



OESTERREICHISCHE NATIONALBANK  
EUROSYSTEM

# Economic and monetary policy issues in the euro area

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**Observatory Group**

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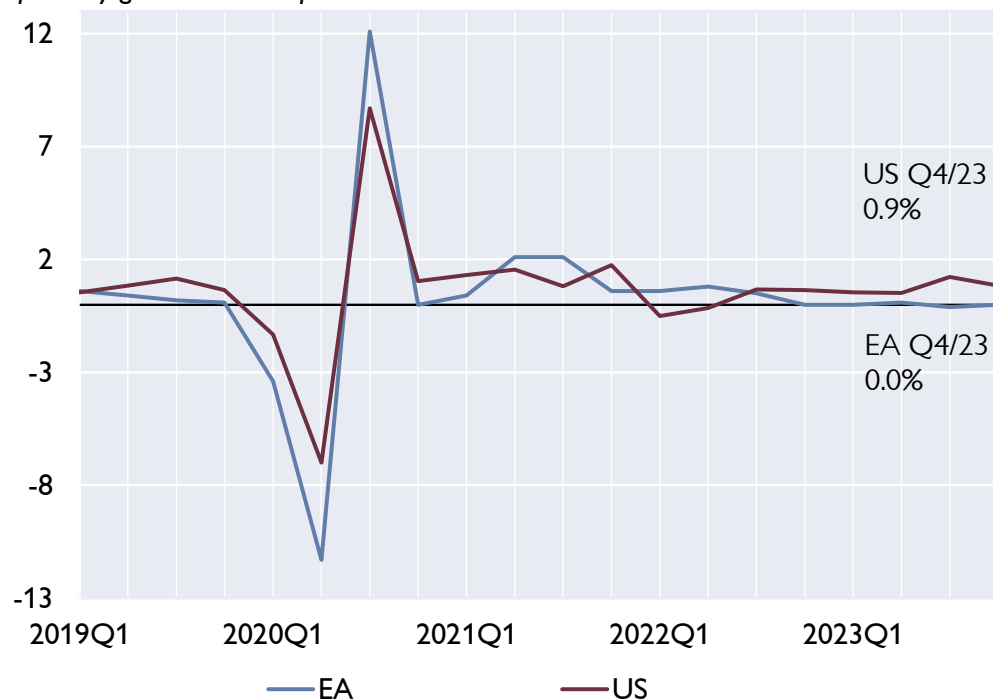
## Content

- 1. International developments**
- 2. Inflation and monetary policy in the euro area**
- 3. Recent developments in Austria**

# 1. Weak growth in the euro area amidst continuing disinflation

**Real GDP growth in the euro area and the US**

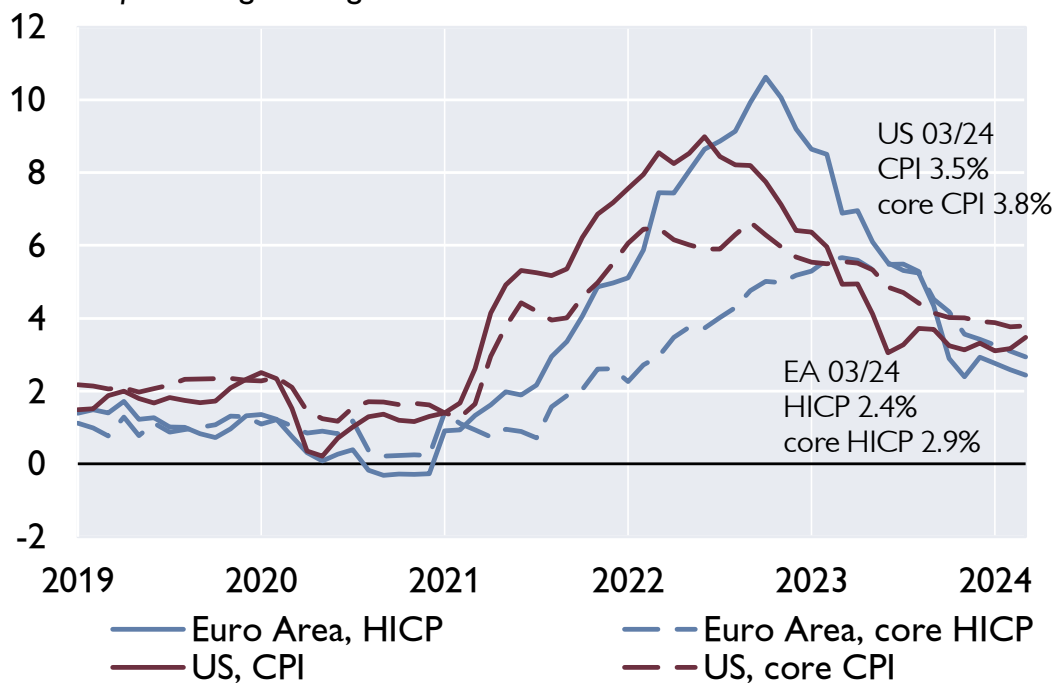
quarterly growth rates in percent



Source: Macrobond.

**Consumer price inflation in the euro area and the US**

annual percentage change

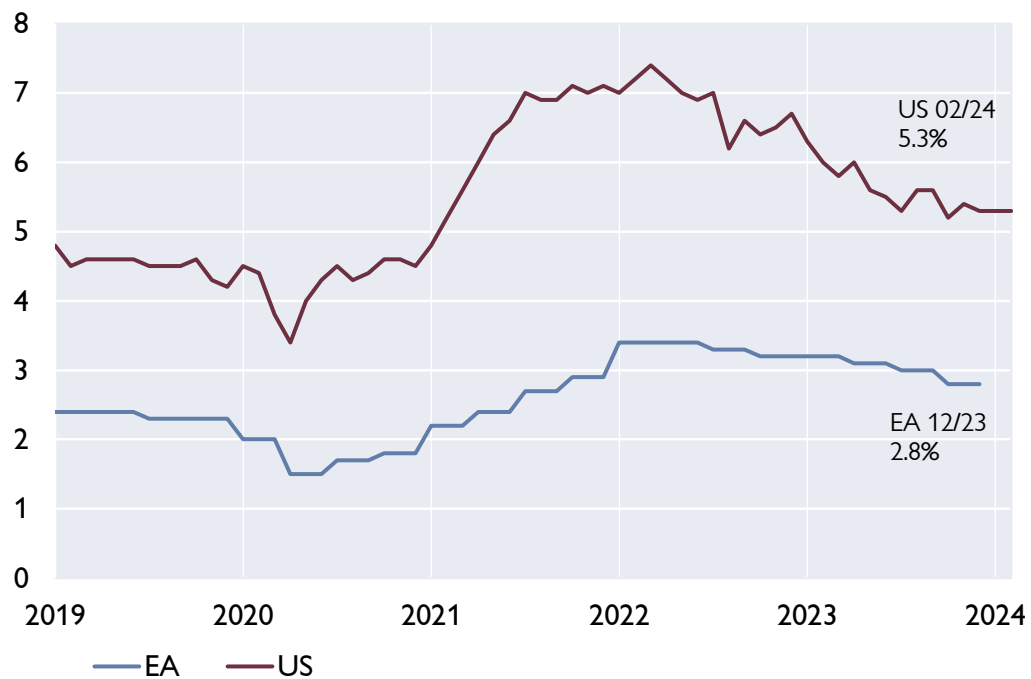


Source: Macrobond.

# 1. Labor markets remain tight but show signs of easing

## Job vacancies

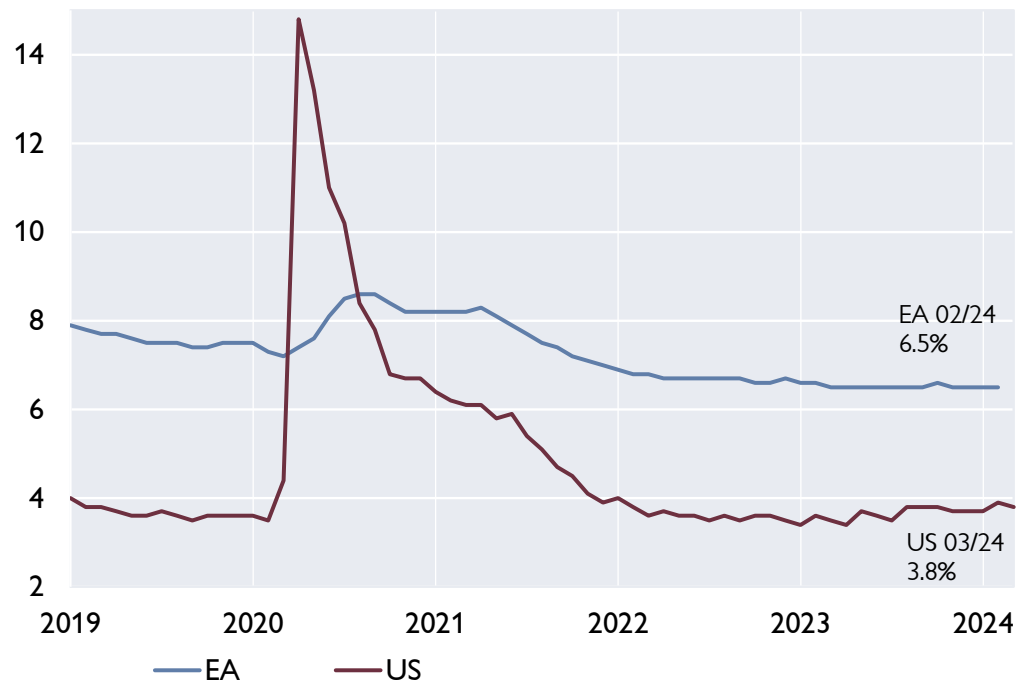
percent



Source: Macrobond.

## Unemployment rates

percent

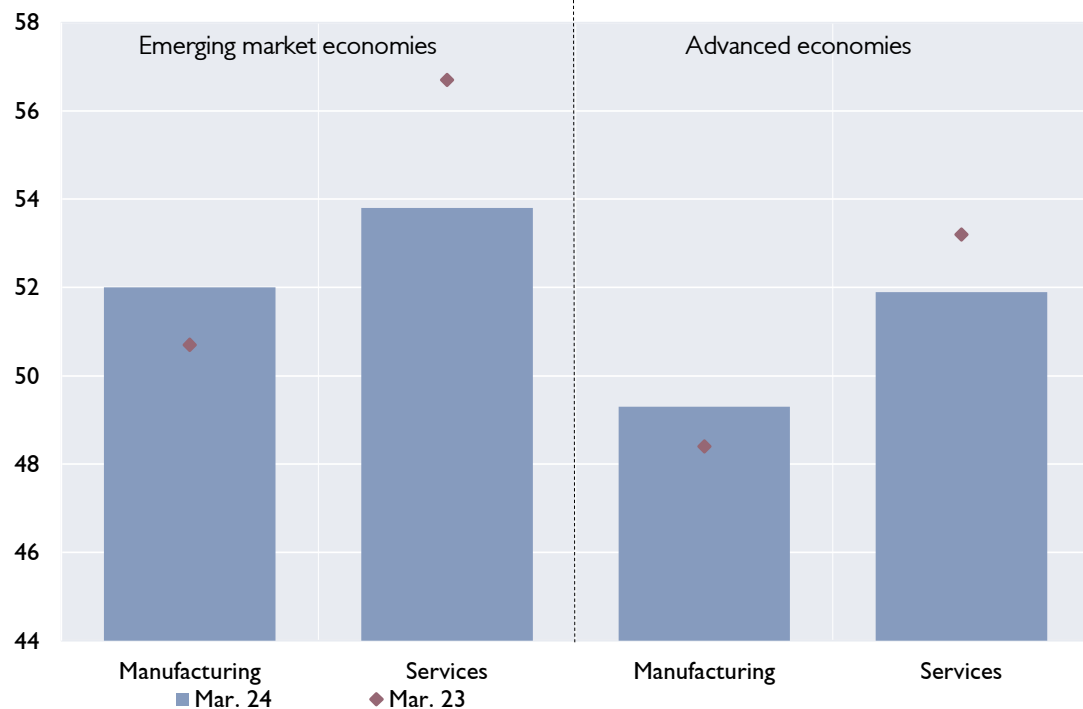


Source: Macrobond.

# 1. Activity indicators in expansionary territory, AE manufacturing lagging behind

## Purchasing managers index

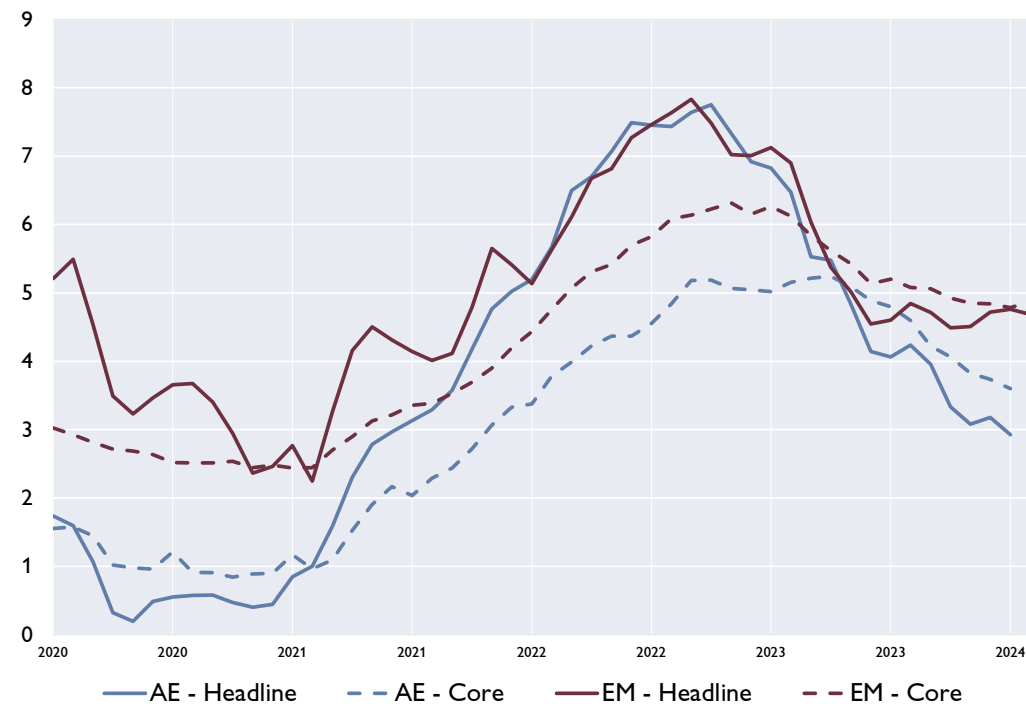
index: value above [below] 50 indicates sectoral expansion [contraction]



Source: Macrobond.

## Headline and core inflation: advanced economies and emerging markets

percent

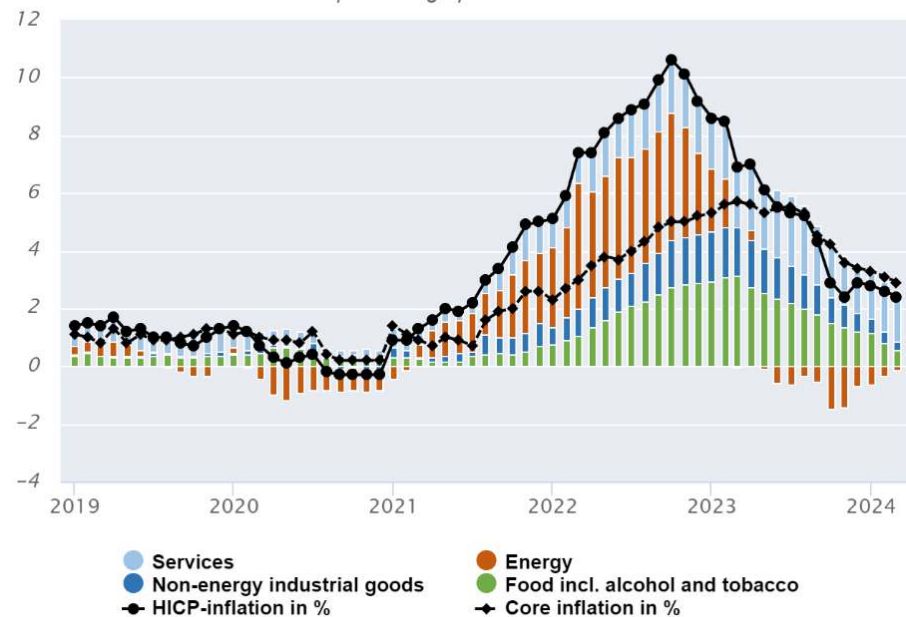


Source: Macrobond.

## 2. Euro area: goods and energy inflation have almost subsided, services inflation remains strong

### HICP Components

Contribution to HICP-inflation in percentage points

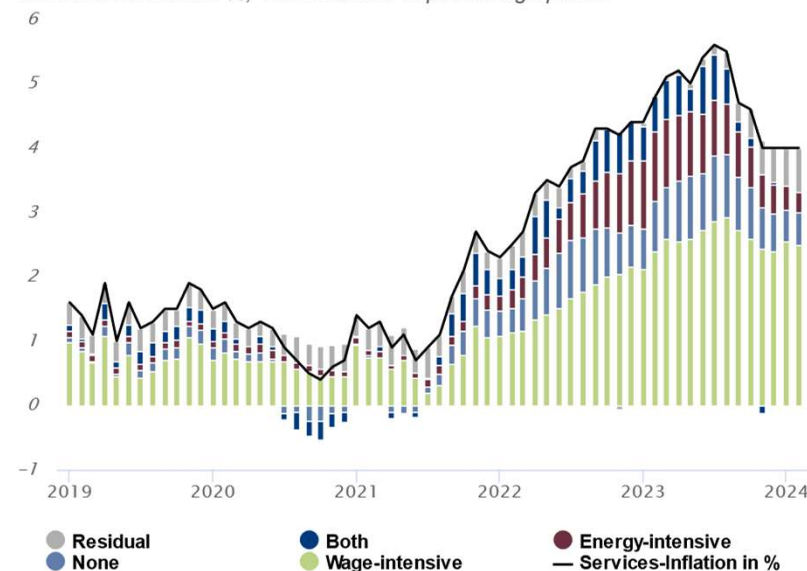


Source: Eurostat. Last observation: 03/2024 (flash estimate).

- **NEIG and food components** show strong disinflation and are converging towards pre-2020 levels.
- **Energy** remains deflationary in early 2024.

### EA Services-Inflation decomposition: Energy-intensive vs. Wage-intensive

Services-Inflation in %, Contributions in percentage points

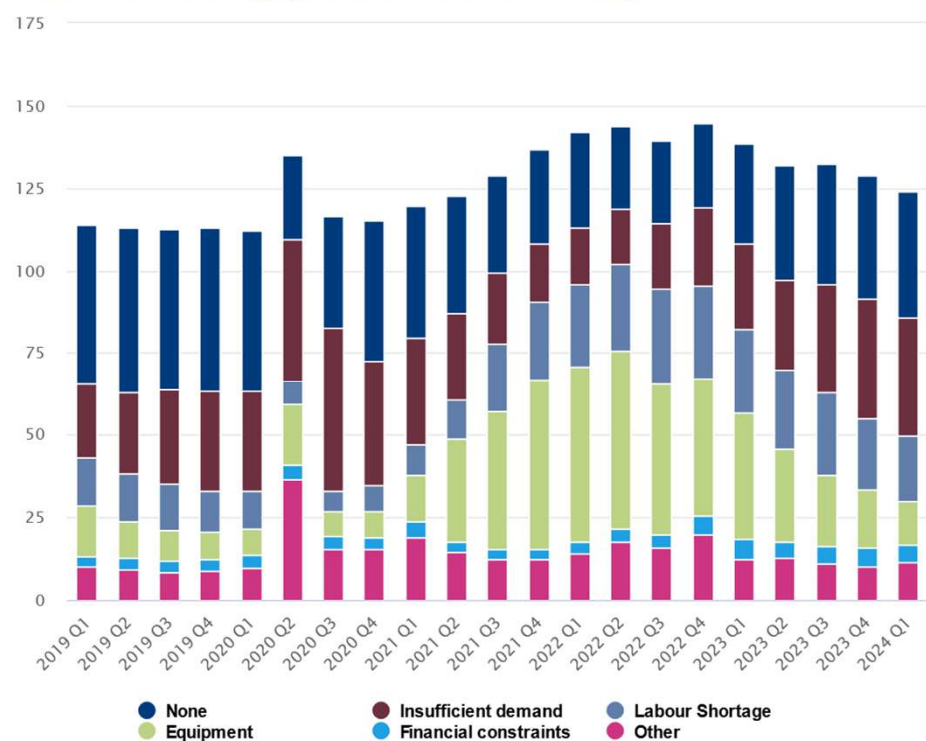


Source: OeNB (REFGP, own calculations)

- **Services inflation** is still elevated due to high wage growth and tight labor markets.
- **Wage-sensitive sectors** contribute strongly to services inflation.

## 2. Survey to industry indicates a reduction in supply pressure and a switch to demand constraints

Factors limiting production - Industry

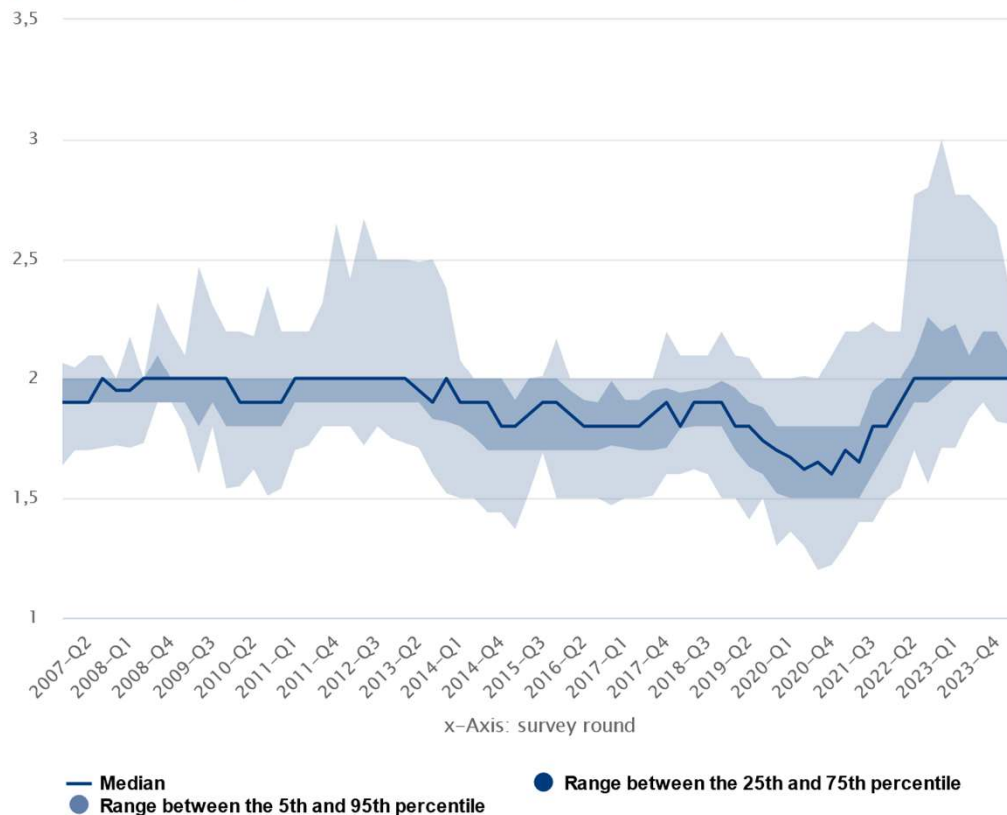


Source: Business survey of the European Commission (EC)

- Reported **supply constraints** on equipment have almost converged back to 2019 level
- **Labour shortage** is still above 2019 level
- Insufficient demand has been increasing since 2022Q2
- Financial constraints are not widely reported as a factor limiting production
- This indicates a **switching from supply to demand driven dynamics**

## 2. Disagreement across long run inflations forecasts is declining and expectations are converging to the target

SPF annual inflation forecast - Longer term (five years ahead)

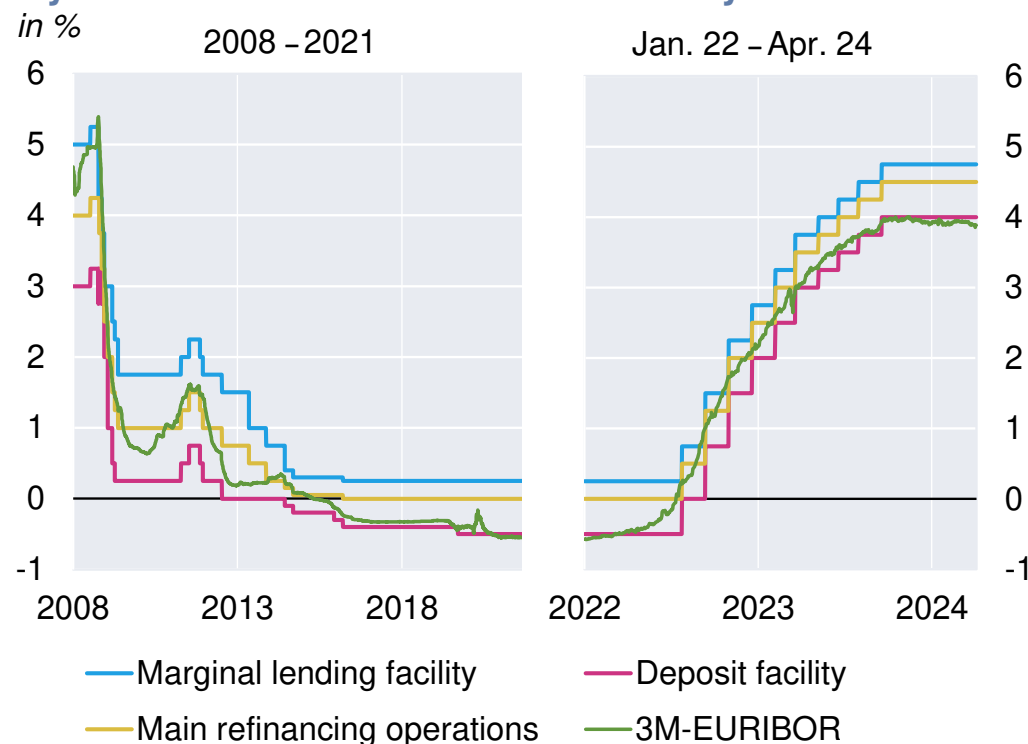


- **Five years ahead inflation expectations** are at target (on average) and the upward tail of the distribution is decreasing
- Forecasts are characterized by **asymmetry/skewness** with fewer forecasters having a long run forecast below 2%
- The downside **de-anchoring risk does not materialize** in the expectations



## 2. Eurosystem increased interest rates 10 times to 450 basis points

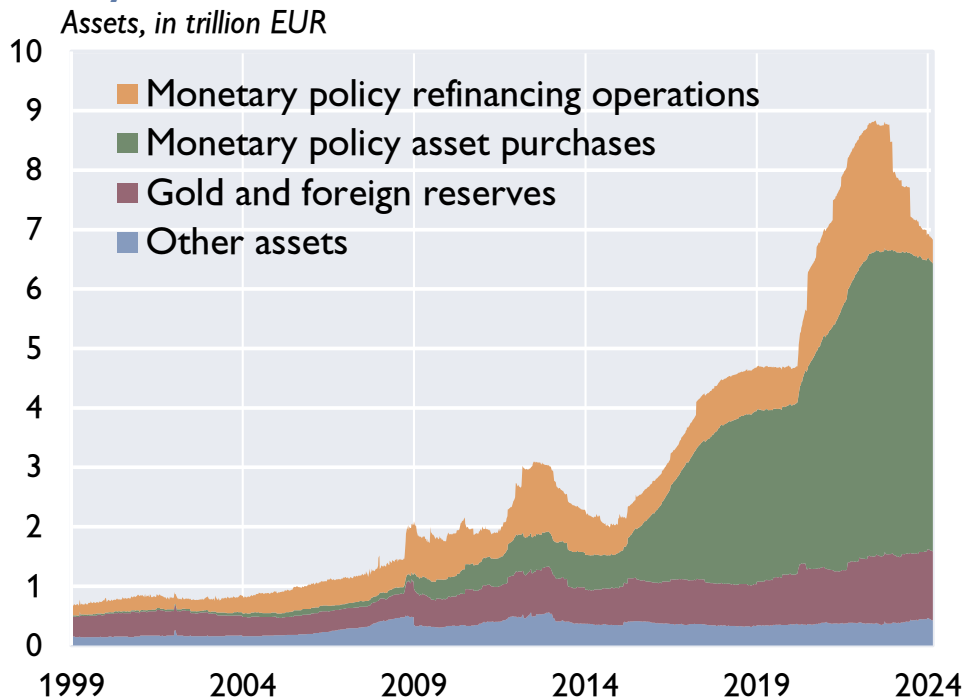
### Key ECB interest rates and euro money market rate



- Financing conditions are in **restrictive territory**: demand is dampened and inflation declined
- The ECB's Governing Council ensured that key interest rates **remain high for as long as necessary** to ensure that inflation returns to 2%.
- The Eurosystem's **latest inflation is 2.4%** (Eurostat flash estimate for March) and a recent ECB forecast assumes **inflation rates of 2.0% and 1.9% for 2025/26**.
- If the confidence of the GovC is further increased that inflation is converging to the target in a sustained manner, it would be **appropriate to reduce the level of monetary policy restriction**
- The GovC is **not pre-committing to a particular rate path** and will continue to be **data-dependent** to determining the appropriate level and duration of restriction.

## 2. ECB balance sheet shrinks due to maturing assets and repaid TLTROs €NB

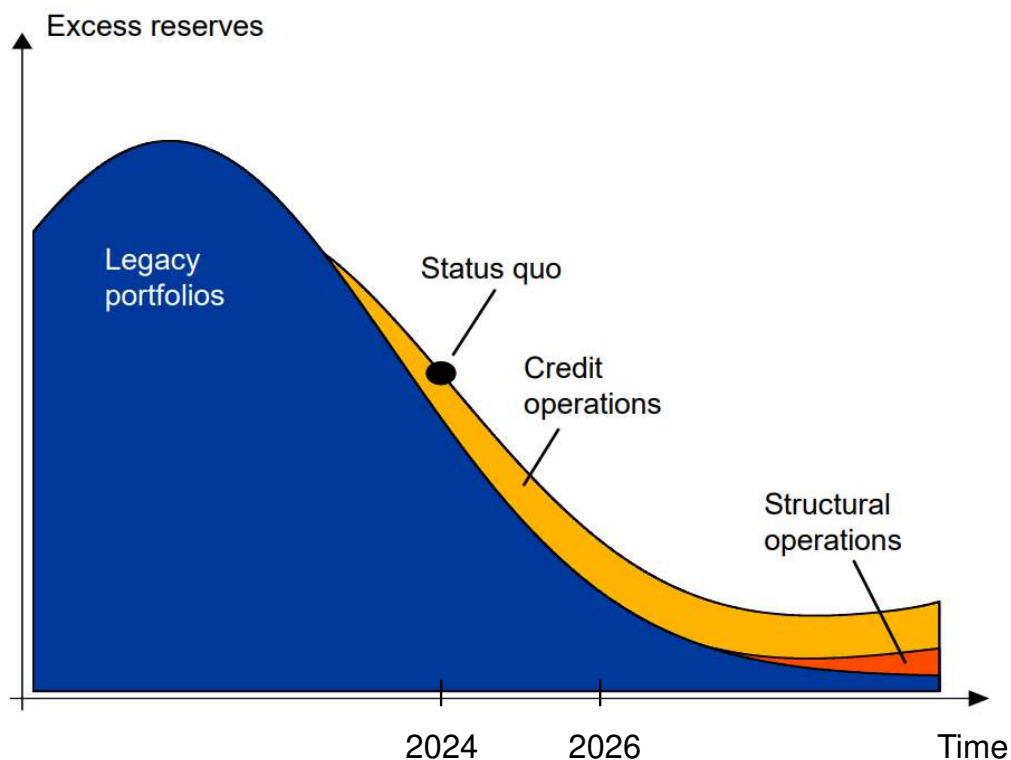
### Consolidated aggregated balance sheet of the Eurosystem



Source: EZB, Statistical Data Warehouse.

- The consolidated balance sheet of the Eurosystem **peaked at EUR 8.8 trillion in mid-2022**.
  - Since then, long-term loans from banks (TLTRO III) amounting to **EUR 1.8 trillion have been repaid**.
  - In addition, securities acquired as part of the expanded **asset purchase program (APP) are slowly maturing**: by around EUR 0.2 trillion since March 2023.
- The size of the balance sheet has **decreased by around EUR 2 trillion** since its peak.

## 2. What comes next: The monetary policy framework of the future

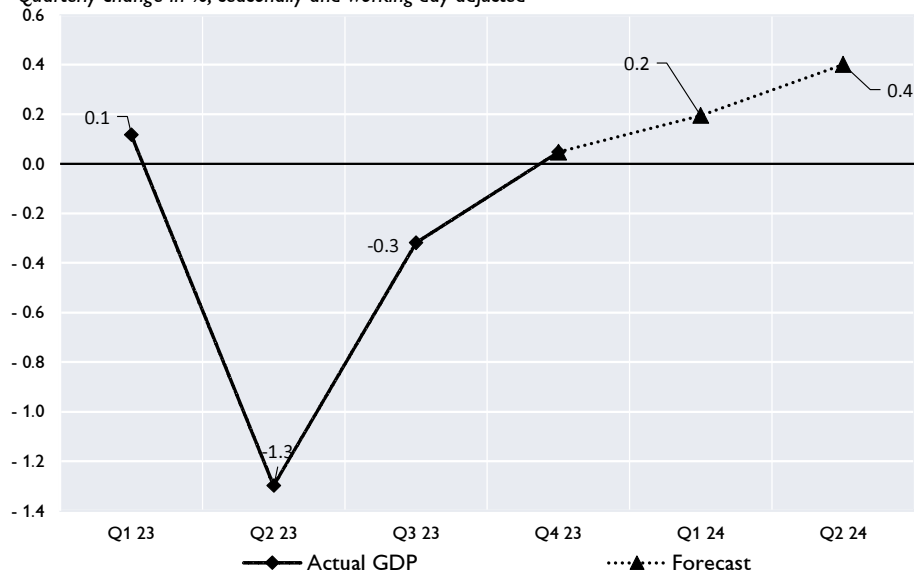


- The Eurosystem is preparing for the period of declining excess liquidity and is **adjusting its monetary policy framework** accordingly.
- In the future, the monetary policy stance will continue to be **indicated mainly by the interest rate for the deposit facility**; the interest rate corridor will be narrowed in September.
- Central bank **liquidity will be provided through a mix of regular credit operations** (with one-week and three-month maturities) and **structural operations** (longer-term credit operations and securities purchases).
- **Credit operations will return to center stage** and will continue to be offered as fixed rate tenders with full allotment.

### 3. Austria: Economic growth and inflation

#### Short-term forecast of real GDP growth

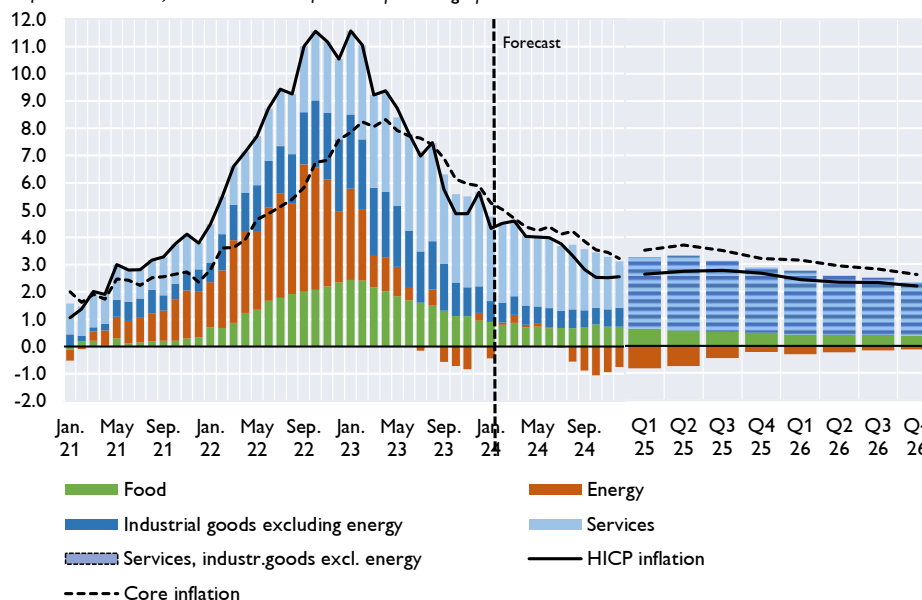
Quarterly change in %, seasonally and working-day adjusted



Source: OeNB Economic Indicator. March 2024

#### Contributions to HICP inflation

Inflation rates in %; contributions to inflation in percentage points



Source: OeNB, Statistics Austria.

#### OeNB March 2024 Interim Economic Outlook for Austria

	Q1	Q2	2023	2024	2025
Real GDP growth, compared to previous period in %	0.2	0.4	-0.7	0.5	1.8
HICP, year-on-year inflation in %	4.5	4.0	7.7	3.6	2.7
Unemployment rate in % (national definition)	6.7	6.8	6.4	6.8	6.5

Source: 2023: Statistics Austria; 2024–2025: OeNB.

- **Risks** tilted to the downside for **GDP** for 2024
- **Downside risk** for **HICP** inflation

# 3. Austrian banking system among the highest-rated systems globally



Instruments

Systemic risk development

## Strengthening capitalization

- SyRB, OSII-Buffer, ICAAP
- since 2014, annual review



- Highest CET1-ratio in Q4 2023
- Majority of AT SIs lag behind domestic competitors

## Sustainable real estate lending standards in AT

- Legally-binding borrower-based measures
- since 2022, review 2024/25



- Significant improvement
- e.g. share of “sustainable loans” up from 12 to 80% (loan to collateral ratio <90%)

## Reduction of foreign-currency loans

- Recommendations, Minimum Standards, Guiding Principles
- since 2008/2012



- No systemic risk
- 3% (non-EUR) of total loans only

## Sustainability of CESEE business models

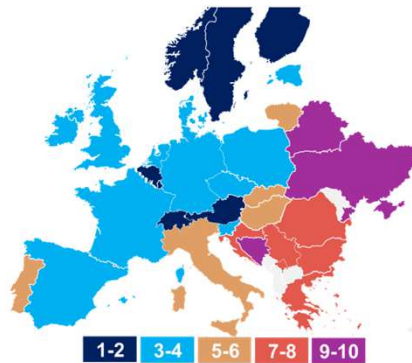
- Local stable funding
- since 2012



- Sustainable funding of CESEE subsidiaries
- LDR 73%

Source: Adobe Stock.

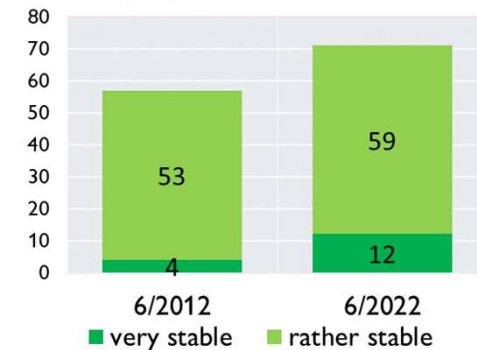
## AT-banking system among the highest-rated systems globally



Source: Standard & Poor's Banking Industry Country Risk Assessment Update: December 2023.

## Improved public perception of banking sector stability in AT

in % of survey respondents



Source: OeNB Barometer 6/2022.

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External perception

www.oenb.at

### 3. Investment in Austria? Selected arguments in a nutshell

#### Wealthy economy <sup>1)</sup>

GDP/Capita

Rank 4 in EA, Rank 5 in EU (AT: 124; EA=105, EU=100)

Private consumption/Capita <sup>1)</sup>

Rank 3 in EA, Rank 4 in EU (AT: 121; EA=105, EU=100)

#### High investment dynamics

R&D investment in % of GDP <sup>2)</sup>

Rank 2 in EA, Rank 3 in EU (AT: 3.2%, EA: 2.27%, EU: 2.24%)

Investment share <sup>3)</sup>

Rank 2 in EA, Rank 5 in EU (AT: 25.3%, EA: 22.7%, EU: 22.9%)

Net international investment position <sup>4)</sup>

Rank 6 in EA (AT: 17.6%, EA 2022: 2.0%)

#### Well diversified and stable economy

No major macroeconomic imbalances - EC Scoreboard <sup>5)</sup>

No in-depth review has been carried out for Austria so far

Export oriented economy; regionally diversified

"In the heart of Europe", Exports to "Western" and "Eastern" Europe

Stable social conditions <sup>6)</sup>

Strike days "nerby zero" (AT: 1 day, US: 9, DE: 18, FR: 92)

#### Ratings between AAA and AA+ <sup>7)</sup>

S&P: AA+, Moody's: Aa1, Fitch: AA+, DBRS: AAA, Scope: AAA

1) GDP and private consumption measured in PPP, Eurostat 2022, 2) Eurostat 2022, 3) Eurostat 2022, 4) Eurostat 2022, 5) EC: Scoreboard Macroeconomic Imbalance Procedure, 6) Statista, average 2012- 2021, per 1000 Employees, 7) OeBFA.

**Danke für Ihre Aufmerksamkeit**

**Thank you for your attention**

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