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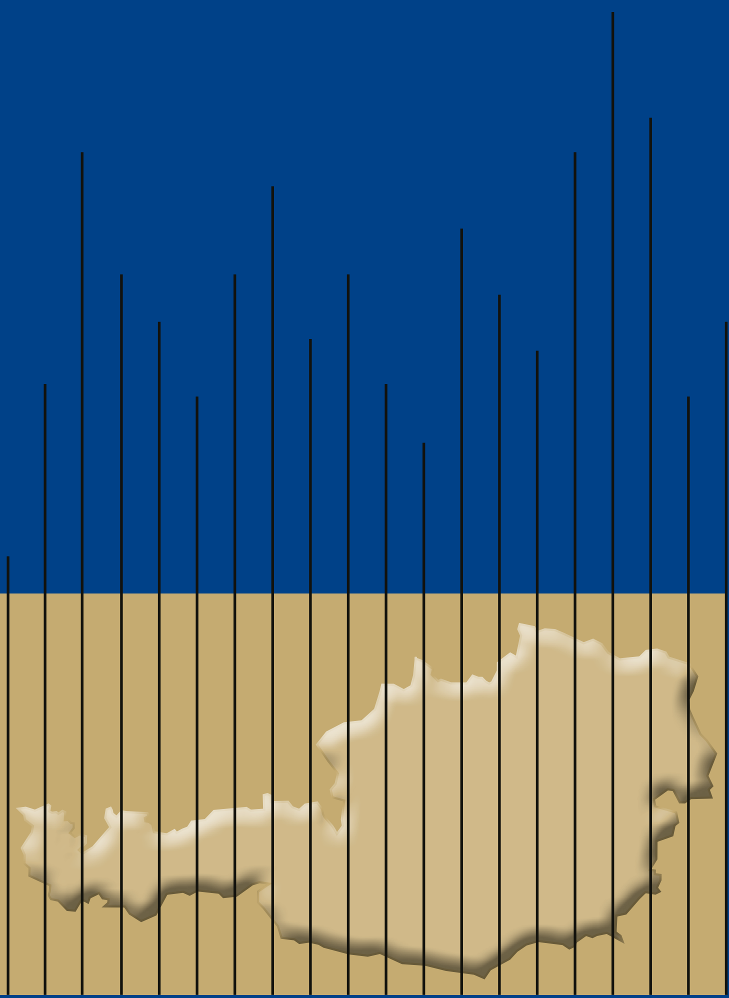


Security through stability.

October 2023

Contents

Key indicators for the Austrian economy

Cutoff date: October 4, 2023.

Table 1

Key indicators for the Austrian economy

	Q2 22	Q3 22	Q4 22	Q1 23	Q2 23	2020	2021	2022
Economic activity	*EUR billion (four-quarter moving sums)*							
Nominal GDP	428.9	437.4	447.1	458.1	465.4	380.3	405.1	447.1
	Change on previous period in % (real)							
GDP	2.0	–0.4	–0.0	0.1	–0.8	–6.6	4.2	4.8
Private consumption	0.6	–0.2	–0.3	0.8	–0.3	–8.5	4.0	5.8
Public consumption	–0.4	–1.3	1.4	–1.4	1.5	–0.4	7.7	0.1
Gross fixed capital formation	–1.8	0.5	2.2	–1.6	–2.4	–5.2	6.0	0.3
Exports of goods and services	7.9	–0.4	0.2	0.5	–2.4	–11.2	9.4	11.8
Exports of goods	4.9	4.1	–0.9	1.1	–3.7	–8.3	12.3	7.7
Imports of goods and services	–0.0	0.4	–0.6	–1.3	–1.0	–10.0	14.0	8.1
Imports of goods	–1.1	0.4	–0.3	–2.1	–0.8	–7.3	15.1	5.2
	% of nominal GDP							
Current account balance	×	×	×	×	×	3.4	1.6	–0.3
Prices	*Annual change in %*							
HICP inflation	7.9	9.9	11.1	10.6	8.6	1.4	2.8	8.6
Compensation per employee	4.4	5.6	5.4	7.3	7.5	1.9	2.8	4.8
Unit labor costs	0.7	5.1	4.7	7.0	9.8	7.5	0.5	2.5
Productivity	3.6	0.5	0.6	0.3	–2.1	–5.2	2.3	2.2
Income and savings	*Annual change in %*							
Real disposable household income	–0.5	7.9	–7.3	1.9	–3.0	–2.8	1.8	3.1
	% of nominal disposable household income							
Saving ratio	×	×	×	×	×	13.2	11.2	9.2
Labor market	*Change on previous period in %*							
Payroll employment	0.6	0.2	0.4	0.6	0.1	–2.0	1.9	2.9
	% of labor supply							
Unemployment rate (Eurostat)	4.4	5.0	5.0	4.8	5.0	6.1	6.2	4.8
Public finances	*% of nominal GDP*							
Budget balance	×	×	×	×	×	–8.0	–5.8	–3.5
Government debt	×	×	×	×	×	83.0	82.5	78.4

Source: Statistics Austria, Eurostat.

Note: x = data not available.

Table 2

Key indicators for Austrian banks

	Q2 22	Q3 22	Q4 22	Q1 23	Q2 23	2019	2020	2021	2022
Austrian banking system – consolidated									
Structure	*EUR billion*								
Total assets	1,231.4	1,251.4	1,199.7	1,243.6	1,231.6	1,032.3	1,136.4	1,196.6	1,199.7
Exposure to CESEE[1]	294.3	296.8	293.2	307.0	309.3	233.3	244.5	278.9	293.2
Number of credit institutions in Austria	520.0	500.0	493.0	493.0	493.0	573.0	543.0	520.0	493.0
Number of inhabitants per bank branch in Austria	2,678.0	2,679.0	2,715.0	2,763.0	2,797.0	2,521.0	2,833.0	2,594.0	2,715.0
Solvency	*EUR billion*								
Equity capital	101.0	101.7	103.2	104.3	106.7	90.9	94.3	99.2	103.2
	% of risk-weighted assets								
Solvency ratio	18.7	18.8	19.2	19.2	19.6	18.7	19.5	19.3	19.2
Tier 1 capital ratio	16.8	16.8	17.3	17.3	17.6	16.3	17.2	17.1	17.3
Common equity tier 1 (CET1) ratio	15.8	15.8	16.3	16.3	16.6	15.6	16.1	16.0	16.3
	% of selected balance sheet items								
Leverage ratio [2]	7.4	7.4	7.9	7.6	7.9	7.6	7.4	7.6	7.9
Profitability	*EUR billion*								
Net result after tax	3.5	5.5	10.2	3.3	7.3	6.7	3.7	6.1	10.2
	%								
Return on assets (annualized)[3]	0.6	0.6	0.9	1.2	1.3	0.7	0.4	0.6	0.9
Cost-to-income ratio	73.3	68.2	59.3	54.1	50.2	66.9	66.8	65.0	59.3
Credit quality[4]	*%*								
Loan loss provision stock ratio	1.4	1.4	1.4	1.4	1.7	1.5	1.5	1.4	1.4
Nonperforming loan (NPL) ratio	2.1	2.0	2.1	2.0	2.0	2.2	2.4	2.1	2.1
Credit developments	*%*								
Annual growth of credit to nonbanks in Austria	7.2	7.6	5.2	4.3	2.6	4.3	3.9	6.6	5.2
Share of foreign currency loans in Austria (outstanding amount)	3.5	3.4	3.1	3.0	3.0	5.3	4.3	3.6	3.1
Austrian banks' subsidiaries in CESEE[1]	*EUR billion*								
Net result after tax	2.0	3.6	5.2	1.1	2.7	2.8	1.9	3.0	5.2
	%								
Return on assets (annualized)[3]	1.5	1.7	1.9	1.5	1.8	1.3	0.9	1.1	1.9
Cost-to-income ratio	45.0	41.5	39.9	47.9	44.0	52.3	53.5	51.9	39.9
Loan loss provision stock ratio[4]	2.0	2.1	2.1	2.1	2.3	2.2	2.5	2.2	2.1
Nonperforming loan (NPL) ratio[4]	1.8	1.8	1.8	1.7	1.9	2.4	2.4	2.0	1.8
Share of foreign currency loans	21.2	×	22.4	×	18.1	23.5	24.1	21.2	22.4
Loan-to-deposit ratio	69.8	70.9	72.4	69.9	70.9	79.8	74.8	73.5	72.4

Financial assets of households and nonfinancial corporations

	Q2 22	Q3 22	Q4 22	Q1 23	Q2 23	2019	2020	2021	2022
Households	*EUR billion*								
Financial assets	801.9	798.2	805.7	812.4	821.3	721.4	768.6	827.0	805.7
Financial liabilities (loans)	214.4	216.2	215.7	214.0	213.6	194.3	199.9	208.8	215.7
of which foreign currency loans	9.5	9.5	8.9	8.4	8.2	13.6	11.6	10.9	8.9
of which foreign currency housing loans	8.2	8.2	7.7	7.3	7.1	11.8	10.0	9.4	7.7
Nonfinancial corporations	*EUR billion*								
Financial assets	669.5	674.5	658.8	656.9	648.3	549.2	584.8	663.1	658.8
Financial liabilities	995.1	988.1	988.3	988.0	984.3	869.4	897.1	1,004.0	988.3
of which loans and securities (other than shares and other equity)	466.5	469.3	459.1	451.3	448.9	413.7	422.1	463.2	459.1
of which shares and other equity	492.1	483.4	492.4	500.1	497.0	424.2	441.4	506.5	492.4
	EUR billion (four-quarter moving sums)								
Gross operating surplus and mixed income	100.1	99.9	102.5	105.8	110.4	90.4	91.4	99.3	105.8

Source: OeNB, Statistics Austria.

[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.*

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

Overview

Economic activity impacted by severe external shocks

- *In 2022, economic activity in Austria grew by almost 5%, surpassing its pre-pandemic level by 2%. The sharp rise in inflation and the associated loss of purchasing power led to a decline in economic output in mid-2023, which had already stagnated for several quarters before that. This means that the Austrian economy is heading for a mild recession in 2023. However, a moderate recovery is still expected for 2024, supported by an improvement in household income.*
- *The structure of Austria's economy continues to be broadly diversified and sectorally balanced.*
- *The Austrian labor market remains robust despite the predicted slowdown in activity and the high inflation environment. The Austrian unemployment rate increased slightly in the first half of 2023, while employment growth stagnated. The shortage of workers, which has existed for some time, may have prevented a reduction in employment so far.*
- *Having recorded an average inflation rate of 1.9% between 1999 and 2021, Austria is among the countries that successfully maintained price stability in line with the Eurosystem's definition (i.e. HICP inflation at a rate of 2% over the medium term) for a long time. However, as a result of the COVID-19 pandemic, supply chain disruptions and in reaction to the war in Ukraine, energy prices have risen significantly, driving HICP inflation rates to the highest levels since the introduction of the euro – also in Austria. Since inflation peaked in January 2023, HICP inflation has fallen. For 2025, the OeNB expects an inflation rate of 3.1%.*
- *The Austrian real estate market was buoyant from the mid-2000s until waning affordability and rising funding costs led to a trend reversal. Since the fourth quarter of 2022, Austrian housing prices have been slightly falling. According to the results of the OeNB fundamentals indicator, the overvaluation of residential property prices is declining.*
- *The economic disruptions caused by the COVID-19 pandemic, in particular restrictions in private consumption (especially services), drove up household savings to unprecedented levels in Austria in 2020 (13.2%). In 2022, the saving ratio fell to 9.0%, approaching its pre-pandemic level of 7.8% (2019).*
- *Financial assets held by households totaled EUR 805.7 billion or 180% of GDP in 2022. The household sector's debt ratio stood at 47.9% of GDP, corporate debt equaled 101.5% of GDP in the first quarter of 2023. Both indicators are below the euro area average.*
- *Austria's foreign trade in goods is well diversified both by region and product type. In 2022, more than half of Austria's foreign trade involved other euro area countries and was therefore not exposed to any direct exchange rate risks. After Germany, which still accounts for an export share of 30%, Central, Eastern and Southeastern Europe (CESEE) is Austria's second most important export market.*
- *In 2022, the worsening deficit in the goods balance due to increased energy prices could not any longer be outweighed by a higher services balance surplus. Austria hence recorded a current account deficit of EUR 1.3 billion or 0.3% of GDP in 2022. In contrast, Austria's net international investment position improved further to EUR 78.6 billion (17.6% of GDP) in 2022.*
- *The Austrian budget balance improved to –3.5% of GDP in 2022, directly resulting from strong revenue growth throughout the year. A greater improvement was prevented by the substantial fiscal measures implemented in response to the energy price and inflation crisis. In the coming years, the deficit is expected to improve only slightly due to the macroeconomic environment and increased expenditure on interest on public debt.*

Austrian banking system resilient and highly profitable in rising interest rate environment

The Austrian banking sector has increased its resilience and profitability in a challenging environment marked by rising interest rates. Globally, the Austrian banking system is ranked among the highest rated systems, as confirmed by S&P Global Ratings' Banking Industry Country Risk Assessment (end-February 2023).

- *As of mid-2023, the consolidated Austrian banking system's total assets amounted to about EUR 1.2 trillion. Its net profit more than doubled year on year, coming to EUR 7.3 billion in the first half of 2023, while the consolidated NPL ratio[1] remained low at 2.0%.*
- *Austrian banks' subsidiaries in CESEE accounted for total assets of nearly EUR 300 billion as of mid-2023. Their net profit amounted to EUR 2.7 billion in the first half of the year, up more than a third year on year, and the NPL ratio stood at 1.9%. The region remains a very important market for the Austrian banking system, with subsidiaries in CESEE EU countries accounting for more than 80% of Austrian bank's assets in CESEE.*
- *The Austrian banking sector has more than doubled its capitalization in the years since the global financial crisis of 2008–09, thereby increasing its resilience. As of June 2023, the common equity tier 1 (CET1) ratio of Austrian banks was 16.6%. In light of weakening macroeconomic conditions, a careful handling of profit distributions is still warranted.*
- *The demand for home ownership and corporate liquidity had been driving bank lending in Austria until mid-2022. Since then, loan growth has been decelerating, however, due to fading demand for mortgage loans amid rising interest rates and reduced financing needs of companies. Corporate loans grew by 4.7% as of end-August 2023 (year on year), whereas the growth of loans to households declined to –1.3%.*
- *To reduce systemic risks from residential real estate and protect households from taking on excessive debt, the Austrian Financial Market Authority (FMA) has issued a regulation for sustainable lending standards for residential real estate financing, which became effective on August 1, 2022. It includes upper limits for loan-to-value ratios (90%), debt service-to-income ratios (40%) and loan maturities (35 years), subject to exemptions that give credit institutions adequate operational flexibility. Recent data show that these measures have improved lending standards in Austria, which effectively reduces risks to financial stability and the real economy.*
- *Commercial real estate lending has been attracting increasing attention as property valuations are being challenged by increasing interest rates. Lenders are therefore called upon to ensure appropriate valuations and provide for adequate risk provisioning.*
- *As regards macroprudential buffers, the Austrian Financial Market Stability Board (FMSB) completed its annual evaluation in October 2023, finding that the gradual increase in the combined requirements of the systemic risk buffer (SyRB) and systemically important institutions (O-SII) buffer, which was provisionally limited to a maximum of +0.5 percentage points, can be continued (in line with the FMSB's previous recommendation[2]).*

[1] *The definition of the nonperforming loan (NPL) ratio excludes cash balances at central banks and other demand deposits.*

[2] *For further details, see FMSG – Recommendation FMSB/5/2022.*

1 External shocks are feeding through to Austria's economy

1.1 Aftermath of the pandemic and war in Ukraine determine macroeconomic developments

High energy prices and declining purchasing power weigh on economic activity

Austrian economic activity was characterized by two distinct phases in 2022: The first half of the year was still heavily influenced by pandemic-related catch-up effects, while during the second half, growth slowed down significantly due to the Russian war against Ukraine and high inflation. Overall, real GDP grew by 4.8% in 2022, surpassing its pre-crisis level (2019) by 2%. The war led to a significant increase in energy prices, triggering a loss in competitiveness of the European industry, strong inflationary second-round effects and a loss in purchasing power. In addition, the external environment deteriorated amid tighter financing conditions and a weaker than expected recovery in China. With the end of the pandemic, demand shifted from durable consumer goods to services, and the resolution of global supply bottlenecks led to a reduction in inventories, which had been heavily stocked out of caution. These conditions have been weighing on production in industry, construction and retail trade. After stagnating during the winter of 2022, Austrian GDP fell comparatively sharply in the second quarter of 2023, with leading economic indicators pointing to a further decline in the third quarter. As a result, the Austrian economy is heading for recession in 2023. In 2024, an improving global environment and increasing real disposable household incomes due to easing inflationary pressures and strong nominal wage growth will support a moderate economic recovery. Despite high inventory levels, energy supply disruptions, for example due to a further intensification of the war in Ukraine, remain the biggest downside risk to growth.

Chart 1

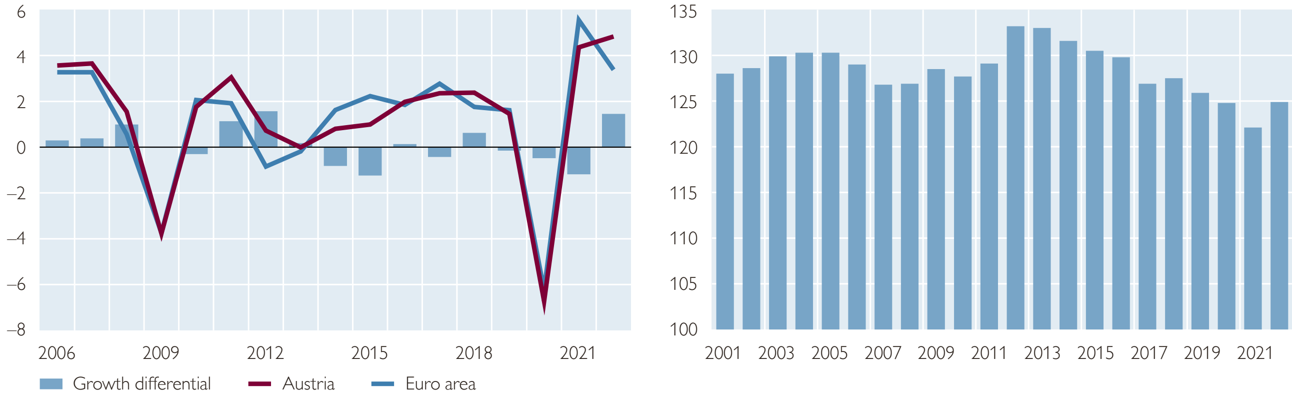
Austria and the euro area: growth differential and GDP per capita

Growth differential between Austria and the euro area

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

Austrian GDP per capita relative to the euro area

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



Source: Eurostat.

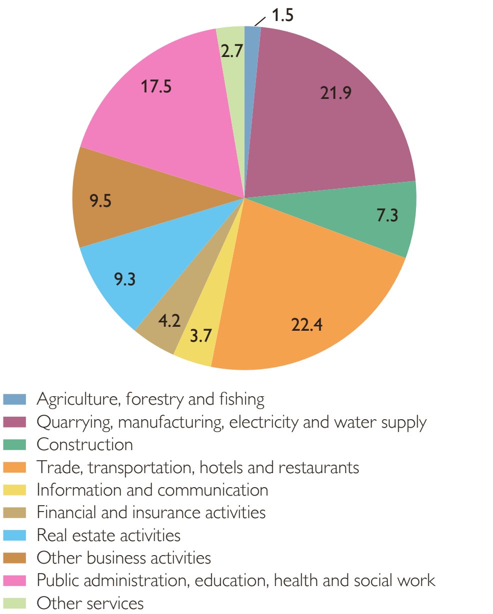
Sectoral structure of Austrian economy is well balanced

Like in many other highly developed countries, the tertiary sector is crucial for the Austrian economy. Private sector services (information and communication, financial and insurance activities, real estate activities, other business activities and other services) contribute the largest share – slightly below 30% – to gross value added, followed by activities classified under "quarrying, manufacturing, electricity and water supply" as well as "trade, transportation, hotels and restaurants," which account for slightly more than 20% each. Furthermore, manufacturing in Austria is characterized by a large variety of industries.

Chart 2

Gross value added in Austria in 2022

% of total gross value added, at current prices



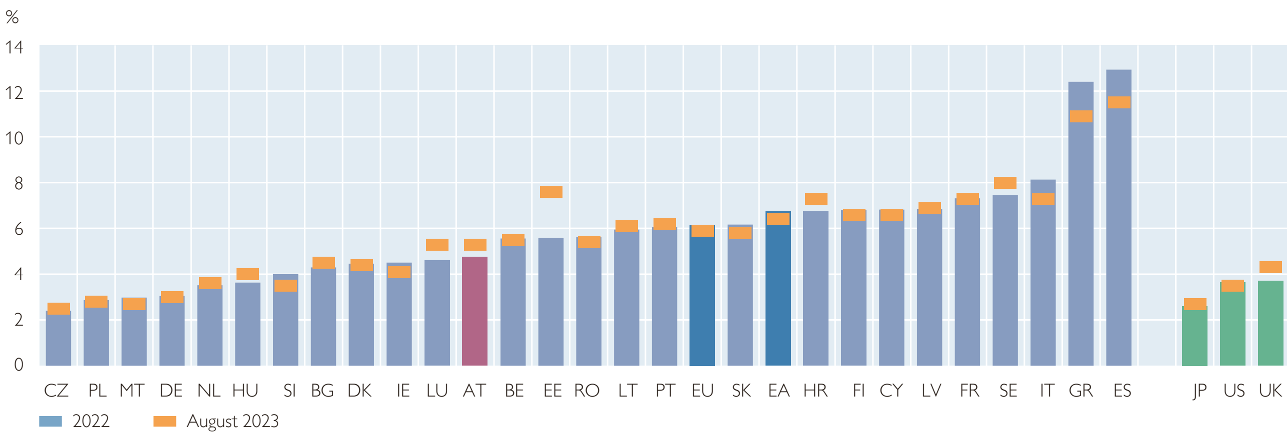
Source: Statistics Austria.

Austrian labor market robust despite weakening economic conditions

Since the beginning of 2023, employment has stagnated, the number of job vacancies has decreased and the number of registered unemployed has increased slightly. The unemployment rate amounted to 5.3% in August 2023 (+0.5 percentage points compared to 2019), which is below the EU and euro area averages. Considering the stagnation of economic activity in winter 2022 and the downturn in the middle of 2023, the Austrian labor market is proving surprisingly robust. The shortage of workers, which has existed for some time, may have prevented a reduction in employment so far.

Chart 3

Unemployment rates – international comparison



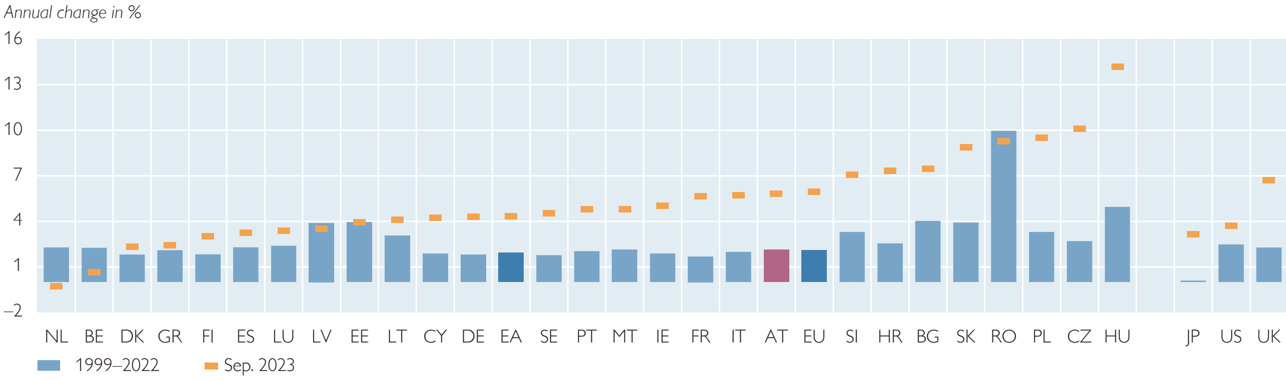
Source: Eurostat, Macrobond.
Note: UK: June 2023.

Inflation peaked in January 2023 and is expected to decline to 3.1% by 2025

Driven by increases in energy prices, the Austrian inflation rate measured by the Harmonised Index of Consumer Prices (HICP) increased from 1.4% in 2020 to 2.8% in 2021 and 8.6% in 2022. Compared to the euro area average, consumer prices in Austria remained high at the beginning of 2023. HICP inflation trended downward in all months of 2023 except August, dropping from 11.6% in January to 5.8% in September, according to Statistics Austria's flash estimate. The fall in inflation was mainly attributable to energy and, to a lesser extent, food and nonenergy industrial goods. In its September 2023 inflation forecast, the OeNB projected the HICP inflation rate to reach 7.8% in 2023 and to decline to 4.3% in 2024 and 3.1% in 2025. In contrast, core inflation will continue to rise in 2023 (to 7.4% from 5.1% in 2022) due to the lagged inflation pass-through of past high wage settlements, which will particularly impact the service sector. Only after that will core inflation decline, to 4.9% in 2024 and 3.4% in 2025. The current upside risks to the inflation forecast relate to higher than assumed wage settlements and profit margins. In a long-term perspective (1999–2022), Austria is among the countries which successfully maintained price stability in line with the Eurosystem's definition (i.e. HICP inflation at a rate of 2% over the medium term), recording an average inflation rate of 1.9% between 1999 and 2021.

Chart 4

HICP inflation rate – international comparison



Source: Eurostat, Macrobond.

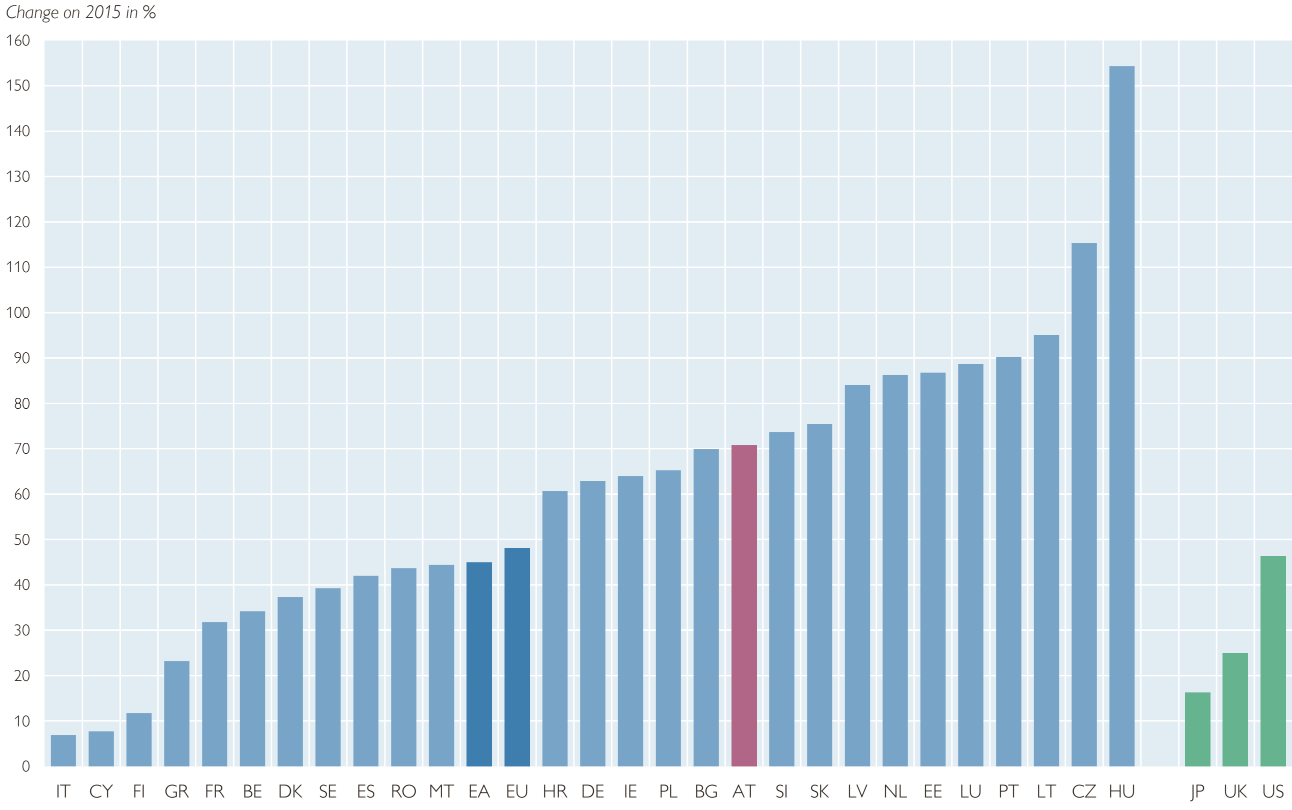
Note: Euro area countries: Sep. 2023, all other countries: Aug. 2023

End of residential construction cycle due to waning affordability and rising funding costs

According to ECB data, price growth in the Austrian real estate market decelerated from 12.4% in 2021 to 11.4% in 2022. At a cumulated rate of around 70% between 2015 and 2022, Austrian real estate prices grew clearly above the euro area (45%) and the EU averages. OeNB quarterly data show that the growth of Austrian housing prices slowed clearly and turned into negative territory in the second quarter of 2023 (–2.3% compared to the previous year). Banks indicated increasing costs (interest rates) and economic uncertainty as the main driving factors behind a slowdown in demand for housing loans (according to the euro area bank lending survey). On the supply side, rising input costs have been weighing on the activity outlook for the construction sector. The overevaluation of residential property prices in Austria (as reflected by the OeNB's fundamentals indicator) has been falling since the third quarter of 2022 (Q2 22: 36.4%) and recorded 21.7% in the fourth quarter of 2022, signaling that Austria's residential property market may no longer be overheated.

Chart 5

Change in house prices between 2015 and 2022



Source: ECB.

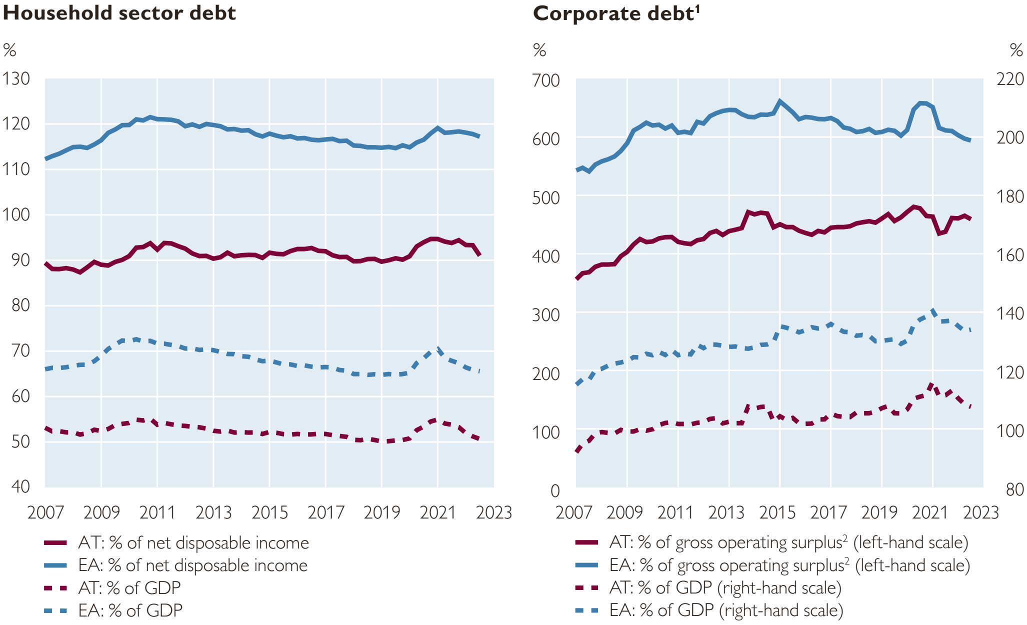
Note: Prices of new and resale residential property (current prices). OECD data for Greece in 2021/22 as well as for JP, UK and US.

Saving ratio almost returned to pre-pandemic levels in 2022

The economic disruptions caused by the COVID-19 pandemic, in particular restrictions in private consumption, especially in services, drove the household saving rate in Austria up to unprecedented levels in 2020 (13.2%). In 2022, Austrian households saved 9.0% of their net disposable income, which is almost a return to the pre-pandemic (2019) level of 7.8%. Accounting for financial assets totaling EUR 805.7 billion or 180% of GDP at the end of 2022, the household sector is a key supplier of capital to other sectors in Austria. Household debt increased during the first year of the pandemic but has been falling steadily since 2022. At 47.9%, in the first quarter of 2023, household debt recorded its lowest value since the financial and economic crisis of 2008–09. Likewise, corporate debt (as a percentage of GDP) declined to 101.5% in the first quarter of 2023. Both household and corporate debt have been well below the euro area averages for quite some time, regardless of whether measured as a percentage of GDP or net disposable income and gross operating surplus, respectively.

Chart 6

Household and corporate debt levels in Austria and the euro area



Source: ECB.

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

Note: Data up to and including Q3 22.

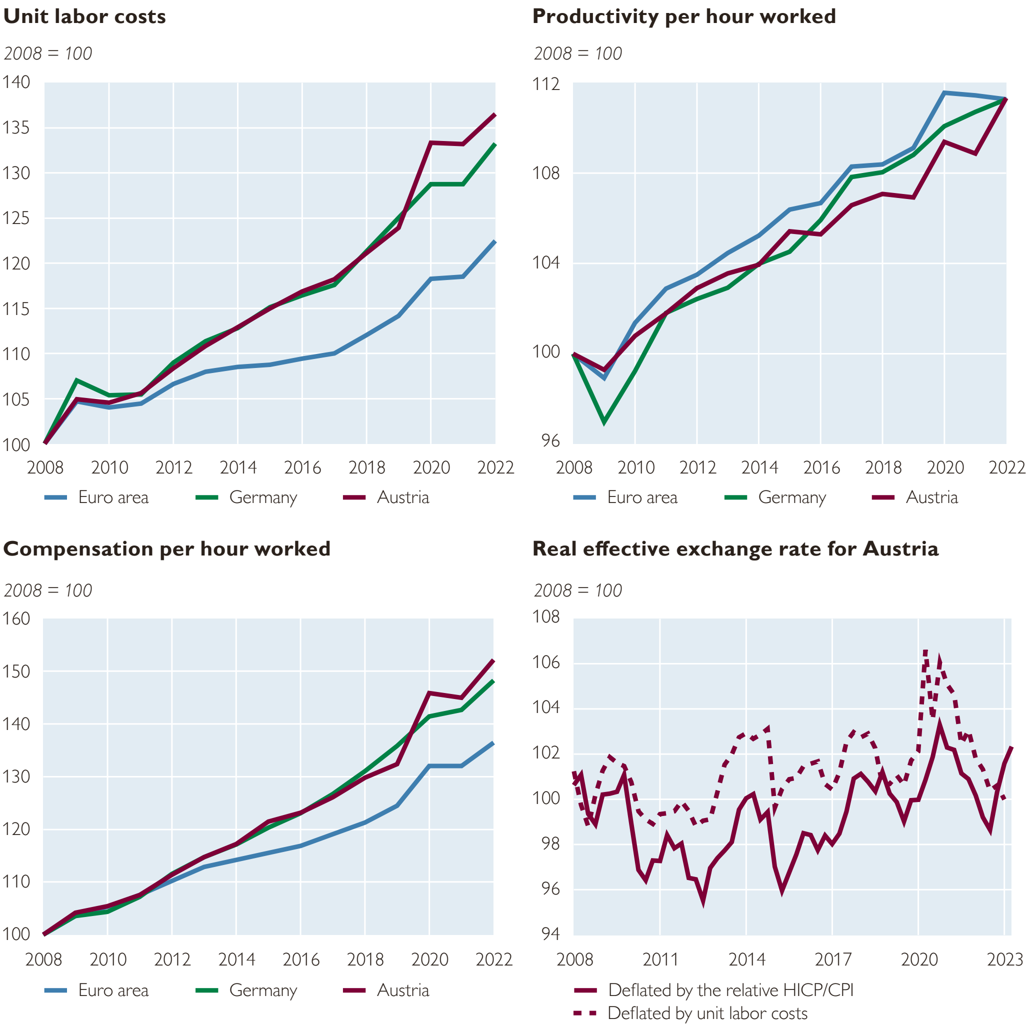
1.2 Current account balance reflects effects of the pandemic and price shock

Price shock affects competitiveness

In the past few years, the COVID-19 pandemic caused distortions in the calculation of various indicators of competitiveness. Hence, the deterioration in competitiveness in Austria in 2020 must be interpreted with caution as it was strongly influenced by different accounting practices for short-term work schemes across countries. Developments since the beginning of 2022 have been heavily influenced by the inflation shock.

Chart 7

International competitiveness



Source: Eurostat; real effective exchange rate: ECB.

Despite the latest big shocks, the Austrian economy's price competitiveness as measured by the real effective exchange rate (REER)[3] has hardly changed for the past few years. The real effective appreciation by 2% observed from 2008 to 2022 meant only a slight deterioration in competitiveness, but the high inflation rates in Austria in recent months translated into a sharp increase in the REER in a relative short period of time and hence a clear deterioration in competitiveness. That said, in a year-long comparison, hourly productivity in Austria grew at almost the same rate as in Germany and the euro area. Nominal unit labor costs and hourly wages rose at rates comparable to those observed in Germany. In contrast, unit labor costs and hourly wages in the euro area grew less amid structural adjustments after the economic and financial crisis.

External trade is regionally diversified, exposure to foreign exchange risk is low

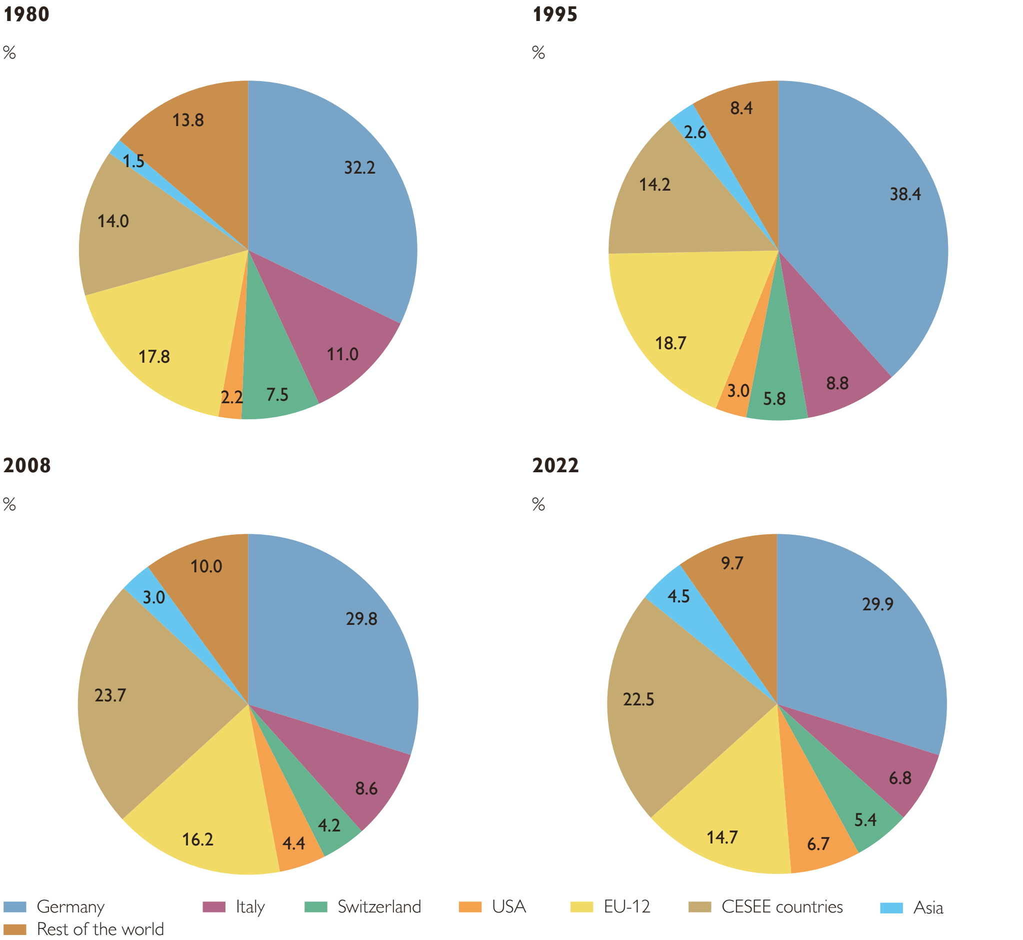
In 2022, more than half of Austria's goods exports went to the euro area, which meant that they were not exposed to any direct exchange rate risk. Among Austria's trading partners, Germany is still most important by far, accounting for a share of 30% in Austria's total goods exports, followed by Italy, which accounts for a share of 6.8% and the USA (6.7%). Furthermore, CESEE is a very important export market for Austria. While the share of goods exported to the euro area has declined since 1996, the share of goods exported to CESEE increased from 14% in 1995 to 22% in 2022. The war in Ukraine has a greater economic impact in CESEE than in the euro area. Therefore, the growth differential between CESEE and the euro area, which came to around 2 percentage points in recent years, is likely to decrease. As a result, the share of goods and services exported to the CESEE countries will also increase less rapidly in the next few years.

Roughly 30% of total Austrian exports are services, of which travel and tourism account for 30%. The sectoral structure of Austria's external goods trade follows the pattern typically observed in highly industrialized nations. Machinery and transport equipment make up the lion's share – 35% to 40% – of Austria's goods exports. Other important pillars of Austrian export activity include manufactured goods (around 20%) and chemicals (around 15%).

[3] *The real effective exchange rate is defined as the nominal exchange rate for the total economy against 55 most important trading partners. This exchange rate is either deflated with HICP (price competitiveness), or with unit labor costs (cost competitiveness), Source: WIFO, OeNB.*

Chart 8

Regional pattern of Austrian goods exports



Source: Statistics Austria.

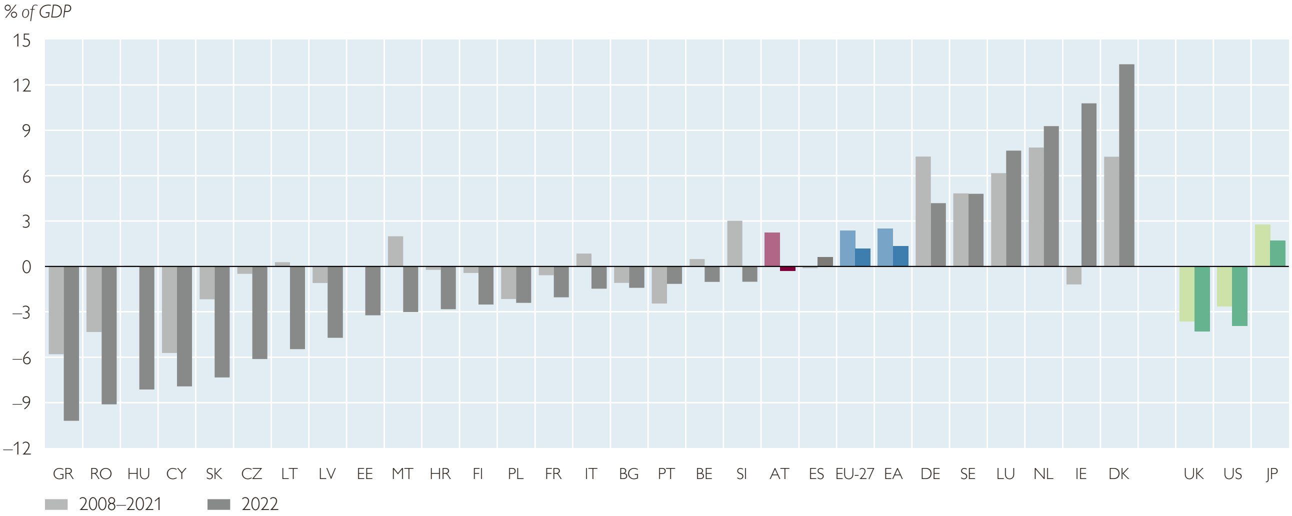
Note: Asia: CN, JP, KR; EU-12: BE, DK, FI, FR, GR, IE, LU, NL, PT, ES, SE, UK; CESEE countries: BG, EE, LV, LT, PL, RO, SK, SI, CZ, HU, AL, BA, HR, ME, RS, BY, MD, RU, UA.

Increasing deficit in goods balance leads to negative current account balance

Starting from its peak in 2020 (+3.4%; +EUR 13.1 billion), Austria's positive current account balance fell to EUR 6.7 billion in 2021 and turned negative in 2022 (–EUR 1.3 billion, –0.3%). While weak tourism (lockdown in the 2020/21 winter season) and, for the first time since 2013, a deficit in the goods balance (–EUR 59 million) were responsible for the decline in 2021, the services balance improved in 2022, reaching almost its pre-crisis level. However, the goods balance deteriorated significantly (–EUR 6.7 billion) due to higher import prices, thereby dragging the current account into negative territory.

Chart 9

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



Source: Eurostat, OeNB.

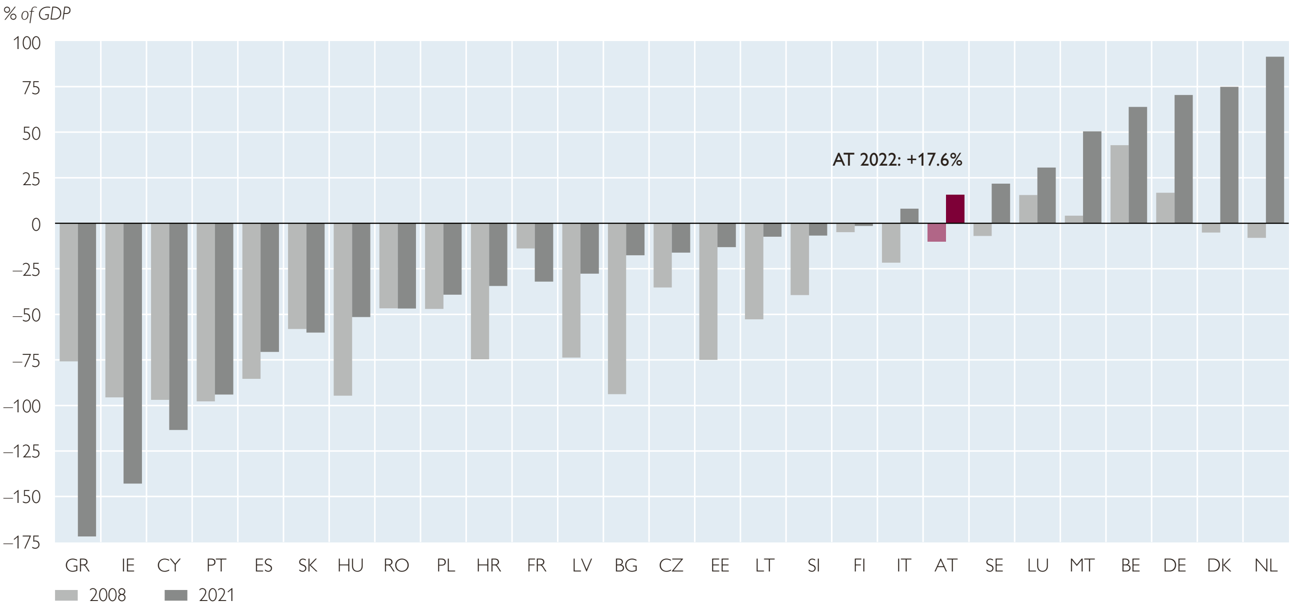
Note: UK, USA and Japan: averages derived from European Commission and IMF data.

Austria's net international investment position positive since 2013

Due to its sustained current account surplus, Austria has steadily improved its net international investment position (IIP), which first became positive in 2013 and came to EUR 78.6 billion (17.6% of GDP) in 2022. Overall, Austria's net IIP is fairly balanced, compared to countries with high deficits, such as Greece, Ireland and Cyprus, and countries with high surpluses, like the Netherlands, Germany and Denmark.

Chart 10

Net international investment position



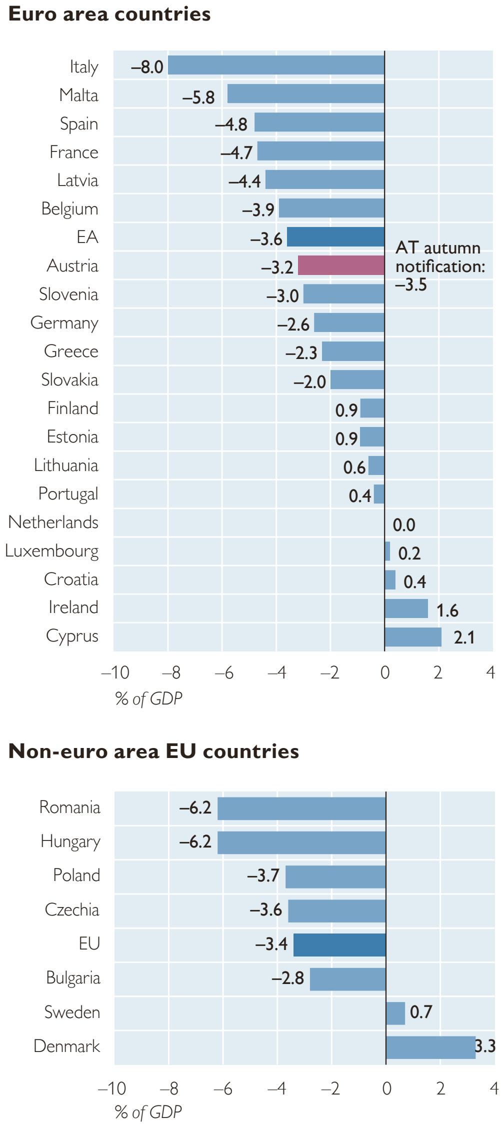
Source: Eurostat, ECB (Statistical Data Warehouse), OeNB, Statistics Austria.

1.3 Government finances: improvement in 2022 to be followed by increasing pressure

In 2022, the Austrian budget balance improved substantially to –3.5% of GDP (after –5.8% in 2021). This improvement was based on two opposing forces: While robust growth contributed to exceptionally strong tax revenues in 2022, the budgetary headroom created by the phasing out of COVID-19 measures was immediately used for fiscal support in response to the energy price and inflation crisis. Besides one-time payments to households and subsidies to firms, the most important measure in terms of budgetary impact was the indexation of income tax brackets. This yearly adjustment of tax brackets to past inflation reduces tax

Chart 11

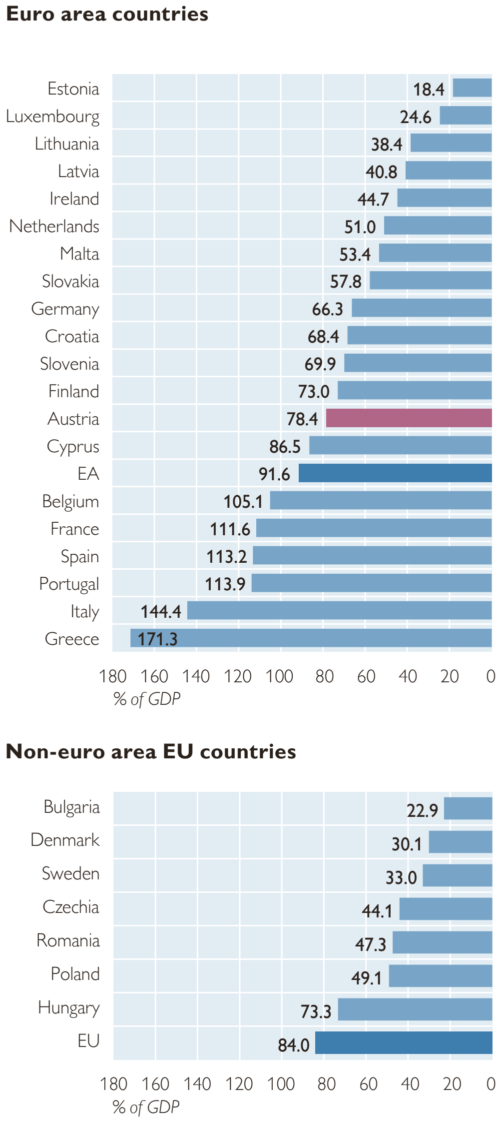
Budget balances of EU member states in 2022



Source: Eurostat (2021); Austria (2022): Statistics Austria.

Chart 12

Public debt of EU member states in 2022



Source: Eurostat (2022).

revenues and their growth rates. For the current year, we only expect a slight improvement in the budget balance due to lower growth prospects and increased expenditure on interest on public debt, which puts additional pressure on public finances.

Public debt decreased strongly in 2022, to 78.4%, driven, in particular, by the strong increases in nominal GDP as a result of high inflation rates. Similar to the improvement in the deficit, the decrease in public debt is expected to slow down in the coming years. This outlook strongly depends on whether fiscal support measures in response to energy prices and inflation are extended further or cut back in a timely manner.

2 Austrian banking system resilient amid challenging environment – micro- and macroprudential measures prove their value[4]

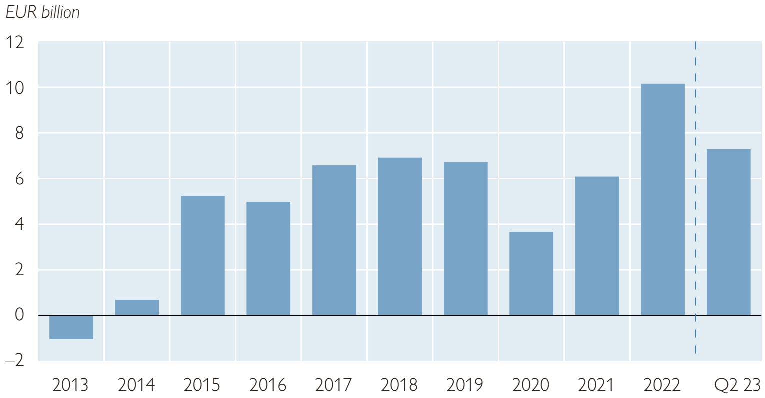
2.1 Austrian banking sector developments and indicators at a glance

High profitability in a rising interest rate environment

Supported by very strong net interest income (+41% year on year), the operating profit of the Austrian banking sector increased by 139% year on year in the first half of 2023. As a result, net profits more than doubled and totaled EUR 7.3 billion (see chart 13). CESEE remains a very important host market, accounting for total assets of EUR 294 billion (around 24% of the Austrian banking system's total assets). Austrian banks' subsidiaries in the region earned an aggregated net profit of EUR 2.7 billion in the first half of 2023, an increase of more than a third year on year. Subsidiaries in CESEE EU countries accounted for more than 80% of Austrian banks' assets in CESEE, while they contributed 60% to the profits from the region.

Chart 13

Consolidated profit of the Austrian banking sector



Source: OeNB.

Loan growth is decelerating

Demand for home ownership and corporate liquidity had been driving bank lending in Austria in recent years. Since 2022, however, loan growth has been decelerating, mainly due to rising interest rates.

As of August 2023, the annual growth rate of mortgage loans, which had been a strong 7.5% in mid-2022, fell to –1.5% (year on year), whereas the growth rate of loans to households declined from 5.5% to –1.3%. The volume of consumer loans was somewhat higher than the level recorded a year before.

In the case of corporate loans, demand was driven by financing needs for inventories and working capital. However, the importance of these factors has declined in the rising interest rate environment. As of August 2023, annual corporate loan growth slowed to 4.7% (year on year) from 12.1% a year before.

Credit quality remains high

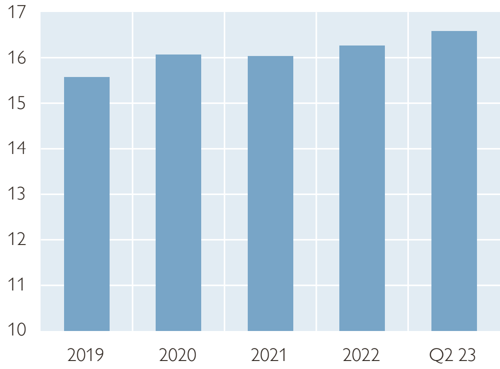
In the first half of 2023, the consolidated nonperforming loan (NPL) ratio still remained at a low 2.0%. Moreover, IFRS stage 2 loans were broadly stable in 2023.

[4] *For more detailed analyses of the Austrian banking sector, please refer to the OeNB's Financial Stability Reports. https://www.oenb.at/en/Publications/Financial-Market/Financial-Stability-Report.html.*

Chart 14

Capitalization of Austrian banks

CET1 capital in % of risk-weighted assets



Source: OeNB.

Higher resilience thanks to improved capitalization

As of mid-2023, the Austrian banking sector reported a consolidated common equity tier 1 (CET1) ratio of 16.6%. Compared with levels recorded before the global financial crisis of 2008–09, the Austrian banking sector has more than doubled its capital ratio in line with tighter prudential requirements. Although the CET1 ratio of the Austrian banking sector stood above the EU average of 16.0% as of March 2023 (latest available data), a careful handling of profit distributions is still warranted, given weakening macroeconomic conditions.

Rating agencies give positive assessments of the Austrian banking system

Macroprudential measures have effectively addressed systemic risk to the Austrian banking sector, which is also reflected in rating agencies' recent assessments. At end-February 2023, S&P Global Ratings affirmed its Banking Industry Country Risk Assessment (BICRA) for the Austrian banking system at "2," ranking it among the globally highest-rated banking systems. The agency saw improvements in banks' operating performance as being back on track, supported by the higher interest rate, which contributed to a stable industry risk assessment and to better rating outlooks (mostly stable, after being negative). Moreover, it is assumed that the private sector will remain sufficiently resilient thanks to continued government support, which limits the negative consequences for the banking sector.

2.2 Macroprudential measures strengthen financial stability

Addressing systemic risks from residential real estate financing with borrower-based measures

To address systemic risks from residential real estate (RRE) and upon the initiative of the OeNB as well as the Financial Market Stability Board (FMSB), Austria's Financial Market Authority (FMA) issued borrower-based measures which include upper limits for loan-to-value ratios (90%), debt service-to-income ratios (40%) and loan maturities (35 years), subject to exemptions (20%) that give credit institutions adequate operational flexibility.

Since August 1, 2022, these measures have applied to all new mortgage lending to households above EUR 50,000. Furthermore, the FMSB adjusted its guidance to include an upper limit for the debt service-to-income ratio of 30% for loans with an interest rate fixation period shorter than half of the loan's maturity. Following an FMSB recommendation, the FMA later relaxed the borrower-based measures by excluding bridge loans and by increasing the de minimis threshold for couples from EUR 50,000 to EUR 100,000. The amendment has become effective as of April 2023 and allows for even greater flexibility than the initial regulation.

Commercial real estate market stable despite higher interest rates

Commercial real estate (CRE) loans, i.e. mortgage loans granted by Austrian banking groups to corporate borrowers, amounted to EUR 146 billion as of mid-2023 and so account for a smaller share of Austrian banks' portfolios than residential real estate loans, i.e. mortgage loans granted by Austrian banking groups to households (EUR 175 billion). The annual growth rate of CRE loans, which had been a strong 9% in mid-2022, fell to 7% as of mid-2023. Austrian banks are more exposed to CRE loans than banks in other EU banking markets. A large portion of CRE loans of Austrian banks have high loan-to-value ratios, therefore appropriate property valuations and adequate risk provisioning are necessary. The level of risks in the CRE sector differs between and within its segments (e.g., offices, retail, logistics, hotels). Low-quality CRE in non-prime locations with low energy-efficiency are particularly vulnerable to significant losses in value. It can be expected that the impact of higher interest rates will soon be felt in the Austrian CRE segment. Currently, it is stable with loan growth still at elevated levels despite higher interest rates and the economic downturn. There are first signs of a deterioration in the asset quality, however, as loan loss provisions and the share in lower rated loans are increasing.

Prudential capital buffers will be adjusted in order to better reflect systemic risks

In October 2023, the FMSB completed its yearly review of the other systemically important institutions (O-SII) buffer. The FMSB identified one additional bank as systemically relevant[5]. All institutions identified in previous years and their buffer levels (O-SII, SyRB) have remained unchanged. This means that the gradual increase in the combined requirements of the systemic risk (SyRB) and O-SII buffers envisaged in Recommendation FMSB/5/2022[6], which was provisionally limited to a maximum of +0.5 percentage points, is to be continued.

In last year's evaluation, which also considered systemic risks addressed by the SyRB, the FMSB concluded that the capital buffers increased resilience, strengthened resolvability and improved rating agency and investor sentiment. Additionally, the buffers enhanced the absorption capacity of the deposit guarantee scheme, thus reinforcing financing stability in Austria and saving taxpayer money.

As regards the countercyclical capital buffer (CCyB), the FMSB's latest recommendation is to keep it at 0% of risk-weighted assets. As of the first quarter of 2023, the credit-to-GDP gap is below the critical threshold of 2 percentage points, having dropped to −13.0 percentage points. Against the backdrop of existing risks and uncertainties as well as rising interest rates, the FMSB advises that banks maintain capital ratios comparable to international peers and build up provisions for a potential materialization of cyclical risks. Also, retaining profits is deemed to be effective in improving resilience.

Risk weights for mortgage-backed loans and corporate loans (which include a high amount of commercial real estate loans) have decreased to levels that are very low by historical standards. The fundamentals indicator for residential property prices and the price-to-rent ratio are declining, however still at elevated levels. On

[5] *For further details, see FMSG – Recommendation FMSB/4/2023.*

[6] *For further details, see FMSG – Recommendation FMSB/5/2022.*

the back of rising interest rates, the growth of corporate loans has almost halved compared to December 2022. Against the backdrop of exceptionally low default rates coupled with rising interest rates, banks are still requested to build up provisions for possible future defaults.

Share of foreign currency loans in Austria is declining

Supervisory measures adopted early on by the OeNB and the FMA[7] have contributed to the fact that foreign currency loans extended in Austria have declined significantly over the past decade and do not pose a systemic risk. As of end-August 2023, the volume of outstanding foreign currency loans to domestic households stood at EUR 8.1 billion (–15.2% year on year, exchange rate-adjusted). This corresponds to a foreign currency loan share of 4.3%.

Balanced funding at Austrian banks' CESEE subsidiaries

The Sustainability Package of the OeNB and the FMA aims at strengthening the local stable funding base of Austrian banks' foreign subsidiaries and at avoiding excessive credit growth to reinforce financial stability both in banks' host countries and in Austria.[8] Ongoing monitoring confirms that Austrian banks' CESEE subsidiaries have a balanced funding base as their loan-to-deposit ratio stood at 71% by mid-2023.

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

[8] *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

Table A1

Real GDP

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	Annual change in %									
Austria	0.0	0.7	1.0	2.0	2.3	2.4	1.5	–6.6	4.2	4.8
Euro area	–0.2	1.4	2.0	1.9	2.6	1.8	1.6	–6.1	5.6	3.3
EU	–0.1	1.6	2.3	2.0	2.8	2.1	1.8	–5.6	5.7	3.4

Consumer price indices

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	Annual change in %									
Austria	2.1	1.5	0.8	1.0	2.2	2.1	1.5	1.4	2.8	8.6
Euro area	1.4	0.4	0.2	0.2	1.5	1.8	1.2	0.3	2.6	8.4
EU	1.5	0.6	0.1	0.2	1.7	1.9	1.5	0.7	2.9	9.2

Unemployment rates

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	% of labor force									
Austria	5.7	6.0	6.1	6.5	5.9	5.2	4.8	6.0	6.2	4.8
Euro area	12.2	11.7	11.0	10.1	9.1	8.2	7.6	8.0	7.7	6.8
EU	11.6	11.0	10.2	9.3	8.3	7.4	6.8	7.2	7.1	6.2

Current account balances

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	% of GDP									
Austria	1.9	2.5	1.7	2.7	1.4	0.9	2.4	3.4	1.6	–0.3
Euro area	0.9	2.3	2.9	3.1	3.4	3.6	3.5	3.4	3.2	2.7
EU	0.5	1.2	1.7	1.6	1.7	1.9	2.2	2.1	2.1	2.7

Budget balances

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	% of GDP									
Austria	–2.0	–2.7	–1.0	–1.5	–0.8	0.2	0.6	–8.0	–5.8	–3.5
Euro area	–3.1	–2.5	–2.0	–1.5	–0.9	–0.4	–0.6	–7.1	–5.3	–3.6
EU	–3.0	–2.4	–1.9	–1.4	–0.8	–0.4	–0.5	–6.7	–4.8	–3.4

Government debt ratios

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	% of GDP									
Austria	81.3	84.0	84.9	82.8	78.5	74.1	70.6	83.0	82.5	78.4
Euro area	93.0	93.2	91.3	90.5	88.1	86.1	84.1	97.2	95.5	91.6
EU	86.8	86.9	85.1	84.3	81.9	79.8	77.7	90.0	88.0	84.0

Source: Eurostat, Statistics Austria, OeNB.

Note: Figures may differ from table 1 due to different data collecting methods.

Table A2

General government interest payments

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	% of GDP									
Austria	2.6	2.4	2.3	2.1	1.8	1.6	1.4	1.3	1.1	0.9

Household debt

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	% of net disposable income									
Austria	90.9	90.5	92.0	92.1	90.7	90.3	90.1	94.7	94.4	89.9
Euro area	118.9	117.3	117.3	116.4	116.3	114.9	115.3	117.9	118.4	115.9
	% of GDP									
Austria	52.1	51.8	51.6	51.8	51.1	50.4	50.5	54.5	53.3	49.6
Euro area	69.3	67.8	67.1	66.4	65.7	64.9	65.0	69.8	67.3	64.9

Corporate debt[1]

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	% of gross operating surplus[2]									
Austria	471.4	445.2	439.5	436.5	447.1	453.4	462.4	464.6	461.4	439.7
Euro area	634.6	640.6	630.6	630.5	614.3	607.3	602.3	657.6	610.3	578.0
	% of GDP									
Austria	107.6	102.5	101.9	103.2	104.0	105.9	105.2	111.6	113.1	104.1
Euro area	127.5	129.7	133.1	134.6	133.1	130.0	129.1	138.4	137.1	130.8

Residential property price index

	2018	2019	2020	2021	2022	Q4 21	Q1 22	Q2 22	Q3 22	Q4 22
	Index 2000 = 100									
Austria excluding Vienna	189.8	194.8	209.4	236.2	261.9	247.4	256.5	264.3	265.4	261.2
Vienna	232.0	243.2	259.6	287.6	315.6	298.4	309.6	319.9	320.4	312.6
	Annual change in %									
Austria excluding Vienna	8.5	2.6	7.5	12.8	10.8	13.9	12.9	13.2	12.0	5.6
Vienna	5.2	4.9	6.7	10.8	9.7	11.3	11.8	13.0	9.6	4.8

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

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

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