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FACTS ON AUSTRIA AND ITS BANKS

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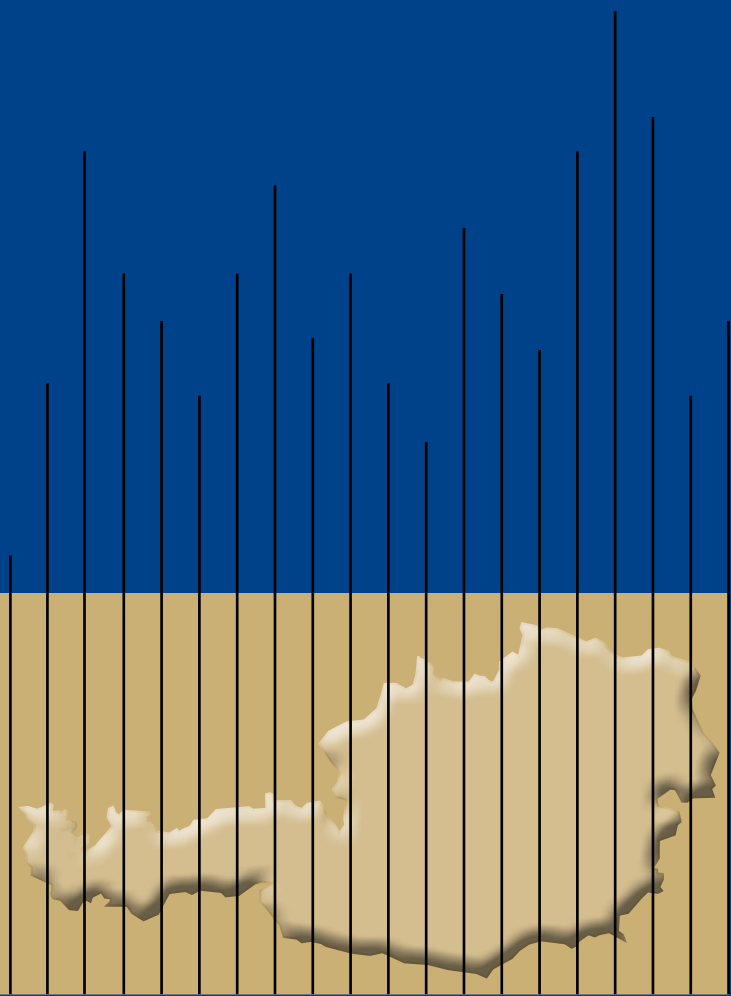


Stability and Security.

October 2020

Contents

NOTE
This issue of "Facts on Austria and its banks" reflects developments up to mid-September 2020, with a focus on the impact of the COVID-19 pandemic in the year to date. Therefore, several regular sections have been shortened and standard charts have been moved to the annex. The next issue, to be published in spring 2021, will once again present an overall view of developments in the Austrian real economy and banking sector.

Meanwhile, 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.

Key indicators

Cutoff date: September 27, 2020.

Table 1

Key indicators for the Austrian economy

	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	2018	2019	2020	2021
Economic activity	*EUR billion (four-quarter moving sums)*								
Nominal GDP	393.2	396.2	398.3	397.0	385.2	385.9	398.3	374.5	393.5
	Change on previous period in % (real)								
GDP	0.1	–0.2	–0.2	–2.4	–10.4	2.3	1.5	–7.2	4.9
Private consumption	0.3	0.2	0.2	–3.9	–11.5	1.1	1.3	–5.8	6.1
Public consumption	–0.0	1.0	–0.2	–0.3	1.0	0.8	0.6	1.2	1.6
Gross fixed capital formation	1.1	–2.4	0.6	–1.4	–7.6	3.9	2.8	–6.7	4.7
Exports of goods and services	0.5	–0.5	–2.5	–3.3	–14.4	5.6	2.5	–11.6	6.9
Exports of goods	–1.0	0.3	–0.8	–1.8	–17.2	6.0	2.0	–11.7	6.9
Imports of goods and services	1.6	–0.6	–3.1	–3.2	–10.3	4.5	2.6	–8.9	5.7
Imports of goods	–0.8	0.6	–2.1	–2.3	–12.6	3.9	2.1	–9.1	5.7
	% of nominal GDP								
Current account balance	×	×	×	×	×	2.3	2.6	1.5	2.2
Prices	*Annual change in %*								
HICP inflation	1.7	1.3	1.4	2.0	1.1	2.1	1.5	0.8	0.8
Compensation per employee	3.1	3.0	2.8	2.2	–0.1	2.9	2.9	–1.0	1.6
Unit labor costs	2.4	2.5	3.2	5.4	10.2	2.3	2.6	4.4	–1.3
Productivity	0.7	0.4	–0.4	–3.0	–9.3	0.6	0.4	–5.1	2.9
Income and savings	*Annual change in %*								
Real disposable household income	1.5	1.8	1.0	–1.2	–4.5	1.4	2.2	–0.4	–0.4
	% of nominal disposable household income								
Saving ratio	×	×	×	×	×	7.7	8.3	13.4	7.7
Labor market	*Change on previous period in %*								
Payroll employment	0.3	0.1	0.3	–0.4	–4.5	2.2	1.4	–2.2	2.2
	% of labor supply								
Unemployment rate (Eurostat)	4.5	4.5	4.3	4.5	5.2	4.9	4.5	6.8	5.8
Public finances	*% of nominal GDP*								
Budget balance	×	×	×	×	×	0.2	0.7	–8.9	–3.9
Goverment debt	×	×	×	×	×	74.0	70.4	84.4	83.7

Source: OeNB, Eurostat, Statistics Austria, WIFO; 2020 and 2021: OeNB forecast of June 2020.
Note: X = data not available.

Table 2

Key indicators for Austrian banks

Austrian banking system – consolidated	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	2016	2017	2018	2019
Structure	*EUR billion*								
Total assets[1]	1,019.0	1,033.0	1,032.3	1,061.0	1,107.0	946.2	948.9	986.0	1,032.3
Exposure to CESEE[2]	226.4	230.6	233.3	233.6	242.9	193.3	210.9	217.1	233.3
Number of credit institutions in Austria	592.0	579.0	573.0	572.0	572.0	672.0	628.0	597.0	573.0
Number of inhabitants per bank branch in Austria	2,493.0	2,493.0	2,521.0	2,528.0	2,790.0	2,226.0	2,330.0	2,429.0	2,521.0
Solvency[1]	*EUR billion*								
Equity capital	89.4	89.0	90.9	88.8	90.7	80.7	85.0	86.5	90.9
	% of risk-weighted assets								
Solvency ratio	18.7	18.3	18.7	18.1	18.6	18.2	18.9	18.6	18.7
Tier-1 capital ratio	16.3	15.9	16.3	15.9	16.3	14.9	15.9	16.0	16.3
Common equity tier 1 ratio (CET1)	15.5	15.2	15.6	15.1	15.5	14.9	15.6	15.4	15.6
	% of selected balance sheet items								
Leverage[3]	7.9	7.6	7.6	6.7	7.3	7.6	7.7	7.7	7.6
Profitability[1]	*EUR billion*								
Net result after tax	3.5	5.3	6.7	0.3	0.9	5.0	6.6	6.9	6.7
	%								
Return on assets (annualized)[4]	0.8	0.8	0.7	0.1	0.2	0.6	0.8	0.8	0.7
Cost-to-income ratio	65.3	64.4	66.9	76.4	72.3	74.5	64.6	65.2	66.9
Credit quality[1,5]	*%*								
Loan loss provision stock ratio	1.6	1.5	1.5	1.5	1.5	3.2	2.2	1.8	1.5
Nonperforming loan ratio (NPL ratio)	2.3	2.2	2.2	2.1	2.0	5.1	3.4	2.6	2.2
Credit developments	*%*								
Annual growth of credit to nonbanks in Austria	4.3	4.7	4.3	4.5	4.7	1.6	3.0	4.6	4.3
Share of foreign currency loans in Austria	5.6	5.5	5.3	5.3	4.9	9.0	6.5	5.8	5.3
Austrian banks' subsidiaries in CESEE[1]	*EUR billion*								
Net profit/loss after tax (aggregated)	1.3	2.1	2.8	0.6	0.9	2.4	2.6	2.9	2.8
	%								
Return on assets (annualized)[4]	1.3	1.3	1.3	1.1	0.8	1.3	1.3	1.4	1.3
Cost-to-income ratio	52.2	51.1	52.3	55.8	50.1	52.7	53.3	51.5	52.3
Loan loss provision stock ratio[5]	2.4	2.2	2.2	2.1	2.4	6.1	3.3	2.7	2.2
Nonperforming loan ratio (NPL ratio)[5]	2.8	2.5	2.4	2.2	2.3	8.6	4.5	3.2	2.4
Share of foreign currency loans	24.4	×	23.5	×	n.a.	30.0	27.0	25.4	23.5
Loan-to-deposit ratio	79.4	79.6	79.8	76.9	76.8	80.2	79.1	78.6	79.8

Financial assets of Austrian households and nonfinancial corporations

	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	2016	2017	2018	2019
Households	*EUR billion*								
Financial assets	710.7	716.7	724.7	708.3	731.5	639.0	671.9	684.7	724.7
Financial liabilities (loans)	191.2	193.6	193.9	194.7	195.7	179.6	183.0	188.6	193.9
of which foreign currency loans	14.3	14.1	13.6	13.4	12.8	21.2	16.5	15.0	13.6
of which foreign currency housing loans	12.3	12.2	11.8	11.5	11.0	17.8	14.1	12.9	11.8
Nonfinancial corporations	*EUR billion*								
Financial assets	556.1	555.1	558.8	557.5	569.7	509.2	531.7	540.5	558.8
Financial liabilities	872.2	871.5	876.4	857.4	871.7	753.5	818.2	845.1	876.4
of which loans and securities (other than shares and other equity)	417.9	413.4	414.6	422.1	427.5	369.1	383.0	404.6	414.6
of which shares and other equity	420.4	427.2	431.6	402.1	410.4	354.7	405.8	408.4	431.6
	EUR billion (four-quarter moving sums)								
Gross operating surplus and mixed income	90.8	91.0	90.9	91.2	91.0	84.2	87.0	90.8	91.0

Source: OeNB, Statistics Austria.

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

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

Overview

Austria expects strong economic recovery after slump in 2020

- *In March 2020, Austria responded quickly to the outbreak of COVID-19 in Europe and successfully contained the spread of the disease. There was never the danger of hospitals reaching capacity. By end-September, Austria's rate of total infections was 450 in 100,000 and with fewer than 9 deaths in 100,000 infected, Austria is among the countries with the lowest COVID-19 fatality rates. However, since early September, the number of infections has been rising again in Austria, and by end-September, the rate of new infections in 100,000 people corresponded to the European average.*
- *The lockdown imposed in March led to a flash recession, with economic output dropping by 25% compared to the previous year. Although the contraction was down to about 3% by mid-September, the cumulative economic year-on-year loss totaled about EUR 20 billion at this point.*
- *The crisis has affected economic sectors to varying degrees, but since May, the situation has considerably improved overall. Hotels, travel agencies and restaurants, and thus the service sector as a whole, are among those hit hardest by the crisis.*
- *In their most recent outlooks, the OeNB and the IMF expect economic output to decrease by about 7% in Austria in the course of 2020. In the euro area, the contraction will be sharper. Economic growth is expected to bounce back strongly in 2021, based on the assumption that in the course of the year, the pandemic will be successfully controlled as an effective drug or vaccine becomes available.*
- *Since the onset of the COVID-19 crisis, bank loans have been a central policy instrument to safeguard the liquidity of nonfinancial corporations. The government provided loan moratoria and public guarantees to support lending to Austrian enterprises, 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.*
- *Unemployment has risen sharply in Austria in the course of the pandemic, with a generous short-time work scheme preventing an even stronger increase.*
- *The Austrian federal government has adopted far-reaching fiscal measures to ease the impact of the pandemic. A first package of measures was aimed at providing compensation for income losses suffered by businesses and households because of the containment measures and ensuring that the health system remains fully operational. The measures adopted since the summer are "classic" stimulus measures to encourage (private and public) consumption and investment. After considerable budget surpluses in 2018 and 2019, Austria is likely to see in 2020 the largest budget deficit since the 1970s, and government debt will increase strongly. However, thanks to the activation of the general escape clause under the Stability and Growth Pact, Austria will not be in violation of the European fiscal rules.*

Austrian banks navigate challenging economic environment

- *In the first half of 2020, the consolidated profit of the Austrian banking sector dropped significantly year on year, as initial COVID-19-related costs started to affect credit institutions. Operating profits dropped by nearly one-quarter (driven by a decline in non-core operating income items and a strong rise in operating costs), while risk provisioning soared. Austrian banks thus achieved a consolidated profit of just EUR 0.9 billion (–75% year on year), while structural efficiency challenges continue to be an issue.*
- *An important – albeit smaller – contribution to consolidated profitability once again came from Austrian banks' Central, Eastern and Southeastern European (CESEE) subsidiaries: Their aggregate net profit (after tax) amounted to EUR 0.9 billion in the first half of 2020, which is down about one-third in a year-on-year comparison. This is due to a sharp rise in risk costs attributable to the COVID-19 pandemic. Austrian subsidiaries' profits went down sharply in Czechia and Slovakia, which are among the most important contributors to overall profitability.*
- *Bank lending in Austria has been subdued since the beginning of the COVID-19 crisis, but thanks to moratoria and state guarantees, lending growth rebounded and increased to 5.9% for loans to corporations and stabilized at 3.7% for loans to households, both measured over the twelve months to July 2020.*
- *COVID-19-related loan moratoria and public guarantees were implemented to support lending to the real economy in the current crisis. By the beginning of September (the week starting August 31), Austrian banks had granted loan moratoria in the amount of EUR 23 billion, which corresponded to around 7% of the credit portfolio to households and nonfinancial corporations. At the same time, around 19,000 loans subject to COVID-19-related public guarantees had been requested, with an overall loan volume of EUR 6 billion.*
- *The ratio of nonperforming loans (NPLs) continued to improve in the first half of 2020, which amounts to 2.0% on a consolidated basis, or to 1.5% for domestic loans and to 2.3% for loans extended by CESEE-based subsidiaries of Austrian banks. However, it is expected that the economic slump will take a toll on the NPL ratio when moratoria and state guarantees expire, which will result in a deterioration of loan quality and, consequently, will lead to additional provisioning needs. Hence, bank balance sheet transparency is crucial.*
- *As of mid-2020, Austrian banks reported a consolidated common equity tier 1 (CET1) ratio of 15.5% (unchanged year on year). Compared with levels 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 light of the currently high level of macroeconomic uncertainty related to COVID-19 developments and in order to preserve capital, banks should refrain from and/or postpone share buybacks and consider the distribution of dividends, profits as well as bonuses with particular care in line with national and international recommendations and regulation.*
- *Every year, the OeNB evaluates the relevance of other systemically important institutions (O-SIIs) for Austria's financial system and assesses whether the malfunctioning or failure of such banks could trigger systemic risks that would require corresponding action. Furthermore, the OeNB frequently evaluates the systemic risk buffer (SyRB), which has also considerably helped improve the way investors, rating agencies and international financial institutions perceive the Austrian banking sector. The Austrian Financial Market Stability Board (FMSB) renewed its recommendation on these two buffers in June 2020. In its recommendation regarding the buffer requirements beyond end-2020, the FMSB took into account the regulatory changes but also the high degree of uncertainty surrounding the further course of the crisis. This means that the overall buffer requirements have been left largely unchanged. In the absence of excessive credit growth, the FMSB decided that the countercyclical capital buffer (CCyB) was to be maintained at 0% of risk-weighted assets. Already in 2018, the FMSB followed a recommendation by the OeNB and issued a public guidance on sustainable real estate financing. Against the background of rising real estate prices and record low interest rates, OeNB analyses conclude that there are signs of rising systemic risks in real estate financing and that compliance with supervisory expectations will be crucial for safeguarding financial stability in Austria.*

1 COVID-19 pandemic causes deep recession in Austria in 2020

1.1 COVID-19 containment measures depress supply and demand in Austria and worldwide

In early 2020, news of a highly contagious disease later termed COVID-19 (coronavirus disease 2019) spread from the Wuhan metropolitan area in China's Hubei province. On January 30, 2020, the World Health Organization declared the COVID-19 outbreak a public health emergency of international concern, calling upon governments to take immediate and concerted action aimed at limiting the spread of the virus. Despite containment measures, the virus spread beyond China, first to other Asian countries and then to Europe and North and South America. The spread of the virus has varied considerably across countries. In Europe, and in Austria too, transmission slowed over the summer but has been rising again since early September. According to the WHO, on September 29, 2020, the number of people that have been infected with coronavirus worldwide since the outbreak of the pandemic stood at 33.2 million (Austria: 42,940), and the number of COVID-19-related deaths had reached 1 million worldwide (Austria: 787).

The measures adopted to contain COVID-19 not only changed the way we live and work, but also dealt a blow to economic activity that has been unprecedented in recent economic history. In contrast to earlier recessions, the current crisis is being driven by the simultaneous occurrence of supply and demand shocks: supply has been suffering from shutdowns in the service sector, output reductions because of plant and business closures and supply chain disruptions, travel restrictions, border closures and quarantine rules, while demand has been affected by shrinking consumer and export demand, including a plunge in tourism exports.

1.2 Lockdown caused a flash recession in Austria followed by a swift recovery – still: economic activity in autumn is lower than last year

The measures adopted to contain the COVID-19 pandemic sent Austria quickly and immediately into the deepest recession in the country's recent economic history. Within only two weeks, the OeNB's weekly GDP indicator[1] registered a steep decline. Measured in terms of the demand components of GDP, the level of economic activity in Austria in the last week of March 2020 was 27% below the corresponding 2019 figure. This abrupt setback was driven at roughly equal rates by domestic demand and exports. Following this flash recession in the second half of March, the downturn in economic activity started to gradually flatten from mid-April as the lockdown measures were being lifted. In the first half of May, a clear recovery started to set in. As most retail stores reopened, consumer spending picked up as well. The year-on-year decline in output narrowed to about 11 percentage points; at the height of the lockdown, this decline had been more than twice as high. The recovery continued throughout the summer, and by end-September, the decline in economic output was only around 4% compared with the previous year. The cumulative economic loss compared with the previous year totaled approximately EUR 22 billion, according to OeNB estimates.

[1] *The new OeNB's weekly GDP indicator tracks the development of the economy on a weekly basis in real time using high-frequency indicators. It is the first indicator of its kind for Austria and has been published regularly since May 2020 to provide policymakers and the public with timely information on the state of the Austrian economy.*

Chart 1

International COVID-19 figures and government responses

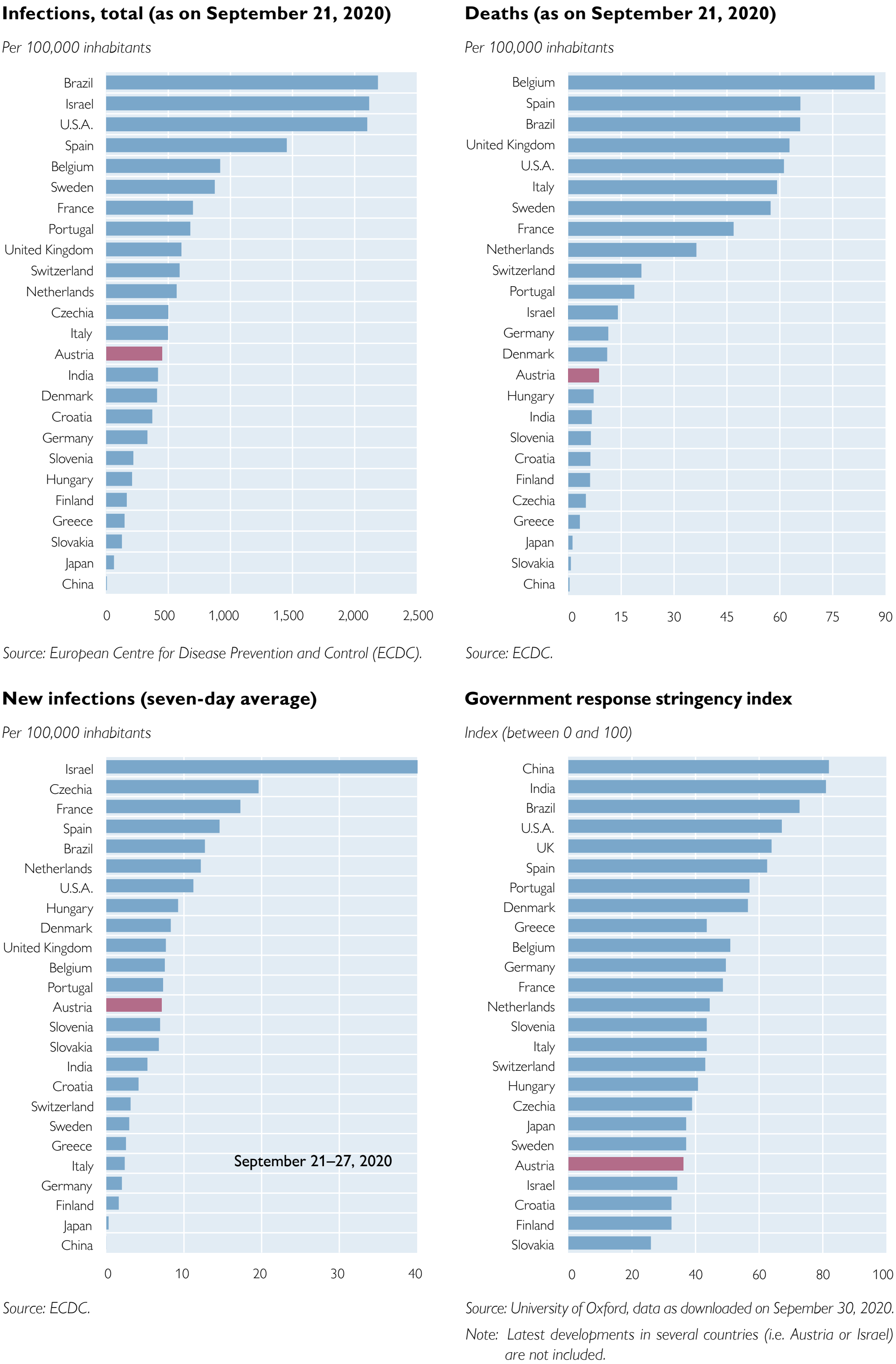
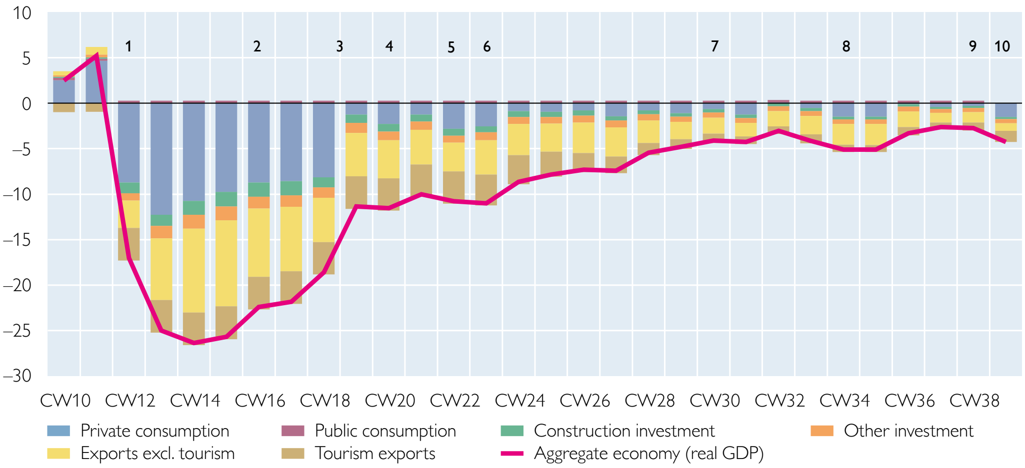


Chart 2

Weekly GDP indicator for Austria

Year-on-year change of real GDP in %; import-adjusted growth contributions in percentage points



Source: OeNB.

[1] Lockdown (March 16).
[2] Opening of small shops (April 14).
[3] Opening of all shops (May 2).
[4] Opening of restaurants (May 15).
[5] Opening of hotels (May 29).
[6] Gradual reopnening of borders (June 4).
[7] Reintroduction of mandatory face masks (July 24).
[8] Travel warning (Croatia, Balearics - gradually from August 8).
[9] Travel warnings for Austria (September 16).
[10] Tightening of protection measures (September 21).

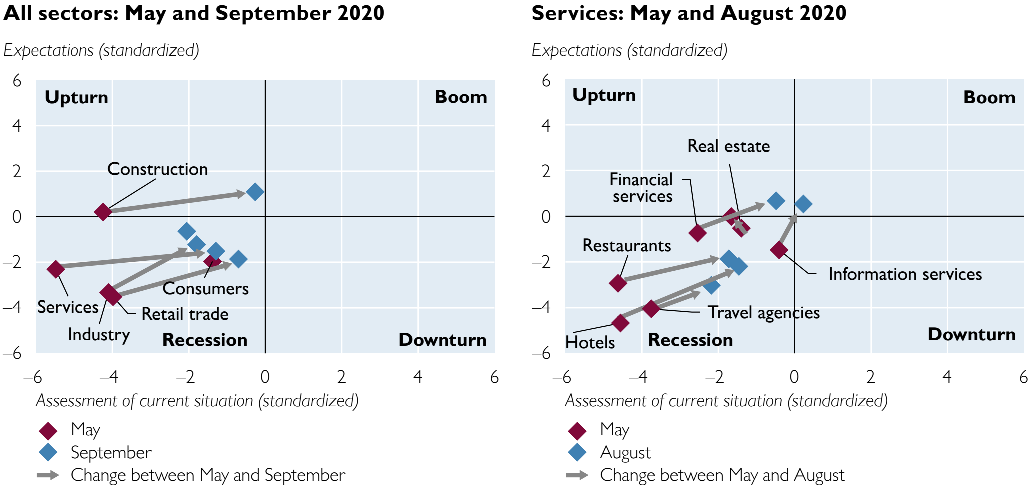
Note: CW = calendar week.

1.3 Economic sectors affected to varying degrees

The European Commission carries out monthly surveys to collect data on the situation in different economic sectors over the past three months and expectations for the next three months. These data are subcomponents of the Economic Sentiment Indicator (ESI), which is available for industry, construction, consumers, retail trade and services as well as subsectors of the service sector. This makes it possible to assess, with a common metric, how the crisis has affected individual economic sectors. The lockdown in Austria was imposed on March 16, 2020, therefore we compare the ESI values for May (covering March, April and May) with the latest available data of August. We see that in May 2020 all sectors (excluding construction) were in recession (negative assessment of the situation and outlook compared with the average situation). At the end of the summer, sentiment regarding the current situation and outlook had improved considerably, but especially in the service sector, many subareas (especially hotels, travel agencies, restaurants) continued to report negative assessments of both current conditions and the outlook.

Chart 3

Economic sentiment indicator (ESI)



Source: Eurostat.

1.4 Vulnerabilities of Austrian firms during the COVID-19 shutdown by industries

The governments' measures to contain the COVID-19 pandemic in spring had a massive impact on the Austrian economy. An OeNB study conducted in April 2020[2] assessed this impact and the vulnerabilities of Austrian firms for 64 industries (NACE 2-digit code). The period of analysis covers the shutdown period (week starting March 9, 2020, to week starting April 6, 2020). The analysis is based on 11 indicators from 4 areas, namely demand, supply, labor market and financing, with the latter distinguishing between solvency and liquidity indicators.

The results showed that accommodation and food service activities were, by far, most affected by the decline in demand and were very vulnerable due to their weak financial positions. Travel agencies and tour operators suffered from an almost complete collapse in sales and were also affected by supply-limiting factors. The crisis also had a massive impact on sport and entertainment as well as other predominantly personal services. In the transport sector, aviation was hit hardest.

In the manufacturing sector, it is primarily the manufacturers of furniture and other goods and the manufacturers of textiles and shoes that were affected by the decline in consumer demand due to the store closings in the retail sector. The manufacturers of motor vehicles and parts and the manufacturers of printed products suffered primarily from their supplier function and integration into international value chains. Compared to tourism-related services, however, companies in goods manufacturing had consistently better solvency and liquidity positions.

[2] *Schneider, M. and W. Waschiczek. 2020. Betroffenheit der österreichischen Unternehmen durch die COVID-19 Pandemie nach Branchen. In: Konjunktur Aktuell Sonderheft. OeNB. April 9.*

Table 3

Results for the 20 most affected industries

		Demand		Labor market	Supply				Financing/solvency		Financing/liquidity		Total
Designation	**NACE code**	*Drop in demand in %*	*Potential catch-up effects*	*Rise in unemployment (% of employment)*	*Share attributable to shutdown*	*Staff intensity (employees per EUR million value added)*	*Share of nonresident labor (%)*	*Share of imported intermediate goods in gross manufacturing output*	*Equity capital ratio (inverted)*	*Probability of loan default (%)*	*Short-term net liquidity position (inverted)*	*Unused share of gross manufacturing output (%; inverted)*	*Overall score (0-1)*
Accommodation, food service activities	I	80	0	25.9	1.00	12.9	55.0	7.1	15.8	3.2	2.1	2.8	1.00
Travel agencies, tour operators	N79	88	0	4.7	1.00	25.7	16.4	41.3	18.1	1.0	30.0	2.6	0.87
Other services n.e.c.	S96	74	13	17.3	0.88	15.5	29.6	4.4	29.5	1.4	20.9	4.2	0.83
Air transport	H51	90	10	0.6	1.00	10.8	24.7	29.0	22.4	1.6	27.4	0.4	0.81
Sports activities, recreation activities	R93	80	0	11.2	1.00	9.4	30.0	6.9	24.3	2.4	12.2	2.2	0.81
Manufacture of furniture, other manufacturing	C31-C32	81	50	1.1	0.00	13.9	16.8	38.8	32.3	0.8	17.5	3.7	0.74
Arts, entertainment activities	R90-R92	82	0	1.6	1.00	8.6	25.1	5.9	44.8	0.6	30.2	4.0	0.67
Manufacture of motor vehicles	C29	66	50	0.7	0.00	9.1	19.7	55.8	35.9	0.8	8.7	2.4	0.65
Manufacture of textile products, apparel, leather	C13-C15	70	50	0.7	0.00	14.9	31.2	41.1	34.0	2.6	19.7	4.7	0.65
Retail trade	G47	51	25	4.0	0.85	20.7	21.8	6.4	24.6	1.8	10.1	6.1	0.58
Printing and reproduction	C18	57	50	2.0	0.00	11.0	15.5	34.0	23.3	1.7	11.8	3.1	0.58
Manufacture of coke and refined petroleum products	C19	38	50	0.9	0.00	1.5	13.8	98.2	0.0	0.2	0.0	5.1	0.54
Land transport	H49	45	20	11.1	0.00	12.2	31.6	6.9	27.3	1.2	-0.2	3.5	0.54
Employment activities	N78	46	13	15.0	0.00	20.2	45.0	1.4	24.5	1.0	68.9	1.7	0.52
Manufacture of other transport equipment	C30	54	50	0.7	0.00	10.5	20.1	22.3	31.6	0.6	15.3	9.4	0.51
Repair/installation of machinery	C33	45	50	1.6	0.00	9.9	14.6	24.0	29.5	1.2	9.7	1.5	0.49
Administrative/support service activities	N	30	20	10.0	0.75	14.0	45.2	8.1	28.3	0.7	30.1	4.9	0.49
Trade	G	44	25	3.4	0.75	13.8	20.1	11.3	28.0	1.2	21.1	8.8	0.48
Sale/repair of motor vehicles	G45	42	25	3.7	0.75	13.5	16.5	16.6	24.0	1.9	8.2	9.2	0.47
Construction	F	37	25	11.5	0.25	10.7	30.1	11.0	24.7	1.6	11.1	10.3	0.47

Source: OeNB.

1.5 Deep recession expected for 2020, but strong recovery anticipated for 2021

As a result of the COVID-19 pandemic, economic growth is set to drop dramatically in 2020 in almost all countries worldwide. In Austria and the euro area, the decline in output will be twice as large as the contraction seen during the financial and economic crisis of 2009. However, in contrast to the situation then, economic forecasters almost unanimously expect to see a clear recovery already next year. This assessment is based on the assumption that, in the first half of 2021, a highly effective drug or vaccine against coronavirus will become available, as a result of which the economy will swiftly recover.

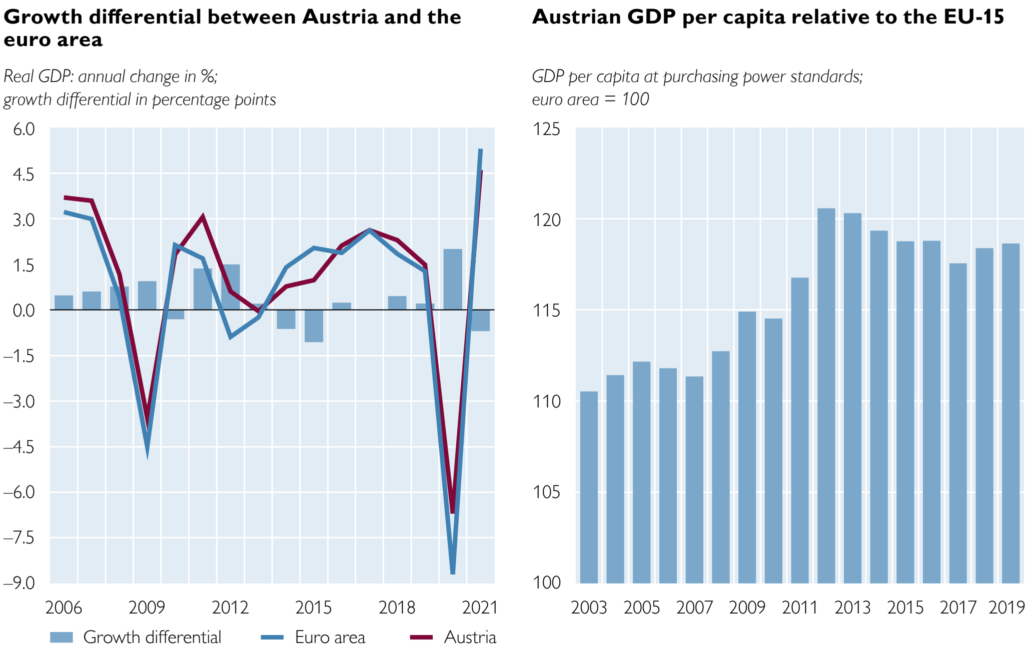
In its fall outlook, the IMF expects the economy in the euro area and Austria to shrink by 8.7% and 6.7%, respectively, in 2020 and to grow by 5.3% and 4.6%, respectively, in 2021. This forecast is broadly in line with recent ECB projections (September 2020) for the euro area (–8% and +5%) and the OeNB's June 2020 outlook for Austria (–7.2% and +4.9%). For the recovery to materialize as expected, it will be crucial that there are no large-scale shutdowns this fall or winter. To achieve this, infection rates, which started to climb again in many European countries in early September, need to flatten to avert the emergence of a second big wave.

1.6 Loans to domestic nonfinancial corporations and households

Since the onset of the COVID-19 crisis, securing the flow of credit to the economy has been a central policy instrument to safeguard the liquidity of nonfinancial corporations. The government provided loan moratoria as well as loan guarantees for bridging loans to Austrian enterprises, prudential authorities supported the

Chart 4

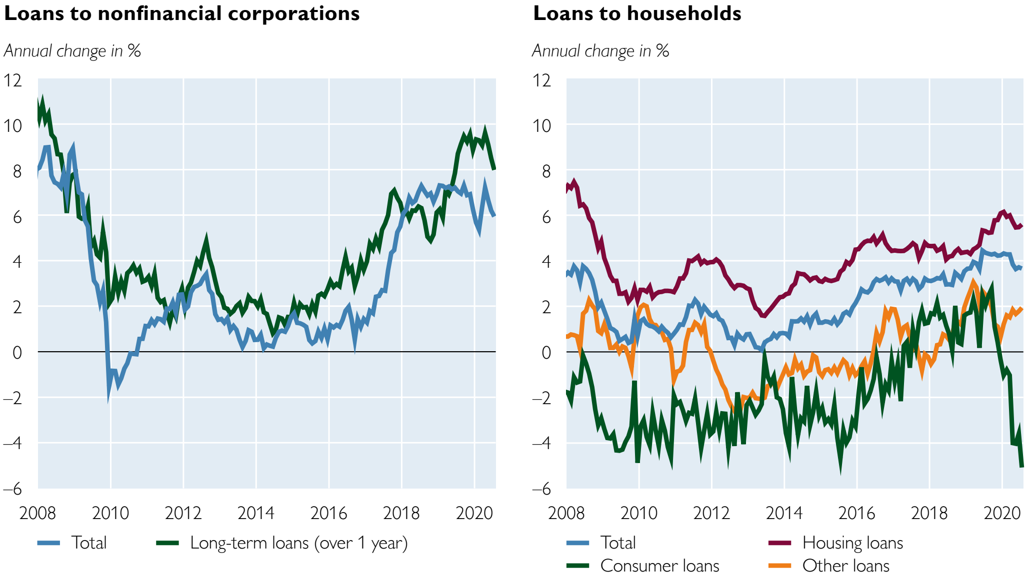
Economic growth and GDP in Austria compared to the euro area



Source: Eurostat, IMF.

Chart 5

MFI loans to Austrian nonfinancial corporations and households



Source: OeNB.

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. Thus, despite a substantial fall in corporate investment, loan growth slowed down only slightly against the high growth rates recorded in the years before. In an environment of compressed cash flows, the growth in bank lending to businesses was mainly driven by the latter's operational financing needs, fostered by state guarantees. Moreover, loan moratoria reduced repayments markedly, which also affected growth rates. As a result, the annual growth rate of MFI loans to nonfinancial corporations (adjusted for reclassifications, valuation changes and exchange rate effects) reached 5.9% in July 2020. After an initial surge in March and April 2020, when businesses tried to secure short-term funding, net lending abated in the following months. Short-term loans (with a maturity of up to one year) were repaid on a net basis from May 2020 onward while medium-term and long-term loans increased, to a large extent reflecting the scope of the state guarantees which were given for bridging loans with medium-term maturities.

Growth of lending to households decreased slightly after the onset of the crisis. Between February and July 2020, the annual growth rate of bank loans to households slowed from 4.3% to 3.7% year on year. This moderation mirrored uncertainty among households about the impact of the pandemic on their disposable income and employment prospects. In line with the decrease in consumption of durables and the extraordinary fall in consumer confidence in the first half of 2020, consumer loans were down 5.1% year on year in July 2020. Other loans, which include loans to sole proprietors and unincorporated enterprises, rose by 1.9%. As in the past years, the main contribution to loan growth came from housing loans, not only because the latter are the most important loan category for households –

accounting for more than two-thirds of the outstanding volume of loans to households – but also because they registered the highest growth rate, reaching 5.6% year on year in July 2020.

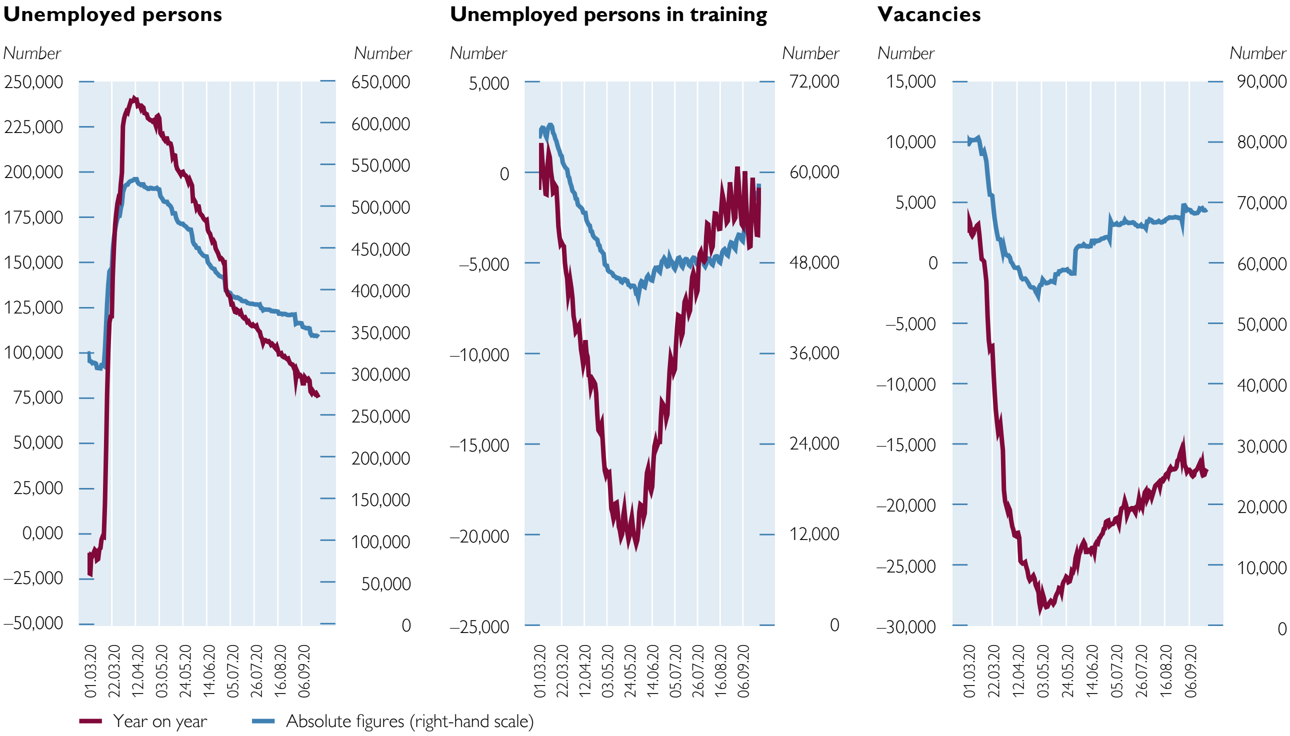
1.7 COVID-19 pandemic leads to substantial increase in unemployment

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 1.7% on average since 2016. Over the past years, Austria's unemployment rate had declined steadily, reaching 4.5% in 2019, the lowest level since 2008.

However, in March 2020, the crisis brought about by the COVID-19 pandemic led to a surge in unemployment. Within a mere two and a half weeks, the number of registered unemployed persons jumped from 310,000 to 522,000 and stood at 534,000 in mid-April. Since then, the jobless number has been gradually declining. The increases in unemployment were especially pronounced in sectors directly affected by containment measures, such as the hospitality industry, administrative and support services (including employee leasing) as well as wholesale and retail trade. In construction, the number of unemployed persons also rose sharply at the beginning of the crisis, but dropped equally quickly more recently. According to the latest available data from Public Employment Service Austria (AMS), 404,400 were unemployed or participating in training schemes on September 21, 2020, which is 75,000 more than on the same day of the previous year. Hence, the

Chart 6

Daily administrative labor market data for Austria

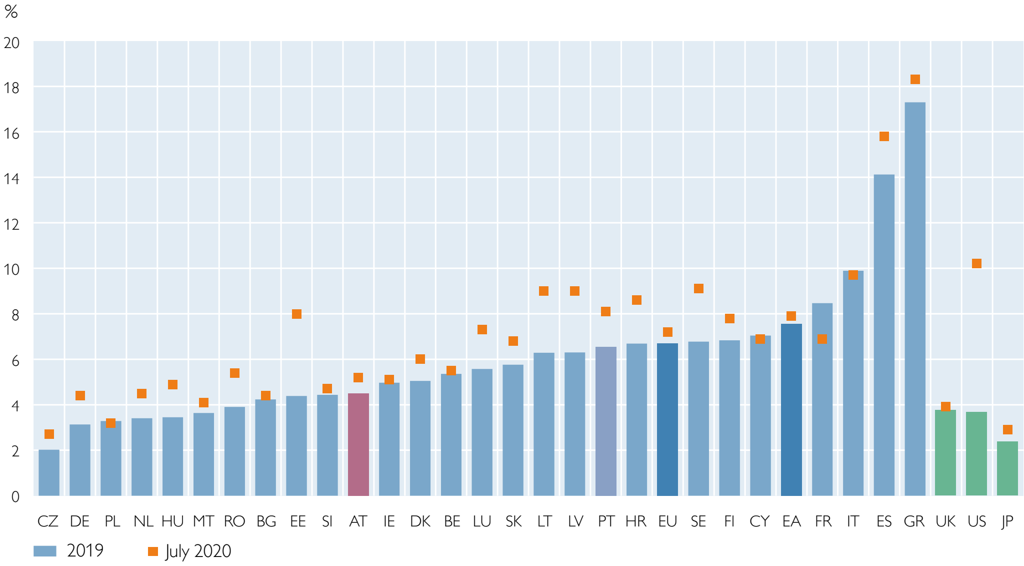


Source: Public employment service Austria (AMS).

Note: Data up to September 21, 2020.

Chart 7

Unemployment rates



Source: Eurostat.

Note: EE, GR, HU, UK: June 2020.

number of jobless persons has dropped notably since its peak in mid-April. Between mid-July and mid-September, the improvement in unemployment figures decelerated somewhat, in line with general economic developments.

Despite the lockdown and the slump in economic activity, Austria has managed to avoid more severe consequences for its labor market thanks to the use of short-term work, which, in Austria, is a well-established policy tool. Instead of laying off parts of their staff, businesses experiencing "temporary economic difficulties" may reduce employees' working hours evenly and equitably. Businesses thus pay salary for reduced working hours only, and employees are compensated by the AMS for part of their loss in earnings due to the temporary cut in work time. Pre-pandemic short-time working arrangements provided for an income replacement rate of 55% of previous net earnings, with the cut in working hours being limited at 50%.

Following adaptations of the scheme to fit the current crisis, aid was granted for up to six months from March 2020 on. It became possible to cut work time by as much as 90%, and income replacement rates were raised markedly. Employees have been receiving 80%, 85% or 90% of their previous net earnings, depending on their original salary. So far, applications for short-time work arrangements for more than 1.8 million employees have been filed. On September 20, 2020, 300,000 employees were in short-time work schemes. The adapted short-term work scheme has meanwhile been extended by another six months, but from October onward the minimum actual working requirement has been increased (working hours may only be reduced by up to 80%).

In contrast to registered unemployment in Austria, the Eurostat unemployment rate has increased only slightly. This has mostly methodological reasons, as many people who lost their jobs in the crisis either had been given re-employment guarantees by their employers or had not been actively looking for jobs (or had not been able to do so) and were therefore not considered "unemployed" according to Eurostat's definition. This phenomenon can be observed in the majority of European countries.

1.8 COVID-19 pandemic dampens inflation

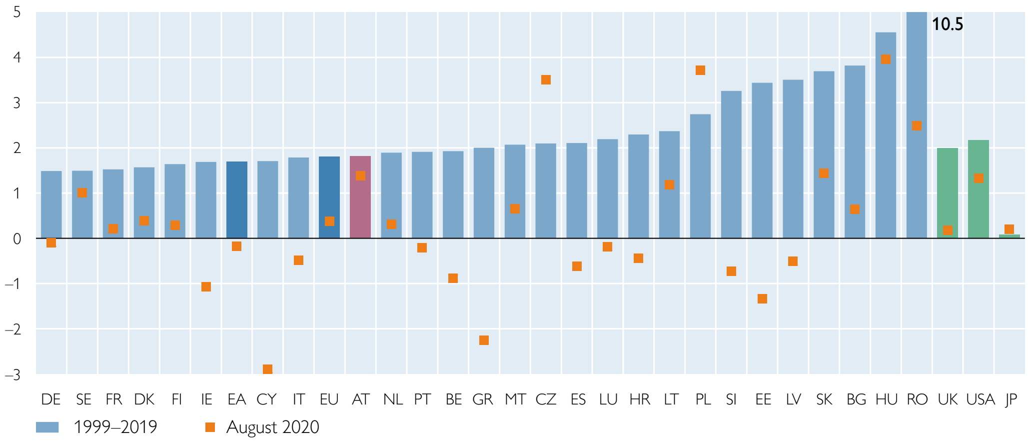
The global recession caused by the COVID-19 pandemic triggered a slump in demand for crude oil early in the year; as a result, the oil price will drop considerably in 2020 as a whole compared with the previous year. This decline has a direct impact on energy prices and, as a result, HICP inflation. In addition, the demand shock put a dampener on HICP inflation. Due to these two effects, the Austrian HICP inflation rate dropped from more than 2% at the beginning of the year to 0.6% in May, to rise again to 1.1% in June, 1.8% in July and 1.4% in August. The sharp increase in July was attributable to special factors (above all to later sales in the clothing sector) that tapered off already in August. In 2020 as a whole, HICP inflation in Austria is expected to fall to 0.8% (OeNB June outlook), compared with 1.5% in 2019.

However, given that the COVID-19 crisis has made it more difficult to measure inflation, the developments seen in recent months, in particular in April and May 2020, must be interpreted with caution. Due to the government-ordered shutdown of shops and limitations to mobility, it became hard or impossible to collect the prices of many products and services that are part of the goods basket. Prices that cannot be collected on site must either be retrieved from other sources (e.g. online shops or supermarket scanner data), carried forward or imputed (especially prices of services). In April and May 2020, this applied to around one-third and one-fifth, respectively, of all goods and services in the Austrian goods basket. The conditions for collecting prices normalized in June and July, except for a few groups in services (e.g. long-haul airfares, package holidays, theaters, museums). These caveats should be borne in mind when interpreting the volatility seen in prices and inflation rates for hotel and restaurant services, recreational and cultural services and also food and beverages over the past few months.

Chart 8

HICP inflation rate

Annual change in %



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

1.9 High budget deficit and rising government debt because of unprecedented fiscal measures taken to ease impact of COVID-19 pandemic

The fiscal measures adopted in Austria up until summer 2020 were primarily meant to mitigate the damage caused by the intended temporary reduction in (economic) activity. In fact, the first package of measures was aimed at compensating businesses and households for income losses suffered because of the containment measures and ensuring that the health system[3] remains fully operational.

Initial measures were designed to support businesses that were healthy before the crisis through liquidity-enhancing measures (deferral of tax payments and social security contributions, direct loans, guarantees for bank loans) and transfers (fixed cost grant). At the same time, subsidies for short-time work helped save jobs and ensure that production could be restarted quickly after the end of the shutdown. Short-time work also cushioned negative social effects, protecting many employees from large income losses due to unemployment. Transfers from the hardship fund to micro businesses and self-employed persons can likewise be considered "unemployment benefits" for the self-employed. Furthermore, assistance to the long-term unemployed was raised to the level of unemployment benefits.

The fiscal measures adopted since the summer mostly are "classic" stimulus measures to encourage (private and public) consumption and investment. Cutting income taxes (from 25% to 20% in the lowest tax bracket) and raising the negative income tax rate increased disposable household income, as did a one-off payment to unemployed people and a one-off child benefit payment. These measures were meant to stimulate consumer demand, in particular from liquidity-constrained households. Investment activity is to be encouraged by helping businesses avoid liquidity shortages (carryback of 2020 losses to profit earned in the previous year, cuts in VAT in the hospitality sector, the media and culture) and by giving them investment incentives (higher short-term tax credits based on accelerated depreciation, investment premium). Furthermore, the government has announced a number of (investment) measures aimed at increasing the medium- to long-term growth potential and fostering the greening of the economy (including an adjustment of the tax on airfares). 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 table below gives an overview of the most important fiscal measures. Quantifications are based on established maximum spending amounts or estimates provided in legislative proposals. Some measures, in particular investment measures, have been scheduled for a period of several years; in these cases, the table shows the total amount of subsidies over time.

The budgetary impact of these measures varies greatly. Transfers to businesses and households as well as tax cuts imply a deterioration of the budget balance. Loans and guarantees will have an impact on the budget balance (i.e. will increase spending) only if loans become nonperforming or guarantees are called. Deferrals of tax payments and/or social security contributions are reflected in the general government balance for 2020 only to a very small extent according to the ESA 2010 accounting rules and current accounting practice.

[3] *An estimate of the health-related costs caused by the COVID-19 pandemic is not available at present.*

Table 4

Largest fiscal measures to strenghten Austria's resilience and support recovery

			2020	2021	Amount over time
1 Largest fiscal measures to strenghten Austria's resilience and support recovery	Sector	ESA classification	*EUR million*		
Cut of personal income taxes in the lowest tax bracket to 20% (currently 25%)	HH	PIT	–1,375	–1,645	
Increase of negative tax (i.e. reimbursement of social security contributions)	HH	SSC		–180	
Cut of VAT to 5% for hospitality sector, publications and culture	C	VAT	–900		
Carryback of 2020 losses to 2019/2018	C	PIT, CIT	–2,000	–2,000	
Degressive depreciation for investment and faster depreciation for immovable property	C	PIT, CIT		–280	
Change in tax on airfares	HH/C	Other taxes on products	10	80	
2 Expenditures					
Short-time work (max.)	C		12,000		
Hardship fund (max.)	C		2,000		
Fixed cost grant to businesses that lost sales (max.)	C	Subsidy	8,000		4,000
Investment premium for new investment of 7% and 14%, respectively	C	Subsidy			2,000
One-off unemployment benefit (EUR 450/person)	HH	Unemployment benefit	198		
One-off child benefit (EUR 360/child)	HH	Family benefit	708		
3 Announced public sector investment programs					
Local government investment program (2020–2024)	HH/C	Gross fixed capital formation			2,000
Scaling up of renewable energy (2020–2022)	HH/C	Gross fixed capital formation			260
Renovation initiative (2020–2022)	HH/C	Gross fixed capital formation			750
Ecological investment (single public transport travel pass for Austria)	HH				740
School development plans (2020–2030)	HH/C				2,400
Climate-friendly investment (2020–2022)	HH/C				300
Start-up initiative (2020–2022)	C				450
Incentives for repairs (checks, bonuses, etc.) (2020–2022)	HH				100
Digitalization (2020–2022)	HH/C				100
Broadband investment	HH/C				166
4 Guarantees					
Guarantees (max.)	C		9,000		
Guarantees from the Austrian COVID-19 funding agency COFAG (EUR 15 billion in total for guarantees and fixed cost grant)	C		7,000		
5 Tax deferrals (as announced by Federal Ministry of Finance, no max. amount)	C	(PIT, SSC, VAT)	(–10,000)		

Source: Authors' compilation based on Ministry of Finance information.

Note: Amounts are taken from the impact assessments with regard to the relevant law and from media presentations by the government (public investment). HH=household sector; C=corporate sector.

After considerable budget surpluses in 2018 and 2019, Austria will see the largest budget deficit since the 1970s in 2020.[4] On the one hand, this is attributable to the measures described above, on the other hand, automatic stabilizers are causing a cyclical decrease in revenues and increase in spending. The debt ratio, which stood at 70.4% of GDP in 2019, is set to significantly increase in 2020 for the first time since 2016. This increase reflects the very high primary deficit in 2020 but also the decline in GDP, which reduces the nominator of the debt ratio. Under the European

[4] *Due to changes in accounting standards, the figures are not fully comparable; neither are current figures comparable with figures before the 1970s.*

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, 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 Stability and Growth Pact.

2 Austrian banks navigate challenging economic environment[5]

2.1 Profitability and capitalization of Austrian banks

Soaring risk costs and lower operating profits affect Austrian banks' profitability

In the first half of 2020, the Austrian banking sector's operating income fell by 2% year on year. This decline was driven by non-core items, while net interest income rose and income from fees and commissions was flat. As operating costs increased by 8% year on year (mainly driven by the impairment of equity investments), operating profits dropped by nearly one-quarter year on year.

In addition, soaring risk provisioning, which absorbed more than half of operating profit, led to a significant fall of consolidated profit, which totaled just EUR 0.9 billion in the first half of 2020 (–75% year on year).

Consequently, the return on average assets plunged and stood at 0.2% for the first half of 2020 (H1 2019: 0.8%).

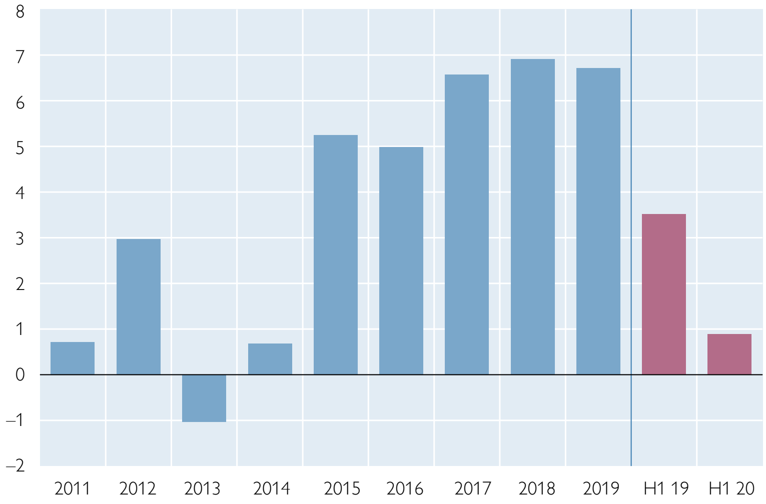
On top of the shock in the early stage of the COVID-19 crisis, structural efficiency challenges continue to be an issue for the Austrian banking sector, as the cost-to-income ratio remained high (H1 2020: 72%).

Domestic credit growth of Austrian banks recovered after a COVID-19-related slump

The growth of lending – especially to corporations – slumped immediately after the outbreak of the COVID-19 crisis in early 2020, but rebounded soon

Chart 9

Consolidated profit of the Austrian banking sector



Source: OeNB.

Table 5

Profit and loss statement of the Austrian banking sector, consolidated

	2011	2012	2013	2014	2015	2016	2017	2018	2019	*H1 2020*
	EUR billion									
Net interest income	20.4	19.3	18.6	19.3	18.3	14.6	14.5	15.2	15.6	*7.8*
Fee and commission income	7.6	7.3	7.6	7.7	7.7	6.6	6.9	7.1	7.2	*3.5*
Trading income	0.8	1.1	0.7	0.4	–0.0	0.1	0.1	–0.6	–0.3	*0.3*
Operating income	37.2	37.7	35.3	28.7	28.1	22.4	22.8	24.0	25.0	*11.8*
Operating costs	26.8	25.6	27.3	19.8	17.6	16.7	14.8	15.7	16.7	*8.5*
Operating profit	10.4	12.1	8.0	8.9	10.5	5.7	8.1	8.4	8.3	*3.3*
Risk provisioning	6.0	6.4	7.0	6.8	4.7	1.2	1.0	0.4	1.0	*1.8*
Profit after tax	0.7	3.0	–1.0	0.7	5.2	5.0	6.6	6.9	6.7	*0.9*

Source: OeNB.

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

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

afterward thanks to the introduction of moratoria and state guarantees.[6] As of July 2020, corporate lending grew by 5.9% and lending to households by 3.7% year on year. While among loans to households mortgage loans continued to grow strongly, corporations used the liquidity for bridge financing.

Nonperforming loan ratios brought down to low levels

In the first half of 2020, the ratio of nonperforming loans improved further, coming to 2.0% on a consolidated basis, or to 1.5% for domestic loans and to 2.3% for loans extended by CESEE-based subsidiaries of Austrian banks. However, it is expected that the economic slump will take a toll on the ratio of nonperforming loans when moratoria and state guarantees expire.

Aside: COVID-19-related loan moratoria and public guarantees to support lending to the real economy

In the current crisis, supervisory authorities implemented temporary relief measures that have made it easier for banks to lend to the real economy, which, in turn, has contributed to strengthening financial stability. The Austrian government adopted a legislative moratorium on credit and interest payments due between April 1, 2020, and January 31, 2021, deferring such payments by debtors suffering from income losses in connection with the COVID-19 crisis for a period of ten months and extending loan tenors by the time of the moratorium (see also table 6). By the beginning of September (week starting August 31), Austrian banks had granted loan moratoria in the amount of EUR 23 billion, which corresponded to around 7% of the credit portfolio to households and nonfinancial corporations. Thereof, roughly 30% were attributable to the statutory moratorium, and more than 70% were based on voluntary payment deferrals[7]. At the same time, around 19,000 loans subject to COVID-19-related public guarantees on loans totaling EUR 6 billion had been issued.

The OeNB is closely monitoring the effects of these support and relief measures. The results of an OeNB scenario analysis to assess the impact of COVID-19 on Austrian banks which takes into account complex mitigating measures show that the measures adopted to support the real economy have contributed to stabilizing the banking sector.[8] At the same time, it can be expected that COVID-19 will have an impact on Austrian banks' profitability in the medium term due to a deterioration in loan quality, which consequently leads to additional provisioning needs, especially when support measures expire. However, the full picture about financial stability effects will become visible only gradually, given the high uncertainty as to how the pandemic will evolve, its economic consequences, as well as the further availability of support measures.

Capitalization at a solid level

As of mid-2020, Austrian banks reported a consolidated common equity tier 1 (CET1) ratio of 15.5% (unchanged year on year). Compared with levels before the global financial crisis that started in 2008, the Austrian banking sector has more

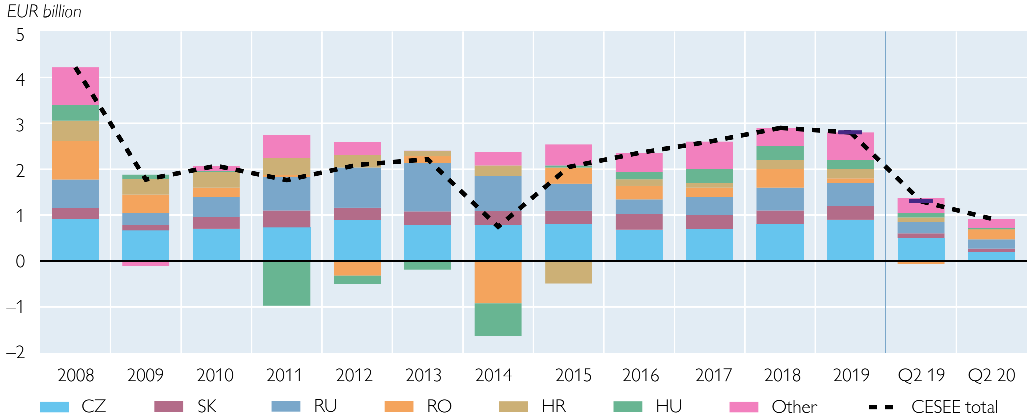
[6] *See also section 1.6 above for loan developments to domestic nonfinancial corporations and households*

[7] *Voluntary payment deferrals include agreements under the nonstatutory moratorium (as described in table 6) and individual forbearance measures agreed bilaterally between banks and their customers.*

[8] *For more details on the scenario analysis please refer to the OeNB's Financial Stability Report 39.*

Chart 10

Net results of Austrian banks' subsidiaries in CESEE



Source: OeNB.

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

than doubled its capital ratio, in line with tighter prudential requirements. In light of the currently high level of macroeconomic uncertainty related to COVID-19 developments and in order to preserve capital, banks should refrain from and/or postpone share buybacks and consider the distribution of dividends, profits as well as bonuses with particular care in line with national and international recommendations and regulation.

2.2 Austrian banks' profitability in CESEE decreased due to rising risk costs but continued to provide important – albeit smaller – contribution to consolidated result

With risk costs rising significantly due to the pandemic in the first half of 2020, the aggregate net profit (after tax) of Austrian banks' CESEE subsidiaries amounted to EUR 0.9 billion in the first half of 2020, which is down about one-third in a year-on-year comparison.

Profits went down particularly strongly for Austrian subsidiaries in Czechia and Slovakia, which are among the most important contributors to the consolidated profitability of Austrian banks.

2.3 Macroprudential measures strengthen financial stability

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

So far, the systemic risks arising from residential housing financing have remained limited in Austria, although mortgage prices have recently gone up. Already in 2018, Austria's Financial Market Stability Board (FMSB) followed a recommendation by the OeNB and issued a public guidance on sustainable real estate financing[9]. An evaluation based on OeNB analyses yielded mixed evidence on how effectively these expectations were translated into banks' lending standards. Starting from

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

high levels, loan-to-value ratios and maturities were found to have improved slightly for banks' new lending business, while this was not the case for debt service-to-income ratios. Against the background of rising real estate prices and record low interest rates, the analysis concluded that there are signs of rising systemic risks in real estate financing and that compliance with supervisory expectations will be crucial for safeguarding financial stability in Austria. This opinion is shared at the European level by the European Systemic Risk Board (ESRB) and the European Central Bank (ECB) as well as by international organizations, such as the International Monetary Fund (IMF) and the Organisation for Economic Co-Operation and Development (OECD). The OeNB will therefore continue to monitor developments in real estate markets and banks' compliance with sustainable lending standards communicated by the FMSB. A new reporting framework for this purpose will be in place as of end-2020.

Macroprudential capital buffers strengthen financial stability

Austria's macroprudential policy measures also include a systemic risk buffer (SyRB) aimed at mitigating noncyclical long-term risks. This buffer has been activated for *13 Austrian banks* on a consolidated level, ranging from 0.5% to 2% of risk-weighted assets.[10] The SyRB was implemented in early 2016 with a view to addressing two risk channels: systemic vulnerabilities and systemic cluster risk. Systemic risk emerges in the context of capitalization, banking sector size, the size of foreign exposures as well as banking groups' ownership and group structures. The past years have shown that the banks that have to hold a SyRB have managed to build up the required capital while sustaining strong lending.

Every year, the OeNB also evaluates the relevance of other systemically important institutions (O-SIIs) for Austria's financial system and assesses whether the malfunctioning or failure of such banks could trigger systemic risks that would require corresponding action. The FMSB renewed its recommendation in this respect as well as on the SyRB in June 2020. Where both the SyRB and the O-SII buffer might be applicable, the higher of the two rates applies at present. This will change with the new capital buffer regime under the Capital Requirements Directive (CRD) V, which is to be implemented by end-2020. Under the CRD V, the two buffers will be additive. In its recommendation regarding the buffer requirements beyond end-2020, however, the FMSB also took into account the high degree of uncertainty surrounding the further course of the crisis. This means that the overall buffer requirements have been left largely unchanged *(FMSB recommendation 3/2020 of June 15, 2020).*

Also, following a regular review, it was decided on the basis of OeNB analyses that the countercyclical capital buffer (CCyB) was to be maintained at 0% of risk-weighted assets in the absence of excessive credit growth *(FMSB recommendation 2/2020 of June 15, 2020).*

Austria's macroprudential policy, driven by the analytical work of the OeNB, was effective in mitigating systemic risks. Macroprudential capital buffers help to improve the way investors, rating agencies and international financial institutions

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

Table 6

Overview of COVID-19-related supervisory measures

Statutory credit moratorium Federal Law Gazette Part 1 No. 24/2020 Federal Law Gazette Part 1 No. 58/2020	Option for household or micro-business borrowers to defer repayments, interest and redemption payments Since April 1, 2020; extended to October 31, 2020, and later to January 31, 2021
Banking Industry/FMA/EBA – private / nonstatutory loan moratorium (compliant with EBA Guideline)	Agreements under this contractual moratorium were possible until 31st of August 2020. The moratorium is complementary to the statutory moratorium. Customers who made use of the statutory moratorium cannot benefit from the nonstatutory moratorium. It is available to the asset classes (a) retail, (b) corporates und (c) loans secured by real estate mortgages and to leasing exposures. Bullet loans are explicitly excluded from the scope of the moratorium. Credit agreements must have been concluded prior to March 15, 2020; the moratorium covers claims by the borrower for redemption, interest payments or repayments of the principal amount which become due from March 15, 2020, onward. The moratorium defers the schedule of payments by a maximum of nine months, but until March 31, 2021, at the latest.
ECB/SSM: banking supervision	Temporary capital and liquidity relief for banks with regard to capital buffers, Pillar 2 Requirements and liquidity coverage ratios Since March 12, 2020; no end date set
EBA: banking supervision	Clarifications with regard to the definition of default and to moratoria, forbearance and IFRS 9
FMA: banking and insurance supervision https://www.fma.gv.at/en/covid-19/	Recommendations issued by the ECB/SSM and the FMA with regard to dividend payments, share buybacks and variable remuneration during the COVID-19 pandemic Originally until October 1, 2020; extended until January 1, 2021
FMA: banking supervision Article 22 para. 13 Financial Market Authority Act	The FMA may issue regulations to extend statutory deadlines for reports, notifications, disclosures, etc. upon justified requests in individual cases or for reasons of general expediency. Until December 31, 2020
FMA: securities supervision	FMA regulation of March 18, 2020, on the temporary restriction of short-selling of certain financial instruments (with regard to individual transactions). Until April 18, 2020; as of April 16, 2020, extended until May 18, 2020

Source: Authors' compilation.

perceive the Austrian banking sector. As a consequence, refinancing costs have gone down both for banks and for the real economy. Now, in the midst of the COVID-19 crisis, Austrian banks have at their disposal an additional EUR 19 billion of macroprudential capital buffers to absorb potential losses and maintain lending throughout the pandemic. Austrian banks have been able to maintain their funding cost advantage during the crisis relative to other banking systems; this allows them to support the recovery of the real economy. Furthermore, the resilience of the banking system has also benefited from a substantial contribution from retained profits.

Foreign currency loans in Austria and CESEE continue to decline

Supervisory measures adopted by the OeNB and the FMA early on have contributed to the fact that foreign currency loans extended in Austria no longer pose a systemic risk. In the first half of 2020, the volume of outstanding foreign currency loans to domestic households fell by 6.8% (exchange rate adjusted) to EUR 12.8 billion. This corresponds to a foreign currency loan share of 7.5%, down from 8.0% in December 2019. The impact of the COVID-19 pandemic is limited so far, as foreign currency loans are bullet loans and the yield of repayment vehicles is mainly influenced by the low interest rate environment. The volume of foreign currency loans extended by Austrian banks' CESEE subsidiaries to households dropped by 72%

(exchange rate adjusted) to EUR 9.9 billion from end-2010 to end-2019. This translates into a 13.5% share of foreign currency loans in total retail lending. Euro-denominated loans accounted for 74% at end-2019.

Funding situation of Austrian banks' CESEE subsidiaries is balanced

The OeNB's and FMA's supervisory guidance on strengthening the sustainability of the business models of large internationally active Austrian banks (Sustainability Package, published in 2012) aims at strengthening foreign subsidiaries' local stable funding base and avoiding excessive credit growth. It thereby reinforces financial stability both in the host countries and in Austria. Ongoing monitoring confirms that Austrian banks' CESEE subsidiaries have a balanced funding base. By the end of the second quarter of 2020, the loan-to-deposit ratio of all Austrian CESEE subsidiaries stood at 77%, compared with 106% at the end of 2011.

3 Annex of tables and charts

Table A1

Real GDP

	2011	2012	2013	2014	2015	2016	2017	2018	2019
	Annual change in %								
Austria	2.9	0.7	0.0	0.7	1.0	2.1	2.5	2.4	1.6
Euro area	1.7	–0.9	–0.2	1.4	2.0	1.9	2.6	1.8	1.3
EU	1.8	–0.4	0.3	1.7	2.3	2.0	2.6	2.0	1.5

Consumer price indices

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

Unemployment rates

	2011	2012	2013	2014	2015	2016	2017	2018	2019
	% of labor force								
Austria	4.6	4.9	5.4	5.6	5.7	6.0	5.5	4.9	4.5
Euro area	9.6	10.5	10.8	10.2	9.4	8.5	7.6	6.8	6.3
EU	10.2	11.3	12.0	11.6	10.8	10.0	9.0	8.1	7.5

Current account balances

	2011	2012	2013	2014	2015	2016	2017	2018	2019
	% of GDP								
Austria	1.6	1.5	1.9	2.5	1.7	2.7	1.6	2.3	2.6
Euro area	0.9	2.3	2.9	3.1	3.5	3.6	3.6	3.6	3.0
EU	0.5	1.3	1.7	1.7	1.9	2.0	2.4	2.2	1.8

Budget balances

	2011	2012	2013	2014	2015	2016	2017	2018	2019
	% of GDP								
Austria	–2.6	–2.2	–2.0	–2.7	–1.0	–1.5	–0.8	0.2	0.7
Euro area	–4.2	–3.7	–3.0	–2.5	–2.0	–1.5	–1.0	–0.5	–0.6
EU	–4.6	–4.3	–3.3	–2.9	–2.4	–1.7	–1.1	–0.7	–0.8

Government debt ratios

	2011	2012	2013	2014	2015	2016	2017	2018	2019
	% of GDP								
Austria	82.4	81.9	81.3	84.0	84.9	82.9	78.3	74.0	70.4
Euro area	87.8	90.9	92.8	93.0	91.0	90.2	87.9	86.0	84.3
EU	82.0	84.4	86.3	87.0	84.9	83.8	82.1	80.4	79.3

Source: Eurostat, Statistics Austria, IMF.

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

Table A2

General government interest payments

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

Household debt

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	% of disposable net income									
Austria	93.7	93.3	91.1	90.8	90.5	92.1	92.1	90.8	90.3	89.8
Euro area	120.9	120.0	119.3	118.0	116.4	116.2	115.4	115.6	114.9	115.8
	% of GDP									
Austria	55.0	53.6	53.0	52.0	51.8	51.6	51.8	50.8	50.2	50.2
Euro area	71.8	70.7	70.0	68.9	67.3	66.3	65.7	65.2	64.8	65.3

Corporate debt[1]

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	% of gross operating surplus[2]									
Austria	390.3	382.2	389.2	418.5	398.0	394.8	389.8	391.4	390.1	396.0
Euro area	490.8	499.2	522.3	508.3	520.5	516.2	511.3	502.1	503.6	505.1
	% of GDP									
Austria	93.1	92.2	91.7	95.6	91.7	91.5	91.9	91.8	91.8	90.5
Euro area	100.5	102.9	104.4	102.2	105.4	109.1	109.4	107.9	107.3	107.0

Residential property price index

	2015	2016	2017	2018	2019	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20
	Index 2000=100									
Austria excluding Vienna	152.9	166.7	174.9	189.8	194.8	193.7	195.2	196.3	199.3	206.9
Vienna	209.2	217.2	220.4	232.0	243.2	245.4	242.4	244.9	249.5	255.6
	Annual change in %									
Austria excluding Vienna	5.1	9.1	4.9	8.5	2.6	3.6	1.7	1.2	2.8	6.8
Vienna	2.2	3.8	1.5	5.2	4.9	7.0	2.7	4.3	3.9	4.1

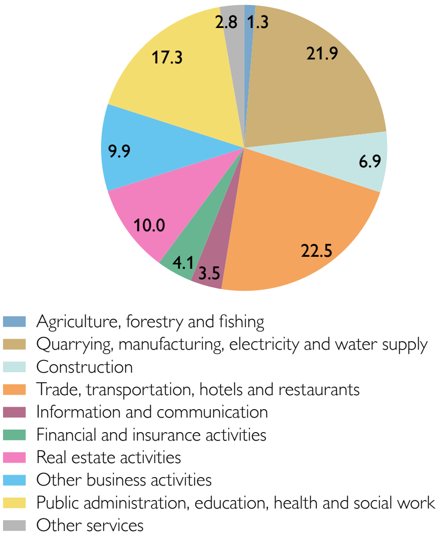
Source: OeNB, Austria Immobilienbörse, Prof. Wolfgang Feilmayr, Department of Spatial Planning, Vienna University of Technology.

[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 2019

% of total gross value added, at current prices

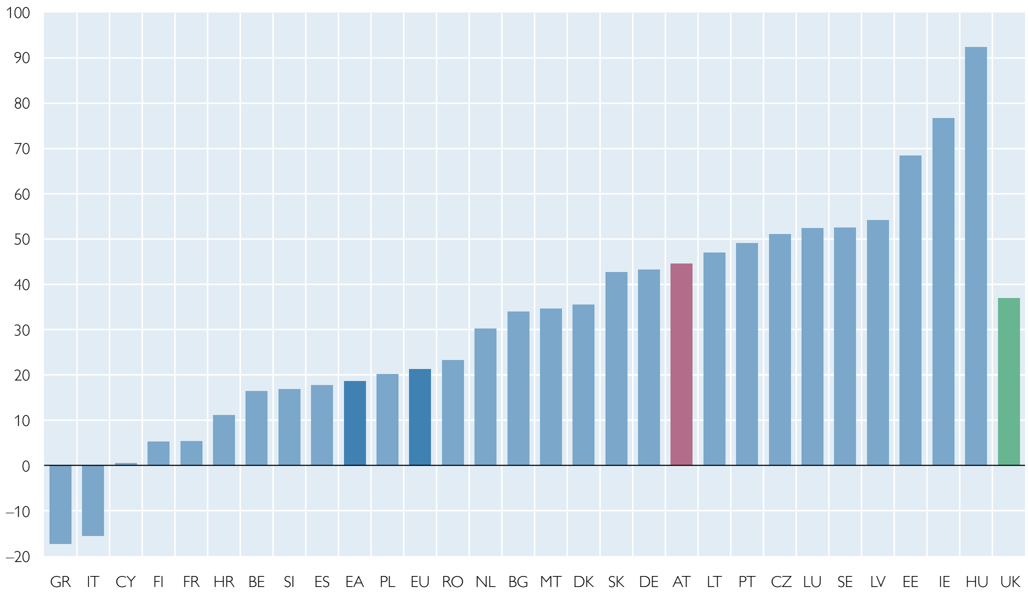


Source: Statistics Austria.

Chart A2

Change in house prices between 2012 and 2019

Change on 2012 in %



Source: ECB.

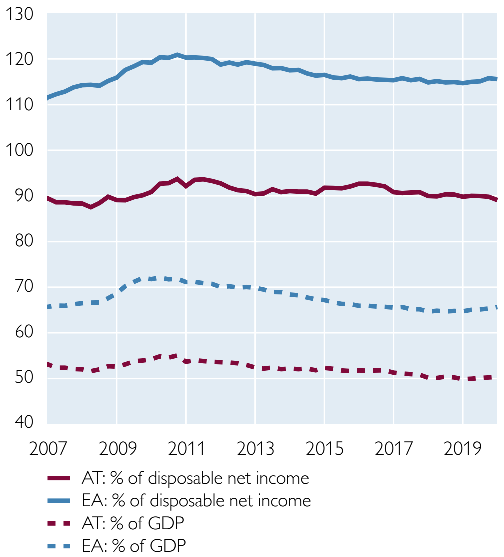
Note: Prices of new and existing dwellings (current prices).

Chart A3

Household and corporate debt levels in Austria and the euro area

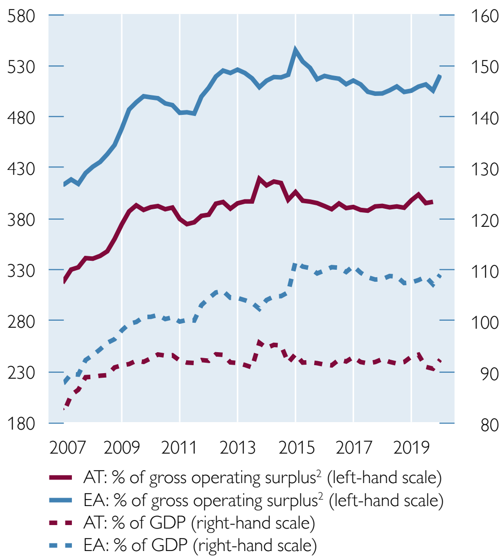
Household sector debt

%



Corporate debt[1]

% %



Source: ECB.

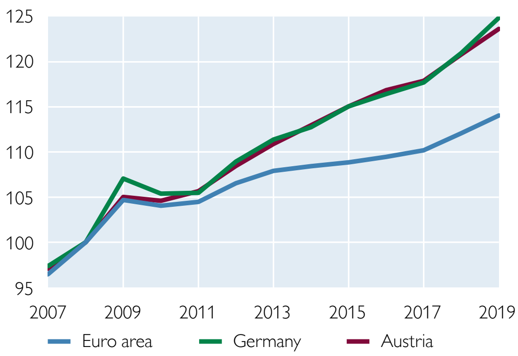
[1] *Short- and long-term loans, money and capital market instruments.*
[2] *Including mixed income of the self-employed.*

Chart A4

International competitiveness

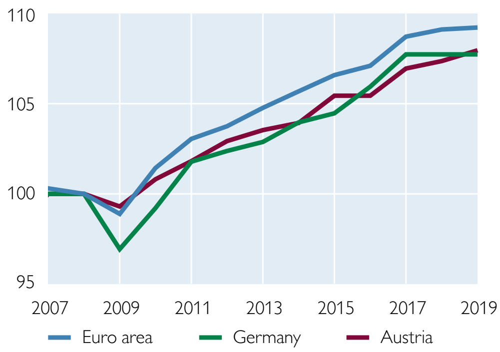
Unit labor costs

2008=100



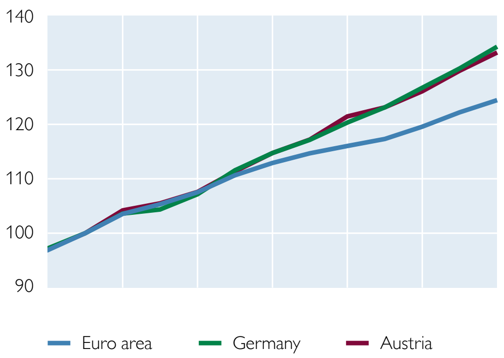
Productivity per hour worked

2008=100



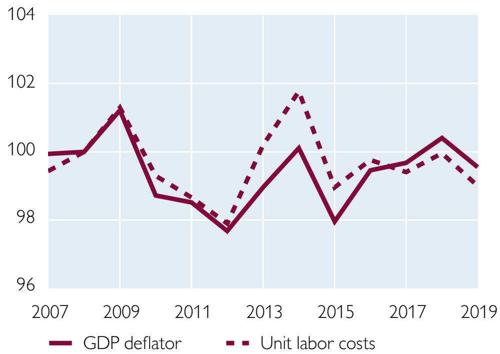
Compensation per hour worked

2008=100



Real effective exchange rate

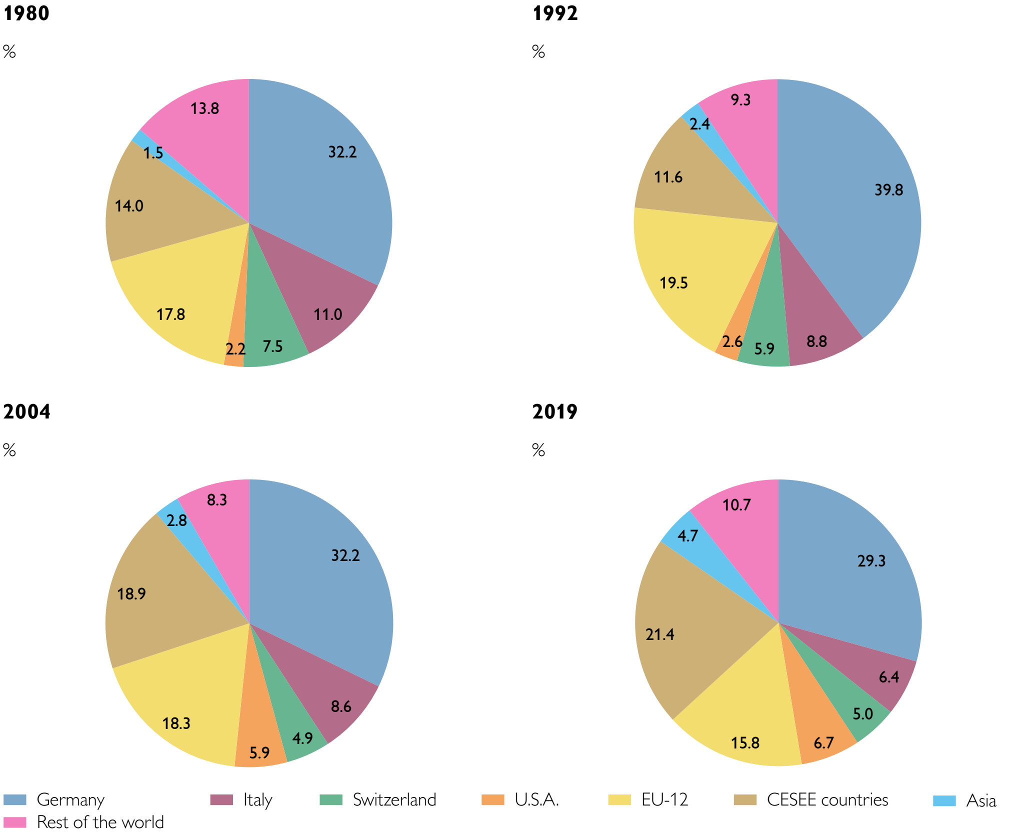
2008=100



Source: Eurostat; real effective exchange rate: ECB.

Chart A5

Regional pattern of Austrian goods exports 1980–2019



Source: Statistics Austria..

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

Table A3

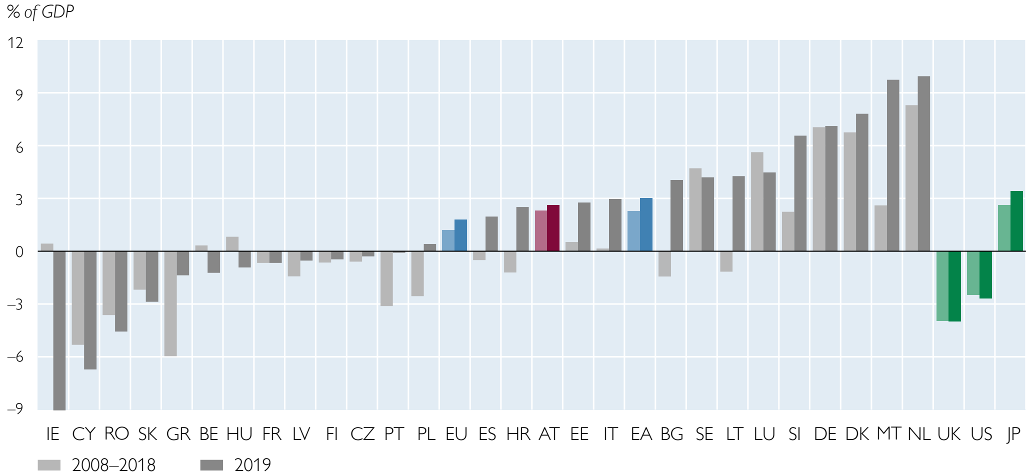
EU fiscal governance requirements

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

Source: Statistics Austria, European Commission.

Chart A6

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

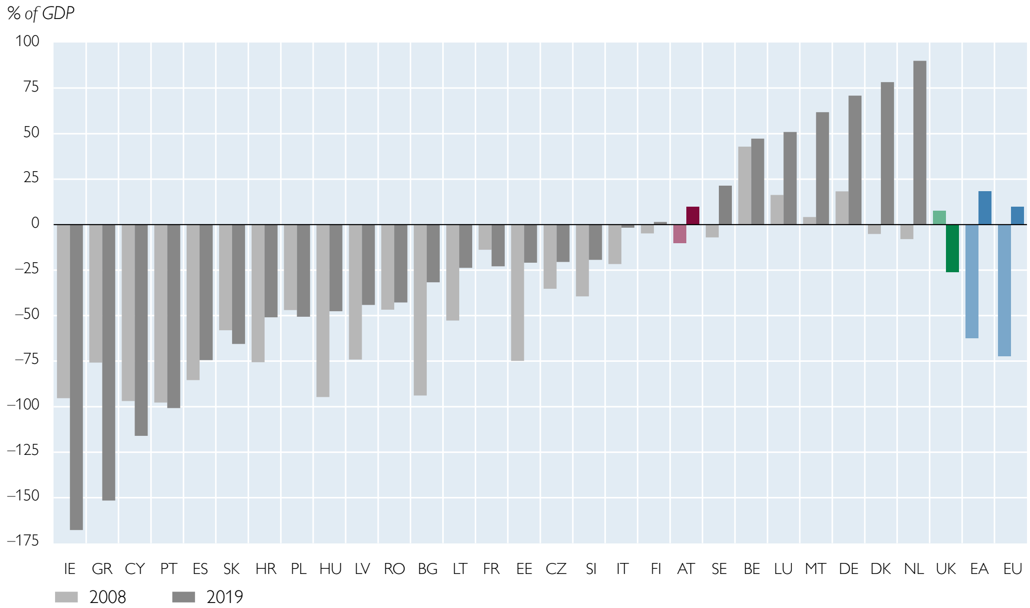


Source: Eurostat.

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

Chart A7

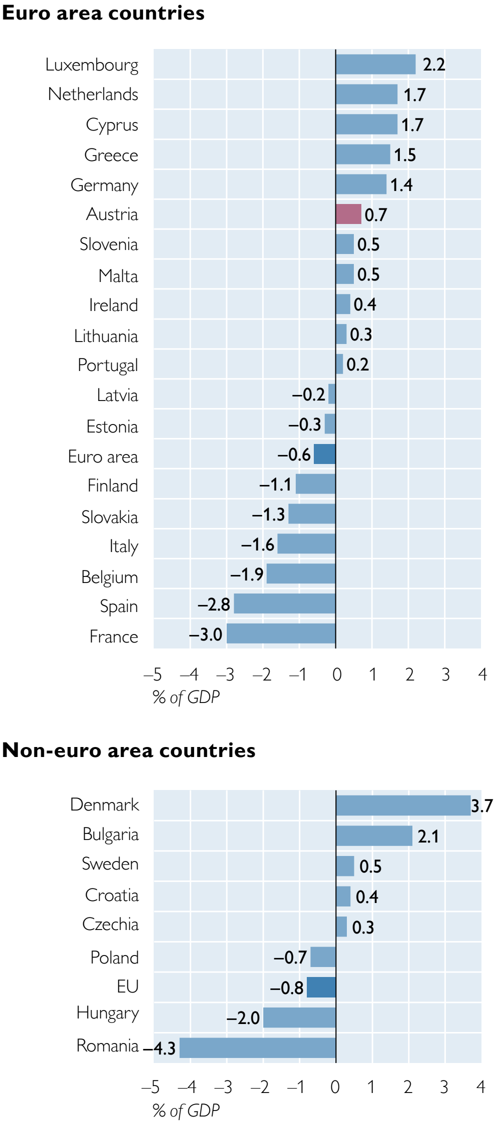
Net international investment position



Source: Eurostat, ECB (SDW).

Chart A8

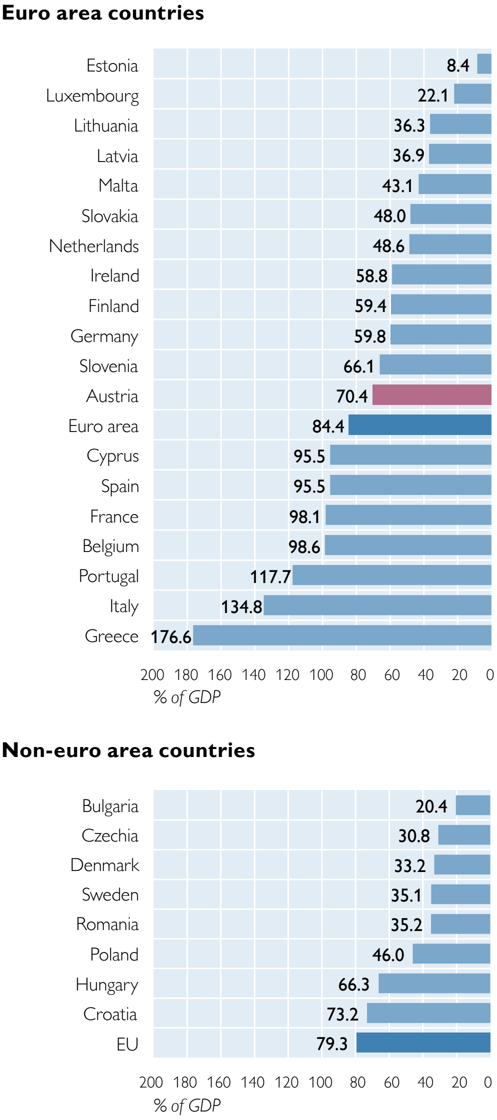
Budget balances of EU Member States in 2019



Source: Eurostat, Austria: Statistics Austria.

Chart A9

Public debt of EU Member States in 2019



Source: Eurostat, Statistics Austria (data for Austria).

"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.

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Editing and translations	*OeNB Language Services*
Layout and typesetting	*Sylvia Dalcher*
Design	*Information Management and Services Division*
Printing and production	*Oesterreichische Nationalbank, 1090 Vienna*
Data protection information	*www.oenb.at/en/dataprotection*