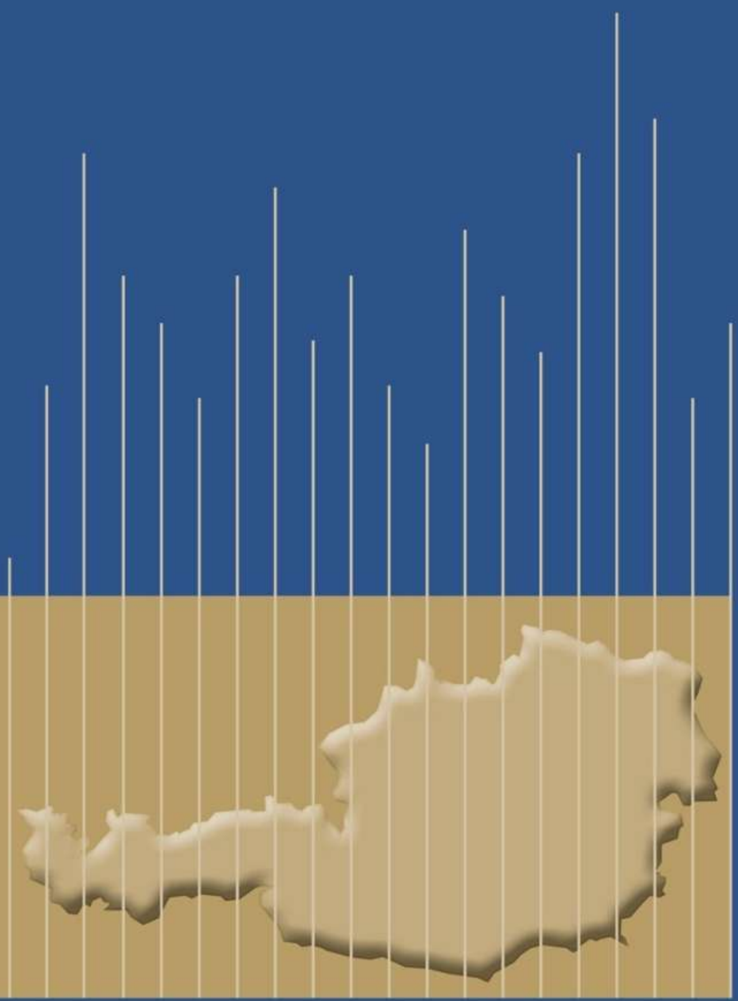
OESTERREICHISCHE NATIONALBANK
EUROSYSTEM

FACTS ON AUSTRIA AND ITS BANKS



Stability and Security.

April 2016

Contents

Cut-off date for data: March 31, 2016.

Key indicators for the Austrian economy

Cut-off date for data: March 31, 2016.

Economic indicators

	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	2014	2015	2016	2017
Economic activity	*EUR billion (four-quarter moving sums)*								
Nominal GDP	329.7	331.2	333.0	335.0	337.2	329.7	337.2	349.6	361.5
	Change on previous period in % (real)								
GDP	0.1	0.2	0.3	0.3	0.3	0.4	0.7	1.9	1.8
Private consumption	0.0	0.1	0.1	0.1	0.2	0.1	0.2	1.6	1.4
Public consumption	0.0	0.2	0.3	0.3	0.6	0.8	0.8	1.3	1.1
Gross fixed capital formation	-0.2	0.2	0.4	0.6	0.5	-0.1	0.4	2.3	2.2
Exports of goods and services	0.1	0.2	0.8	1.4	0.7	2.2	2.2	3.9	4.5
Exports of goods	-0.3	0.2	1.3	1.6	1.0	2.0	2.3	4.1	4.5
Imports of goods and services	0.0	0.4	1.0	2.1	1.3	1.1	2.2	3.6	4.3
Imports of goods	-0.2	0.5	1.2	2.0	1.0	0.5	2.0	3.9	4.2
	% of nominal GDP								
Current account balance	0.0	0.0	0.0	0.0	0.0	1.9	2.6	2.8	3.1
	Annual change in %								
Prices									
HICP inflation	1.3	0.6	1.0	0.9	0.7	1.5	0.8	1.3	1.7
Compensation per employee	1.5	1.5	1.6	1.7	1.6	1.7	1.6	1.3	1.6
Unit labor costs	2.3	2.0	1.7	1.4	1.2	2.1	1.6	0.4	0.8
Productivity	-0.7	-0.5	-0.1	0.3	0.4	-0.4	0.0	0.9	0.8
	Annual change in %								
Income and savings									
Real disposable household income	-0.3	-1.6	-0.3	2.9	-1.0	0.6	-0.4	2.8	1.0
	% of nominal disposable household income								
Saving ratio	x	x	x	x	x	7.8	6.9	8.1	7.7
	Change on previous period in %								
Labor market									
Payroll employment	0.3	0.3	0.2	0.3	0.4	0.9	1.1	1.2	1.1
	% of labor supply								
Unemployment rate (Eurostat)	5.7	5.5	5.9	5.7	5.8	5.6	5.7	6.1	6.3
	% of nominal GDP								
Public finances									
Budget balance	x	x	x	x	x	-2.7	-1.2	-2.0	-1.7
Government debt	x	x	x	x	x	84.3	86.2	83.3	81.7

Source: OeNB, Eurostat, Statistics Austria.

Note: All data for 2015-2017 are based on the OeNB's December 2015 forecast. x = data not available.

Financial indicators

	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	2011	2012	2013	2014	2015
	Consolidated in EUR billion									
Austrian banking system										
Total assets	1,078	1,105	1,079	1,076	1,057	1,166	1,164	1,090	1,078	1,057
Equity capital[1]	87.6	88.6	89.5	87.3	x	88.1	88.2	89.0	87.6	x
Exposure to CESEE[2]	184.8	189.6	197.1	197.9	195.8	216.1	209.8	201.8	184.8	195.8
	Consolidated in %									
Structural indicators										
Solvency ratio[1]	15.6	15.4	15.9	15.9	x	13.6	14.2	15.4	15.6	x
Tier-1 capital ratio[1]	11.8	11.6	12.2	12.2	x	10.3	11.0	11.9	11.8	x
Leverage[3]	5.7	5.7	5.9	5.9	x	5.8	6.1	6.5	5.7	x
Credit growth and quality (AT)	*Annual change in %*									
Flow of loans to nonbanks	0.7	0.7	0.4	0.7	1.1	2.3	0.4	-0.4	0.7	1.1
	Share of loans to nonbanks in %									
Share of foreign currency loans	11.1	11.7	11.3	10.5	10.2	17.3	14.4	12.3	11.1	10.2
Loan loss provision ratio	3.3	3.3	3.3	3.1	3.0	3.2	3.3	3.5	3.3	3.0
Nonperforming loan ratio	4.4	4.4	4.6	4.3	4.3	4.5	4.7	4.1	4.4	4.3
	Consolidated in EUR billion									
Profitability										
Net result after tax	0.7	1.2	2.6	4.5	x	0.7	3.0	-1.0	0.7	x
	Consolidated in %									
Return on assets (annualized)	0.1	0.5	0.6	0.7	x	0.1	0.3	0.0	0.1	x
Cost-to-income ratio	69.1	62.2	60.3	61.7	x	66.4	61.7	73.0	69.1	x
	%									
Subsidiaries in CESEE[4]										
Loan-to-deposit ratio	96.7	96.6	93.9	90.3	88.5	105.8	99.4	95.8	96.7	88.5
Return on assets	0.3	0.9	1.0	0.8	x	0.7	0.8	0.8	0.3	x
Cost-to-income ratio	52.7	52.2	48.9	50.6	x	50.1	52.4	52.7	52.7	x
Loan loss provision ratio	7.3	7.1	7.0	7.2	7.0	7.3	7.6	8.0	7.3	7.0
	EUR billion									
Households										
Financial assets	583.2	595.3	597.7	592.4	x	528.0	548.7	566.9	583.2	x
Financial liabilities (loans)	166.8	170.3	171.1	171.6	x	164.4	164.5	164.6	166.8	x
of which foreign currency loans	25.4	27.5	26.7	24.9	x	38.7	32.9	28.4	25.4	x
of which foreign currency housing loans	19.5	21.4	20.8	19.5	x	27.7	24.3	21.5	19.5	x
	EUR billion									
Nonfinancial corporations										
Financial assets	469.9	485.8	484.0	488.2	x	390.6	410.7	448.6	469.9	x
Financial liabilities	712.4	734.8	729.8	734.9	x	606.2	646.0	692.7	712.4	x
of which loans and securities (other than shares and other equity)	357.5	369.6	366.5	371.4	x	316.6	331.0	351.8	357.5	x
of which shares and other equity	261.0	263.0	263.9	269.7	x	216.6	226.8	248.3	261.0	x
	EUR billion (four-quarter moving sums)									
Gross operating surplus and mixed income	71.9	72.4	73.1	74.0	x	73.7	73.6	72.7	71.9	x

Source: OeNB, Statistics Austria.

[1] *Capital ratios are based on CRD IV definitions from 2014 onward, which limits the comparability with earlier measures.*

[2] *CESEE exposure of majority Austrian-owned banks (BIS definition).*

[3] *Defined according to Basel III provisions from 2014 onward. Earlier measures correspond to tier-I capital after deductions in % of total assets.*

[4] *From 2014 onward, these figures include the pro-rata share of Yapi ve Kredi Bankasi, a joint venture of UniCredit Bank Austria in Turkey.*

Note: x = data not available.

Overview of major economic developments in Austria[1]

The Austrian economy is robust

- *Austria outperformed the euro area in terms of GDP growth and, hence, welfare levels in the last decade. The growth rates for 2014 and 2015 lag behind euro area growth, though.*
- *The Austrian economy is well diversified and its sectoral structure is well balanced.*
- *Given high employment and low unemployment rates by international standards as well as a low strike frequency, social stability is high.*
- *Since the launch of the euro in 1999, HICP inflation has averaged 1.8% in the euro area and in Austria, thus being in line with the ECB's price stability target. Yet since September 2012, HICP in Austria has exceeded inflation in the euro area and in individual euro area countries.*
- *House prices have risen markedly in some domestic regions and market segments since the onset of the financial crisis, but for the country as a whole they are broadly in line with economic fundamentals. Austria has not experienced a real estate bubble and bust in recent years.*
- *Austria's saving ratio (2015: 6.9%) is below the euro area average. The large stock of financial assets held by the household sector totaled EUR 583 billion (or 177% of GDP) in 2014, serving as an important refinancing source for other economic sectors.*
- *Austria's household debt ratio (2015 Q3: 52.2% of GDP) increased slightly in 2015; both this ratio and Austria's corporate debt ratio (2015 Q3: 249.3% of gross operating surplus or 97% of GDP) are below the corresponding euro area ratios.*
- *Given high employment growth in a context of moderate output growth, Austria has been losing ground in unit labor costs and productivity per employee vis-à-vis the euro area.*
- *Foreign trade in goods is well diversified both by region and by product type. In 2015, Austria transacted about half of its foreign trade with other euro area countries, i.e. without any exchange rate risk. One-third of goods exports went to Germany, another EUR 21 billion to CESEE countries.*
- *A steady string of current account surpluses since 2002 (2015: 2.6% of GDP) confirms the international competitiveness of the Austrian economy and has enabled Austria to balance its international investment position (2015: EUR 10.8 billion or 3.2% of GDP).*
- *Austria's budget balance ratio improved significantly from –2.7% of GDP in 2014 to –1.2% of GDP in 2015. This was due to a decrease in capital transfers to banks and due to strong revenue growth. The marked deterioration of the government debt ratio was mainly caused by debt-increasing (but not deficit-increasing) transactions linked to the state-owned "bad banks." The outlook for 2016 implies a worsening of the budget balance ratio due to the 2016 tax reform and additional expenditure related to refugees.*
- *In early 2016, Austria was subject to an in-depth review by the European Commission under the Macroeconomic Imbalance Procedure (MIP), which ended with the European Commission's conclusion that Austria "is deemed not to experience imbalances."*

1 Cut-off date for data: March 31, 2016.

Austrian banks still faced with challenges

- *The consolidated net result of Austrian banks improved in the first three quarters of 2015. However, this improvement was driven above all by lower credit risk provisions and writedowns rather than by improvements in business. Net interest income, the most important income component of Austrian banks, continued to decrease, and the low interest rate environment is going to put downward pressure on interest rate margins.*
- *Austrian banks perform better than their peers in a comparison of leverage ratios, but their regulatory capital ratios continue to be below international peer ratios despite improvements in capitalization. Capital requirements are going to rise gradually as the systemic risk buffer endorsed by the Austrian Financial Market Stability Board (FMSB) is being phased in.*
- *Exposures to Central, Eastern and Southeastern Europe (CESEE) have remained broadly stable in recent years. At the same time, exposures to individual countries have shown variations, reflecting among other things geopolitical developments. Austrian banks' profitability in CESEE also continues to differ across countries.*
- *Action taken by the Austrian supervisory authorities to curb foreign currency lending continues to be effective; compared with October 2008, the volume of outstanding loans denominated in Swiss francs has decreased by more than half. The outstanding loans remain a source of risk, though.*
- *The supervisory guidance for large internationally active Austrian banks adopted by the Austrian authorities in 2012 ("sustainability package") has contributed to strengthening the refinancing structure of Austrian banks' subsidiaries in CESEE. Their loan-to-deposit ratio decreased from 117% in 2008 to 89% in 2015, reflecting above all an increase in local savings deposits. This means that loan growth in CESEE has increasingly been funded through local sources.*
- *In its February 2016 meeting, the FMSB discussed measures to create the legal basis for addressing risks arising from real estate financing. To get a better grasp of current mortgage lending patterns, the OeNB has conducted a survey among Austrian banks to compile internationally comparable indicators, such as banks' loan-to-value ratios.*
- *The most recent international reviews (the IMF's 2015 Article IV consultation and an in-depth review under the European Commission's Macroeconomic Imbalance Procedure (MIP) in 2016) broadly coincide in their assessment of the state of the Austrian banking system regarding its relative undercapitalization by international standards, its limited profit outlook and the risks related to CESEE exposures and foreign currency lending. The review findings were positive with regard to the macroprudential action taken so far (systemic risk buffer, sustainability package, measures addressing foreign currency lending).*
- *The Single Supervisory Mechanism (SSM) became operational in November 2014. In its first year, important steps toward harmonizing supervisory methods were taken: Joint Supervisory Teams (JSTs) were set up, cooperation with the national supervisory authorities was successfully initiated, and the Supervisory Review and Evaluation Process (SREP) was for the first time completed based on a harmonized method.*
- *The Single Resolution Mechanism became fully operational on January 1, 2016. To complete banking union, the European Commission has proposed a common European Deposit Insurance Scheme (EDIS), which is to be implemented in three stages and become fully effective by 2024. First, however, the relevant existing national legislation must be harmonized at a European level.*

1 Austria ranks among the top economies in the euro area

1.1 Austria remains one of the most robust economies in the euro area

Output growth in Austria currently lags behind euro area growth

While the Austrian economy outperformed the euro area in the period from 2006 to 2013 in terms of GDP growth (with the exception of 2010), domestic growth has been lagging behind euro area growth since 2014. The IMF's expects this growth gap to diminish but not to close until 2017: the IMF's GDP growth projections for 2017 are 1.4% for Austria and 1.6% for the euro area.

Austria's weaker GDP growth compared with the euro area can be traced to developments in the euro area as well as in the domestic economy. The euro area went through a second recession in 2012 and 2013. Following sweeping structural adjustments, some crisis states (Spain and Ireland) started to achieve significantly higher growth rates than the euro area, thus raising the euro area average. Austria, meanwhile, has been recording higher inflation rates than the euro area in recent years. High domestic inflation has caused the real disposable income of households to stagnate, which has dampened private consumption in Austria. At the same time, the domestic economy has been losing price competitiveness, which has dented Austria's export performance.

In 2016, the Austrian economy will benefit from two specific growth-supporting effects: an income tax reform and deficit-financed government spending on asylum seekers and recognized refugees. The domestic forecast institutions expect these two effects to have a significant positive effect on GDP growth. Austria has a significantly higher welfare level than the euro area on average.

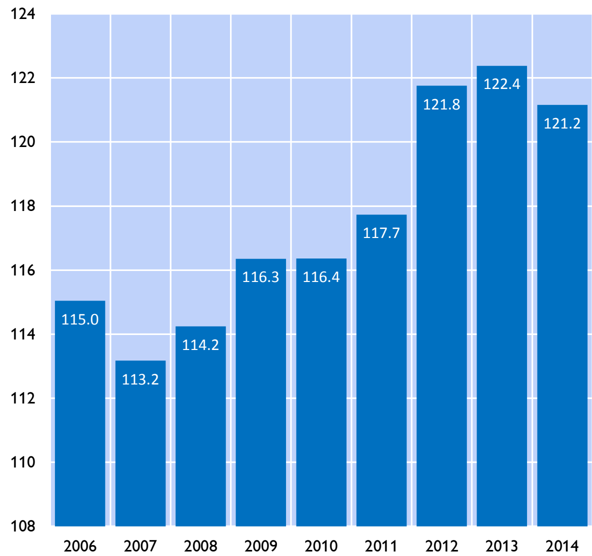
Chart 1

Growth differential between Austria and the euro area

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

Welfare differential between Austria and the euro area

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



Note: Data for 2016 to 2017 as published in the IMF WEO of April 2016.
Source: Eurostat, IMF.

Box: Economic impact of the current influx of refugees on Austria

In 2015, Austria recorded almost 90,000 asylum seekers. In 2016, Austria will take in only 37,500 asylum seekers according to government officials. In total, these large numbers of people seeking shelter can be expected to have a substantial impact on the labor market, on public finances and on value added. An analysis of the impact is subject to a high degree of uncertainty, however, and can be conducted only on the basis of a series of assumptions. The present analysis shows the expected economic impact based on data for 2015 and the government plan to limit the intake of asylum seekers in 2016. All related public expenditures are assumed to be deficit-financed. From an economic perspective, the effects on the Austrian economy are similar to those of expansionary discretionary fiscal policy measures financed through deficit spending.

All other assumptions are based on Austria's and other countries' historical experience with inflows of migrants and refugees and the current legal framework. The GDP multiplier for calculating effects on the real economy is 0.9. The budget sensitivity underlying the estimate of budgetary net costs (public expenditure adjusted for induced public revenues) is 0.4. Assuming a 60% acceptance rate of asylum applications and an average application processing time of 5.9 months, the number of recognized refugees (including family reunification) in Austria is expected to reach 75,100 by the end of 2016. 60% of asylum seekers are of working age. Almost all working-age persons who have been granted asylum increase the labor supply based on the eligibility criteria for the Austrian social security system. According to international evidence, only a small percentage of recognized refugees is likely to succeed in the labor market in the first few years.

The increase in the labor supply raises the Austrian economy's growth potential; the extent of this rise depends on how well people can be integrated into the labor market. Persons finding jobs will partly crowd out resident workers from the labor market. Overall, however, migration-induced higher economic growth results in an increase of both total employment and the employment rate among the resident population. Moreover, it boosts revenues from taxes and social security contributions, which to some extent offsets the government's initial expenditures. According to simulations, GDP will be 0.35% higher and per-capita GDP will be 0.2% lower – cumulated over 2015 and 2016 – than in a scenario excluding the asylum seekers. The unemployment rate (national definition) is forecast to climb by a total of 0.45 percentage points, with joblessness among the resident population falling by 0.15 percentage points. Employment will rise by approximately 10,000 persons, as a consequence of the multiplier effect due to higher expenditures. The fiscal costs will accumulate to around EUR 1.0 billion by 2016.

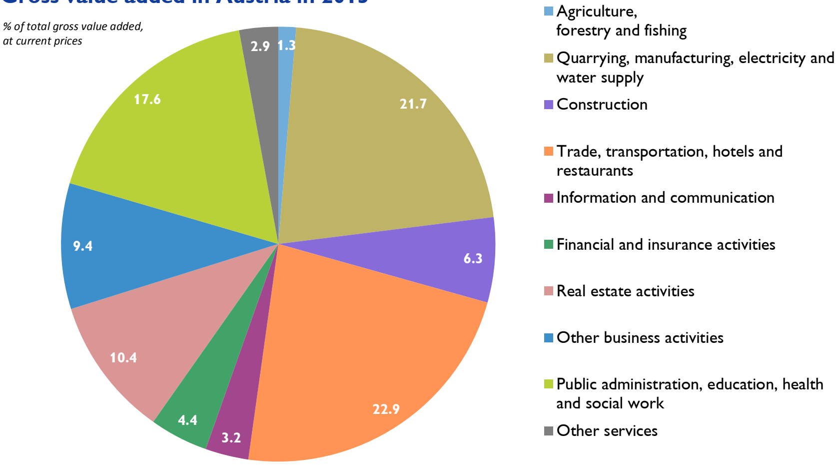
The sectoral structure of the Austrian economy is well balanced

The Austrian economy is solidly based on a well-balanced sectoral structure. The largest share of gross value added (slightly above 30%) is generated by the range of private sector services. In addition, activities classified under "quarrying, manufacturing, electricity and water supply" as well as "trade, transportation and hotels and restaurants" account for more than 20% each. Manufacturing in Austria is characterized by a high diversity of industries. The construction sector's contribution to gross value added (some 6.3%) is relatively low by international standards.

Chart 2

Gross value added in Austria in 2015

% of total gross value added, at current prices



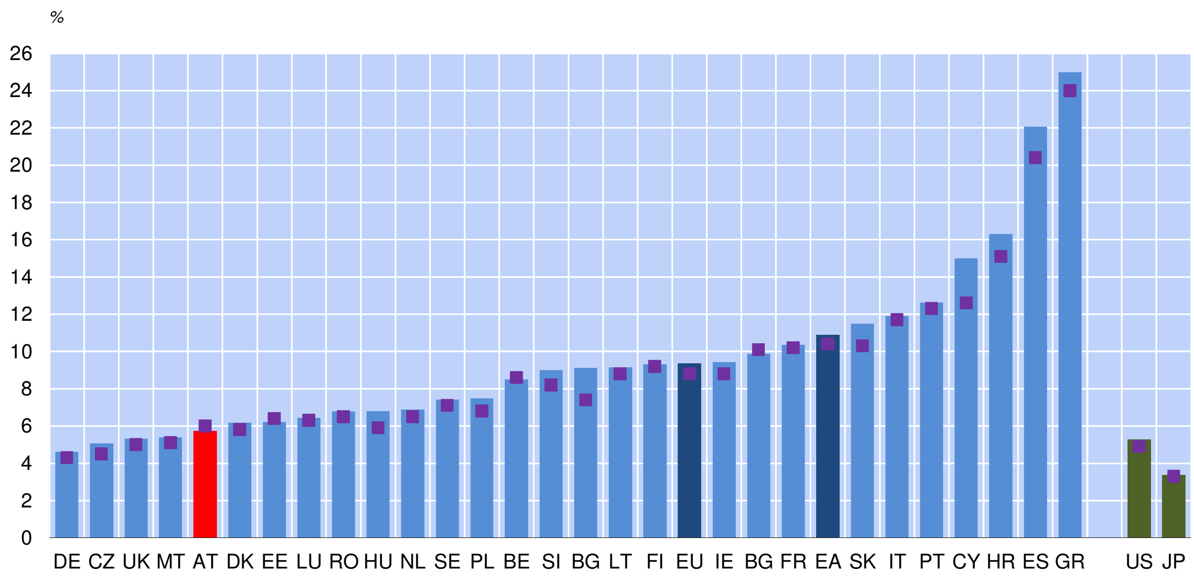
Source: Statistics Austria.

Austria among the countries with the lowest unemployment rates in the EU

The Austrian labor market proved resilient during the financial and economic crisis and in the subsequent years. While employers cut working hours in the crisis year 2009, the number of employees decreased only marginally and has in fact been growing at an above-average rate since then, even under the adverse economic conditions of 2012–2015. As the total labor force has clearly increased, unemployment figures have been rising since mid-2011, though, to levels that are very high for Austria in a historical context. Yet in an EU-wide comparison, Austria still ranked among the top-five countries in 2015. The Austrian labor market continues to be characterized by its basic flexibility and benefits in particular from the balance of interests achieved by the social partners as well as from well-designed social and employment measures (e.g. subsidized short-term working, instead of immediate layoffs). In the same vein, Austria is among the top-ranking countries worldwide as regards social stability (measured, for example, by the frequency of strikes).

Chart 3

Unemployment rates



Source: Eurostat. Note: EE, GR, HU, UK, JP: Dec. 2015; IE, NL, SE: Feb. 2016.

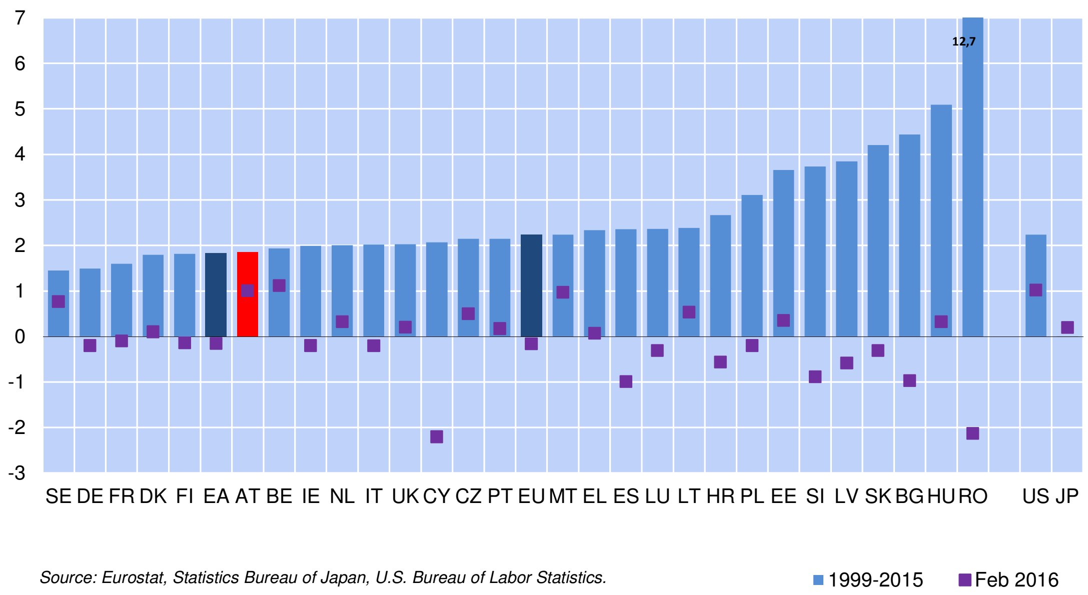
Inflation low by historical standards, but high compared with other euro area countries

At an average rate of 1.8% since 1999, the Eurosystem has been meeting its price stability goal of keeping inflation below, but close to, 2%. However, the distinct rise in inflation before the onset of the economic crisis in 2008 and during the recovery phase in 2011 as well as the decline in inflation in mid-2009 and the currently low rates represented significant deviations in the short run. Since mid-2013, subdued economic growth, a phase of price and wage cuts in several euro area countries and the ongoing sharp decline in energy prices have dampened HICP inflation in the euro area. Annual HICP inflation was –0.2% in February 2016 in the euro area. Looking ahead, on the basis of current futures prices for energy, inflation rates are expected to remain at negative levels in the coming months and to pick up later in 2016. Against this background, the ECB adopted a set of measures in the pursuit of its price stability objective in March 2016. These measures include a further reduction in interest rates, an expansion of the asset purchase program, the inclusion of investment-grade euro-denominated bonds issued by nonbank corporations established in the euro area in the list of assets that are eligible for regular purchases and a new series of four targeted longer-term refinancing operations. These measures should reinforce the momentum of the euro area's economic recovery and accelerate the return of inflation to levels below, but close to, 2%. A comparison of HICP inflation rates for Austria and the euro area shows that domestic inflation was consistently below euro area inflation until 2009. Subsequently, domestic inflation moved in sync with euro area inflation from 2009 to 2012. Since September 2012, HICP inflation in Austria has exceeded euro area inflation, though. As with GDP growth, this inflation differential between Austria and the euro area average can be explained with inflation developments in some euro area countries which are going through a phase of price and wage cuts or even declining price and wage growth, with a view to improving their competitiveness, following deep recessions. Inflation in these countries is suppressing the inflation measure for the euro area as a whole. At the same time, this inflation differential also reflects domestic developments in Austria, such as comparatively strong price increases in the service sector and tax increases.

Chart 4

HICP inflation rate

Annual change in %



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

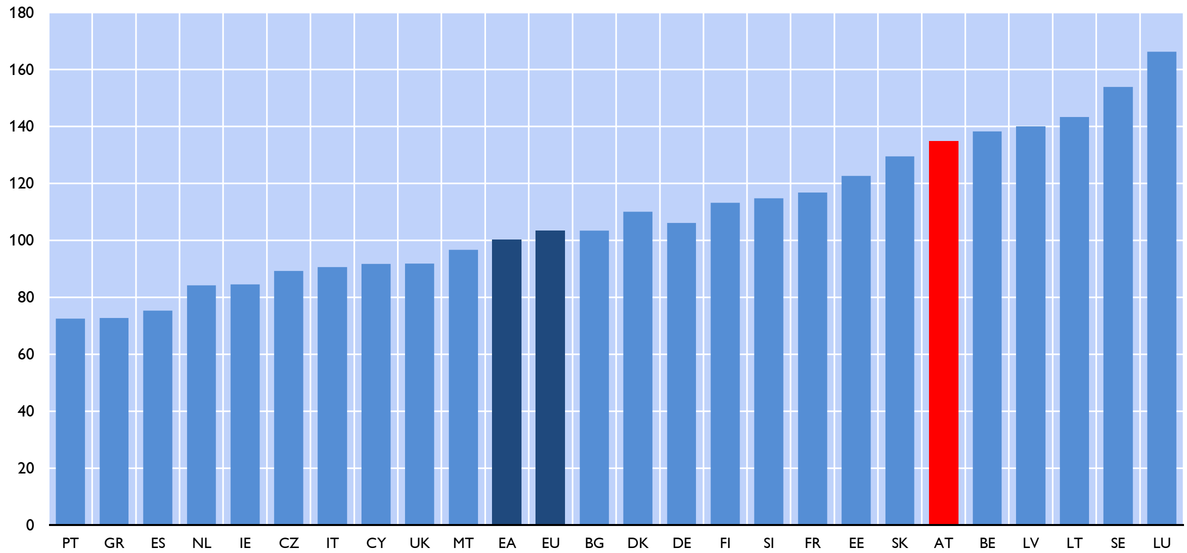
Austrian real estate market: price increases but no bubble

In the period from 2004 (when comparable data for EU members became available) to 2014, real estate prices in Austria rose at a clearly stronger pace than prices in the euro area and the EU. However, unlike other EU countries (like Spain, Ireland and Cyprus) Austria did not experience the development and, ultimately, bursting of real estate price bubbles, which are masked by the period aggregates. The OeNB closely monitors price developments on the housing market and launched a fundamentals indicator for residential property prices in January 2014.

Chart 5

Real house prices in EU Member States

Index: 2004=100



Source: ECB.

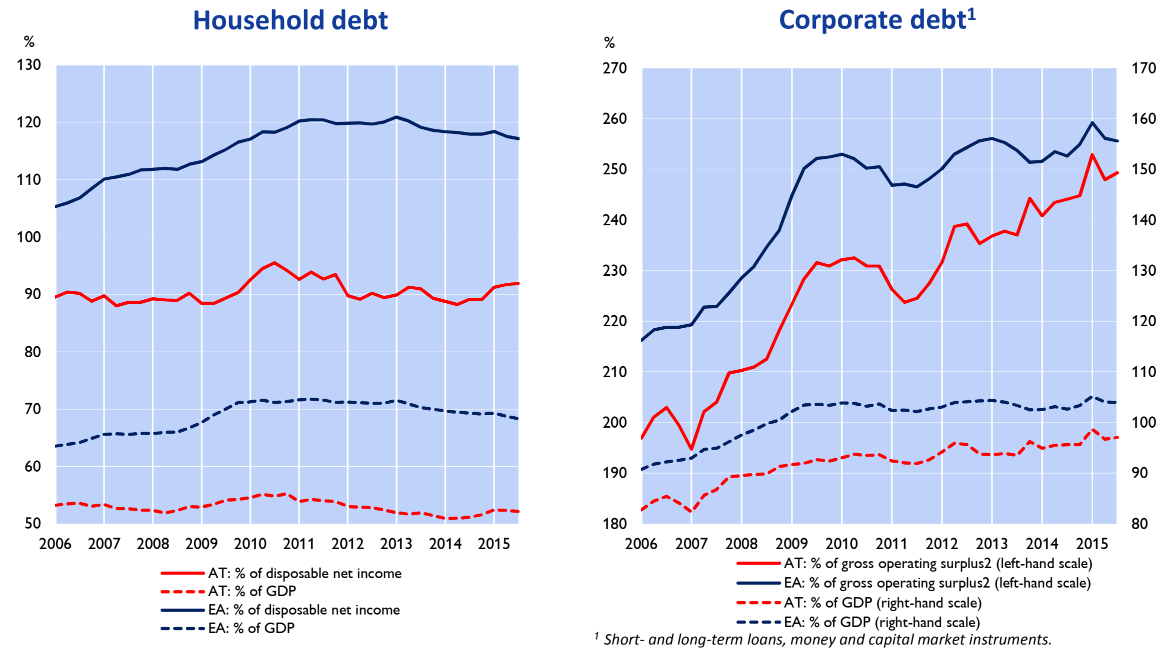
Note: LV 2004–2014; SK 2005–2014; CY 2006–2014; PT, ES, CZ, IT, UK, EA, EU, BG, DE, FI, SI, SK, AT, BE, LT, LU 2004–2014; all other countries: 2004–2015; no data for HU, PL, RO.

High level of financial assets – stable and moderate levels of household and corporate debt

In 2015, households including nonprofit institutions serving households saved about 6.9% of their net disposable incomes. With total financial assets coming to some EUR 583.2 billion (176.9% of GDP) at the end of 2014, the household sector is a key supplier of capital to other sectors in Austria.

Austrian household debt totaled 52.2% of GDP in the third quarter of 2015, which is significantly below the euro area average of 68.3%. At 249.3% of the gross operating surplus or 97.0% of GDP, corporate debt in Austria in the third quarter of 2015 was also below the euro area average of 255.6% relative to gross operating surplus and 103.9% relative to GDP respectively.

Chart 6



Source: ECB.

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

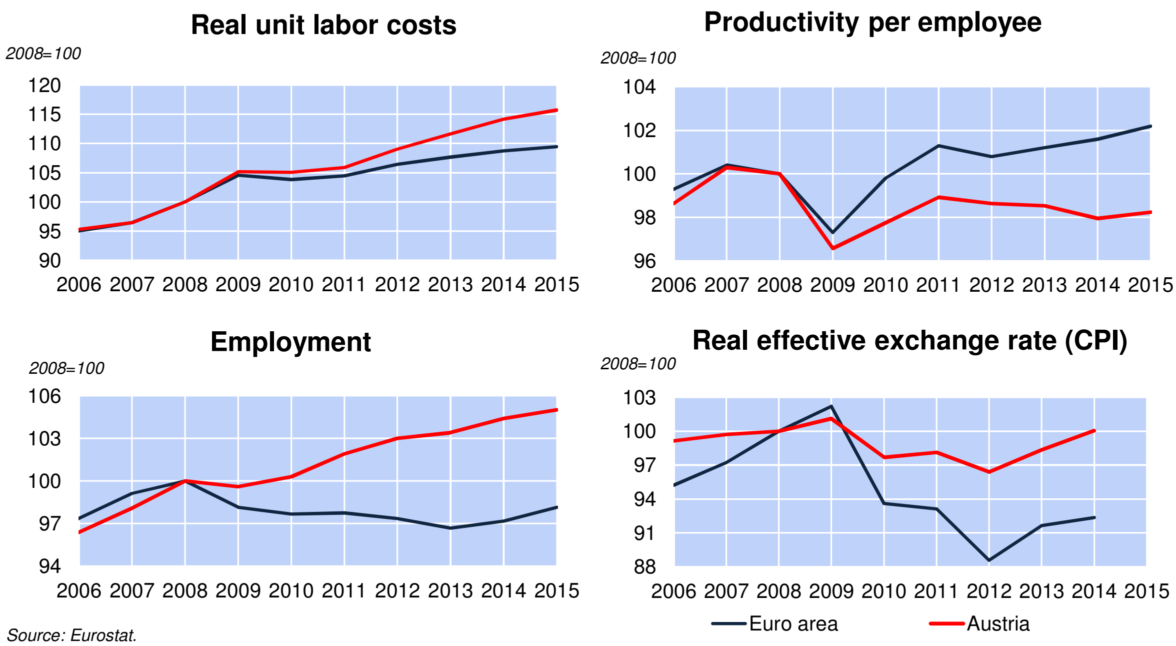
1.2 Austrian exporters remain successful despite the economy's diminishing price competitiveness

Favorable employment climate dampened productivity growth

In the aftermath of the crisis, Austria has been losing in price competitiveness on account of comparatively weaker productivity gains. Labor hoarding in the corporate sector during the crisis years, stronger GDP growth in 2010–2011 and the late opening of the domestic labor market to EU CESEE nationals due to a transitional period stipulated in the EU accession treaties, in 2011, have caused headcount employment to increase at a visibly stronger pace in Austria than in the euro area. Employment continued to increase in the period from 2012 to 2015 despite the low growth environment. As a consequence, Austria has been losing ground in both unit labor costs and productivity per employee relative to the euro area. Furthermore, the euro area was losing competitiveness before the crisis based on real effective exchange rates (deflated with the CPI), but regaining competitiveness between 2009 and 2012, whereas the real effective exchange rate for Austria has remained broadly stable. This also translates into a loss of competitiveness for Austria vis-à-vis the euro area. 2013 and 2014 saw an appreciation of real effective exchange rates for both Austria and the euro area, which also translated into a loss of price competitiveness. Moreover, since September 2012, Austria has faced higher inflation rates than the euro area and its main trading partners, Germany and Italy. This inflation gap results in a real appreciation of the real effective exchange rate, which will continue to dampen Austria's competitiveness position in the coming years.

Chart 7

International competitiveness



Source: Eurostat.

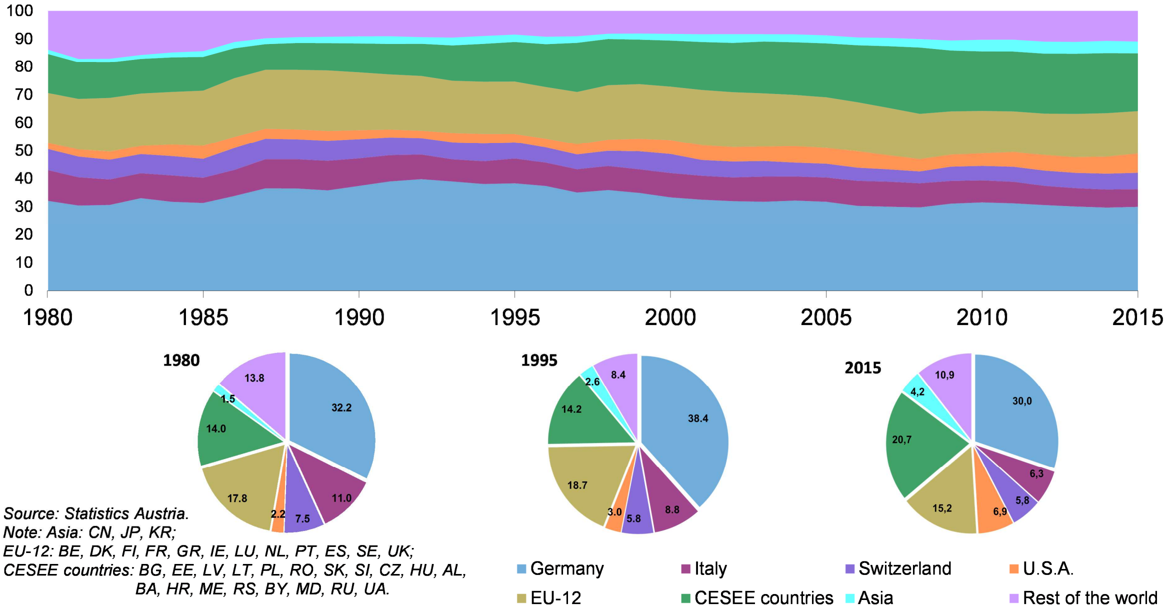
Austria's external trade is regionally diversified, exposure to foreign exchange risk is low

In 2015, about half of Austria's goods exports went to euro area countries, thus remaining unaffected by the euro's exchange rate changes. Among Austria's trade partners, Germany is still the most important partner by far, accounting for a share of 30% of Austria's total goods exports. Next in the ranking are the U.S.A., Italy, Switzerland and France. On balance, the share of shipments destined for euro area countries has been on a steady decline since the mid-1990s (1995: 63%). At the same time, exports to the CESEE countries and the dynamic Asian economies – China, India and Korea – have been on the rise, with the CESEE share increasing from 14% in 1995 to 21% in 2015. Although the speed of the catching-up process decreased, there is still a growth differential of around 1 ½ percentage points, which Austrian exporters were able to use. Importantly, Austria's foreign trade is highly diversified in terms of goods categories. With a share of 40% of total exports, machinery and transport equipment constitute the single largest export item. Furthermore, manufactured goods, chemicals as well as commodities and transactions not classified elsewhere together account for some 47% of exports.

Chart 8

Regional pattern of Austrian goods exports 1980-2015

% of total nominal exports of goods



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.

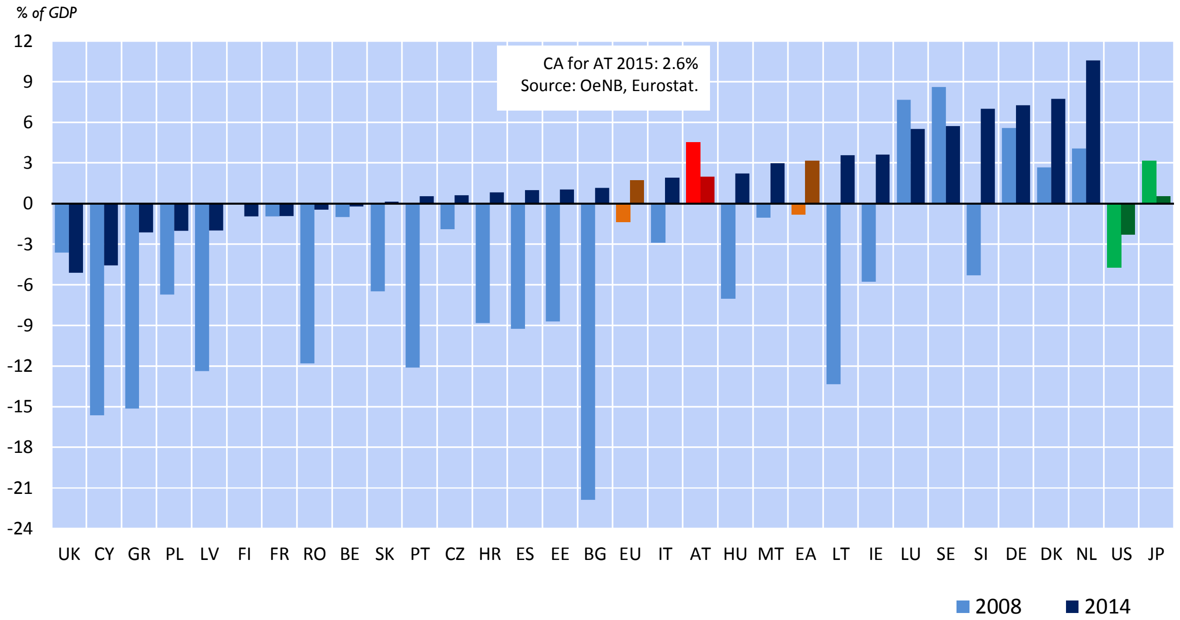
With goods exports accounting for 71% of total exports, Austria's export performance is largely driven by goods, but services also play a significant role: According to the technology balance of payments, Austria turned into a net exporter of technology-related know-how transfers of about EUR 3 billion or 1% of GDP, which allows Austria to compete with countries like Finland or Germany. The fastest growing service export category is computer services, which have replaced services provided by architects and engineers as the leading technology industry, reflecting the settlement of multinational companies in Austria. Research and development services have also been growing dynamically in the long term, yet subject to severe setbacks following the financial, fiscal and economic crisis in recent years. Apart from IT services providers, manufacturing companies are the key players in the international transfer of technological know-how, above all companies working in the electronics industry and in the field of machinery construction. In a regional perspective, Austria is a net exporter of technology-related know-how to Germany, Switzerland, Russia and China, whereas it imports know-how on balance from the U.S.A. and the U.K.

Current account surpluses confirm Austria's international competitiveness

Austria has been logging current account surpluses every year since 2002, i.e. exports of goods and services have since then exceeded imports. In 2015, Austria's current account showed a surplus of 2.6% of GDP (Source OeNB, Statistics Austria), after 2.0% in 2014. This compares with 3.1% for the euro area and 1.7% for the EU in 2014. Austria is forecast to continue to post current account surpluses.

Chart 9

Current account (CA)



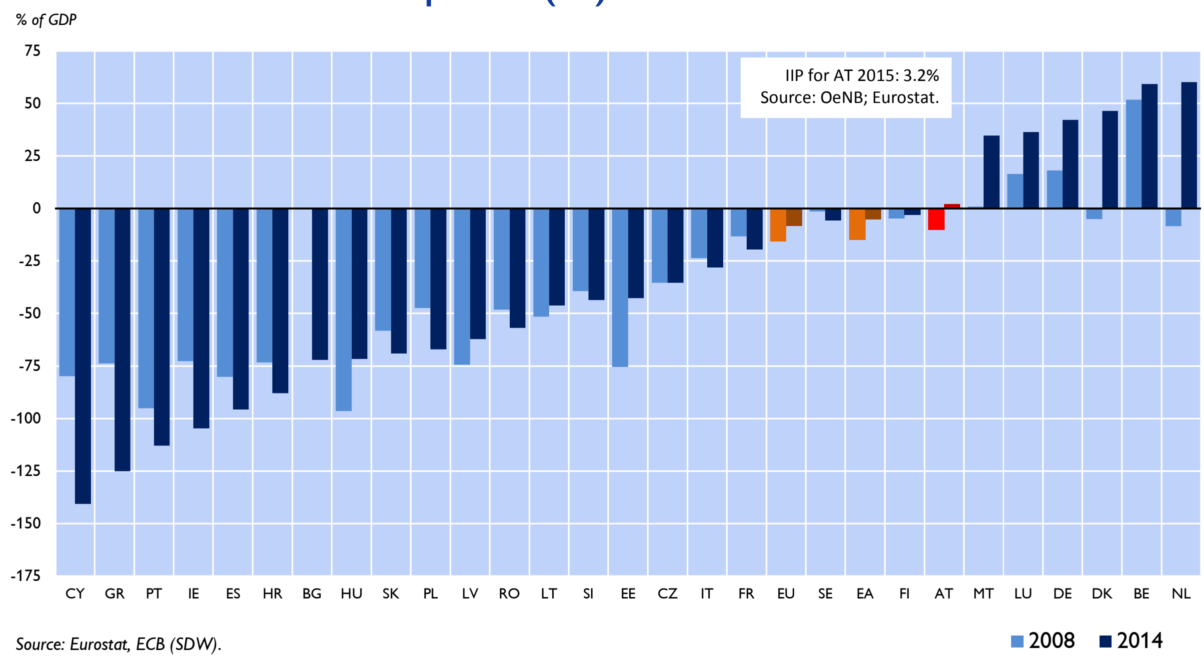
Source: Eurostat.
Note: BPM6; EA and EU 2008 without FI; US and JP: average from EC and IMF data.

Steady improvement of Austria's international investment position

Due to its sustained current account surplus, Austria closed the international investment position (IIP) gap in recent years, reporting a positive net IIP of EUR 10.8 billion (3.2% of nominal GDP; source OeNB and Statistics Austria) in 2015, after 2.2% in 2014. This compares with a net negative IIP of 5.2% for the euro area and of 8.2% for the EU in 2014.

Chart 10

Net international investment position (IIP)



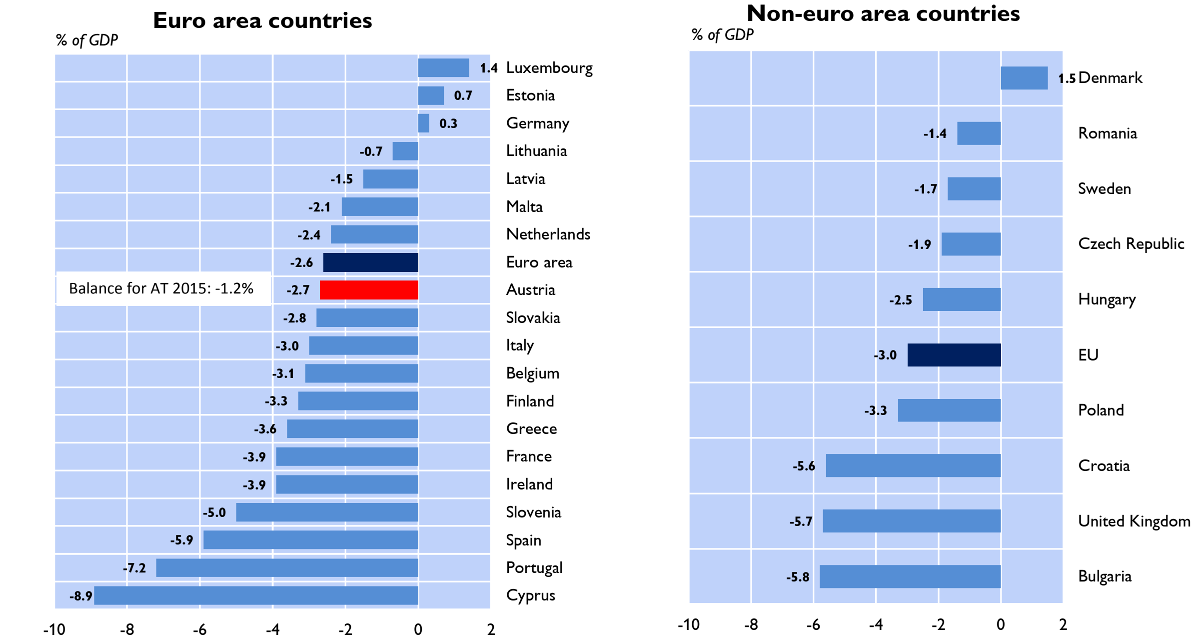
Source: Eurostat, ECB (SDW).
Note: EU 2008 without BG and UK, 2014 without UK.

1.3 Austria's general government deficit and debt ratios driven by special factors

In 2015, the general government budget balance improved to –1.2% of GDP. This was mainly driven by a decrease in capital transfers to banks (particularly to the HETA/Hypo Alpe Adria Group) and by strong revenue growth. The outlook for 2016 implies a worsening of the budget balance ratio due to the 2016 tax reform and additional expenditure related to refugees.

Chart 11

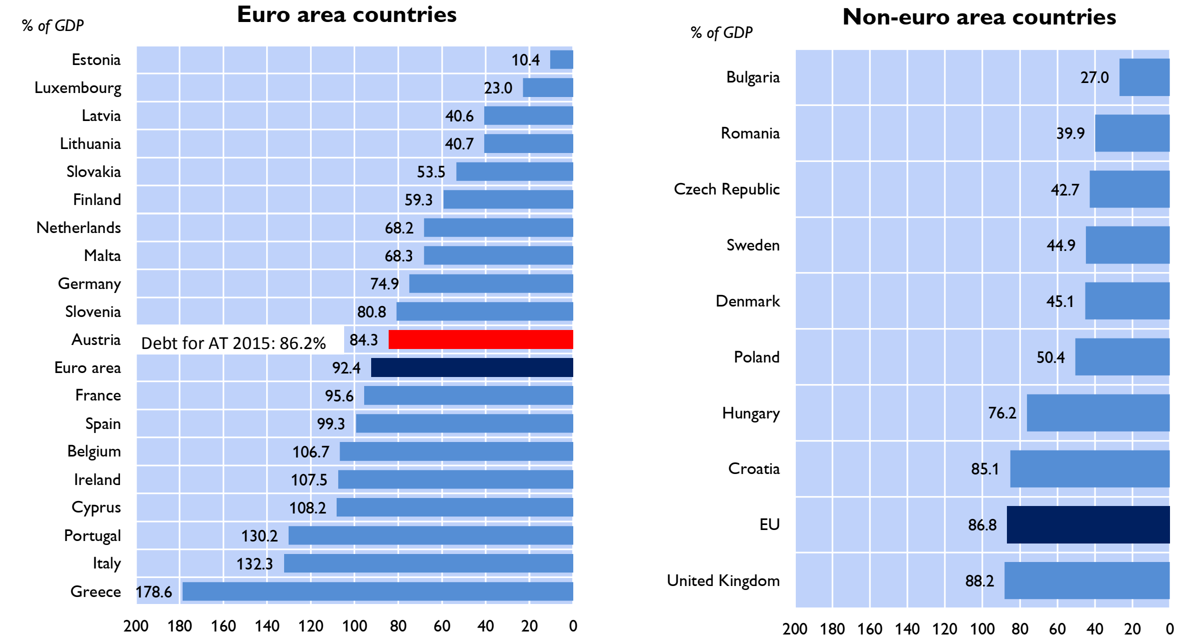
Budget balances of EU Member States in 2014



Source: Eurostat, AT 2015: Statistics Austria.

Chart 12

Public debt of EU Member States in 2014



Source: Eurostat, AT 2015: Statistics Austria.

The marked increase of the government debt ratio to 86.2% of GDP in 2015 (2014: 84.3% of GDP) was mainly the result of debt-(but not deficit-) increasing transactions linked to the state-owned bad banks. For 2016, the debt ratio can be expected to improve on the back of a decline in capital transfers to banks.

Austria over-achieved its medium-term budgetary objective ("preventive arm") in 2015

With the excessive deficit procedure having been abrogated in spring 2014, Austria is now subject to the rules of the preventive arm of the Stability and Growth Pact. The preventive arm sets the medium-term objective (MTO) to a balanced budget position, which translates into a structural balance of –0.45% of GDP for Austria. According to OeNB calculations[2], this target was overachieved in 2015.

Table 1

EU fiscal governance requirements

	Release	2011	2012	2013	2014	2015	Source	Requirement
		in % of GDP						
Budget balance	March 2016	-2.6	-2.2	-1.3	-2.7	-1.2	Statistics Austria	>= -3% of GDP
Public debt	March 2016	82.2	81.6	80.8	84.3	86.2	Statistics Austria	from 2017: Reduction of difference to 60% of GDP by 1/20 per year on average
Structural balance	March 2016	-2.5	-1.8	-1.3	-0.7	0.1	EC, OeNB	MTO (target value) is -0.45% of GDP

Source: Statistics Austria, European Commission (EC), OeNB.

Regarding the debt ratio, the "1/20 rule" stating that debt in excess of 60% of GDP must be reduced by at least 1/20th per year on average will not become binding for Austria until 2017, because Austria was subject to an excessive deficit procedure when this rule was enacted (end-2011). In the transition phase, Austria has to take measures to achieve a structural balance by 2016 which would be consistent with fulfilling the 1/20 benchmark. According to the European Commission, Austria is on track in this respect based on current information.

Austria without macroeconomic imbalances

Under the European semester of economic policy coordination, the European Commission started to compile annual Alert Mechanism Reports (AMR) in 2012 to detect and correct macroeconomic imbalances within the EU. Under this mechanism, countries are examined against a scoreboard of currently 14 economic indicators. A significant deviation from the thresholds defined for these indicators results in an in-depth qualitative review of the given economy by the European Commission, which will then issue economic policy recommendations. In early 2016, Austria was subject to an in-depth review by the European Commission, which ended with the European Commission's conclusion that Austria "is deemed not to experience imbalances."

[2] *These calculations use the European Commission method to derive the structural balance.*

Table 2

Macroeconomic imbalance procedure scoreboard: Austria without marked external imbalances in 2016

Indicator	Threshold	Indicator for Austria	Austria above threshold
Average current account balance in % of GDP over the past 3 years	+6/-4	1.8	No
Net international investment position in % of GDP	-35	2.2	No
Percentage change of real effective exchange rates over the past 3 years	+/-5 (EA) +/-11 (non-EA)	2.0	No
Percentage change of export market shares over the past 5 years	-6	-16	Yes
Percentage change of nominal unit labor costs over the past 3 years	+9 (EA) +12 (non-EA)	7.8	No
Year-on-year changes in house prices relative to deflated house prices	6	1.4	No
Private sector credit flow in % of GDP	15	0.2	No
Private sector debt in % of GDP	160	127.1	No
General government sector debt in % of GDP	60	84.2	Yes
Average unemployment rate over the past 3 years	10	5.3	No
Year-on-year percentage change in total financial sector liabilities, unconsolidated	16.5	-1.5	No
Activity rate - % of total population aged 15-64	-0.2	0.8	No
Long-term unemployment rate - % of active population aged 15-74	0.5	0.3	No
Youth unemployment rate - % of active population aged 15-24	0.2	1.4	Yes

Source: Eurostat.

Austria doing well compared with European peer countries

Due to difficult (mainly external) economic conditions, most European countries have recently lost their AAA ratings. Austria has retained its AAA rating with Moody's and DBRS, and holds the second best rating of AA+ with Standard & Poor's and Fitch. The high confidence in the Austrian economy among international investors is shown by the fact that Austrian government bonds currently have a negative yield up to a duration of 6 years. In the latest auction (March 8, 2016) with a maturity in September 2021, the average accepted yield was –0.2% p.a.

More meaningful comparisons are comparisons with the most important euro area countries (Germany, France, Italy) as well as other European countries that are comparable with the Austrian economy in size and structure (the Netherlands, Switzerland, Sweden, Belgium, Finland and the Czech Republic), see table 3. Based on the IMF World Economic Outlook (WEO) of April 2016, Austria is expected to grow at a similar pace as France, Italy, Switzerland, Belgium and Finland. Despite special domestic growth drivers, one of the key reasons of domestic growth being held back is the comparatively higher inflation. This effect is also evident from the IMF WEO, which expects Austria to record the highest inflation rate of all countries in 2016. In contrast, Austria's unemployment rate (while not as low as the rates of Switzerland, Germany and the Czech Republic) is still low by international standards. Furthermore, Austria's current account balance is clearly positive. This compares with high surpluses for the Netherlands and Germany, as well as for Switzerland, but only a small current account surplus for France and a small deficit for Finland.

Table 3

Austria and peer European countries in comparison

	DE	FR	IT	NL	CH	SE	BE	AT	FI	CZ
	Real GDP growth, annual change in %									
2016	1.5	1.1	1.0	1.8	1.2	3.7	1.2	1.2	0.9	2.5
2017	1.6	1.3	1.1	1.9	1.5	2.8	1.4	1.4	1.1	2.4
	Consumer price index, annual change in %									
2016	0.5	0.4	0.2	0.3	-0.7	1.1	1.2	1.4	0.4	1.0
2017	1.4	1.1	0.7	0.7	-0.2	1.4	1.1	1.8	1.4	2.2
	Unemployment rate, in % of employees									
2016	4.6	10.1	11.4	6.4	3.5	6.8	8.3	6.2	9.3	4.7
2017	4.8	10.0	10.9	6.2	3.4	7.0	8.2	6.4	9.0	4.6
	Current account balance, in % of nominal GDP									
2016	8.1	0.6	1.8	10.5	10.5	5.8	0.5	3.6	-0,0	1.4
2017	7.7	0.3	1.3	10.2	9.7	5.7	0.1	3.5	-0.1	1.0

Source: IMF WEO of April 2016.

2 Austrian banks still faced with challenges

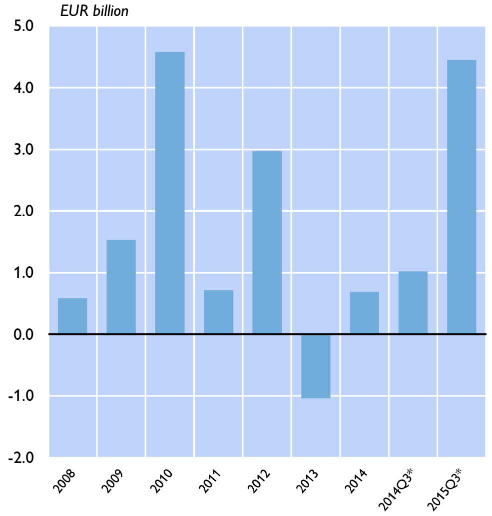
2.1 Profitability and capitalization need to be strengthened further

Consolidated net profits improved given lower credit risk provisioning

Year-on-year profits of Austrian banks improved in the first three quarters of 2015. However, the increase in the consolidated net result of Austrian banks was to a large extent attributable to lower credit risk provisions rather than to improvements in business – given that the rise in operating profits very much reflected a decline in writedowns and impairment charges – whereas interest income, a major income component of the business model of Austrian banks, continued to decrease.

Chart 13

Consolidated net profit of Austrian banks



*Source: OeNB. *Q3 data not comparable to year-end data*

The low interest rate environment is set to remain a challenge for Austrian banks in the longer term, since their funding considerably depends on deposits. The low interest rates are going to put downward pressure on interest margins, which have traditionally been low in Austria. In addition, a dense network of branches, another pillar of domestic banks' business models, incurs high costs that weigh on operational efficiency. The negative impact of the low interest rate environment will become visible only gradually (as higher-yielding assets and liabilities mature), therefore financial institutions would be well advised to take countermeasures early on.

Table 4

Profit and loss account of Austrian banks, consolidated

	2008	2009	2010	2011	2012	2013	2014Q3	2014	2015Q3
	EUR billion								
Net interest income	19.3	19.5	20.4	20.4	19.3	18.6	14.5	19.3	13.8
Fee and commission income	8.5	7.2	7.7	7.6	7.3	7.6	5.7	7.7	5.7
Trading income	-2.1	2.6	1.0	0.8	1.1	0.7	0.7	0.4	0.1
Operating profit	7.9	15.6	13.5	10.4	12.1	8.0	7.1	8.9	8.0
Net result after tax	0.6	1.5	4.6	0.7	3.0	-1.0	1.0	0.7	4.5

Source: OeNB.

Given the low interest rate environment, persistently weak economic growth, the cost structure of banks in Austria and the continued weak credit quality of banks in CESEE, banks need to enhance their business models to raise operational efficiency. This is important as sound profitability also significantly contributes to strengthening capitalization.

Capitalization has improved, still some catching up to be done

The capitalization of the Austrian banking sector has improved over the past years through a combination of higher capital and reduced risk-weighted assets. In the third quarter of 2015, the Austrian banking system had a common equity tier-1 (CET1) ratio of 12.1%, a tier-1 capital ratio of 12.2% and a total capital adequacy ratio of 15.9%.

Table 5

Capital ratios of Austrian banks on a consolidated basis

	2008	2009	2010	2011	2012	2013	2014	2015Q3
	% of risk-weighted assets							
Total capital adequacy ratio	11.0	12.8	13.2	13.6	14.2	15.4	15.6	16.0
Tier-1 capital ratio	7.7	9.3	10.0	10.3	11.0	11.9	11.8	12.2
Core tier-1 capital ratio (from 2014: common equity tier-1)	6.9	8.5	9.4	9.8	10.7	11.6	11.7	12.1

Source: OeNB.
Note: A structural break in consolidated reporting occurred in 2008.
Capital ratios are based on CRD IV definitions from 2014 onward, which limits the comparability with earlier measures.

Compared to their European peers with a CESEE focus or a similar business model, however, Austrian banks continue to record below-average capital ratios. In a comparison of leverage ratios, the large Austrian banks perform better than their peers, however.

The OeNB welcomes the recommendation by the Financial Market Stability Board (FMSB) to activate the systemic risk buffer (SRB)[3] for selected Austrian banks. The SRB needs to be built up over the coming years to aid the further strengthening of financial market stability in Austria.

[3] https://www.fmsg.at/en/publications/press-releases/fifth-meeting.html

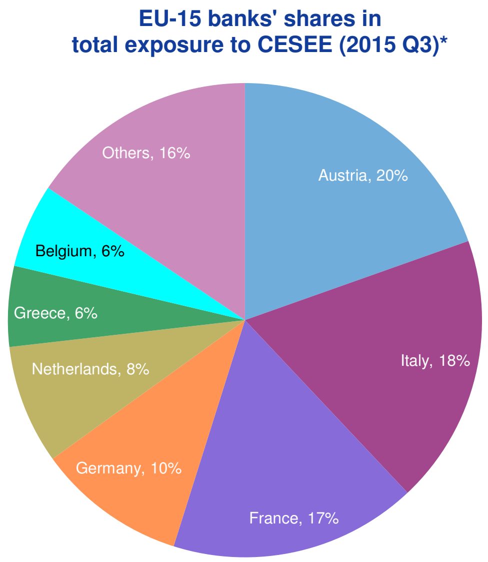
Chart 14

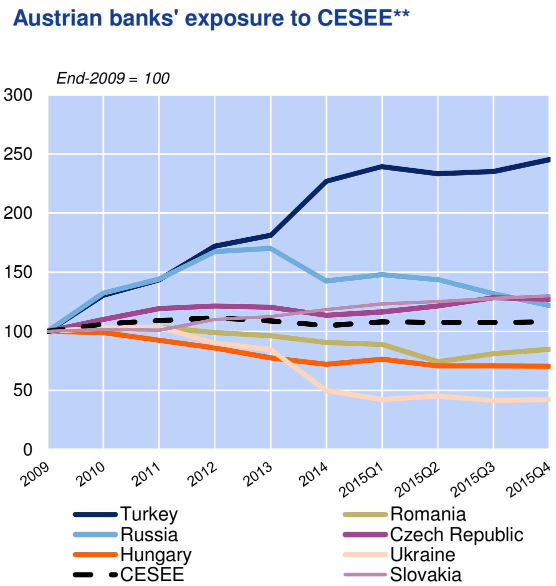
Source: OeNB, SNL Financial. *Note: The data are weighted averages as of September 2015 or latest available date.*

2.2 Foreign exposures of Austrian banks remain focused on CESEE

At the end of December 2015, the consolidated foreign claims of majority Austrian-owned banks totaled approximately EUR 292 billion, with claims on CESEE accounting for some 67% thereof. At the end of September 2015, the share of Austrian banks added up to about one-fifth of all EU-15 banks' claims on CESEE (see chart 15).

Chart 15





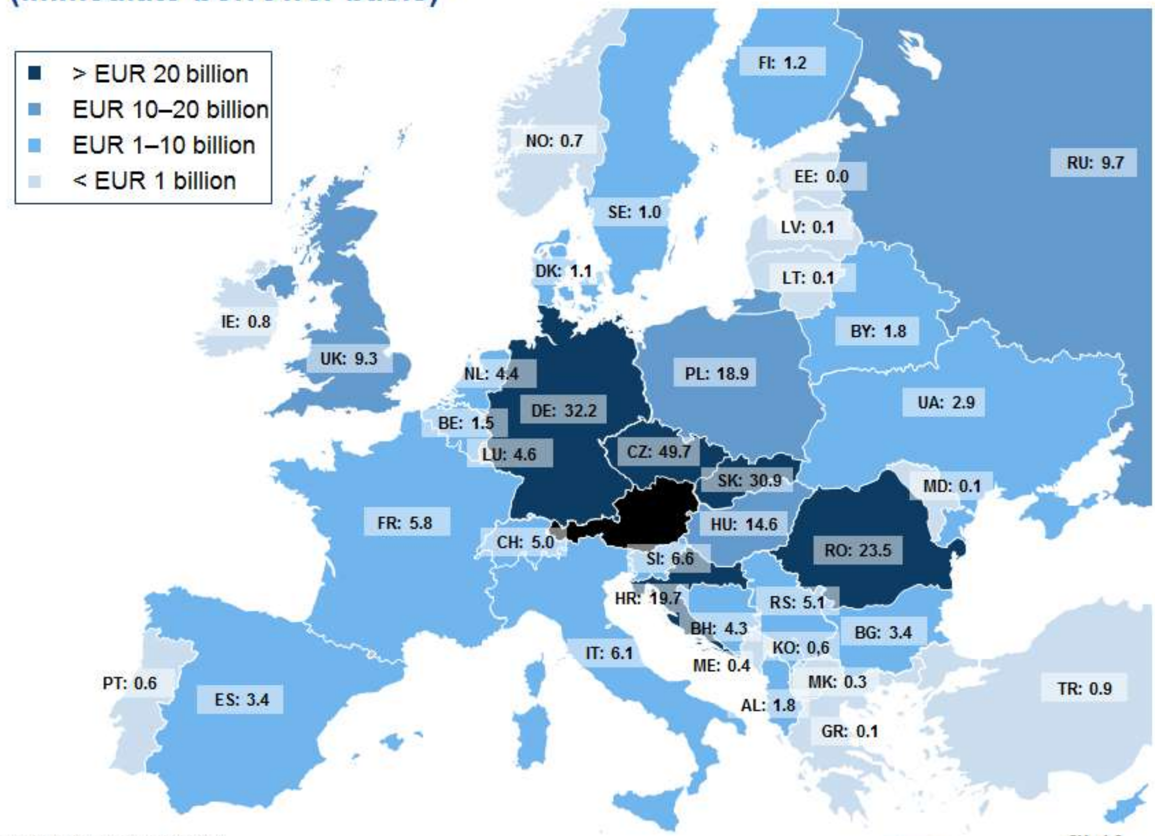
Sources: OeNB, BIS.
** Banks in majority domestic ownership.*

***All Austrian banks (i.e. domestically and foreign-owned) incl. the joint venture in Turkey*

The growth rates of exposures to individual CESEE countries have varied markedly since the outbreak of the financial crisis in 2008. A significant rise in foreign claims on the Czech Republic, Slovakia and Turkey coincided with a contraction of foreign claims on Russia (following a sharp rise) as well as Romania, Hungary and Ukraine. In some countries, the decline was driven by the sale of banks' subsidiaries (e.g. Ukraine and Romania), but also by political (e.g. Hungary) or geopolitical factors (e.g. Russia). The highest exposures of Austrian banks are towards the Czech Republic (EUR 49.7 billion), Germany (EUR 32.2 billion) and Slovakia (EUR 30.9 billion), see chart 16.

Chart 16

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



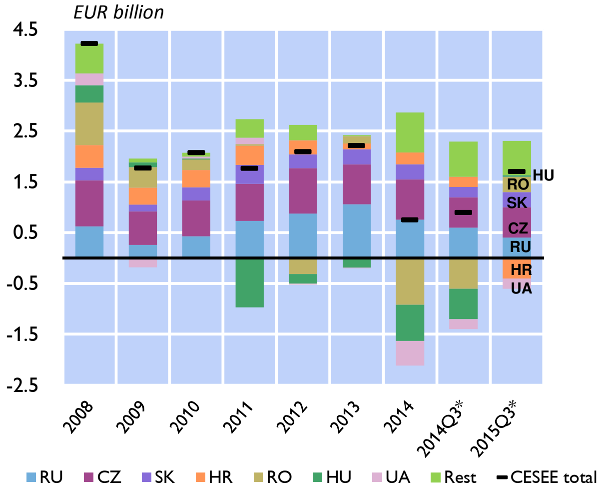
Source: OeNB. Data as of 2015Q4.
[1] In majority domestic ownerhsip.

Improved profitability of Austrian banks' subsidiaries in CESEE driven by lower credit risk provisions – overall, mixed developments

The profitability of Austrian banks' subsidiaries in CESEE improved considerably in the first three quarters of 2015 compared with the same period one year earlier. The sector's aggregate net profit for the period almost doubled, to EUR 1.7 billion. Like before, Austrian subsidiaries in the Czech Republic, Russia, Slovakia and Turkey provided substantial profit contributions. While the net results of banks in the Czech Republic and Slovakia remained relatively stable, the net results of banks in Russia declined. The latest net result for Romania was significantly positive, following a period marked by strong earnings volatility. At the same time, Austrian subsidiaries in Croatia reported a net loss in the third quarter of 2015, following a steady string of profits despite the recession that has been ongoing since 2009.

Chart 17

Net profit of Austrian subsidiaries in CESEE



Source: OeNB. *Q3 data are not comparable with year-end data.

The rise in profitability was mostly due to a EUR 1.3 billion reduction in credit risk provisioning, the bulk of which took place at subsidiaries in Romania, but also in Hungary. In Romania, the reduction of nonperforming loans and the sale of an Austrian subsidiary led to a decrease in loan loss provisions; in Hungary, the need for credit risk provisioning declined in the wake of legal interventions to convert outstanding foreign currency loans into forints and loan loss provisions created earlier. In numerous CESEE countries, the macroeconomic environment also contributed to the reduction of loan loss provisions. At the same time, risk provisioning increased fairly strongly in Croatia and Russia, albeit from low levels (especially in Russia). In Croatia, the rise followed foreign currency loan conversions mandated by law; in Russia, it was due to the country's deep recession. On balance, the outlook for growth continues to be more favorable for CESEE than for Western Europe.

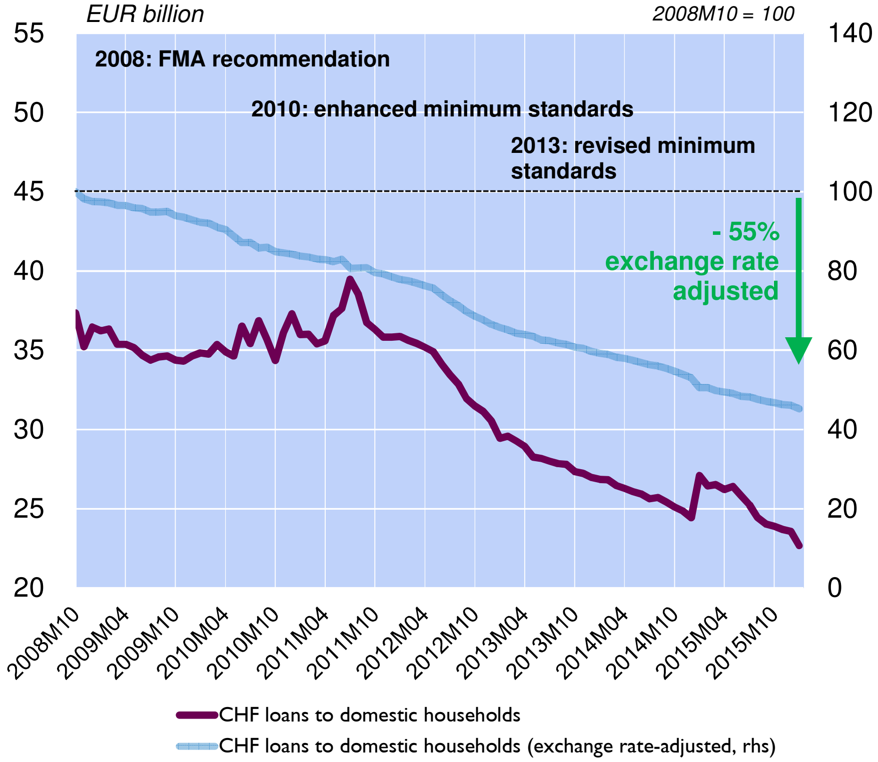
2.3 Macroprudential measures contributes to financial stability

Effect of macroprudential action taken to address foreign currency lending and strengthen the sustainability of large banks' business models

Austria has implemented macroprudential measures early on. Since 2003, minimum standards for granting foreign currency loans and loans with repayment vehicles have been in place. These minimum standards were tightened substantially in October 2008, when the FMA issued a new recommendation, and in 2010, when the FMA and the OeNB jointly issued guiding principles for foreign currency lending in CESEE and the FMA revised the minimum standards for foreign currency lending in Austria.

Despite the strong appreciation of the Swiss franc, outstanding foreign currency loans made by Austrian banks to domestic nonbanks continued to contract in 2015, shrinking to EUR 32.9 billion in January 2016. The largest share of this amount by far – EUR 23.5 billion – were loans to households, 96% of which were denominated in Swiss francs.

Foreign currency loans denominated in CHF to domestic households



Source: OeNB.

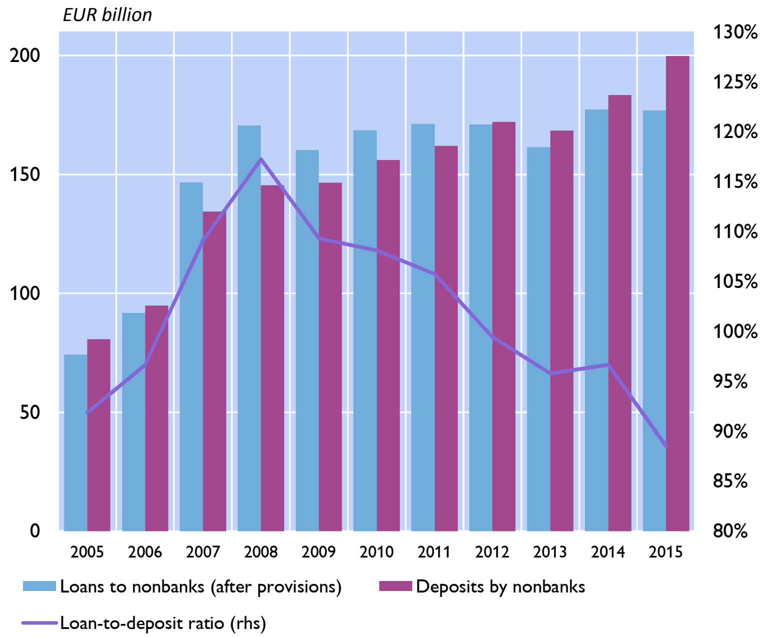
Despite the downtrend in foreign currency loans seen over the past few years, the risks resulting from loans in foreign currency, as well as loans with repayment vehicles, remain high, as about three-quarters of all foreign currency loans to households are bullet loans and linked to repayment vehicles.

In March 2012, the OeNB and the FMA published the "Supervisory guidance on the strengthening of the sustainability of the business models of large internationally active Austrian banks" ("sustainability package"). The sustainability package is aimed at achieving a more balanced funding structure at Austrian banks' foreign subsidiaries, i.e. strengthening stable local funding and increasing the capitalization levels of certain large banks. In addition, it requires these banks to develop appropriate recovery and resolution plans that may be implemented in times of crisis.

Thanks to the sustainability package, the local refinancing situation of Austrian banks' subsidiaries in CESEE has improved. Their loan-to-deposit ratio decreased from 117% in 2008 to 89% in 2015 mainly because savings deposits of local nonbanks increased by more than 30%. This means that loan growth in CESEE has increasingly been funded through local sources.

Chart 19

Local funding situation of Austrian subsidiaries in CESEE



Source: OeNB.

OeNB survey on mortgage lending in Austria and creation of related macroprudential instruments

As unsustainable mortgage lending in combination with a surge in real estate prices often give rise to substantial systemic risks and as the legal basis for new macroprudential instruments relating to mortgage lending was still lacking in Austria, this topic was on the agenda of the February 2016 meeting of the Austrian Financial Stability Board (FMSB). To get a better grasp of Austrian banks' lending standards for housing, the OeNB conducted a survey among selected Austrian banks in 2015 to identify internationally comparable indicators, such as banks' loan-to-value ratios, their debt-to-income ratios and their debt service-to-income ratios. The results are currently being evaluated. The FMSB considers it necessary to create the legal basis for additional macroprudential instruments in line with international standards to limit the risks arising from mortgage lending. Although there is, currently, no immediate need for the activation of such instruments, the scope of action for macroprudential supervision should be expanded in good time.

2.4 Reviews of the domestic banking sector by the European Commission and the IMF

In early 2016, Austria was subject to its first-ever in-depth review under the Macroeconomic Imbalance Procedure (MIP) of the European Commission. The review focused inter alia on the risks the Austrian financial sector's large foreign exposure involves and their potential impact on the supply of credit. The results of the country report[4] were published as a Commission staff working document on February 26, 2016. Based on this report, the European Commission concluded that Austria was not experiencing imbalances.[5] While finding the domestic banking sector to be resilient, the report highlighted some key

[4] http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_austria_en.pdf

[5] http://europa.eu/rapid/press-release_IP-16-591_en.htm

challenges, in particular below average capitalization, low profitability and the weak loan portfolio quality of the subsidiaries abroad. Foreign currency lending in Austria and abroad continues to be a risk factor. Other findings include that credit demand rather than the supply side has been the major driver of credit growth, and that the restructuring of the Austrian banking sector has reached a point where it can advance without additional public support. Regulatory and macroprudential requirements at EU and national level have reduced the risk of additional negative spillovers to public finances. The review findings were positive with regard to the macroprudential measures initiated by the OeNB (systemic risk buffer, sustainability package, measures addressing foreign currency lending).

The results of the European Commission's in-depth review broadly confirmed the findings of the IMF's 2015 Article IV consultation:[6] The IMF acknowledged the progress made in revamping the regulatory and supervisory framework for the Austrian banking sector, given that major elements of the EU banking union have been implemented and that the Financial Market Stability Board has been put in place. At the same time, the IMF underlined the need for additional measures, for instance with regard to large banks' capital cushions, which have been strengthened but remain low relative to peers. Banking sector profitability has been slow to improve, and cross-border exposures to CESEE and loans denominated in Swiss francs remain a source of risks for Austrian banks. This means that the supervisory authorities will need to monitor and assess banks' capitalization and will need to stand ready to implement additional measures, if needed, to tighten capital requirements. Moreover, the necessary legal basis needs to be created for expanding the macroeconomic toolkit to include the setting of loan-to-value ratios, debt-to-income ratios and debt service-to-income ratios.

2.5 Banking union: progress in the harmonization of supervisory frameworks

The first year of the Single Supervisory Mechanism (SSM)

The Single Supervisory Mechanism (SSM) has been established to safeguard the security and reliability of the European banking system and contribute to the stability of the EU financial system. The SSM ensures the harmonized and effective supervision of banks in the euro area by the ECB. In its capacity as supervisor, the ECB has developed an SSM manual and issues regulations, guidelines and recommendations. The SSM, the Single Resolution Mechanism (SRM) and the European Deposit Insurance System (EDIS) are considered to be the pillars of banking union. Its foundation is the single rulebook, a set of harmonized rules applicable to institutions throughout the EU.

Under the SSM, the ECB has been responsible for the supervision of all banks in the euro area since November 4, 2014. In fulfilling its supervisory responsibilities, the ECB cooperates with the national supervisory authorities (in Austria: FMA and OeNB). The ECB is in charge of the direct supervision of significant institutions (SIs), which is performed by Joint Supervisory Teams (JSTs), Each JST comprises an ECB-based coordinator and national subcoordinators representing the supervisory authorities of the SSM countries in which the supervised institution is established (in Austria, the FMA and the OeNB each appoint one subcoordinator). Furthermore, the JST comprises a team of ECB experts and experts from the national supervisory authorities. Thus, the JSTs are responsible for operationalizing all supervisory decisions, covering both the economic and the legal component of supervisory activities, while the national competent authorities (NCAs) are responsible for the supervision of less significant institutions (LSIs). The extent of oversight of LSIs is guided by the principle of proportionality. This means that the depth of oversight and the scope of reporting by the NCAs to the ECB depend on the

[6] http://www.imf.org/external/np/sec/pr/2016/pr1658.htm

systemic relevance and the risk profile of each institution. So far, eight Austrian banks have been identified as high-priority LSIs.

As to the classification of institutions as significant or less significant, the ECB carries out a review at least once a year. In 2015, an additional nine European banks were identified to meet at least one of the criteria defining significant institutions according to the SSM Regulation; these banks hence underwent a comprehensive assessment exercise in the year under review. At the same time, three institutions were found to no longer meet the criteria to be classified as significant. As a result, since December 30, 2015, a total of 129 European banking groups have been classified as significant institutions, after 123 one year earlier.[7] Among the new significant institutions are the Austrian subsidiaries of two Russian institutions (Sberbank Europe AG and VTB Bank (Austria) AG), which have their European headquarters in Vienna. The two banks were identified as significant because of their cross-border activities. For both Sberbank Europe AG and VTB Bank (Austria) AG, the comprehensive assessment revealed a capital shortfall; however, the two institutions successfully covered this shortfall already before the exercise had been concluded.

The key activities of the SSM in 2015 included the conduct of the Supervisory Review and Evaluation Process (SREP), including the definition of SREP ratios, which was carried out for the first time according to a common methodology for all significant institutions. Also, the SSM coordinated in cooperation with the national supervisory authorities the implementation of an ambitious schedule of on-site inspections. In the spring of 2015, the SSM moreover launched an initiative to harmonize the options and national discretions (ONDs) available to the national supervisory authorities in the CRR and CRD-IV[8] regarding the interpretation of certain provisions. Being the competent authority within the SSM, the ECB will ensure the implementation of a harmonized SSM OND approach from spring or summer 2016.

The SSM's supervisory priorities for 2016 are business model and profitability risk, credit risk, capital adequacy, risk governance and data quality as well as liquidity.

Single Resolution Mechanism has become fully operational

The Single Resolution Mechanism (SRM) has been established to facilitate the effective and efficient resolution of failing credit institutions or credit institutions that are likely to fail. At the heart of the SRM's institutional framework is the Single Resolution Board (SRB), which controls the Single Resolution Fund (SRF). Starting from January 1, 2016,[9] the SRB took over specific tasks in connection with resolution planning (including assessing and facilitating an institution's resolvability) and executing the resolution of failing or failed institutions. Similar to the SSM, the SRM is organized as a decentralized system: there is a clear division of tasks between the SRB and the national resolution authorities. The SRB is responsible for those institutions that are directly supervised by the ECB, for cross-border groups, and for banks that receive funds from the SRF.

The national resolution authorities are obliged to support the SRB in planning and executing the SRB's resolution decisions also in cases in which institutions that fall under the direct responsibility of the SRB

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[7] *To avoid frequent changes in the classification, an institution will be reclassified from significant to less significant only if it does not meet the relevant criteria in three consecutive years. A less significant institution will be reclassified as significant if it fulfills at least one criterion in one year.*

[8] *EU acts implementing Basel III: the Capital Requirements Regulation (CRR; EU regulation no 575/2013) and the Capital Requirements Directive (CRD IV; directive 2013/36/EU).*

[9] *The SRB started work already at the beginning of 2015 as the provisions governing the preparation of resolution planning, collecting information and cooperation with the national resolution authorities came into force on January 1, 2015.*

are concerned. To ensure good cooperation between the SRB, the FMA – which is the competent resolution authority in Austria – and the OeNB, the Bank Recovery and Resolution Act (BaSAG) has been amended to reflect the division of responsibilities under the SRM regime. Prior to this amendment, the BaSAG (unlike the Austrian Banking Act) had not stipulated general investigatory powers for the resolution authority but only specific investigatory powers that were limited to special cases. The amended BaSAG gives the resolution authority the power to request information, collect information and require the disclosure of information. Furthermore, it enables the resolution authority to conduct on-site inspections or to request an expert or the OeNB to conduct on-site inspections.

Starting from January 1, 2016, the SRF is being set up under the control of the SRB. The resolution fund is owned and administered by the SRB. The SRF is financed through the financial sector. The level of banks' individual contributions depends on their size and risk profile By 2024, the SRF is scheduled to have reached its full target size of 1% of the covered deposits of all banks in EU Member States participating in the SRM. The BaSAG includes associated provisions that give the resolution authorities the necessary powers for collecting banks' contributions and transferring them to the SRF.

During its build-up, the SRF will be divided into national compartments, which are to be merged gradually into a single fund until 2024. The transfer of national contributions to the SRF is laid down in an intergovernmental agreement and not part of the SRM Regulation.[10] The agreement had been ratified by a sufficient number of participating Member States by the end of November 2015 and has hence been in force since January 1, 2016.

European Deposit Insurance Scheme taking shape

In November 2015, the European Commission published a proposal for a single European Deposit Insurance Scheme (EDIS). EDIS builds on harmonized national deposit guarantee schemes as required by the Deposit Guarantee Scheme Directive.[11] Under the new system, depositors would continue to enjoy the same level of protection (up to EUR 100,000) throughout the Euro area.

EDIS is scheduled to be established in three phases. A reinsurance approach has been proposed as the governing principle in phase 1. At this stage, national deposit guarantee schemes can access EDIS only after the national scheme's own resources have been fully exhausted. EDIS would then provide funds only up to a certain level. Phase 2 would be the co-insurance stage, starting from 2020. In this phase, the coverage of deposits would be increasingly shared between the common fund and the national systems. In other words, the national systems would no longer be required to fully exhaust their own funds before drawing on EDIS funds. The share covered by EDIS would increase gradually. In phase 3, which is scheduled to start in 2024, full insurance would be provided by EDIS.

As regards the funding of EDIS, Member States will have the possibility of organizing contributions in a way that does not put an additional funding burden on banks. EDIS would cover all banks that are subject to the SSM. It would be managed by the Single Resolution Board, which would also decide on the use of EDIS funds and loans to be taken out by EDIS. By July 2024, when EDIS starts to provide full insurance, the EDIS deposit insurance fund is set to amount to EUR 43 billion, according to current calculations.

The establishment of EDIS should in principle be welcomed. It would mark the completion of the third pillar of banking union, after the ECB took over banking supervision under the SSM in November 2014 and the SRM became fully operational in early 2016. However, there is still much work that must be

[10] Regulation (EU) No 806/2014 establishing the SRM.

[11] In Austria, Directive 2014/49/EU was implemented through the Act on Deposit Guarantee Schemes and Investor Compensation.

undertaken before the preparations for EDIS are complete.[12] Until then, national deposit protection schemes play a central role. In Austria, the Act on Deposit Guarantee Schemes and Investor Compensation (ESAEG), implementing the Deposit Guarantee Scheme Directive (DGSD), governs the protection of savings.

[12] *Some Member States have not yet implemented the Bank Recovery and Resolution Directive (BRRD) and the DGSD. Also, there is still no harmonized European insolvency law.*

3 Annex of tables

Table 1

Real GDP[1]

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Annual change in %										
Austria	3.6	1.5	-3.8	1.9	2.8	0.8	0.3	0.4	0.9	1.2	1.4
Euro area	3.0	0.5	-4.5	2.1	1.6	-0.9	-0.3	0.9	1.6	1.5	1.6
EU	3.1	0.5	-4.4	2.1	1.8	-0.5	0.2	1.4	1.9	x	x

Consumer price indices[1]

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Annual change in %										
Austria	2.2	3.2	0.4	1.7	3.6	2.6	2.1	1.5	0.8	1.4	1.8
Euro area	2.1	3.3	0.3	1.6	2.7	2.5	1.4	0.4	0.0	0.4	1.0
EU	2.3	3.7	1.0	2.1	3.1	2.6	1.5	0.5	0.0	x	x

Unemployment rates[1]

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	% of labor force										
Austria	4.9	4.1	5.3	4.8	4.6	4.9	5.4	5.6	5.7	6.2	6.4
Euro area	7.5	7.6	9.5	10.0	10.1	11.3	12.0	11.6	10.9	10.3	9.9
EU	7.2	7.0	9.0	9.6	9.6	10.4	10.8	10.2	9.4	x	x

Current account balances[1]

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	% of GDP										
Austria	3.8	4.5	2.6	2.9	1.6	1.5	1.9	1.9	2.6	3.6	3.5
Euro area	0.3	-0.6	0.4	0.4	0.6	1.9	2.5	3.0	3.7	3.4	3.1
EU	-0.4	-1.3	-0.1	0.0	0.3	1.0	1.5	1.6	2.1	x	x

Budget balances[1]

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	% of GDP										
Austria	-1.3	-1.4	-5.3	-4.5	-2.6	-2.2	-1.3	-2.7	-1.2	x	x
Euro area	-0.6	-2.2	-6.3	-6.2	-4.1	-3.7	-3.0	-2.6	x	x	x
EU	-0.9	-2.5	-6.7	-6.4	-4.5	-4.3	-3.3	-3.0	x	x	x

Government debt ratios[1]

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	% of GDP										
Austria	64.8	68.5	79.7	82.3	82.2	81.6	80.8	84.3	86.2	x	x
Euro area	65.1	68.7	78.5	84.0	86.1	89.5	91.3	92.3	x	x	x
EU	57.8	61.0	73.0	78.4	81.0	83.8	85.5	86.8	x	x	x

Source: Eurostat, OeNB, ECB.

[1] *The data for 2016 to 2017 are based on the IMF spring forecast (April 2016). Note: x = data not available.*

Annex of tables – continued

Table 2

General government interest payments[1]

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	% of GDP									
Austria	3.1	3.1	3.0	3.2	2.9	2.8	2.7	2.6	2.5	2.3

Source: Statistics Austria.

[1] According to the EDP notification (Maastricht), including swap transactions.

Table 3

Household debt

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	% of disposable net income									
Austria	88.8	88.6	90.2	90.4	94.2	93.5	89.5	89.3	89.1	x
Euro area	x	111.7	112.7	116.5	119.1	119.8	120.1	118.6	117.9	x
	% of GDP									
Austria	53.1	52.4	53.0	54.3	55.3	53.9	52.4	51.4	51.6	x
Euro area	64.9	65.8	66.8	71.2	71.3	71.2	71.0	70.0	69.2	x

Source: ECB, OeNB.

Table 4

Corporate debt[1]

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	% of gross operating surplus [2]									
Austria	199.5	209.8	218.1	230.9	230.9	227.5	235.3	244.2	244.8	x
Euro area	218.8	225.6	237.9	252.4	250.5	248.1	255.6	251.4	254.9	x
	% of GDP									
Austria	84.1	89.3	91.3	92.4	93.6	92.6	93.8	96.2	95.6	x
Euro area	92.5	96.2	100.5	103.4	103.6	102.7	104.2	102.5	103.3	x

Source: ECB, OeNB.

[1] Short- and long-term loans, money and capital market instruments.

[2] Including mixed income of the self-employed.

Table 5

Residential property price index

	2010	2011	2012	2013	2014	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15
	Index 2000=100									
Austria excluding Vienna	121.1	124.0	137.4	141.1	145.4	146.5	144.5	150.2	150.1	152.8
Vienna	143.9	156.1	180.7	196.3	204.6	202.2	204.4	206.8	208.7	209.0
	Annual change in %									
Austria excluding Vienna	5.5	2.3	10.8	2.7	3.1	2.6	3.2	4.8	1.9	4.3
Vienna	7.8	8.5	15.7	8.7	4.2	2.2	1.0	1.1	0.6	3.4

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

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