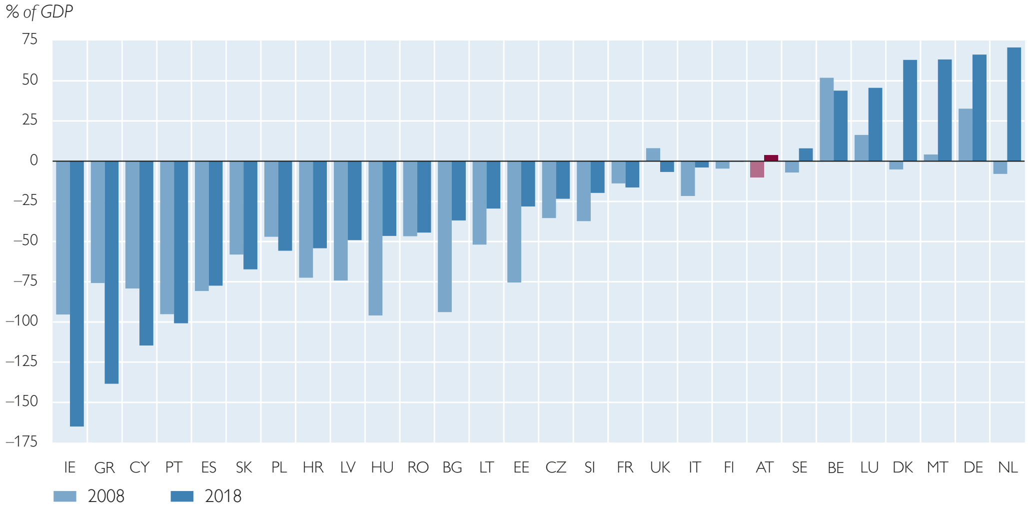


Source: Eurostat.

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

Chart 10

Net international investment position



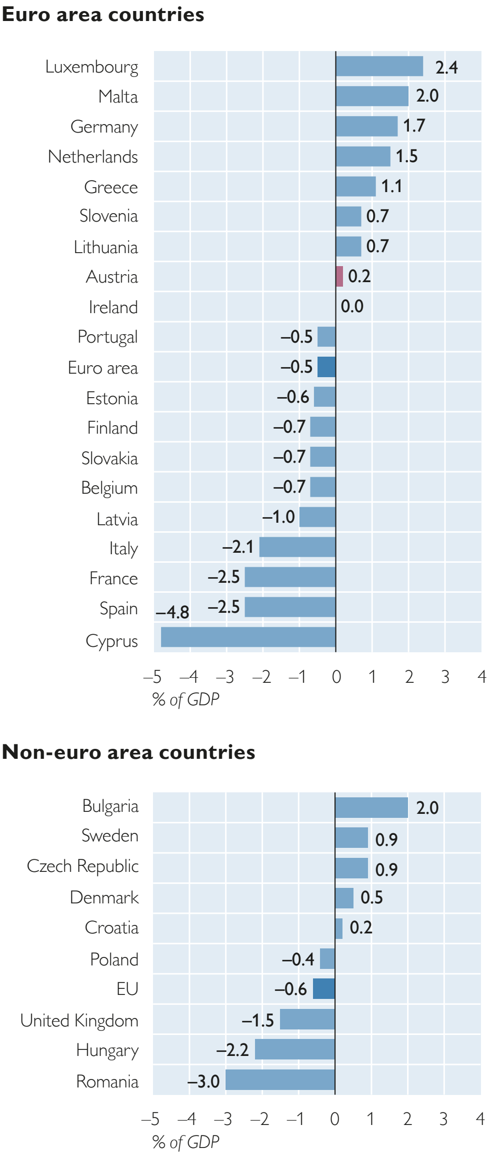
Source: Eurostat, ECB.

1.3 Significant decline in Austria's budget deficit and debt thanks to good economic situation

The general government budget balance amounted to +0.2% of GDP in 2018 (compared with –0.7% of GDP in 2017). This is the first time since 1974 that a general government surplus has been achieved. The significant improvement in 2018 was essentially due to the very good economic environment and the further decline in interest expenses. The budget surplus also means that the target of a balanced general government budget balance in 2019 has already been achieved ahead of schedule.

Chart 11

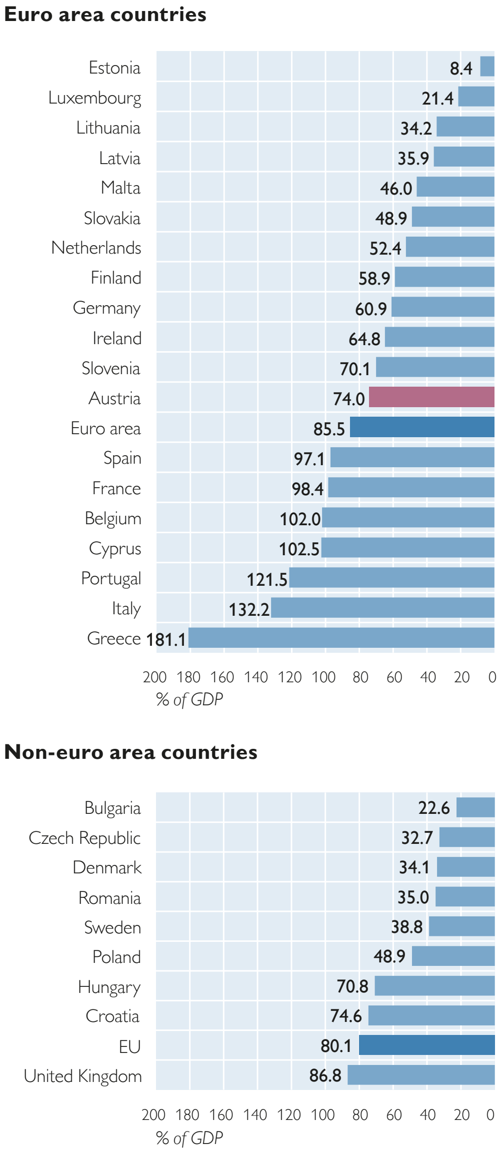
Budget balances of EU Member States in 2018



Source: Eurostat.

Chart 12

Public debt of EU Member States in 2018



Source: Eurostat.

Since 2016, the debt ratio has also been falling again. The significant decline by over 4 percentage points to 74% of GDP in 2018 is attributable to the budget surplus as well as high nominal GDP growth and the recovery of assets from the state's bad banks.

Austria achieved a structural budget balance of –0.4% of GDP in 2018

Under the preventive arm of the Stability and Growth Pact of the European fiscal framework, Austria has a structural budget balance target of –0.5% of GDP. Based on the latest output gap estimates of the European Commission of May 2019, Austria achieved this result in 2018. A slight improvement in the structural balance

Table 1

EU fiscal governance requirements

	Release	2014	2015	2016	2017	2018	Source	Requirement
		% of GDP						
Budget balance	March 2019	–2.7	–1.0	–1.5	–0.7	0.2	Statistics Austria	>= –3 % of GDP
Public debt	March 2019	84.0	84.9	82.9	78.3	74.0	Statistics Austria	from 2017: reduction of difference to 60% of GDP by an average 1/20 per year
Structural balance	March 2019	–0.6	0.0	–1.0	–0.8	–0.4	EC	from 2017: MTO (target value) is –0.5% of GDP

Source: Statistics Austria, European Commission (EC), Ministry of Finance.

is expected for 2019, as expansionary measures such as the family bonus will be more than offset by the reduction in subsidies and a further decline in interest expenditure.

Top external assessment of the Austrian economy

Due to difficult economic conditions, most European countries have lost their AAA ratings. Austria maintains an AAA rating with DBRS and holds an AA+ rating with Standard & Poor's, Fitch and Moody's (Aa1). In July 2018, Fitch changed the outlook for Austria from "stable" to "positive" and confirmed this assessment in spring 2019. Thus, there is a prospect of achieving the top rating "AAA" again. S&P also confirmed both its rating and its stable outlook in March 2019. Further improvements in ratings could be achieved given Austria's comparably high growth potential and good growth performance as well as a further reduction of government debt, as targeted by the federal government.

Vienna – an excellent location for business in central Europe

More than 200 international companies – most of them with business in CESEE – have their headquarters in Vienna. These companies benefit not only from the city's geographical proximity to the CESEE markets and Vienna International Airport as a hub for air traffic and freight forwarding, but also from Austria's historically close ties to this region. In addition to that, Vienna has just been declared the number one city in the annual Global Liveability Index by the Economist Intelligence Unit for the second time in a row.

2 Austrian banks still benefit from benign economic conditions[2]

2.1 Profitability and capitalization of Austrian banks

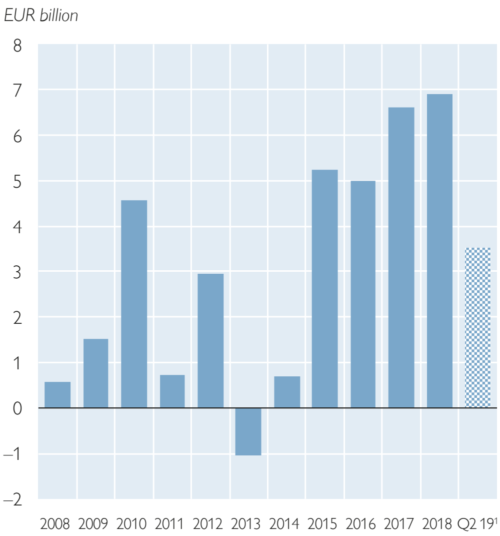
Profitability continued to be strong in the first half of 2019

In 2018, the positive economic environment in Austria and CESEE was reflected in Austrian banks' results, which remained strong also in the first half of 2019. Net profit after tax amounted to EUR 3.5 billion in mid-2019. In a year-on-year comparison, it was slightly down (by –2%), however, due to a reduced reversal of impairment losses. This result corresponded to a return on average assets of 0.8%, which matches the level of the past two years. Credit growth remained at a high level and supported net interest income and, consequently, banks' operating income.

A prudent management of profits (also with regard to capitalization) is necessary to ensure that profitability will also remain sustainable even when the economy slows down.

Chart 13

Consolidated net profit of Austrian banks



Source: OeNB.

[1] Q2 figures are not comparable with year-end data.

Domestic lending by Austrian banks remained solid

Credit growth in Austria gained momentum in 2017 and 2018 and continued to be solid in the first half of 2019. Credit to nonfinancial corporations in Austria has been growing particularly strongly since mid-2017. In June 2019, corporate loans increased by 7.2% year on year and loans to households grew by 4.5%, with housing loans posting a slightly higher growth rate.

Credit quality improves further

The ratio of nonperforming loans (NPL) has dropped further, both at the consolidated level and in the domestic business, amounting to 2.3% and 1.9%,

Table 2

Aggregated profit and loss account of Austrian banks, consolidated

	2011	2012	2013	2014	2015	2016	2017	2018	Q2 19
	EUR billion								
Net interest income	20.4	19.3	18.6	19.3	18.3	14.6	14.5	15.2	7.7
Fee and commission income	7.6	7.3	7.6	7.7	7.7	6.6	6.9	7.1	3.5
Trading income	0.8	1.1	0.7	0.4	–0.0	0.1	0.1	–0.6	–0.2
Operating profit	10.4	12.1	8.0	8.9	10.5	5.7	8.1	8.4	4.2
Net result after tax	0.7	3.0	–1.0	0.7	5.2	5.0	6.6	6.9	3.5

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 more detailed analyses of the Austrian banking sector, see the OeNB's Financial Stability Reports.*

respectively, in mid-2019. Likewise, the NPL ratio of Austrian banks' subsidiaries in CESEE improved, from 3.9% in mid-2018 to 2.8% in mid-2019.

Capitalization slightly above EU average

The consolidated common equity tier 1 (CET1) ratio of Austrian banks stood at 15.3% at the end of March 2019, slightly above the EU average of 15.0%. By mid-2019, the consolidated CET1 ratio of Austrian banks had increased to 15.5%, which is also slightly above the previous year-end value.

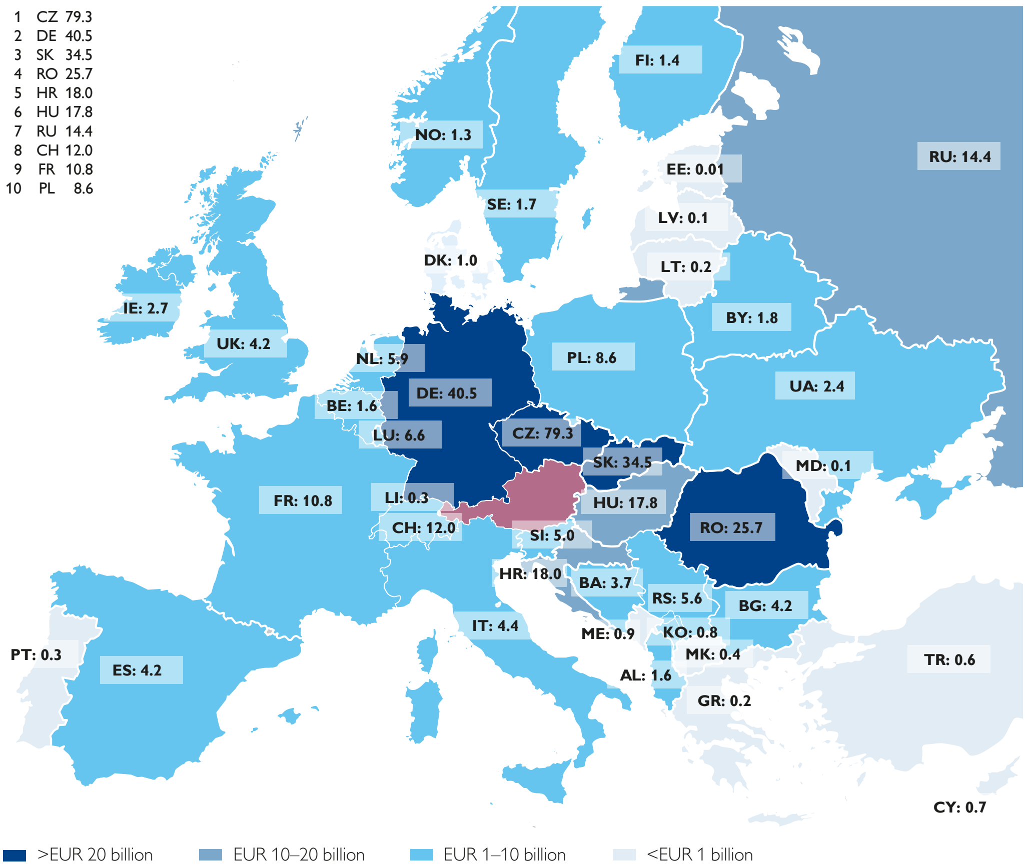
2.2 Austrian banks' foreign operations still focus on CESEE

At the end of June 2019, the consolidated foreign claims of banks in Austrian majority ownership[3] totaled EUR 357 billion, with claims on CESEE accounting for slightly more than 60% of this amount (see chart 14). The consolidated foreign claims of Austrian banks on CESEE rose by 3.9% year on year in June 2019.

Chart 14

Austrian banks'[1] consolidated foreign claims (immediate borrower basis)

EUR billion



Source: OeNB.

[1] In majority domestic ownership.

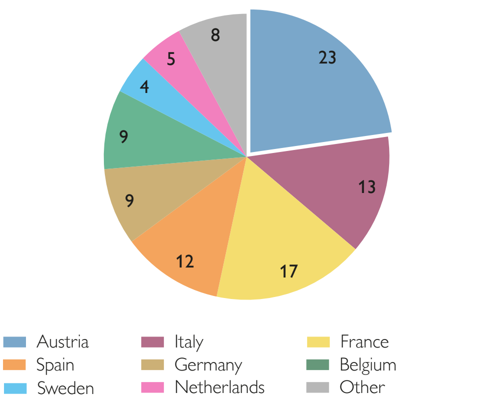
Note: Q2 2019.

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

Chart 15

EU-15 banks' shares in total exposure to CESEE

Total: EUR 966 billion



Source: BIS.

Note: Q1 2019. Data include banks in majority domestic ownership.

As regards the aggregate CESEE-related claims of EU-15 banks, the Austrian banking sector's share added up to 23% at the end of March 2019 (see chart 15).

Profitability of Austrian banks' CESEE subsidiaries still benefits from benign economic conditions

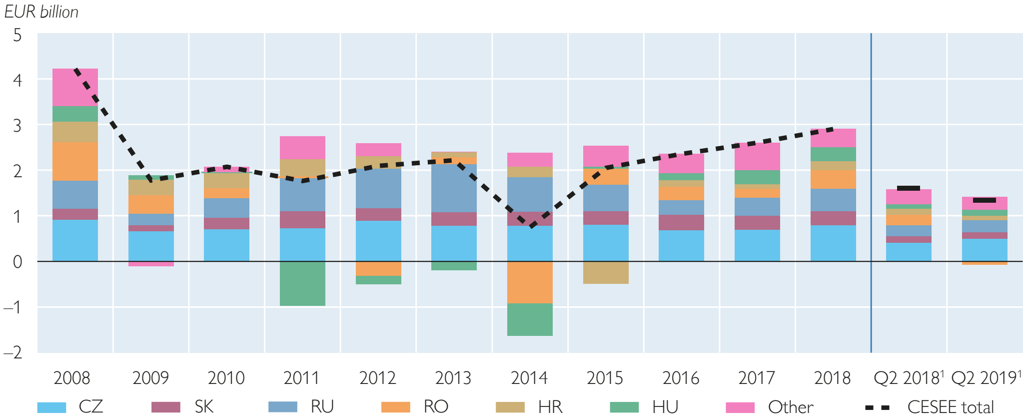
Austrian banks' subsidiaries in CESEE still benefit from relatively benign economic conditions in CESEE. Credit growth (loans after provisioning) of Austrian subsidiaries in CESEE was 10.4% in June 2019 in a year-on-year comparison, while total assets grew by 8.1%.[4] This development was mainly driven by subsidiaries in the Czech Republic, Russia, Slovakia and Hungary, countries that have implemented several prudential measures to cope with lending-related risks. In any case, risk mitigation remains vital, particularly in a competitive environment with high growth rates.

The aggregate net profit (after tax) of Austrian banks' CESEE subsidiaries amounted to EUR 1.3 billion in the first half of 2019 (see chart 16). Profits still increased comparatively strongly year on year for subsidiaries in the Czech Republic (21%) and in Hungary (27%), whereas the net profit after tax was negative in Romania, which was due to an Austrian subsidiary that had to set aside provisions for losses expected after a decision by the Supreme Court.

Chart 16

Net results of Austrian bank's subsidiaries in CESEE

EUR billion



Source: OeNB.

[1] Q2 figures are not comparable with year-end data.

Note: From 2016 onward, figures do not include subsidaries of UniCredit Bank Austria.

[4] *These growth rates were calculated without the Austrian subsidiary in Poland which was sold in 2018.*

2.3 Macroprudential measures strengthen financial stability

Foreign currency loans in Austria and CESEE continue to decline

Prudent and timely supervisory measures have contributed to the fact that foreign currency loans no longer pose a systemic risk for the Austrian banking sector. In the first half of 2019, outstanding foreign currency loans to households and nonfinancial corporations in Austria amounted to EUR 17.8 billion, 80% of which are outstanding to households. However, foreign currency loans to households declined by 10.8% year on year in June 2019. As a result, the foreign currency share in total loans dropped to 8.7% in the household loan segment. The volume of foreign currency loans granted by Austrian subsidiaries in CESEE has shrunk by slightly more than two-thirds since end-2010, standing at EUR 30.1 billion in mid-2019. This corresponds to a share in total loans of 24%. 82% of foreign currency loans were denominated in euro.

Figure 1

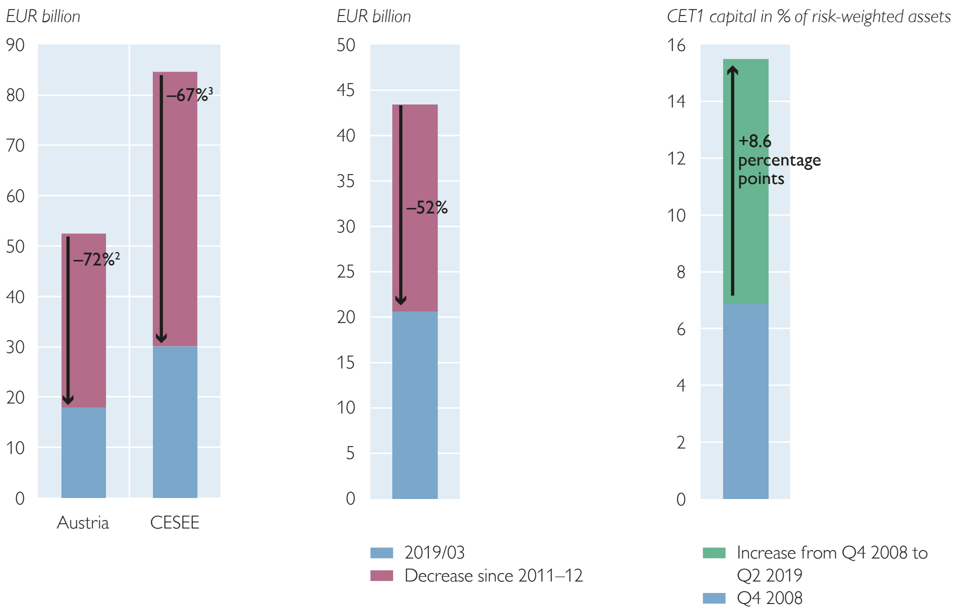
Macroprudential measures in Austria successfully contribute to risk mitigation

Reduction in foreign currency loans	Sustainability of CESEE business models	Strengthening capitalization	Sustainable real estate lending standards in Austria
Recommendations, Minimum Standards, Guiding Principles	Sustainability Package 2012 (focus: local stable funding)	SyRB, O-SII buffer, ICAAP	Quantitative guidance

Foreign currency loans issued by Austrian banks in Austria and CESEE[1]

Intra-group liquidity transfers to Austrian banks in CESEE

Common equity tier 1 (CET1) ratio of Austrian banks



Minimum borrower down payment	Benchmark: 20% of loan
Maturity	>35 years only in exceptional cases
Debt servicing	Benchmark: no more than 30% to 40% of borrower's net income

Evaluation on-going

Source: OeNB.

[1] *Loans to households and nonfinancial corporations.*
[2] *Since Oct. 2008 (FMA recommendation).*
[3] *Since Dec. 2010 (Guiding Principles).*

Note: The percentages in the left-hand panel are exchange rate-adjusted decreases in the volume of loans in Austria (from October 2008, when the FMA issued a recommendation on foreign currency lending, to June 2019) and in CESEE (from December 2010, when the Guiding Principles were published, to June 2019).

Refinancing situation of Austrian banks' CESEE subsidiaries is balanced

The supervisory guidance on strengthening the sustainability of the business models of large internationally active Austrian banks ("Sustainability Package") issued by the OeNB and FMA in 2012 aims at improving foreign subsidiaries' local stable funding base to prevent excessive credit growth, thereby reinforcing financial stability both in host countries and in Austria. The OeNB's ongoing analysis confirms that Austrian banks' CESEE subsidiaries have a balanced funding base; by mid-2019, the loan-to-deposit ratio stood at 79%, compared with 106% at end-2011.

Macroprudential capital buffers strengthen financial stability

The systemic risk buffer (SyRB) in Austria was designed to mitigate long-term noncyclical systemic risks. It was first activated on January 1, 2016, and is currently being applied to 13 banks at the consolidated level. A review of the SyRB conducted in 2018 showed that banks are building up capital without constraining lending in Austria and in CESEE. Improvements from a systemic risk perspective were found in terms of capitalization, sector size, foreign exposure as well as ownership and group structures. Despite these improvements, the fundamental assessment that had led to the activation of the SyRB remained unchanged, however. Given that these systemic risks may manifest themselves both at the consolidated and the unconsolidated level and that, in particular within cross-border banking groups, capital allocation in crisis situations would not be flexible, the SyRB has been applied to seven banks also at the unconsolidated level since January 1, 2018.

The OeNB also carries out an annual evaluation of the significance of individual banks for the entire Austrian financial system and an assessment of whether the malfunctioning or failure of individual banks could trigger systemic risks (other systemically important banks, O-SIIs).[5] Also, following a regular review, it was decided on the basis of OeNB analyses that the countercyclical capital buffer was to be maintained at 0% of risk-weighted assets, given that credit growth had been found to be not excessive (21st meeting of the FMSB on September 9, 2019).

Sustainable lending standards in real estate financing in Austria

International experience has shown that the bursting of credit-financed real estate price bubbles may generate high costs for a banking system, an economy and public finances. Systemic risks emanating from real estate financing are limited in Austria at present, but compliance with sustainable lending standards is vital to ensure that such risks can be kept at bay also in the future. Considering persistently low interest rates and the prospect of a further rise in property prices, it cannot be ruled out that lending standards in Austria may be loosened. Therefore, on the OeNB's initiative, the FMSB quantified its understanding of sustainable lending in its meeting of September 21, 2018. After a first evaluation of banks' compliance with the FMSB's guidance, the FMSB concluded in its 21st meeting that, overall, the levels of loan-to-value ratios and loan maturities at origination have slightly improved. However, concerns remain regarding the high share of new loans with elevated debt service in relation to borrowers' income.

[5] *The O-SII buffer is prescribed for banks whose malfunctioning or failure may trigger a systemic risk which could entail serious negative consequences for the financial system and the real economy (Article 23c in conjunction with Article 2 para. 41 Austrian Banking Act).*

The OeNB will continue to closely monitor developments in the real estate market as well as banks' compliance with the FMSB's understanding of sustainable lending. If systemic risks from real estate financing should arise, based on the OeNB's analysis, the FMSB can recommend that the FMA take measures in line with Article 22b Banking Act.[6]

The FMSB also noted that systemic risk analysis requires better data availability, especially with regard to indicators for the commercial real estate sector, and proposed that the OeNB and FMA take the necessary steps to achieve the desired improvements.

[6] *This includes, among other things, the specification of caps on the loan-to-value ratio, the debt service-to-income ratio and maturities.*

3 Annex of tables

Table A1

Real GDP[1]

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Annual change in %									
Austria	2.9	0.7	0.0	0.7	1.1	2.0	2.6	2.7	1.6	1.7
Euro area	1.6	–0.9	–0.3	1.4	2.1	1.9	2.5	1.9	1.2	1.4
EU	1.8	–0.4	0.3	1.8	2.3	2.0	2.6	2.0	1.5	1.7

Consumer price indices[1]

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Annual change in %									
Austria	3.6	2.6	2.1	1.5	0.8	1.0	2.2	2.1	1.5	1.9
Euro area	2.7	2.5	1.4	0.4	0.2	0.2	1.5	1.8	1.2	1.4
EU	3.1	2.6	1.5	0.6	0.1	0.2	1.7	1.9	1.6	1.7

Unemployment rates[1]

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	% of labor force									
Austria	4.6	4.9	5.4	5.6	5.7	6.0	5.5	4.9	5.1	5.0
Euro area	10.2	11.4	12.0	11.6	10.9	10.0	9.1	8.2	7.7	7.5
EU	9.7	10.5	10.9	10.2	9.4	8.6	7.6	6.8	x	x

Current account balances[1]

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	% of GDP									
Austria	1.6	1.5	1.9	2.5	1.7	2.5	2.0	2.3	1.6	1.8
Euro area	–0.1	1.4	2.3	2.5	2.7	3.1	3.2	2.9	2.8	2.7
EU	0.4	1.2	1.5	1.6	1.7	2.0	2.4	2.1	2.1	2.0

Budget balances[1]

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	% of GDP									
Austria	–2.6	–2.2	–2.0	–2.7	–1.0	–1.6	–0.8	0.2	0.1	–0.2
Euro area	–4.2	–3.7	–3.1	–2.5	–2.0	–1.6	–1.0	–0.5	–0.9	–0.8
EU	–4.6	–4.3	–3.3	–2.9	–2.3	–1.7	–1.0	–0.6	x	x

Government debt ratios[1]

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	% of GDP									
Austria	82.4	81.9	81.3	84.0	84.7	83.0	78.2	74.0	x	x
Euro area	87.0	90.1	92.0	92.2	90.2	89.4	87.2	85.3	x	x
EU	81.6	84.0	85.8	86.6	84.6	83.4	81.7	80.0	x	x

Source: Eurostat, Statistics Austria, IMF.

[1] The data for 2019 to 2020 are based on the IMF World Economic Outlook forecast (October 2019).

Note: x = data not available.

Table A2

General government interest payments

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
	% of GDP									
Austria	3.1	2.9	2.8	2.7	2.6	2.4	2.3	2.1	1.8	1.7

Household debt

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
	% of disposable net income									
Austria	90.1	93.7	93.3	91.1	90.8	90.5	92.2	92.5	92.2	90.8
Euro area	117.7	119.6	119.0	118.0	117.0	115.5	115.6	115.1	115.2	115.5
	% of GDP									
Austria	53.9	55.0	53.6	53.0	52.0	51.8	51.7	52.1	51.1	50.4
Euro area	71.5	71.5	70.5	69.8	68.7	67.3	66.3	65.7	65.3	65.3

Corporate debt[1]

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
	% of gross operating surplus[2]									
Austria	387.9	390.3	382.2	389.2	418.5	398.0	395.5	395.5	388.4	376.8
Euro area	496.9	487.3	498.2	519.2	502.3	511.2	510.3	500.5	487.2	486.4
	% of GDP									
Austria	91.8	93.1	92.2	91.7	95.6	91.7	91.7	92.4	91.6	89.0
Euro area	100.8	101.0	103.8	105.2	103.0	105.7	109.3	108.8	106.2	104.9

Residential property price index

	2014	2015	2016	2017	2018	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19
	Index 2000=100									
Austria excluding Vienna	145.4	152.9	166.7	174.9	189.8	187.1	192.0	193.9	193.8	194.1
Vienna	204.6	209.2	217.2	220.4	232.0	229.4	236.1	234.8	240.3	251.9
	Annual change in %									
Austria excluding Vienna	3.1	5.1	9.1	4.9	8.5	6.0	9.7	8.5	4.1	3.8
Vienna	4.2	2.2	3.8	1.5	5.2	4.2	6.5	6.7	5.5	9.8

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

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

Note: x = data not available.

"Facts on Austria and Its Banks" is published twice a year to provide a brief snapshot of Austria's economy based on a range of real and financial variables and corresponding international measures. The list of key indicators preceding the descriptive analysis is revised quarterly.

Publisher and editor	*Oesterreichische Nationalbank* *Otto-Wagner-Platz 3, 1090 Vienna* *PO Box 61, 1011 Vienna, Austria* *www.oenb.at* *oenb.info@oenb.at* *Phone (+43-1) 40420-6666* *Fax (+43-1) 40420-046698*
Coordination	*Matthias Fuchs (Statistics Department)*
Contributions (economic analysis)	*Klaus Vondra (Economic Analysis and Research Department)*
Contributions (financial analysis)	*Tina Wittenberger (Department for Financial Stability and the Supervision of Less Significant Institutions)*
Editing and translations	*OeNB Language Services*
Layout and typesetting	*Sylvia Dalcher*
Design	*Information Management and Services Division*
Printing and production	*Oesterreichische Nationalbank, 1090 Vienna*

DVR 0031577