OESTERREICHISCHE NATIONALBANK
EUROSYSTEM

FACTS ON AUSTRIA AND ITS BANKS

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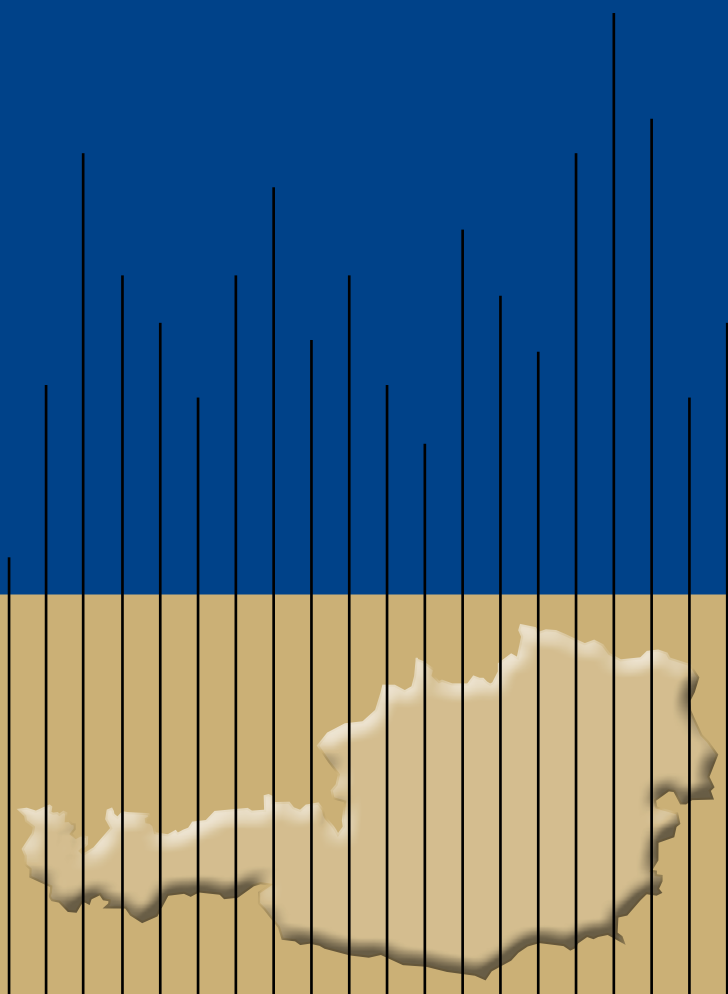


Security through stability.

October 2021

Contents

NOTE

This issue of "Facts on Austria and Its Banks" reflects developments up to end-September 2021 and, like previous issues, focuses on the impact of the COVID-19 pandemic. Therefore, the current issue does not include several sections that featured regularly in previous issues, and some charts were moved to the annex.

News and updates regarding the impact of the COVID-19 crisis are being provided on our website at www.oenb.at as they become available.

Cutoff date: September 20, 2021.

Key indicators

Cutoff date: September 20, 2021.

Table 1

Key indicators for the Austrian economy

	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21	2020	2021	2022
Economic activity	*EUR billion (four-quarter moving sums)*							
Nominal GDP	385.3	383.0	378.6	376.4	388.2	378.6	399.1	423.8
	Change on previous period in % (real)							
GDP	–10.9	11.0	–2.5	–0.2	3.6	–6.3	3.9	4.2
Private consumption	–12.1	12.2	–4.7	–0.7	1.9	–8.4	4.0	5.8
Public consumption	–1.7	2.0	3.4	0.0	3.0	–0.4	2.1	0.5
Gross fixed capital formation	–8.4	8.1	–0.3	5.3	1.5	–5.0	4.7	3.3
Exports of goods and services	–18.9	15.2	3.7	–2.1	13.7	–11.5	7.1	6.4
Exports of goods	–14.6	16.6	1.6	–1.2	4.1	–7.3	9.0	6.4
Imports of goods and services	–15.7	10.8	4.5	6.7	3.7	–9.3	7.4	6.3
Imports of goods	–13.8	12.6	1.8	–0.3	4.4	–8.4	9.0	6.3
	% of nominal GDP							
Current account balance	0.0	0.0	0.0	0.0	0.0	1.9	2.1	2.2
Prices	*Annual change in %*							
HICP inflation	1.1	1.4	1.1	1.5	2.6	1.4	2.4[1]	2.21
Compensation per employee	–0.3	2.3	2.6	1.6	5.6	1.9	2.2	2.9
Unit labor costs	10.1	4.9	7.0	3.6	–1.6	7.0	–0.6	0.1
Productivity	–9.4	–2.5	–4.1	–1.9	7.3	–4.7	2.8	2.8
Income and savings	*Annual change in %*							
Real disposable household income	–6.4	12.8	0.4	–6.6	5.1	–2.9	0.6	2.4
	% of nominal disposable household income							
Saving ratio	×	×	×	×	×	14.4	11.0	8.1
Labor market	*Change on previous period in %*							
Payroll employment	–4.6	3.2	0.0	–0.6	2.0	–2.0	1.2	1.6
	% of labor supply							
Unemployment rate (Eurostat)	7.0	6.5	6.5	7.0	6.7	6.1	5.2	4.8
Public finances	*% of nominal GDP*							
Budget balance	×	×	×	×	×	–8.9	–6.9	–2.8
Government debt	×	×	×	×	×	83.9	85.1	82.8

Source: 2020 and quarterly data: Statistics Austria; 2021–2022: OeNB forecast of June 2021.

Note: x = data not available.

[1] *OeNB HICP inflation forecast of September 2021.*

Table 2

Key indicators for Austrian banks

	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21	2017	2018	2019	2020
Austrian banking system – consolidated									
Structure	*EUR billion*								
Total assets	1,107.0	1,118.8	1,136.4	1,161.6	1,168.6	948.9	986.0	1,032.3	1,136.4
Exposure to CESEE[1]	242.9	239.9	244.5	260.0	268.6	210.9	217.1	233.3	244.5
Number of credit institutions in Austria	572	558	543	543	542	628	597	573	543
Number of inhabitants per bank branch in Austria	2,790	2,810	2,833	2,545	2,563	2,330	2,429	2,521	2,833
Solvency	*EUR billion*								
Equity capital	90.7	91.5	94.3	94.6	96.4	85.0	86.5	90.9	94.3
	% of risk-weighted assets								
Solvency ratio	18.6	18.9	19.5	19.4	19.3	18.9	18.6	18.7	19.5
Tier 1 capital ratio	16.3	16.5	17.2	17.2	17.1	15.9	16.0	16.3	17.2
Common equity tier 1 (CET1) ratio	15.5	15.6	16.1	16.1	16.1	15.6	15.4	15.6	16.1
	% of selected balance sheet items								
Leverage ratio[2]	7.1	7.1	7.4	7.1	7.7	7.3	7.5	7.6	7.4
Profitability	*EUR billion*								
Net result after tax	0.9	2.5	3.7	1.4	3.7	6.6	6.9	6.7	3.7
	%								
Return on assets (annualized)[3]	0.2	0.3	0.4	0.5	0.7	0.8	0.8	0.7	0.4
Cost-to-income ratio	72.3	68.2	66.8	65.2	61.4	64.6	65.2	66.9	66.8
Credit quality[4]	%								
Loan loss provision stock ratio	1.5	1.5	1.5	1.5	1.5	2.2	1.8	1.5	1.5
Nonperforming loan (NPL) ratio	2.0	2.0	2.0	1.9	1.9	3.4	2.6	2.2	2.0
Credit developments	%								
Annual growth of credit to nonbanks in Austria	4.7	4.2	3.9	4.2	3.7	3.0	4.6	4.3	3.9
Share of foreign currency loans in Austria	4.9	4.6	4.3	4.0	3.9	6.5	5.8	5.3	4.3
Austrian banks' subsidiaries in CESEE	*EUR billion*								
Net result after tax	0.9	1.6	1.9	0.6	1.4	2.6	2.9	2.8	1.9
	%								
Return on assets (annualized)[3]	0.8	0.9	0.9	1.0	1.2	1.3	1.4	1.3	0.9
Cost-to-income ratio	50.1	52.9	53.5	55.6	53.7	53.3	51.5	52.3	53.5
Loan loss provision stock ratio[4]	2.4	2.4	2.5	2.3	2.3	3.3	2.7	2.2	2.5
Nonperforming loan (NPL) ratio[4]	2.3	2.3	2.4	2.2	2.2	4.5	3.2	2.4	2.4
Share of foreign currency loans	24.1	x	24.1	x	23.2	27.0	25.4	23.5	24.1
Loan-to-deposit ratio	76.8	75.9	74.8	71.7	72.4	79.1	78.6	79.8	74.8

Financial assets of households and nonfinancial corporations

	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21	2017	2018	2019	2020
Households	*EUR billion*								
Financial assets	734.5	738.6	762.1	768.1	782.0	672.9	686.1	727.2	762.1
Financial liabilities (loans)	195.7	197.9	199.0	200.1	202.7	183.0	188.5	194.1	199.0
of which foreign currency loans	12.8	12.2	11.6	10.6	10.2	16.5	15.0	13.6	11.6
of which foreign currency housing loans	11.0	10.5	10.0	9.2	8.9	14.1	12.9	11.8	10.0
Nonfinancial corporations	*EUR billion*								
Financial assets	563.9	568.5	569.3	585.5	586.2	532.1	538.0	554.8	569.3
Financial liabilities	874.5	877.0	890.5	907.9	921.3	820.4	847.1	878.0	890.5
of which loans and securities (other than shares and other equity)	428.6	429.3	426.4	436.1	435.7	384.4	408.0	419.1	426.4
of which shares and other equity	408.3	412.4	429.3	437.4	447.4	405.8	405.6	425.7	429.3
	EUR billion (four-quarter moving sums)								
Gross operating surplus and mixed income	89.2	89.5	90.4	93.3	95.3	86.0	89.8	90.3	90.4

Source: OeNB, Statistics Austria.

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

[1] *Exposure of majority Austrian-owned banks (BIS definition).*
[2] *Defined according to Basel III (transitional).*
[3] *End-of-period profit/loss (expected for the full year) after tax and before minority interests as a percentage of average total assets.*
[4] *Based on data as reported in FINREP, including total loans and advances, since Q2 17.*

Overview

Consequences of COVID-19 pandemic continue to determine economic activity in Austria

- *Since spring 2020, the COVID-19 pandemic has had a decisive impact on economic developments both at the global and the national level. In 2020, economic output in Austria fell by 6.3%. After the strict containment measures were discontinued in spring 2021, the Austrian economy recovered quickly around mid-year. According to the weekly OeNB GDP indicator, economic activity in Austria in August 2021 was back at the level of 2019. For 2021 as a whole, the Oesterreichische Nationalbank (OeNB) expects Austrian GDP to grow by around 4%. For 2022, both the OeNB and the IMF expect economic activity to increase by around 4.5%.*
- *Delivery delays, materials shortages as well as price increases for certain raw materials and intermediate products dampen the current upswing. According to OeNB estimates, these factors reduced Austrian economic output in the second and third quarters of 2021 by around three-quarters of EUR 1 billion. These difficulties will persist well into 2022, when catch-up effects can be expected to materialize.*
- *The number of unemployed persons in Austria went up sharply during the COVID-19 pandemic, but short-time work schemes helped prevent an even stronger rise. In September 2021, for the first time since the beginning of the crisis, the number of unemployed persons in Austria fell below the level recorded in the comparable week of 2019. Austria's unemployment rate (Eurostat definition) was 6.2% in July 2021, which is around 1½ percentage points below the euro area level.*
- *Given the COVID-19 pandemic, HICP inflation in Austria stood at no more than 1.4% in 2020. As energy prices recovered, HICP inflation rose sharply in the first half of 2021, coming to just under 3% during the summer. The OeNB expects HICP inflation in Austria to come to around 2.4% in 2021 and 2.2% in 2022.*
- *The Austrian federal government adopted extensive aid measures for households and companies to counter the impact of the pandemic and to limit the economic damage caused by the containment measures. Together with the effect of automatic stabilizers, this caused not only a massive deterioration in the budget balance in 2020 but will also contribute to a considerable general government deficit in 2021. Having fallen sharply in the period from 2015 to 2019, the government debt ratio also rose sharply in 2020 on the back of both deficit and GDP developments.*

Banks' higher resilience has been key to COVID-19 response

- *In the first half of 2021, the Austrian banking sector's consolidated operating profit increased by 51% year on year. After having burdened Austrian banks' profitability in 2020, risk provisioning slowed to 8% of banks' operating profit. These developments led to a recovery of consolidated profit, which totaled EUR 3.7 billion in June 2021 (+322% year on year).*
- *Structural efficiency challenges continue to be an issue for the Austrian banking sector, with the cost-to-income ratio standing at 61% in June 2021.*
- *Once again, an important contribution to consolidated profitability came from Austrian banks' Central, Eastern and Southeastern European (CESEE) subsidiaries: Their aggregate net profit (after tax) amounted to EUR 1.4 billion in the first half of 2021, an increase of 56% in a year-on-year comparison, which is largely attributable to a decline in risk costs.*
- *After having reached an initially pandemic-driven spike, corporate lending growth came down to 4.1% in August 2021 as demand had diminished significantly as financing needs for fixed investments went down and internal financing went up. In contrast, lending to households accelerated to 4.7% as demand for mortgage loans was on the rise. In total, the growth of loans to nonbanks amounted to 3.7% year on year.*
- *The pandemic-related support measures (including loan moratoria) adopted in Austria were instrumental in preventing major loan defaults, which is why the consolidated nonperforming loan (NPL) ratio remained at a low 1.9% at the end of Q2 21. While most of the payment moratoria have already expired, COVID-19-related public guarantees have been increasing further, although their growth has leveled off markedly since the end of 2020. In view of still elevated credit risks and continuing uncertainty about the further progress of the pandemic, it is vital that banks continue to be adequately capitalized.*
- *Austrian banks proved more resilient because of their improved capitalization, which has more than doubled since the beginning of the global financial crisis in 2008. As of June 2021, Austrian banks reported a consolidated common equity tier 1 (CET1) ratio of 16.1%. The markedly reduced profit distributions to shareholders in 2020 also helped increase banks' overall capital. As uncertainty persists, careful handling of profit distributions is still warranted.*
- *While Austrian banks' CET1 ratio had hovered around the EU average over the last few years, their leverage ratio was above average (Austria: 6.4%, EU 5.6%) in March 2021 and the decrease in banks' profits was less pronounced (RoA for Austria: 0.52%, EU: 0.49%), benefiting from higher margins in the CESEE countries. In its latest Article IV mission to Austria, the International Monetary Fund (IMF) acknowledged that Austria's financial system had remained resilient throughout the pandemic, while pointing out that risks and pre-pandemic vulnerabilities needed to be addressed.*
- *In its September meeting, the Austrian Financial Market Stability Board (FMSB) recommended that the Austrian Financial Market Authority (FMA) maintain the countercyclical capital buffer (CCyB) rate at its current level of 0% of risk-weighted assets from January 1, 2022. The gap between the credit-to-GDP ratio and its trend, which has been positive since the second quarter of 2020, continues to reflect the sharp contraction of Austria's GDP caused by the COVID-19 pandemic. At the same time, credit growth appears to be less aligned with economic growth. Up until the first quarter of 2021, credit growth had remained high relative to GDP growth. As uncertainty about future developments continues to be high, the FMSB pointed out that any future decision on whether a higher CCyB requirement should be recommended will depend on whether the CCyB-relevant indicators see a sustained improvement as the economy recovers.*
- *Systemic risks from residential real estate financing are on the rise. The situation is still characterized by high price and credit growth, low interest rates on loans, intense competition and low margins amid high debt service-to-income and loan-to-value ratios. The FMSB reiterated that ensuring sustainable lending standards for real estate financing in Austria is crucial and hence requested that the OeNB prepare a comprehensive analysis of systemic risks. The OeNB has also stepped up its monitoring activities with regard to the systemic risks of commercial real estate lending.*

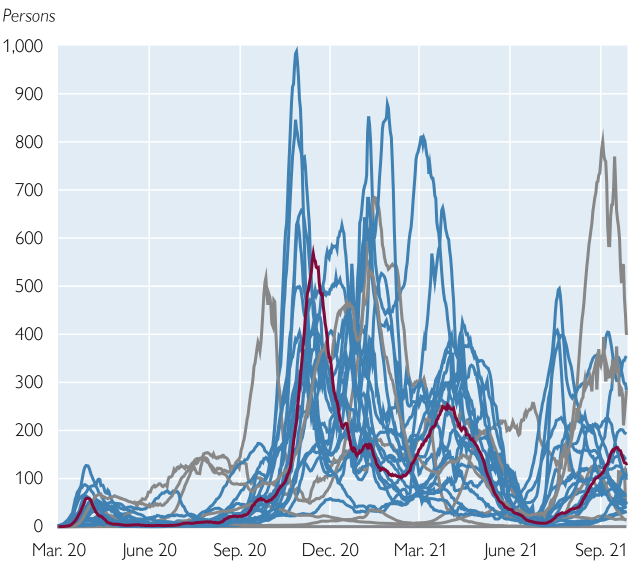
Consequences of COVID-19 pandemic continue to determine economic developments

1.1 Europe faces fourth wave of infections in the fall of 2021

The COVID-19 pandemic continues to determine the daily lives of people in many European countries, with related public health measures continuing to affect economic developments. In early summer 2021, the situation in Austria was beginning to ease, as vaccination had become widely available, climatic conditions were favorable and comprehensive testing strategies were in place. Since late summer, however, the now dominant Delta variant has again driven up the number of infections in Austria. Depending on each country's vaccination progress, the fourth wave of infections in the fall of 2021 will differ across countries. This means that direct costs (i.e. costs of self-quarantine, sick leave, additional child care, medical aid, etc.) for the respective economies will differ as well. In addition, if further containment measures have to be taken to prevent healthcare overloads – like in the winter of 2020/21 – this would have an additional dampening effect on economic activity.

Chart 1

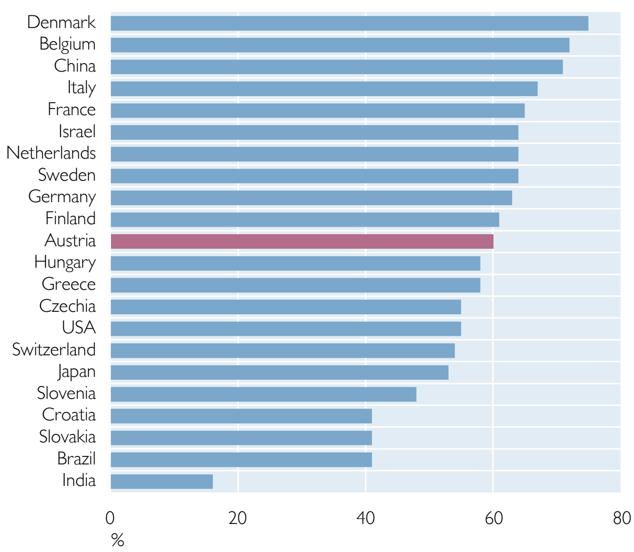
New COVID-19 infections per 100,000 inhabitants – 7-day incidence



Source: Macrobond, WHO.

Note: Red line: Austria; blue lines: Belgium, Croatia, Czechia, Denmark, Finland, France, Germany, Greece, Hungary, Italy, Netherlands, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, UK; grey lines: Brazil, China, India, Israel, Japan, USA.

Share of fully vaccinated persons in total population



Source: Our World in Data (September 27, 2021).

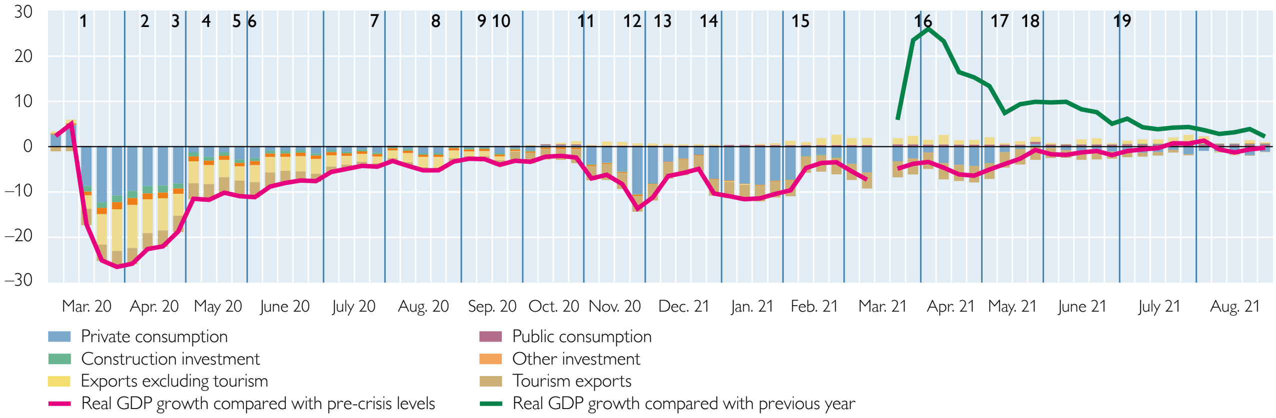
1.2 Economic activity in Austria at 2019 levels in summer of 2021

The COVID-19 pandemic and the related containment measures first adopted on March 16, 2020, resulted in a GDP contraction in 2020 that had been unprecedented in Austria's recent economic history. During the first tight lockdown in spring 2020, economic output shrank by almost one-quarter. All important economic sectors and demand components were affected, in particular industrial production and goods exports, given restricted production conditions and interrupted supply chains as well as business closures in the recreation industry in line with the lockdown measures. Many sectors and demand components recovered significantly by end-summer 2020. In October 2020, Austrian GDP was only 2½% below the comparable 2019 figure. However, with the second wave of infections and the second and third tight lockdowns, Austrian GDP declined again. Unlike during the first lockdown, Austria's economic sectors were affected to varying degrees and the contraction of economic output was only half as pronounced as in spring 2020. From the beginning of April 2021, as the number of new infections was on the decline, the containment measures were gradually loosened, and in mid-May 2021, also hotels and restaurants were allowed to reopen. These steps prompted a significant recovery in economic activity in Austria in the second quarter of 2021, and at the end of July 2021, economic output returned to pre-crisis levels for the first time since the outbreak of the COVID-19 crisis. In August 2021, according to the weekly OeNB GDP indicator, Austria's economic output fluctuated around the levels recorded in the comparable weeks of 2019.

Chart 2

Weekly GDP indicator for Austria

Change of real GDP against corresponding week of pre-crisis period or of previous year, %



Source: OeNB.

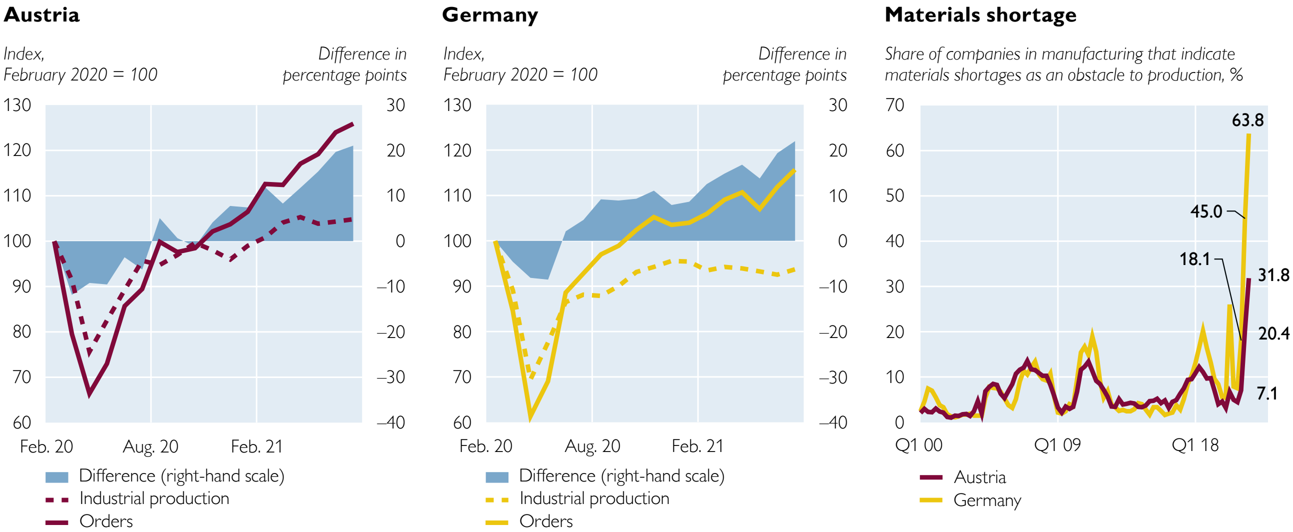
Note: 1: lockdown (March 16), 2: small shops reopen (April 14), 3: all shops reopen (May 2), 4: restaurants reopen (May 15), 5: hotels reopen (May 29), 6: borders reopen gradually (June 4), 7: face masks mandatory again (July 24), 8: Austria issues travel warnings for Croatia, the Balearic Islands, etc. (from Aug. 17), 9: travel warnings issued for Austria (from Sep. 16), 10: containment measures tightened (from Sep. 21 and Oct. 25), 11: partial lockdown (Nov. 3), 12: lockdown (Nov. 17), 13: partial lockdown (Dec. 7), 14: lockdown (Dec. 26), 15: partial lockdown (Feb. 8), 16: partial lockdown in eastern Austria (April 1), 17: partial lockdown ends in eastern Austria (May 3), 18: restaurants, tourism and leisure services reopen (May 19), 19: several restrictions are relaxed (regarding the leisure industry, mandatory face masks, etc.) (July 1). 1–14: 2020; 15–19: 2021.

1.3 Supply-side bottlenecks dampen economic recovery

With the fading negative effects of the COVID-19 pandemic, global demand has increased sharply since the beginning of 2021, while the structure of demand has been changing at the same time. Around the globe, these developments led to delivery delays, materials shortages and price increases for certain raw materials and intermediate products. As a result, current orders in the domestic industry cannot be processed to the desired extent although free capacities are available. According to OeNB estimates, these effects dampened Austrian economic output in the second and third quarters of 2021 by around three-quarters of EUR 1 billion. The dampening effects are more than twice as pronounced in Germany than in Austria. This can be explained by the different focuses in the respective industrial sectors, in particular the major role of the automotive industry in Germany, and by the different position German and Austrian industrial sectors occupy within global supply chains. These difficulties will persist until 2022; after that, catch-up effects can be expected to materialize.

Chart 3

Supply-side bottlenecks worsened in fall 2021



Source: Eurostat, Statistics Austria.

Source: Eurostat, Destatis.

Source: WIFO, ifo.

Note: Data up to and including Q3 21.

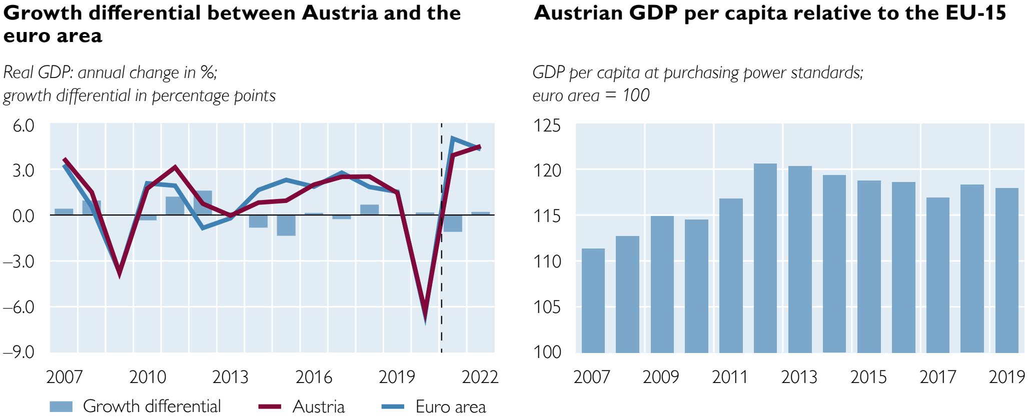
1.4 Deep recession in 2020 followed by strong recovery in 2021

The COVID-19 pandemic led to an unprecedented worldwide economic slump in 2020. In Austria and the euro area, economic output fell by around 6½% against 2019. As vaccination rates went up, many containment measures were discontinued in late spring 2021, which resulted in a dynamic economic recovery that has been a lot stronger and faster than after previous crises. This development is attributable to several factors, including the fact that households now spend part of their – unvoluntary – savings or that government measures helped prevent bankruptcies of otherwise sound companies that found it difficult to cope with pandemic-related restrictions. Some sectors, such as urban tourism, however, will feel the consequences of the COVID-19 crisis in the longer term. Against the background of the continued high share of unvaccinated persons in the Austrian population, the renewed increase in infections in the fall of 2021 represents a downside risk to the economic forecasts for 2021 and 2022.

Given strong GDP growth in the second quarter of 2021 and very robust dynamics in the third quarter, economic output will recover significantly in 2021 and return to pre-crisis levels by year-end. Both the IMF and the OeNB expect growth in Austria to increase by around 4% in 2021. The two institutions' forecasts for 2022 differ only slightly as well, even though the environment continues to be uncertain. In June, the OeNB forecasted GDP growth in Austria to come to 4.2% in 2022; meanwhile, the OeNB expects GDP growth to come to between 4.5% and 5% in 2022; the comparable IMF forecast is 4.5%.

Chart 4

Austria and the euro area: growth differential and GDP per capita



Source: Eurostat, IMF.

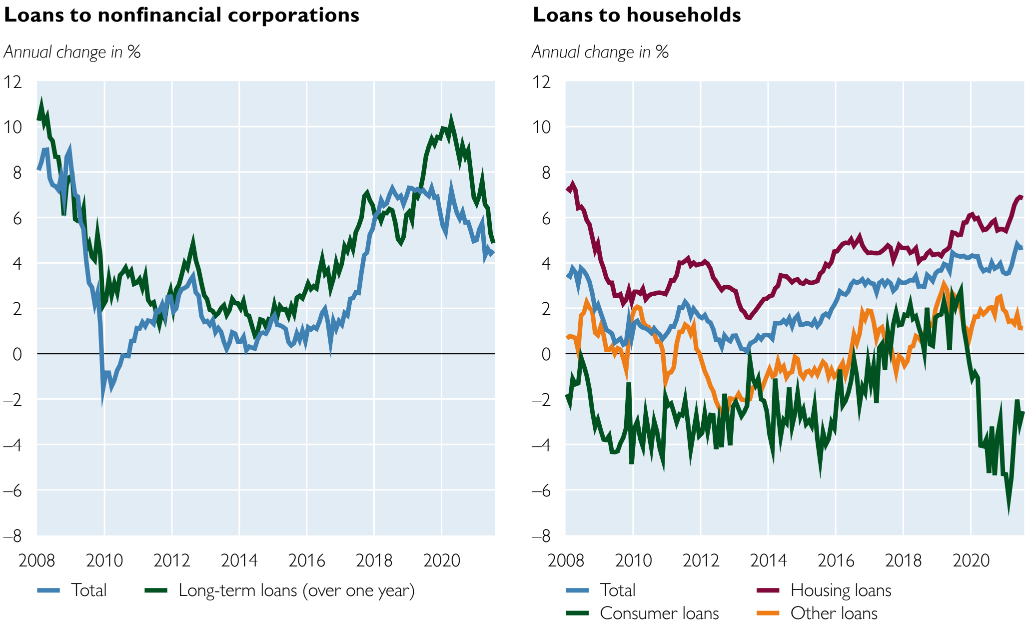
1.5 Loans to domestic nonfinancial corporations and households

Since the onset of the COVID-19 pandemic, securing the flow of credit has been a central policy instrument to safeguard the liquidity of nonfinancial corporations. Moratoria and public guarantees for loans have been alleviating liquidity stress on borrowers and allowed banks to provide new lending; prudential authorities supported the banking system in maintaining the flow of credit through several capital and operational relief measures; and the Eurosystem's monetary policy kept financing conditions favorable, encouraging banks to extend loans to the private sector. In July 2021, the annual growth rate of monetary financial institutions' (MFI) loans to nonfinancial corporations (adjusted for reclassifications, valuation changes and exchange rate effects) came to 4.5%, against 7.2% recorded in April 2020. This decline was partly attributable to the strongly decreasing use of COVID-19-related moratoria, which previously had had an effect on loan growth via reduced repayments. Also, the importance of public guarantees for borrowing has gone down markedly over the last 12 months. Moreover, the considerable liquidity buffers that were built up during the early stages of the pandemic reduced funding needs as well. Lower liquidity needs were also reflected in a moderate expansion of short-term loans, while the annual growth of long-term loans exceeded total credit growth on the back of rising corporate investment.

Growth of lending to households has accelerated since the onset of the pandemic. In the 12 months to July 2021, the annual growth rate of bank loans to households went up from 3.7% to 4.7%. As in past years, the main contribution to loan growth came from housing and home improvement loans, not only because these constitute the most important loan category for households – accounting for more than two-thirds of the outstanding volume of loans to households – but also

Chart 5

MFI loans to Austrian nonfinancial corporations and households



Source: OeNB.

because they registered the highest growth rate of all loan categories, reaching 6.9% year on year in July 2021. In line with the decrease in the consumption of durables and the decline in consumer confidence in 2020, consumer loans were down 2.5% year on year in July 2021. Other loans, which include loans to sole proprietors and unincorporated enterprises, rose by 1.1%.

1.6 COVID-19 pandemic leads to substantial increase in unemployment

Before the COVID-19 outbreak, labor market conditions in Austria were very good by international standards, with the number of payroll employees having grown by an annual 1.8% between 2016 and 2019. Over the past years, Austria's unemployment rate had declined steadily, reaching 4.8% in 2019, the lowest level since 2008.

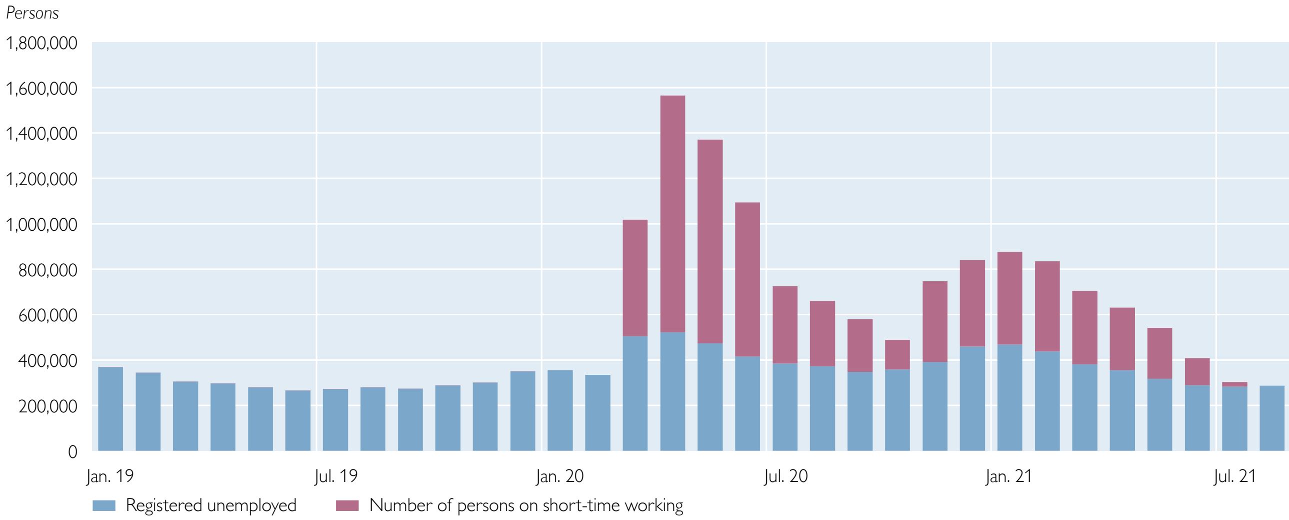
During the first lockdown, the number of unemployed rose by over 200,000 to 534,000 persons. As businesses reopened over the summer, unemployment fell to around 340,000 at the beginning of October 2020, a decline that was also supported by seasonal dynamics (the number of unemployed persons typically decreases during the summer). The partial and full lockdowns imposed since November 2020, coupled with the seasonal increase in joblessness during the winter months, pushed unemployment up again to around 470,000 in January 2021. In contrast to the rise in unemployment seen during the first lockdown, the second increase was lower because compensation for lost sales went hand in hand with a ban on dismissals and another extension of short-time work arrangements. Since mid-January 2021, Austrian unemployment has fallen continuously. By mid-September 2021, 270,000 persons were registered as unemployed in Austria. For the first time, in September 2021, the number of unemployed registered in Austria per week fell below comparable 2019 levels.

In Austria, short-time work schemes prevented unemployment from rising even further. Instead of laying off parts of their staff, businesses experiencing temporary economic difficulties reduced employees' working hours evenly and equitably and paid salaries for reduced working hours only. Employees were compensated by the Public Employment Service Austria (AMS), i.e. the government, for a large part of the earnings they lost due to the temporary cut in working hours. In April 2020, over one million employees in Austria participated in short-time work schemes. Having declined during the summer of 2020, their number rose again to around 410,000 in January 2021, but has fallen continuously since then.

Austria's unemployment rate as defined by Eurostat rose from 4.8% in 2019 to 6.1% in 2020 and reached its preliminary high of 7.1% in April 2021. By July, it had fallen to 6.2%, around 1½ percentage points below the euro area average (7.6%).

Chart 6

Unemployment and short-time work in Austria

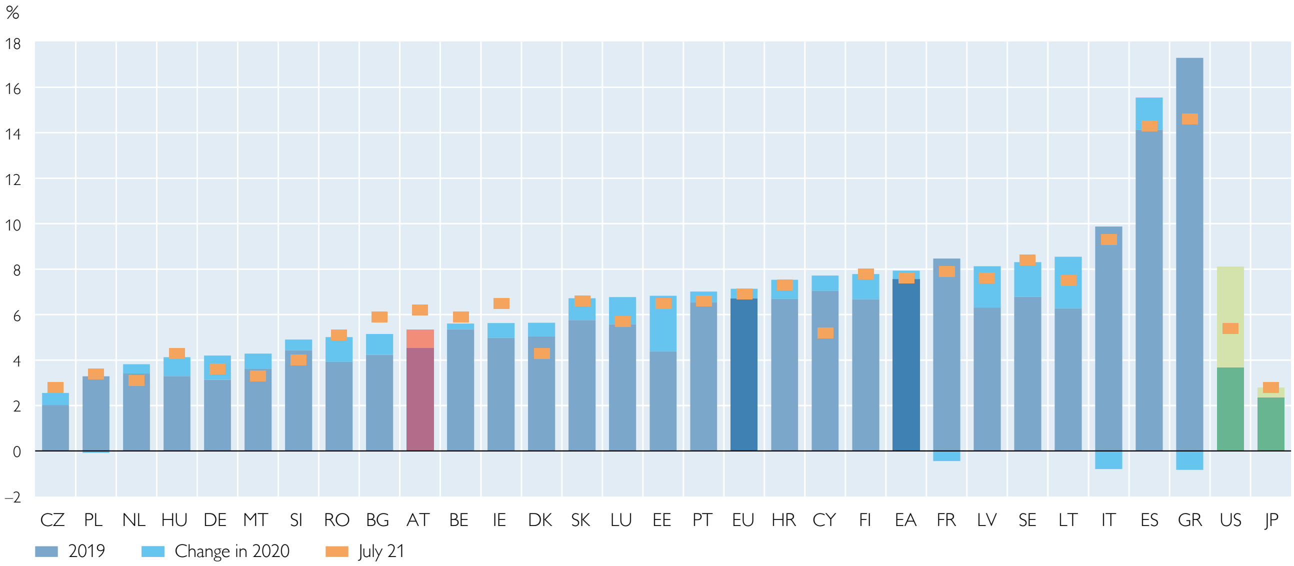


Soure: AMS.

Note: Number of persons put on short-time working only available up to and including July 2021.

Chart 7

Unemployment rates – international comparison



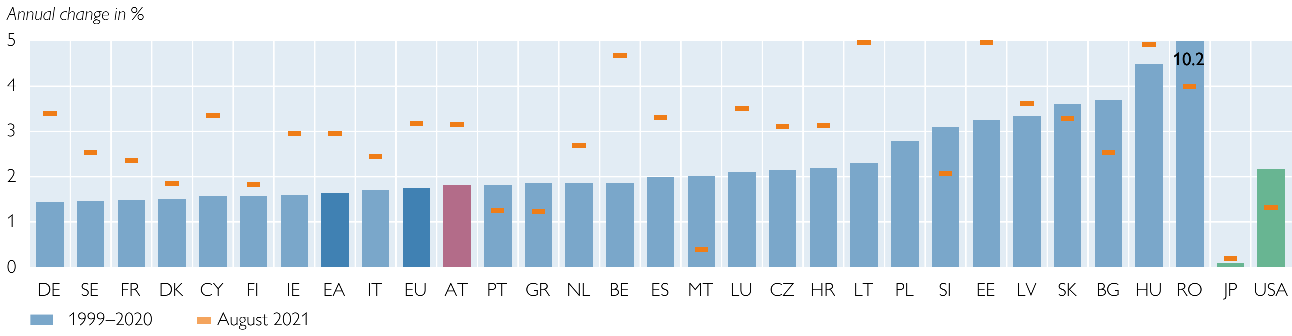
Source: Eurostat.

1.7 Inflation developments in 2020/21: the end of the "happy hour" effect

The global recession caused by the COVID-19 pandemic triggered a slump in demand for crude oil in early 2020, which significantly dampened HICP inflation between April 2020 and January 2021. In addition, the demand shock weighed on HICP inflation. Due to these two effects, the Austrian HICP inflation rate dropped from

Chart 8

HICP inflation rate – international comparison



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

more than 2% at the beginning of 2020 to 0.6% in May 2020 and remained at levels of just over 1% in the fall and winter of 2020.

As a result of the global economic recovery, raw material prices reached pre-crisis levels again and, in many cases, rose even beyond these levels given the strong increase in demand. Compared with 2020 levels, prices – in particular energy prices – have gone up significantly year on year. As a result of this price increase, the Austrian HICP inflation rate went up markedly in the first five months of 2021; in June and July 2021, HICP inflation in Austria stood at 2.8%, and it increased to 3.2% in August. Three-quarters of the total rise in HICP inflation were attributable to the rise in energy prices, and almost one-quarter can be traced to industrial goods excluding energy and food. Prices for services, on the other hand, recently rose at a slightly lower rate than in early 2021.

The OeNB currently expects HICP inflation in Austria to come to 2.4% in 2021 and 2.2% in 2022. The IMF, by contrast, still anticipates an annual inflation rate of 2.1% in Austria for 2021 and a decline in inflation to 1.8% in 2022. It is unclear, however, whether the IMF forecast already includes the most recent high HICP inflation rates.

1.8 Unprecedented fiscal measures taken to ease impact of COVID-19 pandemic drive up budget deficit and government debt

The fiscal measures adopted in Austria during the COVID-19 pandemic primarily served to mitigate the damage caused by the intended temporary reduction in (economic) activity. So far, the pandemic has required only comparatively little additional expenditure on the Austrian health system.

Liquidity-enhancing measures (deferral of tax payments and social security contributions, loan moratoria, guarantees for bank loans) and transfers (fixed cost grant) were designed to prevent bankruptcies of businesses that were healthy before the crisis and to preserve the Austrian economy's production potential. At the same time, subsidies for short-time work helped save jobs and ensure that production could, and can, be restarted quickly when containment measures are discontinued. Short-time work also cushioned the negative social effects of containment measures, protecting many employees from large income losses due to unemployment. Also, transfers from the hardship fund to micro businesses and self-employed persons can be considered a kind of "unemployment benefit" for the self-employed. Furthermore, assistance to the long-term unemployed was raised to the level of unemployment benefits.

Since the summer of 2020, a number of measures to stimulate (private and public) consumer and investment spending – similar to a "classic" economic stimulus package – have been adopted. These measures include income tax cuts (from 25% to 20% in the lowest tax bracket) and raising payable income tax credits; both measures increased disposable household income, as did a one-off child benefit payment. These measures were meant to stimulate consumer demand, in particular of low-income households. Investment activity was to be encouraged by helping businesses avoid liquidity shortages (carryback of 2020 losses to profit earned in the previous year, VAT cuts in the hospitality sector, the media and culture) and by providing investment incentives (higher short-term tax credits based on accelerated depreciation, investment premium). Furthermore, the government announced a number of measures, including investment measures, aimed at increasing the medium- to long-term growth potential and fostering the greening of the economy. Financial support for regional and local authorities suffering considerable income losses as a result of the COVID-19 containment measures will take the form of higher federal funding for regional and local projects and investments.

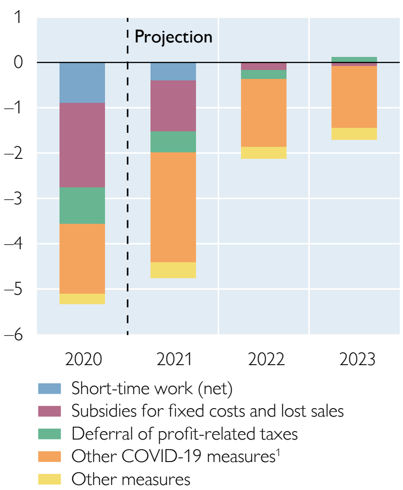
The budgetary effects of these measures are very heterogeneous. Transfers to companies and households as well as tax reductions led to a deterioration in the budget balance. Loans, guarantees and liabilities only show in budget figures (increasing expenditure) if they materialize, and tax or social security deferrals only have a minor impact on the budget balance according to ESA 2010 and current accounting practice. Chart 9 provides an overview of the volume and the timing of the measures that have been taken and of their impact on the budget balance, based on the OeNB forecast of June 2021. It shows, in particular, that the three quantitatively most significant measures are temporary in nature: short-time work; subsidies for fixed costs and sales losses; and deferrals and prepayment reductions in assessed income and corporation taxes. Other measures such as the reduction in income tax or various investment incentives, however, will have a budgetary effect beyond the pandemic.

After posting considerable budget surpluses in 2018 and 2019, Austria's budget balance deteriorated substantially in 2020. On the one hand, this was attributable to the measures described above; on the other hand, automatic stabilizers were causing a cyclical decrease in revenues and an increase in spending. The debt ratio went up significantly in 2020, after having gone down considerably from 2015 to 2019, reflecting the high budget deficit in

Chart 9

Budgetary impact of discretionary measures

Change on 2019 in % of GDP



Source: OeNB.

[1] Including economic stimulus packages.

2020 but also the decline in GDP, which reduces the denominator of the debt ratio. Under the European fiscal framework, Austria is normally obliged to reach specific targets in terms of its budget deficit (3% of GDP), debt ratio (60% of GDP or "sufficiently diminishing") and structural budget balance. In 2019, the European Commission had found Austria to be in compliance with these requirements. During the COVID-19 pandemic, however, the EU countries, including Austria, have made full use of the flexibility provided by the Stability and Growth Pact (SGP), and the general escape clause has been activated. This enables EU member states to deviate from the regular fiscal requirements without a formal suspension of the mechanisms embedded within the SGP.

2 Banks' higher resilience has been key to COVID-19 response[1]

2.1 Profitability and capitalization of Austrian banks

Austrian banks' profitability recovered due to lower risk provisioning

In the first half of 2021, the Austrian banking sector's consolidated operating profit increased by 51% year on year. Almost all components of operating income and expenses had a positive impact on banks' profitability, although interest income stagnated and trading income was negative. As banks benefited from pandemic-induced reductions in administrative costs, their operating costs declined.

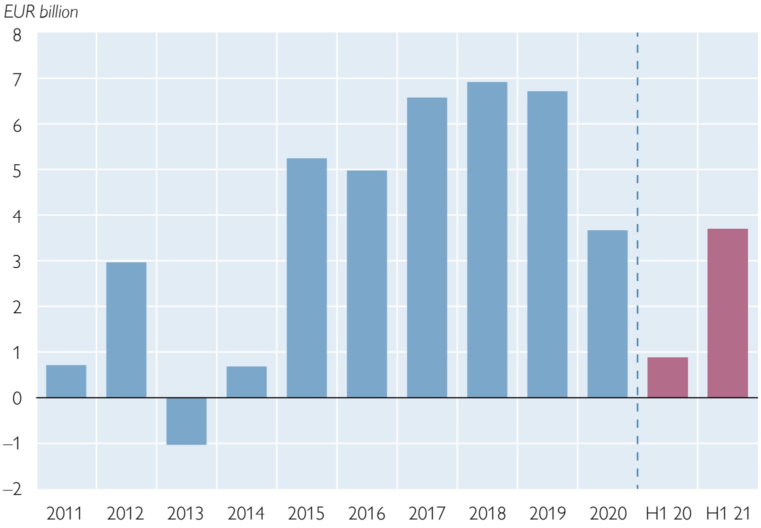
After having burdened Austrian banks' profitability in 2020, risk provisioning decreased to 8% of banks' operating profit in the first half of 2021.

These developments led to a recovery of consolidated profit, which totaled EUR 3.7 billion in June 2021 (+322% year on year, see chart 10). Consequently, the return on average assets reached 0.7% (H1 20: 0.2%).

At the same time, COVID-19-related uncertainties persist and structural efficiency challenges continue to be an issue for the Austrian banking sector, with the cost-to-income ratio standing at 61% in June 2021.

Chart 10

Consolidated profit of the Austrian banking sector



Source: OeNB.

Table 3

Profit and loss statement of the Austrian banking sector, consolidated

	2012	2013	2014	2015	2016	2017	2018	2019	2020	Q2 21
	EUR billion									
Net interest income	19.3	18.6	19.3	18.3	14.6	14.5	15.2	15.6	15.5	7.8
Fee and commission income	7.3	7.6	7.7	7.7	6.6	6.9	7.1	7.2	7.3	3.9
Trading income	1.1	0.7	0.4	–0.0	0.1	0.1	–0.6	–0.3	0.1	–0.4
Operating income	37.7	35.3	28.7	28.1	22.4	22.8	24.0	25.0	24.8	12.8
Operating costs	25.6	27.3	19.8	17.6	16.7	14.8	15.7	16.7	16.5	7.9
Operating profit	12.1	8.0	8.9	10.5	5.7	8.1	8.4	8.3	8.2	4.9
Risk provisioning	6.4	7.0	6.8	4.7	1.2	1.0	0.4	1.0	3.7	0.4
Profit after tax	3.0	–1.0	0.7	5.2	5.0	6.6	6.9	6.7	3.7	3.7

Source: OeNB.

Note: Since 2016, comparability with previous figures has been limited due to the restructuring of UniCredit Bank Austria in 2016.

[1] *For more detailed analyses of the Austrian banking sector, please refer to the OeNB's Financial Stability Report.*

Momentum in domestic credit growth fades after COVID-19-related spike – mortgage lending continues to grow dynamically

As a result of the economic impact of the COVID-19 pandemic, Austrian banks recorded a significant increase in corporate loan demand – in particular for bridging loans and refinancing. However, after having reached an initially pandemic-driven spike, corporate lending growth came down to 4.1% in August 2021 as demand had diminished significantly as financing needs for fixed investments went down and internal financing went up. With the lockdowns enhancing the popularity of homeownership, lending to households accelerated to 4.7% as demand for mortgage loans picked up. In total, growth of loans to nonbanks, which amounted to 3.7% year on year, decreased in August 2021 compared with 2020 levels.

Nonperforming loan ratios remain at low levels

The pandemic-related support measures (including loan moratoria) adopted in Austria were instrumental in preventing major loan defaults, which is why the consolidated nonperforming loan (NPL) ratio remained at a low 1.9% at end-June 2021. Payment moratoria and state guarantees have proved important instruments supporting borrowers during the pandemic. As of August 2021, payment moratoria amounted to EUR 2.4 billion, down more than 90% from their peak in June 2020. This means that most of these moratoria have already expired. In contrast, loans with COVID-19-related public guarantees have been increasing further, although their growth had leveled off markedly since end-2020. In view of still elevated credit risks and continuing uncertainty about the further progress of the pandemic, it is vital that banks continue to be adequately capitalized.

Higher resilience due to improved capitalization of Austrian banks

As of June 2021, Austrian banks reported a consolidated common equity tier 1 (CET1) ratio of 16.1% (50 basis points higher than at end-2019). Compared with levels recorded before the global financial crisis that started in 2008, the Austrian banking sector has more than doubled its capital ratio in line with tighter prudential requirements. In 2020, Austrian banks markedly reduced their profit distributions to shareholders, which helped increase their overall capital. But as uncertainty persists, careful handling of profit distributions is still warranted.

In a nutshell: benchmarking the Austrian banking system[2]

The CET1 ratio of Austrian banks hovered around the EU average over the last few years (Austria: 16.1%, EU: 16.0% at the end of the first quarter of 2021). At the same time, Austrian banks' leverage ratio – which, unlike the CET1 ratio, does not take into account the risk weights of banks' assets – is above the EU average (Austria: 6.4%, EU 5,6%). Also, the decrease in banks' profits was less pronounced in Austria than in the EU (RoA for Austria: 0.52%, EU: 0.49%), as Austrian banks still benefit from higher margins in the CESEE countries (Austria: 1.3%, EU: 1.1%). In addition, the comparatively low level of NPLs (Austria: 1.9%, EU: 2.4%) puts Austrian banks in a comfortable position as government support measures cease to have a positive effect on credit risk.

[2] *The data in this paragraph refer to end-March 2021.*

In its 2021 Article IV consultation with Austria,[3] the International Monetary Fund (IMF) stated that Austria's financial system had remained resilient throughout the pandemic, while highlighting that risks and pre-pandemic vulnerabilities, such as risks in the housing sector or banks' high operating costs, needed to be addressed. According to the IMF, the careful monitoring of credit quality, NPLs and corporate insolvency should continue as pandemic-related policies are being unwound.

2.2 Austrian banks' profitability in CESEE back around pre-pandemic levels

Accounting for aggregated total assets of around EUR 260 billion and a market share of 11%, CESEE remains an important market for the Austrian banking system.

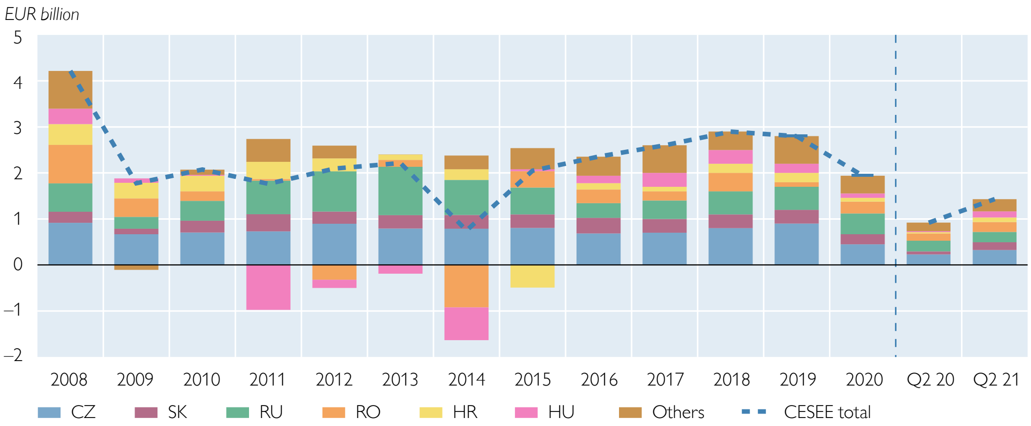
In a year-on-year comparison, the aggregate net profit (after tax) of Austrian banks' subsidiaries in CESEE increased by 56% to EUR 1.4 billion in June 2021. Rising profits were registered by Austrian banks' subsidiaries in almost all CESEE countries, which means that they reached pre-pandemic profitability levels. A major contribution to this recovery came from risk costs, which decreased in the first half of 2021 after having surged in 2020 in the wake of the pandemic.

Czechia, Russia, Romania and Slovakia were the most important host markets in terms of their contributions to the consolidated profitability of Austrian banks in the first half of 2021.

As uncertainties persist, it is still paramount that Austrian banks and their subsidiaries in CESEE maintain a high level of transparency regarding the quality of their loan books.

Chart 11

Net result of Austrian banks' subsidiaries in CESEE



Source: OeNB.

Note: Q2 data are not comparable to year-end data.

[3] *See https://www.oenb.at/en/Media/imf-art-iv-consultations-and-fsap.html.*

2.3 Macroprudential measures strengthen financial stability

Credit growth remained high relative to economic growth

In its September meeting, the Austrian Financial Market Stability Board (FMSB) recommended that the Austrian Financial Market Authority (FMA) maintain the countercyclical capital buffer (CCyB) rate at its current level of 0% of risk-weighted assets from January 1, 2022. The gap between the credit-to-GDP ratio and its trend, which has been positive since the second quarter of 2020, continues to reflect the sharp contraction of Austria's GDP caused by the COVID-19 pandemic. At the same time, credit growth appears to be less and less aligned with economic growth. Until the first quarter of 2021, credit growth had remained high relative to GDP growth. Additional indicators suggest low risk differentiation and high financial market valuations, a visible risk appetite among banks and a rising overvaluation of real estate. Thanks to government intervention and support measures, the number of insolvencies dropped markedly in 2020 and 2021 compared with 2019. Uncertainty about future developments remains high. Therefore, the FMSB pointed out that any future decision on whether a higher CCyB requirement should be recommended will depend on whether the CCyB-relevant indicators see a sustained improvement as the economy recovers. Among the indicators monitored, special attention is given to credit growth, lending standards for mortgage loans, banks' risk appetite, household and corporate indebtedness and the uncertainty surrounding economic developments.

Systemic risks from residential real estate financing on the rise

The current situation is still characterized by high price and credit growth, low interest rates on loans, intense competition and low margins amid high debt service-to-income and loan-to-value ratios. The FMSB reiterated that ensuring sustainable lending standards for real estate financing in Austria is crucial and hence requested that the OeNB prepare a comprehensive analysis of systemic risks (in line with Article 44c Federal Act on the Oesterreichische Nationalbank), which is to provide the basis for a possible future action by the FMSB in this respect. The OeNB has also stepped up its monitoring activities with regard to systemic risks of commercial real estate lending.

Foreign currency loans in Austria and CESEE continue to decline

Supervisory measures adopted early on by the OeNB and the FMA[4] have contributed to the fact that foreign currency loans extended in Austria significantly declined over the past decade and do not pose a systemic risk. In the first half of 2021, the volume of outstanding foreign currency loans to domestic households fell by 10.8% (exchange rate adjusted) to EUR 10.2 billion. This corresponds to a foreign currency loan share of 5.7% (down from 6.6% recorded in December 2020). The volume of foreign currency loans to households extended by Austrian banks' CESEE subsidiaries dropped by 2.3% (exchange rate adjusted) to EUR 9.2 billion in the first half of 2021. This translates into a 11.9% share of foreign currency loans in total retail lending. Around three-quarters of these loans are denominated in euro.

[4] *For further details, see https://www.oenb.at/en/financial-market/financial-stability/foreign-currency-loans-and-repayment-vehicle-loans.html.*

Balanced funding at Austrian banks' CESEE subsidiaries

The OeNB and the FMA aim at strengthening the local stable funding base of Austrian banks' foreign subsidiaries and avoiding excessive credit growth to reinforce financial stability both in banks' host countries and in Austria.[5] Ongoing monitoring confirms that Austrian banks' CESEE subsidiaries have a balanced funding base, as their loan-to-deposit ratio stood at 72% in June 2021.

[5] *For further details, see https://www.oenb.at/en/financial-market/financial-stability/sustainability-of-large-austrian-banks-business-models.html.*

3 Annex of tables and charts

Table A1

Real GDP

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Annual change in %									
Austria	2.9	0.7	0.0	0.7	1.0	2.0	2.4	2.6	1.4	–6.3
Euro area	1.7	–0.9	–0.2	1.4	2.0	1.9	2.6	1.9	1.5	–6.3
EU	1.8	–0.4	0.3	1.8	2.3	2.0	2.6	2.0	1.7	–6.3

Consumer price indices

	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	1.4
Euro area	2.7	2.5	1.4	0.4	0.2	0.2	1.5	1.8	1.2	0.3
EU	3.1	2.6	1.5	0.6	0.1	0.2	1.7	1.9	1.5	0.7

Unemployment rates

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	% of labor force									
Austria	4.9	5.2	5.7	6.0	6.2	6.5	5.9	5.2	4.8	6.1
Euro area	119.7	131.1	137.1	130.5	120.9	109.7	98.1	87.6	80.8	85.4
EU	123.5	137.5	144.7	139.9	130.7	120.8	109.1	98.5	90.8	95.0

Current account balances

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	% of GDP									
Austria	1.6	1.5	1.9	2.5	1.7	2.7	1.4	1.3	2.8	2.5
Euro area	0.9	2.3	2.9	3.1	3.5	3.6	3.6	3.6	3.2	2.9
EU	0.5	1.2	1.7	1.6	1.8	2.0	2.3	2.2	2.2	3.0

Budget balances

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	% of GDP									
Austria	–2.6	–2.2	–2.0	–2.7	–1.0	–1.5	–0.8	0.2	0.6	–8.9
Euro area	–4.2	–3.7	–3.0	–2.5	–2.0	–1.5	–0.9	–0.5	–0.6	–7.2
EU	–4.1	–3.6	–2.9	–2.4	–1.9	–1.4	–0.8	–0.4	–0.5	–6.9

Government debt ratios

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	% of GDP									
Austria	82.4	81.9	81.3	84.0	84.9	82.8	78.5	74.0	70.5	83.9
Euro area	87.9	90.9	92.8	93.0	91.1	90.3	87.9	85.9	84.1	98.2
EU	81.9	84.8	86.4	86.6	84.8	84.0	81.5	79.5	77.5	90.7

Source: Eurostat, Statistics Austria, OeNB.

Table A2

General government interest payments

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	% of GDP									
Austria	2.8	2.7	2.6	2.4	2.3	2.1	1.8	1.6	1.4	1.3

Household debt

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	% of net disposable income									
Austria	93.3	91.1	90.8	90.5	92.1	92.0	90.5	90.1	89.8	94.2
Euro area	120.1	119.4	118.2	116.5	116.4	115.5	115.5	114.4	115.6	118.5
	% of GDP									
Austria	53.6	53.0	52.0	51.8	51.6	51.8	51.0	50.4	50.2	54.5
Euro area	70.8	70.1	69.0	67.5	66.5	65.8	65.3	64.6	65.0	70.2

Corporate debt[1]

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	% of gross operating surplus[2]									
Austria	382.2	389.2	418.5	398.0	394.8	388.2	397.1	394.5	399.3	400.9
Euro area	500.9	524.0	509.1	520.8	516.1	511.2	493.7	496.3	487.5	541.3
	% of GDP									
Austria	92.2	91.7	95.6	91.6	91.6	91.8	92.4	92.0	90.8	98.9
Euro area	103.1	104.6	102.3	105.5	108.9	109.3	106.8	106.0	104.6	113.8

Residential property price index

	2016	2017	2018	2019	2020	Q2 20	Q3 20	Q4 20	Q1 21	Q2 21
	Index 2000=100									
Austria excluding Vienna	166.7	174.9	189.8	194.8	209.4	206.9	214.1	217.2	227.3	233.3
Vienna	217.2	220.4	232.0	243.2	259.6	255.6	265.1	268.0	276.8	283.0
	Annual change in %									
Austria excluding Vienna	9.1	4.9	8.5	2.6	7.5	6.8	9.7	10.7	14.0	12.8
Vienna	3.8	1.5	5.2	4.9	6.7	4.1	9.4	9.4	10.9	10.7

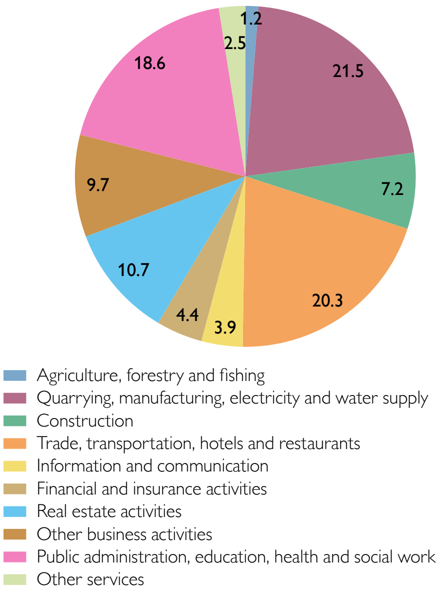
Source: Statistics Austria, ECB, OeNB, Austria Immobilienbörse, Prof. Wolfgang Feilmayr, Department of Spatial Planning, Vienna University of Technology.

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

Chart A1

Gross value added in Austria in 2020

% of total gross value added, at current prices

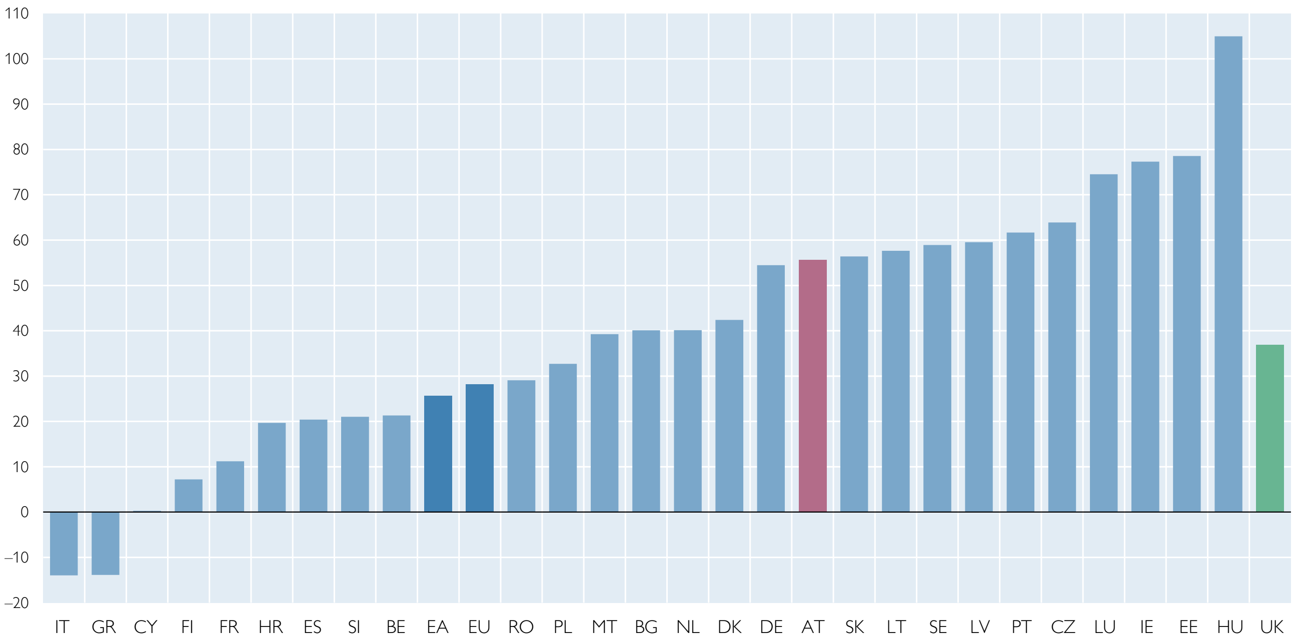


Source: Statistics Austria.

Chart A2

Change in house prices between 2012 and 2020

Change on 2012 in %



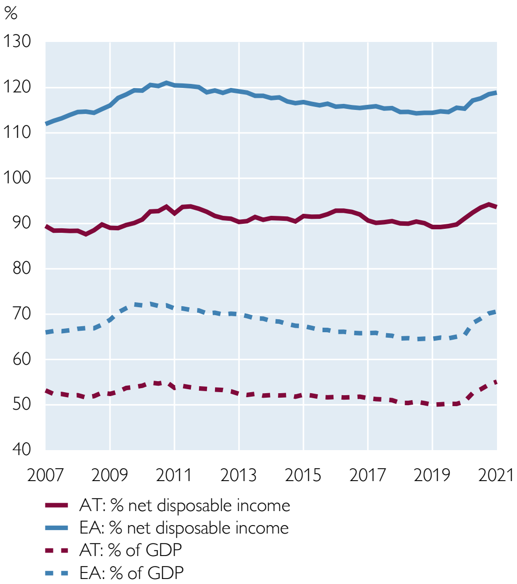
Source: ECB.

Note: Prices of new and used residential property (current prices).

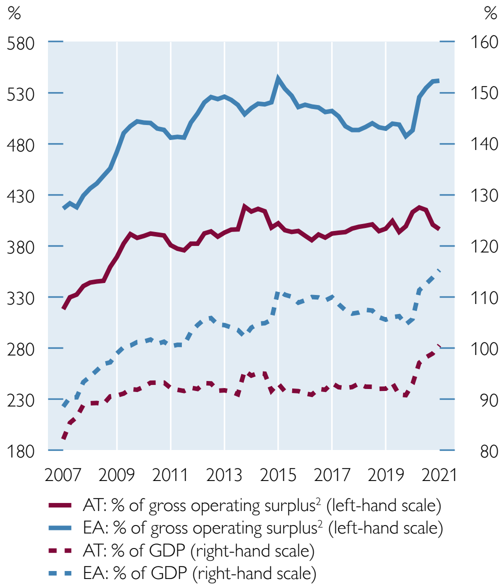
Chart A3

Household and corporate debt levels in Austria and the euro area

Household sector debt



Corporate debt[1]



Source: ECB.

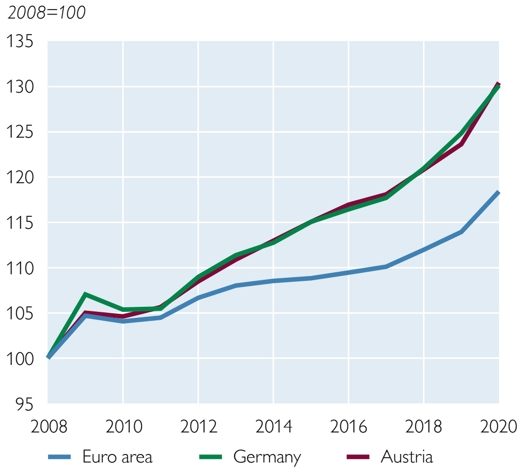
Note: Data up to and including Q1 21.

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

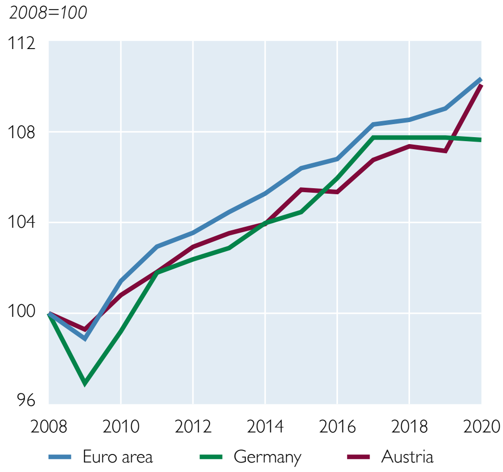
Chart A4

International competitiveness

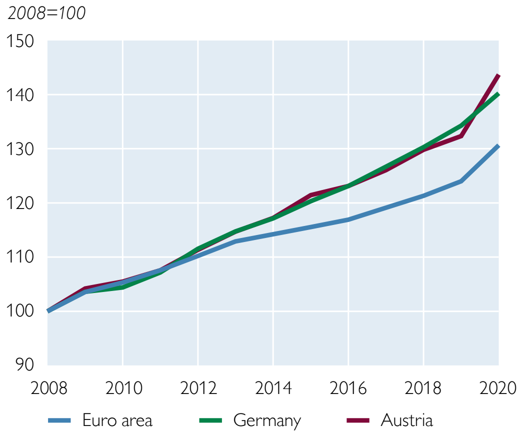
Unit labor costs



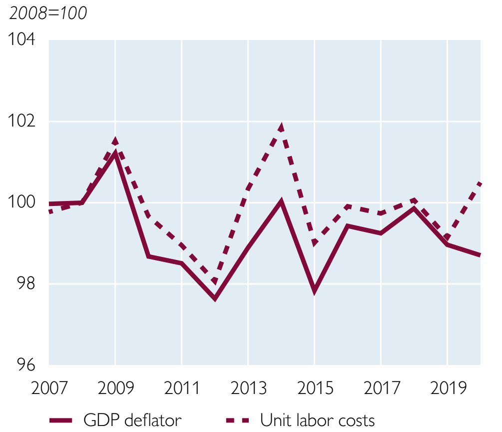
Productivity per hour worked



Compensation per hour worked



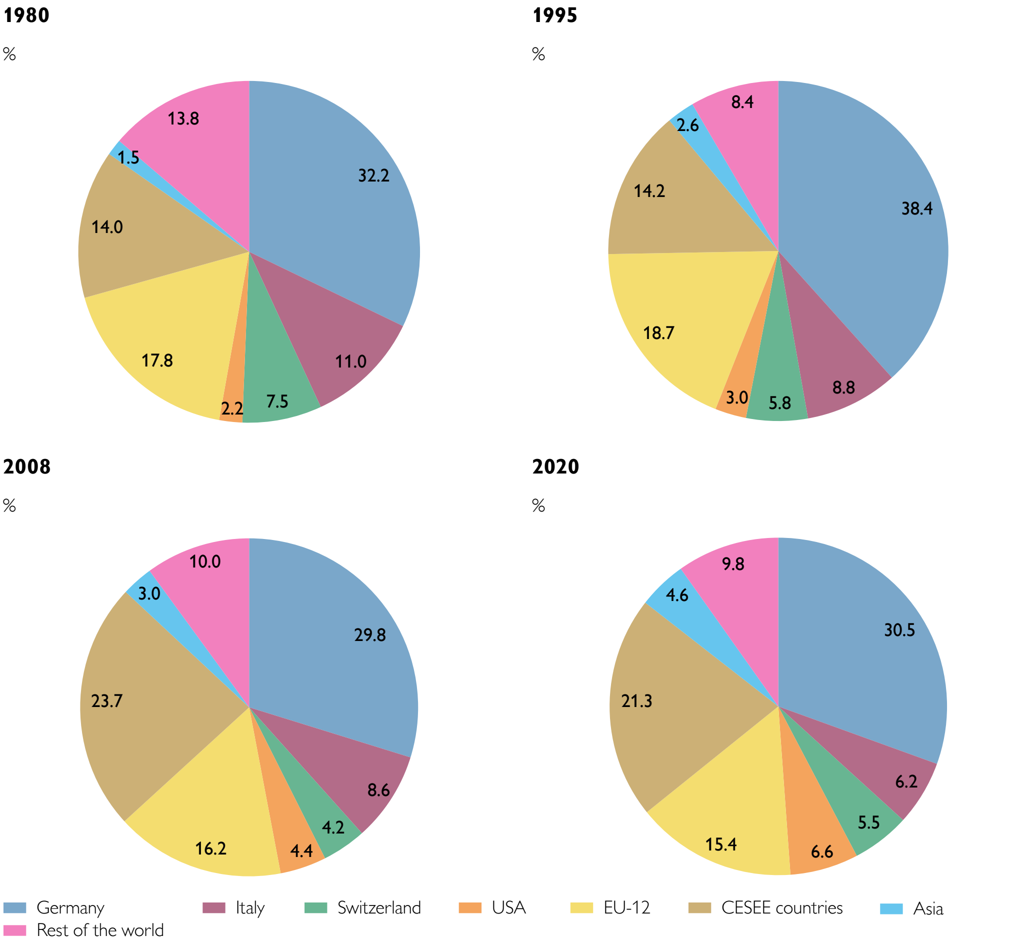
Real effective exchange rate for Austria



Source: Eurostat; real effective exchange rate: ECB.

Chart A5

Regional pattern of Austrian goods exports

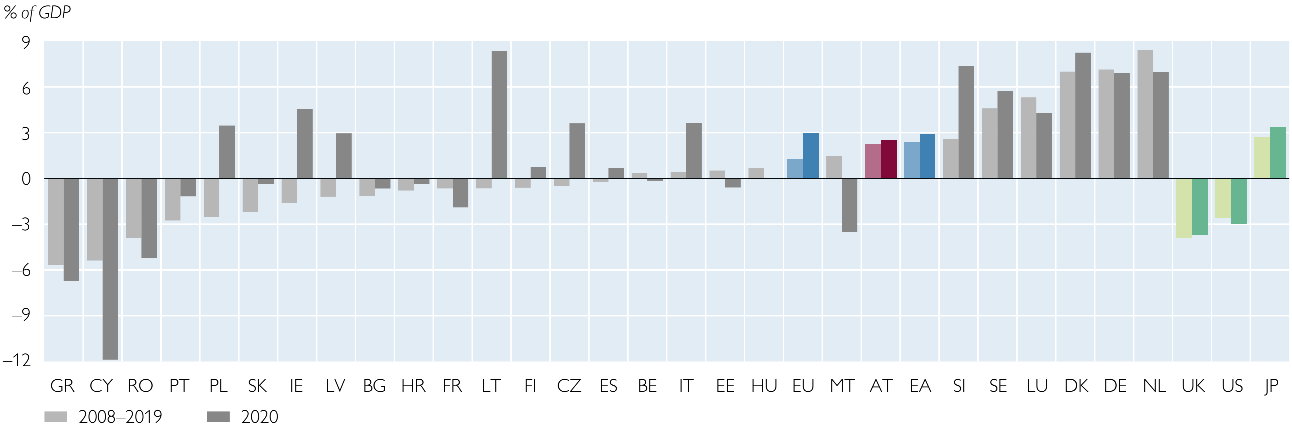


Source: Statistics Austria.

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.

Chart A6

Current account balances of EU member states, the UK, the USA and Japan

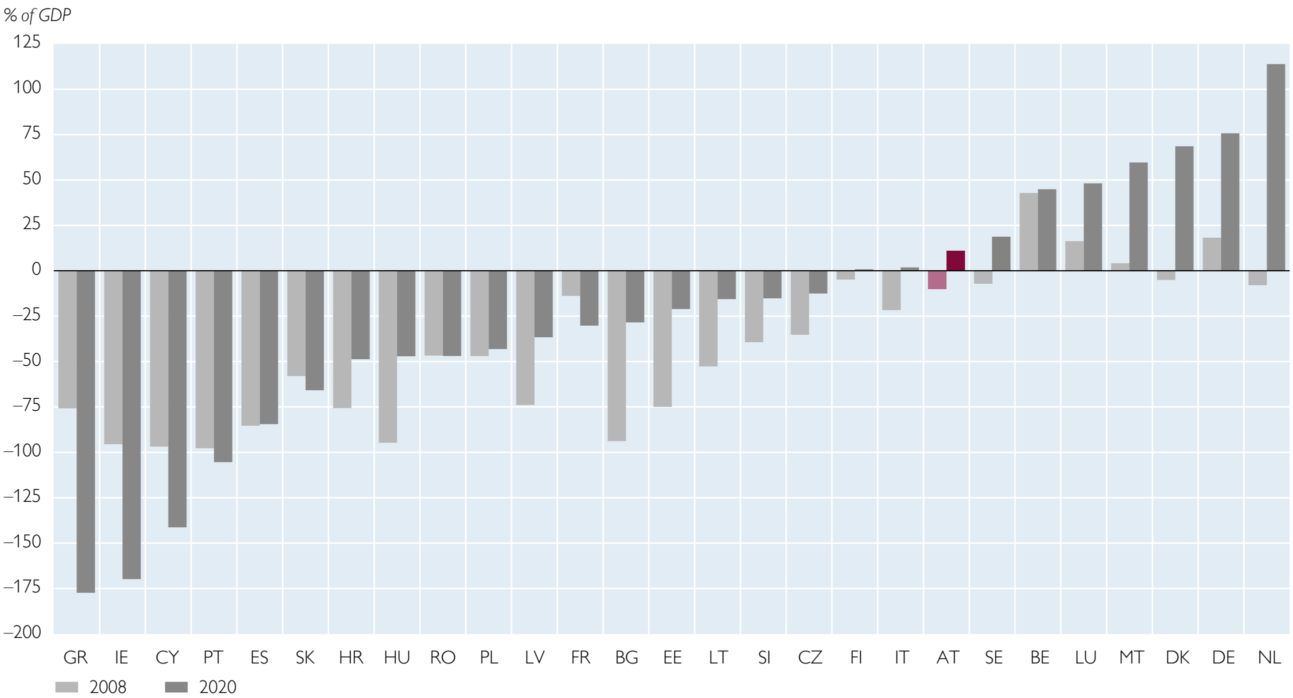


Source: Eurostat.

Note: UK, USA and Japan: averages derived from European Commission and IMF data.

Chart A7

Net international investment position

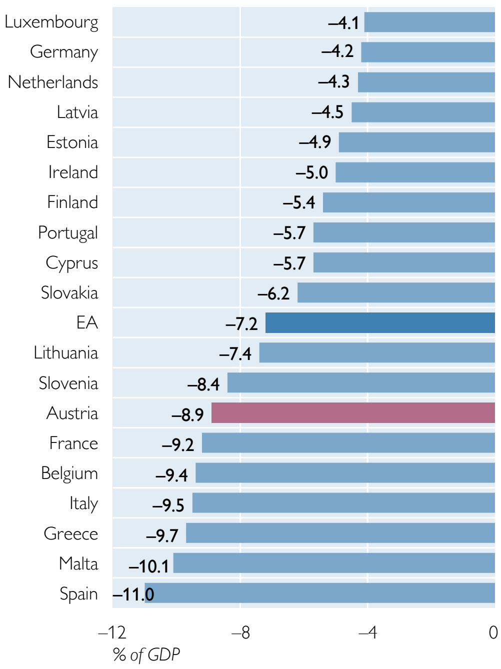


Source: Eurostat, ECB.

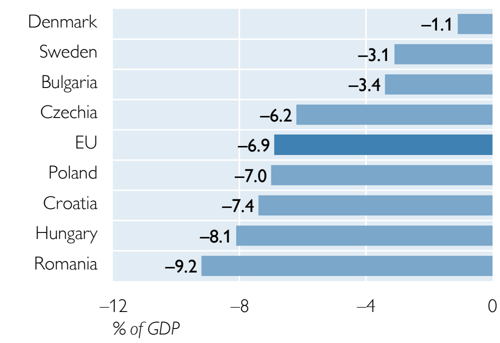
Chart A8

Budget balances of EU member states in 2020

Euro area countries



Non-euro area EU countries

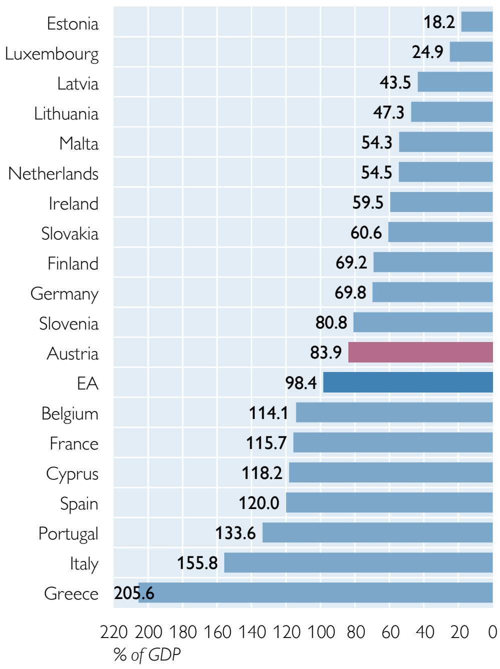


Source: Eurostat; Austria: Statistics Austria.

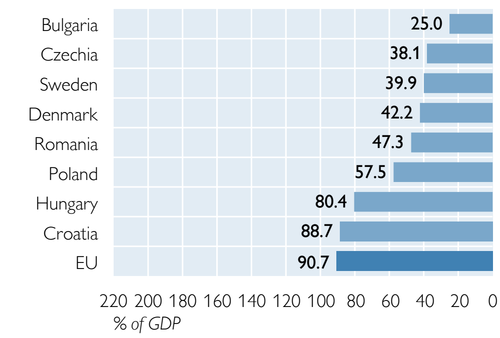
Chart A9

Public debt of EU member states in 2020

Euro area countries



Non-euro area EU countries



Source: Eurostat; Austria: Statistics Austria.

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