



OESTERREICHISCHE NATIONALBANK
EUROSYSTEM

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Vice Governor

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Macro weather (economic/financial) picture calls for increasing resilience

„Dark clouds ahead?“



- Russian invasion of Ukraine, further escalation, prolonging higher commodity prices
- Gas and electricity shortage in Austria and Europe
- Sharper-than-expected tightening of global financial conditions
- Global supply chain bottlenecks
- Abrupt growth slowdown in China and in the United States
- Outbreaks of lethal and highly contagious COVID-19 variants

„More sunlight ahead?“



- De-escalation of geopolitical tensions: Russian war de-escalates
- Fast unwinding of supply disruptions
- Faster-than-expected slowdown in inflation dynamics
- Resilience of private consumption

ECB-projections from September for the EA: Lower growth and higher inflation

	Sep. 2022 MPE <i>(annual percentage changes)</i>			Revisions since Jun. 2022 BMPE ^a <i>(percentage points)</i>			
	2021	2022	2023	2024	2022	2023	2024
Real GDP	5.2	3.1	0.9	1.9	0.3	-1.2	-0.2
HICP	2.6	8.1	5.5	2.3	1.3	2.0	0.2
HICP excluding food & energy	1.5	3.9	3.4	2.3	0.6	0.6	0.0

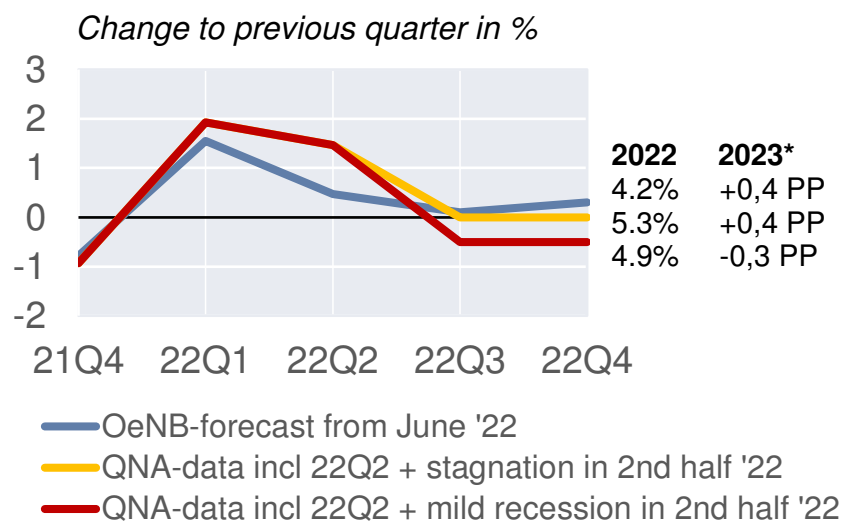
^a Revisions are calculated from rounded figures.

- **GDP-growth** in the euro area (and also in Austria) in 2022 higher than previously expected, driven by better than expected re-opening effects in '22H1
- Consequences of **Ukraine war** darken outlook for 2023 and 2024 (inflationary pressure, gas supply disruptions)
- Strong upward revision **of HICP-inflation** in 2022 and 2023, both in the euro area and Austria
- In **Austria HICP inflation** may reach 10% in the coming months. Announced energy price increases for households are driving up inflation in September 2022 by around ½ p.p. In sum this will lead to an HICP-inflation of over 8 % in 2022.

Strong GDP growth in first half of 2022, despite war and high inflation

Slowdown expected for 2023

GDP-forecasts for 2022

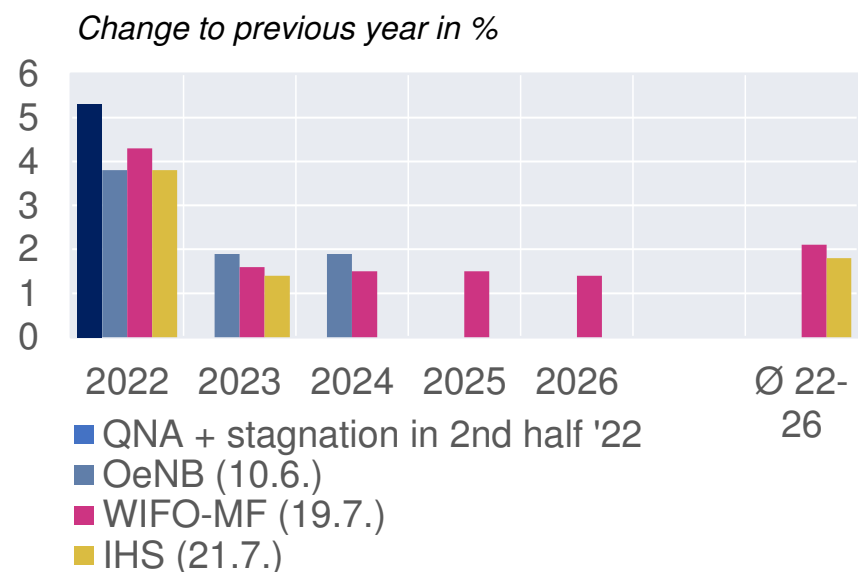


Source: Statistics Austria, WIFO, OeNB.

Remark: 2023*: Carry-over effect.

- Strong catching up effects in first half of '22 explain strong GDP growth in 2022
- High inflation leads to high downside risks for 2023

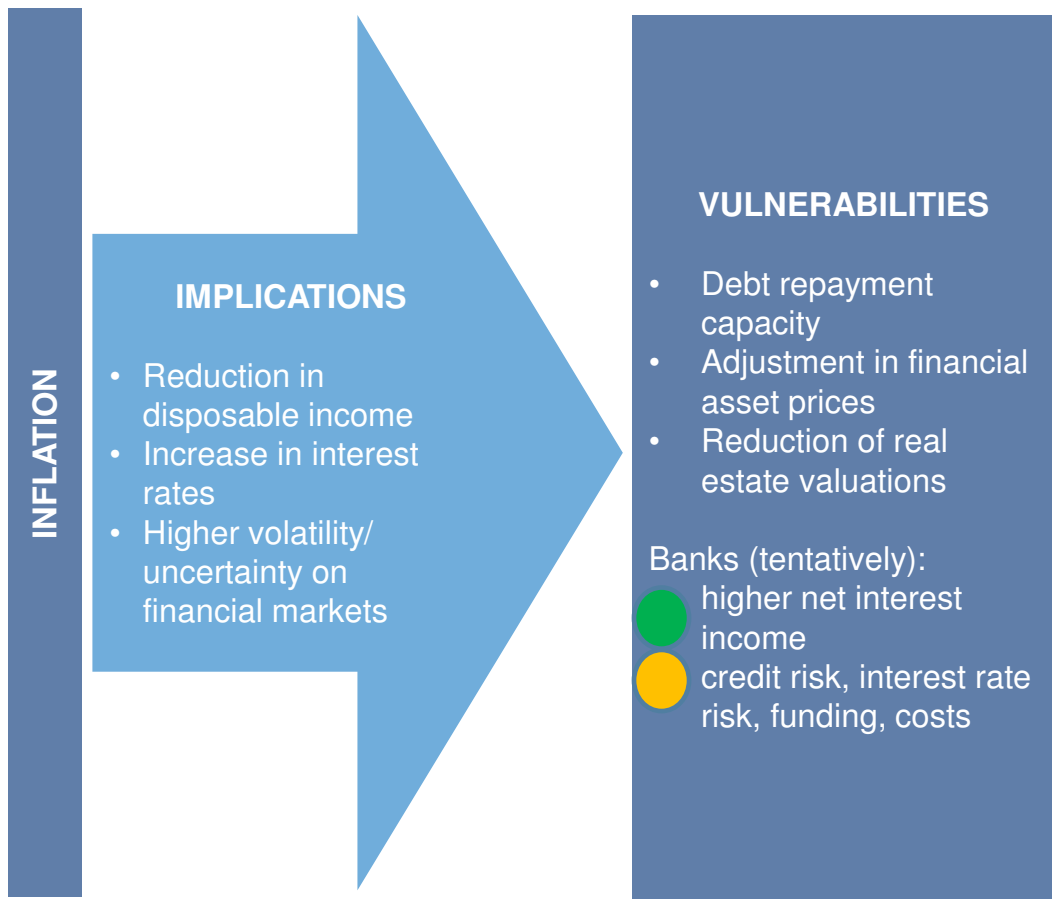
Medium-term GDP forecasts



Source: Statistics Austria, OeNB, WIFO, IHS.

- In contrast to COVID-19 pandemic, no rebound expected for following years
- GDP-growth converges towards potential

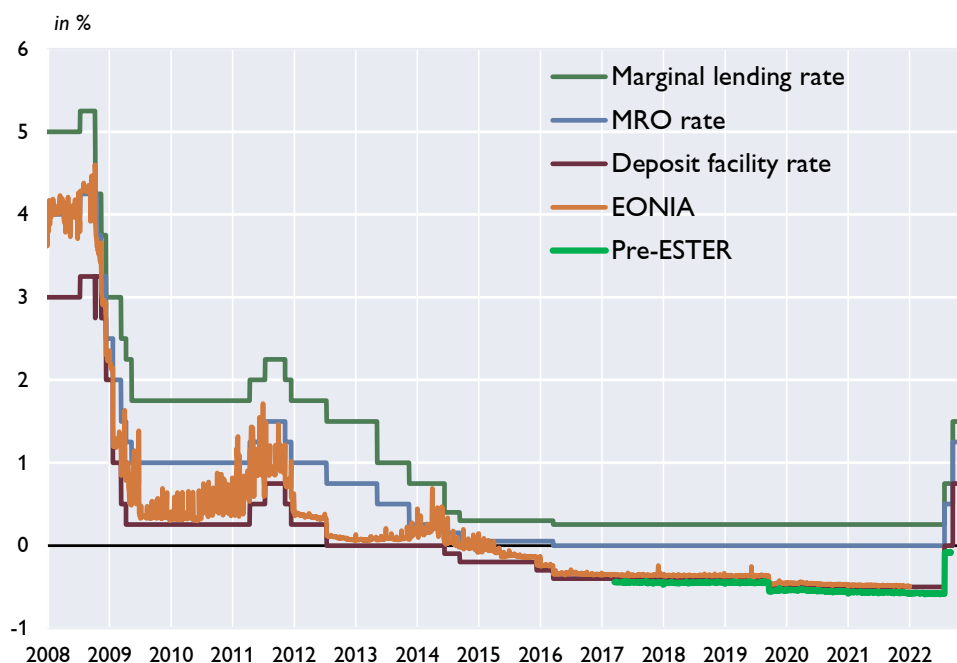
Transmission of (cost-push) inflation and implications for financial stability



Source: ECB, data until June 2022.

ECB Governing Council raised monetary policy rates by 125 basis points

ECB key interest rates and money market rates

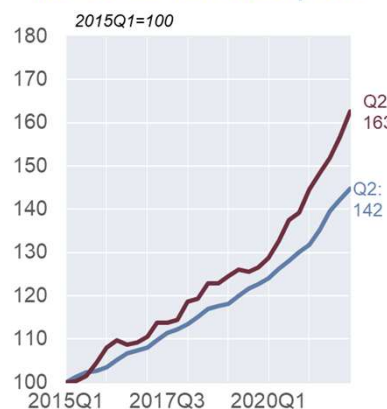


Source: ECB, Macrobond.

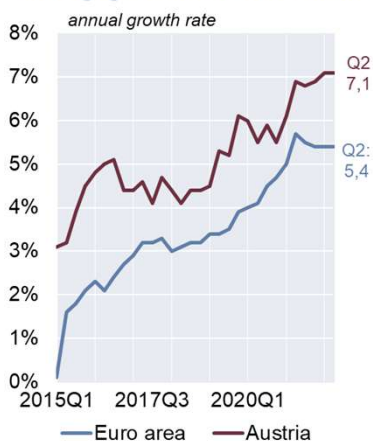
- **Inflation** in the euro area remains far **too high** and is likely to stay above target for an extended period of time.
- The Governing Council is determined to ensure a **timely return** of inflation to the 2% medium-term **inflation target**.
- Therefore, in two **interest rate steps** (on July 21 and September 8, 2022), the three key policy rates were raised by a total of 125 bp. Further steps will **follow**.
- With this, the Governing Council of the ECB wants to move away from the current, highly accommodative level of policy rates.

Addressing vulnerabilities in the residential real estate market

Residential real estate prices



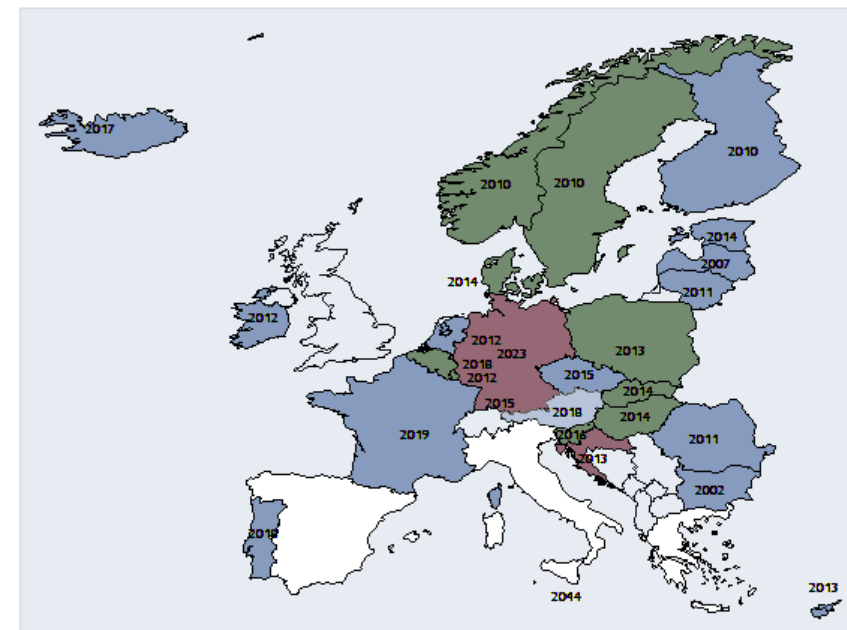
Mortgage loans to households



Source: ECB, OeNB, TU Wien, Data Science Service.

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- The **European Systemic Risk Board** issued in February 2022 **two recommendations** (DE, AT) and **five warnings** (BG, HR, HU, SK, LI).
- A range of macroprudential measures had been activated:
 - borrower-based measures (BBM),
 - capital-based measures (such as higher risk weight requirements or floors for RRE exposures),
 - countercyclical capital buffers (CCyB) or systemic risk buffer (SyRB)
- **24 countries activated BBMs**, of which 21 legally binding
- **Empirical studies confirm the effectiveness of BBMs** to mitigate boom-bust-cycle and to address systemic risks.



- Borrower-based measures (BBM)
- Borrower-based measures (BBM) plus further measures
- Solely capital-based measures
- No measures

Further measures include: risk weights acc. 124 CRR, 458 CRD, and other.
 Year dates: activation of first measure; legal nature: recommendation central bank/authority or regulation.

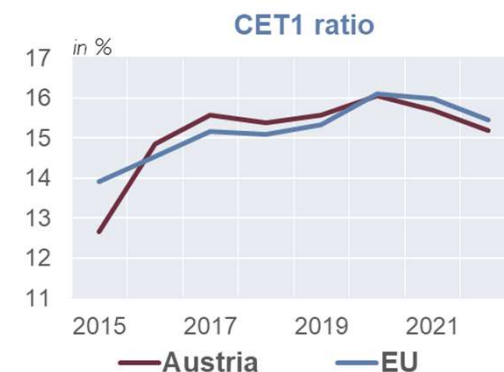
Source: OeNB, ESRB notifications; May 2022.

Strengthening banks' resilience: no room for complacency

- **Risks** to the banking sector have **perceptibly increased** since the beginning of 2022: economic growth (*credit risk*), inflation (*cost base*), monetary environment (*interest rate risk, funding*).
- **Structural challenges** continue to persist. **Adapting the business models** of banks: digitalization, climate-related and environmental risks.

Key priorities

- Higher capitalization, prudence with regard to profit distributions
- Ensuring sustainable lending standards (incl. interest rate risk management)
- Solid funding and liquidity risk management
- Ensuring prudent risk provisioning



Source: ECB.



THE DIGITAL EURO

The digital euro - general features

- **A marketable and widely accepted means of payment** that complements but does not displace cash and private payment solutions
- **A liability of the central bank**
- **Access to central bank money also in digital form for private individuals and companies**
- **Can be used throughout the euro area**
- **For payments at POS, e-commerce, P2P and to/from public authorities**
- **Highest possible level of privacy protection**
- **Synergies with the private sector**, supervised intermediaries as interface to the customer
- **Focus on use as a means of payment**, not investment purposes
- **Preservation of financial market stability**, e.g. through holding limits and multi-tiered interest rates to avoid major shifts from commercial bank money to central bank money

1 digital euro = 1 euro as cash = 1 euro as bank deposit

Key objectives for the digital euro

- **Ensure public access to central bank money for consumers and businesses** in all euro area countries as a monetary anchor.
- **Defend strategic autonomy** amidst a growth of digital private and public forms of money from outside the EU
- **Support the digitalisation of the European economy**

 **Maintaining the integrity, independence and unity of the currency area, thereby preserving the monetary sovereignty of the euro**

Danke für Ihre Aufmerksamkeit

Thank you for your attention


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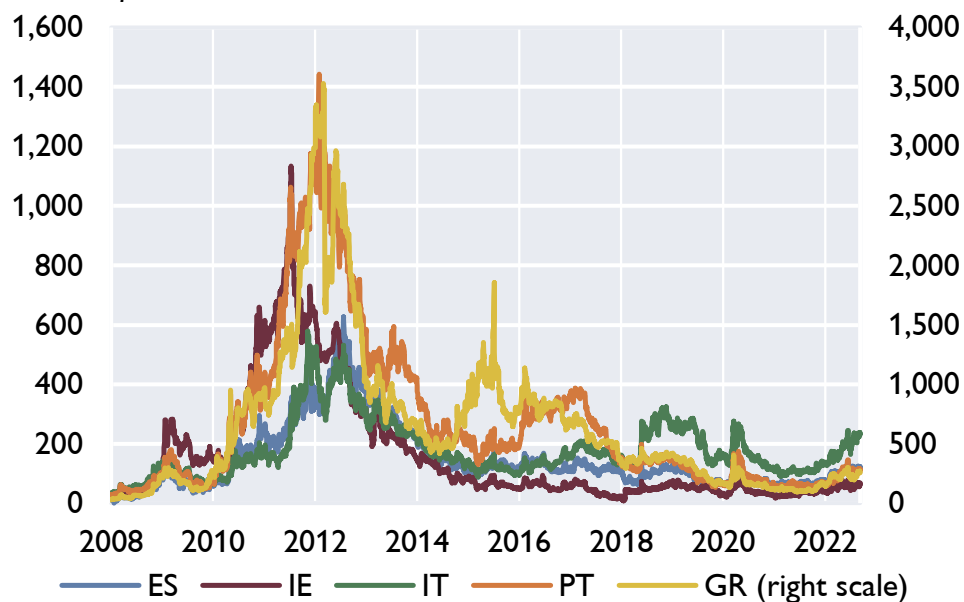


ANNEX

The problem of fragmentation in times of monetary policy normalization

Spread of 10Y government bond yields vis-à-vis Germany

in basis points



Source: Macrobond.

What are „unwarranted, disorderly market dynamics“?

- Unwarranted dispersion of long-term interest rates → monetary policy action has different regional effects → heterogeneous impact on the economy and inflation, which is not consistent with fundamental data
- Deterioration in private sector’s credit access, which goes beyond differentiated creditworthiness

Transmission Protection Instrument: necessary to support the effective transmission of monetary policy

- **Criteria:** sound and sustainable fiscal and macroeconomic policies
- **Activation:** based on a comprehensive assessment of market and transmission indicators decided by the ECB Governing Council
- **Size:** Purchases are not restricted ex ante

Uncertainty dampens global growth prospects

Economic growth forecasts

Real GDP growth in percent

	European Commission		OECD		IMF	
	16.05.2022 (14.07.2022 for Euro Area)		08.06.2022		26.07.2022	
	2022	2023	2022	2023	2022	2023
Euro Area	2.6	1.4	2.6	1.6	2.6	1.2
UK	3.4	1.6	3.6	0.0	3.2	0.5
Japan	1.9	1.8	1.7	1.8	1.7	1.7
China	4.6	5.0	4.4	4.9	3.3	4.6
USA	2.9	2.3	2.5	1.2	2.3	1.0
World	3.2	3.5	3.0	2.8	3.2	2.9

- Further **downward revisions** of global growth prospects in the context of high **uncertainty** and **inflation**
- High inflation, especially in advanced economies, triggers a **tightening** of global financial conditions
- The ECB expects the global economy (excl. the euro area) to grow by 2.9% in 2022 and 3.0% in 2023. For the euro area, the ECB forecasts a growth rate of 3.1% in 2022 and 0.9% in 2023
- The **risks** to the outlook remain tilted to the **downside**