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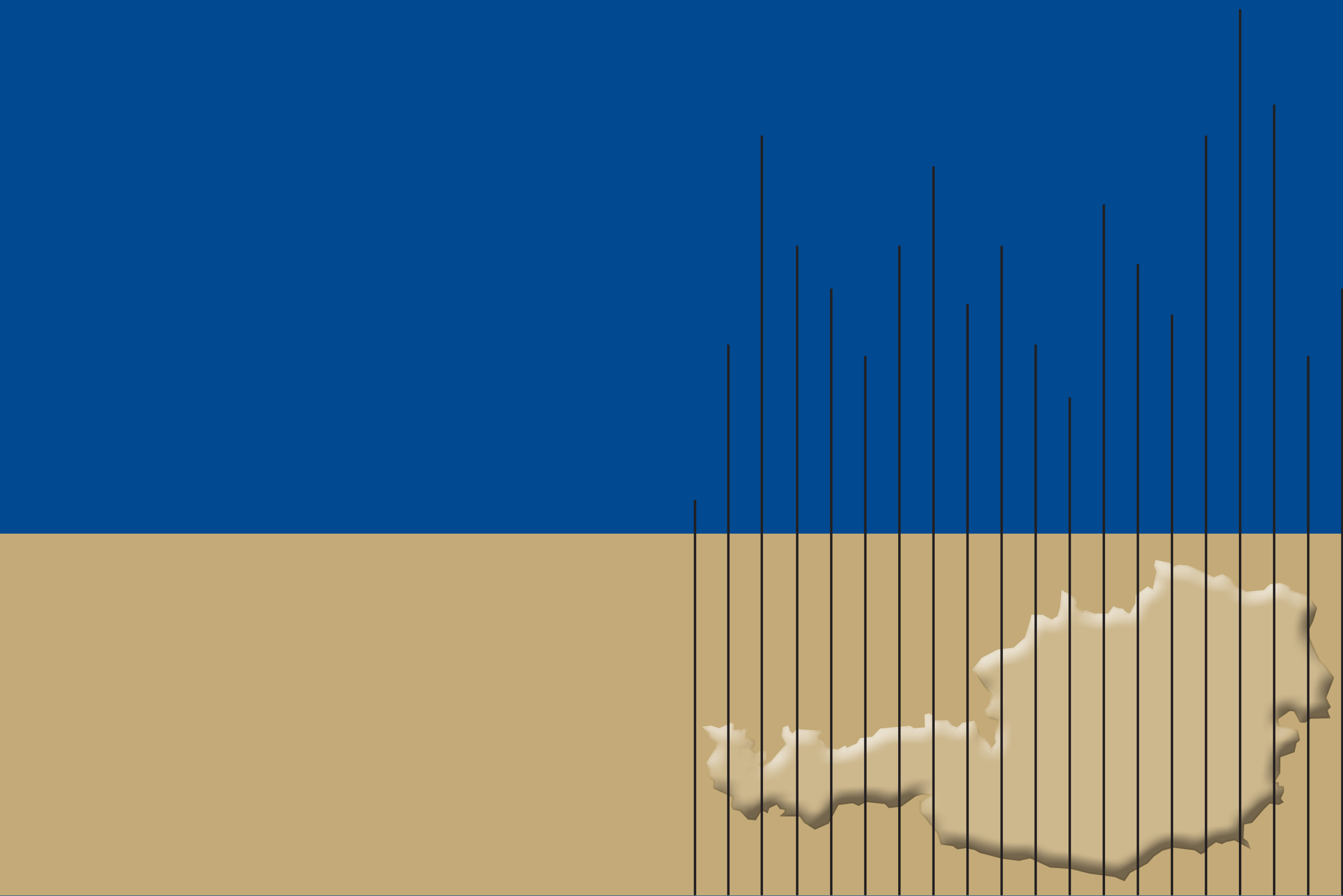


Security through stability.

OCTOBER 2022 – KEY INDICATORS UPDATED JANUARY 2023

Contents

Cutoff date for key indicators: 12 January 2023
Cutoff date for overview of economic developments: 3 October 2022

Key indicators

Cutoff date for data: 12 January 2023

Table 1

Key indicators for the Austrian economy

	Q3 21	Q4 21	Q1 22	Q2 22	Q3 22	2019	2020	2021
Economic activity	*EUR billion (four-quarter moving sums)*							
Nominal GDP	398.4	406.1	417.8	428.9	437.5	397.0	380.4	406.1
	Change on previous period in % (real)							
GDP	4.3	–1.4	1.2	1.9	0.2	1.5	–6.6	4.7
Private consumption	8.3	–4.1	3.4	–0.7	–0.3	0.5	–7.9	3.4
Public consumption	1.4	1.5	–1.8	1.8	0.1	1.3	–0.5	7.9
Gross fixed capital formation	–4.1	1.0	1.6	–2.1	–3.5	4.7	–5.0	8.8
Exports of goods and services	4.0	2.9	0.4	3.4	–1.6	3.9	–11.4	10.1
Exports of goods	1.3	3.0	0.6	1.9	–1.1	3.4	–8.2	13.3
Imports of goods and services	1.6	2.4	1.3	–1.5	–1.0	2.0	–9.2	13.5
Imports of goods	–0.6	2.6	0.4	–1.7	–4.7	0.2	–6.4	14.0
	% of nominal GDP							
Current account balance	×	×	×	×	×	2.4	3.0	0.4
Prices	*Annual change in %*							
HICP inflation	3.1	3.9	5.5	7.9	9.9	1.5	1.4	2.8
Compensation per employee	4.0	3.4	4.9	5.0	4.3	2.7	1.9	2.6
Unit labor costs	1.2	0.5	1.2	1.8	3.9	2.3	7.3	–0.0
Productivity	2.7	2.9	3.7	3.2	0.4	0.4	–5.0	2.7
Income and savings	*Annual change in %*							
Real disposable household income	4.4	–1.6	–2.0	–4.7	3.7	1.5	–2.9	2.0
	% of nominal disposable household income							
Saving ratio	×	×	×	×	×	8.6	13.3	12.0
Labor market	*Change on previous period in %*							
Payroll employment	1.5	0.4	0.8	0.4	0.2	1.3	–2.0	1.9
	% of labor supply							
Unemployment rate (Eurostat)	5.6	5.3	4.6	4.4	4.9	4.8	6.0	6.2
Public finances	*% of nominal GDP*							
Budget balance	×	×	×	×	×	0.6	–8.0	–5.9
Government debt	×	×	×	×	×	70.6	83.3	82.3

Source: Statistics Austria, Eurostat.

Note: x = data not available.

Table 2

Key indicators for Austrian banks

	Q3 21	Q4 21	Q1 22	Q2 22	Q3 22	2018	2019	2020	2021
Austrian banking system – consolidated									
Structure	*EUR billion*								
Total assets	1,186.8	1,196.6	1,202.3	1,231.4	1,251.4	986.0	1,032.3	1,136.4	1,196.6
Exposure to CESEE[1]	275.7	278.9	288.0	294.3	296.8	217.1	233.3	244.5	278.9
Number of credit institutions in Austria	537.0	520.0	519.0	520.0	500.0	597.0	573.0	543.0	520.0
Number of inhabitants per bank branch in Austria	2,574.0	2,594.0	2,630.0	2,678.0	2,679.0	2,429.0	2,521.0	2,833.0	2,594.0
Solvency	*EUR billion*								
Equity capital	96.1	97.6	96.9	101.0	101.7	86.5	90.9	94.3	97.6
	% of risk-weighted assets								
Solvency ratio	18.9	18.9	18.2	18.7	18.8	18.6	18.7	19.5	18.9
Tier 1 capital ratio	16.7	16.8	16.2	16.8	16.8	16.0	16.3	17.2	16.8
Common equity tier 1 (CET1) ratio	15.8	15.7	15.2	15.8	15.8	15.4	15.6	16.1	15.7
	% of selected balance sheet items								
Leverage ratio[2]	7.6	7.6	7.5	7.4	7.4	7.5	7.6	7.4	7.6
Profitability	*EUR billion*								
Net result after tax	5.9	6.1	0.2	3.8	5.5	6.9	6.7	3.7	6.1
	%								
Return on assets (annualized)[3]	0.7	0.6	0.1	0.6	0.6	0.8	0.7	0.4	0.6
Cost-to-income ratio	60.9	65.0	74.7	71.3	68.2	65.2	66.9	66.8	65.0
Credit quality[4]	*%*								
Loan loss provision stock ratio	1.4	1.4	1.4	1.4	1.4	1.8	1.5	1.5	1.4
Nonperforming loan (NPL) ratio	1.8	1.8	1.7	1.8	1.6	2.6	2.2	2.0	1.8
Credit developments	*%*								
Annual growth of credit to nonbanks in Austria	4.2	6.6	6.0	7.2	7.6	4.6	4.3	3.9	6.6
Share of foreign currency loans in Austria (outstanding amount)	3.8	3.6	3.5	3.5	3.4	5.8	5.3	4.3	3.6
Austrian banks' subsidiaries in CESEE	*EUR billion*								
Net result after tax	2.3	3.0	0.7	2.0	3.6	2.9	2.8	1.9	3.0
	%								
Return on assets (annualized)[3]	1.2	1.1	1.0	1.5	1.7	1.4	1.3	0.9	1.1
Cost-to-income ratio	51.9	51.9	47.1	45.0	41.5	51.5	52.3	53.5	51.9
Loan loss provision stock ratio[4]	2.2	2.2	2.2	2.0	2.1	2.7	2.2	2.5	2.2
Nonperforming loan (NPL) ratio[4]	2.0	2.0	1.9	1.8	1.8	3.2	2.4	2.4	2.0
Share of foreign currency loans	×	21.2	×	21.2	×	25.4	23.5	24.1	21.2
Loan-to-deposit ratio	72.9	73.5	73.1	69.8	70.9	78.6	79.8	74.8	73.5

Financial assets of households and nonfinancial corporations

	Q3 21	Q4 21	Q1 22	Q2 22	Q3 22	2018	2019	2020	2021
Households	*EUR billion*								
Financial assets	790.0	809.8	799.4	782.4	778.3	684.7	721.1	766.8	809.8
Financial liabilities (loans)	206.4	208.7	211.5	214.7	216.4	188.5	194.2	199.8	208.7
of which foreign currency loans	10.0	10.9	9.7	9.5	9.5	15.0	13.6	11.6	10.1
of which foreign currency housing loans	10.0	10.1	9.7	9.5	9.5	15.0	13.6	11.6	9.4
Nonfinancial corporations	*EUR billion*								
Financial assets	622.0	647.7	646.6	650.2	656.1	537.8	556.4	587.3	647.7
Financial liabilities	945.4	977.9	970.0	965.7	961.5	846.6	874.0	903.6	977.9
of which loans and securities (other than shares and other equity)	441.7	458.1	459.7	464.4	470.5	408.0	417.9	424.4	458.1
of which shares and other equity	471.5	486.9	474.9	466.5	457.4	405.6	424.5	445.7	486.9
	EUR billion (four-quarter moving sums)								
Gross operating surplus and mixed income	99.5	100.9	99.3	99.7	99.1	90.0	90.4	91.4	99.3

Source: OeNB, Statistics Austria.

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

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

Overview

Economic activity impacted by severe external shocks

- *Since the COVID-19 pandemic took hold in Europe in spring 2020, the Austrian economy has been largely driven by infection waves and related containment measures adopted by the government. After a steep slump in 2020 as a whole (–6.5%), the economy recovered quickly in 2021 (+4.6%); by mid-2021, economic activity in Austria had already reached pre-pandemic levels. The war in Ukraine and the uncertainty regarding its further course has dampened the growth outlook, however. High energy prices have fueled inflation and affected the purchasing power of households. Furthermore, Germany, Austria's main trading partner, is expected to enter into a recession in 2023. A cut in Russian gas supplies to Austria poses a major downside risk to growth.*
- *The structure of Austria's economy continues to be broadly diversified and sectorally balanced.*
- *The COVID-19 pandemic led to a sharp increase in the jobless rate despite comprehensive short-time work schemes. However, as containment measures were lifted and the economic recovery took hold, unemployment started to fall rapidly, with the jobless rate staying only slightly above pre-pandemic levels in August 2022.*
- *Recording an average inflation rate of 1.8% since the introduction of the euro in 1999, Austria has been among those countries that have successfully maintained price stability in line with the Eurosystem's definition (i.e. HICP inflation at a rate of 2% over the medium term). However, as a result of the COVID-19 pandemic, supply chain disruptions and in reaction to the war in Ukraine, energy prices have risen significantly, driving HICP inflation rates to the highest levels since the introduction of the euro. According to the flash estimate of Statistics Austria, HICP inflation in Austria was 11% in September 2022, slightly higher than the euro area average.*
- *The Austrian real estate market has been buoyant since the mid-2000s. According to the OeNB fundamentals indicator for residential property prices, real estate price growth in Austria is not in line with the factors captured by the indicator.*
- *The economic disruptions caused by the COVID-19 pandemic drove up Austrian household savings to unprecedented levels in 2020. This surge was mainly attributable to restrictions in private consumption, especially in services. The OeNB expects that the household saving ratio will quickly return to pre-crisis levels, and that the scope for satisfying pent-up demand out of accumulated excess savings will remain limited.*
- *Financial assets held by households totaled EUR 806.1 billion or 198.5% of GDP in 2021. The household sector's debt ratio stood at 52.4% of GDP in the first quarter of 2022, while corporate debt in Austria equaled 99.1% of GDP in the first quarter of 2022. Both indicators were below the euro area average.*
- *Austria's foreign trade in goods is well diversified both by region and product type. In 2021, more than half of Austria's foreign trade involved other euro area countries and was therefore not exposed to any direct exchange rate risks. After Germany, which still accounted for an export share of more than 30% in 2021, CESEE is Austria's second most important export market. The share of goods exports to this region rose from 12% in 1992 to 21% in 2021.*
- *High energy prices and the fact that the 2021 winter tourist season had been virtually canceled caused Austria's current account surplus to decrease from 3.0% of GDP in 2020 to 0.4% in 2021. Still, Austria's net international investment position was positive at EUR 59.8 billion (14.8 % of GDP) in 2021.*
- *Amid the strong economic recovery in 2021, the general government budget balance improved to –5.9% of GDP (after –8.0% of GDP in 2020) and will continue to substantially improve in 2022. Discretionary spending will be higher in 2022 than in 2021, but this increase will be more than compensated for by the working of automatic stabilizers amidst very high GDP growth.*

Austrian banking system resilient in a challenging environment – prudential measures prove their value

- *Proactive micro- and macroprudential measures as well as banks' corresponding efforts have contributed to the high resilience of the Austrian banking system. The measures include (1) the Austrian sustainability package aiming at strengthening the local, stable funding of foreign subsidiaries, (2) micro- and macroprudential capital buffers, i.e. the systemic risk buffer, which also explicitly targets risks in CESEE including Russia, and the O-SII buffer, as well as (3) borrower-based measures to address systemic risk from real estate financing.*
- *In 2021, the Austrian banking sector's aggregated operating profit increased by 10% year on year, and risk provisioning decreased by about 60%, both reflecting a strong recovery. Profits totaled EUR 6.1 billion (+66% year on year). While 2021 was a bounce-back year, in 2022 and 2023, the Austrian banking sector's profitability is facing new and continuing challenges associated with the Russian invasion of Ukraine, high inflation, energy shortages as well as remaining pandemic-related uncertainties and structural efficiency challenges. In the first half of 2022, operating income rose by more than one-tenth year on year, supported by stronger net interest income and dynamic growth in fees and commissions, but operating costs rose much quicker, mainly due to impairments on participations. Consequently, operating profit declined by 17%. But despite an increase in risk provisioning, the banking sector posted a half-year profit of EUR 3.8 billion on the back of several one-off effects (such as the increase of extraordinary profits and earnings from discontinued operations). The consolidated NPL ratio of Austrian banks remained at a historic low of 1.8% as of half-year 2022.*
- *The business of Austrian banks' subsidiaries in CESEE accounted for aggregated total assets of about EUR 286 billion and an aggregate net profit (after tax) of EUR 2.0 billion as of June 2022. The region thus remains an important market for the Austrian banking system. In a year-on-year comparison, Austrian banks' subsidiaries' net result in CESEE increased by 41%, reaching pre-pandemic levels. Credit risk costs plunged in 2021, after having surged in 2020 after the outbreak of the pandemic. Due to the war in the Ukraine, risk costs increased again sharply in the first half of 2022, but remained lower than in the first half of 2020. Austrian banks' subsidiaries hold 78% of their CESEE exposure in EU countries.*
- *The economic recovery in Austria led to an increase in bank lending in 2021. The demand for corporate loans was driven by the need for financing for inventories and working capital. As a result, corporate loans grew by 10.8% in July 2022 (year on year). Loans to households expanded by 5.4% mainly due to continued demand for housing loans (+6.9%).*
- *The Austrian banking sector has more than doubled its capitalization and hence increased its resilience since the time before the global financial crisis in 2008–09 and thus increased its resilience. As of June 2022, the CET1 ratio of Austrian banks stood at 15.8%, which means it had lost ground compared to the EU average. Hence, the careful handling of profit distributions is still warranted as uncertainties prevail.*
- *The Austrian Financial Market Authority (FMA) has issued a new regulation for sustainable lending standards for residential real estate financing. It includes upper limits for loan-to-value ratios (90%), debt service-to-income ratios (40%) and loan maturities (35 years) – subject to exemptions that would give credit institutions adequate operational flexibility. As of August 1, 2022, these new measures apply to all new mortgage lending to households above EUR 50,000.*
- *In September 2022 the Austrian Financial Market Stability Board (FMSB) decided that macroprudential capital buffers (i.e. the systemic risk buffer (SyRB) and the other systemically important institution (O-SII) buffer) should be increased by 50 basis points as of December 30, 2022, at maximum (phase-in by 25 basis points p.a.) for 12 banks.*
- *Both measures not only increase the resilience of the Austrian banking system but also – in the case of mortgage-related measures – protect borrowers from the consequences of excessive debt.*

1 Austria's economy proves resilient to external shocks

1.1 Macroeconomic developments in 2020 and 2021 driven by pandemic, war in Ukraine dampens 2022 growth and fuels inflation

War in Europe after two pandemic years

Since the COVID-19 pandemic took hold in Europe in spring 2020, the path of the Austrian economy had been largely determined by infection waves and the related containment measures adopted by the government. The stricter the lockdown-style policies, the lower public mobility and the larger the negative repercussions for real economic growth had been. In Austria, mobility figures hit bottom during the first lockdown in spring 2020, translating into a weekly loss of GDP of close to EUR 2 billion. During the subsequent lockdowns, production was not shut down in the construction sector and the manufacturing industry, and retailers and restaurants were able to reduce their losses by using alternative distribution channels. Subsequently, GDP grew by 4.6 % in 2021 (after –6.5% in 2020). A further recovery in tourism, hospitality and retail trade led to strong growth of 1.3% in the first and 1.9% in the second quarter of 2022.

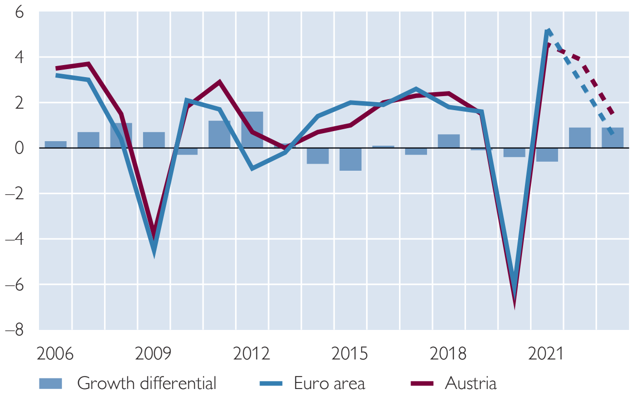
Based on the strong growth in the first half of 2022, GDP growth for 2022 as a whole will be even higher than in 2021: The OeNB currently expects an annual GDP growth rate of around 5%. However, the consequences of the war in Ukraine and the uncertainty regarding its further course dampen the growth outlook from mid-2022 onward. The war has led to a significant increase in energy prices, triggering strong inflationary effects and a loss in purchasing power. According to current forecasts, GDP growth will clearly deteriorate in 2023 or even stagnate. A cut in Russian gas supplies to Austria (or Europe as a whole) would likely lead to a recession.

Chart 1

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

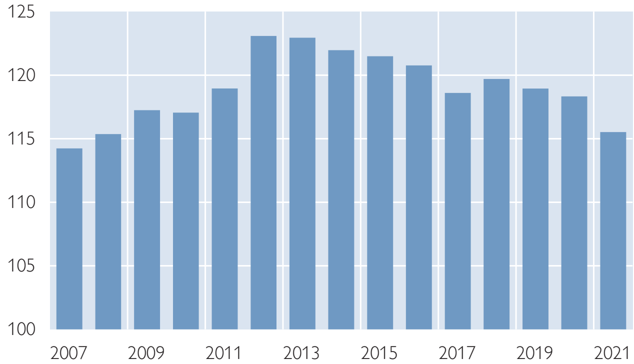
Growth differential between Austria and the euro area

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



Austrian GDP per capita relative to the euro area

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

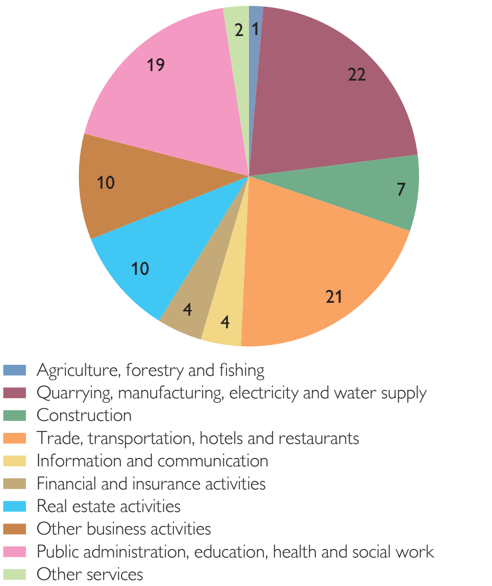


Source: Eurostat. 2022-2023: IMF 2022 Autumn Forecast.

Chart 2

Gross value added in Austria in 2021

% of total gross value added, at current prices



Source: Statistics Austria.

Sectoral structure of Austrian economy is well balanced

Given that Austria is a highly developed economy, the tertiary sector plays a crucial role. Private sector services (information and communication, financial and insurance activities, real estate activities, other business activities and other services) contribute the largest share – slightly below 30% – to gross value added, followed by activities classified under "quarrying, manufacturing, electricity and water supply" as well as "trade, transportation, hotels and restaurants," which account for slightly more than 20% each. Furthermore, manufacturing in Austria is characterized by a large variety of industries. At 7%, construction's contribution to gross value added is high by European standards.

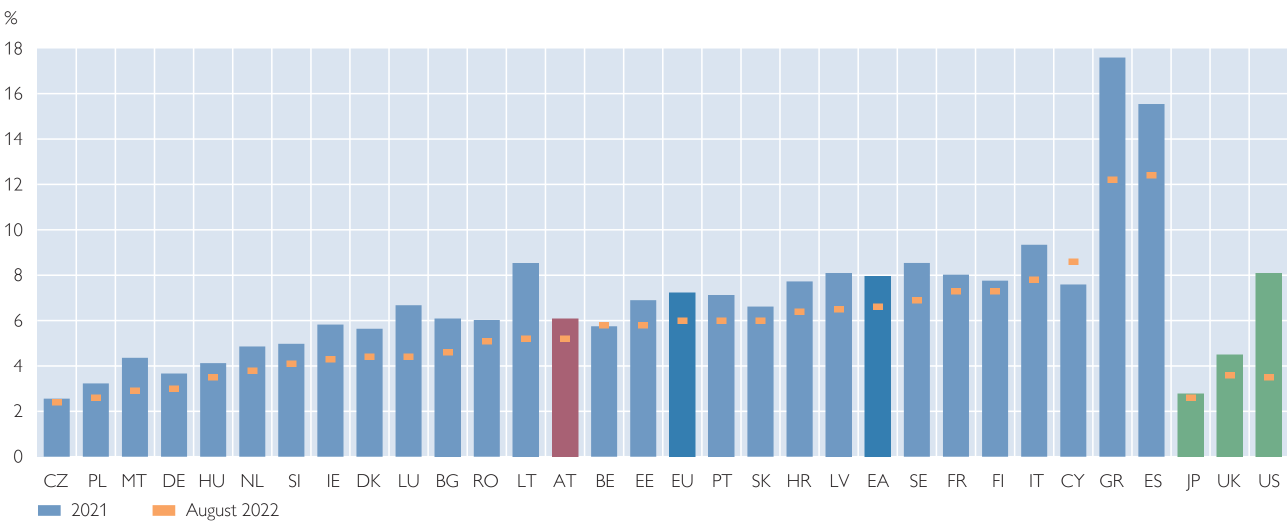
Unemployment rate slightly above pre-pandemic levels in August

The COVID-19 crisis led to a massive surge in unemployment in Europe. Even in Austria, where the increase was softened by short-time work schemes, unemployment rose from around 4½% in early 2020 to almost 8% in June 2020.

Since summer 2021, the jobless rate has been falling steadily, reaching 5.2% in August 2022, a figure slightly above that recorded before the pandemic (February

Chart 3

Unemployment rates – international comparison



Source: Eurostat, Macrobond. UK: June 2022.

2020: 4.6%). In many European countries, the jobless rate has already dropped below pre-crisis levels. The impact of the war in Ukraine on labor markets in Europe is difficult to gauge at the current juncture. One of the key questions is how long the war will last. As for now, we assume that the majority of refugees will want to return to Ukraine as soon as the war is over.

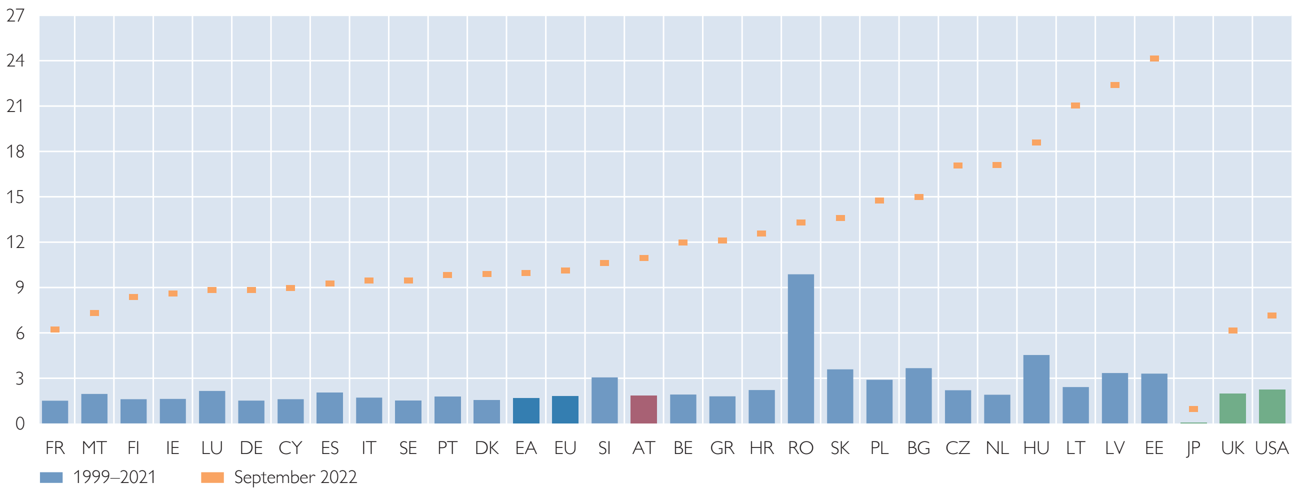
End of COVID-19 pandemic, supply chain disruptions and war in Ukraine boost inflation to unprecedented levels

As a consequence of the COVID-19 pandemic, energy prices dropped visibly in 2020, causing inflation as measured by the Harmonised Index of Consumer Prices (HICP) to decline to 1.4% in Austria. Amid the rapid cyclical upswing in the first half of 2021, energy prices rebounded sharply, reaching pre-crisis levels. A strong growth of demand for durable consumer goods fueled manufacturing globally, as a result of which raw materials and intermediate goods became in short supply, which ultimately drove energy and raw material prices beyond pre-crisis levels in the second half of 2021. In 2021 as a whole, HICP inflation was 2.8%. As a result of the outbreak of war in Ukraine, energy prices increased further, causing HICP inflation to climb to 11% in September 2022 (Statistics Austria, preliminary data) – the highest rate since the introduction of the euro. The further path of energy prices, and thus of HICP inflation, is closely linked to the future course of the war in Ukraine, in particular to questions related to energy shipments from Russia to Europe, and hence is subject to high uncertainty. In the long term, however, recording an average inflation rate of 1.8%, Austria has been among those countries that have successfully maintained price stability in line with the Eurosystem's new definition (i.e. HICP inflation at a rate of 2% over the medium term).

Chart 4

HICP inflation rate – international comparison

Annual change in %

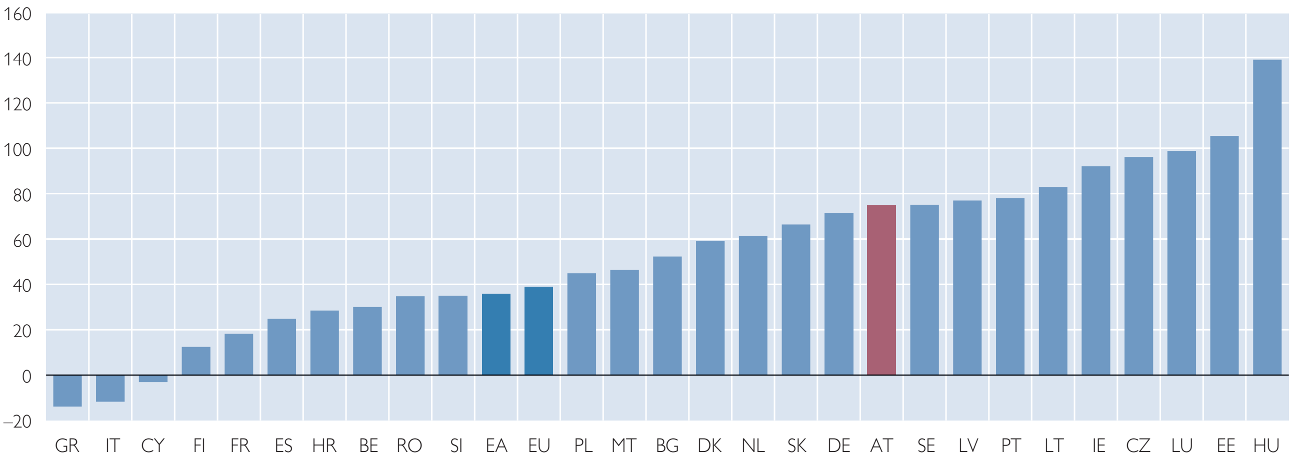


Source: Eurostat, Macrobond.

Chart 5

Change in house prices between 2012 and 2021

Change on 2012 in %



Source: ECB.

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

Real estate prices continue to grow rapidly

Prices in the Austrian real estate market have been growing very strongly over the past few years and accelerated further in 2021. Residential property prices rose by 3.9% in 2019, by 7% in 2020 and by 11.8% in 2021. In the first half of 2022, price growth accelerated further, reaching 13%. Residential property price growth in Austria excluding Vienna slightly exceeded the rate observed for Vienna in the past two years.

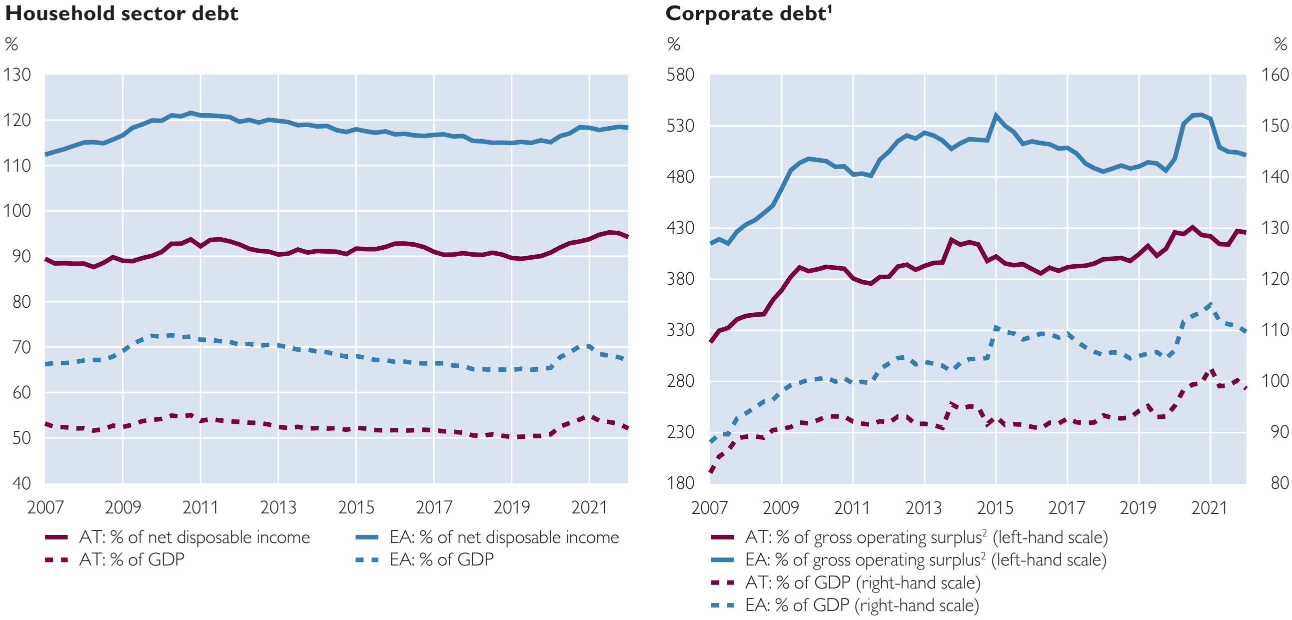
Given the steep increase in prices, the OeNB's fundamentals indicator for residential property prices in Austria went up significantly. The indicator nearly doubled from 21% in 2021 to 39% in the second quarter of 2022, while the indicator for Vienna reached 46% in the second quarter of 2022. These indicator readings signal that the gap between residential property prices and the factors captured by the OeNB's fundamentals indicator has been widening substantially in recent quarters, pointing to increasing signs of overheating in Austria's residential property market. Section 2.3 describes the Financial Market Stability Board's (FMSB) recommendations to address systemic risks from residential real estate financing.

COVID-19 pandemic temporarily leads to considerable acceleration of savings

The economic disruptions caused by the COVID-19 pandemic drove up household savings in Austria to unprecedented levels in 2020. The OeNB quantifies the excess household savings accumulated from the first quarter of 2020 to the second quarter of 2021 at EUR 10.8 billion relative to a counterfactual scenario without the pandemic. A breakdown of household savings by source reveals that a drop in the consumption of services fueled savings despite a strong fall in property income. The breakdown by allocation shows that in 2020, households' excess savings were mainly used to accumulate cash and deposits. This development reversed in 2021.

Chart 6

Household and corporate debt levels in Austria and the euro area



Source: ECB.

Note: Data up to and including Q3 21.

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

The OeNB expects that the saving ratio will quickly return to pre-crisis levels. However, there is only limited scope for satisfying pent-up demand out of accumulated excess savings because, among other factors, high inflation is increasingly eroding the purchasing power of savings.

In 2021, Austrian households saved 11.7% of their net disposable income (2019: 8.5%, 2020: 14.4%). With total financial assets amounting to some EUR 806.1 billion (198.5% of GDP) at the end of 2020, the household sector is a key supplier of capital to other sectors in Austria. Household and corporate sector debt have increased during the pandemic. Households' debt totaled 52.1% of GDP in the first quarter of 2022, which is clearly below the euro area average of 67.0%. Likewise, at 425.6% of gross operating surplus or 98.6% of GDP, corporate debt in Austria was lower than the euro area average (501.4% and 108.0%, respectively) in the first quarter of 2022.

1.2 High energy prices and the COVID-19 pandemic reduced the current account surplus in 2021

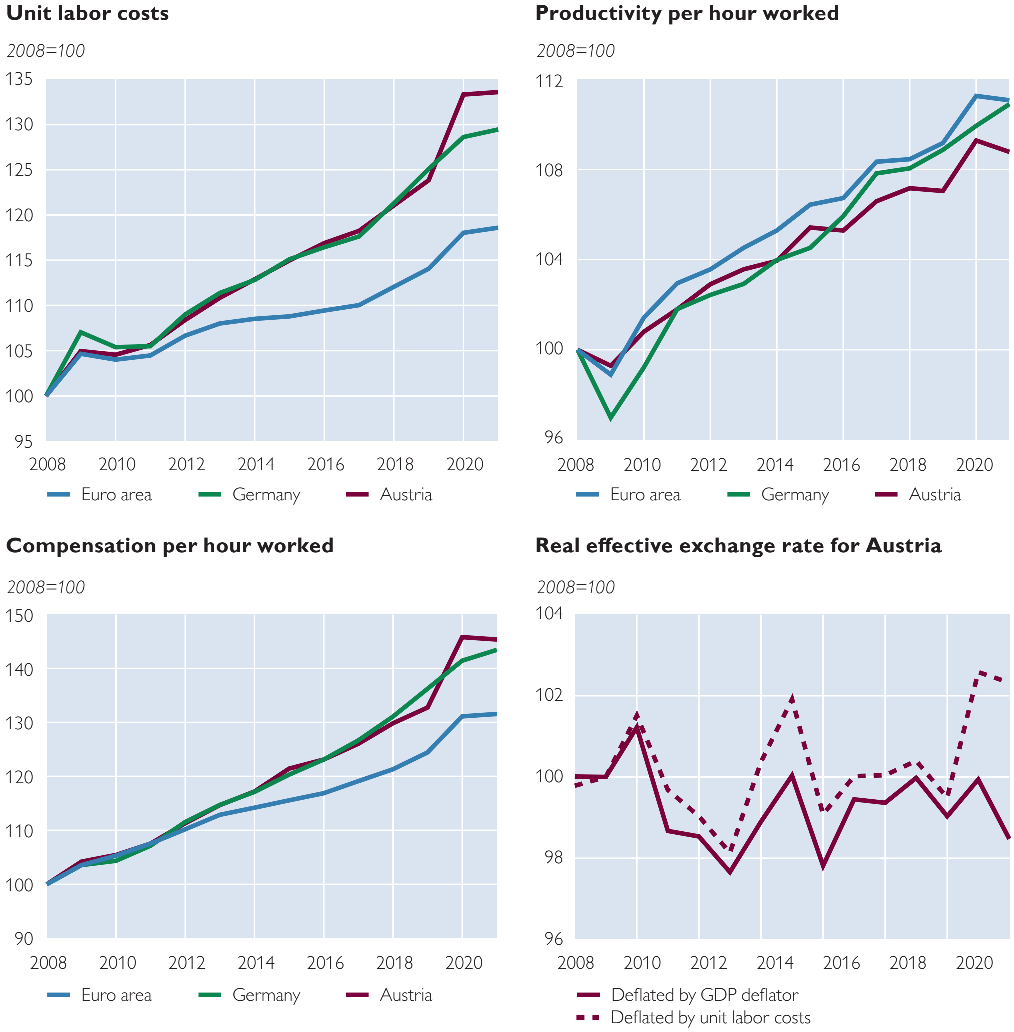
COVID-19 pandemic leads to distortion of competitiveness indicators

In the past two years, the pandemic has caused distortions in the calculations of various competitiveness indicators. The deterioration in competitiveness in Austria in 2020 and 2021 must be interpreted with caution as it is strongly influenced by different accounting practices for short-term work schemes across countries.

Before the pandemic, the Austrian economy's price competitiveness as measured by the real effective exchange rate[1] hardly changed until 2019. The real effective depreciation by 2% observed from 2008 meant a slight improvement in competitiveness. Again until 2019, nominal unit labor costs rose at rates comparable to those observed in Germany. In contrast, unit labor costs in the euro area grew less against the background of structural adjustments after the economic and financial crisis. While productivity per hour in Austria, Germany and the euro area as a whole expanded at almost the same pace, since 2013 hourly wage growth has been slower in the euro area than in Austria and Germany.

Chart 7

International competitiveness



Source: Eurostat; real effective exchange rate: ECB.

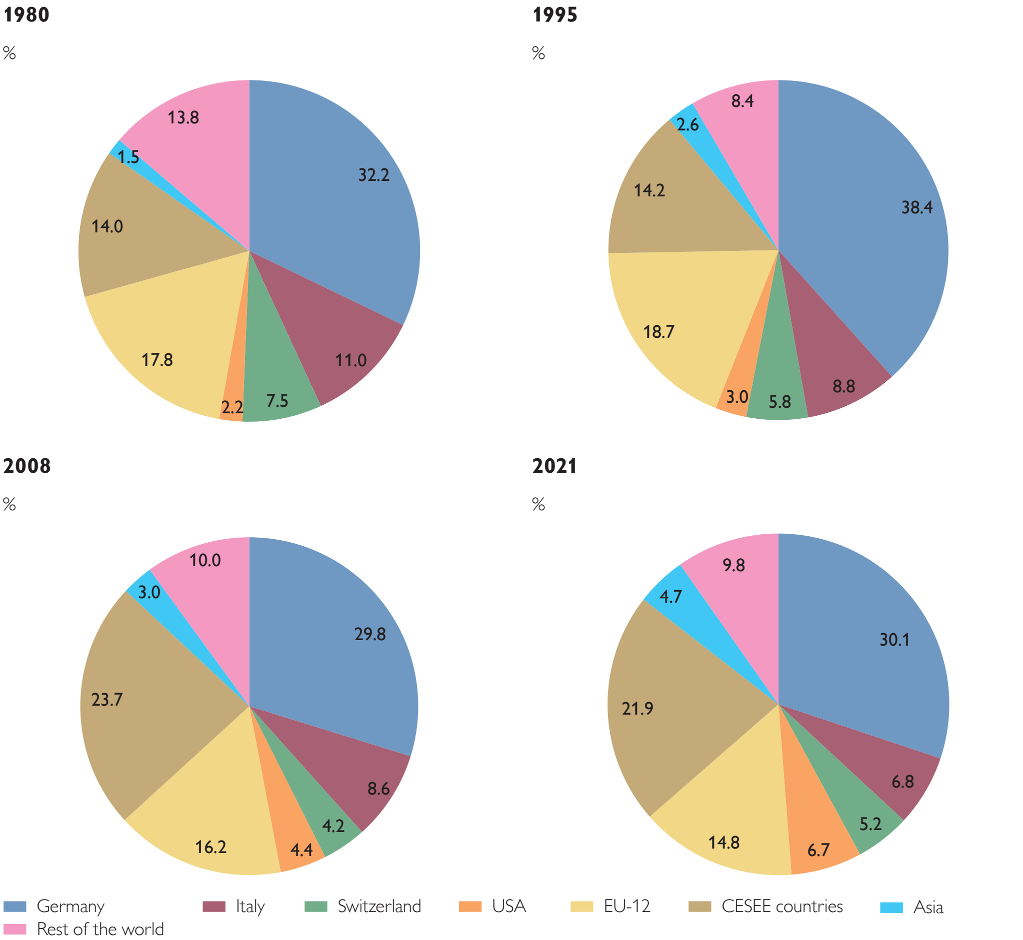
[1] *The real effective exchange rate is defined as the nominal exchange rate for the manufactoring industry against all euro area countries and Austria's 19 most important trading partners outside the euro area, deflated with the GDP deflator (price competitiveness), or with unit labor costs (cost competitiveness) for the total economy, Source: ECB.*

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

In 2021, more than half of Austria's goods exports went to the euro area, which meant that they were not exposed to any direct exchange rate risk. Among Austria's euro area trading partners, Germany is still most important by far, with a share of 30% in Austria's total goods exports, followed by Italy, which accounts for a share of 6.8%. By comparison, the USA accounts for a share of 6.7% in Austria's exports. Furthermore, Central, Eastern and Southeastern Europe (CESEE) is a very important export market for Austria. Exports to the CESEE region have expanded rapidly in the past years. While the share of goods exported to the euro area has declined since 1996, the share of goods exported to CESEE increased steadily (1995: 14%, 2021: 22%). The war in Ukraine has a greater impact on economic developments in CESEE than in the euro area. Therefore, the growth differential between CESEE and the euro area, which came to around 2 percentage points in recent years, is likely to decrease.

Chart 8

Regional pattern of Austrian goods exports



Source: Statistics Austria.

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

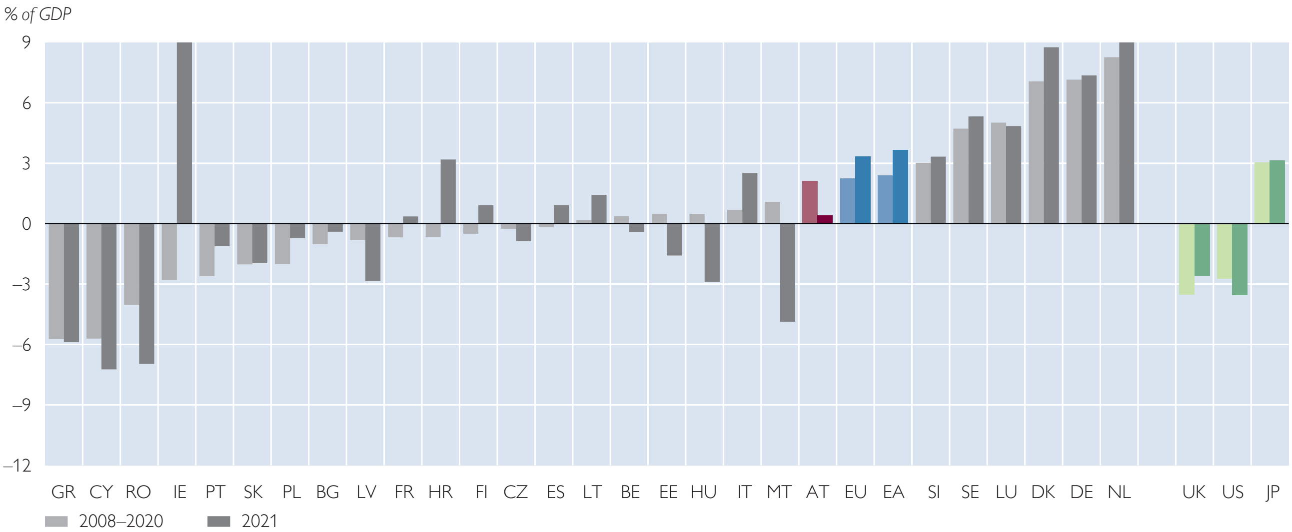
The sectoral structure of Austria's external trade follows the pattern typically observed in highly industrialized nations. At almost 40%, machinery and transport equipment make up the lion's share of Austria's goods exports. Other important pillars of Austrian export activity include manufactured goods, chemicals, and commodities and transactions not classified elsewhere, which together account for some 47% of goods exports.

High energy prices and the lockdown during the 2021 winter tourism season erode current account surplus

Driven by higher energy prices, Austria's balance of goods turned negative in the second half of 2021. For 2021 as a whole, the goods balance decreased by 0.1 % of GDP (after +0.9% in 2020). Next to goods exports, which make up around 70% of Austria's total exports, services exports also account for a major share (around 30%) of Austrian exports. The balance of services, albeit still positive, recorded a significant slump in 2021, which was attributable to developments in tourism. Following a drop in overnight stays by one-third in 2020, Austria's tourism industry saw another decline in overnight stays (roughly one-quarter) in 2021. This added up to a loss of about 50% compared with 2019 levels. Given that in 2021, Austria was in lockdown in January and February, which make or break the winter tourist season, the tourism industry failed to generate the revenues that used to prop up the current account balance. As a result, on the back of weak tourism and travel receipts, Austria's current account balance was negative in the first half of 2021 (–EUR 1.4 billion), compared with a surplus of more than EUR 4 billion in 2019 and 2020. For 2021 as a whole, the current account balance shows a surplus of EUR 1.4 billion (2020: 11.3 billion) or 0.4% of GDP (2020: 3.0 %).

Chart 9

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

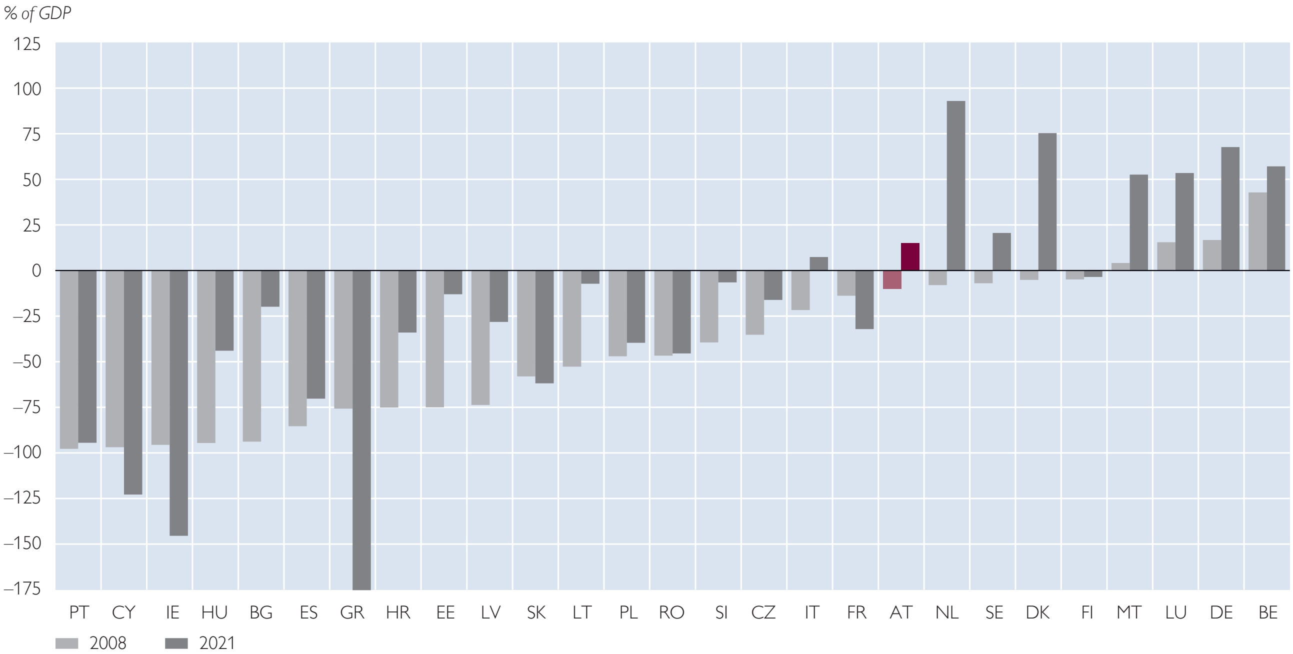


Source: Eurostat, OeNB.

Note: EU-27 Data; UK, USA and Japan: averages derived from European Commission and IMF data.

Chart 10

Net international investment position



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

Austria's net international investment position positive since 2013

Due to its sustained current account surplus, Austria has steadily improved its net international investment position (IIP), which first became positive in 2013 and came to EUR 59.8 billion (14.8% of GDP) in 2021. Overall, Austria's net IIP is fairly balanced, compared to countries with high deficits such as Greece, Ireland and Cyprus and countries with high surpluses as the Netherlands, Germany and Denmark.

1.3 Improvement in the budget balance despite ample fiscal support

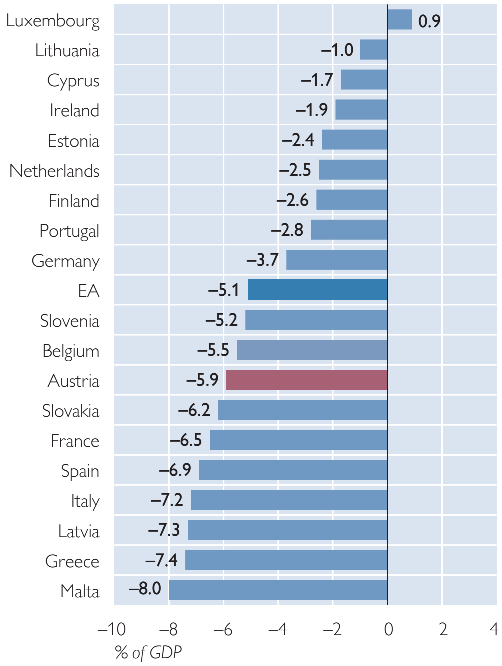
In 2021, the budget balance improved to –5.9% of GDP (after –8.0% of GDP in 2020). This was mainly on account of an improving contribution from automatic stabilizers as GDP was recovering to some extent. At the same time, the budgetary impact of discretionary fiscal measures taken to counter the impact of the pandemic was similar to that in 2020.

Following a sharp increase in 2020, the debt ratio decreased slightly to 82.3% of GDP in 2021. Similar developments could be observed in most other EU member states in 2021. In 2022, the total volume of discretionary measures in Austria will be even higher than in 2021 due to sizable new measures aimed at dampening the impact of high inflation on households and enterprises. However, thanks to high GDP growth in 2022, the budget balance and the debt ratio are likely to continue to improve considerably in 2022.

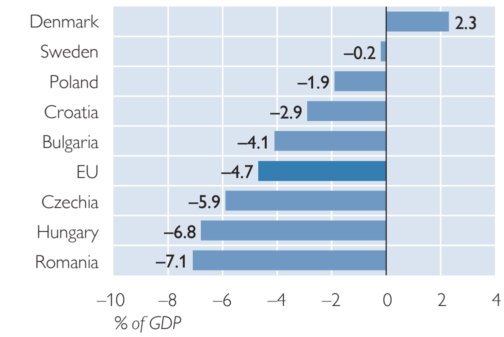
Chart 11

Budget balances of EU member states in 2021

Euro area countries



Non-euro area EU countries

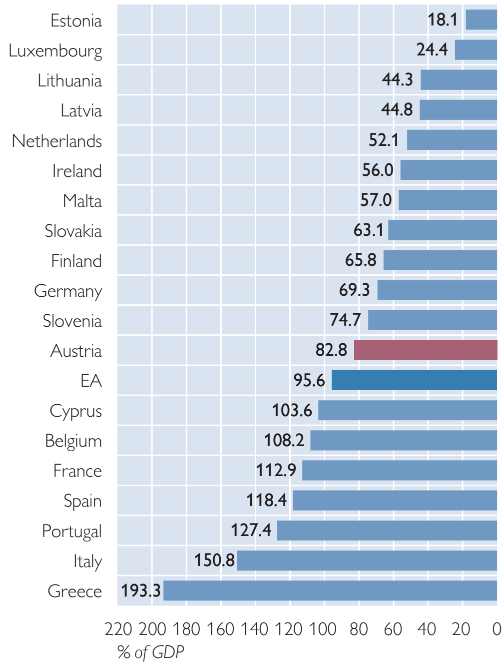


Source: Eurostat; Austria: Statistics Austria.

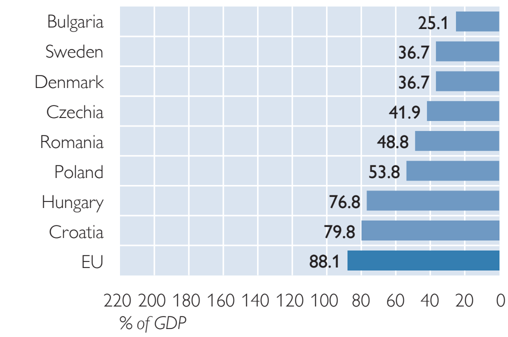
Chart 12

Public debt of EU member states in 2021

Euro area countries



Non-euro area EU countries



Source: Eurostat; Austria: Statistics Austria.

2 Austrian banking system remains resilient in a challenging environment, prudential measures prove their value[2]

2.1 Austrian banking sector developments and indicators at a glance

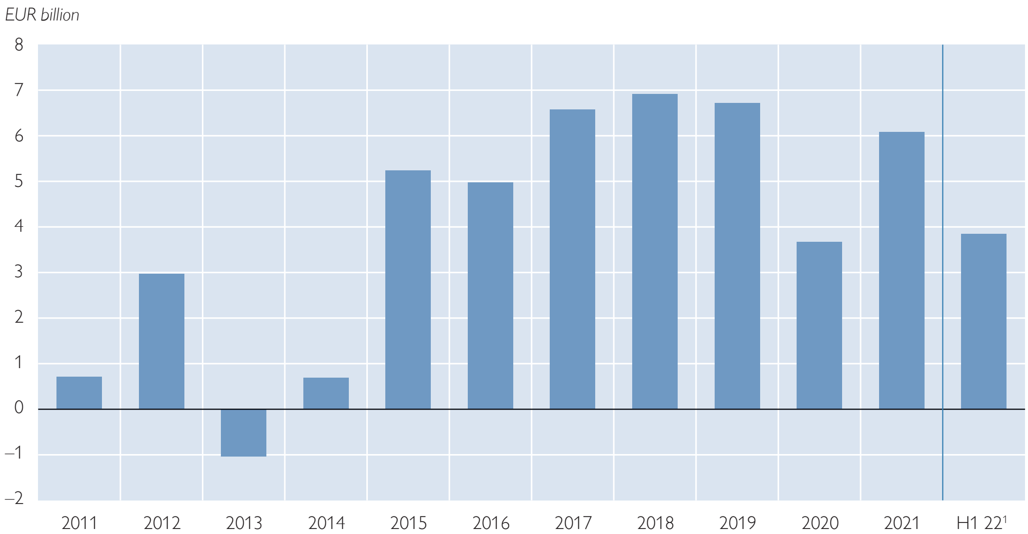
Austrian banks' profitability recovered from the pandemic in 2021

Austrian banking sector profits improved visibly in 2021. As the economy recovered, broad-based fiscal and monetary policy action helped cushion the impact of pandemic-related effects, and lending continued to grow. Banks were able to cut their provisioning by about 60% compared to 2020. Thus, the Austrian banking sector's aggregated operating profit increased by 10% year on year, and aggregated profit recovered strongly, totaling EUR 6.1 billion in 2021 (+66% year on year, see chart 13). While 2021 was a bounce-back year, in 2022, the Austrian banking sector's profitability is facing new and continuing challenges associated with the Russian invasion of Ukraine, high inflation, potential energy shortages as well as remaining pandemic-related uncertainties and structural efficiency challenges given that the sector's cost-to-income ratio was 65% at end-2021.

In the first half of 2022, operating income rose by more than one-tenth year on year, supported by stronger net interest income and dynamic growth in fees and commissions, but operating costs rose much quicker, mainly due to impairments on participations. Consequently, operating profit declined by 17%. But despite an increase in risk provisioning, several one-off effects (such as the increase of extraordinary profits and earnings from discontinued operations) led to a banking sector profit at EUR 3.8 billion over the first two quarters of the year.

Chart 13

Consolidated profit of the Austrian banking sector



Source: OeNB.

[1] *H1 data are not comparable to year-end data.*

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

Economic recovery and mortgage loans drove bank lending in Austria in the first half of 2022

The demand for home ownership and corporate liquidity led to continued high bank lending in Austria in the first seven months of 2022. The demand for corporate loans was driven by the need for financing for inventories and working capital. Besides, in anticipation of rising interest rates, Austrian corporations intended to take advantage of the still favorable financing conditions. As a result, corporate loans grew by 10.8% as of July 2022 compared with the previous year. Loans to households also expanded further (by 5.4%) in the same period on the back of continued demand for housing loans (mortgage loans increased by 6.9% over the past twelve months as of July 2022), while the volume of consumer loans was somewhat above the level recorded a year before. Since end-2019, mortgage loan growth in Austria has accelerated continuously.

Nonperforming loan ratios remain at low levels

The pandemic-related support measures (including loan moratoria) adopted in Austria have been instrumental in preventing major loan defaults. Furthermore, credit growth remained strong in 2022. As a result, the consolidated nonperforming loan (NPL) ratio remained at a low of 1.8% as of June 2022. Moreover, the share of loans that banks expect to possibly default decreased further in the first half of 2022.

Higher resilience due to improved capitalization of Austrian banks

As of March 2022, the Austrian banking sector reported a consolidated common equity tier 1 (CET1) ratio of 15.2%. Since the time before the global financial crisis in 2008–09, the Austrian banking sector has more than doubled its capital ratio in line with tighter prudential requirements. However, the CET1 ratio of the Austrian banking sector lags behind the EU average (15.5% as of March 2022; latest available data). As of June 2022, the CET1 ratio of Austrian banks came to 15.8%. After the expiry of restrictions on dividend payments, and given dynamic loan growth and persisting uncertainties (related to, e.g., the war in Ukraine and the pandemic), a careful handling of profit distributions is still warranted.

Positive assessments for Austrian banking system by IMF and rating agencies

In its 2022 Article IV consultation with Austria,[3] the International Monetary Fund (IMF) stated that the financial sector remained healthy and profitable, but risks had risen, in particular related to the war in Ukraine, which warrant cautious monitoring of asset quality. The IMF emphasized that prudential measures should be taken to address these risks (such as calibrating the systemic risk buffer and O-SII buffer). Making borrower-based macroprudential measures legally binding should help address financial sector risks from residential real estate prices.

Macroprudential measures effectively addressed systemic risk to the Austrian banking sector, which is also reflected in recent assessments by rating agencies, which have not changed their ratings and/or outlooks for the Austrian banking

[3] *See https://www.imf.org/en/Publications/CR/Issues/2022/08/31/Austria-2022-Article-IV-Consultation-Press-Release-Staff-Report-522764.*

system despite Russia's invasion of Ukraine. Austria's banking system is among the highest rated systems globally.

2.2 Heterogenous CESEE region remains an important market for Austrian banks

Austrian banks have traditionally strong business ties with the heterogenous CESEE region, mainly through subsidiaries. The business model of those local entities is based on taking in deposits and issuing loans, as reflected by a loan-to-deposit ratio of slightly below 70% as of half-year 2022. Intragroup liquidity transfers have declined by 65% since end-2011 (as of Q2 2022), which is important with regard to risk transmission and vulnerability.

CESEE remains an important market for the Austrian banking system, accounting for aggregated total assets of about EUR 286 billion and an aggregate net profit (after tax) of EUR 2.0 billion as of June 2022.

In a year-on-year comparison, Austrian banks' subsidiaries' net result in CESEE increased by 41% and reached levels above those recorded in 2018 and 2019, the years before the pandemic. Credit risk costs plunged in 2021 after having surged in 2020 after the outbreak of the pandemic. Due to the war in Ukraine risk costs significantly increased again as of June 2022, but remained lower year on year than as of June 2020.

Exposures of Austrian banks' subsidiaries to CESEE EU countries are by far the most important ones. For instance, the total assets of Austrian banks' subsidiaries in EU CESEE countries such as Czechia, Slovakia, Romania, Hungary and Croatia account for about 78% of their CESEE exposure. More than 60% of their aggregated CESEE net profit after tax is attributable to these five countries.

2.3 Macroprudential measures strengthen financial stability

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

Systemic risks related to residential real estate (RRE) have been rising continuously in recent years. Over the past ten years, residential real estate prices have doubled in Austria. These price increases go hand in hand with an ever-increasing overvaluation. According to OeNB estimates, the overvaluation of RRE prices in Austria reached a record value of 39% in the second quarter of 2022; for Vienna alone, overvaluation is estimated at an even higher 45%. These strong increases in RRE prices further reduced the affordability of housing and made the market vulnerable to credit-driven exuberance and future price corrections.

In Austria, market conditions continue to be driven by intense competition and, in part, by unsustainable lending standards. Lending to households for house purchase is still growing strongly (at 6.9% year on year as of July 2022) despite signs of rising mortgage interest rates. Interest rates started to rise across the board in the second quarter of 2022 and are expected to increase further. Over the past years, Austrian households increasingly took out loans with long interest rate fixation periods to lock in low interest rates. To the extent that long interest rates fixation periods became more popular, lending at variable rates decreased markedly over the past years. Still, about one-third of new RRE lending volume is granted at variable interest rates (Q2 2022), which makes borrowers vulnerable to rising interest rates. Furthermore, a considerable share of new mortgage loans continues to be offered at elevated debt service-to-income and loan-to-value ratios. In the second half of 2021, 16% of new lending was loans with debt service-to-income ratios exceeding 40%, leaving households' little room for maneuver in case of unforeseen adverse developments (e.g. increased costs of living or unemployment) or in the event of interest rate increases. At the same time, markedly more than half of new loans were granted with loan-to-value ratios exceeding 90% or were not collateralized by a mortgage at all, limiting banks' access to collateral to cover their losses in case of loan defaults.

Austria has a well-developed residential rental market with a high share of nonprofit providers, and Austrian borrowers tend to have high incomes and wealth by international standards. Household debt is low compared to other euro area countries, and Austrian households mainly take out housing loans to purchase their main residence. However, in times of crisis, systemic risks in this segment may prove critical to Austria's financial stability and should therefore be addressed. Consequently, and upon the initiative of the OeNB and the FMSB, Austria's Financial Market Authority (FMA) issued a new regulation prescribing upper limits for loan-to-value ratios (90%), debt service-to-income ratios (40%) and loan maturities (35 years) – subject to exemptions that would give credit institutions adequate operational flexibility. As of August 1, 2022, these new measures apply to all new mortgage loans above EUR 50,000 to households. Furthermore, the FMSB recommended adhering to a conservative debt service-to-income ratio (30% to 40%) for variable rate loans or loans with short interest rate fixation period.

The introduction of legally binding borrower-based measures in Austria is also in line with advice by the European Systemic Risk Board (ESRB)[4], the International Monetary Fund (IMF)[5] and the Organisation for Economic Co-operation and Development (OECD)[6]. The measures have proven to be effective in reducing risks to financial stability and the real economy and also protect household borrowers from taking on excessive debt.

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

The FMSB completed the review of the other systemically important institution (O-SII) buffer and the systemic risk buffer (SyRB) in its 33rd meeting on September 12, 2022. According to the FMSB, the capital buffers have helped increase resilience, strengthen resolvability, improve rating agency and investor sentiment and increase the absorption capacity of the deposit guarantee scheme, thus reinforcing financing stability in Austria and enabling the banking system to cope with shocks without having to resort to taxpayer money. Credit growth has remained strong following the activation of the buffers, and corporate access to finance was not constrained by funding conditions. The associated top rating of the Austrian banking sector ensures excellent funding conditions for banks and the real econ-

[4] *See https://www.esrb.europa.eu/pub/pdf/recommendations/220207_ESRB_AT_recommendation.en.pdf?385471ba050cc4008919ce4b336048cb.*

[5] *See https://www.imf.org/en/Publications/CR/Issues/2021/09/07/Austria-2021-Article-IV-Consultation-Press-Release-Staff-Report-Staff-Supplementary-465350.*

[6] *See https://www.oecd-ilibrary.org/economics/oecd-economic-surveys-austria-2021_eaf9ec79-en.*

omy. At the same time, the CET1 ratio of the Austrian banking sector has been losing ground in comparison to its EU peers', and the sector's major structural systemic risks identified in the 2020 assessment are still there: low structural profitability, its specific ownership structures, and a high exposure to emerging European economies. The FMSB's current decision reflects the exceptionally high level of uncertainty (war in the Ukraine, elevated energy prices and inflation), raising additional buffer requirements to a maximum of 50 basis points for the time being (phase-in by 25 basis points p.a.).[7]

The FMSB also recommended leaving the countercyclical capital buffer (CCyB) unchanged at a rate of 0% of risk-weighted assets. This decision was also taken against the backdrop of recently introduced borrower-based measures. Furthermore, the credit-to-GDP gap is currently below the critical threshold of 2 percentage points, having dropped to 0.3 percentage points in the first quarter of 2022 on the back of extraordinarily high GDP growth. At the same time, other indicators continue to signal clearly elevated cyclical risks in the financial system (risk mispricing, the soundness of bank balance sheets, credit growth and real estate price growth). Any future decision on whether a higher CCyB requirement would be advisable will depend on whether the CCyB-relevant indicators see a sustained improvement.[8]

Foreign currency loans in Austria and CESEE continue to decline

Supervisory measures adopted early on by the OeNB and the FMA[9] have contributed to the fact that foreign currency loans extended in Austria have declined significantly over the past decade and do not pose a systemic risk. As of July 2022, the volume of outstanding foreign currency loans to domestic households stood at EUR 9.6 billion (–15.9% year on year, exchange rate adjusted). This corresponds to a foreign currency loan share of 5.1%. In the first half of 2022, the volume of foreign currency loans to households extended by Austrian banks' CESEE subsidiaries stood at EUR 8.5 billion (–10.4% year on year, exchange rate adjusted). This translates into a 10.1% share of foreign currency loans in total retail lending. Almost four-fifths of these loans are denominated in euro.

Balanced funding at Austrian banks' CESEE subsidiaries

The Sustainability Package of the OeNB and the FMA aims at strengthening the local stable funding base of Austrian banks' foreign subsidiaries and at avoiding excessive credit growth to reinforce financial stability both in banks' host countries and in Austria.[10] Ongoing monitoring confirms that Austrian banks' CESEE subsidiaries have a balanced funding base, with their loan-to-deposit ratio standing at 70% in mid-2022.

[7] *See FMSG - Recommendation FMSB/5/2022 on adjusting the systemic risk buffer (SyRB) and the other systemically important institution (O-SII) buffer.*

[8] *See FMSG - Recommendation FMSB/4/2022 on applying the countercyclical buffer (CCyB).*

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

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

3 Annex of tables

Table A1

Real GDP

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	Annual change in %									
Austria	0.7	0.0	0.7	1.0	2.0	2.3	2.4	1.5	–6.5	4.6
Euro area	–0.9	–0.2	1.4	2.0	1.9	2.6	1.8	1.6	–6.1	5.2
EU	–0.4	0.3	1.8	2.3	2.0	2.6	1.9	1.8	–5.7	4.6

Consumer price indices

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	Annual change in %									
Austria	2.6	2.1	1.5	0.8	1.0	2.2	2.1	1.5	1.4	2.8
Euro area	2.5	1.4	0.4	0.2	0.2	1.5	1.8	1.2	0.3	2.6
EU	2.6	1.5	0.6	0.1	0.2	1.7	1.9	1.5	0.7	2.9

Unemployment rates

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	% of labor force									
Austria	5.2	5.7	6.0	6.2	6.5	5.9	5.2	4.8	6.1	6.2
Euro area	11.5	12.1	11.7	10.9	10.1	9.1	8.2	7.6	8.0	7.7
EU	11.1	11.6	11.0	10.2	9.3	8.3	7.4	6.8	7.2	7.0

Current account balances

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	% of GDP									
Austria	1.5	1.9	2.5	1.7	2.7	1.4	0.9	2.4	3.0	0.4
Euro area	0.9	2.3	2.9	3.1	3.5	3.6	3.6	3.5	3.1	2.8
EU	0.5	1.2	1.7	1.6	1.8	2.0	2.3	2.2	2.1	2.9

Budget balances

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	% of GDP									
Austria	–2.2	–2.0	–2.7	–1.0	–1.5	–0.8	0.2	0.6	–8.0	–5.9
Euro area	–3.8	–3.1	–2.5	–2.0	–1.5	–0.9	–0.4	–0.7	–7.1	–5.1
EU	–3.7	–3.0	–2.4	–1.9	–1.4	–0.8	–0.4	–0.6	–6.8	–4.7

Government debt ratios

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	% of GDP									
Austria	81.9	81.3	84.0	84.9	82.8	78.5	74.1	70.6	83.3	82.8
Euro area	91.0	93.0	93.1	91.2	90.4	87.9	85.8	83.8	97.2	95.6
EU	85.0	86.7	86.8	85.0	84.2	81.6	79.6	77.5	90.0	88.1

Source: Eurostat, Statistics Austria, OeNB.

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

Table A2

General government interest payments

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	% of GDP									
Austria	2.7	2.6	2.4	2.3	2.1	1.8	1.6	1.4	1.3	1.1

Household debt

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	% of net disposable income									
Austria	91.1	90.8	90.5	92.1	92.0	90.7	90.4	90.0	93.3	95.1
Euro area	120.1	119.0	117.4	117.5	116.5	116.5	114.8	115.4	118.9	119.3
	% of GDP									
Austria	53.0	52.0	51.8	51.6	51.8	51.2	50.5	50.4	54.3	53.6
Euro area	70.5	69.5	67.9	67.1	66.4	65.8	64.9	65.1	70.0	67.7

Corporate debt[1]

	2012	2013	2014	2015	2016	2017	2018	2019	2020	Q3 21
	% of gross operating surplus[2]									
Austria	389.2	418.5	398.0	394.8	388.2	395.4	397.8	409.7	423.3	427.2
Euro area	517.7	508.0	515.9	512.5	507.8	488.7	488.5	485.7	539.2	505.0
	% of GDP									
Austria	91.7	95.5	91.6	91.6	91.8	92.0	92.9	93.1	100.1	101.0
Euro area	103.4	102.0	104.6	108.2	108.6	105.8	104.6	104.3	113.1	110.7

Residential property price index

	2017	2018	2019	2020	2021	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22
	Index 2000=100									
Austria excluding Vienna	174.9	189.8	194.8	209.4	236.2	233.3	236.9	247.4	256.5	264.3
Vienna	220.4	232.0	243.2	259.6	287.6	283.0	292.2	298.4	309.6	319.9
	Annual change in %									
Austria excluding Vienna	4.9	8.5	2.6	7.5	12.8	12.8	10.6	13.9	12.9	13.2
Vienna	1.5	5.2	4.9	6.7	10.8	10.7	10.2	11.3	11.8	13.0

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

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

"Facts on Austria and Its Banks" is published twice a year to provide a brief snapshot of Austria's economy based on a range of real and financial variables and corresponding international measures. The list of key indicators preceding the descriptive analysis is revised quarterly.

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