



OESTERREICHISCHE NATIONALBANK

EUROSYSTEM

# Austria's Role in Europe's Economic Recovery

OMFIF

17 February 2014, London

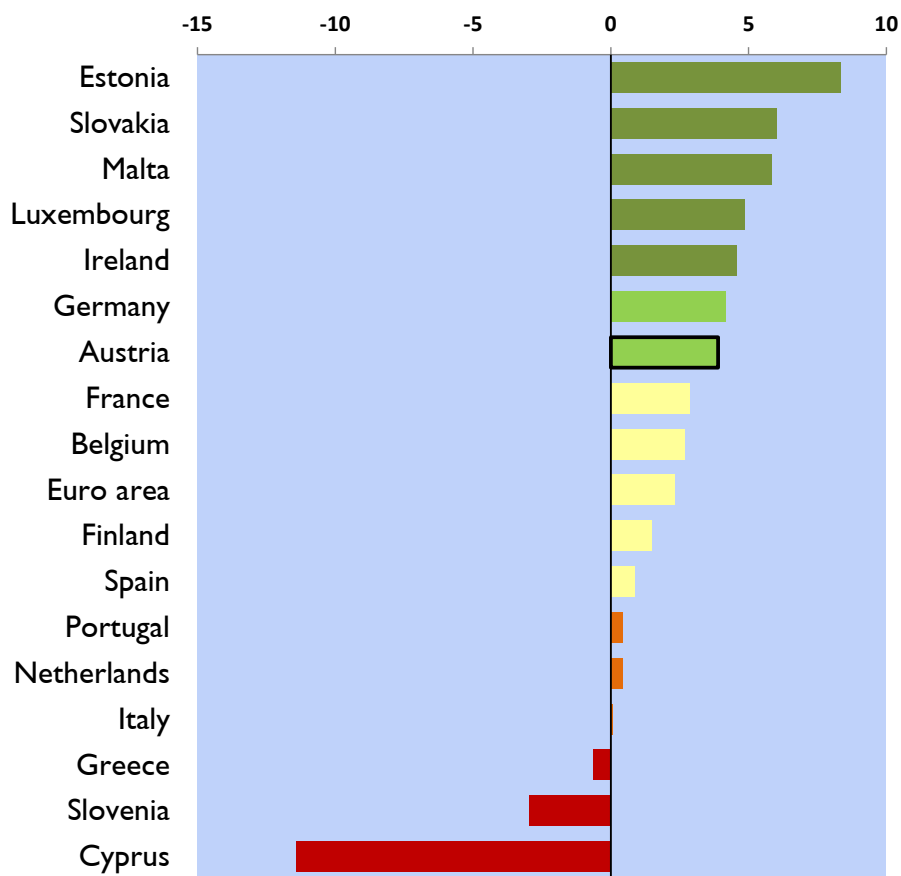
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Governor, Oesterreichische Nationalbank

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# Comparably favorable growth prospects for Austria

**Cumulated GDP Growth 2013 to 2015**

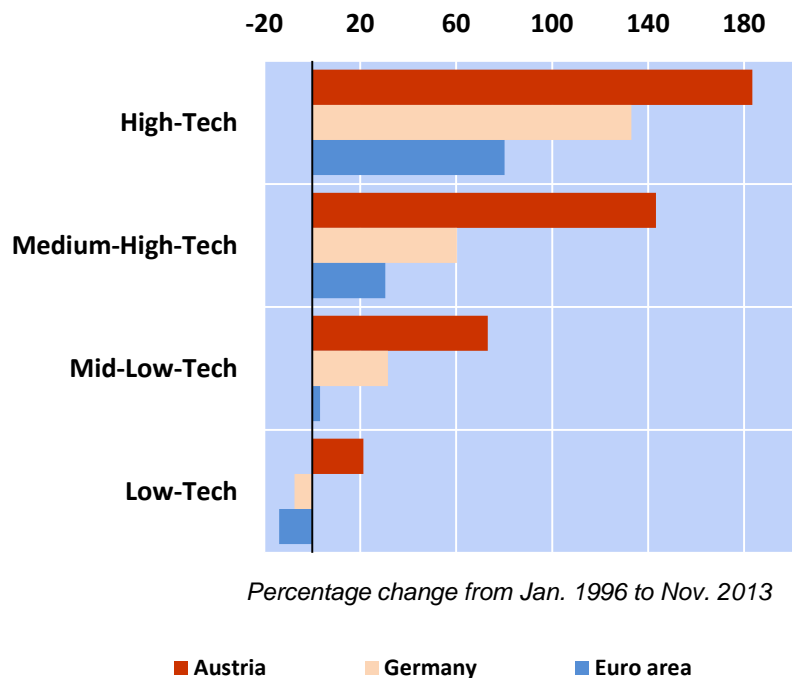


Source: European Commission, Autumn 2013 Forecast.

- **Euro area** growth rate **positive** from 2014 onward, but **heterogeneity** among euro area countries remains
- **Growth prospects for Austria comparably favorable** owing to:
  - the Austrian economy's **high competitiveness**
  - the **current account** surplus since 2002, positive net foreign asset position since 2012
  - comparatively **sound fiscal policy**
  - lowest **unemployment** rate in the EU
  - **balanced** macroeconomic developments
    - **no bubble** in real estate markets
    - below-average **indebtedness of households and nonfinancial corporations**
  - **high degree of social stability**

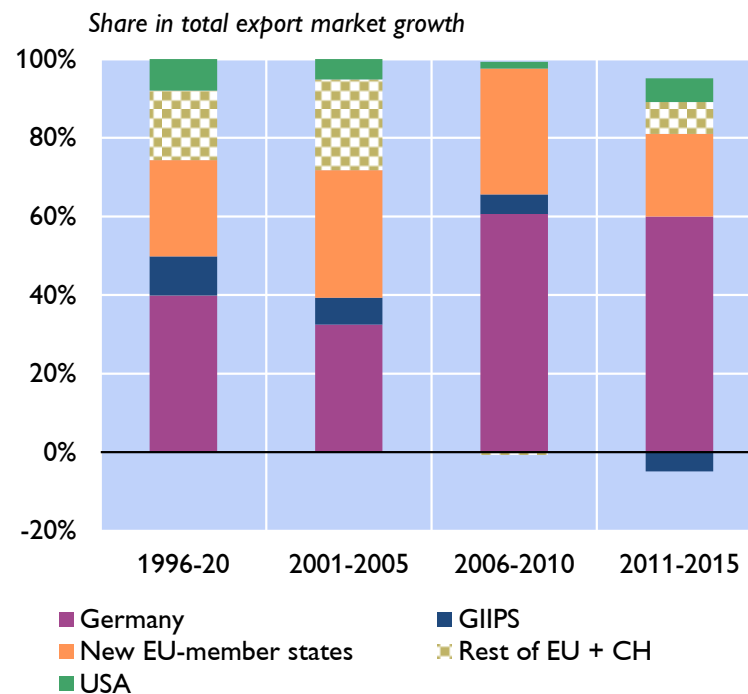
# Austria's industry is grading up and exports are geographically well diversified

### Industrial production for different technology segments



Source: Eurostat.

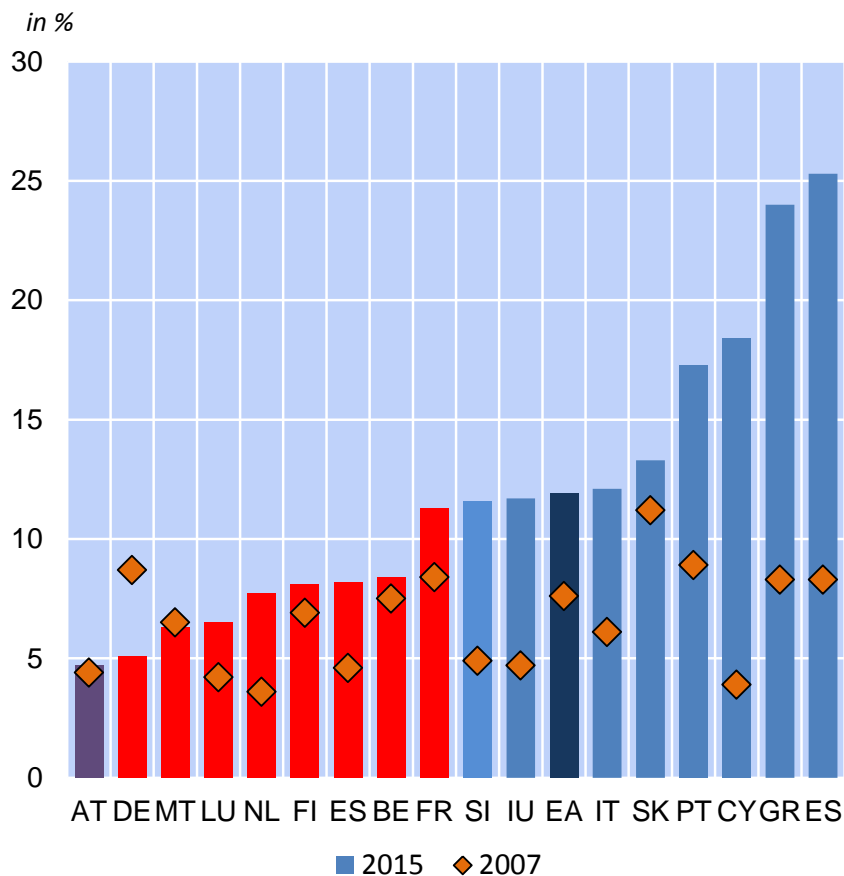
### Well diversified export structure ensures stability of export market growth



Source : IMF (September 2013 World Economic Outlook.)

# Austria: Lowest unemployment rate in Europe thanks to institutional factors

## Unemployment rates in 2007 and 2015



Source: European Commission, Autumn 2013 Forecast.

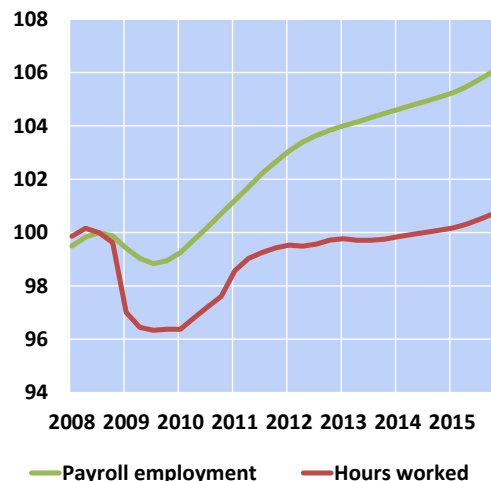
- High degree of **wage flexibility**
- Coordinated **wage setting** and strong “macro orientation”
- Large number of **collective wage agreements** with strong **orientation towards sectoral productivity**:
  - high degree of sectoral wage differentiation
  - heterogeneous, sector-specific working time regulations
  - layoffs by international standards easy; low degree of “dualism”
- Important role of **active labor market policy**
- **Stable social partnership system** including strong **employment orientation** of unions and employers
- **Apprentice schemes**: training opportunities for young people; low youth unemployment rate

# Labor market outlook for Austria also comparatively favorable

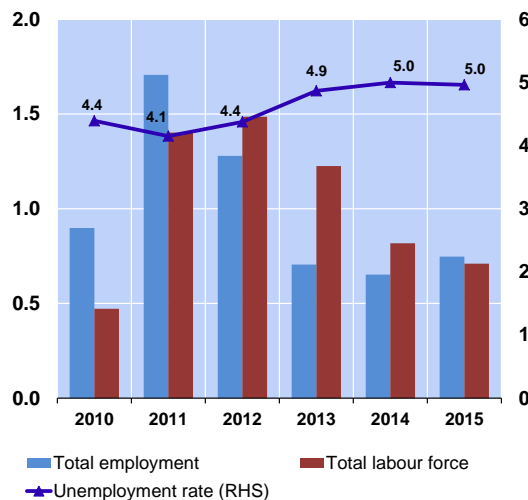
	2012	2013	2014	2015
	Change on previous year in %			
Payroll employment	1.5	0.7	0.6	0.7
Hours worked	0.5	0.2	0.2	0.5
	In % of labour supply			
Unemployment rate (Eurostat-Definition)	4.4	4.9	5.0	5.0

- Employment **growth positive**, but weakening
- **Hours** worked remain below pre-crisis level only until mid-2014
- → **Adjustment** on the Austrian labor market via **intensive margin**

Index (2008Q1=100)



change on previous year in %

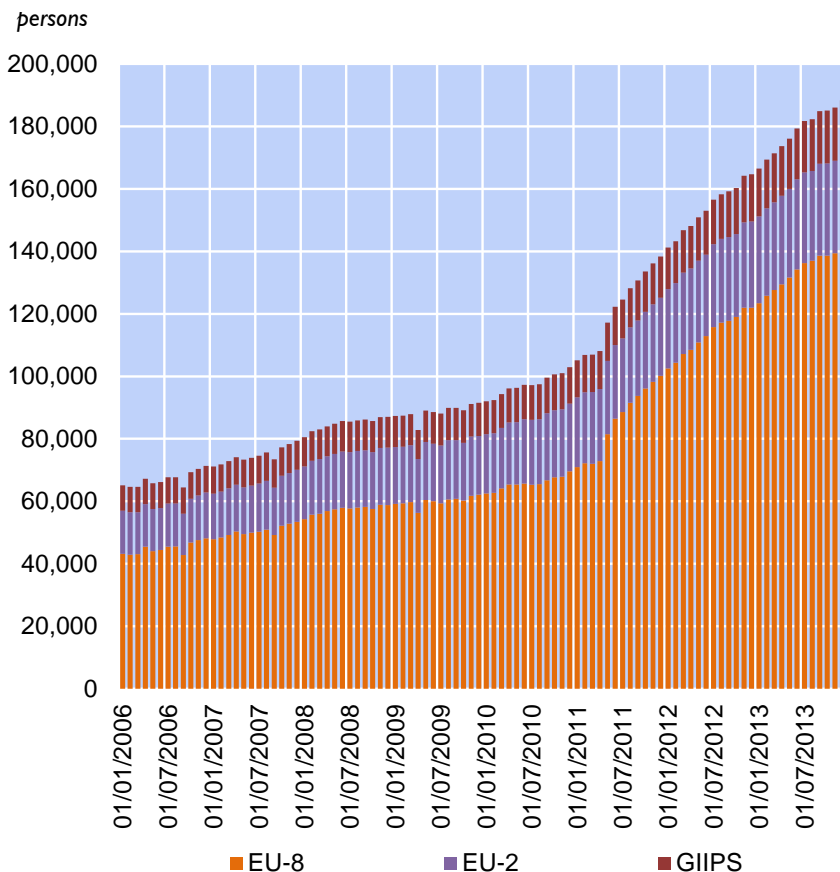


- **Strong growth of labor supply results in rising unemployment:**
  - increasing **participation rates** of older employees and women
  - **migration**

Source: Eurostat; OeNB, December 2013 Forecast.

# Share of foreign labor in Austria has been increasing

## Employment by citizenship



Source: Federal Ministry of Labour, Social Affairs and Consumer Protection.

- ... due to **attractiveness** of Austrian labor market and increasing labor mobility in EU
- Labor market **liberalization**:
  - for the EU-8 (May 2011)
  - for Bulgaria and Romania (January 2014)
- Migration from **Germany** has slowed down
- Crisis has to date **not triggered migration flows from GIIPS** countries

## Employment by citizenship

	Jan-06	Jan-09	Jan-11	Dec-13
<i>in % of total foreign employees</i>				
EU-8	10.9	13.3	14.9	24.5
EU-2	3.4	3.9	4.4	4.8
GIIPS	2.2	2.4	2.6	3.2
Germany	14.6	18.1	18.8	16.4
Foreign employees, total	100.0	100.0	100.0	100.0
<i>in % of total employees</i>				
EU-8	1.3	1.7	2.0	3.9
EU-2	0.4	0.5	0.6	0.8
GIIPS	0.3	0.3	0.4	0.5
Germany	1.7	2.3	2.6	2.6
Foreign employees, total	11.5	12.8	13.6	16.1

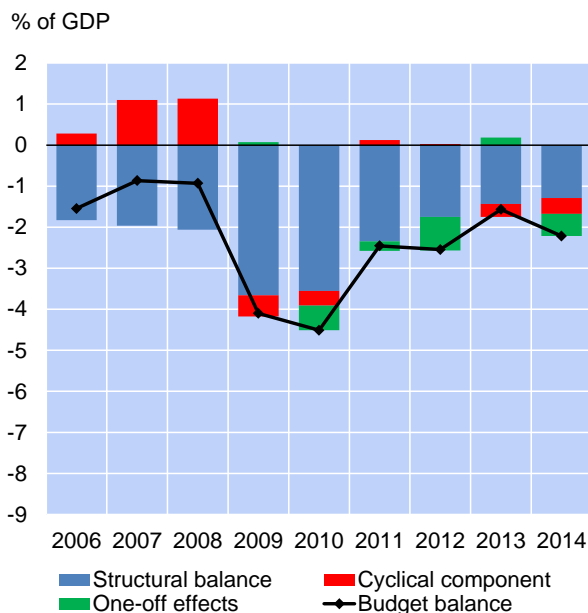
EU-8: HU, CZ, PL, SK, SL, LT, EE, LV; EU-2: RO, BG

Source: Federal Ministry of Labour, Social Affairs and Consumer Protection.

# Austria's gradual consolidation strategy ensures sustainable public finances

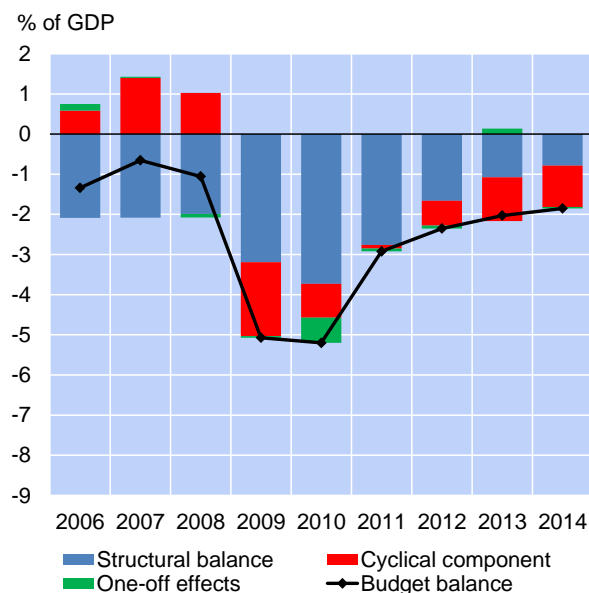
- Significant fiscal stimulus in 2008 and 2009 was followed by gradual consolidation from 2010 onward → right **balance** between stabilizing demand and ensuring sound public finances
- Austria can **reach its MTO in 2015** with some additional structural measures
- Euro area countries under stress: strong GDP and revenue shortfalls and strong increase in interest payments → very strict fiscal adjustment

### Budgetary developments in Austria



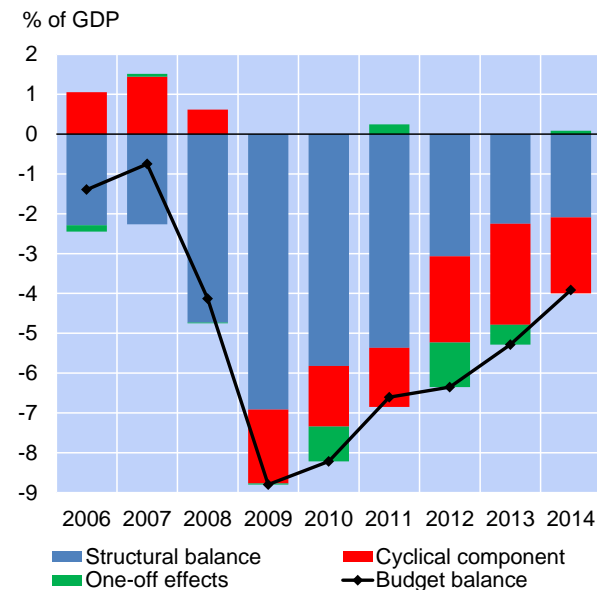
Source: OeNB.

### Budgetary developments in the other euro area core MS (DE, FR, NL, BE, FI)



Source: European Commission, Autumn 2013 Forecast.

### Budgetary developments in the euro area periphery (IT, ES, GR, PT, IE)



Source: European Commission, Autumn 2013 Forecast.

# Challenges of Austrian banks are being addressed

## Strengths

### Retail-orientated business model

- Customer loan and deposit business
- Financing of real economy
- Liquidity position intrinsically solid, low dependence on wholesale funding
- Profitable throughout the crisis
- Main markets in Austria and CESEE

## Challenges

### CESEE

- Capital ratios at group level below peers, yet more favorable leverage
- Decreasing dependence on intra-group funding

### Foreign currency loans

- High stock of foreign currency loans in Austria and CESEE
- Underperformance of repayment vehicles

### Structural aspects

- Net interest margins, low profitability in the domestic business

“Sustainability package”

Minimum standards / Guiding principles

Recovery & Resolution Framework (in progress)

## International Environment

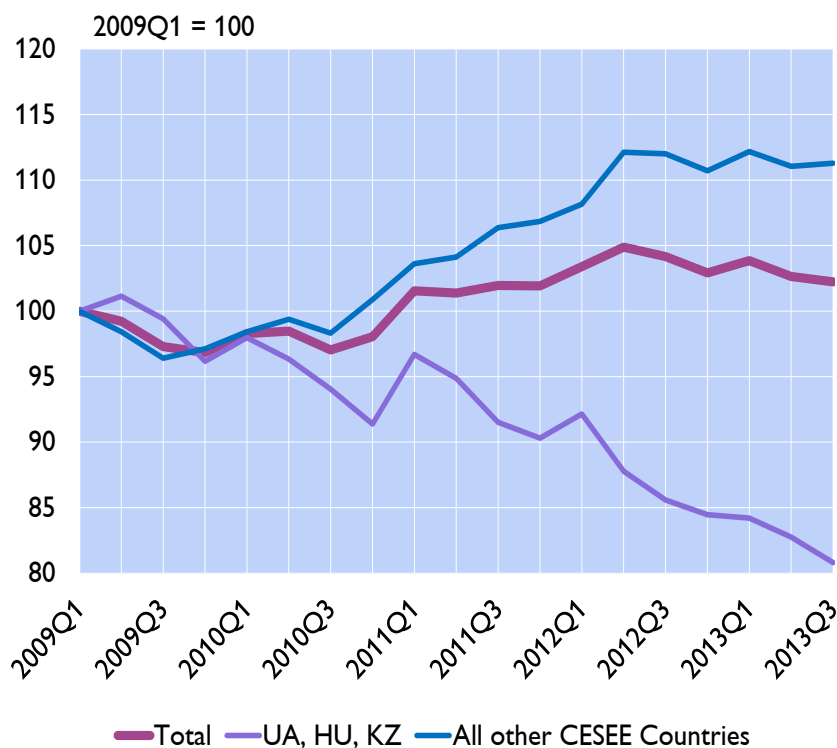
- European banking sector: deleveraging, balance sheet repair, sovereign-bank linkages
- Sovereign debt market: reduced pressure, remaining uncertainties
- Weak macroeconomic environment in the euro area

ECB: liquidity, CRR/CRD IV, banking union

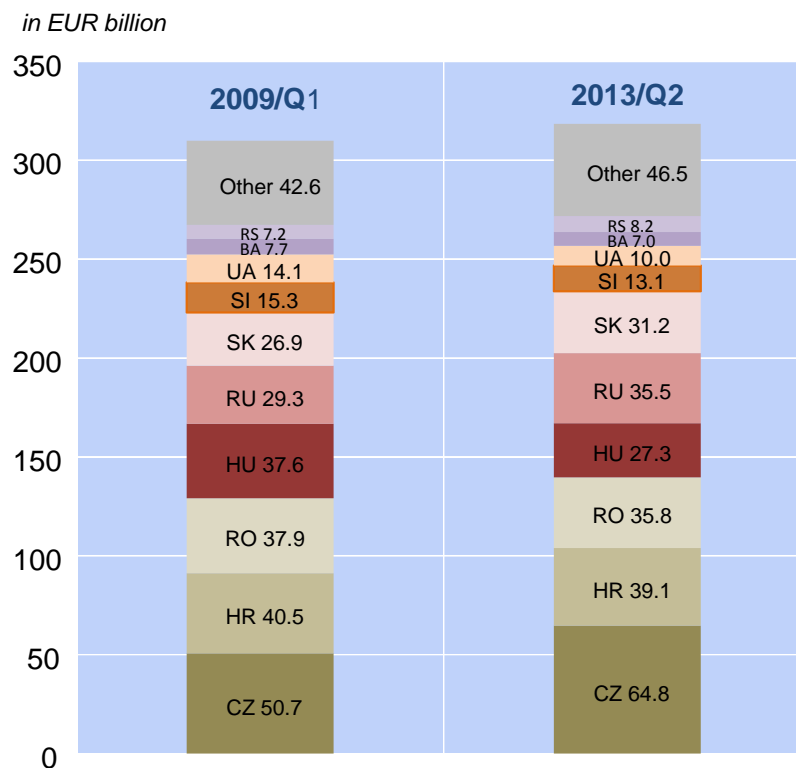


# Austrian banks have been committed to the CESEE region and reacted accordingly

## Development of Austrian banks' CESEE exposure<sup>1</sup>



## Austrian banks' CESEE exposure 2009Q1 and 2013Q2 (FX adjusted)

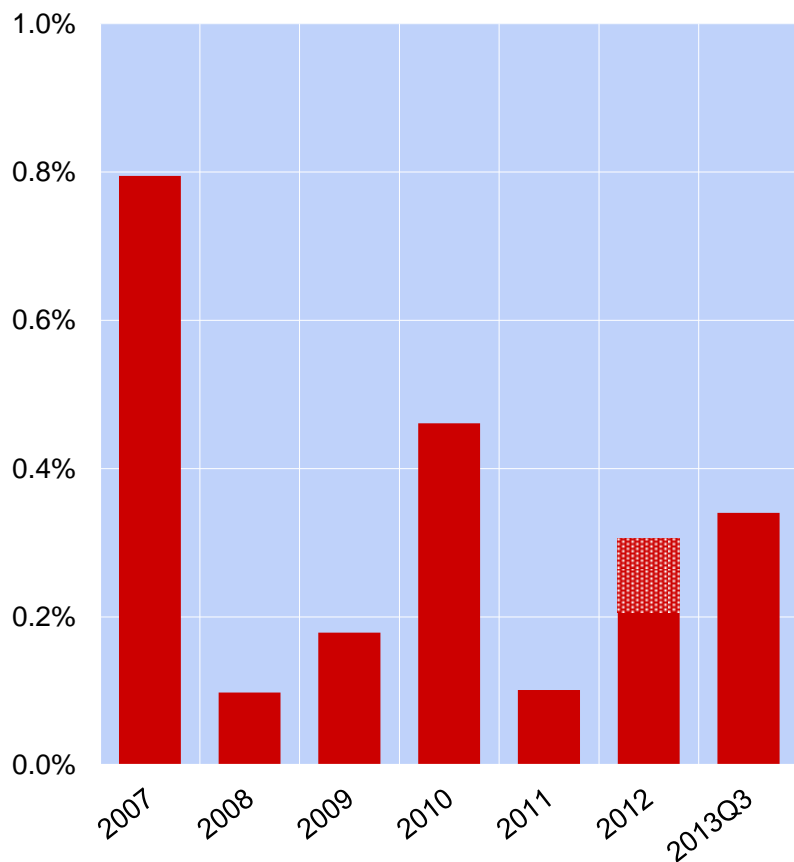


Source: OeNB. 1/ Adjusted for exchange rate effects.

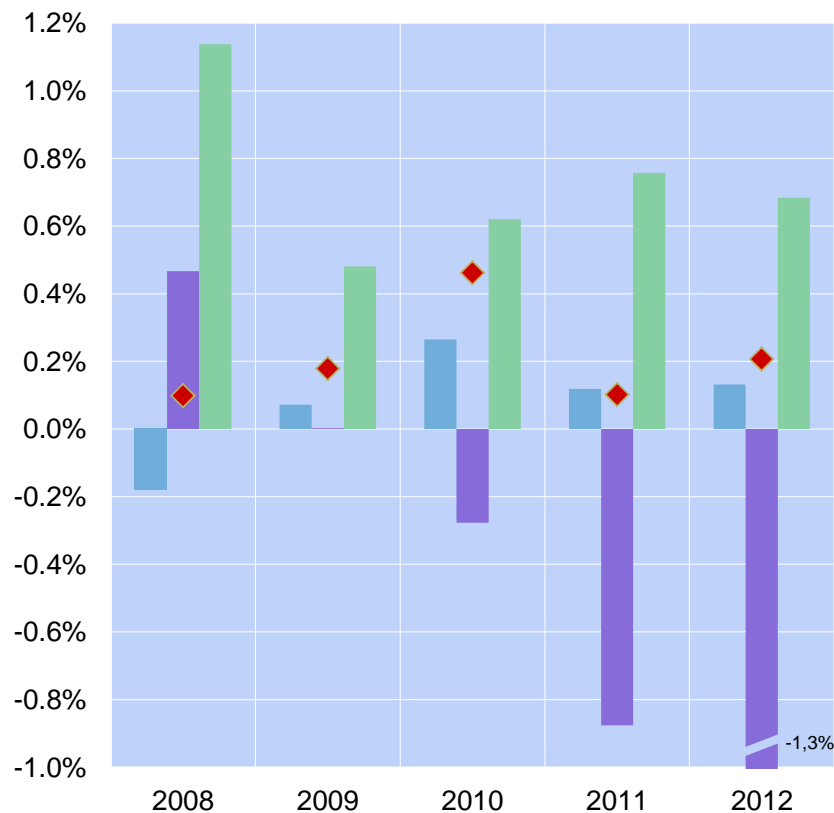
BA: Bosnia and Herzegovina, CZ: Czech Republic, HR: Republic of Croatia, HU: Hungary, KZ: Kazakhstan, RO: Romania, RU: Russia, RS: Republic of Serbia, SI: Slovenia, SK: Slovakia, UA: Ukraine.  
Source: OeNB

# Profitability of Austrian banks is below pre-crisis level, but higher than the EU average because of higher profitability in CESEE

### Return on assets of Austrian banks



### Return on assets in selected groups of EU countries



Source: OeNB, ECB consolidated banking data; 2013Q3 annualised.

■ EU (excl. CESEE and GIPS) ■ GIPS ■ CESEE (EU Member States) ◆ AT

# Austria's role – can something be learned from Austria? (1)

## Pre-crisis developments supported Austria during the crisis:

- **Booming** economy, no bubble
- **Balanced** macroeconomic developments, moderate indebtedness of households and the government sector, ...
- Strong **export orientation**
- **Low unit labor costs** growth / **favorable** international price **competitiveness**
- **Strong productivity** and **employment** growth
- **Sustainable fiscal developments** (decreasing debt path, ....)
- Front-runner in **tourism**

# Austria's role – can something be learned from Austria? (2)

## Crisis period and thereafter:

- **Strongly hit** (especially export-oriented manufacturing), but **fast rebound** – rather quick “back to (almost) normality”
- Strong **labor hoarding** / pronounced flexibility in working hours / short-term working schemes partly financed by the government → thus, only weak effect of the crisis on the unemployment rate
- **Immediate** significant **fiscal stimulus** followed by **gradual** fiscal **consolidation**
- **Active labor market policies** (specific measures aimed at improving employment chances of workers with high unemployment risk)
- Comprehensive **banking sector support** package
- **AT and CESEE are still partners**: Vienna Initiative
- **FMA/OeNB sustainability package**: Capitalization of banks and funding in CESEE
- **“Social Partnership”** facilitated the adjustment; **consensus** on combination of supply-side / demand-side policies



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