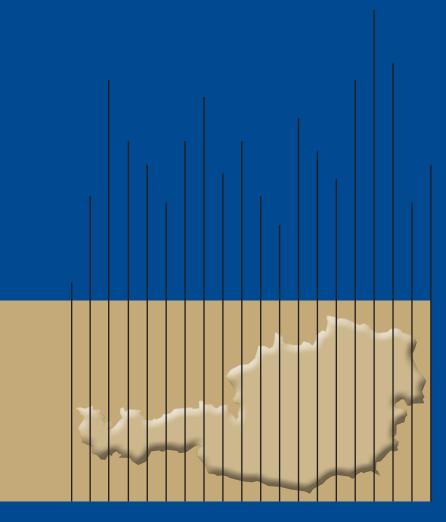


# FACTS ON AUSTRIA AND ITS BANKS

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# Key indicators for the Austrian economy

Cutoff date: July 11, 2023.

Key indicators for the Au	ustrian eco	nomy									
	Q1 22	Q2 22	Q3 22	Q4 22	Q1 23	2022	2023	2024			
Economic activity	EUR billion (fo	EUR billion (four-quarter moving sums)									
Nominal GDP	418.1	429.1	436.9	447.0	456.9	447.0	483.9	515.3			
	Change on previous period in % (real)										
GDP Private consumption Public consumption Gross fixed capital formation Exports of goods and services Exports of goods Imports of goods and services Imports of goods Current account balance Prices	1.3 2.9 0.3 2.2 1.9 2.4 2.4 1.7 % of nominal ×	× e in %	0.0 -0.6 0.2 -0.4 1.5 2.3 0.9 0.4	-0.1 -1.5 3.0 3.8 0.3 -0.7 -0.1 -0.4		4.9 4.9 3.6 0.4 13.0 9.1 7.8 4.2	0.5 -0.2 -0.3 0.4 2.9 0.4 2.7 1.5	1.7 2.3 0.0 0.6 2.7 2.4 2.2 2.3			
HICP inflation Compensation per employee Unit labor costs Productivity	5.5 4.9 0.8 4.0	7.9 5.0 1.6 3.3	9.9 4.2 3.6 0.6	11.1 4.4 3.0 1.4	10.6 4.9 4.5 0.4	8.6 4.6 2.3 2.3	7.4 7.6 7.9 –0.3	4.1 6.6 5.9 0.7			
Income and savings	Annual chang	e in %									
Real disposable household income	-0.9 % of nominal	-2.0 disposable hous	10.2 sehold income	-10.3	-0.1	0.6	-1.0	3.3			
Saving ratio	X	×	X	X	X	8.5	7.4	8.2			
Labor market	Change on pr	evious period in	%								
Payroll employment	0.7 % of labor sup	0.5	0.2	0.5	0.6	2.9	1.1	1.1			
Unemployment rate (Eurostat)	4.6	4.4	5.0	5.0	4.8	4.8	5.0	4.8			
Public finances	% of nominal	GDP									
Budget balance Government debt	×	×	×	×	×	-3.2 78.4	–2.6 75.2	–1.9 72.7			
Source: Statistics Austria, Eurostat; 2023–20 Note: X = data not available.	024: OeNB forecas	from June 2023.									

4

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									14010 1
Key indicators for Austrian banks									
	Q1 22	Q2 22	Q3 22	Q4 22	Q1 23	2019	2020	2021	2022
Austrian banking system – consolidated		1	1	T.	1	1	l .	1	1
Structure	EUR billio	1							
Total assets	1,202.3	1,231.4	1,251.4	1,199.7	1,243.6	1,032.3	1,136.4	1,196.6	1,199.7
Exposure to CESEE <sup>1</sup>	288.0	294.3	296.8	293.2	307.0	233.3	244.5	278.9	293.2
Number of credit institutions in Austria	519.0	520.0	500.0	493.0	493.0	573.0	543.0	520.0	493.0
Number of inhabitants per bank branch in Austria	2,630.0	2,678.0	2,679.0	2,715.0	2,763.0	2,521.0	2,833.0	2,594.0	2,715.0
Solvency	EUR billion		1017	402.2	1012	000	0.4.2	00.2	102.2
Equity capital	96.9	101.0	101.7	103.2	104.3	90.9	94.3	99.2	103.2
C I		veighted as		10.2	10.2	107	40.5	40.2	10.2
Solvency ratio Tier 1 capital ratio	18.2 16.2	18.7 16.8	18.8 16.8	19.2 17.3	19.2 17.3	18.7 16.3	19.5 17.2	19.3 17.1	19.2 17.3
Common equity tier 1 ratio CET1	15.2	15.8	15.8	16.3	16.3	15.6	16.1	16.0	16.3
	% of selec	ted balance	e sheet item	S					
Leverage <sup>2</sup>	7.5	7.4	7.4	7.9	7.6	7.6	7.4	7.6	7.9
Profitability	EUR billion	า							
Net result after tax	0.2	3.5	5.5	10.2	3.3	6.7	3.7	6.1	10.2
	%								
Return on assets (annualized) <sup>3</sup> Cost-to-income ratio	0.1 74.7	0.6 73.3	0.6 68.2	0.9 59.3	1.2 54.1	0.7 66.9	0.4 66.8	0.6 65.0	0.9 59.3
Credit quality <sup>4</sup>	%								
Loan loss provision stock ratio	1.4 1.7	1.4	1.4	1.4 1.7	1.4	1.5	1.5	1.4	1.4
Nonperforming loan ratio (NPL ratio)	%	1.8	1.6	1./	1.7	2.2	2.0	1.8	1.7
Credit developments  Annual growth of credit to nonbanks in Austria	6.0	7.2	7.6	5.2	4.3	4.3	3.9	6.6	5.2
Share of foreign currency loans in Austria	3.5	3.5	3.4	3.2	3.0	5.3	4.3	3.6	3.1
Austrian banks' subsidiaries	EUR billion								
in CESEE <sup>1</sup> Net profit/loss after tax	0.7	2.0	3.6	5.2	1.1	2.8	1.9	3.0	5.2
	%								
Return on assets (annualized) <sup>3</sup>	1.0	1.5	1.7	1.9	1.5	1.3	0.9	1.1	1.9
Cost-to-income ratio	47.1	45.0	41.5	39.9	47.9	52.3	53.5	51.9	39.9
Loan loss provision stock ratio <sup>4</sup> Nonperforming loan ratio (NPL ratio) <sup>4</sup>	2.2 1.9	2.0 1.8	2.1 1.8	2.1 1.8	2.1 1.7	2.2	2.5 2.4	2.2	2.1 1.8
Share of foreign currency loans	1.7 X	21.2	1.0 X	22.4	1.7 ×	23.5	24.1	21.2	22.4
Loan-to-deposit ratio	73.1	69.8	70.9	72.4	69.9	79.8	74.8	73.5	72.4
Financial assets of households and n	onfinanc	ial cor	poratio	ns					
Households	EUR billio	1							
Financial assets	803.5	785.7	782.0	788.3	791.2	721.1	766.8	809.8	788.3
Financial liabilities (loans)	211.1	214.2	216.0	215.7	213.7	194.2	199.8	208.7	215.7
of which foreign currency loans	9.7	9.5	9.5	8.9	8.4	13.6	11.6	10.9	8.9
of which foreign currency housing loans	8.4	8.2	8.2	7.7	7.3	11.8	10.0	9.4	7.7
Nonfinancial corporations	EUR billion		(E/ A	6161	<b>(</b> E0.2)	55/1	5072	(177	6111
Financial assets Financial liabilities of which loans and securities	647.6 971.0	650.6 964.7	656.4 959.7	646.4 964.1	658.2 977.3	556.4 874.0	587.3 903.6	647.7 977.9	646.4 964.1
(other than shares and other equity)	460.8	464.8	470.4	465.2	465.0	417.9	424.4	458.1	465.2
of which shares and other equity	474.7	465.1	456.0	465.0	478.2	424.5	445.7	486.9	465.0
	EUR billion	n (four-quai	rter moving	sums)					
Gross operating surplus and mixed income	100.1	99.9	102.5	105.8	110.4	90.4	91.4	99.3	105.8

Source: OeNB, Statistics Austria.

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

Exposure of majority Austrian-owned banks (BIS definition).
 Defined according to Basel III (transitional).
 End-of-period profit/loss (expected for the full year) after tax and before minority interests as a percentage of average total assets.

 $<sup>^{\</sup>rm 4}\,$  Based on data as reported in FINREP, including total loans and advances, since Q2 17.

### Overview

#### Economic activity impacted by severe external shocks

- In 2022, economic activity in Austria grew by 5%, surpassing its pre-pandemic level (2019). Growth was strong in the first half of the year due to pandemic-related catch-up effects but deteriorated in the wake of the fallout of the Russian war against Ukraine in the second half of the year. The war in Ukraine fueled inflation, which led to a substantial loss in purchasing power. According to the current OeNB forecast, real GDP growth will slow to 0.6% in 2023 and accelerate to 1.7% in 2024 amid an improving external environment and a sharp rise in real disposable incomes. Despite high inventories, disruptions in energy supply remain the main downside risk to activity.
- The structure of Austria's economy continues to be broadly diversified and sectorally balanced.
- The Austrian labor market remains robust despite the predicted slowdown in activity and the high inflation environment. The Austrian unemployment rate reached its pre-pandemic levels in 2022. The shortage of skilled workers, which had persisted for quite some time, broadened across occupations, sectors and skill levels.
- Recording an average inflation rate of 2.1% (1.8% if 2021 and 2022 are excluded) since the introduction of the euro in 1999, Austria has been among the 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 and 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 Statistics Austria's flash estimate, HICP inflation was 9.2% in March 2023, well above historical averages but also above the euro area average.
- The Austrian real estate market has been buoyant since the mid-2000s. However, waning
  affordability and rising funding costs are signs of a trend reversal. Austrian housing prices
  declined in Q4 2022 for the first time in years. According to the results of the OeNB fundamentals indicator for residential property prices, real estate price growth in Austria is still
  above levels that can be explained by economic fundamentals. However, increasing inflation
  and the recent decline in prices reduced the gap somewhat.
- The economic disruptions caused by the COVID-19 pandemic, in particular restrictions in private consumption (especially services), drove up household savings to unprecedented levels in Austria in 2020. In 2022, the saving ratio fell to 8.8% (2021: 12%), approaching its pre-pandemic level of 8.6% (2019).
- Financial assets held by households totaled EUR 788.3 billion or 176% of GDP in 2022. The
  household sector's debt ratio stood at 49.5% of GDP, corporate debt equaled 103.9% of
  GDP in Q4 2022. Both indicators are below the euro area average.
- Austria's foreign trade in goods is well diversified both by region and product type. In 2022, 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 accounts for an export share of 30%, Central, Eastern and Southeastern Europe (CESEE) is Austria's second most important export market.
- In 2022, the worsening deficit in the goods balance due to increased energy prices was outweighed by a higher services balance surplus. Austria recorded a current account surplus of EUR 3 billion or 0.7% of GDP in 2022, but this surplus is below the 2008 to 2020 average of 2.1%. Austria's net international investment position improved further, to EUR 65.3 billion (14.6% of GDP), in 2022.
- Given the strong macroeconomic environment and inflation-driven revenue growth, the budget balance improved further, to -3.2% of GDP in 2022 (after -5.8% of GDP in 2021). While large parts of COVID-19-related fiscal support have been phased out, they have been promptly replaced by fiscal measures aimed at cushioning the rise in energy and overall prices, which dampens the positive short-term effects of increased inflation on public finances. In 2023, the budget balance and debt ratio will improve further.

# Austrian banking system resilient amid challenging environment – micro-and macroprudential measures prove their value

The Austrian banking sector is able to cope with the current challenging environment thanks to both banks' as well as macro- and microprudential supervisors' measures to increase resilience. Notably, the Austrian banking system is ranked among the highest rated systems globally, as confirmed by S&P Global Ratings' Banking Industry Country Risk Assessment (BICRA, February 2023).

- Effects of bank failures in the USA and Switzerland on Austrian banks: As Austrian banks
  did not have any exposures to Silicon Valley Bank and only relatively small exposures to
  Credit Suisse (including additional tier 1 capital), they did not incur any losses associated
  with these two banks. In addition, tighter regulation (including liquidity) in the euro area
  under the Single Supervisory Mechanism and Austrian banks' overall sound business models
  have been proving their worth.
- Main financial developments in the Austrian banking sector (consolidated perspective): In 2022, the Austrian banking sector's operating profit increased by more than 40% year on year. Consequently, profits rose by two-thirds and reached EUR 10.2 billion, a new historic high. However, 2022 profits were boosted by exceptionally good results in Russia and may turn out to be difficult to sustain, given Russia's ongoing war in Ukraine, high inflation and structural efficiency challenges. The consolidated NPL ratio of Austrian banks remained at a historic low of 1.7% as of end-2022.
- The business of Austrian banks' subsidiaries in CESEE accounted for total assets of EUR 279 billion and an aggregated net profit (after tax) of EUR 5.2 billion in 2022, while credit risk costs doubled, however starting from a low level. The region thus remains a very important market for the Austrian banking system, with CESEE EU countries accounting for about 80% of total assets. In a year-on-year comparison, Austrian banks' subsidiaries' net result in CESEE increased by 74%, reaching a new record level. This level may prove unsustainable, however, given that exceptionally good results in Russia had contributed to this record high.
- The demand for home ownership and corporate liquidity was driving bank lending in Austria in 2022 and early 2023. Loan growth, however, has been decelerating as of late, also due to rising interest rates. As a result, corporate loans grew by 8.7% as of end-February 2023 (year on year), whereas the growth of loans to households fell to 2.4%, mainly due to fading demand for mortgage loans against the background of rising interest rates.
- The Austrian banking sector has more than doubled its capitalization in the years since the
  global financial crisis of 2008–09, thereby increasing its resilience. As of end-December
  2022, the consolidated CET1 ratio of Austrian banks stood at 16.3%. In light of the current
  uncertainties, a careful handling of profit distributions is still warranted.
- In order to reduce systemic risks from residential real estate and protect households from taking on excessive debt, the Austrian Financial Market Authority (FMA) has issued a regulation for sustainable lending standards for residential real estate financing, which became effective on August 1, 2022. 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 give credit institutions adequate operational flexibility. An amendment allowing for even greater flexibility as already provided for by the initial regulation entered into force in April 2023.
- Commercial real estate lending has been attracting increasing attention as property valuations are being challenged by increasing interest rates. Lenders are therefore called upon to ensure appropriate valuations and provide for adequate risk provisioning.
- As regards macroprudential buffers, the Austrian Financial Market Stability Board (FMSB) completed their evaluation, concluding that structural systemic risks still persist and adjusting its recommendations accordingly in September 2022: The systemic risk buffer (SyRB) and the other systemically important institutions (O-SII) buffer are to be increased by a maximum of 50 basis points (phase-in up to 25 basis points p.a.) for 12 banks.

# 1 Austria's economy proves resilient to external shocks

# 1.1 Macroeconomic developments characterized by impact of the war in Ukraine and inflationary dynamics

#### War in Ukraine after two years of pandemic

Austrian economic activity was shaped by two distinct trends in 2022: The first half of the year was still heavily influenced by pandemic-related catch-up effects, while growth slowed down significantly during the second half due to the Russian war against Ukraine and high inflation. Overall, real GDP grew by 5% in 2022, surpassing its pre-crisis level (2019). The war led to a significant increase in energy prices, triggering strong inflationary effects and a loss in purchasing power. In addition, the external environment deteriorated in light of heightened geopolitical uncertainties, continued high global inflation and tighter financing conditions. According to the current OeNB forecast, real GDP growth will reach 0.6% in 2023. In 2024, the global environment is expected to improve, and real disposable household incomes will rise sharply due to easing inflationary pressure and strong nominal wage growth, leading to an acceleration in economic growth to 1.7%. Despite high inventories, disruptions in energy supply remain the main downside risk to activity.

Chart 1

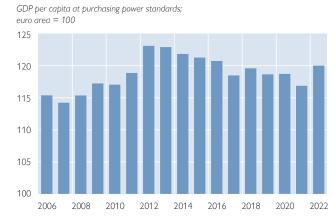
### Austria and the euro area: growth differential and GDP per capita

#### Growth differential between Austria and the euro area

Real GDP: annual change in %;

# growth differential in percentage points 6 4 2 0 -2 -4 -6 -8 2006 2009 2012 2015 2018 2021 2024

#### Austrian GDP per capita relative to the euro area



Source: Eurostat; 2023–2024: OeNB forecast from December 2022, ECB.

Chart 2

# Sectoral structure of Austrian economy is well balanced

Like in many other highly developed countries, the tertiary sector is crucial for the Austrian economy. 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.

# Austrian labor market remains robust despite slowdown in economic activity

% of total gross value added, at current prices

2.5 1.5

17.3

21.4

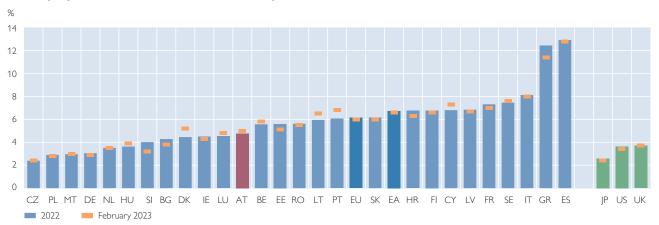
Agriculture, forestry and fishing
Quarrying, manufacturing, electricity and water supply
Construction
Trade, transportation, hotels and restaurants
Information and communication
Financial and insurance activities

Public administration, education, health and social work

Despite the slowdown in economic growth in the second half of 2022, the Austrian labor market is still very robust. The unemployment rate reverted to its pre-pandemic (2019) level of 4.8 % in 2022 and was thus lower than in most international peer countries. The Austrian labor market has been characterized by a shortage of skilled workers for quite some time. In recent years, this shortage has broadened across occupations, industries and skill levels.

Chart 3

#### Unemployment rates - international comparison



Real estate activities

Other services

Source: Statistics Austria.

Other business activities

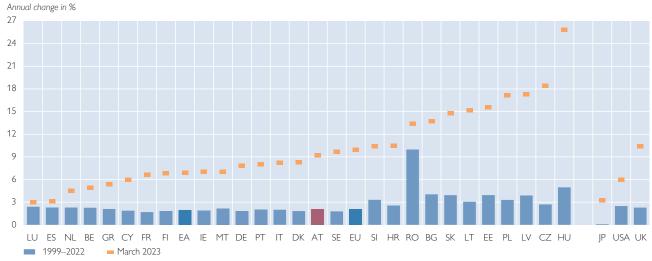
Source: Eurostat, Macrobond. Note: UK: December 2022.

#### Inflation likely passed its peak, but core inflation remains persistent

Driven by increases in energy prices, the Austrian inflation rate measured by the Harmonised Index of Consumer Prices (HICP) increased from 1.4% in 2020 to 2.8% in 2021 and 8.6% in 2022. Compared to the euro area average, consumer price pressure in Austria remained high at the beginning of 2023. However, overall inflation likely passed its peak in January at 11.6% and decelerated to 9.2% in March (flash estimate). The decline was mainly driven by a decrease in energy inflation, but the strong energy price increases in the past and high collective wage agreements (+9% in March 2023 according to the OeNB wage tracker) are increasingly feeding through to core components. Core inflation reached 8.2% in February 2023, its highest value since the inception of Monetary Union. According to the current OeNB inflation forecast, the HICP inflation rate will decelerate to 6.9% in 2023 and slow down to 4.0% in 2024. In contrast, core inflation is expected to rise further, from 5.1% in 2022 to 6.1% in 2023, but will decline to 4.3% in 2024. Risks for 2023 are on the upside due to uncertainties about how fast the decline in prices for gas and electricity is being passed on to consumer prices. However, from a long-term perspective (1999–2022), Austria has been among the 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), recording an average inflation rate of 2.1% (1.8% if 2021 and 2022 are excluded).

Chart 4

#### HICP inflation rate - international comparison



Source: Eurostat, Macrobond.

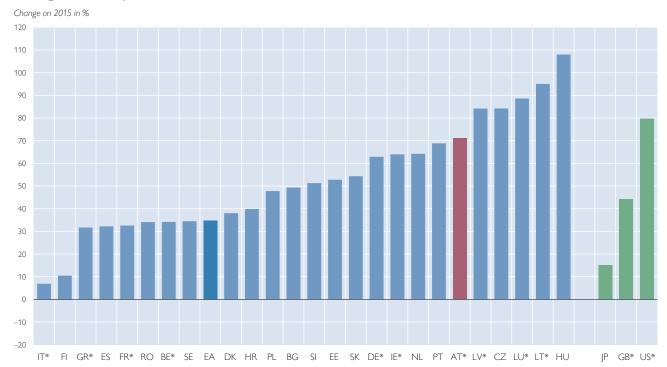
Note: EA countries: March 2023, all other countries: Feb. 2023.

# End of residential construction cycle due to waning affordability and rising funding costs

Based on OECD data, price growth in the Austrian real estate market decelerated from 12.4% in 2021 to 11.6% in 2022. At a cumulated rate of around 70% between 2015 and 2022, Austrian real estate prices grew clearly above the euro area average and above the rates recorded in most OECD countries. Using OeNB quarterly data, the growth of Austrian housing prices slowed from 10.8% in Q3 2022 to 5.2% in Q4 2022 compared to the previous year. Prices even declined by 2% in Q4 2022 compared to the previous quarter. At the same time, banks indicated increasing costs (interest rates) and economic uncertainty as the main driving factors behind a slowdown in demand for housing loans (euro area bank lending survey). On the supply side, rising input costs weigh on the activity outlook for the construction sector. The OeNB's fundamentals indicator for residential property prices in Austria fell to 34.2% in Q4 2022 (37.3% in Q3 2022), thus signaling a decreasing gap between market prices and fundamentals and indicating that the risk of overheating in Austria's residential property market is not increasing further.<sup>1</sup>

Chart 5

#### Change in house prices between 2015 and 2021/22



Source: OECD.

Note: Sales of newly-built and existing dwellings, following the recommendations from the RPPI (Residential Property Prices Indices) manual; countries marked with a \*: 2022, all other countries: 2021).

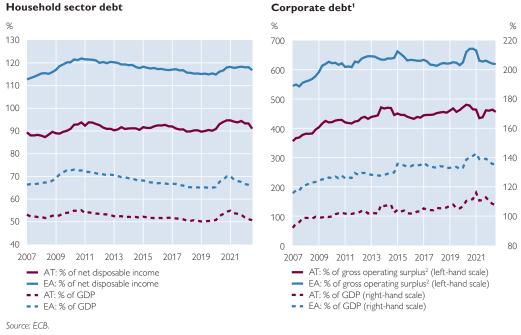
Chapter 2.2 describes the regulation for sustainable lending standards for residential real estate financing issued by the Austrian Financial Market Authority.

#### Saving ratio returned to pre-pandemic levels in 2022

The economic disruptions caused by the COVID-19 pandemic, in particular restrictions in private consumption, especially in services, drove up household savings in Austria to unprecedented levels in 2020. In 2022, Austrian households saved 8.8% of their net disposable income, which constitutes a return toward the pre-pandemic (2019) level of 8.6% (2021: 12.0%, 2020: 13.3%). Accounting for financial assets totaling some EUR 788 billion (176% of GDP) at the end of 2022, the household sector is a key supplier of capital to other sectors in Austria. Household and corporate sector debt increased during the first year of the pandemic, but have been falling steadily since then. At its peak, Austrian households' debt totaled 54.9% of GDP in Q1 2021 and fell to 49.5% in Q4 2022. Likewise, corporate debt as a percentage of GDP fell from 115.9% in Q1 2021 to 103.9% in Q4 2022. Both Austrian household and corporate debt, regardless of whether measured in terms of GDP or net disposable income and gross operating surplus, respectively, have been well below the euro area averages for quite some time.

Chart 6

#### Household and corporate debt levels in Austria and the euro area



<sup>&</sup>lt;sup>1</sup> Short- and long-term loans, money and capital market instruments.

Note: Data up to and including Q3 22.

<sup>&</sup>lt;sup>2</sup> Including mixed income of the self-employed.

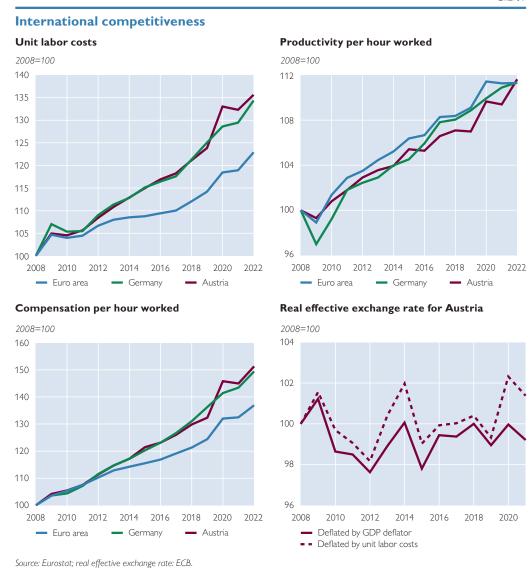
# 1.2 Current account balance stabilizes after COVID-19 and price shocks

#### Interpretation of competitiveness indicators warrants caution

In the last few years, the pandemic caused distortions in the calculation of various indicators of competitiveness. Hence, the deterioration in competitiveness in Austria in 2020 must be interpreted with caution as it was strongly influenced by different accounting practices for short-term work schemes across countries. In 2022, these effects faded out and the main indicators of competitiveness for Austria returned to their favorable long-term trends.

The Austrian economy's price competitiveness as measured by the real effective exchange rate<sup>2</sup> has hardly changed for the past few years. The real effective

Chart '



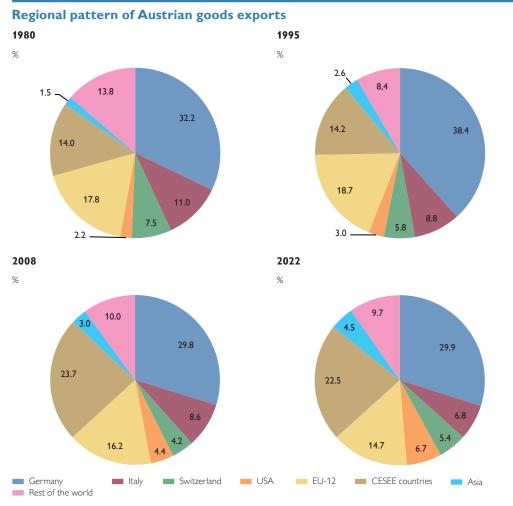
<sup>&</sup>lt;sup>2</sup> The real effective exchange rate is defined as the nominal exchange rate for the manufacturing industry against all euro area countries and Austria's 19 most important trading partners outside the euro area, deflated with the GDP deflator (price competitiveness), or with unit labor costs (cost competitiveness) for the total economy (source: ECB).

depreciation by 2% observed from 2008 to 2021 meant a slight improvement in competitiveness. Hourly productivity grew at almost the same rate as in Germany and the euro area. Nominal unit labor costs and hourly wages rose at rates comparable to those observed in Germany. In contrast, unit labor costs and hourly wages in the euro area grew less against the background of structural adjustments after the economic and financial crisis.

# External trade is regionally diversified, exposure to foreign exchange risk is low

In 2022, 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, accounting for a share of 30% in Austria's total goods exports, followed by Italy, which accounts for a share of 6.8% and the USA (6.7%). Furthermore, Central, Eastern and Southeastern Europe (CESEE) is a very important export market for Austria.

Chart 8



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.

While the share of goods exported to the euro area has declined since 1996, the share of goods exported to CESEE increased from 14% in 1995 to 22% in 2022. The war in Ukraine has a greater economic impact 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.

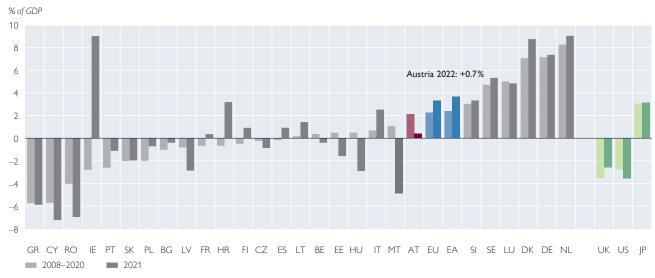
Roughly 30% of total Austrian exports are services, of which travel and tourism account for 30%. The sectoral structure of Austria's external goods trade follows the pattern typically observed in highly industrialized nations. Machinery and transport equipment make up the lion's share -35% to 40% – of Austria's goods exports. Other important pillars of Austrian export activity include manufactured goods (around 20%) and chemicals (around 15%).

#### Higher services balance surplus outweighs increasing deficit in goods balance

On the back of weak tourism (lockdown in the 2020/21 winter season) and a deficit in the goods balance, Austria's current account surplus fell to EUR 1.4 billion in 2021, compared with a surplus of EUR 11 billion and EUR 9 billion, respectively, in 2019 and 2020. In 2022, the current account balance showed a surplus of EUR 3 billion. The deficit on goods worsened from EUR 337 million (2021) to EUR 645 million (2022) on the back of increasing energy prices. However, the surplus on services increased from EUR 2.4 billion (2021) to EUR 7 billion (2022). The 2022 current account surplus of 0.7% of GDP (2021: 0.4%) is still well below the 2008–2020 average of 2.1%.

Chart 9

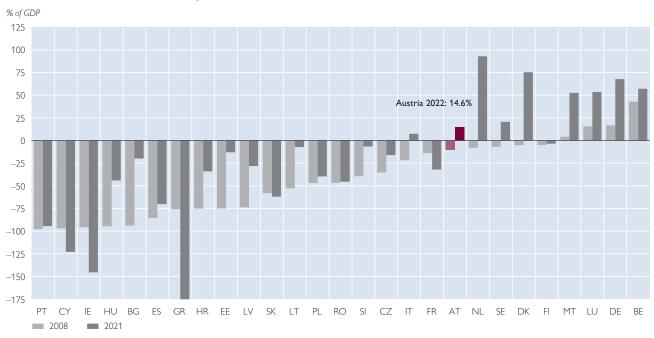
#### Current account balances of EU member states, the UK, the USA and Japan



Source: Eurostat, OeNB; Austria 2022: OeNB, Statistics Austria.

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

#### Net international investment position



Source: Eurostat, ECB (Statistical Data Warehouse), OeNB; Austria 2022: OeNB, Statistics Austria.

#### 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 65.3 billion (14.6% of GDP) in 2022. 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, like the Netherlands, Germany and Denmark.

#### 1.3 Short-term inflation effects improve 2022 budget balance further

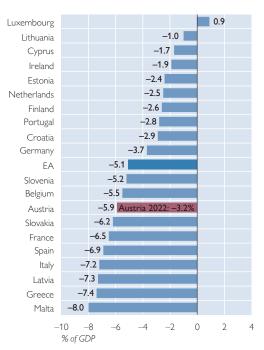
In 2022, the budget balance improved further to -3.2% of GDP (following -5.8% of GDP in 2021; in the Austrian release of public debt data for 2022 the balance for 2021 was revised – before the revision it had been -5.9%, this value is comparable to all other EU countries). The improvement in the budget balance can be attributed to a strong revenue side, especially in the form of larger than expected consumption tax revenues and still robust GDP growth in 2022. At the same time, large parts of COVID-19-related expenditure has been phased out; this, however, was largely offset by new fiscal support related to the energy and inflation crisis. Austria implemented more measures in this context than other euro area countries. In particular, the indexation of tax brackets and selected benefits will increase pressure on the budget balance if inflation stays high. The budget balance will improve in 2023 despite the negative effects of the economic downturn, mainly because of the expiry of pandemic-related fiscal measures and the absence of the one-off effect of the acquisition of the strategic gas reserve. At the same time, the debt ratio will continue to decline due to high nominal GDP growth.

Public debt dropped sharply, to 78.4% of GDP, in 2022 (down from 82.3% of GDP in 2021; before the revision it was 82.8%). This development was driven mainly by the nominal increase in GDP caused by elevated inflation rates. This effect will continue to improve the government debt ratio in the coming years, partly offsetting increased interest payments caused by the recent interest rate hikes in the short term.

Chart 11 Chart 12

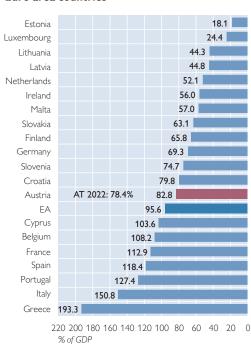
# **Budget balances of EU member states** in 2021

#### Euro area countries

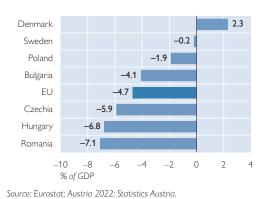


## Public debt of EU member states in 2021

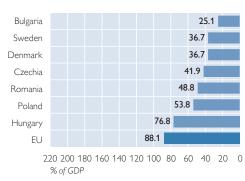
#### Euro area countries



#### Non-euro area EU countries



#### Non-euro area EU countries

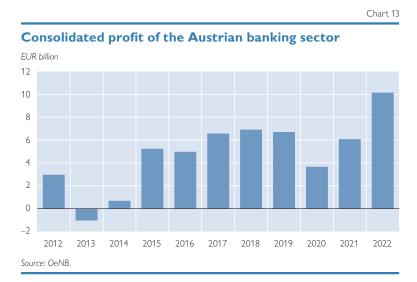


Source: Eurostat; Austria 2022: Statistics Austria.

# 2 Austrian banking system resilient amid challenging environment – micro- and macroprudential measures prove their value<sup>3</sup>

#### 2.1 Austrian banking sector developments and indicators at a glance

#### Profit of the Austrian banking sector reaches new high in 2022



The Austrian banking sector's profit reached a new high in 2022. Supported by, among other things, rising net interest margins, operating profit increased by more than 40% year on year. As a result, consolidated net profits rose by two-thirds and totaled EUR 10.2 billion (see chart 13). However, 2022 profits were boosted by exceptionally good results in Russia and may turn out to be difficult to sustain, given Russia's ongoing war in Ukraine, high inflation and structural efficiency challenges.

CESEE remains a very important market for the Austrian banking system, accounting for aggregated total assets

of about EUR 279 billion and an aggregated net profit (after tax) of EUR 5.2 billion in 2022.

In a year-on-year comparison, Austrian banks' subsidiaries' net result in CESEE increased by 74%, reaching a new record level mainly driven by business in Czechia and Russia, while credit risk costs doubled in 2022, however starting from a low level.

Exposures to CESEE EU countries account for the most important part of Austrian banks' CESEE exposure by far. For instance, the total assets of Austrian banks' subsidiaries in CESEE EU countries such as Czechia, Slovakia, Romania, Hungary, Slovenia and Croatia account for about 80% of aggregated total assets of Austrian banks' CESEE subsidiaries. Furthermore, 52% of their aggregated CESEE net profit after tax relate to these six countries.

#### Loan growth is decelerating in Austria

Demand for home ownership and corporate liquidity was driving bank lending in Austria in 2022 and early 2023. Loan growth, however, has been decelerating more recently, also due to rising interest rates. Demand for corporate loans was driven by financing needs for inventories and working capital. Besides, Austrian companies were keen to take advantage of still favorable financing conditions in anticipation of rising interest rates. As a result, corporate loans grew by 8.7% as of end-February 2023 compared with figures from the previous year.

<sup>&</sup>lt;sup>3</sup> 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.

The annual growth of loans to households, which had been a strong 7.5% in mid-2022, fell to 2.4% in early 2023 due to fading demand for mortgage loans against the background of rising interest rates. Also, the volume of consumer loans was somewhat below the level recorded a year before.

#### Nonperforming loan ratios remain at low levels

The pandemic-related support measures (including loan moratoria) adopted in Austria were instrumental in preventing major loan defaults; furthermore, credit growth was strong in 2022. As a result, the consolidated nonperforming loan (NPL) ratio remained at a low of 1.7% as of end-December 2022. Moreover, IFRS9 Stage 2 loans were broadly stable in 2022.

#### Higher resilience thanks to improved capitalization of Austrian banks

As of end-December 2022, the Austrian banking sector reported a consolidated common equity tier 1 (CET1) ratio of 16.3%. Compared with levels recorded before the global financial crisis of 2008–09, the Austrian banking sector has more than doubled its capital ratio in line with tighter prudential requirements. After the expiry of restrictions on dividend payments in 2021, a careful handling of profit distributions is still warranted, given dynamic loan growth and renewed uncertainties (e.g. related to recent financial market turmoil), although the CET1 ratio of the Austrian banking sector stood above the EU average at 15.3% as of end-September 2022 (latest available data).

#### US and Swiss bank failures and their impact on Austrian banks

As Austrian banks did not have any exposures to Silicon Valley Bank and only relatively small exposures to Credit Suisse (including additional tier 1 capital), they did not incur any losses associated with these two banks. In addition, tighter regulation (including liquidity) in the euro area under the Single Supervisory Mechanism and Austrian banks' overall sound business models have been proving their worth.

However, the bank failures in the USA and Switzerland have underlined the importance of continued monitoring of liquidity and funding planning. The Austrian banking sector has a solid liquidity position (liquidity coverage ratio at 155% as of end-February 2023), which is comfortable also amid tighter monetary conditions. The increase in interest rates has led market participants to pay closer attention to the interest rate risk exposure of Austrian banks and to hidden losses arising from debt securities, measured at amortized cost (not marked to market). Austrian banks' exposure to debt securities is low by international comparison and corresponds with their retail-orientated business model. Likewise, total debt securities to total assets amounted to about 12%, whereas total cash to total assets stood at over 13% in December 2022. Hidden losses are relatively low and could be more than fully covered by net profits. In addition, valuation risk is mitigated by banks' own hedging measures. Importantly, a realization of hidden losses is highly unlikely, as Austrian banks command a solid liquidity position, and confidence in the Austrian banking sector has been high throughout the turbulences in the USA and Switzerland.

# IMF and rating agencies give positive assessments of Austrian banking system

Macroprudential measures have effectively addressed systemic risk to the Austrian banking sector, which is also reflected in rating agencies' recent assessments. At end-February 2023, S&P Global Ratings affirmed its Banking Industry Country Risk Assessment (BICRA) for the Austrian banking system at "2," ranking it among the globally highest-rated banking systems. The agency saw improvements in banks' operating performance as being back on track, supported by the higher interest rate, which contributed to a stable industry risk assessment and to better rating outlooks (mostly stable, after being negative). Moreover, it is assumed that the private sector will remain sufficiently resilient thanks to continued government support, which limits the negative consequences for the banking sector.

In its 2022 Article IV consultation<sup>4</sup>, the International Monetary Fund (IMF) stated that the Austrian financial sector remained healthy and profitable. Risks have risen, in particular risks related to the war in Ukraine, which warrant cautious monitoring of asset quality. Borrower-based macroprudential measures, calibrating the systemic risk buffer and the O-SII buffer are effective instruments to address these risks.

#### 2.2 Macroprudential measures strengthen financial stability

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

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, systemic risks from residential real estate (RRE) have been continuously rising in recent years. For this reason, upon the initiative of the OeNB and the FMSB, Austria's Financial Market Authority (FMA) issued borrower-based measures which include upper limits for loan-to-value ratios (90%), debt service-to-income ratios (40%) and loan maturities (35 years), subject to exemptions that give credit institutions adequate operational flexibility.

Since August 1, 2022, these measures have applied to all new mortgage lending to households above EUR 50,000. Furthermore, the FMSB adjusted its guidance to include an upper limit for the DSTI ratio of 30% of borrowers' annual income for variable rate loans, i.e. loans with an interest rate fixation period shorter than half of the loan's maturity.

Following an FMSB recommendation, the FMA later relaxed the borrower-based measures by excluding bridge loans and by increasing the de minimis threshold for housing loans to couples from EUR 50,000 to EUR 100,000. The amendment has become effective as of April 2023 and allows for even greater flexibility than the initial regulation.

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

The European Systemic Risk Board (ESRB)<sup>5</sup>, the IMF<sup>6</sup> and the Organisation for Economic Co-operation and Development (OECD)<sup>7</sup> had also recommended the introduction of legally binding borrower-based measures in Austria. Data as of end-December 2022 show that these measures have improved lending standards in Austria, which effectively reduces risks to financial stability and the real economy.

#### Commercial real estate lending warrants increased scrutiny

Commercial real estate (CRE) loans account for a smaller share of Austrian banks' portfolios than RRE loans, yet credit growth in the former segment has also been high recently. What is more, Austrian banks are more exposed to CRE than banks in other EU banking markets. A large portion of CRE loans of Austrian banks have high loan-to-value ratios. While rating migration dynamics have not been critical so far, headwinds may arise from persistent inflation, higher interest rate levels and associated property revaluations in the immediate future. Appropriate property valuations and adequate risk provisioning are therefore necessary.

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

In 2022, the FMSB completed the review of the other systemically important institution (O-SII) buffer and the systemic risk buffer (SyRB). It found that the capital buffers had increased resilience, strengthened resolvability, improved rating agency and investor sentiment and enhanced the absorption capacity of the deposit guarantee scheme, thus reinforcing financial stability in Austria and saving taxpayer money. Credit growth has remained strong following the activation of the buffers, and corporate access to finance has not been constrained by funding conditions. The associated S&P BICRA top rating of the Austrian banking sector ensures excellent funding conditions for banks and the real economy. However, the Austrian banking sector's CET1 ratio has been losing ground in comparison to EU peers, and the major structural systemic risks identified in the previous assessment from 2020 are still there: low structural profitability, specific ownership structures and high exposure to emerging European economies. In its decision, the FMSB took into account the exceptionally high level of uncertainty (war in Ukraine, elevated energy prices and inflation), increasing, for the time being, additional buffer requirements by a maximum of 50 basis points (phase-in by up to 25 basis points p.a., effective as of January 1, 2023).8

As regards the countercyclical capital buffer (CCyB), the FMSB's latest recommendation is to leave it unchanged at a rate of 0% of risk-weighted assets. Against the backdrop of still existing risks and uncertainties, the FMSB reiterated its recommendation that Austrian banks employ dividend payouts and share buybacks in a most prudent and modest way to build provisions and ensure resilience. As of end-2022, the credit-to-GDP gap was below the critical threshold of 2 per-

See https://www.esrb.europa.eu/pub/pdf/recommendations/220207\_ESRB\_AT\_recommendation.en.pdf?38547 1ba050cc4008919ce4b336048cb.

<sup>&</sup>lt;sup>6</sup> See https://www.imf.org/en/Publications/CR/Issues/2021/09/07/Austria-2021-Article-IV-Consultation-Press-Release-Staff-Report-Staff-Supplementary-465350.

<sup>&</sup>lt;sup>7</sup> See https://www.oecd-ilibrary.org/economics/oecd-economic-surveys-austria-2021\_eaf9ec79-en.

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

centage points, having dropped to -9.9 percentage points on the back of still high GDP growth and concurrently declining credit growth.

At the same time, other indicators continue to signal elevated cyclical risks in the financial system. Risk weights for mortgage-backed loans and corporate loans have decreased to levels that are very low by historical standards. Furthermore, the fundamentals indicator for residential property prices and the price-to-rent ratio are still at elevated levels, although both show reduced dynamics. Also, the growth of corporate loans remains robust. However, on the back of rising interest rates, growth is expected to decelerate. Given exceptionally low default rates coupled with rising interest rates, banks are called upon to build up provisions for possible future defaults.<sup>9</sup>

#### Share of foreign currency loans in Austria at low level

Supervisory measures adopted early on by the OeNB and the FMA<sup>10</sup> 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 end-January 2023, the volume of outstanding foreign currency loans to domestic households stood at EUR 8.6 billion (–15.2% year on year, exchange rate-adjusted). This corresponds to a foreign currency loan share of 4.5%.

#### 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. Ongoing monitoring confirms that Austrian banks' CESEE subsidiaries have a balanced funding base as their loan-to-deposit ratio stood at 72% by end-2022.

<sup>9</sup> https://fmsg.at/publikationen/risikohinweise-und-empfehlungen/2023/empfehlung-fmsg-2-2023.html.

<sup>10</sup> For further details, see https://www.oenb.at/en/financial-market/financial-stability/foreign-currency-loans-and-repayment-vehicle-loans.html.

<sup>11</sup> 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

									ı	Table A1
Real GDP										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	Annual char	nge in %		•			1	1	'	'
Austria Euro area EU	0.0 -0.2 -0.1	0.7 1.4 1.6	1.0 2.0 2.3	2.0 1.9 2.0	2.3 2.6 2.8	2.4 1.8 2.1	1.5 1.6 1.8	-6.5 -6.1 -5.6	4.6 5.4 5.4	5.0 3.5 3.5
Consumer price indice		l I	l I	l	l I	l.	l I	l I	l I	l
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	Annual char									
Austria Euro area EU	2.1 1.4 1.5	1.5 0.4 0.6	0.8 0.2 0.1	1.0 0.2 0.2	2.2 1.5 1.7	2.1 1.8 1.9	1.5 1.2 1.5	1.4 0.3 0.7	2.8 2.6 2.9	8.6 8.4 9.2
Unemployment rates		ı	ı	ı	ı	ı	I.	I.	ı	ı
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	% of labor fo									
Austria Euro area EU	5.7 12.1 11.6	6.0 11.7 11.0	6.1 10.9 10.2	6.5 10.1 9.3	5.9 9.1 8.3	5.2 8.2 7.4	4.8 7.6 6.8	6.0 8.0 7.2	6.2 7.7 7.0	4.8 6.7 6.1
Current account balar	nces	ı	ı	ı	ı	ı	ı	ı	ı	ı
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	% of GDP									
Austria Euro area EU	1.9 0.9 0.5	2.5 2.3 1.2	1.7 2.9 1.7	2.7 3.1 1.6	1.4 3.5 1.8	0.9 3.6 2.0	2.4 3.6 2.3	3.0 3.5 2.2	0.4 3.1 2.1	0.7 2.8 2.9
Budget balances		1	ı	ı	ı	ı	ı	ı	1	ı
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
A	% of GDP	2.7	1.0	1 7	0.0	0.2	0.7	0.0	ГО	2.2
Austria Euro area EU	-2.0 -3.1 -3.0	-2.7 -2.5 -2.4	-1.0 -2.0 -1.9	-1.5 -1.5 -1.4	-0.8 -0.9 -0.8	0.2 -0.4 -0.4	0.6 -0.6 -0.5	-8.0 -7.0 -6.7	-5.8 -5.1 -4.6	-3.2 × ×
Government debt rati	ios	l.	ı	l	l.	ı	l.	I.	l.	l
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	% of GDP									
Austria Euro area EU	81.3 93.0 86.8	84.0 93.2 86.9	84.9 91.3 85.1	82.8 90.5 84.3	78.5 87.9 81.7	74.1 86.0 79.7	70.6 83.9 77.5	82.9 97.0 89.8	82.3 95.4 87.9	78.4 × ×

Source: Eurostat, Statistics Austria, OeNB.

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

FACTS ON AUSTRIA AND ITS BANKS

General government interest payments										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	% of GDP	'	1	ı				•		1
Austria	2.6	2.4	2.3	2.1	1.8	1.6	1.4	1.3	1.1	1.0
Household debt									ı	
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	% of net dis	posable incon	ne							
Austria Euro area	90.9 119.4	90.5 117.7	92.0 117.8	92.1 116.9	90.7 116.8	90.3 115.3	90.1 115.4	94.7 118.0	94.4 118.3	89.9 114.9
Lui O ai ea	% of GDP	117.7	117.0	110.7	110.0	115.5	113.7	110.0	110.5	117.7
Austria	52.1	51.8	51.6	51.8	51.1	50.4	50.5	54.5	53.1	49.5
Euro area	69.7	68.1	67.4	66.7	66.0	65.2	65.0	70.0	67.5	64.5
Corporate debt <sup>1</sup>		l.	l	l I	l.	l.	l.	l I	l.	l I
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
		perating surp								
Austria Euro area	471.4 634.8	445.2 640.7	439.5 631.7	436.5 630.6	447.1 616.1	453.4 620.8	462.4 615.8	464.6 672.0	461.4 631.0	437.1 604.3
	% of GDP									
Austria	107.6	102.5	101.9	103.2	104.0	105.9	105.3	111.5	112.8	103.9
Euro area	127.6	129.9	133.7	134.9	133.4	132.9	132.1	141.1	139.2	133.4
Residential property p			2020	2024	2022	0424	04.22	02.22	02.22	0.4.22
	2018	2019	2020	2021	2022	Q4 21	Q1 22	Q2 22	Q3 22	Q4 22
A	Index 2000		200.4	22/2	0440	0.47.4	25/5	0/40	0.45.4	244.2
Austria excluding Vienna Vienna	189.8 232.0	194.8 243.2	209.4 259.6	236.2 287.6	261.9 315.6	247.4 298.4	256.5 309.6	264.3 319.9	265.4 320.4	261.2 312.6
	Annual char	nge in %								
Austria excluding Vienna Vienna	8.5 5.2	2.6 4.9	7.5 6.7	12.8 10.8	10.8 9.7	13.9 11.3	12.9 11.8	13.2 13.0	12.0 9.6	5.6 4.8

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

 $<sup>^{\</sup>rm 1}$  Short- and long-term loans, money and capital market instruments.  $^{\rm 2}$  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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