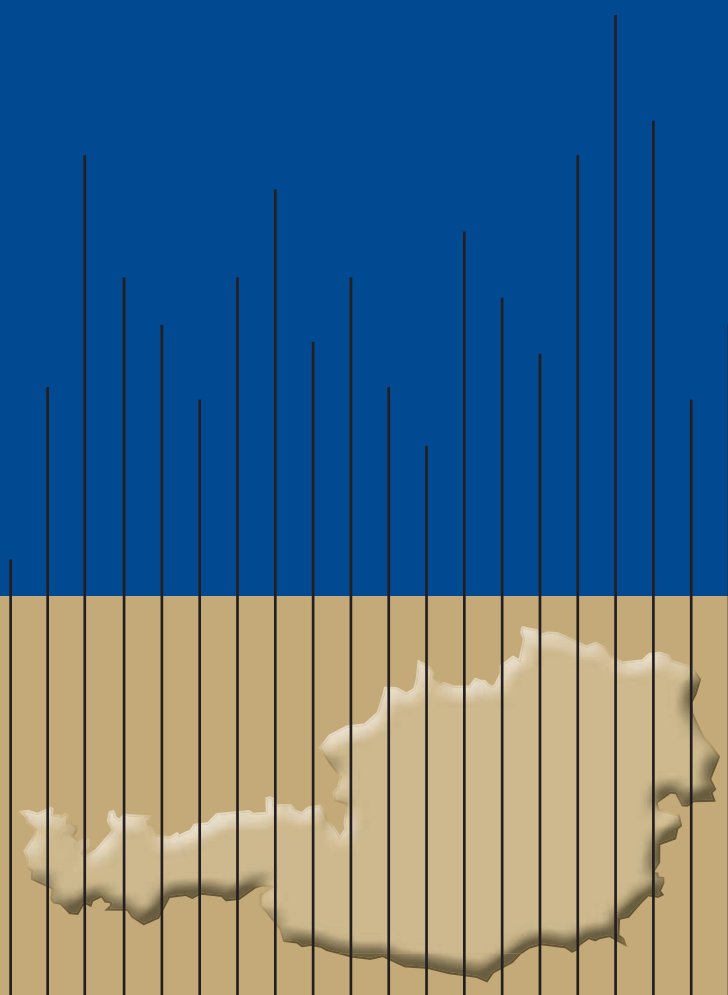




OESTERREICHISCHE NATIONALBANK  
EUROSYSTEM

# FACTS ON AUSTRIA AND ITS BANKS



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*Cut-off date for key indicators: January 30, 2017.*

*Cut-off date for the overview of major economic developments: September 15, 2016.*

# Key indicators for the Austrian economy

Cut-off date for data: January 30, 2017.

## Economic indicators

	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	2015	2016	2017	2018
<b>Economic activity</b>	<i>EUR billion (four-quarter moving sums)</i>								
Nominal GDP	340.0	342.2	344.3	346.7	349.6	340.0	349.6	359.8	371.0
	<i>Change on previous period in % (real)</i>								
GDP	0.4	0.4	0.3	0.5	0.5	0.9	1.4	1.5	1.5
Private consumption	0.3	0.3	0.4	0.5	0.5	0.0	1.3	1.1	1.1
Public consumption	0.4	0.4	0.3	0.2	0.3	1.8	1.5	0.9	1.3
Gross fixed capital formation	0.8	1.0	1.0	0.4	0.1	0.6	2.9	1.8	1.5
Exports of goods and services	0.6	0.3	0.6	0.2	0.4	3.6	2.2	3.5	3.9
Exports of goods	0.5	0.2	0.6	0.4	0.8	3.5	2.3	3.3	3.7
Imports of goods and services	1.4	0.7	1.0	0.4	0.5	3.0	3.7	3.1	3.6
Imports of goods	1.7	0.6	1.0	0.5	0.8	3.7	4.3	3.0	3.5
	<i>% of nominal GDP</i>								
<b>Current account balance</b>	x	x	x	x	x	1.9	2.1	2.5	2.7
<b>Prices</b>	<i>Annual change in %</i>								
HICP inflation	0.7	x	x	x	1.5	0.8	0.9	1.5	1.7
Compensation per employee	1.9	1.6	1.4	1.0	0.3	1.9	1.3	1.4	1.8
Unit labor costs	1.5	1.5	1.3	0.9	0.2	1.6	1.1	0.8	1.1
Productivity	0.4	0.1	0.1	0.2	0.2	0.2	0.1	0.6	0.7
<b>Income and savings</b>	<i>Annual change in %</i>								
Real disposable household income	0.9	0.5	1.0	1.2	0.4	0.2	3.0	1.0	0.9
	<i>% of nominal disposable household income</i>								
Saving ratio	x	x	x	x	x	7.3	8.9	8.9	8.7
<b>Labor market</b>	<i>Change on previous period in %</i>								
Payroll employment	0.4	0.4	0.3	0.4	0.3	1.1	1.5	1.1	1.0
	<i>% of labor supply</i>								
Unemployment rate (Eurostat)	5.9	6.0	6.1	6.1	6.1	5.7	6.1	6.3	6.3
<b>Public finances</b>	<i>% of nominal GDP</i>								
Budget balance	x	x	x	x	x	-1.0	-1.6	-1.2	-0.9
Government debt	x	x	x	x	x	85.5	83.5	81.6	79.7

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

	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	2013	2014	2015	2016
<i>Consolidated in EUR billion</i>										
<b>Austrian banking system</b>										
Total assets	1,076	1,057	1,068	1,062	1,055	x	1,090	1,078	1,057	x
Number of credit institutions	748	739	738	723	x	x	790	764	739	x
Equity capital <sup>1</sup>	87.3	87.8	86.8	88.9	90.2	x	89.0	87.6	87.8	x
Exposure to CESEE <sup>2</sup>	188.4	186.4	185.3	187.6	191.8	x	201.8	184.8	186.4	x
<i>Consolidated in %</i>										
<b>Structural indicators</b>										
Solvency ratio <sup>1</sup>	15.9	16.3	16.1	16.5	16.8	x	15.4	15.6	16.3	x
Tier 1 capital ratio <sup>1</sup>	12.2	12.9	12.8	13.3	13.6	x	11.9	11.8	12.9	x
Leverage <sup>3</sup>	6.2	6.3	6.3	6.5	x	x	6.5	6.1	6.3	x
<i>Annual change in %</i>										
<b>Credit growth and quality (AT)</b>										
Flow of loans to nonbanks	0.7	1.1	1.5	2.0	1.7	x	-0.4	0.7	1.1	x
<i>Share of loans to nonbanks in %</i>										
Share of foreign currency loans	10.5	10.2	9.8	9.6	9.3	x	12.3	11.1	10.2	x
Loan loss provision ratio	3.1	3.0	2.8	2.7	2.5	x	3.5	3.3	3.0	x
Nonperforming loan ratio	4.3	4.3	4.2	4.0	4.0	x	4.1	4.4	4.3	x
<i>Consolidated in EUR billion</i>										
<b>Profitability</b>										
Net result after tax	4.5	5.2	1.1	2.9	4.5	x	-1.0	0.7	5.2	x
<i>Consolidated in %</i>										
Return on assets (annualized) <sup>4</sup>	0.7	0.6	0.5	0.6	0.6	x	-0.04	0.0	0.6	x
Cost-to-income ratio <sup>6</sup>	61.7	62.8	72.7	72.0	71.2	x	73.00	69.1	62.8	x
<i>%</i>										
<b>Subsidiaries in CESEE<sup>5</sup></b>										
Loan-to-deposit ratio <sup>6</sup>	90.3	88.4	88.0	81.9	81.5	x	95.8	96.7	88.4	x
Return on assets (annualized) <sup>4</sup>	0.8	0.7	1.2	1.5	1.4	x	0.8	0.3	0.7	x
Cost-to-income ratio <sup>6</sup>	50.6	51.1	53.2	50.7	51.0	x	52.7	52.7	51.1	x
Loan loss provision ratio <sup>6</sup>	7.2	6.9	6.8	6.7	6.5	x	8.0	7.3	6.9	x
<i>EUR billion</i>										
<b>Households</b>										
Financial assets	602.2	596.3	608.0	607.9	610.8	617.9	549.7	572.7	594.2	608.0
Financial liabilities (loans)	172.2	172.7	173.7	174.0	175.2	177.1	165.5	165.6	167.9	173.7
of which foreign currency loans	26.7	24.9	24.4	23.4	22.8	22.3	32.9	28.4	25.4	24.4
of which foreign currency housing loans	20.8	19.5	19.2	18.5	18.0	17.6	24.3	21.5	19.5	19.2
<i>EUR billion</i>										
<b>Nonfinancial corporations</b>										
Financial assets	464.8	466.0	469.3	474.3	478.0	489.5	409.0	447.3	455.8	469.3
Financial liabilities	711.6	712.6	719.7	721.6	723.8	737.7	639.2	682.2	696.7	719.7
of which loans and securities (other than shares and other equity)	349.7	354.4	356.7	358.8	361.3	369.0	329.8	349.7	342.7	356.7
of which shares and other equity	229.6	232.3	232.5	234.2	233.9	236.4	180.6	201.4	223.6	232.5
<i>EUR billion (four-quarter moving sums)</i>										
Gross operating surplus and mixed income	76.0	76.1	76.0	76.2	76.6	20.6	73.7	72.8	74.3	76.1

Source: OeNB, Statistics Austria.

<sup>1</sup> Capital ratios are based on CRD IV definitions from 2014 onward, which limits the comparability with earlier measures.

<sup>2</sup> CESEE exposure of majority Austrian-owned banks (BIS definition).

<sup>3</sup> Defined according to Basel III provisions from 2014 onward. Earlier measures correspond to tier-I capital after deductions in % of total assets.

<sup>4</sup> End-of-period result expected for the full year after tax and before minority interests as a percentage of average total assets.

<sup>5</sup> From 2014 onward, these figures include the pro-rata share of Yapi ve Kredi Bankasi, a joint venture of UniCredit Bank Austria in Turkey.

<sup>6</sup> From 2016 Q2 onward, these figures exclude UniCredit Bank Austria's subsidiaries in CESEE.

Note: x = data not available.

# Overview of major economic developments in Austria<sup>1</sup>

## Austria remains one of the wealthiest economies in the euro area

- Austria outperformed the euro area in terms of GDP growth and, hence, welfare levels in the last decade. Since 2014, however, the growth rates have been lagging behind euro area growth.
- The Austrian economy is well diversified and its sectoral structure is well balanced.
- Social stability is high, given high employment and low unemployment rates by international standards as well as a low strike frequency.
- Since September 2012, the HICP in Austria has exceeded inflation in the euro area and in individual euro area countries. However, 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.
- 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'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 602 billion (or 177% of GDP) in 2015, serving as an important refinancing source for other economic sectors.
- Austria's household debt ratio remains at a level of slightly above 50% of GDP; both this ratio and Austria's corporate debt ratio (2016 Q1: 236.1% of gross operating surplus or 91.9% 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.
- Despite these productivity losses a steady string of current account surpluses since 2002 confirms the international competitiveness of the Austrian economy (2015: current account surplus of 1.9% of GDP) and has enabled Austria to balance its international investment position (2015: EUR 9.9 billion or 2.9% of GDP).
- 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 21% to Central, Eastern and Southeastern Europe (CESEE) countries.
- Austria's budget balance ratio improved significantly from -2.7% of GDP in 2014 to -1.0% of GDP in 2015. This was due to a decrease in capital transfers to banks and due to 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.
- The increase of the government debt ratio to 85.5% of GDP in 2015 (2014: 84.4% of GDP) was mainly the result of debt-increasing (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.

<sup>1</sup> Cut-off date for data: September 15, 2016.

### Improved profitability and capitalization of Austrian banks notwithstanding, further reforms are needed

- Consolidated net profits of Austrian banks recovered significantly in 2015. This improvement, however, was driven above all by lower credit risk provisions and write-downs as well as a return to increased profits by CESEE subsidiaries. In contrast, interest income – the single most important income component of Austrian banks – decreased. While this can be attributed to a fall in total assets in Austria, in the majority of CESEE countries it was primarily due to declining margins.
- The capitalization of Austrian banks has improved, but their regulatory capital ratios continue to be below-average compared to those of their international peers. On the plus side, Austrian banks significantly outperform their peers when leverage ratios are used as a benchmark. Capital requirements are, however, going to rise gradually as the systemic risk buffer (SRB) and the other systemically important institutions (O-SII) buffer endorsed by the Austrian Financial Market Stability Board (FMSB) are being phased in.
- Exposures to CESEE have remained broadly stable in recent years. At the same time, developments have differed across countries, reflecting among other things geopolitical developments.
- The profitability of Austrian banks' CESEE subsidiaries improved considerably in the first quarter of 2016, with subsidiaries in all countries of the region making positive profit contributions. The highest profits were made in the Czech Republic, Romania and Russia, with the latter's profits having been down against the same period in 2015, however.
- Action taken by the Austrian supervisory authorities against foreign currency lending continues to be effective. Compared with October 2008, the outstanding volume of loans denominated in Swiss francs has decreased by more than half in Austria.
- The macroprudential guidance for large internationally active Austrian banks adopted by the Austrian authorities in 2012 ("sustainability package") has contributed to strengthening the local refinancing structure of Austrian banks' CESEE subsidiaries. Their loan-to-deposit ratio decreased from 117% in 2008 to 88% in the first quarter of 2016, reflecting above all an increase in local savings deposits. This means that loan growth in CESEE has increasingly been funded through local sources.
- The FMSB considers it necessary to take preventive action and expand the macroprudential toolbox by providing the possibility of imposing limits on the loan-to-value ratio, the debt-to-income ratio or the debt service-to-income ratio in new lending. Such an expansion is meant to ensure that the FMSB can act on systemic risks arising from a real estate price boom. The Federal Minister of Finance has been informed to this effect.
- The Single Supervisory Mechanism (SSM), which had become operational in November 2014, made important progress toward harmonizing supervisory methods: Joint Supervisory Teams (JSTs) were set up, cooperation with the national competent authorities (NCAs) was successfully initiated and the annual Supervisory Review and Evaluation Process (SREP) now follows a common methodology.
- On July 29, 2016, the European Banking Authority (EBA) published the results of its most recent EU-wide stress test exercise. The results for the two participating Austrian banks met supervisors' expectations, given their relatively low initial capital levels. The results of the stress test serve as a basis for the supervisory assessment of the capital positions of the examined banks.
- The Single Resolution Mechanism (SRM) became fully operational on January 1, 2016. The Single Resolution Board (SRB) is the central resolution decision-making body for large banks that are failing or likely to fail; its decisions are put into practice together with the respective national resolution authorities.
- The full implementation of the European Deposit Insurance Scheme (EDIS) would complete the three-pillar based banking union. However, this process requires the relevant existing national legislation to be harmonized at a European level and the remaining risks in the European banking sector to be effectively reduced. European initiatives to this effect are already in place. According to the November 2015 European Commission proposal, EDIS is to be realized in several stages and become fully effective in 2024.

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

## 1.1 Austria remains one of the wealthiest economies in the euro area

### Output growth in Austria currently lags behind euro area growth

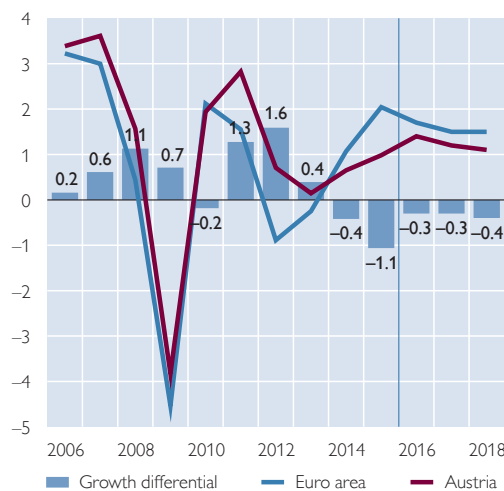
While the Austrian economy outperformed the euro area in the period from 2006 to 2013 in terms of GDP growth (with the exception of 2010), domestic growth has been lagging behind euro area growth since 2014. The IMF expects this growth gap to diminish but not to close by 2018: the IMF's GDP growth projections for 2018 are 1.1% for Austria and 1.5% 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. Nevertheless, as illustrated in chart 1, 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

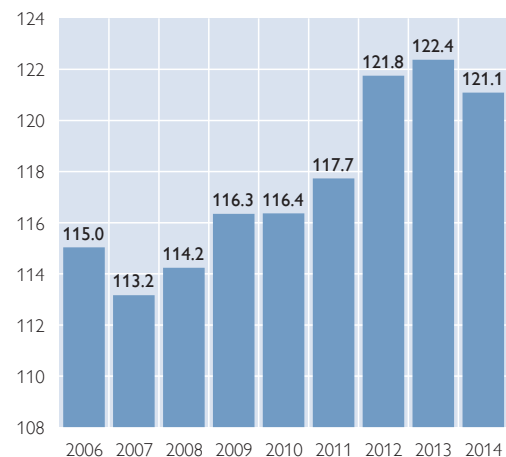


Source: Eurostat, IMF.

Note: Data for 2016 to 2018 as published in the IMF WEO of April 2016.

### Welfare differential between Austria and the euro area

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



Box 1

### Economic links between Austria and the United Kingdom

The direct links between the Austrian and the British economies are relatively weak. Within Europe, Austria has a below-average share of external trade with the United Kingdom. Possible direct negative effects of the Brexit vote on the Austrian economy are therefore likely to be relatively small. The amount of indirect effects cannot be established adequately at present. The most important figures illustrating the economic relationship between Austria and the U.K. are summarized in the table below:

#### Austria's economic links with the UK

	EUR million	% of total	% of GDP	Rank
Goods exports	4,230	3.3	1.3	7
Goods imports	2,369	1.9	0.7	14
<b>Balance of goods</b>	1,861	x	0.6	x
Tourism exports	639	3.9	0.2	5
Tourism imports	252	3.1	0.1	8
<b>Balance of tourism</b>	387	x	0.1	x
Service exports excl. tourism	1,459	4.0	0.4	4
Service imports excl. tourism	1,701	5.2	0.5	2
<b>Balance of services excl. tourism</b>	-242	x	-0.1	x
Current account	2,125	x	0.6	x
Overnight stays (in 1,000)	3,549	2.6	x	5
Outward FDI	6,777	3.5	2.0	10
Inward FDI	4,861	3.2	1.4	9
Foreign employment (U.K. in AT) in heads	4,300	0.1	x	19
Austrian banks' consolidated foreign claims in the U.K. (immediate borrower base)	12,941	4.4	3.8	8

Source: OeNB, Statistics Austria, BALI.

### The sectoral structure of the Austrian economy is well balanced

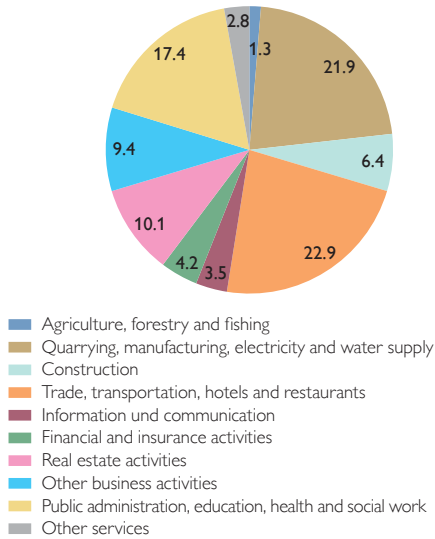
The Austrian economy is solidly based on a well-balanced sectoral structure. The largest share of gross value added (slightly above 30%) is generated by the range of private sector services. In addition, activities classified under “quarrying, manufacturing, electricity and water supply” as well as “trade, 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 6.4%) 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.

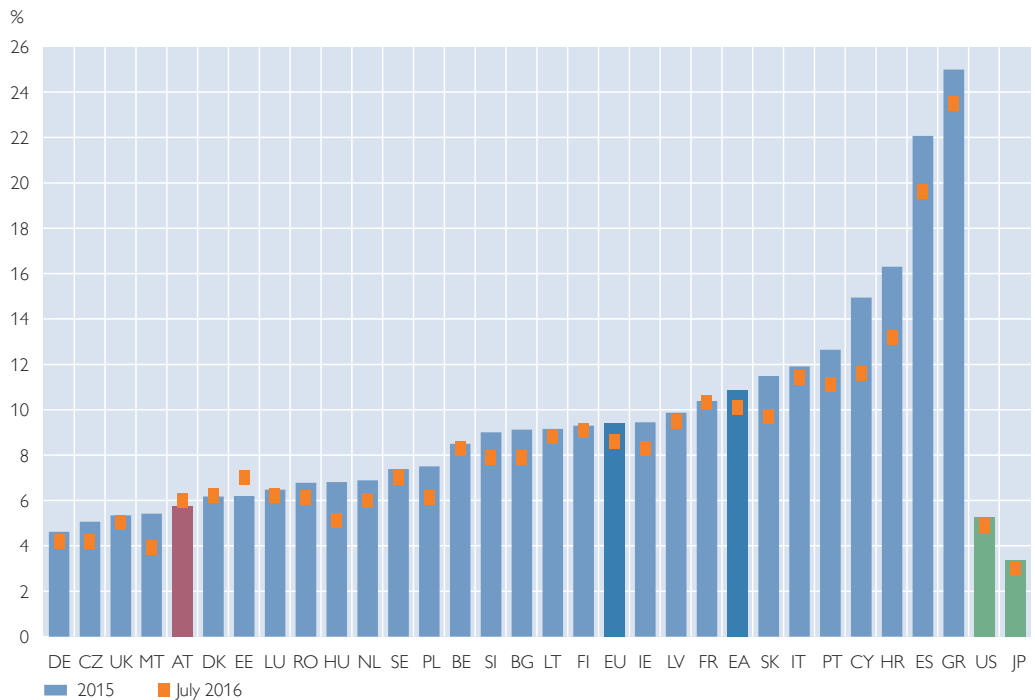
**Austria among the countries with the lowest unemployment rates in the EU**

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

Chart 3

**Unemployment rates**



Source: Eurostat.

Note: EE, HU: June 2016; GR, UK: May 2016.

(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).

### 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 August 2016 in the euro area. Against the backdrop of persistent low inflation rates, 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 or equal to 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 by inflation developments in some euro area countries which are going through a phase of price and

Chart 4

### HICP inflation rate



Source: Eurostat.

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.

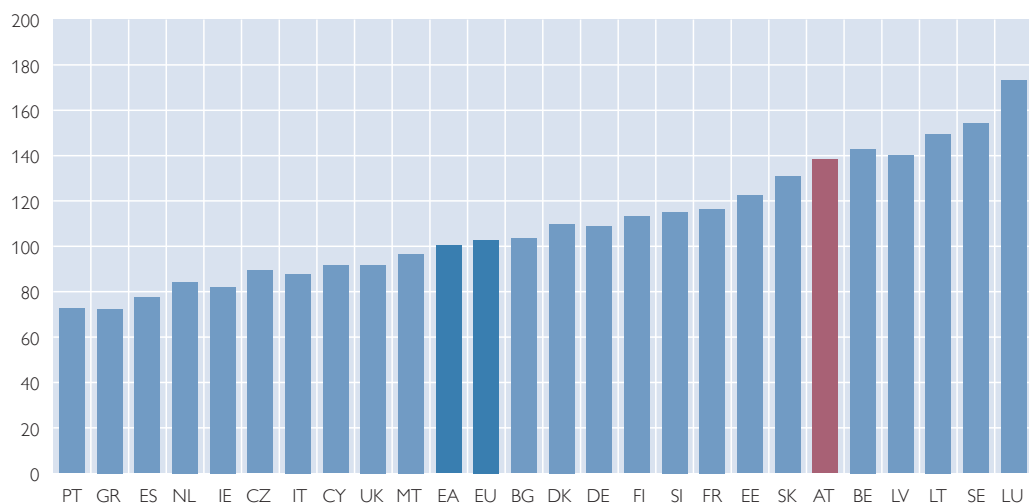
### Austrian real estate market: price increases but no bubble

In the period from 2004 (when comparable data for EU members became available) to 2015, 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 as shown in chart 5. The OeNB closely monitors price developments on the housing market and regularly publishes a fundamentals indicator for residential property prices.

Chart 5

### Real house prices in EU Member States

Index: 2004=100



Source: ECB.

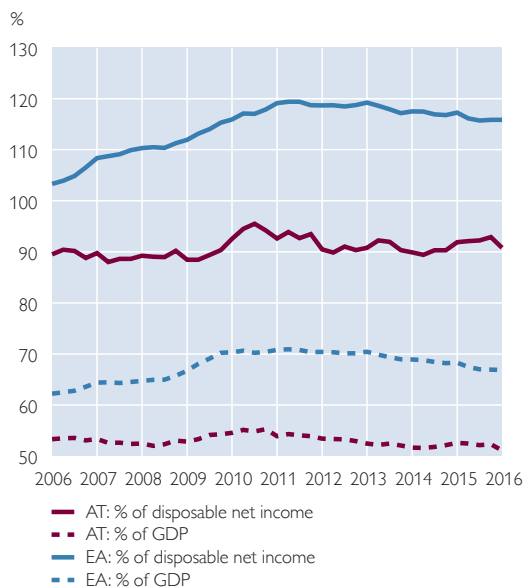
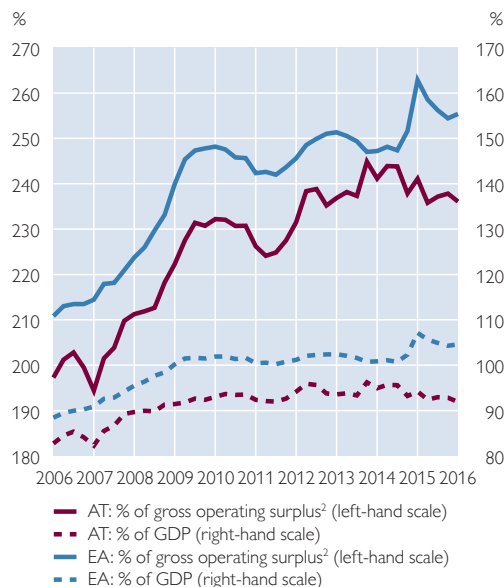
Note: CY 2006–2015; SK 2005–2015; LV 2004–2013; CZ, UK, BG, FI 2004–2014; all other countries: 2004–2015; no data for HU, PL, RO.

### 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 602.2 billion (177.1% of GDP) at the end of 2015, the household sector is a key supplier of capital to other sectors in Austria.

Austrian household debt totaled 51.1% of GDP in the first quarter of 2016, which is significantly below the euro area average of 66.9%. At 236.1% of gross operating surplus or 91.9% of GDP, corporate debt in Austria in the first quarter of 2016 was also below the euro area average (255.4% of gross operating surplus or 104.6% of GDP).

Chart 6

**Household debt****Corporate debt<sup>1</sup>**

Source: ECB.

<sup>1</sup> Short- and long-term loans, money and capital market instruments.<sup>2</sup> Including mixed income of the self-employed.

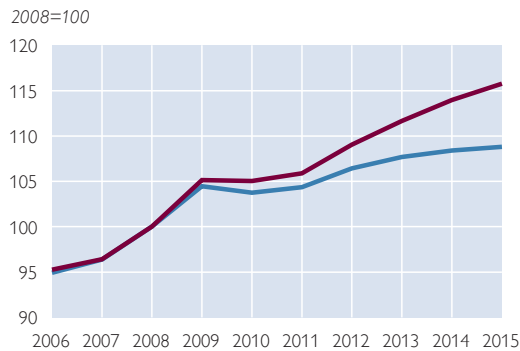
## 1.2 Austrian exporters remain successful despite the economy's diminishing price competitiveness

### Favorable employment climate dampened productivity growth

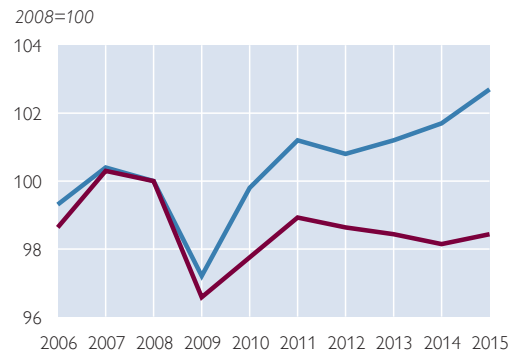
In the aftermath of the crisis, Austria has been losing in price competitiveness on account of comparatively weaker productivity gains. Labor hoarding in the corporate sector during the crisis years, stronger GDP growth in 2010–2011 and the late opening of the domestic labor market to EU CESEE nationals 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 an appreciation of the real effective exchange rate, which will continue to dampen Austria's competitiveness position in the coming years.

## International competitiveness

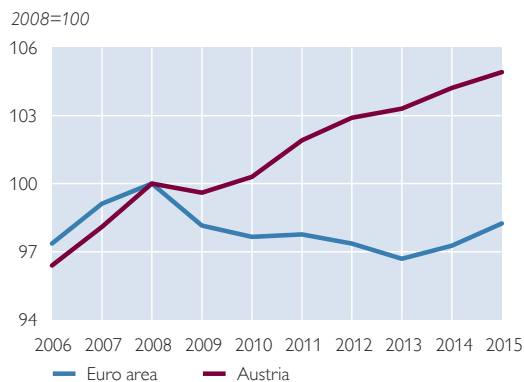
### Real unit labor costs



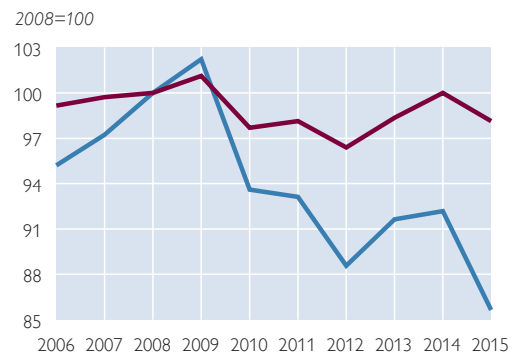
### Productivity per employee



### Employment



### Real effective exchange rate (CPI)



Source: Eurostat.

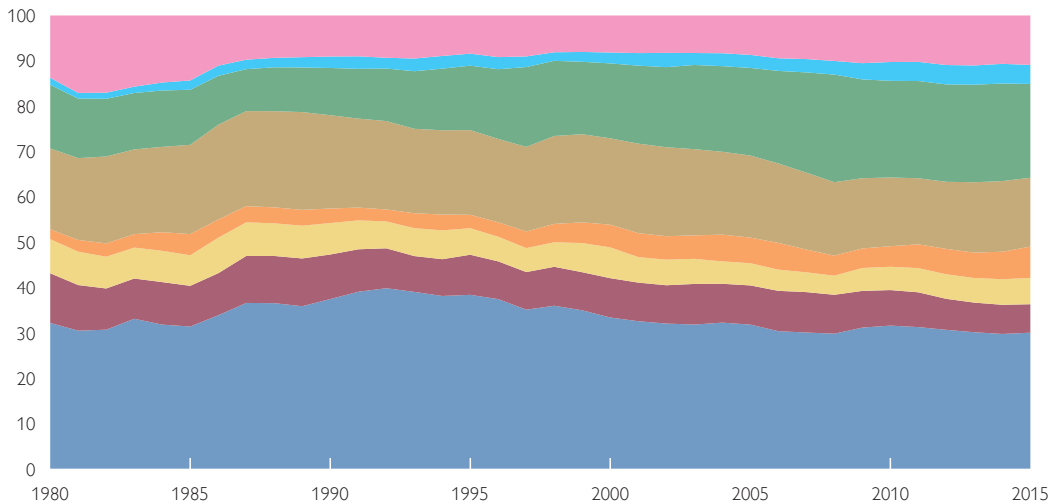
## Austria's external trade is regionally diversified, exposure to foreign exchange risk is low

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 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 1½ 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.

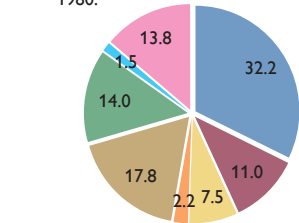
Chart 8

### Regional pattern of Austrian goods exports 1980–2015

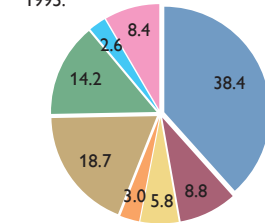
% of total nominal exports of goods



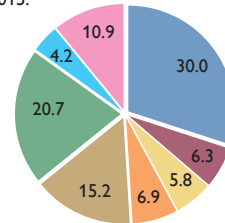
1980:



1995:



2015:



■ Germany    ■ EU-12    ■ CESEE countries    ■ Rest of the world  
■ Italy    ■ Switzerland    ■ U.S.A.    ■ Asia

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.

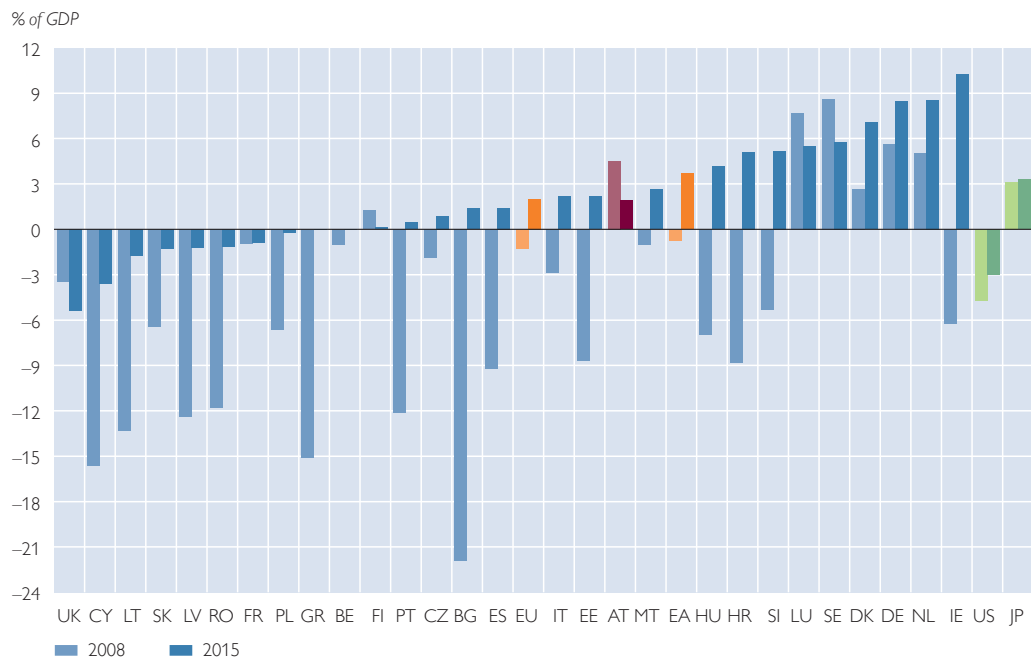
With goods exports accounting for 71% of total exports, Austria's export performance is largely driven by goods, but services also play a significant role: According to the technology balance of payments, Austria turned into a net exporter of technology-related know-how transfers of about EUR 3 billion 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. From 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 1.9% of GDP, after 2.4% in 2014. This compares with 3.7% for the euro area on average and 2.0% for the EU in 2015. Austria is forecast to continue to post current account surpluses.

Chart 9

#### Current account (CA)

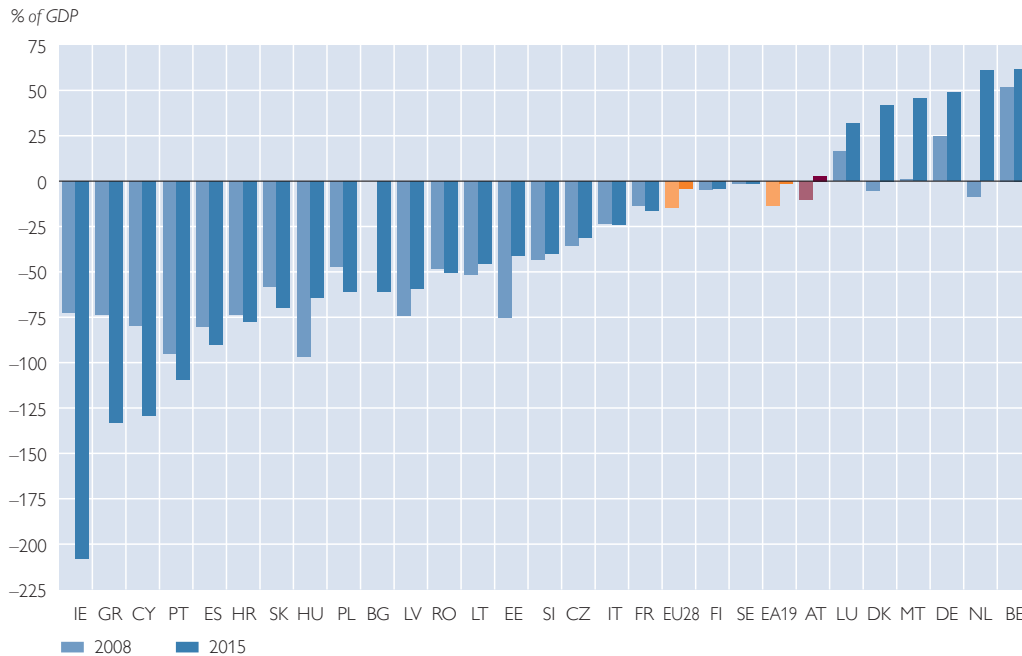


Source: Eurostat.

Note: BPM6; EA and EU 2008 without FI; EA and EU 2015 with FR-data from 2014; FR: 2014; FI: 2010; US and JP: average from EC and IMF data.

Chart 10

### Net international investment position (IIP)



Source: Eurostat, ECB (SDW).

Note: EU 2008 without BG and U.K., 2015 without U.K.

### 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 9.9 billion (2.9% of nominal GDP) in 2015. This compares with a net negative IIP of 1.1% for the euro area and of 4.2% for the EU.

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

In 2015, the general government budget balance improved to  $-1.0\%$  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.

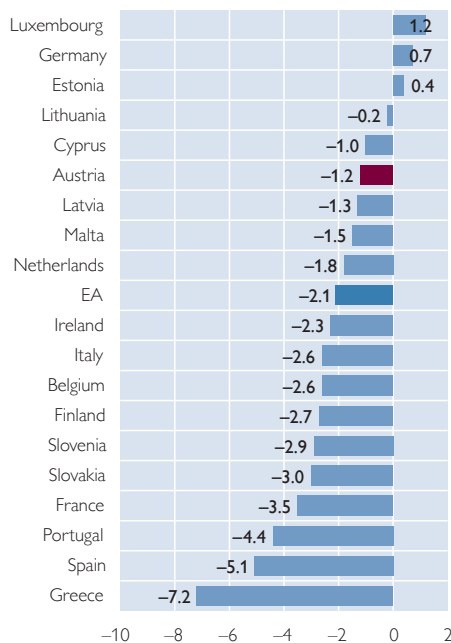


Chart 11

## Budget balances of EU Member States in 2015

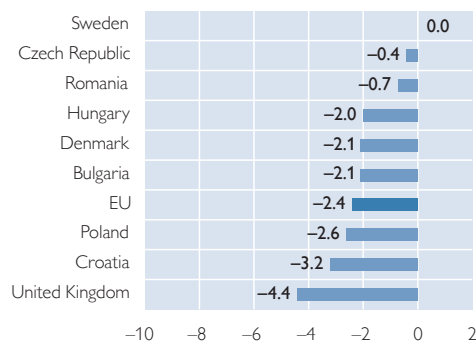
### Euro area countries

% of GDP



### Non-euro area countries

% of GDP



Source: Eurostat.

The increase of the government debt ratio to 85.5% of GDP in 2015 (2014: 84.4% of GDP) was mainly the result of debt-increasing (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 overachieved 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. In 2015, with a structurally balanced budget, this target was overachieved.

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 doing well compared with European peer countries

Due to difficult (mainly external) economic conditions, most European countries, including Austria, have recently lost their AAA ratings. However, the still 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 nine years. In the latest auction (September 6, 2016) with a maturity in October 2023, the average accepted yield was  $-0.32\%$  p.a.

Table 1

**EU fiscal governance requirements**

	Release	2011	2012	2013	2014	2015	Source	Requirement
		% of GDP						
<b>Budget balance</b>	Sep. 2016	-2.6	-2.2	-1.3	-2.7	-1.0	Statistics Austria	>= -3% of GDP
<b>Public debt</b>	Sep. 2016	82.2	81.6	80.8	84.4	85.5	Statistics Austria	from 2017: Reduction of difference to 60% of GDP by 1/20 per year on average
<b>Structural balance</b>	May 2016	-2.5	-1.8	-1.2	-0.7	-0.0	EC	MTO (target value) is -0.45% of GDP

Source: Statistics Austria, European Commission (EC).

More meaningful are comparisons with the most important euro area countries (Germany, France, Italy) as well as other European countries whose economies are comparable with the Austrian economy in size and structure (the Netherlands, Switzerland, Sweden, Belgium, Finland and the Czech Republic), see table 2. Based on the IMF World Economic Outlook (WEO) of October 2016, Austria is expected to grow faster in 2016 than Italy, Switzerland and Finland, but more slowly than Germany, the Netherlands, Sweden and the Czech Republic. The inflation rate will stay above average in 2016, and with an expected unemployment rate of around 6¼%, Austria lies in the mid-range of the considered countries. 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 2

**Austria and peer European countries in comparison**

	DE	FR	IT	NL	CH	SE	BE	AT	FI	CZ
	<i>Real GDP growth, annual change in %</i>									
2016	1.7	1.3	0.8	1.7	1.0	3.6	1.4	1.4	0.9	2.5
2017	1.4	1.3	0.9	1.6	1.3	2.6	1.4	1.2	1.1	2.7
	<i>Consumer price index, annual change in %</i>									
2016	0.4	0.3	-0.1	0.1	-0.4	1.1	2.1	0.9	0.4	0.6
2017	1.5	1.0	0.5	0.9	0.0	1.4	1.6	1.5	1.2	1.9
	<i>Unemployment rate, in % of employees</i>									
2016	4.3	9.8	11.5	6.7	3.5	6.9	8.4	6.2	9.1	4.1
2017	4.5	9.6	11.2	6.5	3.4	6.7	8.3	6.4	8.9	4.1
	<i>Current account balance, in % of nominal GDP</i>									
2016	8.6	-0.7	2.2	9.1	9.2	5.0	0.1	2.6	0.1	1.5
2017	8.1	-0.6	1.9	8.2	9.0	5.3	0.4	2.7	0.2	1.0

Source: IMF WEO of October 2016.

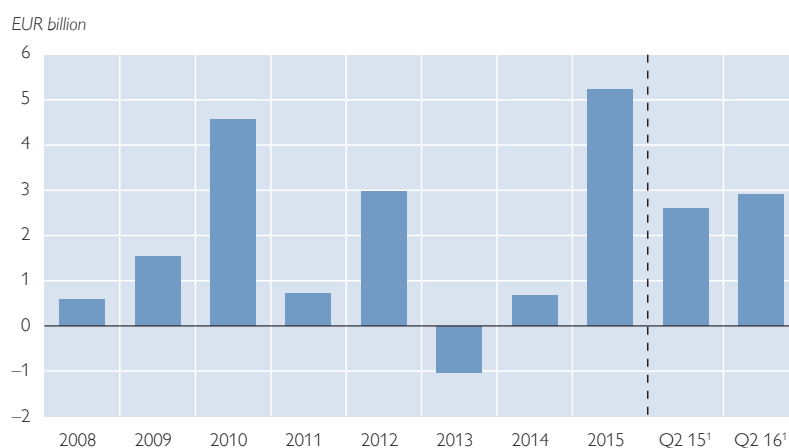
## 2 Improved profitability and capitalization of Austrian banks notwithstanding, further reforms are needed

### 2.1 Profitability and capitalization need to be strengthened further Consolidated net profits improved given lower credit risk provisioning and increased CESEE profits

Net profits of Austrian banks recovered significantly in 2015; at EUR 5.24 billion, they were at their highest since 2008. In the first half of 2016, year-on-year profits increased by nearly 10%. The improvement in profitability was driven above all by lower credit risk provisions and write-downs. Net interest income – the major income component of Austrian banks – was still under pressure, though. While this decline can be attributed to a fall in total assets in Austria, in the majority of CESEE countries it was primarily due to declining margins.

Chart 12

#### Consolidated net profit of Austrian banks



Source: OeNB.

<sup>1</sup> Q2 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. It will also continue to put downward pressure on interest margins, which have traditionally been low in Austria. In addition, a dense network of branches, one of the pillars of Austrian banks' business models, incurs high costs that weigh on operational efficiency. The negative effects 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. That said, the effects of the low interest rate environment on CESEE are less pronounced.

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

Table 3

### Aggregated profit and loss account of Austrian banks

	2008	2009	2010	2011	2012	2013	2014	2015	Q2 15	Q2 16
<i>EUR billion</i>										
Net interest income	19.3	19.5	20.4	20.4	19.3	18.6	19.3	18.3	9.4	7.2
Fee and commission income	8.5	7.2	7.7	7.6	7.3	7.6	7.7	7.7	3.9	3.2
Trading income	-2.1	2.6	1.0	0.8	1.1	0.7	0.5	0.0	0.1	0.1
Operating profit	7.9	15.6	13.5	10.4	12.1	8.0	8.8	10.5	5.7	3.1
Net result after tax	0.6	1.5	4.6	0.7	3.0	-1.0	0.7	5.2	2.6	2.9

Source: OeNB.

Note: Figures as of 2016 are biased by the restructuring of a significant institution and therefore comparability with previous figures is limited.

### 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 2015, the Austrian banking system had a common equity tier 1 (CET1) ratio and a tier 1 capital ratio of 12.8% respectively and a total capital adequacy ratio of 16.3%.

Table 4

### Capital ratios of Austrian banks on a consolidated basis

	2008	2009	2010	2011	2012	2013	2014	2015	Q1 16	
<i>% of risk-weighted assets</i>										
Total capital adequacy ratio	11.0	12.8	13.2	13.6	14.2	15.4	15.6	16.3	16.1	
Tier 1 capital ratio	7.7	9.3	10.0	10.3	11.0	11.9	11.8	12.9	12.8	
Core tier 1 capital ratio (Core equity tier 1 as from 2014)	6.9	8.5	9.4	9.8	10.7	11.6	11.7	12.8	12.8	

Source: OeNB.

Note: A structural break in consolidated reporting occurred in 2008.

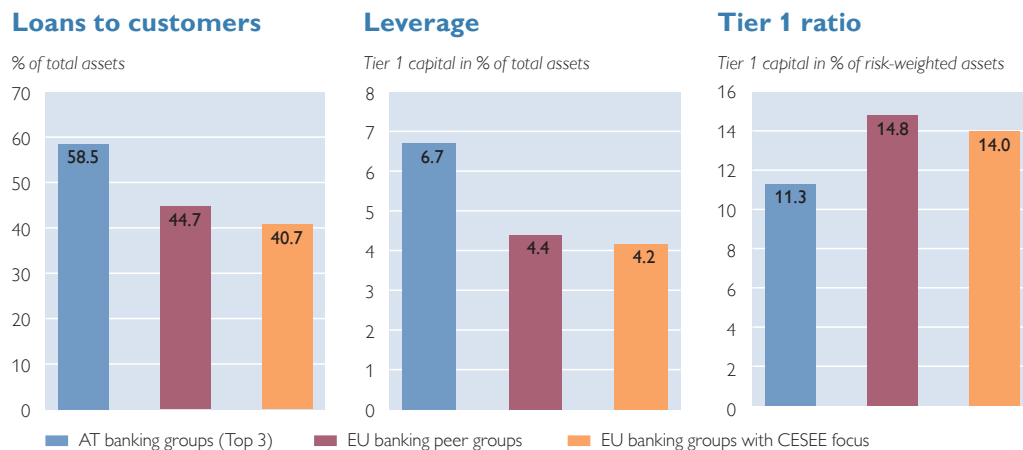
Capital ratios are based on CRD IV definitions from 2014 onward, which limits the comparability with earlier measures.

Compared to their European peers with a CESEE focus or a similar business model, however, Austrian banks continue to record below-average capital ratios. On the plus side, though, the retail banking focus of large Austrian banks means that they outperform their peers in a comparison of leverage ratios.

This being the case, the OeNB welcomes the recommendation by the Austrian Financial Market Stability Board (FMSB) to activate the systemic risk buffer (SRB) and the other systemically important institutions buffer (O-SII),<sup>2</sup> intended to boost the risk-bearing capacity of the Austrian banking sector and thus help uphold financial market stability. Banks have until 2019 to build up these buffers, which can be up to a maximum of 2% of a bank's risk-weighted assets.

<sup>2</sup> <https://www.fmsg.at/en/publications/press-releases/fifth-meeting.html>.

Chart 13



Source: OeNB, BankScope.

Note: The data are weighted averages as of March 2016 or latest available.

## 2.2 Foreign exposures of Austrian banks remain focused on CESEE

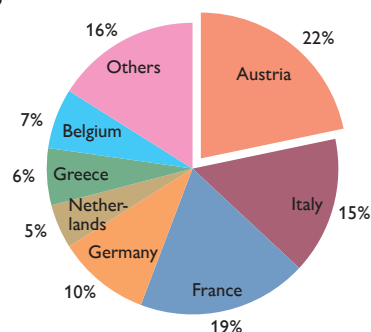
In the first quarter of 2016, the consolidated foreign claims of all banks resident in Austria totaled approximately EUR 495 billion, with claims on CESEE accounting for some 66% thereof. The share of Austrian banks added up to about one-fifth of the aggregate CESEE-related claims of EU-15 banks.

The growth rates of exposures to individual CESEE countries have been characterized by a high degree of heterogeneity 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 factors (e.g. Hungary) or geopolitical factors (e.g. Russia).

Chart 14

### EU-15 banks' shares in total exposure to CESEE<sup>1</sup>

Q1 16



Source: BIS.

<sup>1</sup> Total: EUR 853 billion; data include banks in majority domestic ownership.

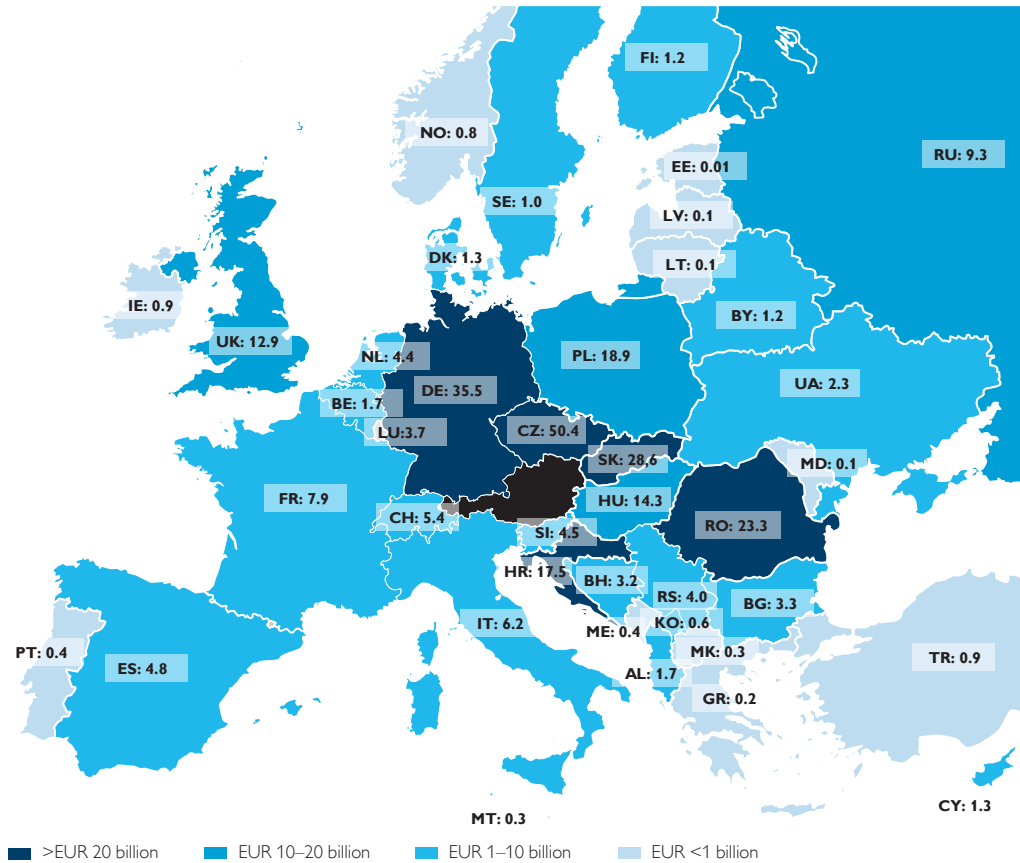
### Considerable improvement in profitability of Austrian banks' CESEE subsidiaries

The profitability of Austrian banks' CESEE subsidiaries improved considerably in the first quarter of 2016, displaying a year-on-year increase of 41% to EUR 0.9 billion. As in the last few years, 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 stable at previous levels, the net results of banks in Russia declined. The latest net result for

Chart 15

### Austrian banks' consolidated foreign claims (immediate borrower basis)<sup>1</sup>

EUR billion



Source: OeNB, Q1 16.

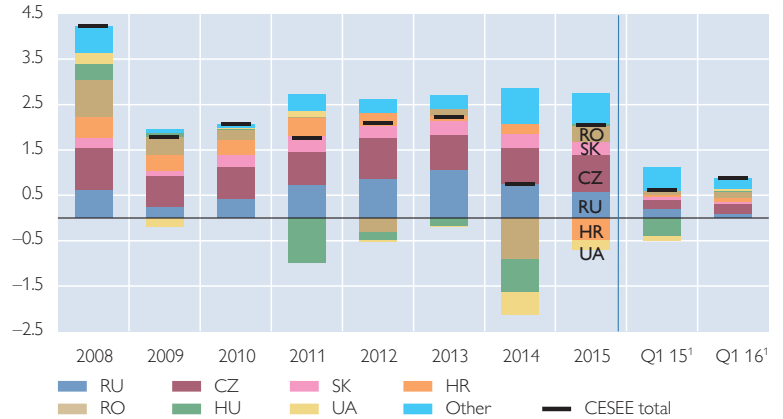
<sup>1</sup> In majority domestic ownership.

Romania was the first significantly positive one in years, following a period marked by strong earnings volatility. At the same time, Croatian subsidiaries once again posted a profit following the marked negative net result of 2015.

Chart 16

### Distribution of net profits from Austrian banks' subsidiaries in CESEE

EUR billion



Source: OeNB. Figures include subsidiaries of UniCredit Bank Austria which will be transferred to UniCredit S.p.A. in 2016 because of ongoing restructuring.

<sup>1</sup> Q1 data are not comparable to year-end data.

### 2.3 Macroprudential measures contribute to financial stability

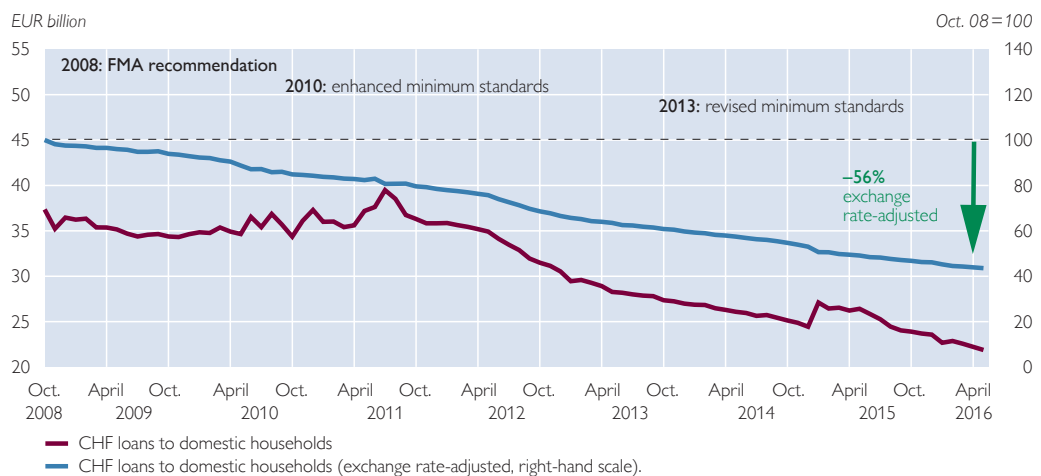
#### Macroprudential action taken to address foreign currency lending and strengthen the sustainability of large banks' business models proves effective

Austria already implemented macroprudential measures early on: Minimum standards for granting foreign currency loans and loans with repayment vehicles were introduced as early as in 2003. These minimum standards were tightened substantially in October 2008, when the Austrian Financial Market Authority (FMA) issued a new recommendation, and in 2010, when the FMA and the OeNB jointly issued guiding principles for doing business in CESEE and the FMA revised the minimum standards for foreign currency lending.

Since the beginning of 2015, outstanding foreign currency loans made by Austrian banks to domestic nonbanks have continued to contract, standing at EUR 32.4 billion in May 2016. The largest share of this amount by far – EUR 22.7 billion – were loans to households, 96% of which were denominated in Swiss francs.

Chart 17

#### Foreign currency loans denominated in CHF to domestic households



Source: OeNB.

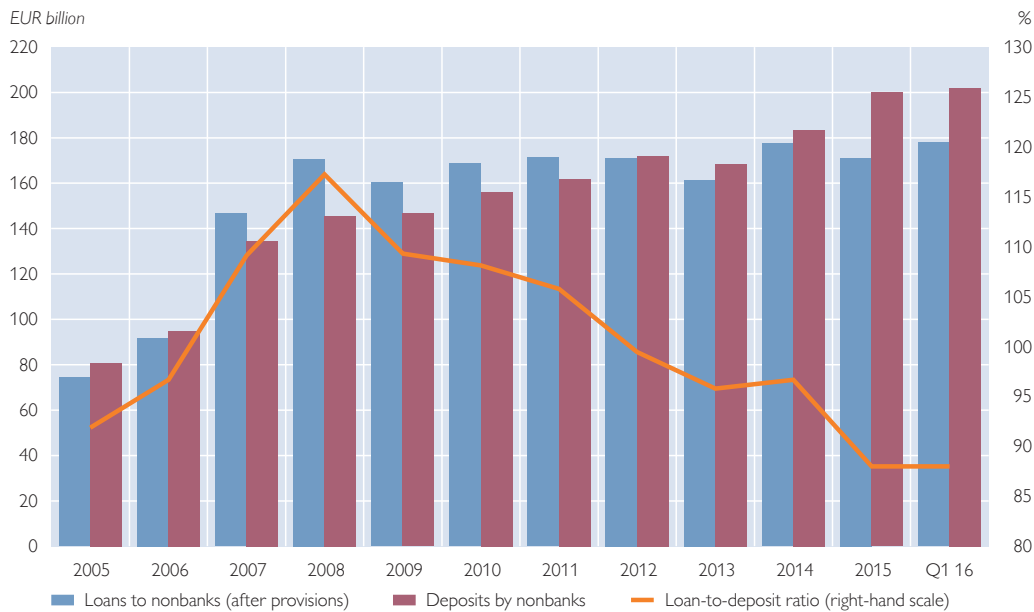
The downtrend in foreign currency loans seen over the past few years notwithstanding, the risks resulting from loans in foreign currency, as well as loans with repayment vehicles, still remain, as about three-quarters of all foreign currency loans to households are bullet loans and linked to repayment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

In March 2012, the OeNB and the FMA published a “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 some large banks. In addition, it requires these banks to have ready appropriate recovery and resolution plans that may be implemented in times of crisis.

Thanks to the sustainability package, the local funding situation of Austrian banks' CESEE subsidiaries has improved. Their loan-to-deposit ratio decreased from 117% in 2008 to 88% in March 2016 mainly because savings deposits of local nonbanks increased by approximately 40%. This means that loan growth in CESEE has increasingly been funded through local sources.

Chart 18

### Local funding situation of Austrian subsidiaries in CESEE



Source: OeNB.

### New macroprudential instruments related to real estate loans

An overvaluation of real estate prices has been identified above all in Vienna; however, past credit growth has not been found to be excessive even when property price growth was steepest. Nevertheless, housing loans are the credit segment that has been posting the highest growth rates in Austria since the financial crisis, even though such pace of growth is still moderate in comparison with the years leading up to the financial crisis. With interest rates remaining persistently low and real estate prices continuing to rise, one cannot rule out structural change which might go hand in hand with unsustainable lending and an easing of credit standards. Against this backdrop, the FMSB considers it necessary to take preventive action and expand the macroprudential toolbox by providing the possibility of imposing limits on the loan-to-value ratio, the debt-to-income ratio or the debt service-to-income ratio in new lending. Such an expansion is meant to ensure that the FMSB can act on systemic risks arising from a real estate price boom. The Federal Minister of Finance has been informed to this effect.



## 2.4 Moody's: upgrade of Austrian banks' outlook

On August 23, 2016, Moody's upgraded the outlook of the Austrian banking sector from negative – where it had been since 2009 – to stable. This upgrade was primarily driven by declining exposures of Austrian banks to CESEE, which are expected to result in a stabilization of the asset quality risks. In particular, exposures to countries experiencing heightened political and economic uncertainty such as Ukraine, Russia, Hungary and Croatia have been curbed; at the same time operations have been intensified in the Czech Republic and Slovakia, two stable neighboring countries. The more favorable outlook of the Austrian banking sector was also issued as a result of the anticipated improvement in capitalization, which has been helped by the further decline expected in risk-weighted assets and the gradual implementation of macroprudential capital buffers. Moody's has forecast stable net profit developments for domestic banks based in Austria as well as their subsidiaries in the bulk of CESEE countries, with the exception of Russia.

## 2.5 Recent developments concerning HETA Asset Resolution AG

In its capacity as the national resolution authority, the FMA issued an emergency administrative decision on April 10, 2016, detailing the further steps in the resolution of HETA ASSET RESOLUTION AG (HETA). This decision is based on the Federal Act on the Recovery and Resolution of Banks (BaSAG). The key measures are:

- a 100% haircut on all junior liabilities,
- a 53.98% haircut on eligible senior liabilities,
- the reduction to zero of interest payments starting from March 1, 2015, when HETA was placed under resolution in accordance with the BaSAG, and
- setting the maturity dates of all eligible liabilities to December 31, 2023.

On September 6, 2016, the Kärntner Ausgleichszahlungs-Fonds (K-AF), the Carinthian settlement payment fund, submitted a buy-back offer to the holders of regional government-guaranteed HETA bonds or assignable loans. According to this offer, both senior and junior creditors of HETA would immediately receive the face value of their bonds in cash, subject to haircuts of 25% and 70%, respectively. Alternatively, senior creditors may opt for exchanging their debt for zero-coupon bonds issued by K-AF (with a scheduled maturity of 18 years) and guaranteed by the Republic of Austria; holders of junior debt may exchange their bonds for long-term zero-coupon debt issued by the Republic of Austria.

The K-AF would be only the resolution vehicle in this arrangement, not holding any assets of its own. The funds for satisfying the creditors' claims are to be provided primarily by the Carinthian regional government (EUR 1.2 billion) and through the revenues from resolving HETA. The offer is valid until October 7, 2016; it will become effective if two-thirds of the creditors (in terms of the cumulated total nominal value of all relevant claims) accept the offer and at least one-quarter each of senior and junior creditors (in terms of the total nominal value of their respective claims) agree.

## 2.6 Banking union: progress in the harmonization of supervisory frameworks

### Cooperation between ECB and national supervisory authorities under the SSM has proved effective

The Single Supervisory Mechanism (SSM) was established to safeguard the security and reliability of the European banking system and contribute to the stability of the EU financial system. It 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 the 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. The ECB is in charge of the direct supervision of significant institutions (SIs), which is performed by Joint Supervisory Teams (JSTs). Each JST is led by an ECB-based coordinator as well as 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 experts drawn from the ECB and the national supervisory authorities. Thus, the JSTs are responsible for preparing and operationalizing all supervisory decisions, thereby covering both the economic and the legal component of supervisory activities.

The supervision of less significant institutions (LSIs) falls under the purview of the national competent authorities (NCAs). 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 systemic relevance and risk profile of each institution. So far, eight Austrian banks have been identified as high-priority LSIs.

At present, 129 banking groups, including 8 Austrian banks, are classified as significant institutions.<sup>3</sup> The ECB carries out a review of the classification of institutions as significant or less significant at least once a year.<sup>4</sup>

The key activities of the SSM include the annual conduct of the Supervisory Review and Evaluation Process (SREP), which also comprises the definition of harmonized SREP capital ratios. The SREP was carried out at the significant institutions according to a common methodology for the first time in 2015, already before the relevant EBA guidelines<sup>5</sup> came into effect on January 1, 2016. The

<sup>3</sup> Erste Group Bank AG, Raiffeisen-Landesbanken-Holding GmbH ("RZB"), Raiffeisenbankengruppe OÖ, Raiffeisen-Holding NÖ-Wien, Promontoria Sacher Holding N. V. ("Bawag"), Volksbank Wien AG, VTB Bank (Austria) AG, Sberbank Europe AG.

<sup>4</sup> The list of significant supervised entities and the list of less significant institutions: [https://www.bankingsupervision.europa.eu/ecb/pub/pdf/intro\\_list\\_sse\\_160531.en.pdf?abae5958d2fe8ac6033bc912966d251d](https://www.bankingsupervision.europa.eu/ecb/pub/pdf/intro_list_sse_160531.en.pdf?abae5958d2fe8ac6033bc912966d251d).

<sup>5</sup> Guideline on common procedures and methodologies for the supervisory review and evaluation process (SREP): [https://www.eba.europa.eu/documents/10180/935249/EBA-GL-2014-13+\(Guidelines+on+SREP+methodologies+and+processes\).pdf](https://www.eba.europa.eu/documents/10180/935249/EBA-GL-2014-13+(Guidelines+on+SREP+methodologies+and+processes).pdf)

SREP methodology for defining capital ratios used in 2015 was refined in 2016 and will also be developed further in the years to come to ensure that banks' business operations and risks can be evaluated adequately and with a forward-looking perspective. This year's SREP process is currently in its final stages; over the following weeks, the ECB will be communicating the individual SREP decisions to the significant institutions.

The national supervisory authorities (in Austria: the FMA and the OeNB) have committed themselves to conducting the assessments of less significant institutions also according to the new EBA methodology from January 1, 2016. Against this background, the ECB and the national supervisory authorities developed a harmonized SREP methodology for less significant institutions to ensure uniform supervisory processes and a level playing field. The FMA is already planning to issue decisions under the new regime this year.

The ECB has identified the following supervisory priorities for 2016: Business model and profitability risk, credit risk, capital adequacy, risk governance, data quality and liquidity risk. In addition, a project entitled Targeted Review of Internal Models (TRIM) was launched in late 2015 with the aim of harmonizing supervisory model practice under the SSM over the next three years.

The ECB has also recently called upon significant institutions in the euro area to reduce the level of nonperforming loans (NPLs) to reasonable levels. Against this background, the ECB published a draft guidance to banks on nonperforming loans on September 12, 2016, which will be open for public consultation until November 15, 2016.<sup>6</sup> The high level of NPLs of some banks was reflected already in the results of the comprehensive assessment that had been conducted in 2014 before the SSM became fully operational.

Box 2

#### **EBA stress test confirms results expected for the two participating Austrian banks**

*The European Banking Authority (EBA) published the results of its most recent EU-wide stress test exercise on July 29, 2016. The publication of stress test results is an important contribution toward raising transparency in the European banking sector. In the exercise, the most significant internationally active banks of the European Economic Area (EEA) are subjected to severe shock simulations. In 2016, the tested sample included 51 banks, among them two Austrian credit institutions: Erste Group Bank AG (EGB) and Raiffeisen Zentralbank Österreich AG (RZB).*

*At about –4 percentage points, the effect the adverse scenario had on their capital positions roughly corresponded to the average of all banks included in the stress test exercise. In other words, even in the adverse scenario, the two banks' capital positions remain above the supervisory benchmark of 5.5% defined for common equity tier 1 (CET1) in the course of the 2014 comprehensive assessment (EGB: 8.2% CET1; RZB: 6.1% CET1). The results for these two banks met supervisors' expectations – not least given their relatively low initial capital levels.*

*The stress test exercise demonstrated how important it had been over the past years to urge Austrian banks to considerably strengthen their capital bases. Also, since the cutoff date for the stress tests (December 31, 2015) the banks have taken further measures to raise their capital levels and further steps are currently being prepared.*

<sup>6</sup> <https://www.bankingsupervision.europa.eu/legalframework/publiccons/html/npl.en.html>.

*The assumptions underlying the adverse scenario of the stress tests included a slump in economic growth, negative exchange rate developments and a very pessimistic growth outlook for CESEE, with the latter having particular relevance for Austrian banks. A stress test is therefore not a forecasting exercise but rather simulates the impact of a shock on banks. As a third Austrian credit institution, Bank Austria was indirectly included in the EBA stress test via its Italian parent institution UniCredit.*

*The results of the stress test serve as a basis for the supervisory assessment of the capital positions of the participating banks.*

*Unlike previous stress tests, the most recent one did not include an official threshold for passing. This notwithstanding, the stress test results feed into the supervisory process under Pillar 2. Supervisors take them into account when devising capital recommendations, along with considering counter-measures banks may have launched in the meantime. These recommendations, which are to be issued for the first time, will complement the existing capital requirements under Pillar 2. Banks are expected to fulfill the recommendations at all times; noncompliance does not automatically trigger sanctions, such as a suspension of dividend payouts, though. Rather, the supervisory authority thoroughly analyzes the reasons for non-compliance and may put in place specific supervisory measures. Therefore, the Pillar 2 recommendations are not relevant in decisions concerning caps on the maximum distributable amount.*

*The supervisory process under Pillar 2 encompasses all credit institutions subject to the direct supervision by the ECB, including, in Austria, RZB and EGB as well as BAWAG,<sup>1</sup> the Raiffeisen regional banks for Upper Austria and Lower Austria, Sberbank, Volksbank Wien and VTB. These banks were also subjected to the stress test, but the results have not been published.*

<sup>1</sup> Promontoria Sacher Holding N.V.

### **Single Resolution Mechanism has become fully operational**

The Single Resolution Mechanism (SRM) has been established to facilitate the effective and efficient resolution of credit institutions that are failing or 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). The SRB began operations on January 1, 2016, and since then has taken 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 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 concerning institutions under the direct responsibility of the SRB. 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 OeNB staff or other qualified experts to conduct on-site inspections. The FMA cooperates closely with the OeNB on specific issues; this arrangement follows the dual approach pursued in supervision.

Next to the SRB, the SRF has been set up under the Single Resolution Mechanism. It is owned and administered by the SRB and has been funded through contributions from the financial sector since January 1, 2016. The level of an individual bank's contribution depends on its 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. In Austria, the BaSAG includes associated provisions that give the resolution authority certain 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 by 2024. The transfer of national contributions to the SRF is laid down in an intergovernmental agreement, not in the SRM Regulation.<sup>7</sup> The agreement had been ratified by a sufficient number of participating Member States by the end of 2015 and hence entered into force on January 1, 2016, according to schedule.

### **Establishment of European Deposit Insurance Scheme still requires preparations**

In November 2015, the European Commission published a proposal for a common European Deposit Insurance Scheme (EDIS). EDIS builds on harmonized national deposit guarantee schemes as required by the Deposit Guarantee Scheme Directive (Directive 2014/49/EU).<sup>8</sup> Under the new system, depositors would continue to enjoy the same level of protection (up to EUR 100,000 per bank and depositor). EDIS is to be realized in several stages and become fully effective in 2024.

Every bank subject to the SSM and administered by the SRB would be covered by EDIS. The SRB is also responsible for taking the necessary decisions on accessing EDIS funds and borrowing by EDIS. By the end of its gradual build-up in July 2024, EDIS's deposit insurance fund is planned 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 the 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 needs to be undertaken before the necessary preparations for EDIS are complete. For instance, national insolvency regimes must be harmonized and additional measures must be taken to reduce risk in the European banking system. For now, national deposit protection schemes continue to 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.

<sup>7</sup> Regulation (EU) No 806/2014 establishing the SRM.

<sup>8</sup> In Austria, the Deposit Guarantee Scheme Directive was implemented through the Act on Deposit Guarantee Schemes and Investor Compensation (ESAEG).

## 3 Annex of tables

Table A1

### (Eurosystem and OeNB forecasts, June 2016)

#### Real GDP<sup>1</sup>

	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	0.7	0.1	0.6	1.0	1.4	1.2
Euro area	3.0	0.4	-4.5	2.1	1.5	-0.9	-0.3	1.1	2.0	1.7	1.5
EU	3.0	0.4	-4.4	2.1	1.7	-0.5	0.2	1.5	2.2	1.4	1.2

#### Consumer price indices<sup>1</sup>

	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	0.9	1.5
Euro area	2.1	3.3	0.3	1.6	2.7	2.5	1.4	0.4	0.0	0.3	1.1
EU	2.3	3.7	1.0	2.1	3.1	2.6	1.5	0.5	0.0	0.9	1.5

#### Unemployment rates<sup>1</sup>

	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	5.3	5.6	5.7	6.2	6.4
Euro area	4.6	4.7	5.9	6.3	6.3	7.2	7.6	7.4	6.9	10.0	9.7
EU	4.5	4.4	5.6	6.0	6.1	6.7	6.9	6.5	6.0	x	x

#### Current account balances<sup>1</sup>

	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	2.0	1.9	2.5	2.6	2.7
Euro area	0.3	-0.6	0.4	0.4	0.6	1.9	2.5	3.0	3.6	3.3	3.0
EU	-0.4	-1.3	-0.1	0.0	0.3	1.0	1.5	1.6	2.0	x	x

#### Budget balances<sup>1</sup>

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	% of GDP										
Austria	-1.3	-1.4	-5.3	-4.4	-2.6	-2.2	-1.3	-2.7	-1.2	-1.6	-1.5
Euro area	-0.6	-2.2	-6.3	-6.2	-4.2	-3.7	-3.0	-2.6	-2.1	-2.1	-1.7
EU	-0.9	-2.4	-6.7	-6.4	-4.5	-4.3	-3.3	-3.0	-2.4	x	x

#### Government debt ratios<sup>1</sup>

	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	92.2	90.8	91.9	91.1
EU	57.8	60.9	73.0	78.5	81.0	83.8	85.5	86.8	85.2	x	x

Source: Eurostat, OeNB, ECB.

<sup>1</sup> The data for 2016 to 2017 are based on the IMF spring forecast (April 2016).

Note: x = data not available.

Table A2

**General government interest payments<sup>1</sup>**

	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	2.4

Source: Statistics Austria.

<sup>1</sup> According to the EDP notification (Maastricht), including swap transactions.

Table A3

**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	90.3	90.3	90.3	92.9
Euro area	106.6	109.9	111.3	115.3	117.9	118.7	118.7	117.2	116.8	115.9
	% of GDP									
Austria	53.1	52.4	53.0	54.3	55.3	53.9	52.9	52.1	52.1	52.3
Euro area	63.6	64.5	65.7	70.2	70.4	70.4	70.1	68.9	68.2	66.9

Source: ECB, OeNB.

Table A4

**Corporate debt<sup>1</sup>**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	% of gross operating surplus <sup>2</sup>									
Austria	199.5	209.8	218.2	230.7	230.7	227.5	235.2	244.9	237.9	237.8
Euro area	213.5	220.9	233.2	247.8	245.7	243.7	251.0	247.0	251.7	254.4
	% of GDP									
Austria	84.1	89.2	91.3	92.4	93.5	92.6	93.8	96.2	93.2	92.8
Euro area	90.3	94.2	98.5	101.5	101.6	100.8	102.4	100.7	102.3	104.3

Source: ECB, OeNB.

<sup>1</sup> Short- and long-term loans, money and capital market instruments.<sup>2</sup> Including mixed income of the self-employed.

Table A5

**Residential property price index**

	2011	2012	2013	2014	2015	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16
	Index 2000=100									
Austria excluding Vienna	124.0	137.4	141.1	145.4	152.9	150.2	150.1	152.8	158.4	163.6
Vienna	156.1	180.7	196.3	204.6	209.2	206.8	208.7	209.0	212.3	220.3
	Annual change in %									
Austria excluding Vienna	2.3	10.8	2.7	3.1	5.1	4.8	1.9	4.3	9.6	8.9
Vienna	8.5	15.7	8.7	4.2	2.2	1.1	0.6	3.4	3.9	6.5

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



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