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EUROSYSTEM

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Security through stability

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EUROSYSTEM

OeNB Financial Stability Report 52
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Austrian banking sector resilient, but determined NPL reduction is important

Abroad, the Austrian banking sector grew markedly, and at home, credit growth has picked up slightly. Banks' profits have surged, mainly due to one-off effects, while capitalisation and liquidity have remained solid. Credit quality has stabilised, but banks' stock of non-performing loans (NPLs) is ageing. To keep systemic risks at bay, the OeNB emphasises the importance, among other things, of banks ensuring adequate credit risk management (especially for real estate loans), of determined NPL reduction and investments in cybersecurity and digitalisation.

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The economy is picking up, market risk increased

The Austrian economy is seeing an upturn, with growth expected to gain momentum in 2027. Nevertheless, risks in financial markets have become more pronounced, reflecting increased geopolitical tensions and fiscal challenges.



Stress tests show that banking sector is resilient

Results of OeNB stress tests indicate that the Austrian banking sector would be resilient to a severe macroeconomic shock, but results vary across the sector.



Supervision continues to focus on commercial real estate loans

The non-performing loans ratio of domestic commercial real estate loans has stabilised at elevated levels (above 8%), while interest rates are rising again. A sectoral systemic risk buffer has been put in place to address related risks.

Management summary[1]

Risks in global financial markets have become more pronounced in 2026, reflecting increased geopolitical tensions, commodity price volatility, developments related to artificial intelligence and fiscal challenges. Despite this demanding environment, the Austrian economy showed a pick-up in activity, with growth expected to gain momentum in 2027, while economies in Central, Eastern and Southeastern Europe (CESEE) have weathered the turbulence comparatively well so far.

The Austrian banking sector expanded following a major acquisition in CESEE, and credit growth in Austria increased at a modest pace. While mortgage lending was supported by improving prospects for the residential property market, corporate lending stagnated for a fourth consecutive year. Given the structure of their lending books, Austrian banks remain exposed to property-related industries. Even though asset quality has stabilised at a non-performing loan (NPL) ratio slightly below 3%, the NPL stock rose to EUR 28 billion and 56 (of 314) banks reported a ratio above 5%. The NPL rise after the end of the low interest rate environment coupled with comparably limited progress in their work-out has left the Austrian banking sector with an increasingly ageing NPL stock, which weighs on banks' capital.

The loan quality of domestic commercial real estate (CRE[2]) loans remains in the supervisory focus. Even though Austrian banks' NPL ratio in this segment did not rise further, it is still above 8%. As interest rates have been on the increase again lately, the loan quality in this segment may face new challenges. In this respect, the rising sectoral systemic risk buffer (sSyRB) requires affected banks to hold additional capital. To better monitor related developments of CRE values, the OeNB's CRE dashboard now also features a commercial property price index (CPPI) for Austria. The CPPI highlights that prices fell by approximately 10% between the interest rate reversal in 2022 and end-2024, before broadly stabilising in 2025. Residential real estate (RRE[3]) prices in Austria, which had also reached their trough at the close of 2024, rose only slightly in the first three quarters of 2026. Despite rising prices and increased lending activity, this growth is deemed sustainable – also because banks complied with the borrower-based criteria recommended by the Financial Market Stability Board (FMSB). Deviations from the criteria were mostly within the 20% exemption buckets of the respective banks.

The profitability of the Austrian banking sector remains at an elevated level. The sector's profit increased to EUR 9.3 billion in the first half of 2026, with non-recurring items and inorganic growth playing a substantial role, as they drove the entire year-on-year change. For one thing, several major profit drivers are unlikely to recur, especially substantial upward revaluations of participations. For another, earnings were boosted by an acquisition in Poland, a large host country likely to continue leaving its mark on the sector's profitability. The high profitability in recent years, based on an improved net interest margin at or above 2%, and the retaining of earnings resulted in a resilient sector with a common equity tier 1 ratio of 18.5% as of mid-2026. Over the past years, some of the larger banks used significant risk transfers[4], but risks stemming from these securitisations appear manageable at the moment. Austrian banks' liquidity also remains solid, as the consolidated liquidity coverage ratio of 158% remains comfortably above the regulatory minimum requirement of 100%.

Austrian banks' activities in CESEE have a clear EU focus, as nearly 90% of the subsidiaries' total assets reside in member states. In the first half of 2026, Austrian subsidiaries in the region reported net profits of EUR 3.3 billion, as credit quality remained at high levels with an NPL ratio of just 1.7%. At the same time, the external risk assessment for CESEE has also improved. In the major CESEE countries, the risk

[1] The closing date for data updates in this report was 16 October 2026.

[2] More information is available in the OeNB's CRE dashboard and CRE market report (both German only).

[3] More information is available in the OeNB's RRE dashboard and RRE market report (both German only).

[4] That is, the transfer of some credit risks to external investors, which results in partial capital relief for banks.

situation has developed positively. The exposure is concentrated in two banks whose capitalisation and profitability have improved. In this context, the Austrian macroprudential systemic risk buffer was adjusted, with the component for systemic concentration risk released in two steps.[5]

Overall, the Austrian banking sector is resilient to a potential, severe macroeconomic shock. This is confirmed by stress test results. At the same time, risks are increasing that cannot be easily quantified or addressed by capital and liquidity, e.g. cyberattacks.

Austrian banks' sovereign holdings remain slightly below the EU average and play an important role in liquidity management. Moreover, holdings by investment funds and insurance corporations further strengthen the sovereign-financial sector nexus. Although the Austrian financial system remains predominantly bank based, non-bank financial institutions (NBFIs) are becoming increasingly relevant to domestic financial stability given their continued growth and interconnectedness with other financial market participants. Exposures between banks and NBFIs currently remain moderate and below the EU average. Nevertheless, their further development and their potential to act as channels of risk transmission warrant increasing supervisory attention.

Conclusion

Against an economic background that remains challenging, it is important for Austrian banks to preserve their resilience to serve the evolving financing and investment needs of households and enterprises. To keep systemic risks at bay, the OeNB emphasises the importance of banks

- ensuring adequate credit risk management, especially for real estate loans, including
  - the active management and determined reduction of NPLs,
  - higher provisioning (especially for the unsecured part of loans) and
  - conservative collateral valuations;
- investing in cybersecurity and digitalisation, while ensuring general cost discipline, and
- ensuring a balanced relationship between profit retention for capital generation as well as acquisitions and dividend payments.

[5] For further details, see Recommendation FMSB/4/2026.

Macroeconomic and monetary policy developments

OeNB interim economic outlook of September 2026 expects upswing for 2027 – inflation in line with euro area average

Sentiment in Austrian industry improved during 2026. This is confirmed by truck mileage data, which point to robust growth in goods exports during the summer months, as well as by a recovery in incoming orders. Since the publication of the September outlook, revisions of data for the first half of 2026 have pointed to stronger economic performance than initially reported, suggesting more robust GDP growth for 2026 as a whole.

The international environment remains supportive, although risks persist. Global trade expanded strongly in the course of 2026, driven in particular by trade in AI-related components. The disruptions caused by the war in the Middle East have only partially subsided. Energy markets remain highly volatile. While oil prices had eased prior to the cut-off date for the September outlook (19 August 2026), both oil and gas prices have increased noticeably since, highlighting the fact that the September outlook no longer fully reflects the latest developments in energy markets.

Table 1

OeNB September 2026 interim outlook for Austria

		September 2026			Revisions since June 2026		
	2025	2026	2027	2028	2026	2027	2028
	Annual change in %						
Gross domestic product (GDP) (real)	1.0	0.5	1.3	1.2	-0.1	0.2	0.0
Harmonised Index of Consumer Prices (HICP)	3.6	3.0	2.3	2.2	-0.2	-0.1	0.1
Unemployment rate (national definition)	7.4	7.5	7.3	7.1	0.1	0.1	0.1

Source: 2025: Statistics Austria; 2026–2028: OeNB.

Economic growth is expected to gain momentum in 2027. The September interim outlook projected Austrian GDP to grow by 0.5% in 2026, followed by growth rates of 1.3% in 2027 and 1.2% in 2028. Given that Austria's economic performance was stronger than expected in the first half of 2026, growth for the year as a whole is likely to be one-quarter of a percentage point higher than what was forecast in September. For 2027, however, no major revisions to the growth outlook are currently expected, as the underlying drivers of the recovery remain broadly unchanged. The unemployment rate is projected to rise slightly to 7.5% in 2026 before declining to 7.3% in 2027 and 7.1% in 2028.

HICP inflation is expected to decline only gradually towards 2%. The September 2026 interim outlook projected HICP inflation in Austria to come to 3.0% in 2026 and decline to 2.3% in 2027 and 2.2% in 2028. Since the cut-off date for the outlook, however, both oil and gas prices have risen significantly, implying higher inflation over the forecast horizon than anticipated in September. There is an upside risk, particularly for 2027, stemming from a larger contribution from energy prices. Nevertheless, inflation is still expected to move close to 2% over the medium term as the direct effects of the 2026 energy shock fade and underlying domestic price pressures continue to ease. The VAT reduction on selected food products[6] introduced in July 2026 has contributed to lower food price inflation and has so far been passed on

[6] Historical evidence for Austria suggests that above-average summer temperatures are associated with increased price pressure for various processed food products and beverages (see OeNB Policy Brief 2026/7).

to consumers almost in full. While the drought is likely to exert additional price pressure on some food products, the disinflationary impact of the tax measure is expected to offset part of these effects.

Austria's inflation differential vis-à-vis the euro area is expected to remain limited. Austria's inflation differential has narrowed markedly in recent months, averaging only 0.2 percentage points during the first ten months of 2026, well below its pre-pandemic average of 0.7 percentage points. The recent increase in oil and gas prices is likely to lift inflation in both Austria and the euro area, leaving relative inflation performance broadly unchanged.

Table 2

OeNB inflation forecast of September 2026

		September 2026			Revisions compared to June 2026		
	2025	2026	2027	2028	2026	2027	2028
	Annual change in %				Percentage points		
HICP inflation	3.6	3.0	2.3	2.2	-0.2	-0.1	0.1
Food	3.5	1.5	2.1	2.4	-1.0	-1.0	-0.3
of which: unprocessed food	2.8	2.7	2.7	x	-0.8	-0.4	x
of which: processed food	3.7	1.2	2.0	x	-1.0	-1.1	x
Industrial goods excluding energy	0.9	0.6	1.1	1.7	-0.2	-0.4	0.2
Energy	7.6	6.5	1.0	-0.2	-0.6	2.0	0.5
Services	4.5	4.3	3.2	2.8	0.1	-0.0	0.1
HICP excluding energy	3.2	2.7	2.4	2.4	-0.2	-0.3	0.0
HICP excluding energy and food	3.1	3.0	2.5	2.4	0.2	-0.1	0.1

Source: OeNB, Statistics Austria.

An escalation of the war in the Middle East could lead to stagflation in 2027. To capture the heightened uncertainty surrounding the war in the Middle East, the OeNB outlook has been supplemented with alternative scenarios. These demonstrate the impact of energy, commodity and food price shocks of varying magnitudes on inflation and economic activity throughout the projection horizon. In the most adverse scenario, assumed crude oil prices are 75% higher, gas prices 100% higher and food prices 20% higher than in the baseline. Even in this case, the Austrian economy would not slip into recession; GDP growth in 2027 would still amount to 0.3%, although inflation would rise to 5.6%. In the most favourable scenario that assumes a rapid resolution of the conflict, assumed crude oil prices would on average be 15% lower and gas prices 20% lower than in the outlook's main scenario. Under these assumptions, inflation in 2027 would be 0.6 percentage points lower at 1.7%, and GDP growth would be 0.1 percentage points higher.

ECB increases key interest rates from 2.0% to 2.5%

Growth and inflation prospects in the euro area remain highly uncertain. The scenarios described above illustrate the situation in Austria. The results for the euro area paint a similar picture. With regard to the energy shock triggered by the conflict in the Middle East, the scenarios highlight the wide range of possible outcomes for growth and inflation when assuming different intensities and durations. Overall, however, inflation risks in the euro area are assessed to be skewed to the upside, whereas risks to economic growth remain tilted to the downside. Despite the high degree of uncertainty, monetary policymakers must make decisions that are robust across a broad range of possible outcomes.

In 2026, the ECB has raised its key interest rates twice so far. The ECB's monetary policy cannot take account of inflation trends in individual euro area countries. It is guided by inflation forecasts for the euro area average. According to the baseline scenario of the ECB staff projections published in September,

headline inflation in the euro area will average 3.0% in 2026 and remain well above the ECB's target for an extended period. Compared with the previous projection round, this represents an upward revision of the inflation outlook. Against this backdrop, the Governing Council of the ECB decided to raise key interest rates by 25 basis points each in June and September 2026. As a result, the interest rate on the deposit facility increased from 2.0% to 2.5%.

The ECB's interest rate hikes are intended to contain inflation. While interest rate hikes cannot offset the increase in energy costs, they can help contain the associated indirect and second-round effects. Energy is a key cost component for many goods and services included in the HICP basket. Higher energy costs are often passed through along the value chain, which results in broader price increases and, ultimately, higher inflation. The interest rate hikes are meant to counteract these indirect inflationary effects. Moreover, higher energy prices may lead to higher inflation expectations, which can in turn trigger second-round effects through higher wage settlements. Indeed, short-term inflation expectations have already increased. The purpose of the key interest rate hikes is therefore to keep inflation under control and prevent longer-term inflation expectations from becoming persistently anchored at a higher level.

Policy decisions are robust to all scenarios. At present, the future path of the economy and inflation is highly uncertain. In this context, the two interest rate decisions taken in 2026 are both appropriate under the baseline scenario and remain justified and prudent under the alternative scenarios described above. In other words, the ECB's Governing Council is well positioned to navigate the uncertainty arising from the war in the Middle East. In determining the appropriate monetary policy stance going forward, it will continue to follow a data-dependent, meeting-by-meeting approach. This implies that the Governing Council is not pre-committing to any particular path for policy rates.

CESEE economies have weathered 2026's global economic turbulence comparatively well so far

Despite a challenging international environment, the economic performance of the EU member states in Central, Eastern and Southeastern Europe (CESEE) remained relatively solid in the first half of 2026. Most countries are expected to see growth of around 2% this year, with Hungary witnessing a notable rebound and Poland expected to outperform the rest of the region with real GDP growth of over 3%. Against this backdrop, CESEE will report an average growth differential of about 1.5 percentage points vis-à-vis the euro area in 2026. The regional picture is nevertheless uneven: Slovakia and Romania face significant headwinds from fiscal consolidation. High inflation in Romania is strongly squeezing real incomes and is likely to push the country into recession.

Throughout the region, growth is based predominantly on domestic demand, while the external sector continues to weigh on economic dynamics. Private consumption is benefiting from rising purchasing power, although inflation is slowly eroding wage growth and labour markets are becoming less tight. Investment has been supported by higher disbursements from EU funds and a strong construction sector. Lending is also gaining momentum, reflecting monetary easing since mid-2023 and strong demand for credit in certain segments, e.g. for mortgages. At the same time, the external sector has been contributing negatively to growth in CESEE for over two years now. This reflects several factors, including subdued external demand, rising cost pressures, structural challenges in key exporting sectors, e.g. the automotive industry, and increasingly fierce competition from China. In addition, price competitiveness has declined in recent years as rapid wage growth has driven up unit labour costs and real exchange rates, particularly in Romania, Bulgaria, Croatia and Hungary. Positive surprises from the euro area economy and robust PMI readings in July and August, however, could provide some counterbalance for the external slump and support CESEE exports and industrial production in the second half of 2026. In fact, export-oriented industrial production in CESEE has been growing slowly but steadily for almost a year now and industrial sales have picked up significantly since May 2026.

Sentiment indicators underline the region's susceptibility to geopolitical developments. Economic sentiment and consumer confidence improved strongly in early summer on the back of reports of a possible resolution of the war in the Middle East but weakened again in August as geopolitical tensions flared up once more. The correction was particularly pronounced in Slovakia, while Hungary saw a notable decline following an exceptionally strong post-election improvement.

Overall, inflation trends were more favourable than expected following the outbreak of the war in the Middle East. The rise in energy prices led to a spike in inflation in April and May. The impact varied considerably across countries, depending on energy exposure, exchange rate volatility and government price interventions. By and large, however, effects have so far proved transitory and price pressures eased in early summer. Hungary and Czechia stand out with particularly low inflation, at somewhat above 1% in July 2026, creating potential room for monetary easing. Romania, where inflation remained much higher at 8.2% in July 2026, is likely to experience pronounced disinflation in the second half of the year as base effects are starting to kick in after the removal of a cap on electricity prices and tax rises in summer of 2025. For the other countries, however, price pressures could pick up again in the second half of 2026 related to rising fertiliser prices, elevated energy prices and effects of the extreme summer heat.

Against this backdrop, monetary policy in CESEE is increasingly diverging. Hungary has entered an easing cycle, supported by low inflation, a strong forint and lower risk premiums following the parliamentary elections in April. Meanwhile, the Czech National Bank hiked rates in June 2026, citing concerns about wage pressures and core inflation. For Poland, policy rates are currently expected to remain broadly stable. Despite some disinflation in the second half of 2026, Romania's inflation target will not come within reach until well into 2027.

CESEE economies also face a number of internal challenges. Crucially, the fiscal space that allowed many governments to subsidise energy and introduce price caps back in 2022 has narrowed. The situation is aggravated by rising interest expenditure amid significantly higher public debt and yields compared with pre-2020 levels. Fiscal leeway is most limited for Hungary (from a debt level perspective) and for Poland, Romania and Slovakia (in terms of debt dynamics). All four countries as well as Bulgaria are currently undergoing excessive deficit procedures. Furthermore, half of the countries of the region currently report current account deficits, in the case of Bulgaria and Romania of a large magnitude.

Austrian corporates' deleveraging offers only limited comfort, while households' resilience depends on their income and indebtedness

With the Austrian economy having entered a gradual recovery, the business environment has improved as well. Current forecasts point to a continued, albeit moderate, expansion in 2026 and strengthening momentum thereafter. Additional support should come from an anticipated improvement in exports, industrial activity and investment. At the same time, elevated unit labour costs, demographic change and growing international competition continue to highlight the need for structural adjustment. These pressures are encouraging companies to sharpen their focus on productivity, operational efficiency and long-term competitiveness. Although some large capital projects and capacity expansions remain subject to careful assessment, investment is increasingly being directed towards digitalisation, automation and efficiency improvements. Such spending may initially be defensive in nature, but it can also strengthen margins, resilience and future growth capacity. A particular strength is Austria's substantial commitment to research and development. Austria continues to rank as a strong innovator, supported by a well-developed research base and close cooperation between businesses and research institutions. Further improving the commercialisation of research and the transfer of knowledge into marketable products and services would

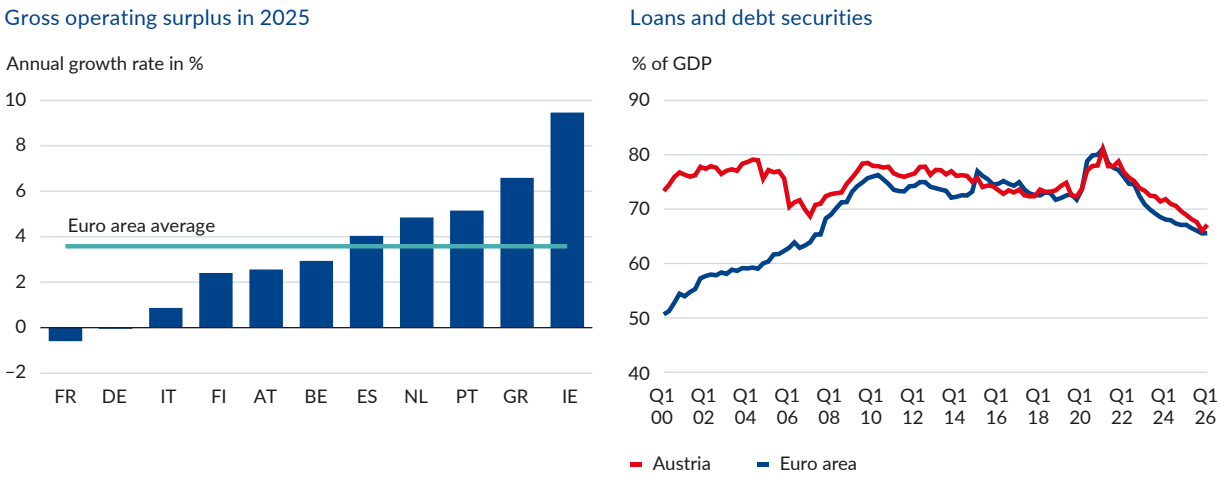
allow Austria to make better use of this strong foundation, accelerate productivity growth and reinforce its attractiveness as a high-value business and innovation location.[7]

The retreat from long-term investment has produced a superficially favourable shift in corporate balance sheet metrics. Debt among Austrian non-financial corporations has fallen noticeably relative to economic output in recent years, even as the nominal stock has continued to rise moderately (right panel of chart 1). This contrasts sharply with the trajectory of Austria's public debt ratio. Yet the decline in corporate leverage reflects subdued investment as much as improved financial strength. The aggregate figures, however, flatter the resilience of parts of the corporate sector. An analysis by Creditreform, a business information and credit management service firm, found that Austria's small and medium-sized businesses had built up a solid and steadily improving equity base, with the average equity ratio reaching 44% at the end of 2025. Yet almost one in five companies, particularly in the services sector, still had an equity ratio of less than 10%. For these businesses, the buffer against a prolonged downturn remains thin.[8]

Microeconomic vulnerabilities have continued to build, particularly among weaker companies. Higher interest rates are pushing up the cost of floating-rate loans.[9] Subsequently, businesses approaching refinancing face a sharp increase in borrowing costs compared with the low-rate debt they are replacing. For example, monthly interest expenses for existing bank loans in Austria increased by EUR 400 million compared with end-2021. Persistent economic stagnation, combined with elevated energy and labour costs, is also squeezing profit margins. Earnings growth among Austrian companies has been on a pronounced downward trajectory for years. At 2.6% in 2025, it was well below the euro area average, as chart 1 (left panel) shows. The weakening earnings picture is eroding companies' ability to service existing debt from operating cash flow. The pressure extends across much of the economy but is particularly acute in manufacturing (e.g. refer to box 3 on the automotive sector) and construction, where weak demand, high fixed costs and financing pressures are converging.

Chart 1

Indicators of the risk-bearing capacity of non-financial corporations



Source: ECB.

[7] For more information, see the 2025 report of the Austrian Productivity Board.

[8] For more information, see the Creditreform analysis.

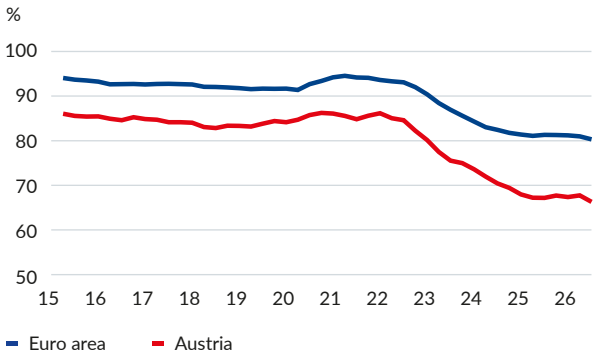
[9] See the OeNB's lending rates statistics for new business.

The primary financial stability risks related to Austrian households remain their income and indebtedness level. The negative sentiment in the Austrian labour market was reflected in the decreasing number of employees (-0.5% year on year). The unemployment rate stood at 5.9% in mid-2026. While it had increased 0.2 percentage points year on year, it was still below the euro area rate of 6.4%. In this challenging environment, the compensation of employees grew by 1.8% in nominal terms, as labour unions widely accepted collective bargaining agreements below the annual inflation rate of 3.2%. Altogether, the gross disposable income of employed households expanded by 0.6% in nominal terms. This was well below the euro area increase of 2.9% as well as the 20-year historical average of 3.5%. When inflation is taken into account, real disposable income growth stood at -2.5% (euro area: +0.1%). Nevertheless, Austrian households maintained a 14.5% gross saving rate[10] (-2.1 percentage points year on year, euro area average: 14.4%). At 8.0%, their investment rate[11], which captures primarily residential real estate, remained relatively stable. During the low interest rate environment from 2015 to 2022, Austrian households' investment rate was about 1 percentage point above the euro area average. Recently, the gap was closed, however, and fixed capital formation is now below that of households in the euro area as a whole.

Despite lingering income risks, loans to households are growing and indebtedness indicators suggest increased resilience. In mid-2026, the debt ratio[12] of Austrian households stood at 66.3% (chart 2), up 0.3 percentage points year on year, but well below its 25-year historical average of 80.5% (and also the 80.3% ratio of euro area peers). Given a modest increase in disposable income, the rise in households' debt ratio was primarily driven by an increase in outstanding loans. The shift of interest rate risk from households to banks continued throughout the first half of 2026, as the share of existing housing loans with variable rates declined by 3.5 percentage points year on year. This share now stands at slightly more than one third. Moreover, the distribution of loan-to-collateral (LTC) ratios in households' outstanding housing loans shows favourable signs of de-risking. The share of loans with a ratio below 80% increased by 2.3 percentage points to 30.2% and the share of loans with an LTC above 100% decreased by 3.1 percentage points to 14.0%.

Chart 2

Debt ratio of households



Note: Defined as loan liabilities divided by four-quarter rolling gross income plus net adjustment in pensions; includes non-profit institutions serving households.

Source: OeNB, Eurostat, ECB, Statistics Austria.

[10] Defined as four-quarter rolling gross savings divided by four-quarter gross disposable income plus net adjustments in pension fund entitlements. Gross savings are calculated as gross disposable income minus total consumption.

[11] Defined as four-quarter rolling gross fixed capital formation divided by four-quarter gross disposable income plus net adjustments in pension fund entitlements. Gross fixed capital formation for households consists primarily of (residential) real estate investments such as the purchase, construction or renovation of homes, but may also include fixed capital of non-incorporated businesses owned by households.

[12] Defined as loan liabilities divided by four-quarter rolling gross income plus net adjustments in pension fund entitlements.

Box 1: Firm dynamics and the financing of new firms in Austria

Despite recurring warnings of an "insolvency wave," insolvencies in Austria have remained remarkably stable at around 1% relative to the firm population[13]. In Austria, corporate insolvencies are commonly reported as absolute numbers and rising case counts have repeatedly fuelled warnings of an "insolvency wave". Absolute counts are a poor indicator of corporate-sector distress because they ignore changes in the number of firms and treat every insolvency as economically equivalent. As shown by Elsinger et al. (2025)[14], a notable pattern is that employment-weighted and loan-weighted insolvency rates are generally much lower than their unweighted counterparts. This indicates that many insolvencies involve firms with relatively few workers or limited exposure to the banking system. Between 2019 and 2025, insolvency cases first fell sharply during the pandemic and subsequently increased again, but the annual insolvency rate remained at around 1% of the population of non-financial corporations. Data up to the first half of 2026 continue to show an insolvency rate of around 1.08%. What might look like a pronounced "wave" in absolute numbers therefore largely disappears once insolvencies are measured relative to the firm population defined above.

Austria's corporate sector has continued to expand, as new firm formation has consistently exceeded exits and insolvencies. Between 2019 and 2025, around 16,000 to 20,000 firms entered the population each year, while non-insolvency exits amounted to roughly 8,000 to 11,000 and insolvencies remained substantially lower. As a result, the stock of non-financial corporations increased from about 225,535 in early 2019 to 282,807 in early 2025. Rising insolvency counts should therefore not be interpreted in isolation as evidence of a contracting or increasingly fragile corporate sector. Entry, exit and insolvency are normal components of firm turnover and the reallocation of capital and labour. For assessing financial stability, relative rates and the economic relevance of the firms concerned are considerably more informative than headline counts.

New firms become integrated into the Austrian banking system only gradually, with access to bank finance increasing with firm age. Of firms entering in 2025, 15% had outstanding credit from an Austrian bank (reference date: 31 December 2025). More generally, the Austrian corporate sector comprises firms of very different ages: 34% of currently active firms were founded within the last five years, while 10% have been in existence for more than 30 years. While only 27% of firms founded within the last five years had outstanding bank credit, this share rises to 40% among firms older than five years. This age profile helps put recent firm entries into perspective and provides an indication of how quickly new firms become linked to the Austrian banking system.

For a more detailed discussion of firm turnover and the economic significance of insolvencies in Austria, see Elsinger et al. (2025). The Integrated Firm-Level Database (IFLD), described in more detail in the IFLD report (Elsinger et al., 2026)[15], also provides the basis for the OeNB's regularly updated online firm dynamics dashboard.

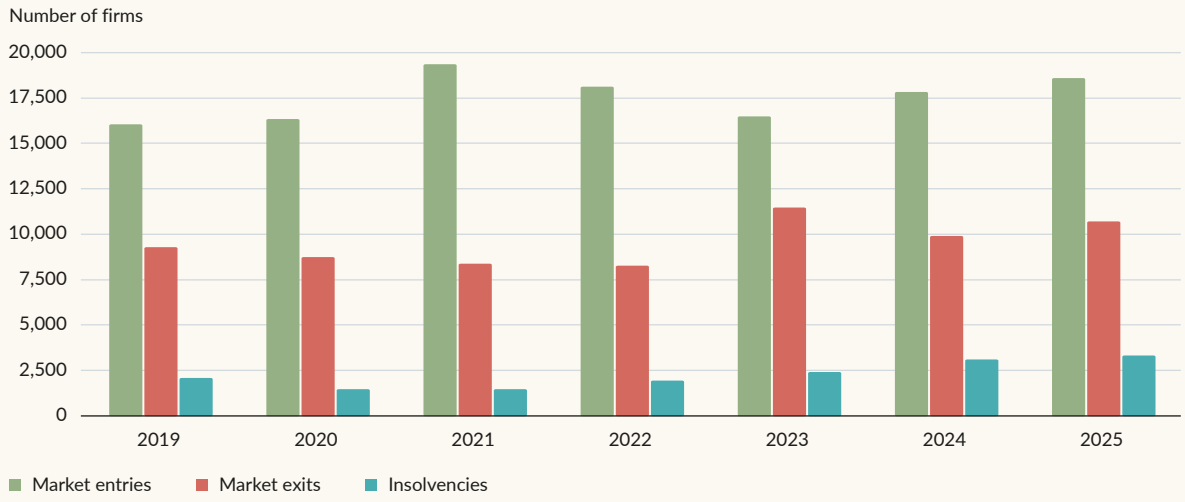
[13] In this box, firm population covers entities that are classified to the corporate sectors S.11 (non-financial corporations) or S.12 (financial corporations) under the European System of Accounts (ESA 2010). For a detailed definition, see the OeNB's IFLD report.

[14] Elsinger et al. 2025. Firm entry and exit dynamics in Austria: uncovering the economic significance of insolvencies beyond simple counts. OeNB Bulletin Q3/2025-1.

[15] Elsinger et al. 2026. The Integrated Firm-Level Database (IFLD): a new microdata infrastructure for analysing Austrian firms. OeNB Report 2026/27.

Chart 3

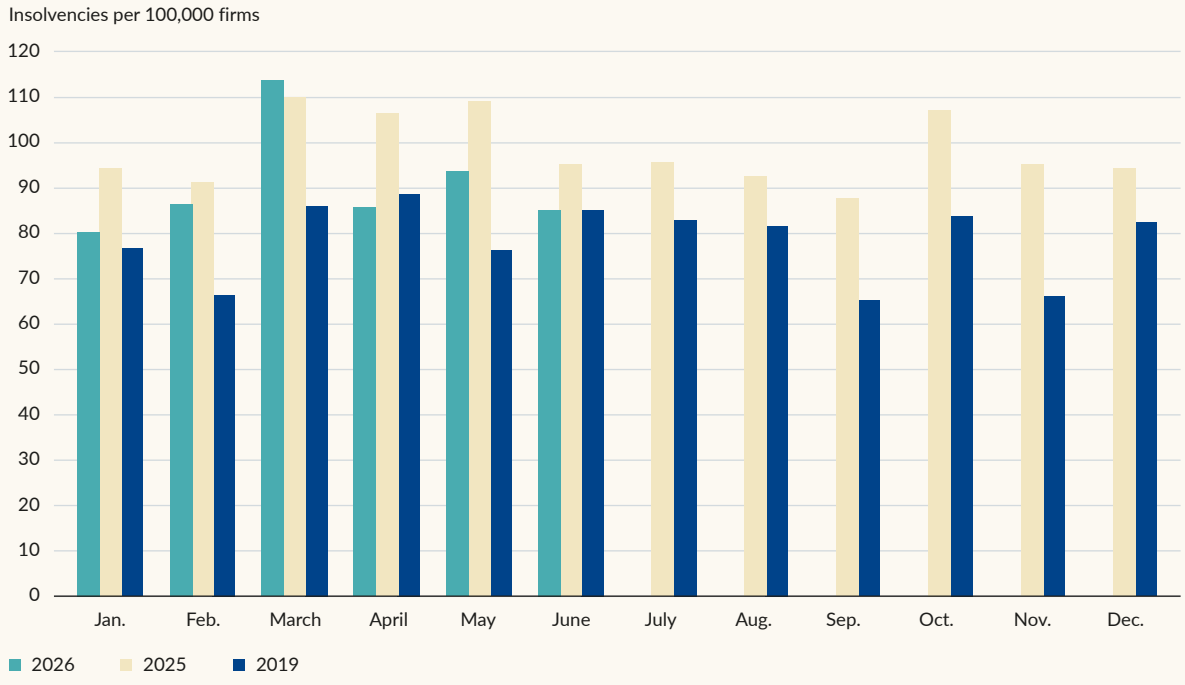
Firm dynamics



Source: IFLD, OeNB.

Chart 4

Insolvency rate by month



Source: IFLD, OeNB.

To put bank lending in context, we compare the financing structures of firms with and without bank loans and examine banks' exposure to firms with negative equity. Detailed statistics are available only for 2021, but the underlying distributions are likely to have remained broadly stable since then. As noted above, bank loans play a limited role in corporate financing. However, the capital structures of firms with and without bank loans differ substantially. In 2021, the asset-weighted equity ratio of firms with bank loans was 39%, while liabilities to credit institutions accounted for approximately 23% of

their total assets. By contrast, firms without bank loans had an asset-weighted equity ratio of 60%. Across all firms, non-bank debt financing accounted for more than 30% of total assets.

Among firms with bank loans, 24% reported negative equity in 2021. Overall, firms with negative equity accounted for 16.1% of total bank lending to non-financial corporations. Bank lending was also highly concentrated by sector. "Real estate activities" (ÖNACE section L) accounted for 18% of all firms but 44% of total bank lending. When holding companies (ÖNACE section M, Division 70) are included the two divisions together accounted for 30% of all firms and 55% of total bank lending. In the "Real estate activities" sector, 22% of the total loan volume was granted to firms with negative equity. The corresponding share was highest in the construction sector, where 36% of the total loan volume was granted to such firms.

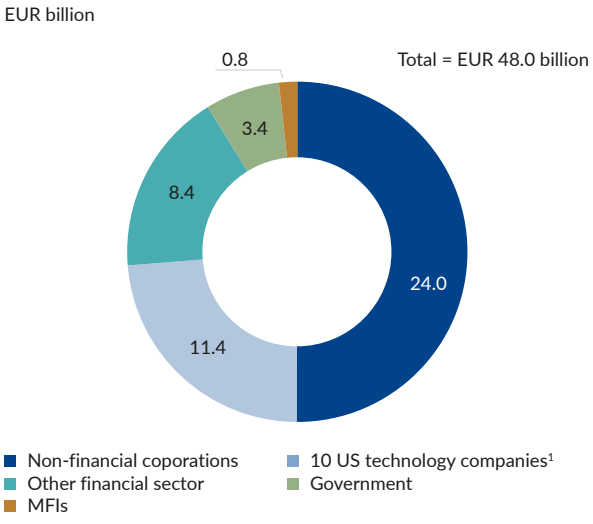
Financial market environment

Rising global market risks and continued resilience of Austrian banks

Global market risks have become more pronounced, reflecting geopolitical tensions, fiscal challenges and developments related to artificial intelligence (AI). While global markets have remained broadly resilient, tensions in the Middle East have increased energy market volatility and reignited inflationary concerns. At the same time, shifts in AI-related market sentiment continue to pose risks of abrupt market corrections, given stretched valuations and high expectations for growth and investment, growing private credit exposures and geopolitical developments. This echoes concerns raised in recent ECB, ESRB and IMF financial stability assessments.

Chart 5

US securities investments of Austrian financial intermediaries by issuer (as at Q2 26)



[1] Alphabet, Amazon, AMD, Apple, Broadcom, Meta, Micron, Microsoft, Nvidia, Tesla.

Note: Other financial sector includes investment banks, credit card companies and insurance companies.

Source: OeNB.

Sovereign fiscal positions have come under increasing scrutiny, particularly in the USA, while concerns about highly indebted European sovereigns remain elevated. Austrian banks' claims on the USA on an ultimate-risk basis account for less than 3% of total claims, ranking below nine other European and CESEE countries. Less than one quarter of these claims relates to the US sovereign and central bank. Meanwhile, developments in the US equity markets have been driven by a small number of highly valued technology companies, which heightens the risk of a sharp repricing. Although Austrian financial intermediaries have only limited direct exposure to these assets, adverse developments could spill over to European financial markets and affect Austrian banks indirectly through tighter funding conditions, reduced risk transfer capacity and weaker economic activity.

As of June 2026, all US securities investments[16] from Austrian financial intermediaries amounted to around EUR 48.0 billion (70% equities and 30% debt securities). Investment funds accounted for 86% of exposures, followed by monetary financial institutions (MFIs, 6%) and insurance corporations (5%). In comparison, the Austrian investment fund sector managed total assets of around EUR 258.9 billion.

Government bond yields increased across the maturity spectrum. Market developments in September 2026, when equity prices declined while bond yields increased, highlighted the fragility of market sentiment and the potential for abrupt repricing events. Ten-year bond yields rose to levels last observed before the global financial crisis, with key benchmark yields reaching around 5.2% in the US and 3.5% in Germany at end-September. The increase reflected, among other factors, higher inflation expectations associated with elevated energy prices sovereign financing needs, and the high investment needs of AI-related projects. Short-term yields rose even more markedly as markets priced in expectations of higher policy rates. As a result, the euro area yield curve, including Austria's, flattened over the course of the year. In Austria, the spread between ten-year and two-year government bond yields stood at around 0.5 percentage points at end-September 2026.

Despite higher government bond yields, market-based indicators of Austrian sovereign and bank risk remained contained. The spread over German Bunds was slightly above 0.2 percentage points, while Austrian five-year sovereign credit default swap (CDS) spreads stood at around 15 basis points. CDS spreads for Austrian banks and the iTraxx Financial Senior 5Y index remained broadly unchanged since the beginning of 2026, although both experienced temporary spikes in March amid the war in the Middle East and increased again slightly in September 2026. Deposit pricing for Austrian banks remained broadly stable through July 2026. While interest rates on new deposits increased moderately, rates on outstanding deposits, including sight deposits, changed only marginally.[17] More recent data suggest that household deposit rates continued to increase gradually through September 2026.[18]

Against this backdrop, Austrian banks remained resilient despite heightened global market risks. Austrian bank stocks performed strongly as investor sentiment towards listed banks remained favourable. The strong performance reflected robust fundamentals, a favourable interest rate environment, continued M&A activity and banks' expanding presence in CESEE. Austria's three largest listed banks outperformed the broader Euro Stoxx Banks Index through September 2026. Despite potential spillovers from global market stress, Austrian banks' predominantly retail-oriented business model implies only limited exposure to trading-related market risks. Since 2004, trading income has accounted for a median of just 1.0% of operating income, while trading-related losses remained contained even during periods of stress, with a low of -6.3% of operating income in 2008. In mid-2026, own funds requirements related to market risk accounted for only 3% of total capital requirements, compared with 84% for credit risk.

Austrian banks' sovereign exposure increases, CESEE sovereigns account for a substantial share

As of the first quarter of 2026, government debt securities accounted for 13.3% of Austrian banks' total assets, compared with an EU average of 13.5%, also reflecting their role as high-quality liquid assets for LCR purposes. Between end-2025 and mid-2026, the total volume of Austrian banks' exposures to central governments increased by 19% to EUR 159 billion and was 87% above the level recorded at end-2022. This exposure corresponds to 138% of their CET1 capital, and 95% of all exposures were to

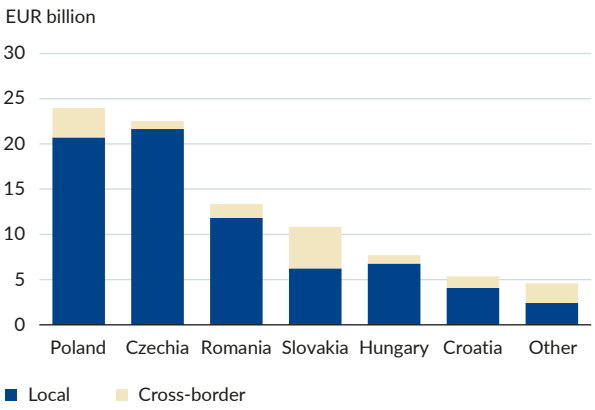
[16] US securities investments were categorised into non-financial corporations, government, monetary financial institutions (MFIs) and other financial institutions. The 10 US technology companies are Alphabet, Amazon, AMD, Apple, Broadcom, Meta, Micron, Microsoft, Nvidia and Tesla. Together, they accounted for roughly 40% of the market capitalisation of the S&P 500 at the end of September 2026.

[17] Einlagen- und Kreditzinssätze im Euroraumvergleich (OeNB).

[18] Sparzinsen Österreich - Oesterreichische Nationalbank (OeNB).

Chart 6

Exposure to CESEE sovereigns



Source: OeNB.

EU sovereigns (euro area sovereigns: 43%). Exposure to the Austrian central government stood at 19% of the overall portfolio, while CESEE sovereigns accounted for more than half. Since end-2022, the CESEE region also accounted for 55% of the absolute increase in total sovereign exposure, reaching EUR 88 billion in mid-2026. CESEE sovereign exposures are diversified across several countries, although Poland, Czechia and Romania account for around two thirds of the portfolio. The CESEE portfolio was primarily held through local subsidiaries (EUR 74 billion), where government bond holdings often form an important part of the balance sheet. The rest was held on a cross-border basis by banks headquartered in Austria. As concentrations in CESEE exposures may increase the relevance of country-specific developments for individual subsidiaries, but also banking groups, developments in local sovereign debt markets are relevant to both Austrian and local financial stability.

Austrian banks' deposits with the OeNB declined, as the composition of their liquid assets changed in favour of government bonds. This development coincides with the Eurosystem's quantitative tightening, and banks partially reallocated their safe and liquid assets from central bank reserves, particularly to government bonds. From an Austrian financial stability perspective, the increase in sovereign exposures and their level relative to CET1 capital merit continued monitoring. At the same time, the distribution of exposures across several sovereigns and the predominantly local funding of CESEE subsidiaries limit the direct funding link to Austrian parent banks.

Austrian non-bank financial institutions (NBFIs) broaden the traditional sovereign-bank nexus

The sovereign-NBFI nexus captures the interlinkages between sovereigns and NBFIs arising from NBFIs' sovereign bond holdings. While the sovereign nexus has traditionally been analysed through banks' sovereign exposures, assessing the role of NBFIs as investors in sovereign debt markets complements this perspective and provides a more comprehensive view on risk transmission channels.

Sovereign bond holdings of Austrian banks increased strongly over recent years, but holdings of Austrian NBFIs rose only moderately, from EUR 47.2[19] billion in mid-2022 to EUR 55.5 billion in mid-2026. This highlights differing portfolio developments and investment strategies across the two sectors.

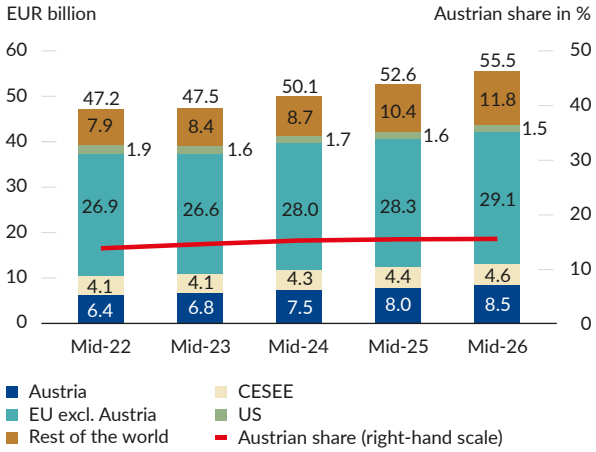
Austrian NBFIs, like banks, predominantly invest in European sovereign debt, which highlights the importance of these government bond markets for Austrian financial stability. Banks, however, maintain a considerably stronger focus on CESEE sovereigns. Looking specifically at Austrian NBFIs, sovereign bonds issued by EU member states (excluding Austria) amounted to EUR 33.7 billion in mid-2026. They consistently represent the largest share of NBFIs' sovereign portfolios (chart 7), of which EUR 4.6 billion were issued by CESEE sovereigns. While banks maintain substantial sovereign exposures to CESEE countries, NBFI sovereign exposures are concentrated primarily in sovereign bonds issued by other EU member states. Holdings of Austrian government bonds increased from EUR 6.4 billion in mid-2022 to EUR 8.5 billion in mid-2026, with their share broadly stable at around 15%, while exposures to non-EU

[19] Data are based on direct holdings and therefore understate sovereign exposures held indirectly through investment funds. Consequently, the subsector breakdown should be interpreted as showing where sovereign bonds are held, rather than where the ultimate exposure lies.

sovereign issuers remained comparatively limited. For example, holdings of US government bonds were broadly stable at around EUR 1.5 to 2.0 billion over the observation period. By contrast, holdings of sovereign debt issued by non-EU sovereigns increased from EUR 7.9 billion to EUR 11.8 billion. Although these exposures represent a relatively small share of total sovereign bond holdings, they illustrate that Austrian NBFIs diversify beyond EU sovereign debt.

Chart 7

Sovereign bond holdings of Austrian non-bank financial institutions



Source: OeNB.

Sovereign debt markets are likely to affect the Austrian NBFI sector primarily through investment funds and insurance corporations, which account for almost all the sector's sovereign bond holdings. In mid-2026, investment funds held EUR 35.7 billion, which corresponds to around 65% of total NBFI sovereign bond holdings. With holdings of EUR 16.6 billion, insurance corporations accounted for roughly 30% of the total. By contrast, pension funds and other financial institutions together only accounted for around 5%. This concentration suggests that the sovereign-NBFI nexus in Austria is largely driven by these subsectors. They are likely to act as the primary transmission channels of sovereign debt market developments to the NBFI sector.

Austrian financial intermediaries

Banking sector resilient to shocks; strong semi-annual profit affected by several one-off effects

Austrian banking sector grows through acquisitions abroad

Austria's banking sector expanded markedly in the first half of 2026, following a major acquisition in Poland. This lifted total assets to EUR 1.4 trillion as at end-June. The transaction further increased the sector's international footprint, especially in CESEE, with total foreign assets accounting for 42% of the balance sheet, up from 37% at the beginning of the decade. This growing cross-border orientation underscores the increasing importance of foreign business to Austria's banking system, as further acquisitions abroad have already been announced. At the same time, it heightens the risk exposure of the two largest Austrian banking groups, which maintain substantial operations across the region, to political uncertainty, regulatory shifts and cyclical macroeconomic risks in foreign markets.

At home, Austrian banks continued to consolidate. Domestic assets remained broadly unchanged during the first six months of 2026, although the number of credit institutions declined further to 445. The branch network also continued to shrink, with the number of bank outlets falling to slightly more than 3,000. This trend reflects the sector's ongoing drive for efficiency, digitalisation and scale in an increasingly competitive operating environment.

On the asset side of bank balance sheets, the stock of loans increased substantially during the first half of the year on the back of the Polish acquisition. Meanwhile, the restructuring of monetary policy operations led to a reduction in cash reserves, which were increasingly replaced by holdings of debt securities. On the liabilities side, balance sheet growth was primarily funded by higher customer deposits, which underscores the continued resilience of the deposit base despite a changing interest rate environment. Strong profitability in the previous year also translated into higher capital levels, further strengthening banks' capacity to absorb losses.

In terms of maturity structures, trends observed since 2021 continued throughout the first half of 2026. Demand and short-term claims lost further significance, while medium-term exposures gained ground. Relative to total bank claims, an increase was recorded for claims with residual maturities of one to two years, and especially for claims maturing in two up to ten years. This shift suggests a gradual lengthening of asset duration and may reflect both evolving funding conditions and a greater willingness among borrowers and lenders to lock in financing over longer horizons following the volatility of recent years.

Macroprudential measure: The buffer for other systemically important institutions (O-SIIs) is left broadly unchanged

The O-SII buffer addresses a structural systemic risk, the too-big-to-fail problem, by increasing the capitalisation of the largest, most interconnected banks. The assessment follows the EBA guidelines[20] and complements them with Austria-specific indicators. Institutions are assessed based on size, domestic importance, cross-border activities, and interconnectedness. Additional criteria consider the potential impact on the deposit guarantee scheme, threshold breaches in individual indicators, and risks at the solo-entity level.

The 2026 review identifies no changes in the systemic relevance of Austrian O-SIIs. All designated institutions remain in their current buckets and retain their existing buffer requirements. UniCredit Bank Austria, Erste Group Bank and Raiffeisen Bank International remain in bucket 4, while BAWAG P.S.K., Raiffeisen-Holding NÖ-Wien and Raiffeisenlandesbank Oberösterreich remain in bucket 2.[21] The Volksbanken Verbund remains a bucket 1 O-SII, and Erste Bank der oesterreichischen Sparkassen (bucket 2) and Steiermärkische Bank und Sparkasse (bucket 1) continue to be identified at solo level under the national methodology. The impact of recent acquisitions on systemic importance will be assessed in future review cycles, once they are reflected in the underlying reporting data.

Box 2: OeNB stance regarding the European Commission's "Communication on competitiveness of the banking sector and the Single Market in banking"

On 17 July 2026, the European Commission published its Communication on competitiveness of the banking sector and the Single Market in banking, building on its targeted consultation and recommendations by European supervisory authorities, including the ECB's High-Level Task Force on Simplification. Legislative proposals are expected in the first quarter of 2027. The Commission aims to reduce fragmentation, strengthen proportionality and simplify the regulatory framework, e.g. by reducing regulatory requirements that go beyond internationally agreed standards, without compromising financial stability. The OeNB supports this direction, as a simpler, clearer and more risk-based regulatory framework strengthens the resilience of the banking sector, which would also support sustainable lending. Simplification is possible without reducing the resilience of the system and should not be confused with deregulation.

[20] EBA/GL/2014/10: Guidelines on the criteria to determine the conditions of application of Article 131(3) of Directive 2013/36/EU (CRD) in relation to the assessment of other systemically important institutions (O-SIIs).

[21] The review was based on data as of year-end 2025. After the review, Raiffeisen-Holding NÖ-Wien was merged with Raiffeisenlandesbank NÖ-Wien. As the former has no banking licence anymore, it cannot be subject to a buffer requirement. Whether Raiffeisenlandesbank NÖ-Wien will be subject to an O-SII buffer at the consolidated level, too, will be decided after the publication of this report.

The following proposals by the European Commission are key priorities for Austria:

- **A materially simpler regime for small and non-complex institutions (SNCIs):** Greater proportionality is particularly relevant for Austria, given the large number of small and regionally focused banks. The OeNB therefore supports the proposal of a regime in the CRR tailored to SNCIs that preserves risk-based requirements. The proposed review of the relevant criteria and thresholds is a step in the right direction. It will, however, be essential that the legislative proposal is sufficiently ambitious to materially reduce the regulatory burden for small banks.
- **Less complex capital stacks with closer coordination between microprudential, macroprudential and resolution authorities:** This includes reducing the number of capital buffers (currently five) as well as revising and streamlining Pillar 2 and resolution rules.
- **New proposal for a common deposit insurance scheme:** The OeNB favours a gradual implementation of a common deposit insurance, which should be complemented by further risk-reduction measures like concentration limits for sovereign exposures.
- **Streamlined reporting and disclosure requirements.** The OeNB has long advocated for this goal and has developed a pioneering national solution that anticipated key elements of the EU-wide Integrated Reporting Framework (IReF).

These reforms should be embedded in the broader savings and investments union. Completing the Single Market for banking should go hand in hand with further integrating European capital markets, with a view to strengthening Europe's financial market while preserving a diverse banking sector.

Semi-annual profit affected by non-recurring items and inorganic growth

The increased operating income of the Austrian banking sector was primarily due to an acquisition and the absence of a negative one-off item from a year ago. Net interest income, which is the cornerstone of banks' profits (making up more than two thirds of operating income), came to EUR 14.5 billion in the first six months of the year. The 14% year-on-year rise was supported by an improved net interest margin of 2.1%. As with most operating performance indicators, developments in the first half of 2026 were strongly driven by Erste Group Bank's acquisition of Santander Bank Polska, which took place at the beginning of the year. Three quarters of the increase in net interest income was linked to this inorganic growth. Banks' fees and commissions, which make up another quarter of their operating income, came to EUR 5.6 billion (+11% year on year). Other operating income improved considerably, as a previous negative one-off did not re-occur.[22] All in all, total operating income for the sector was EUR 21.4 billion; i.e. EUR 3.6 billion higher than during the same period last year. Around EUR 3.0 billion were linked to the acquisition and the non-recurring one-off.

Operating costs fell year on year, entirely caused by upward revaluations of participations. Risk costs rose mainly because of inorganic effects, but this was more than offset by larger profits from associates. Staff and general administrative cost rose to more than EUR 10 billion, with slightly more than half of the increase caused by the acquisition in Poland. The much larger, dampening effect on costs, however, came from negative impairments of participations, which totalled EUR 2.2 billion (i.e. positive revaluations). Given the substantial increase in operating income and the one-off decrease in operating cost (to EUR 9.0 billion), the operating profit in the first half of 2026 went up by more than half to EUR 12.4 billion. Risk costs in the first six months of 2026 stood at EUR 1.5 billion (+EUR 0.4 billion); their rise was mainly

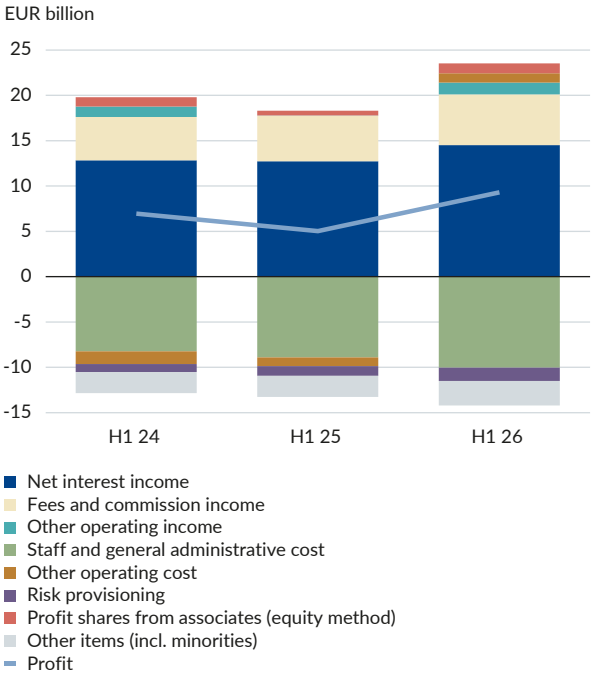
[22] For more details, see OeNB Financial Stability Report 50 (p. 7).

driven by the acquisition in Poland.[23] Much higher profit shares from associates (accounted for using the equity method) were even more impactful and came to EUR 1.1 billion (+110% year on year).

The Austrian banking sector's profit surged to EUR 9.3 billion in the first half of 2026, mostly owing to non-recurring items and inorganic growth. On the one hand, operating profit items were strongly driven by Erste Group Bank's acquisition. This lifted the entire profit and loss statement of the sector. Poland is now a major foreign market and therefore likely to continue leaving its mark on the sector's profitability. On the other hand, three key profit drivers of the first half of 2026 are unlikely to recur in the second half of the year: the boost from a non-recurring negative one-off in operating income (+EUR 1.2 billion), revaluations of participations (+EUR 2.2 billion) and the rise in profit shares from associates (+EUR 0.6 billion). Under several assumptions, the Austrian banking sector is likely to generate an adjusted return on assets (RoA[24]) in 2026 between 1.2% and 1.3% (vs 1.0% in 2025), well above the EU benchmark of 0.7% (as at Q1 26).

Chart 8

Profit and loss statement of the Austrian banking sector



Source: OeNB.

Profitability, however, differs across the banking sector. Looking at the RoA distribution, close to 30% of banks (accounting for one sixth of total assets) are likely to record an RoA between 0% and 1%. Around 60% of banks (accounting for three quarters of total assets) could end up with an RoA between 1% and 2%.[25]

Housing loans drive Austria's tentative credit recovery

Credit growth in Austria gathered modest pace in the first half of 2026, led by a further rise in new mortgage lending. According to the bank lending survey from the second quarter of 2026, demand was supported by improving prospects for the residential property market, expectations of higher house prices and greater confidence among prospective buyers. An additional boost came from a temporary exemption from land-register fees, which expired at the end of June. Having stabilised, mortgage rates played a smaller role in supporting demand. Their renewed rise, however, could weigh on further credit growth. Demand for consumer credit increased as well, reflecting persistent inflationary pressures and the release of pent-up spending after years of recession.

Corporate lending remained far weaker. Average monthly new lending to businesses stagnated for a fourth consecutive year (right panel of chart 9). Demand for long-term loans from large companies rose slightly, mainly to finance mergers, acquisitions and corporate restructurings. Short-term borrowing declined, however, reflecting heightened economic and geopolitical uncertainty and its uneven impact

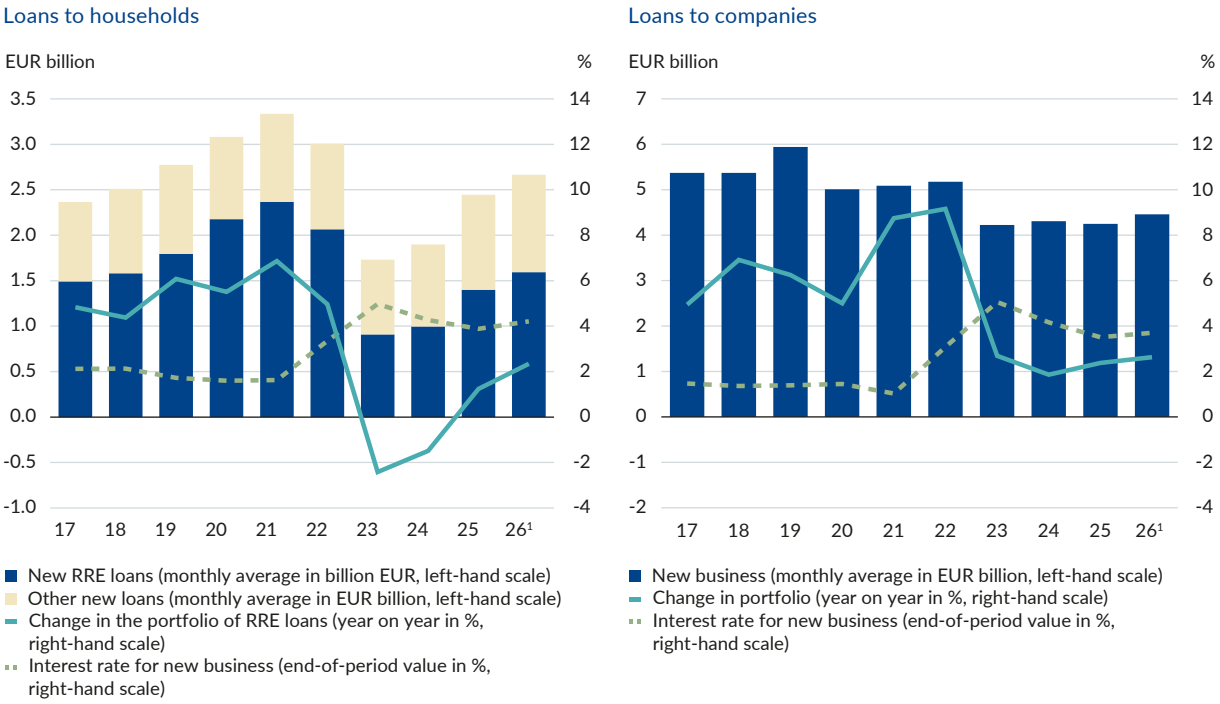
[23] Regarding consolidated and CESEE trends in credit quality of Austrian banks, please refer to the respective sections.

[24] The return on assets is calculated after tax, but before minorities. It assumes no further balance sheet growth, extrapolates profit trends from the first half of 2026, except for the non-recurring items.

[25] Banks with an RoA below 0.5% account for around 13% of banks and the sector's total assets.

Chart 9

Loans to households and companies in Austria, 2017 to mid-2026



[1] Data up to and including June 2026.

Source: OeNB.

across industries. Banks have also become more selective: the share of rejected corporate loan applications has gone up over time.

Austrian banks' customer loan portfolios expanded year on year in the first half of 2026, as shown by the turquoise lines in chart 9. But growth was confined to about three quarters of banks, which points to persistent structural weaknesses at the remaining institutions.

Austrian banks remain heavily exposed to property-related industries, particularly real estate and construction, although lending to building construction has lost ground steadily. Exposures have increasingly shifted towards holding-company activities, leasing companies (of movable assets) and manufacturers. By contrast, financing for sectors associated with the economic transition has shown little momentum: In recent years, software development, renewable energy and recycling combined have accounted for just over 7% of new domestic lending. At the same time, financing young companies and new technologies is important for a sustainable upturn. Box 1 provides an initial assessment of start-up financing.

Variable-rate loans continued to dominate new corporate lending in the first half of 2026, although their share declined slightly despite cheaper pricing. Companies appear increasingly willing to pay for greater certainty over future financing costs. For new mortgage loans, fixed-rate products remained dominant. They offer households protection against rising rates and, during the first half of the year, were not more expensive than variable-rate alternatives, especially for loans with a medium-term rate fixation.

Macroprudential measure: The countercyclical capital buffer (CCyB) is kept at 0%

The CCyB aims at addressing pro-cyclical systemic risk. It is designed to reduce excessive credit growth during a boom phase and to avoid a credit crunch under severe capital depletion. The assessment is based on a broad set of 16 indicators covering five dimensions of systemic risk: (1) the financial sector, (2) the private sector, (3) the macroeconomy, (4) financial markets and (5) the credit-to-GDP gap.[26,27] The likelihood and magnitude of a CCyB activation increase with the number and extent of threshold breaches.

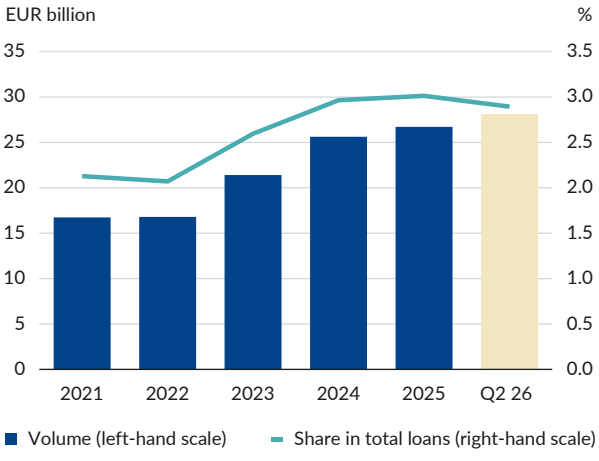
As of 30 June 2026, cyclical vulnerabilities are concentrated in 3 of the 16 indicators, but the overall evidence supports keeping the CCyB rate unchanged at 0%. Both credit-to-GDP gap indicators remain below their activation thresholds. In addition, most additional CCyB indicators do not signal elevated cyclical risk. Therefore, the overall evidence points to no broad-based build-up of pro-cyclical systemic risks.

Credit quality remains stable, but beneath the aggregate numbers, strains are becoming more visible

The asset quality of Austria's banking sector remained broadly stable in the first half of 2026, despite a persistently weak economy and a constant number of insolvencies. Concealed behind this reassuring headline, however, lies a less encouraging trend. The stock of non-performing loans (NPLs) rose by EUR 1.5 billion to EUR 28 billion. The aggregate NPL ratio nevertheless edged down to 2.9%, largely because new lending expanded the denominator. In other words, the sector's principal measure of credit quality improved even as the absolute volume of troubled debt increased. The acquisition in Poland also had a positive impact on the consolidated figures, improving the sector's aggregate credit quality profile. In recent years, however, credit losses have risen more sharply than suggested by the headline insolvency figures.[28] This can be traced back to the structure of insolvencies.

Chart 10

Non-performing loans of the Austrian banking sector



Source: OeNB.

Beyond the aggregate numbers, strains are becoming more visible. 56 (of 314) banks reported NPL ratios above 5% in the first half of 2026. While that number broadly stabilised during the period, it remains elevated by both historical and European standards. The 5% threshold matters. Under European Banking Authority guidelines, institutions that reach or exceed it in two consecutive quarters are classified as high-NPL banks. That designation entails tougher regulatory requirements, the need for explicit reduction strategies and closer supervisory scrutiny. The pipeline of potentially vulnerable institutions is also growing. A further 23 banks now report NPL ratios of between 4% and 5%, just below the regulatory threshold. At the other end of the distribution, the number of banks with an NPL ratio below 1.5% has declined steadily. While this

[26] https://www.oenb.at/news-und-events/news/oenb-blog/2025/2025-04-15-krisensicherer-finanzsektor-wie-der-antizyklische-kapitalpuffer-banken-staerkt.html.

[27] https://connect.oenb.at/oenb_apps/AZKP-Dashboard/.

[28] For the development of insolvencies in Austria, see box 1.

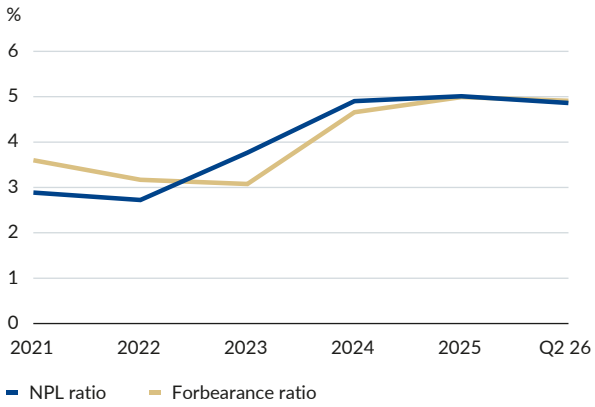
cohort comprised more than 200 institutions at the end of 2022, its number dropped below 80 in mid-2026.

The sharp rise in non-performing loans in 2023 and 2024, coupled with little material progress in working out or disposing of distressed exposures, has left Austrian banks with an increasingly ageing stock of NPLs. In the first half of 2026, the share of NPLs outstanding for more than two years rose from 29% to 34%. Provisions did not keep pace. As a result, regulatory minimum-coverage requirements are already forcing the sector to absorb capital deductions of EUR 800 million as of June 2026. The charge highlights how unresolved legacy exposures can weigh on capital even in the absence of a fresh deterioration in headline NPL ratios.

Banks deploy forbearance measures to help borrowers retain their debt-servicing capacity; they for instance extend maturities or adjust contractual terms to preserve borrowers' ability to repay. Corporate lending data, depicted in chart 11, suggest that the increased use of such measures has helped temper the rise in the NPL ratio. Forbearance measures, which avoid immediate defaults, lose their stabilising effect when borrowers fall into default despite having had their loan terms renegotiated. Between 2021 and mid-2026, the proportion of forborne corporate loans that were classified as non-performing rose from 39% to 52%. That increase suggests that restructuring has become less effective as a durable remedy and that, in a growing number of cases, it may merely be postponing the materialisation of credit risk.

Chart 11

Quality indicators of corporate loans



Source: OeNB.

The forbearance ratio across Austria's banking sector remained unchanged at 2.7% in the first half of 2026, extending a broadly flat trend that has persisted since early 2025. But the stability of the headline figure masks a continued deterioration at individual institutions, covered at the aggregate level by the weighting of larger loan books. In 2021, 35 banks reported forbearance ratios above 4%. By mid-2026, that number had almost tripled. The widening gap between the sector-wide measure and the experience of individual lenders suggests that repayment stress is becoming more broadly distributed, even if it remains concentrated among smaller institutions and has yet to move the aggregate ratio materially.

Macroprudential measure: Phasing-in of the sectoral systemic risk buffer (sSyRB) for commercial real estate (CRE) loans continues

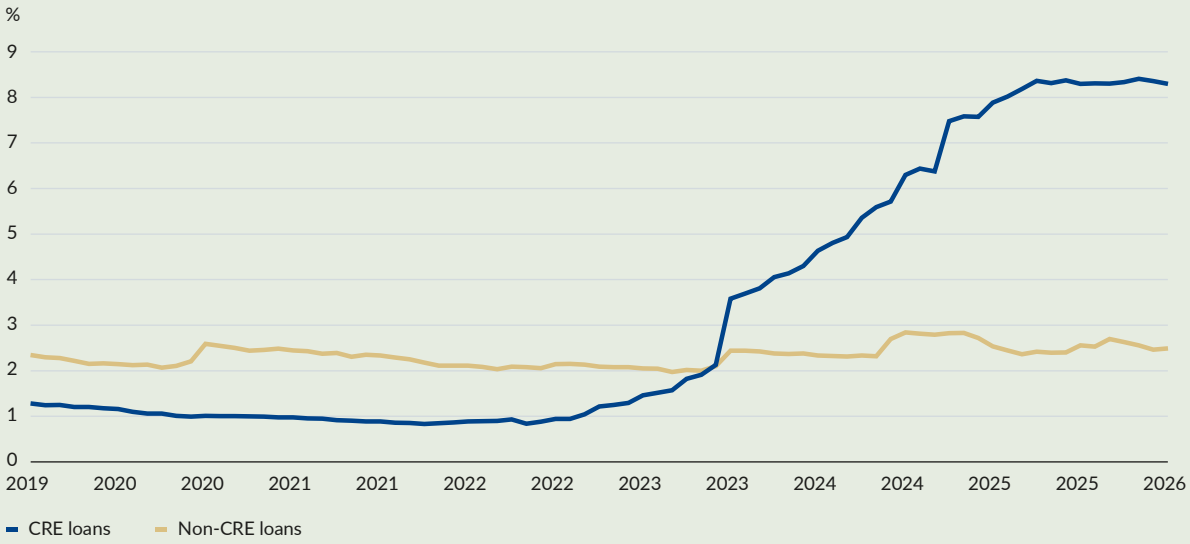
CRE loans make up nearly half of Austrian banks' corporate loan portfolio, while displaying a worse-than-average credit quality, which causes concern for financial stability. Domestic banks' balance sheets continue to be burdened by the loan quality of CRE loans to borrowers that were affected by the wake of interest rate increases from 2022 onwards. Since then, Austrian banks have seen a marked deterioration in the NPL ratio for domestic CRE loans. The ratio increased from below 1% at end-2022 to above 8% in mid-2025 and stabilised thereafter. At the same time, NPL ratios in other domestic corporate lending segments remained mostly stable, having only mounted from 2.1% to 2.5% (chart 12). Given that interest rates have been on the rise again lately, CRE loan quality may

face new challenges on the horizon. Monthly developments of the NPL ratio for CRE loans are published in the OeNB's CRE dashboard.

Chart 12

NPL ratios of Austrian non-financial corporations

December 2019 to June 2026



Note: NPL = non-performing loan; CRE = commercial real estate.
Source: OeNB.

The sSyRB is well suited to address this vulnerability. This risk buffer requires banks to hold additional capital specifically for credit risks stemming from the relevant CRE exposures. The buffer increases the capacity to absorb losses. Moreover, it incentivises a shift of CRE lending from weaker to stronger banks (in terms of capitalisation and asset quality) and from weaker to stronger borrowers (in terms of ratings and capital endowments). The calibration of the buffer explicitly takes account of existing provisions, Pillar 1 capital requirements and institution-specific Pillar 2 requirements. This way, the buffer focuses on potential additional losses that are not already covered by other supervisory instruments. The target buffer requirement of 3.5% of risk-weighted CRE loans is gradually being phased in and will reach its final rate on 1 July 2027.

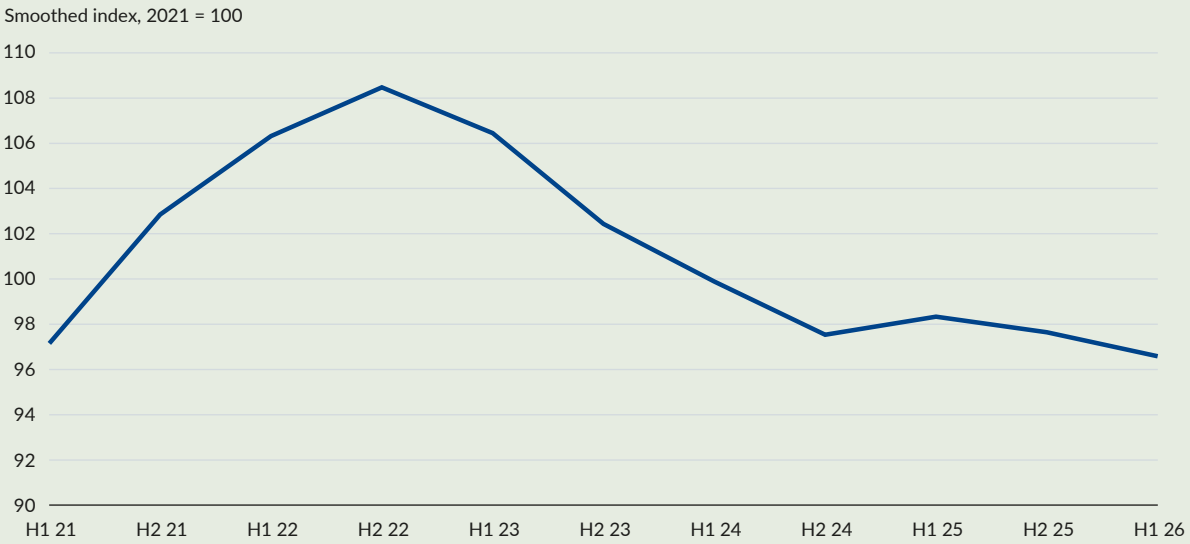
While the sSyRB improves resilience, it does not impinge on CRE lending. OeNB experts found that the introduction of the buffer has neither caused lending rates to rise nor has it caused lending volumes to fall. Hence, it did not have pro-cyclical effects. At the same time, banks with a higher capitalisation and lower volumes of non-performing loans increased their CRE lending relative to their peers. As these banks are generally better equipped to carry the risks associated with CRE lending, this substitution contributes favourably to improving financial stability (see the study by Barmeier et al. in this issue).

Complementing supervisory activity in this segment, the OeNB's CRE dashboard now features the newly introduced Commercial Property Price Index (CPPI). The CPPI closes an important data gap in the CRE monitoring framework by enabling supervisors and banks to gauge the aggregate CRE market as well as the development of collateral values. It was first published in July 2026 and provides semi-annual indices for the overall market, individual asset classes and three regions in Austria. The covered asset classes include offices, industrial and logistics properties, retail properties and commercially held residential buildings. The current series covers 2021 to 2025, with historical time series extending back to 2015 expected for early 2027.

Between the 2022 interest rate reversal and end-2024, commercial property prices in Austria decreased by approximately 10% in nominal and 18% in real terms, before broadly stabilising until mid-2026 (chart 13). At the same time, transactions declined from an average of about 6,500 per half-year before the rate reversal to around 4,000 from 2023 onwards. As the interest rate cycle is turning again, property prices in the CRE segment may face renewed downward pressures in the near future. For details regarding the compilation of the CPPI, see the OeNB's CRE market report; recent developments of the CPPI including sub-indices are also depicted in the CRE dashboard.

Chart 13

Commercial Property Price Index, Austria



Source: Statistics Austria, OeNB.

Systemic risks stemming from residential real estate (RRE) are currently contained[29]

RRE prices continued to rise in the first half of 2026 in nominal terms, supported by broadly stable interest rates and increased mortgage lending. However, the upward momentum moderated in the third quarter of 2026, with prices declining marginally by 0.2%. By the third quarter of 2026, RRE prices in Austria had increased by 2% year on year. In real terms, prices remained stable, as inflation stood at 3.1%.[30] Following the market correction that had begun after the peak in the third quarter of 2022, prices reached their trough at the end of 2024. Since then, they have resumed an upward trajectory and are now re-approaching previous peak levels. The renewed increase in RRE prices has again widened the affordability gap. At the same time, mortgage lending has strengthened. In the first half of 2026, new lending volumes to households for RRE stood 8% above the level in the second half of 2025, and were 20% higher than a year ago. The average nominal amount of mortgage loans also reached a new high of approximately EUR 220,000.

Despite rising prices and increased lending activity, there is currently little evidence of a renewed accumulation of heightened systemic risk in the RRE market. Importantly, lending standards have

[29] Data underlying this section are available in the OeNB's RRE dashboard. An extensive RRE market report is available on the OeNB's website. Both the dashboard and the report are in German only.

[30] The calculation is based on the HICP. Please note that the September figure is preliminary.

remained broadly unchanged. Loan quality remains strong, with new lending complying with the borrower-based criteria recommended by the Financial Market Stability Board (FMSB). Overall, in the second quarter of 2026, 84% of newly originated loans met the FMSB criteria, compared with only 9% in the first half of 2020. Deviations from the criteria were mostly within the 20% exemption buckets of the respective banks. The OeNB's RRE dashboard offers more granular insights on cases of non-compliance. At the individual bank level, institutions with identified issues were contacted and asked for justifications.

Regional developments continue to exhibit notable differences. Since end-2022, RRE prices in rural areas have increased, while RRE prices in urban areas have remained almost unchanged (1.4% vs -0.3% up to Q3 26). In the second quarter of 2026, the average loan amount reached EUR 268,000 in Vienna, which contrasts with EUR 225,000 in other major regional cities and EUR 215,000 in the remaining regions. This might reflect the higher price level in Vienna compared with the rest of the country.

Box 3: Automotive sector is undergoing a profound transformation while credit quality deteriorated

The European automotive industry is undergoing a profound structural transformation, with European manufacturers increasingly losing ground to Chinese competitors. Electrification, decarbonisation and changing consumer demand are reshaping established technologies and business models, as global competition and supply chain disruptions add further pressure. European manufacturers have lost global market share as their Chinese peers have expanded rapidly. European manufacturers and suppliers face high investment needs and production costs. In Austria, the automotive sector, which consists primarily of suppliers, accounts for only around 1% of gross value added. However, the traditional sector definition, focused on NACE (2008) C29, excludes many suppliers classified in other sectors. In other words, the sector's actual economic footprint is considerably larger.[31]

In a comprehensive national analysis, OeNB experts assessed Austrian banks' exposure to, and the credit quality of, automotive manufacturers and suppliers (NACE C29) and motor vehicle traders (NACE C45). This analysis covers the entire automotive value chain, using a classification by the Austrian Economic Chambers (WKO). In 2025, total exposures to automotive manufacturers and suppliers (NACE 2008 C29) amounted to EUR 3.4 billion, EUR 0.8 billion of which were attributable to foreign subsidiaries. Total exposures to motor vehicle traders (NACE 2008 G45) equalled EUR 5.3 billion, of which EUR 0.95 billion were attributable to foreign subsidiaries. Another EUR 4.0 billion were added by WKO-identified companies representing Austrian automotive manufacturers and suppliers not assigned to C29. This brings total automotive-related exposures to EUR 12.7 billion, which corresponds to 3.4% of total exposures to non-financial corporations.

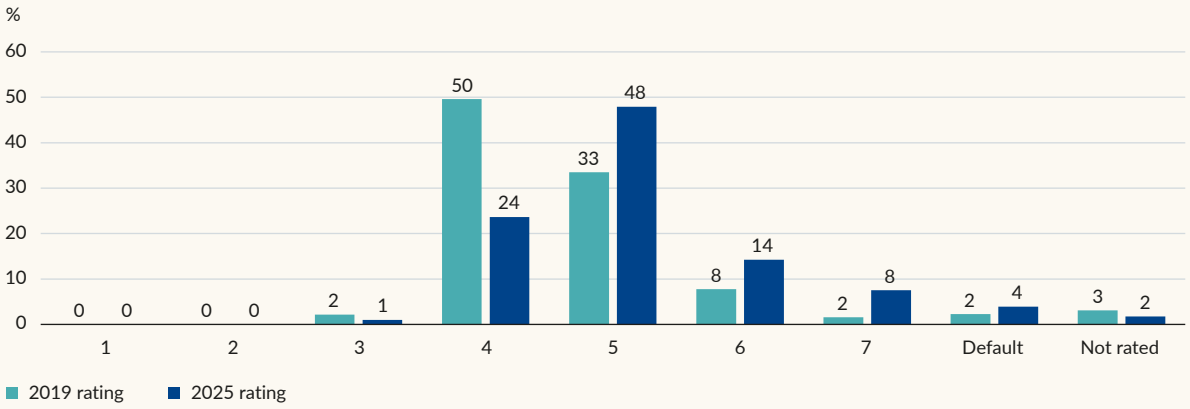
Alongside weakening firm fundamentals, credit quality in the Austrian automotive sector deteriorated between 2019 and 2025. A clear shift towards weaker ratings reflects this development: The share of exposures rated 4 fell from 50% to 24%, while the share in rating categories 5 to 7 rose from 43% to 70%. The share of exposures in default doubled from 2% to 4%, but this increase was mainly driven by a single debtor. So, even though credit quality has broadly deteriorated, NPLs remain contained overall.

A historical analysis of insolvencies points to diverging trends across the automotive sector. In automotive manufacturing (NACE C29), insolvencies have remained broadly contained. Further supplier defaults are becoming apparent in 2026. By contrast, motor vehicle trade (NACE C45) has seen an uptrend in insolvencies in recent years. From a banking perspective, however, the direct impact of

[31] For more details on NACE, refer to https://ec.europa.eu/eurostat/web/nace.

Chart 14

Credit quality of the automotive sector, 2019 vs. 2025



Source: OeNB.

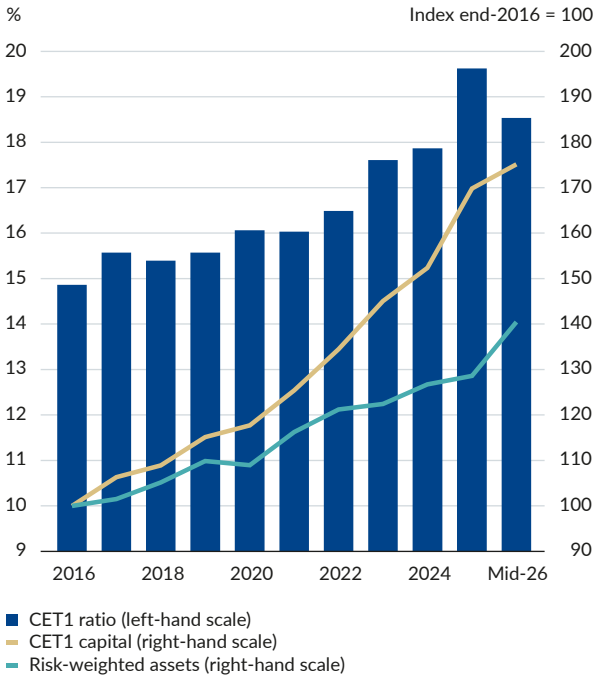
supplier defaults may be limited. Firms also draw on a broader range of funding sources, including market-based financing, foreign parent companies, private equity and private credit. Overall, the sector's ongoing transformation and deteriorating credit quality requires continued supervisory attention. In Austria, the narrow NACE definition may underestimate broader risks, as many suppliers fall outside NACE C29, and a downturn could generate spillovers through supply chains, employment and household credit risks.

Capitalisation of Austrian banks at a very resilient level

The Austrian banking sector's capitalisation declined in early 2026 but remains on a high and very resilient level. High profitability and capital generation allowed the sector to maintain its strong risk-bearing capacity, a major acquisition in Poland notwithstanding. In mid-2026, the total capital ratio came to 21.7% and the CET1 ratio equalled 18.5%. While noticeably trailing the respective levels recorded at end-2025, the ratios barely changed year on year.[32] The Austrian sector's CET1 ratio is also well above the EU average (16.6% as of Q1 26) and its leverage ratio stands at 8.8%. In terms of the distribution of CET1 ratios among Austrian banks, close to 80% of risk-weighted assets (RWA) are held by banks with a CET1 ratio between 15% and 20%, and nearly all other banks have ratios above 20%. Close to one third of banks each is within the CET1 ratio brackets 15% to 20%, 20% to 25% or more than 25%. When we take a

Chart 15

CET1 ratio and components



Note: All data reflect year-end data unless stated otherwise.
Source: OeNB.

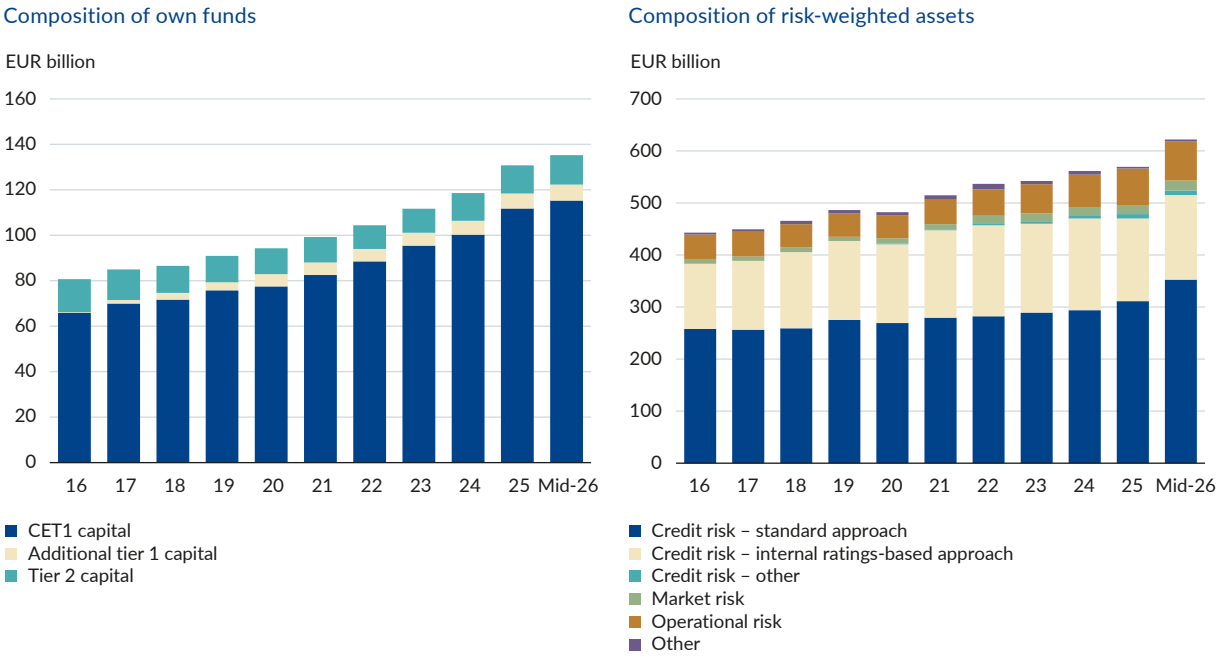
[32] The large capitalisation increase at end-2025 was an outlier. It can be explained by a "saving phase" in 2025 linked to subsequent spending for a large acquisition in the first quarter of 2026. In the second quarter of 2026, the CET1 ratio was on the rise again.

broader view and focus on developments over the last decade (chart 15), we see that the increase in the CET1 ratio from a level of below 15% was underpinned by a continuous rise of CET1 capital (+75% to EUR 115 billion), while the associated RWA grew more slowly (+40% to EUR 622 billion).

Austrian banks' own funds are dominated by capital of the highest quality (CET1), while credit risk is by far the largest RWA category. Total capital grew by 68% to EUR 135 billion from end-2016 to mid-2026, with the share of CET1 capital remaining very stable (between 82% and 85%). At the same time, tier 2 capital lost in importance, which was set off by a rise in additional tier 1 capital (left panel of chart 16). Overall, the quality of the sector's capital improved therefore. The banking sector's RWA – whose growth is mentioned above – also witnessed little structural change over time. As shown in chart 16 (right panel), RWA linked to credit risk made up 84% to 88% of the total (around one third of which is based on internal ratings). RWA for operational risk amounted to 9% to 12% and the remainder was mostly related to market risk (2% to 3%).

Chart 16

Composition of own funds and risk-weighted assets, 2016 to mid-2026



Source: OeNB.

Current risks stemming from significant risk transfer (SRT) securitisations increased substantially, yet appear manageable at system level. For Austrian banks issuing SRT securitisations, the average CET1 capital impact was estimated to amount to around 85 basis points at both year-end 2025 and mid-2026. As to the Austrian banking sector as a whole, including banks that do not issue SRT securitisations, the corresponding average impact amounted to around 55 basis points. SRT transactions can support more efficient capital allocation by transferring part of the credit risk to external investors while allowing banks to retain the underlying exposures and customer relationships. The resulting capital relief can increase banks' capacity to extend new lending and help diversify credit risk beyond the banking sector. However, rapidly increasing issuance volumes, growing reliance on synthetic securitisations for balance sheet management and capital optimisation, and deeper links between banks and NBFIs may amplify vulnerabilities over time. Key vulnerabilities include rollover risk, counterparty credit risk and increasing investor concentration. In Austria, insurance companies and multilateral institutions are important protection

providers in SRT transactions. The ongoing revision of the EU securitisation framework could further strengthen incentives for SRT issuance by, among other things, increasing the capital relief attainable through securitisations and simplifying transparency requirements. The legislative package is currently in trilogue negotiations, with a political agreement potentially being reached by end-2026 or early 2027. SRT use warrants close monitoring.

Macroprudential measure: The systemic risk buffer (SyRB) and its future

The SyRB addresses structural systemic risks to the Austrian banking market beyond the too-big-to-fail problem, which is addressed by the O-SII buffer. The SyRB was introduced in 2016 to address a combination of characteristics specific to the Austrian banking sector, such as relatively low capitalisation and low structural profitability combined with a relatively high exposure to emerging markets and high interconnectedness. One of the aims was to improve the capitalisation of the Austrian banking sector. Every two years, the OeNB provides an expert opinion for the assessment of the prevailing SyRB's adequacy to the FMSB and the FMA.[33]

Structural systemic risks have declined substantially, since the SyRB was introduced in 2016. The risk profile of Austrian banks' CESEE exposure has improved, with almost 90% of the exposure located in EU countries. The external risk assessment for CESEE has also improved. The exposure is concentrated in two banks whose capitalisation and profitability have increased. Potential losses would primarily be borne by these institutions and would not have significant adverse effects on the Austrian financial system or the real economy as a whole. Acquisitions (e.g. in CESEE) affect the size of these banks. This effect is taken into account both in the remaining component of the SyRB ('systemic vulnerability') and in the O-SII buffer. Overall, the systemic risk-bearing capacity has improved against the background of higher capitalisation and stronger profitability. Nevertheless, systemic risks remain, as the sustainability of the improved loss-absorbing capacity has not yet been conclusively demonstrated, in view of the recent acquisitions as well as the increased provisioning requirements for defaulted loans ('NPL backstops').

Austria continues to exhibit structural vulnerabilities resulting from its large banking sector and banks' specific ownership structures. These residual vulnerabilities include the aforementioned sustainability of banks' risk-bearing capacity. At the same time, the real economy has become more susceptible to exogenous shocks as a result of ongoing geopolitical disruptions. During recent exogenous shocks, such as COVID-19 and inflationary bursts, fiscal measures shielded borrowers and their credit quality. Diminished fiscal space potentially elevates credit risk in the banking sector stemming from further geopolitical risk. In addition, the European resolution framework remains untested and will only be amended in 2028, with the crisis management and deposit insurance reform. Further changes to the macroprudential framework are on the reform agenda of the European Commission. These developments warrant a cautious approach. The 2027 reduction of the SyRB further increases the management buffer of the respective Austrian banks by about EUR 770 million.

Considering these aspects, the FMSB decided to recommend that the FMA maintain part of the SyRB. The systemic vulnerability component remains at 0.5%, already considering an interaction with the O-SII buffer.[34] The SyRB component for systemic concentration risk is reduced to 0% in two steps. As a consequence, three institutions are subject to a 0.25-percentage-point lower overall buffer

[33] https://www.oenb.at/en/themen/stabiler-finanzmarkt/systemische-risiken/puffer-und-massnahmen/SyRP---Systemrisikopuffer.html.

[34] For more details on the decision, refer to Recommendation FMSB/4/2026.

requirement as of 2027, and to a 0.50-percentage-point lower buffer requirement in 2028. The remaining SyRB component of 0.5% will be reviewed in 2028 in line with the regular assessment plan.

Austrian banks' liquidity remains solid, even though the liquidity coverage ratio (LCR) declined from a high level

The Austrian banking sector remains well positioned against liquidity risks. The main supervisory liquidity indicators, the LCR and the net stable funding ratio (NSFR), attest to a satisfactory liquidity position in the Austrian banking system. Although both indicators declined between mid-2025 and mid-2026, they remain comfortably above the regulatory minimum requirement of 100%. Over this period, the consolidated LCR fell from 176% to 158%, while the NSFR declined marginally from 136% to 135%. The decrease in the NSFR remains within the range of normal fluctuations, but the 18-percentage-point decline in the LCR was more pronounced. Nevertheless, the sector's LCR remains more than 10 percentage points above its pre-pandemic average of 148% (the NSFR was only introduced in 2021).

The LCR decline was driven by lower central bank reserve holdings and higher expected liquidity outflows. A decomposition of the change in the LCR indicates that roughly one third of the decline (6.6 percentage points) was driven by a reduction in banks' liquidity buffers (high-quality liquid assets – HQLA), while the remaining two thirds (11.4 percentage points) resulted from higher expected net liquidity outflows (NLO). On the asset side, the decline in HQLA mainly reflects a substantial reduction in central bank reserve holdings, consistent with the ongoing withdrawal of excess liquidity and quantitative tightening by the ECB. Higher holdings of government bonds partly offset this effect. On the liability side, the increase in NLO was more broad based, reflecting a combination of higher projected deposit outflows, increased collateral-related outflows, lower inflows and higher outflows from secured lending transactions.

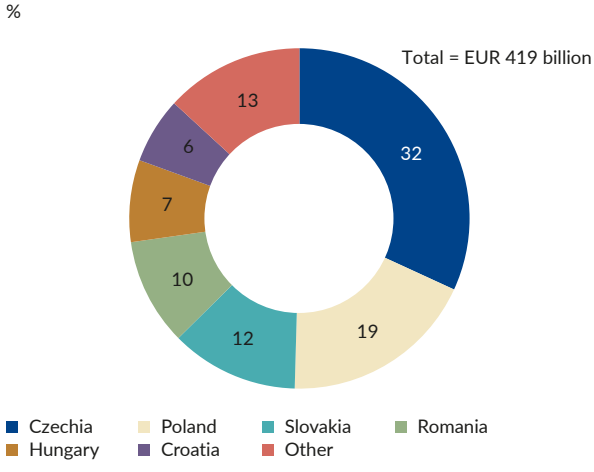
The decline in the LCR was concentrated among the sector's largest institutions, although it was relatively broad based overall. The ten largest Austrian banks, measured by the size of their liquidity buffers and together accounting for around 80% of aggregate HQLA, saw their LCRs decrease. At the same time, more than half of the remaining institutions also reported lower LCRs, which suggests that the downward trend was not confined to a small number of large banks, but affected the sector more generally.

Austrian banks' CESEE exposure increased due to a large acquisition in Poland

The CESEE business of Austrian banks has a clear focus on EU member states. Of Austrian banking subsidiaries' total assets in the region, 88% are located in EU member countries in mid-2026, up from 85% in 2025. This focus was further strengthened by Erste Group Bank's acquisition of Santander Bank Polska. In light of this acquisition in Poland, traditional host markets such as Czechia, Slovakia, Romania, Croatia, and Hungary saw their combined share fall to slightly more than two thirds of aggregated total CESEE assets, while Poland now holds a share of 19% (chart 17). Moreover, close to 20% of total assets are located in CESEE countries that have already adopted the euro. In sum, Austrian banks operate 34 subsidiaries in 15 countries in the region.

Chart 17

Total assets of Austrian banking subsidiaries in CESEE (as at Q2 26)



Source: OeNB.

Austrian CESEE subsidiaries expanded their balance sheets. In the first half of 2026, total assets increased by 30%, reaching EUR 419 billion. The increase was almost exclusively driven by the aforementioned acquisition in Poland. Besides, subsidiaries in Czechia and Hungary recorded balance sheet growth of 10% and more. While in Czechia interbank claims (including central bank transactions) were extended, loan growth to the real economy played a major role in Hungary. At Austrian banks' CESEE subsidiaries, lending in domestic currency prevailed, as the share of foreign currency loans has declined further and stood at 18% in mid-2026. Furthermore, non-financial corporations were the main borrowers of foreign currency loans, with the euro as the predominant lending currency, which mitigates risks due to income-induced hedges for export-oriented companies. On the liability side, customer deposits rose well in line with claims (growth rates adjusted for the Poland acquisition), which ties in with the spirit of the Austrian supervisory "Sustainability Package", and the loan-to-deposit ratio stood at 73% in mid-2026.

Profitability in the region remains strong and credit risk provisioning started to rise. In the first half of 2026, Austrian CESEE subsidiaries reported a record net profit of EUR 3.3 billion. All subsidiaries recorded profits and the most significant contributor was the business in Czechia (28% of overall profits in the region). Profits were supported by rising net interest income and margins. While subsidiaries in some countries had released credit risk provisions a year ago, this development reversed in the first half of 2026 (also taking the acquisition in Poland into account).

Risk-bearing capacity remains at solid levels, while downward risks increased. Credit quality remained at high levels due to still solid economic conditions in the region, as the NPL ratio was at just 1.7% in mid-2026 (domestic ratio in Austria: 3.0%), and the coverage ratio stood at 56%. The CET1 ratio came to a sound 21%. The risk-bearing capacity of subsidiaries in CESEE is thus strong, further strengthened by high profitability and locally based stable funding. While developments for banks were generally positive, prolonged geopolitical tensions and persistently high energy prices continue to pose risks to economic developments in the region.

OeNB 2026 solvency stress test

Austrian banking sector remains resilient

The results of the OeNB's 2026 solvency stress test indicate that the Austrian banking sector is resilient to a severe macroeconomic shock. Triggered by ongoing geopolitical tensions, the adverse stress test scenario assumes a severe macroeconomic downturn, heightened inflation and rising interest rates. Supported by this favourable interest rate environment, banks have strengthened their capital positions in recent years, also enhancing their capacity to absorb potential losses. At the individual bank level, the situation is heterogenous, however: Not all banks have equally strengthened their capital positions, and credit risk, especially from commercial real estate exposures, remains high. Supervisors will continue to closely monitor the banks that are particularly vulnerable to these risks.

In this year's exercise, the Austrian banking sector's aggregate common equity tier 1 (CET1) ratio declines by 4.0 percentage points in the underlying adverse macroeconomic scenario. While this stress impact appears somewhat milder than last year's (4.7 percentage points), this largely results from incorporating novel data that allow for a more nuanced risk assessment but cause a structural break. Without this effect, the results of both exercises would have been similar.

The stress test therefore confirms that banks need to act prudently, especially in profit distribution, given the challenging environment. Economic growth remains sluggish and geopolitical tensions persist. Additional strain can result from stricter provision requirements for loans that have remained non-performing for an extended period and exposure to energy-intensive sectors, as shown by two additional sensitivity analyses. Finally, risks that cannot be easily quantified, such as the risk of cyberattacks, are increasing.

The following subsections provide more details on the macroeconomic scenario, the stress test results and the additional sensitivity analyses complementing the stress test.

Macroeconomic scenario used for the stress test

The adverse scenario assumes prolonged supply chain disruptions, such as the blockade of the Strait of Hormuz, which aggravate into a severe macroeconomic downturn combined with a temporary surge in inflation and heightened short- and long-term interest rates. While an initial price shock is absorbed through higher costs and without supply constraints, the scenario presumes scarcity and increasing supply chain instability that may lead to a phase of rationing and even more severe price spikes. The negative supply-side shock triggers higher commodity prices and leads to heightened inflation during the stress test years 2026 and 2027. A subsequent spike in long- and short-term interest rates, as central banks act within their mandate to maintain price stability, is assumed in the first and second year and remains heightened afterwards. The baseline scenario draws on the OeNB's December 2025 economic outlook.

Table 3

Evolution of selected variables in the adverse scenario

		2025	2026	2027	2028
		Percentage points			
GDP growth	Euro area	1.5	-2.1	-3.2	0.7
	Austria	0.7	-2.7	-3.7	1.2
Inflation	Euro area	2.1	4.6	4.7	2.8
	Austria	3.6	5.1	5	2.2
Short-term interest rates	EUR	2.2	2.5	3.8	3.3
Long-term interest rates	EUR	2.6	4.5	6.1	5.4

Source: OeNB.

Results in detail and risk drivers

The Austrian banking sector's aggregate common equity tier 1 (CET1) ratio increases by 2.8 percentage points in the baseline scenario but declines by 4.0 percentage points in the adverse scenario, landing at 14.0% at the end of 2028. The waterfall charts below show the most important risk drivers and their contribution to changes in the CET1 ratio in both the baseline and the adverse scenario. They also include the impact of additional sensitivity analyses (chart 18). Note that this exercise assumes a static balance sheet, i.e. banks cannot change their business models in reaction to shocks.

In the baseline scenario, net interest income contributes 13.1 percentage points to the 2028 CET1 ratio. Even though credit risk losses remain relatively stable over the stress test horizon, they only reduce capital by 1.3 percentage points. Banks benefit from income generated by equity participations in other banks or non-financial corporations, which contribute 0.6 percentage points to the 2028 CET1 ratio.

In the adverse scenario, credit risk losses reduce capital by 6.6 percentage points, i.e. by 5.3 percentage points more than in the baseline. As in previous years, commercial real estate exposures were specifically shocked. Also, the positive impact of equity participations that banks hold in other entities turns negative. Moreover, write-downs of book values reduce capital by another 0.6 percentage points.

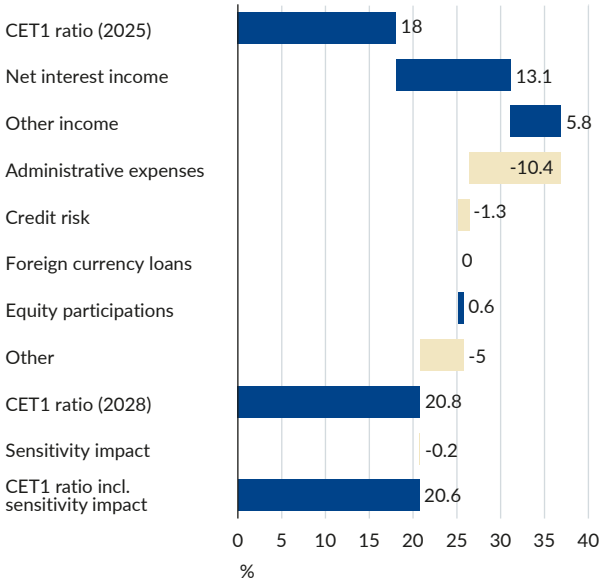
At the same time, the contribution of net interest income to capital declines by 2.0 percentage points compared with the baseline, as funding costs increase and defaulted loans reduce interest earned.

The Austrian banking sector reported net interest margins of about 1.5% in the years before the ECB's monetary policy pivot in 2022. Between 2023 and 2025, Austrian banks realised substantially higher net interest margins of about 2%. Over the three-year adverse stress test horizon, net interest margins return to pre-2023 levels, which corresponds to a significant reduction given that net interest margins are measured relative to total assets. Other income components, such as fees and trading income, also contribute less (-1.2 percentage points) in the adverse scenario than in the baseline scenario. In absolute terms, banks' income generation (net interest income, fees, trading and participation income) shrinks from an initial EUR 42 billion in 2025 to roughly EUR 32 billion per year on average. At the same time, credit

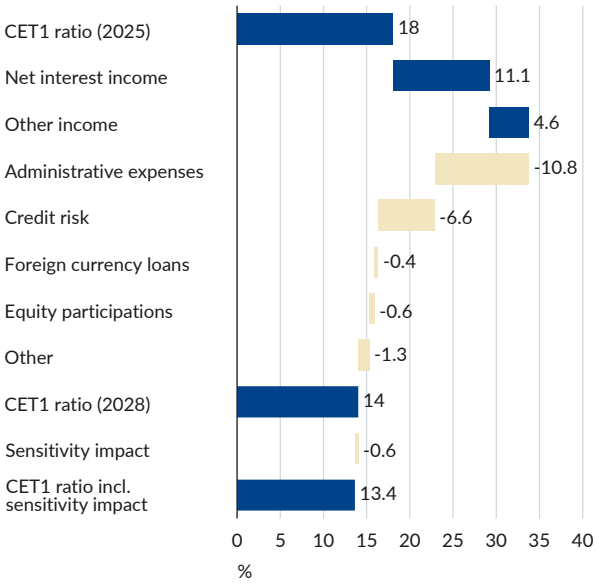
Chart 18

Austrian stress test – results and risk drivers

CET1 ratio of the Austrian banking sector – baseline scenario



CET1 ratio of the Austrian banking sector – adverse scenario



Source: OeNB.

risk losses increase significantly, reaching an annual average of about EUR 14 billion. Over the complete three-year horizon, banks generate EUR 22 billion less in income than projected in the baseline scenario, while credit risk costs increase by EUR 31 billion. Including other effects captured in the stress test, in those three years, banks lose roughly EUR 20 billion (or close to one fifth) of their CET1 capital.

Compared with the 2025 exercise, the 2026 OeNB stress test projects a smaller CET1 ratio depletion (-4.0 vs -4.7 percentage points), while the overall risk assessment remains unchanged. This results from a combination of several factors: First, in line with recommendations by the International Monetary Fund (IMF), the OeNB modernised its credit risk data collection. Incorporating enhanced information on risk parameters and collateral into the stress test enables a more detailed risk assessment. While it provides supervisors with a more nuanced view of bank-specific and systemic vulnerabilities, it also gives rise to structural breaks. Without this effect, the credit risk impacts of the 2026 and 2025 stress test exercises would have been similar. Second, income generation is somewhat higher, supported by strong initial profitability combined with rising interest rates. Third, staff and other administrative expenses, driven by higher starting points and higher inflation, have increased by 0.4 and 0.2 percentage points, compared with the 2025 exercise. Last, but not least, the Austrian banking sector's initial CET1 ratio was slightly better (+0.3 percentage points) in 2026 than in 2025.

Taken together, Austrian banks complete this year's stress test with a higher CET1 ratio (14.0%) than in 2025 (13.0%). Due to the conversion effect described above, comparisons with the previous year's outcomes require caution, and the apparent improvement in the aggregate stress test results does not reflect a reduction in the underlying level of risk.

Additional sensitivity analyses

Complementing the assessment of banks' resilience, this year's exercise was accompanied by two sensitivity analyses that focused on additional shocks to energy-intensive sectors[35] and stricter provisioning requirements for loans that have remained non-performing for an extended period. While the macroeconomic impact of the recent energy crises is apparent, an analysis of the Austrian credit register does not reveal a systematic deterioration in credit risk among energy-intensive sectors relative to other sectors. Against this background, and to account for the uncertainty surrounding their sensitivity to energy price shocks, credit risk shocks for energy-intensive sectors are calibrated more conservatively than under the main stress test scenario. Energy-intensive sectors account for 6.4% of system-wide exposures and 13% of expected losses at the starting point. While the impact of the additional shock to energy-intensive sectors is limited at the aggregate level, it highlights important vulnerabilities at the individual bank level, particularly where banks have large and potentially risky exposures to specific energy-intensive sectors. To gauge the impact of higher provisioning requirements for non-performing loans that are gradually being phased in, we performed an explorative scenario analysis. The baseline scenario assumes the full implementation of banks' NPL reduction plans. Under the adverse scenario, by contrast, the deterioration in economic conditions is assumed to limit the realisation of these plans to 50% of the envisaged reduction. Its results inform supervisory follow-up actions with affected banks but are, just as the analysis of energy-intensive sectors, not included in the main stress test results. Altogether, these additional analyses deplete the CET1 ratio by 0.2 percentage points in the baseline scenario and by 0.6 percentage points in the adverse scenario.

Background

The OeNB conducts annual stress tests for all Austrian banks under its mandate for banking supervision and financial stability. The solvency stress test is designed to assess banks' resilience to adverse macroeconomic shocks and provides insights into both bank-specific and system-wide vulnerabilities. Conducted in a top-down fashion, it relies on the OeNB's ARNIE stress testing framework, which is well established and continuously improved. The stress test covers both significant and less significant institutions (SIs and LSIs) at the highest consolidated level. It focuses on risks faced by the Austrian banking sector, including spillover effects among banks, which are particularly relevant to the decentralised sector. The 2026 stress test is based on data as of year-end 2025 and covers the period from 2026 to 2028. The results support the OeNB's financial stability assessment and contribute to the assessment of supervised banks. Specifically for LSIs directly supervised by the OeNB and the Financial Market Authority (FMA), results are used to calibrate the bank-specific Pillar 2 guidance (P2G), which sets out supervisory expectations that vulnerable banks hold additional capital to ensure they continue to meet regulatory minimum requirements also under adverse conditions.

Moderate bank-NBFI linkages in a predominantly bank-based financial system

Non-bank financial institutions (NBFIs) play an increasingly important role in financial intermediation: they channel savings, allocate capital and redistribute risks outside the traditional banking system. As NBFIs keep growing and are interconnected with banks, the sector is relevant for financial stability.

While total assets of NBFIs have expanded to around EUR 724 billion and are growing slightly faster than those of the banking sector, Austria remains a predominantly bank-based financial system. The NBFI-to-bank asset ratio, a simple measure of the relative importance of non-banks within the financial

[35] NACE sectors A, B, C10–21, C23–24, D, H49–51. Sectors with an energy intensity above the 75th percentile (2.4 TJ per million euro of gross value added, GVA) are considered highly energy-intensive.

system, stands at 67.6%. After consolidation, this ratio declines to 50.8%, or well below euro area and global levels, where NBFIs already exceed banks in terms of size. For example, the NBFI Risk Monitor 2025[36] of the European Systemic Risk Board (ESRB) reports a ratio of 1.2 for the EU, even though this measure covers only investment funds and other financial institutions (OFIs) and excludes insurers and pension funds.

The Austrian NBFI sector comprises a diverse range of institutions that differ considerably in terms of size, business models and risk profiles. Among these, OFIs[37] represent the largest subsector and have recorded the strongest growth in total assets over the past five years (+48.1%). However, a substantial share of the latter consists of holding companies and intra-group financing vehicles rather than traditional financial intermediaries, meaning that much of their activity reflects corporate treasury operations and group-internal financing.

Table 4

NBFI sector overview

Sector	Total assets	Δ 1Q	Δ 1Y	Δ 5Y
	EUR billion	%		
Non-bank financial institutions	**723.58**	**5.9**	**10.1**	**24.3**
Other financial institutions	281.23	5.0	10.3	48.1
Investment funds	263.24	7.6	11.9	18.9
Insurance companies	147.01	4.7	6.6	2.0
Pension funds	32.11	5.9	11.2	20.6
	%	Percentage points		
NBFIs / banks (unconsolidated)	67.6	+3.1	+4.3	+8.6
NBFIs / banks (consolidated)	50.8	+2.0	-0.1	+1.0

Source: OeNB.

Investment funds, which comprise more than 2,000 Austrian-domiciled funds, grew by 18.9% over the past five years. They pool savings and invest mainly in bonds (31.5% of assets), equities (23.7%), and investment fund shares (18.6%), while holding only limited liquidity buffers in the form of deposits (around 3% of assets). Consequently, investment funds remain particularly sensitive to adverse market movements and redemption pressures.

The Austrian insurance sector consists of 30 companies and is dominated by large composite insurers, with total assets of the sector increasing 2.0% over the past five years. For insurers, vulnerabilities differ across business models. Life insurers are mainly exposed to interest rate and reinvestment risk, whereas non-life business is more affected by underwriting and catastrophe-related risks. In addition, fluctuations in asset prices can affect balance sheets, particularly in the predominantly non-fund-linked segment.

Austria's pension fund sector is comparatively small, comprising only eight pension funds and representing the smallest NBFI subsector, although assets have grown by 20.6% over the past five years. Its size is largely determined by the structure of the Austrian pension system: retirement income is predominantly provided through the public pay-as-you-go scheme, so funded occupational pensions play only a supplementary role. As a result, the sector is considerably smaller than in other open economies of a similar size, such as the Netherlands, where retirement provision relies to a much larger extent on funded occupational pension schemes. Given their long-term investment horizon, pension funds are chiefly exposed to market and longevity risks. Their extensive use of investment funds also creates an indirect channel through which stress in the fund sector can be transmitted to retirement savings portfolios.

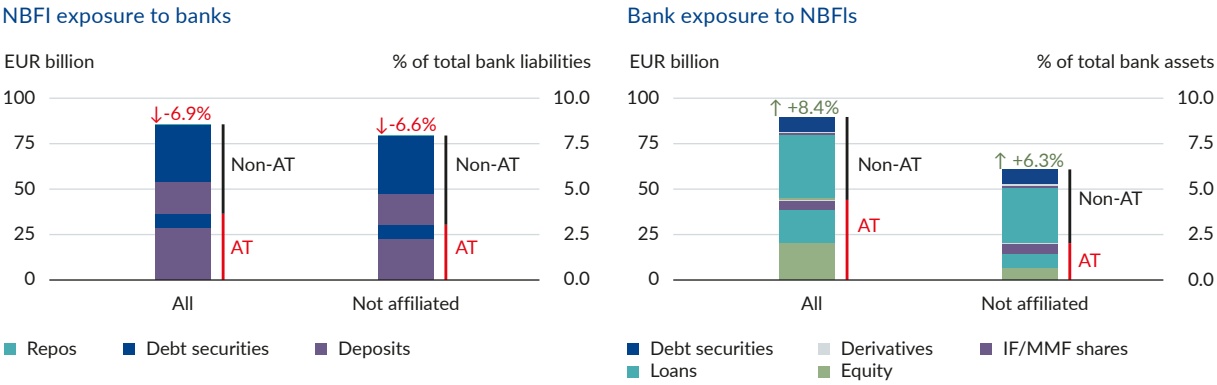
The vulnerabilities described above differ considerably across NBFI subsectors. Their implications for financial stability, however, depend not only on the risks within individual sectors but also on their interconnectedness with the banking system. Even a comparatively small NBFI sector can transmit or

[36] ESRB. 2025. EU Non-bank Financial Intermediation Risk Monitor 2025. September.

[37] The data source currently used for OFIs, the OeNB General Financial Reporting framework (GFR), captures only financial assets, not full balance sheets. As a result, the OFI total assets figure is conceptually narrower compared with other sources.

Chart 19

Linkages between banks and non-bank financial institutions (NBFIs)



Note: The column labelled "Not affiliated" includes only exposures where the counterparty is neither in the same CRR consolidation group nor linked via a reported participation or ownership relationship. In practical terms, it approximates exposures to external counterparties rather than to intra-group or otherwise affiliated entities of the banking group.
In the left panel, holdings by NBFIs of debt securities issued by Austrian banks are a lower-bound estimate, as securities held by investors outside the euro area cannot always be fully attributed to a holder sector.

Source: OeNB.

amplify shocks when it is closely linked to banks. Assessing these linkages is therefore essential to understand how stress may propagate across the financial system.

Consistent with the ECB and ESRB framework, bank-NBFI interconnectedness can be grouped into three broad and mutually reinforcing channels: (1) NBFIs provide funding, primarily via deposits, repos and debt securities; (2) banks hold loans, securities and derivatives vis-à-vis NBFI counterparties; and (3) banks act as market-makers and providers of leverage.

Bank-NBFI linkages in Austria remain moderate compared with the euro area average[38], both on the funding and exposure side. As shown in chart 19 (left panel), Austrian banks receive EUR 85.6 billion in funding from NBFIs. This corresponds to 8% of total bank liabilities, which is well below the euro area average of around 15%. This funding to banks is primarily provided through deposits (EUR 45.3 billion) and debt securities (EUR 40.0 billion), while bilateral repo funding remains negligible at EUR 0.3 billion, which limits banks' reliance on potentially volatile short-term market-based funding. Around 58% of Austrian banks' NBFI funding originates from foreign counterparties, which highlights the importance of cross-border funding channels. When affiliated entities are excluded, NBFI funding declines only moderately to EUR 79.5 billion (7.4% of liabilities). In other words, intra-group funding plays a relatively limited role.

On the asset side, Austrian banks hold EUR 89.7 billion in claims on NBFIs, which equals 8.4% of total assets and is slightly below the euro area average of 10%. As shown in chart 19 (right panel), exposures are concentrated in loans (EUR 53.0 billion) and equity holdings (EUR 19.9 billion). They are almost evenly split between domestic and foreign NBFIs. However, intra-group linkages are substantially more important on the asset side than on the funding side. Excluding affiliated entities reduces total NBFI exposures to EUR 60.8 billion, or 5.7% of bank assets. This reflects the importance of loans and equity participations in holding companies and financing vehicles within banking groups. Since many OFIs do not engage in independent financial intermediation, a substantial share of these exposures is economically closer to traditional corporate lending than to conventional bank-NBFI relationships.

Overall, Austria's NBFI sector remains relatively small compared with the banking sector and has not fundamentally altered the country's bank-based financial structure. Nevertheless, how relevant the

[38] ECB/ESRB. 2026. Financial stability risks from linkages between banks and the non-bank financial intermediation sector. February.

sector is for financial stability is determined less by its size than by the specific channels through which stress could propagate across the financial system. NBFIs are linked to Austrian banks through multiple channels on both the funding and exposure side. While the composition of bank-NBFI linkages has remained broadly unchanged, recent developments point to a moderate increase in bank exposures to NBFIs and a decline in NBFI funding of banks. Investment funds constitute the main market-based transmission and amplification channel, while funding from foreign NBFIs exposes banks to cross-border shocks and global market conditions. At the same time, exposures are concentrated in OFIs and intra-group relationships, pointing to concentration and step-in risks rather than classical forms of financial contagion. From a financial stability perspective, the evolution of these interlinkages and their potential to serve as channels of risk transmission warrant continued monitoring.

Box 4: Frontier artificial intelligence models (FAIMs) and post-quantum risk in supervisory focus

FAIMs pose an emerging threat to financial stability

In the context of AI, cyber risk encompasses three subtypes of risk: (1) attacks by an attacker that is supported by AI, (2) attacks targeting banks' internal AI systems and (3) "social hacking." Examples of the first type comprise using AI-generated code to create malware capable of infiltrating a bank's infrastructure or commanding AI agents to explore cybersecurity vulnerabilities. An example of the second type is jailbreaking an AI-powered customer service assistant to extract confidential client data. The third type of attacks, which is sometimes also classified as cyber risk, is social hacking, where AI exploits human psychology and perpetrators use AI to personalise their phishing attacks (spear phishing) to gain unauthorised access to information or systems. Concerning additional risks for financial stability from AI, see Kerbl, S. 2025. Good AI – bad for banks? In: OeNB Financial Stability Report 50.

Within the first subtype**, recent advances in FAIMs mark a fundamental shift in digital operational risk,** as artificial intelligence is moved from assisting human operators to autonomously executing multi-stage cyberattacks. Standardised evaluations by the UK AI Security Institute confirm that leading models, including Anthropic's Claude Mythos and OpenAI's GPT-5.5-cyber, can independently discover software weaknesses and carry out corporate intrusions that previously required around 20 hours of specialised human effort. This development reflects a broader industry trend: specialised AI training has led to a steep increase in identified vulnerabilities across widely used commercial and open-source software.

On 7 July 2026, the European Systemic Risk Board (ESRB) published a warning that explicitly refers to the systemic cyber risks posed by these FAIMs. The ESRB issues such warnings when it identifies significant systemic risks to financial stability in the European Union. As highlighted in the warning, the systemic risk for the financial sector stems primarily from a severe operational time asymmetry. Automated tools can discover and exploit software flaws at machine speed, whereas financial institutions and third-party vendors need considerable time to develop and deploy security updates. This vulnerability is amplified by a high concentration of common IT vendors and shared IT infrastructure within the financial system. A single flaw in widely adopted software can expose multiple institutions simultaneously, resulting in potential operational disruptions.

The European Commission complemented the ESRB warning by publishing an Action Plan on cybersecurity and AI the same day. Building on the EU's existing legal framework, this Action Plan sets out a coordinated approach for Europe to benefit from the opportunities offered by AI while addressing the new risks it creates. It focuses on three complementary objectives: (1) promoting the safe and

responsible use of advanced AI, (2) reinforcing the EU's cybersecurity and resilience and (3) scaling up Europe's AI capabilities for cybersecurity.

Within this coordinated approach, the ECB sent a letter on supervisory expectations to the CEOs of significant credit institutions in the euro area, followed by a respective letter by the OeNB and the FMA to all other Austrian financial entities. According to these communications, institutions are expected, among other things, to accelerate vulnerability remediation, enhance defensive capabilities, develop and maintain multi-layered internal security barriers ("defence in depth"), improve crisis preparedness and actively participate in sector-wide information exchange.

However, over the medium to long term, this elevated threat environment could transition towards an improved cybersecurity equilibrium. In a scenario where software developers and institutions broadly adopt defensive AI tools to audit and harden codebases already during development, the initial wave of discovered vulnerabilities could eventually peak and subside. This would contribute to a digital ecosystem that proves structurally more resilient overall.

Post-quantum risk turns cryptographic migration into a present-day supervisory concern

The quantum threat to conventional cryptography makes the transition to post-quantum cryptography (PQC) an urgent reality for the financial sector, even though sufficiently market-ready quantum computers do not yet exist. A fault-tolerant, scalable machine is capable of breaking asymmetric cryptography and weakening symmetric encryption and hash functions that underpin secure communications, authentication and digital signatures. Moreover, "harvest now, decrypt later" attacks allow adversaries to collect encrypted information today and expose it once the necessary quantum capabilities become available. Long confidentiality horizons expose data to "harvest now, decrypt later" attacks, while the migration of complex legacy infrastructures requires action well before quantum computers become available. Consequently, post-quantum risk is already a present-day resilience concern.

In response, European and international authorities as well as standard-setting bodies are actively prioritising the migration process required to mitigate this risk. Following the publication of the first core National Institute of Standards and Technology standards (NIST standards), the NIS Cooperation Group's European roadmap calls on member states to start transitioning by the end of 2026 and to protect high-risk use cases by 2030. For the financial sector, Europol's Quantum Safe Financial Forum recommends prioritising use cases according to their quantum risk in terms of data shelf life, exposure and potential impact as well as the expected migration time. Institutions consequently need to identify where vulnerable public-key cryptography is used, connect this inventory to critical business services and third-party dependencies, reduce cryptographic technical legacies and prepare to deploy hybrid or pure PQC solutions as standards evolve and interoperable products become available.

Banking supervision will increasingly assess whether institutions can demonstrate credible, governed and testable migration readiness. The existing DORA framework already requires financial entities to maintain policies on encryption and cryptographic controls and to update cryptographic technologies in response to developments in cryptanalysis. Quantum readiness was highlighted in the concluding section of the CEO letter issued in early June to significant institutions and will be followed by closer supervisory engagement in the coming years. The relevant question is not when "Q-Day" will arrive, but whether institutions can replace vulnerable cryptography before it does.

Table 5

Annex: Macroprudential stance in Austria

Buffer rates and FMSB criteria currently in force

As at 1 Oct. 2026	CCoB	CCyB	O-SII buffer	SyRB	sSyRB	FMSB criteria (residential real estate)
	%					
Calibration	2.5	0	0.45-1.75	0.5-1.0[1]		90% LTC, 40% DSTI
					2.0% for CRE exposures[2]	max. maturity of 35 years
Number of banks	All banks	n.a.	7 (consolidated)	12 (consolidated)	All banks	All banks
			8 (unconsolidated)	11 (unconsolidated)		

[1] The FMSB advised the FMA to lower the maximum buffer rate in two steps, first to 0.75% as of 1 January 2027, and then, one year later, to 0.5%.
[2] The FMSB advised the FMA to raise the buffer rate of 1% in two steps, first to 2% as of 1 July 2026, and then, one year later, to 3.5%.

Note: CCoB = capital conservation buffer; CCyB = countercyclical capital buffer; O-SII buffer = capital buffer for other systemically important institutions; SyRB = systemic risk buffer; sSyRB = sectoral systemic risk buffer; LTC = loan-to-collateral ratio; DSTI = debt service-to-income ratio.

Source: OeNB. For an overview of macroprudential instruments in the Austrian Banking Act, see https://www.fmsg.at/en/macroprudential-supervision/instruments.html.

Studies

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The effects of macroprudential buffers on commercial real estate lending volumes and interest rates

Ex post assessment of the impact of the sectoral systemic risk buffer in Austria

The sectoral systemic risk buffer (sSyRB) was introduced in Austria in 2024. It applies to commercial real estate (CRE) lending and aims for greater banking sector resilience. Our study finds that, on the aggregate level, the sSyRB has no economically or statistically significant adverse effects on CRE lending volumes or rates. Moreover, we identify a lending shift: Higher capitalised banks with lower NPL ratios markedly increased their CRE lending. Overall, this helped reduce financial stability risks.

JEL classification
E44, G21, G28, R30

Keywords
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The sSyRB has made the Austrian banking sector more resilient

Thanks to the introduction of the sSyRB, Austrian banks have increased their capital buffers and thus become more resilient to risks in the commercial real estate (CRE) segment.



The sSyRB has no significant adverse effects on CRE lending

Our study shows that the introduction of the sSyRB for CRE lending in Austria has neither driven up CRE lending rates nor caused a decline in the volumes of CRE lending.



Redistribution of CRE lending reduces financial stability risks

Banks with higher capitalisation and lower volumes of non-performing loans have increased their CRE lending relative to other banks. This shift in CRE lending has reduced the related risks to financial stability.

The views expressed are those of the authors and do not necessarily reflect those of the Oesterreichische Nationalbank or the Eurosystem.

1 Introduction and literature review

The sectoral systemic risk buffer (sSyRB) on commercial real estate (CRE) loans was introduced in Austria in 2024 in response to elevated structural systemic risks in the CRE lending market.[1] Based on related OeNB systemic risk analyses, the Financial Market Stability Board (FMSB) recommended in 2024 and 2025 that Austrian banks should hold additional regulatory capital for potential periods of stress (OeNB, 2026).[2] While the introduction of the sSyRB was aimed at enhancing the resilience of the Austrian banking sector, this contribution explores potential changes in banks' CRE lending rates and lending volumes around the announcement date of the sSyRB. We will start by setting out, from a theoretical and literature perspective, how capital requirements and additional factors affect banks' lending decisions. The remaining sections of this short paper present the empirical results of our ex post impact assessment.

The sectoral systemic risk buffer (sSyRB) increases the amount of regulatory capital that banks must hold against risk-weighted assets associated with loans to firms in the real estate and construction sectors. In principle, higher capital requirements may increase the marginal cost of supplying affected loans and thereby influence loan pricing and credit volumes. However, the ultimate effect of higher capital requirements on lending is not straightforward. Lending conditions are jointly determined by credit risk, funding and liquidity costs, operational costs, competitive pressures and regulatory requirements (Enthofer and Haas, 2018; Motaze, 2022; Davis et al., 2025). Banks may respond to higher capital requirements by adjusting their funding structure, raising additional capital, increasing lending rates, reallocating lending activities or absorbing the additional requirements through existing managerial capital buffers. Responses may therefore differ across banks, depending on their capitalisation, asset quality, balance sheet structure and market position.

The empirical literature is consistent with this ambiguity, providing mixed evidence regarding the effects of higher capital requirements on lending in general. A key challenge is that bank capital is endogenous and adjusts jointly with lending activity, balance sheet management and regulatory requirements, complicating causal inference (Da Rocha Lopes et al., 2025). Earlier studies exploiting regulatory shocks nevertheless document meaningful credit supply effects. For example, Fraisse et al. (2017) find that tighter capital requirements reduce corporate lending by affected banks, while D'Amario et al. (2026) estimate for the United Kingdom that a 100-basis-point increase in banks' capital ratios is associated with a decline in corporate lending of roughly 0.25% after six quarters and an increase in corporate lending rates of 7–10 basis points. Specific analyses on CRE lending in this context are scarce. Glancy and Kurtzman (2018) analyse a subcategory of CRE lending in the USA that was made subject to a 50% increase in capital requirements in 2015, namely so-called high-volatility CRE loans, i.e., for instance, CRE loans for land acquisition exceeding certain loan-to-value-limits or CRE loans with a low equity share in financing. They find that a 100-basis-point increase in capital requirements for these loans led to a 9.5-basis-point increase in lending rates. At the same time, other studies find that higher capital requirements need not necessarily translate into lower lending. Bahaj and Malherbe (2020) show that stronger capitalisation can improve bank safety and funding conditions, partly offsetting contractionary effects. Likewise, evidence from the Bank of England suggests that banks' responses depend importantly on institution-specific characteristics, including capitalisation and financial strength (Bahaj et al., 2016).

Additional evidence suggests that well-capitalised banks may be better positioned to sustain lending despite higher funding costs and tighter credit conditions (Faccia et al., 2024), while lending can be

[1] The sSyRB envisages a phase-in of buffer rates of 1% from 1 July 2025, 2% from 1 July 2026 and 3.5% from 1 July 2027. It is being implemented gradually to avoid any cliff effects or policy shocks or any sudden changes in lending behaviour and to grant banks more time to adjust to this policy measure.

[2] For details on the methodology used in the OeNB's analyses, see Barmeier et al. (2024) and OeNB (2026). The FMSB's recommendation and the OeNB's expert opinion are available at https://fmsg.at/publikationen/risikohinweise-und-empfehlungen/2024/empfehlung-fmsg-6-2024.html and at https://www.fma.gv.at/wp-content/plugins/dw-fma/download.php?d=7805&-nonce=ba0d331c474d11d5, respectively.

constrained by weak portfolio quality and elevated non-performing loans (Spiegel, 2025). The Deutsche Bundesbank (2026) likewise argues that stronger capital positions are compatible with higher lending growth. Moreover, regulatory tightening may induce a reallocation of credit provision across institutions and funding sources rather than a uniform contraction in aggregate credit supply (Bednarek et al., 2025).

These considerations are particularly relevant for the Austrian sSyRB. Unlike broad-based regulatory capital measures, it applies only to a narrowly defined subset of risk-weighted assets, namely to loans to firms in the commercial real estate and construction sectors. Furthermore, as the sSyRB had not previously been activated in Austria and banks do not seem to have widely anticipated its activation, despite multiple risk-related communications by the Financial Market Stability Board, its introduction represents a plausibly exogenous increase in regulatory capital required for affected exposures. This setting allows us to identify associations between the sector-specific capital requirement, lending volumes and lending rates in a difference-in-differences framework while examining whether banks' responses differ according to their capital headroom and portfolio quality.

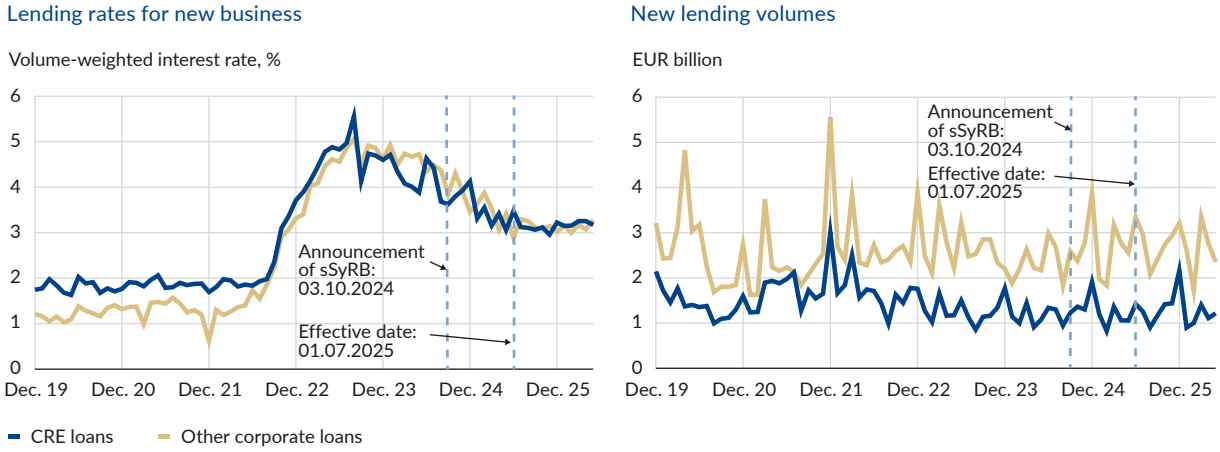
2 Empirical strategy

2.1 Data

To estimate the effect the sSyRB on CRE loans has on CRE lending rates and loan volumes, we use granular data from the OeNB's collection of granular credit data in Austria.[3] The dataset is at loan level and includes all loans by Austrian banks to legal entities exceeding a reporting threshold of EUR 25.000. Given the low reporting threshold, the data cover virtually all loans to legal entities. Our sample contains data from December 2019 to April 2026, providing a wide range of detailed information including lending volumes, lending rates, debtors' probability of default (PD), the value of collateral and the risk weights associated to loans. In our analysis, we focus on new lending, i.e. loans that were newly granted in the reporting month. This does not include renegotiated loans or forbearance measures, but it includes new loans granted due to companies' liquidity constraints.

Chart 1

Comparison of developments in CRE loans and other corporate loans



Note: The first vertical line indicates when the sSyRB for CRE lending was announced and the second vertical line indicates the date the sSyRB took effect.

Source: OeNB (granular credit data).

[3] The OeNB collects granular credit data from all Austrian banks. The details on the related reporting requirements can be found at https://www.oenb.at/serviceportal/meldebereich/meldebestimmungen/granulare-kreditdatenerhebung.html (German).

Chart 1 shows how CRE loans developed relative to other corporate loans in terms of lending rates and new lending volumes. As the left-hand panel shows, lending rates for new business increased substantially (both for CRE loans and other corporate loans) after monetary policy rates were raised in late 2022. As a consequence, the volumes of new business decreased (see right-hand panel). New lending generally exhibits high intra-year volatility.

The visual evidence presented in chart 1 indicates that, during the period under observation, the sSyRB had no significant effect on either CRE lending rates or lending volumes. The lending rates for CRE loans did not rise either following the announcement of the sSyRB or following the date it took effect, and they remained at the same level as those for other corporate loans. Similarly, CRE lending volumes did not change significantly after the sSyRB was announced or took effect.

However, a purely descriptive aggregated view on the data, as presented in chart 1, is not sufficient to evaluate the effect the sSyRB had on CRE lending rates and volumes: The risk profile of loans may have changed, confounding factors (such as other regulatory changes) may play a role and the aggregate view may obscure borrower migration within the banking sector. We therefore continue with an empirical estimation of the effects of the sSyRB on CRE lending.

2.2 Econometric specification

We gauge the effect the sSyRB on CRE loans had on CRE lending rates and new lending volumes in a difference-in-differences (DID) framework. The DID approach compares changes in lending outcomes for sectors affected by the sSyRB with changes in lending outcomes for corporate sectors not covered by the measure. Under the standard DID assumption that both groups would have followed similar trends in the absence of the policy intervention, the estimated effects can be interpreted as causal (Angrist and Pischke, 2009). Visual inspection of chart 1 suggests that lending rates and lending volumes evolved broadly in parallel prior to the announcement of the sSyRB, although no formal parallel-trends test is performed. As discussions of systemic risks in the CRE sector predated the official recommendation of the measure, the estimates should be interpreted as effects around the announcement (or implementation) date and may not fully capture any earlier adjustments in lending. Econometrically, we implement the DID approach by estimating the following fixed effects linear regression

$$Y_{b,s,t} = \beta_1 \, Treated_s \times Post_t + \gamma \, X_{b,s,t} + \delta_t + \mu_b + \eta_s + \varepsilon_{b,s,t} \tag{1}$$

where $Y_{b,s,t}$ captures the two variables of interest – either the volume-weighted lending rate for new lending from bank b to debtors in sector s at time t or the log new loan volume from bank b to debtors in sector s at time t. By aggregating individual loans at the bank-NACE sector level, the coefficient of interest, β_1, captures the average effect of the announcement (or implementation) of the sSyRB on banks' CRE lending business. The coefficient is identified through the interaction of two dummy variables: $Treated_s$, which is equal to 1 for CRE loans and 0 otherwise, and $Post_t$, which is equal to 1 for all time periods after the date the sSyRB was first announced on 3 October 2024, and 0 otherwise. As a robustness check, we also consider the date the sSyRB took effect on 1 July 2025.

Our regression specification is supported by a series of fixed effects: We include time fixed effects δ_t to account for structural aspects that affect all loans simultaneously (e.g. macroeconomic conditions), bank fixed effects μ_b to capture banks' average properties over time (e.g. banks' business models) and two-digit NACE sector fixed effects η_s to account for sectors' average structural properties over time (e.g. credit demand). In addition, we control for a number of covariates at the bank-sector-period level. In particular, we include the exposure-weighted PD as a measure of the riskiness of new loans, their exposure-weighted value-to-loan (VTL) ratio as a measure of collateralisation and, therefore, of loss given

default, and the exposure-weighted risk weight to capture regulatory changes such as the implementation of the Capital Requirement Regulation (CRR) III and the discontinuation of the derogation for exposures secured by CRE.[4] Following the recommendations of Bertrand et al. (2004), we employ a three-way clustering of standard errors at the bank-, two-digit NACE and time period levels to account for serial correlation within groups as well as for the within-period cross-sectional correlation of estimation errors.

3 Results

We present the results of our estimation of the association between the introduction of the sSyRB and CRE lending rates in table 1. We find that the sSyRB has no statistically significant effect on interest rates for new CRE loans. While point estimates suggest a 3–4-basis-point increase, they are statistically indistinguishable from zero and should be considered chance measurements. This assessment is robust to a number of variations in estimation approaches. First, the estimation results do not significantly change whether we consider the effective date of the sSyRB (1 July 2025) or its date of announcement (3 October 2024). Second, in columns (2) and (4) of table 1, we control for additional factors that influence loan pricing, i.e. the PD, the VTL ratio and the respective risk weight. All coefficient estimates on these covariates display the economically expected signs. Third, our results are robust to variations in the design of fixed effects as well as to changes in the time period considered. In more detail, we exclude the period of the COVID-19 pandemic from our estimation to ensure that our estimation results are not distorted by this unprecedented economic phase.[5]

Table 1

Impact of sSyRB on lending rates

Dependent variable	Lending rates			
Model	(1)	(2)	(3)	(4)
$Treated_s \times Post_t^{announced}$	0.0003 (0.0004)	0.0002 (0.0005)		
$Treated_s \times Post_t^{effective}$			0.0003 (0.0005)	0.0004 (0.0004)
Probability of default		0.0408*** (0.0046)		0.0408*** (0.0046)
Value-to-loan ratio		-0.0001 (0.0002)		-0.0001 (0.0002)
Risk weight		0.0013* (0.0008)		0.0013* (0.0008)
Fixed effects				
Bank	Yes	Yes	Yes	Yes
Time	Yes	Yes	Yes	Yes
Sector	Yes	Yes	Yes	Yes
Fit statistics				
Observations	135,104	124,355	135,104	124,355
R2	0.48590	0.52290	0.48590	0.52290
Within R2	1.13e-5	0.01399	3.48e-6	0.01399

Note: Significance codes: *** = 0.01, ** = 0.05, * = 0.1. Standard errors triple-clustered at the bank, sector and reporting period level are in parentheses.

Source: OeNB.

[4] For details on the hard test, please refer to https://www.fma.gv.at/en/banks/fma-disclosure/applicable-laws/disclosure-on-compliance-with-maximum-loss-rates/.

[5] Due to space constraints, the results of these estimations are not reported here. They are available from the authors upon request.

Our findings are broadly consistent with those of the OeNB's ex ante impact assessment (OeNB, 2026), which concluded that the effects of the sSyRB on CRE lending rates in Austria were likely to be small. The assessment argued that most affected banks possessed sufficient capital buffers to absorb the additional requirements and therefore anticipated only limited effects on lending conditions.

The results of our estimation of the association between the sSyRB and CRE lending volumes are shown in table 2. The estimated coefficients suggest an increase in lending volumes. However, they exhibit weak to no statistical significance. The increase implied by the point estimates may reflect an increased need for bridge financing (e.g. due to longer property disposal periods) at the current stage of the property cycle that coincided with the introduction of the sSyRB. The magnitude of the positive coefficient weakens considerably upon inclusion of standard covariates (columns (2) and (4) of table 2).

All additional covariate coefficients exhibit the economically expected signs: Higher default risk is associated with lower new lending, whereas higher collateralisation allows banks to extend larger loan volumes. Moreover, higher loan growth is associated with higher risk weights, which suggests a shift of lending to larger companies that do not have the preferential regulatory treatment (namely the CRR "supporting factor", i.e. a capital discount factor for small and medium enterprises). Again, our results are robust to additional variations in the estimation design. Our estimation results suggest no evidence for the introduction of the sSyRB having constrained CRE lending.

Table 2

Impact of sSyRB on lending volumes

Dependent variable	Log new loan volume			
Model	(1)	(2)	(3)	(4)
$Treated_s \times Post_t^{announced}$	0.0503* (0.0264)	0.0406* (0.0243)		
$Treated_s \times Post_t^{effective}$			0.0811** (0.0365)	0.0480 (0.0352)
Probability of default		-2.536*** (0.3982)		-2.533*** (0.3984)
Value-to-loan ratio		0.1149*** (0.0165)		0.1150*** (0.0165)
Risk weight		1.056*** (0.0955)		1.055*** (0.0956)
Fixed effects				
Bank	Yes	Yes	Yes	Yes
Time	Yes	Yes	Yes	Yes
Sector	Yes	Yes	Yes	Yes
Fit statistics				
Observations	135,104	124,355	135,104	124,355
R2	0.23507	0.27349	0.23507	0.27348
Within R2	1.97e-5	0.02734	2.48e-5	0.02733

Note: Significance codes: *** = 0.01, ** = 0.05, * = 0.1. Standard errors triple-clustered at the bank, sector and reporting period level are in parentheses.

Source: OeNB.

In addition to the overall average effect of the sSyRB on the banking sector in Austria, we evaluate potential sSyRB-related lending redistribution effects within the banking sector. For this purpose, we conduct two sets of sample splits to gauge the magnitude of the redistribution of new lending within the Austrian banking sector. We categorise banks into terciles based on the share of NPLs in their corporate lending portfolios and on their capital headroom beyond the regulatory requirement. Thus, we classify banks as "low NPL banks" when they are among the one-third of banks with the lowest NPL ratios and as "high NPL banks" when they are among the one-third of banks with the highest NPL ratios. Our classifi-

cation of banks as "low-capitalised banks" and "high-capitalised banks" follows the same logic. Both rankings are measured in the reporting period prior to the date when the sSyRB was first announced. In the subsequent analyses, we focus on the announcement of the sSyRB, as it constitutes the relevant treatment event and provides the variation used to identify the estimated effects of the policy measure.

Table 3 shows the estimation results for the impact of the sSyRB on CRE lending with the sample splits depending on banks' NPL ratios and capitalisation. The estimation results suggest a redistribution of CRE lending from banks with high NPL ratios and lower capitalisation towards banks with lower NPL ratios and stronger capitalisation. While the negative coefficients in columns (2) and (3) suggest that banks with high NPL ratios and low capitalisation may have reduced their CRE lending, the estimates are not statistically significant. In contrast, we find banks with low NPL ratios and strong capitalisation stepped up their CRE lending relative to other corporate lending, with the effects being both economically and statistically significant. Our estimates imply a 9.3% increase in CRE lending for low NPL banks (column (1) of table 3) and an even higher 20.8% increase for highly capitalised banks (column (4) of table 3).[6] Although the estimated coefficient in column (4) lies at the upper end of the plausible range, our findings are consistent with recent evidence documenting a positive relationship between bank capitalisation and lending activity (Deutsche Bundesbank, 2026; Faccia et al., 2024; Spiegel, 2025). Our results are broadly consistent with the OeNB's own ex ante impact assessment, an exercise that is performed for all newly introduced macroprudential policy measures. It found that the sSyRB would have negligible effects on the interest rates on CRE loans and, consequently, on lending investments and GDP growth in Austria (Schmitz, 2025; OeNB, 2026).

While consistent with the broader literature, our findings differ from Glocker et al. (2026), who estimate the policy effect using only three identifying observations in a Bayesian VAR with 76 total observations and conclude that the introduction of the sSyRB significantly reduced CRE lending and subsequently negatively affected construction activity.[7]

Table 3

Impact of sSyRB by banks' NPL share and capitalisation before announcement

Dependent variable	Log new loan volume			
	Low NPL banks	High NPL banks	Low-capitalised banks	High-capitalised banks
	(1)	(2)	(3)	(4)
$Treated_s \times Post_t^{announced}$	0.0894*	-0.1100	-0.0055	0.1893***
	(0.0478)	(0.0775)	(0.0522)	(0.0531)
Probability of default	-1.866***	-2.184***	-2.631***	-1.023
	(0.6648)	(0.4919)	(0.4695)	(0.6825)
Value-to-loan ratio	0.1593***	0.1102***	0.0830***	0.1165***
	(0.0297)	(0.0183)	(0.0170)	(0.0170)
Risk weight	0.7450***	1.266***	1.262***	0.4565
	(0.2170)	(0.1034)	(0.1060)	(0.3385)
Fixed effects				
Bank	Yes	Yes	Yes	Yes
Time	Yes	Yes	Yes	Yes
Sector	Yes	Yes	Yes	Yes
Fit statistics				
Observations	31,175	40,965	55,511	21,589
R2	0.23749	0.27548	0.32457	0.22879
Within R2	0.01883	0.03881	0.03879	0.00944

Note: Significance codes: *** = 0.01, ** = 0.05, * = 0.1. Standard errors triple-clustered at the bank, sector and reporting period level are in parentheses.

Source: OeNB.

[6] At face value without accounting for possible econometric corrections.

[7] For a discussion of Glocker et al. (2026), see Barmeier et al. (2026).

4 Summary

Taken together, the results of our estimates suggest that the introduction of the sectoral systemic risk buffer (sSyRB) on commercial real estate (CRE) lending in Austria has so far neither materially impaired CRE loan provision nor led to a significant increase in interest rates on newly granted CRE loans. This confirms the effects anticipated by the OeNB's ex ante impact assessment and is in line with empirical literature. At the same time, we find that the sSyRB has led to a shift of CRE lending towards banks with higher capital positions and lower NPL ratios. By causing this shift, the sSyRB has been contributing to making the Austrian financial system more resilient without generating any discernible adverse effects on credit supply or loan pricing.

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9 pages

Private credit – a spectre under scrutiny

The significance of private credit in Austria

Private credit is one of the fastest growing credit segments globally. An increase in redemption requests in early 2026 caused concern among financial market participants about the possible negative implications for financial stability. We quantify the direct exposure of Austrian and euro area banks to private credit vehicles. We use a novel LLM-based classification and find that Austrian exposure is low. Therefore, at present, private credit exposures pose no direct threat to financial stability in Austria. However, continued supervisory attention is warranted, given the dynamic development of the asset class, possible second-round effects and structural concerns including market opacity, cross-border complexity and regulatory arbitrage.

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Private credit is an alternative to bank lending and market-based financing

Banks and insurers interact with the market differently: banks mainly provide financing to private credit funds, while insurers typically invest in private credit funds.

Exposure of Austrian financial institutions to private credit is low

Private credit exposures of Austrian banks, insurers and pension funds are comparatively low, amounting to EUR 12.0 billion.

Financial market stability: modest risk but supervision stays vigilant

Currently, private credit exposures pose no material threat. Market opacity, second-round effects, cross-border complexity and regulatory arbitrage warrant continued supervisory attention.

The views expressed are those of the authors and do not necessarily reflect those of the Oesterreichische Nationalbank, the Financial Market Authority or the Eurosystem.

1 Abstract

Private credit vehicles are non-bank lenders providing debt financing to non-financial corporations. Their exponential growth in recent years, their opacity and the increase in redemption requests faced by private credit funds in early 2026 caused concern among financial market participants about the risks private credit funds pose to financial stability. We shed light on a relatively underexplored and opaque part of the financial sector by analysing granular data on Austrian financial institutions and euro area banks. In order to identify the private credit exposure of banks, we implement an LLM-based method to classify 68,205 debtors. For insurers we use data from the Financial Market Authority (FMA).

In total, we estimate Austrian financial institutions' exposure to private credit – comprising corporate, real estate and infrastructure private credit – at <1% of assets or EUR 12.0 billion. Thereof, Austrian banks' exposure to private credit funds is relatively low, at around EUR 4.4 billion (<0.5% of assets). Austrian insurers hold around EUR 6.2 billion (<5%) and pension funds EUR 1.4 billion (<5%), but both typically act as investors in private credit vehicles, in contrast to banks' role as lenders to private credit vehicles. Large euro area banking groups tend to hold a good part of their private credit exposure via their foreign subsidiaries. At present, private credit exposures pose no material risk to financial stability in Austria. However, structural vulnerabilities, including market opacity, cross-border complexity, misaligned incentives, regulatory arbitrage and lending to weaker borrowers, warrant continued supervisory attention as the market evolves and exposures grow.

2 Private credit – overview, market evolution and definition

"Private credit", often used synonymously with "direct lending", refers to debt financing provided directly by non-bank lenders to non-financial corporations. Typically, the bulk of this form of lending is provided by specialised and private credit funds. Private credit typically finances unrated, higher-risk mid-market companies, enabling investors to earn comparatively high returns in exchange for greater credit and liquidity risks. Lending rates are typically 200–400 basis points higher than those on comparable syndicated loans, compensating lenders for elevated credit and liquidity risks (Financial Stability Board, 2026). In terms of absolute performance, returns have been generally in the range of 9% to 10% per year.[1] In addition to higher returns, private credit offers diversification benefits due to its low correlation with traditional asset classes. However, the apparent stability of returns partly reflects infrequent valuation, which smooths reported returns and delays the incorporation of changing market conditions (Ellias and de Fontenay, 2023). Given their long investment horizon, private credit investments are primarily held by institutional investors with higher risk tolerance, such as pension funds, insurance companies, endowment funds, foundations and sovereign wealth funds. Banks primarily act as senior lenders and providers of liquidity and subscription credit lines for leveraged funds (Matvos et al., 2026).

Private credit funds are typically structured as closed-end funds. More recently, however, the market has increasingly opened up to retail investors through a range of investment vehicles, including business development companies (BDCs) in the USA, many of which offer limited periodic liquidity, and European Long-term Investment Funds (ELTIFs) in Europe.[2] The increasing use of semi-liquid fund structures has

[1] Private credit has historically generated annual returns of around 9–10%, with the Cliffwater Direct Lending Index (CDLI) – the most widely used benchmark for direct lending – reporting an average annual return of 9.6% over the past 20 years. In 2025, the index returned 9.3%, primarily driven by interest income. According to Preqin data, private credit funds reported an internal rate of return of 10.0% over five years. Reported returns vary across data providers, time periods and market segments.

[2] Despite rapid growth in recent years, the ELTIF market remains comparatively small. Unlike US BDCs, European ELTIFs have not experienced notable redemption pressures over the past months.

exposed funds to liquidity mismatches between illiquid assets and investors' redemption claims. These vulnerabilities became evident during the market turmoil in the USA in February and March 2026 (ECB, 2026). After investors became concerned about the high exposure of private credit funds to "SaaS" (software-as-a-service), other software companies and prominent corporate failures (e.g. Tricolor and First Brands in late 2025), redemption pressures increased in semi-liquid private credit fund structures. To mitigate liquidity risks, redemptions in these vehicles are typically capped at 5% of net asset value (NAV) per quarter. This is known as "gating". Redemption requests exceeded these quarterly limits in the first quarter of 2026. Against this backdrop, shares of several asset managers faced significant selling pressure.

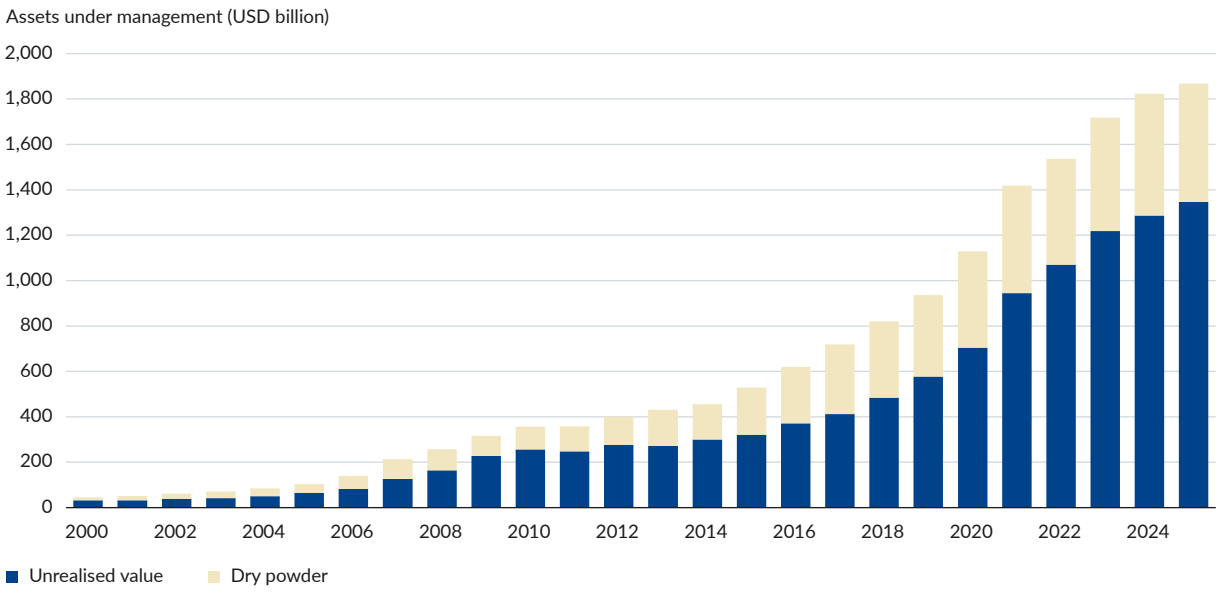
The private credit market is dominated by large US funds. According to data provided by Preqin[3], 9 of the 10 largest private credit fund managers are in the USA. As of August 2026, the largest fund manager is Ares Management, with USD 144 billion total funds raised, followed by Oaktree Capital Management (USD 143 billion) and Goldman Sachs (USD 112 billion). Asset managers are the most important private credit investor type, followed by public pension funds and insurance companies. Of the world's 100 largest private credit investors, around 30% are based in the USA, followed by Canada and France.

Banks often act as lenders and liquidity providers to private credit funds rather than as equity investors. Their exposures often take the form of senior secured credit facilities, including facilities backed by the fund's loan assets or portfolio and subscription credit lines, which are secured by investors' uncalled capital commitments (Haque et al., 2025). Banks also act as counterparties in derivative transactions. Another important link to the banking sector is the market for synthetic risk transfers (SRTs). In recent years, private credit funds have become important investors in SRT transactions originated by banks (Financial Stability Board, 2026).

Private credit has been one of the fastest growing segments in alternative credit markets over the past decade. Once a niche market, it expanded rapidly after the global financial crisis, as banks became

Chart 1

Global growth in private credit from 2000 to 2025



Source: Preqin.

[3] Preqin is a leading data and analytics platform for private markets and alternative investments.

more reluctant to lend to riskier companies in response to stricter global banking rules under the Basel framework. Growth was further driven by high loan demand and investors' search for yield during the low interest environment until 2022. According to Preqin data, total assets under management (AuM) grew from USD 32 billion in 2000 to USD 1.8 trillion as of year-end 2025. Around 30% of total AuM is capital that investors have committed to private credit funds but that has not yet been deployed "dry powder". The following chart shows the growth of global private credit AuM between 2000 and 2025.

Despite the rapid growth of the private credit market, its overall size remains relatively modest compared with other markets, such as the corporate bond and bank lending markets. In comparison to the USD 1.8 trillion in assets under management, the broader private capital market amounted to around USD 14.6 trillion, while the global corporate bond market reached USD 36 trillion, global bank balance sheets USD 106 trillion, and global equity market capitalisation USD 127 trillion.[4]

3 What supervisory data reveal

Private credit funds were in the news almost daily in 2026 due to the sharp rise in redemption requests. At the same time, concern grew among international bodies about the financial stability implications of these private lenders (ECB, 2026; Financial Stability Board, 2026). But how significant is the direct exposure link to banks? Do we need to be concerned about broader financial stability if private credit funds are faced with redemptions and defaults among their debtors? In this section, we utilise two datasets containing individual creditor-debtor relationships to gauge the exposure of banks to private credit funds: the Granular Credit Data (GCD) for Austrian banks and AnaCredit for the international perspective.

The key challenge in analysing private credit is the lack of a standard definition. One perspective focuses on the underlying investment strategies, while another takes a broader view of the private credit ecosystem. This broader view encompasses a wide range of private credit vehicles, as well as collateralised loan obligations (CLOs) and synthetic risk transfer (SRT) transactions as financing and distribution mechanisms (see figure below).

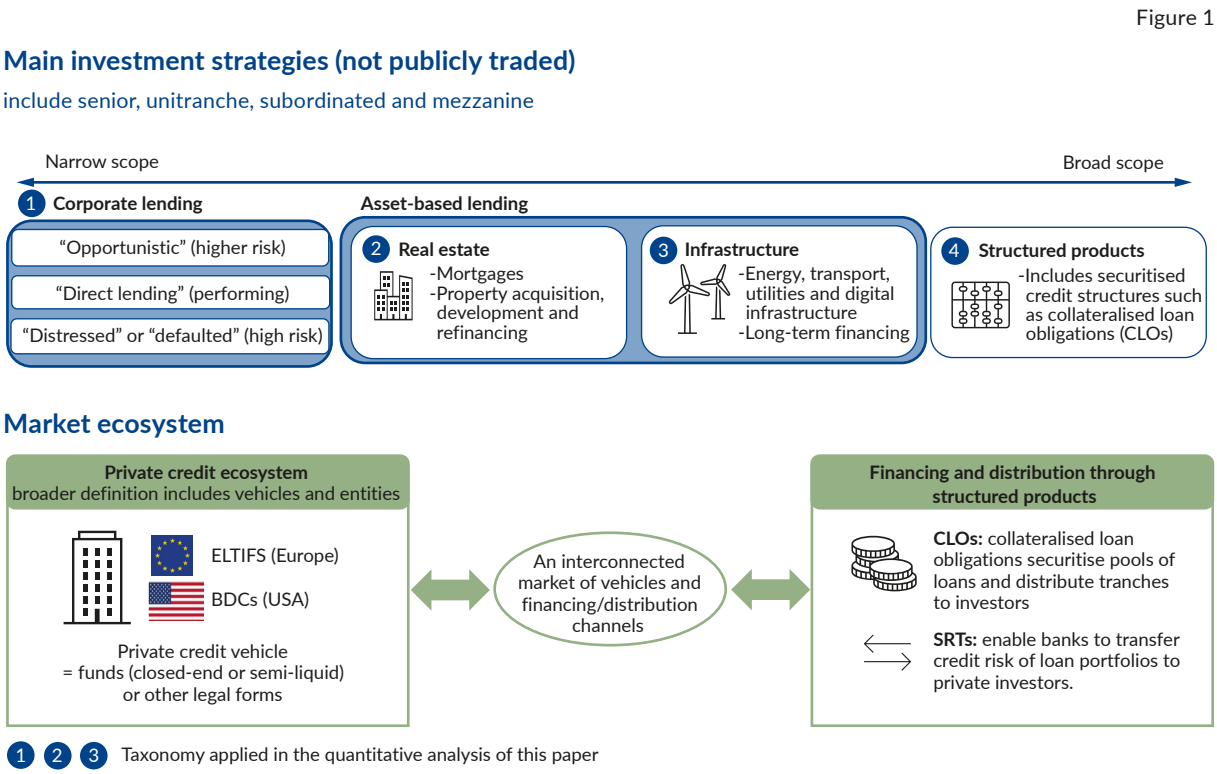
In our study, we focus on the main underlying investment strategies, from corporate lending (including direct lending, opportunistic and distressed strategies) to asset-based lending in real estate and infrastructure, while excluding structured products and high-yield bonds. In terms of the private credit ecosystem, we include closed-end and semi-liquid funds, as well as other legal forms, while excluding CLOs and SRTs.

The lack of a standard definition also poses a practical challenge when attempting to measure private credit exposures. There is no single NACE code or other identifier with which we can cleanly label a counterparty or investment as private credit. This makes it difficult not only to compare studies but also for supervisors to estimate private credit exposure based on surveys among banks. Different definitions lead to incomparable figures. For insurers (as lenders) we can rely on EIOPA's security-level regulatory reporting by asset class (CIC codes), which enables the identification of private assets and exposure comparisons across European countries. To identify the lending of insurers to the private credit market, we follow EIOPA (2026) in its broader definition, which includes direct lending via mortgages, corporate loans and non-listed or non-exchange tradable corporate bonds.[5]

[4] Preqin, Bloomberg.

[5] The broader definition for insurers also reflects the new regulatory requirements on liquidity risks in the Solvency II Review (see also Art. 144b in Directive (EU) 2025/2). See EIOPA (2026) p. 88f for the definition by asset classes.

Figure 1



Source: Authors' compilation.

For banks' exposure we take a novel approach: first we extract all counterparties in the relevant NACE sectors[6] and then we classify each counterparty according to a dedicated web search. For each of the 68,205 counterparties we task an LLM to perform online research and thus classify the counterparty according to the taxonomies defined in the figure above. Since such a task would be prohibitively expensive using external LLMs, we use the OeNB's on-premise model "minimax-m².7". This approach allows us to have the same standardised procedure for each counterparty. However, it is not flawless and although manual checks found a low rate of misclassifications, it is statistically certain that some firms will be misclassified.

3.1 Exposure of Austrian financial institutions to private credit (PC)

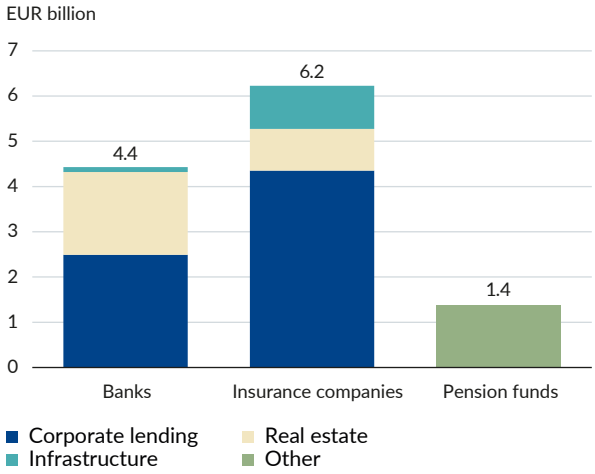
Combining GCD for banks with FMA security-level reporting for insurers and pension funds, we can gauge Austrian financial sector exposure to private credit comprising PC corporates, PC real estate and PC infrastructure, excluding structured products.[7] Banks and insurers engage with the private credit market in distinct ways: while banks provide financing to private credit vehicles, insurers gain exposure by investing directly in private credit assets. We estimate this exposure at approximately EUR 12.0 billion as of year-end 2025: EUR 4.4 billion for banks (<0.5% of total assets), EUR 6.2 billion for insurers (<5%) and EUR 1.4 billion for pension funds (<5%).

[6] Our initial NACE sectors were "Trusts, funds and similar financial entities", "Other financial service activities, except insurance and pension funding", "Other credit granting" (codes '64_3', '64_31', '64_9', '64_92', '64_99'), yielding around 13,000 firms which we classified using the LLM approach. We also examined "Activities of holding companies" (NACE code '64_2'), which in rare cases also contain private credit firms. This addition increased the number of firms by 117,000, with a total exposure value of EUR 2.6 trillion, of which we classified the counterparts with the largest exposure values totalling an exposure of EUR 2.5 trillion.

[7] As illustrated in the ECB's Financial Stability Review (ECB, 2026), a substantial share of banks' broader exposures to the private credit ecosystem is related to structured products. These exposures are excluded from the present analysis.

Chart 2

Private credit exposures in Austria



Source: GCD for banks, FMA for insurers and pension funds.

The breakdown of banks' EUR 4.4 billion in private credit exposures shows that corporate private credit vehicles account for the largest share at EUR 2.4 billion, followed by real estate at EUR 1.8 billion, including EUR 1.0 billion in mortgages.[8] Infrastructure exposures are comparatively small at EUR 108 million. Direct exposures are geographically concentrated, with the USA accounting for EUR 2.7 billion (over 60%), followed by Ireland and Luxembourg at around EUR 1.5 billion combined. This largely reflects the location of funds and financing vehicles rather than ultimate borrowers, although random sampling indicates that a substantial share of financing ultimately flows abroad.

Insurers hold even larger private credit exposures than banks. Based on FMA security-level reporting, total Austrian insurers' on-balance sheet exposures to private credit as of year-end 2025 amount to approximately EUR 6.2 billion. These estimates include investments within funds and intra-group transactions.[9] Corporate private credit accounts for the largest share, with exposures of approximately EUR 4.4 billion,[10] followed by private investments in infrastructure funds of approximately EUR 1.0 billion and real estate private credit of less than EUR 1.0 billion in mortgages. The geographical distribution of direct exposures is highly concentrated and explained by intra-group transactions. Austria is by far the most important debtor country, accounting for roughly EUR 2.0 billion, or roughly 30% of the total identified exposure, followed by Italy and Luxembourg, which together account for around EUR 1.7 billion. For Austrian pension funds, data are not available at the same level of granularity, as their investments are fully wrapped into (funds of) investment funds. Approximately EUR 1.4 billion are estimated to be exposed to private credit risks, with a negligible share of corporate lending and mortgage activities.

While the analysis above illustrates the broader involvement of institutional investors in private credit markets, GCD allows for a more granular assessment of the credit risk characteristics of banks' exposures. Data reveal that credit risk characteristics of banks' private credit exposures differ markedly from those of other sectors. Exposure-weighted probabilities of default (PDs) for private credit funds are comparatively low, at around 0.2% in 2026, broadly in line with banks and well below those observed for other non-bank financial institutions (NBFIs) and non-financial corporations (NFCs). At the same time, private credit has historically had a high share of exposures without internal PDs, reaching almost 60% in some years. While this share has declined substantially, around 12% of private credit exposures still lack an internal PD in 2026. Where internal ratings are available, banks tend to assign relatively low average PDs. This might be caused by a lack of proper, sufficiently large loss data for these counterparties. **Against this background, the comparatively high share of exposures without internal ratings points to the inherent**

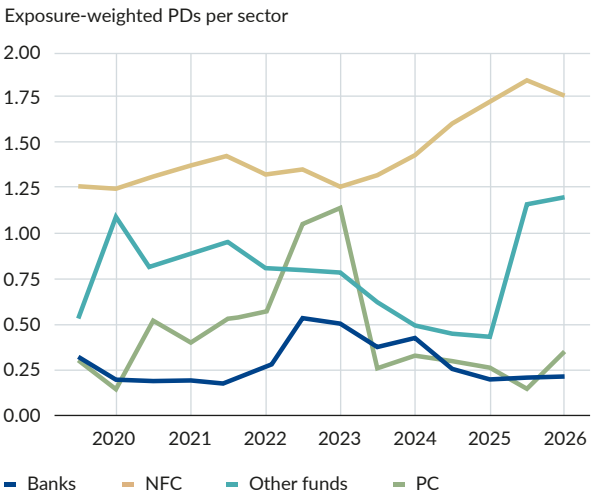
[8] The real estate category comprises exposures to real estate funds and excludes SPVs and project financing structures.

[9] Intra-group transactions (IGT) are financial activities between undertakings within the scope of an insurance group, including insurance companies, other financial institutions and other non-financial undertakings. Transactions with private credit characteristics mostly comprise loans from insurance companies to affiliate non-financial entities, for instance real estate companies, within the respective insurance group and are subject to Solvency II insurance group supervision.

[10] Thereof, group internal lending activities account for approximately EUR 2.8 billion.

Chart 3

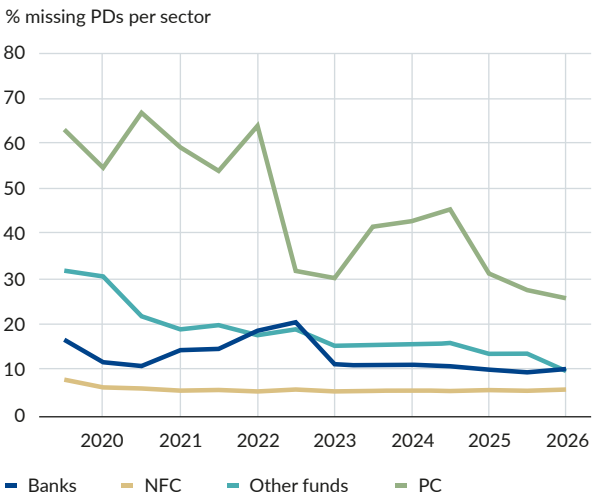
Low internal PDs



Source: GCD.

Chart 4

Historically high number of unrated PC funds



Source: GCD.

opacity of private credit markets, where limited transparency constrains a comprehensive assessment of underlying credit risk.

3.2 Exposure of euro area banks to PC

The classification exercise reveals that only a small fraction of the total exposure is vis-à-vis private credit funds. Of the total of EUR 2.6 trillion reported by SSM banks in the relevant economic sectors[11], only EUR 62 billion is attributable to lending to private credit funds. This figure is astonishingly low compared to survey data from the ECB (2026), which coincidentally also come to an estimate of EUR 62 billion, but only for private credit corporates and only for the 12 banks in the sample. After careful manual inspection of the data and comparison with other sources on a bank-by-bank basis where available, the explanation for our low figure is that lending by large SSM banking groups to private credit funds is conducted to a significant degree by their foreign subsidiaries or branches. Our dataset contains only lending by SSM banks; thus, lending e.g. via subsidiaries or branches in non-SSM countries is not included unless the loan is also serviced by the parent. Among the largest SSM banking groups we find some where the parent services many loans of the US subsidiary and others where this is not the case. Nonetheless, the following observations can be made:

1) Direct lending by SSM banks to private credit funds is low. We attribute only EUR 38.3 billion to private credit funds engaged in corporate lending, EUR 11.6 billion to private credit real estate or mortgages, and EUR 7.5 billion to private credit funds infrastructure.
2) We explain higher reported values in surveys (ECB, 2026) with the fact that our dataset does not include lending by foreign subsidiaries.[12] We infer that much of the lending, especially to US private credit funds, by large SSM banking groups happens via their non-SSM subsidiaries or branches in the USA or other non-SSM countries.

[11] See footnote 6 for the NACE sectors taken into consideration.

[12] According to the EIOPA (2026) insurance corporations and pension funds have a combined exposure of approximately EUR 523 billion.

3) The geographical distribution is noteworthy. Although the distribution of creditors roughly corresponds to the economic size of the respective countries, the debtor market is heavily dominated by investment funds in Luxembourg, which attract cash from all over Europe. After Luxembourg, the second-most prevalent destination of banks' private credit exposure is Ireland, followed by the Cayman Islands. The geographical distribution is broadly in line with reports from KPMG and ALFI (2025) and Preqin. It reflects the attractive environment for funds found in countries like Luxembourg and Ireland but also raises concerns with regard to the opacity of many lending relationships to private credit funds (e.g. in case of the Cayman Islands).

Taken together, our findings reinforce concerns about the financial stability risks associated with private credit:

1) Not only is public transparency low, but supervisors do not have clear oversight if lending is carried out by foreign subsidiaries.
2) Cross-border complexity is heightened already on the creditor side and again on the debtor side, with around two thirds of private credit exposure being cross-border.
3) The opacity of lending is confirmed with a view to some of the main destination countries, but also the relatively high share of off-balance sheet exposure (around 20% compared to 10% for all NACE sectors).

4 Financial stability considerations

We use an AI-based approach to assess whether banks' debtors belong to the private credit sector. Based on this analysis and additional information from Austrian pension funds and insurers, we do not find evidence of a material financial stability risk at present. For banks, exposures are low and, in the event of financial difficulties, bank claims are senior to the investment positions of fund investors (see also Matvos et al., 2026). While insurers and pension funds have higher and less senior exposure, it is still not of systemic concern.

Over the longer term, however, structural concerns related to private credit could change this assessment. First, private credit remains characterised by a high degree of opacity. Transactions are based on private contracts, transparency is limited and covenant quality is difficult to compare across funds, borrowers and vintages. As shown above, a large share of exposures is cross-border, which adds to the overall complexity.

Second, private credit may create distorted incentives that, over time, could increase exposures and heighten financial stability concerns. Most significantly, private credit can facilitate regulatory arbitrage or the circumvention of macroprudential measures, for example when private credit funds provide credit protection to banks through synthetic risk transfer (SRT) transactions, allowing banks to reduce regulatory capital requirements while keeping the underlying credit exposures on their balance sheets. Another concern is the potential weakening of institutions' internal risk control mechanisms. Risk management may be impaired if parts of the credit assessment are effectively outsourced to a fund and historical data on private credit are scarce, biased or insufficiently tested across the cycle. Stale and infrequent valuations based on model values may lead to a seemingly low correlation with other asset classes. This could create incentives in favour of lending to private credit funds, to the detriment of financial stability.

Capital requirements and risk management practices must also take account of the specific characteristics of lending to private credit vehicles. First, they need to adequately capture potential wrong-way correlations between collateral values and probabilities of default. Second, exposures to low- to medium-tier software companies, which are frequently debtors of private credit funds, may be particularly vulnerable to the combined effects of AI-driven transformation and higher interest rates. Clearly, the most significant risk to financial stability arising from private credit stems not from direct exposures of

Austrian financial institutions to private credit vehicles, but from second-round effects, when losses in the USA or other countries spread globally through direct and indirect contagion.

Overall, current exposure levels in Austria remain low enough to conclude that private credit, narrowly defined, does not pose a material threat to financial stability at present. However, the sector's opacity, cross-border nature and potential incentive distortions warrant continued monitoring, particularly if exposures continue to grow.

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OESTERREICHISCHE NATIONALBANK
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8 pages

How interest rate-sensitive is Austrian banks' net interest income?

Using Austrian bank-level data, we replicate Drechsler, Savov and Schnabl (2021), who find that banks largely insulate net interest margins (NIMs) from short-term interest rate changes by matching the interest rate sensitivity of assets and liabilities. We broadly confirm this result for Austria before 2020. However, estimated NIM sensitivities increase substantially if we include the latest monetary tightening cycle. Most likely, this reflects banks' high excess liquidity and the exceptionally low interest rates prevailing at the onset of the cycle.

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Austrian banks' interest income and expenses prove sensitive to interest rates

Our estimates show that Austrian banks' interest income and interest expenses react more strongly to changes in short-term interest rates than those of their US peers.



Austrian banks' NIM sensitivity was low before 2020

Historically, the sensitivities of interest income and expenses of Austrian banks (especially large institutions) matched closely, which resulted in little systematic NIM exposure to interest rate changes.



But NIM sensitivity increased with the latest monetary tightening cycle

Recently, weaker income-expense matching has increased Austrian banks' NIM sensitivity to interest rates. High excess liquidity and low interest-rates at the beginning of the cycle are plausible explanations.

The views expressed are those of the authors and do not necessarily reflect those of the Oesterreichische Nationalbank or the Eurosystem.

Introduction

Austrian banks' net interest margins (NIMs) remained remarkably insensitive to interest rate fluctuations during the first two decades of the 2000s. As shown in chart 1, neither the median nor the asset-weighted mean of Austrian banks' NIMs responded strongly to the interest rate cycles between 2000 and 2004 and between 2005 and 2009. While the median broadly tracked the long-term decline in interest rates, the mean remained largely stable and close to the lower end of the distribution.[1]

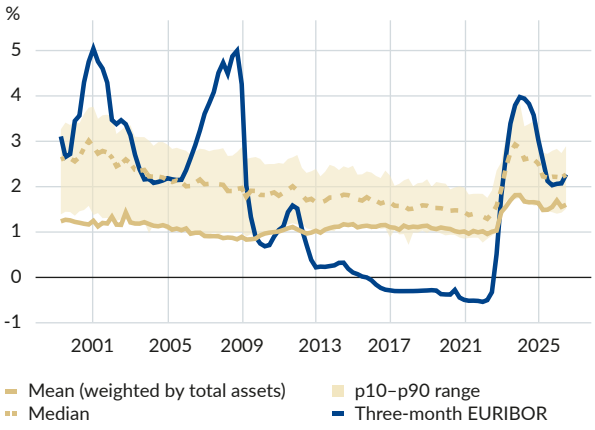
In contrast, during the latest interest rate cycle that began in 2022, both the median and the asset-weighted mean increased sharply, alongside the most rapid monetary tightening episode in the history of the euro area. The resulting increase in bank profitability contributed materially to the record earnings in the Austrian banking sector. This raises an important question: Have Austrian banks become more sensitive to changes in interest rates?

The question is particularly relevant in light of the contribution of Drechsler, Savov and Schnabel (2021, in the following DSS). DSS show that, from 1984 to 2017, US banks closely matched the interest rate sensitivity of their interest-bearing assets (interest income beta) to that of their interest-bearing liabilities (interest expense beta) and as a result, their net interest income displayed no systematic sensitivity to interest rate changes. This suggests that US banks are largely unexposed to interest rate risk despite their large maturity mismatch resulting from mostly financing longer-term lending with short-term deposits. DSS explain this by the special behaviour of retail deposits, which – like long-term fixed-rate liabilities – react only sluggishly to movements in interest rates despite their very short-term maturity and thus hedge interest rate risk arising from long-term fixed-rate assets.

The Austrian banking system provides an interesting testing ground for this hypothesis. Austrian banks have historically displayed relatively stable NIMs despite significant maturity transformation and a comparatively high prevalence of variable rate lending. At the same time, the recent interest rate hiking cycle differed from previous episodes in several important respects. Policy rates increased more rapidly than at any point in euro area history, banks entered the cycle with unprecedented levels of excess liquidity and large holdings of remunerated central bank reserves created additional channels through which rising interest rates could affect bank profitability.

Chart 1

Net interest margin of Austrian banks



Source: Authors' calculations; ECB.

Recent Austrian evidence points to substantial repricing asymmetries during this period. Breyer et al. (2023) show that lending rates adjusted considerably faster than deposit rates, resulting in a marked increase in bank profitability. More generally, Ferstl et al. (2023) document a largely complete long-run pass-through from money market rates to lending rates and term deposit rates, while highlighting the sluggish adjustment of overnight deposits. Kerbl and Sigmund (2016) and Agati and Sigmund (2025) show that the negative-rate period altered banks' pricing behaviour and changed the relationship between retail rates and money market rates. Taken together, these studies suggest that the transmission of monetary policy through banks may also depend on the prevailing interest rate environment.

[1] The largest banks, which largely determine the asset-weighted mean, typically exhibit lower NIMs due to their greater reliance on market-based funding on the liability side.

This interpretation is consistent with recent work on state-dependent monetary policy transmission. Eichenbaum et al. (2025) show that the response of banks' NIMs to monetary policy shocks differs substantially depending on whether monetary tightening occurs after a prolonged period of low or high interest rates. Their results imply that the profitability effects of monetary policy may vary across monetary policy regimes rather than remain constant over time.

To determine Austrian banks' sensitivity to interest rate changes, we investigate the following aspects:

First, rather than analysing lending and deposit pricing directly, we focus on realised interest income and interest expense recorded in banks' financial statements. The distinction is important. Product-level lending and deposit betas capture the repricing behaviour for individual banking products. Our accounting-based betas capture the cumulative balance sheet consequences of repricing and therefore link monetary policy transmission directly to bank profitability.

Second, we apply the DSS framework to Austrian supervisory data and investigate whether the relationship between interest income and expense sensitivities changed when the recent interest rate hiking cycle is incorporated into the estimation sample.

Data and methodology

Our analysis uses quarterly unconsolidated supervisory data for Austrian banks covering the period from Q4 98 to Q2 26. Unconsolidated reporting provides broader institutional coverage and thus a larger cross-section of banks for estimation. Following the methodology employed by DSS, we estimate interest rate sensitivities separately for each bank using time series regressions. Only banks with at least 60 consecutive quarterly observations are retained in the sample, corresponding to at least 15 years of data per bank. This threshold ensures sufficiently long time series for reliable bank-level estimation. After applying these constraints, our sample covers 697 Austrian banks and a total of 66,733 observations.

Interest income, interest expenses and net interest income (interest income minus expenses) are scaled by average assets and annualised. We then estimate the following specification for each bank i:

$$\Delta Y_{it} = \alpha_i + \beta_{i,0}\Delta r_t + \beta_{i,1}\Delta r_{t-1} + \beta_{i,2}\Delta r_{t-2} + \beta_{i,3}\Delta r_{t-3} + \varepsilon_{it}$$

where Y_{it} denotes either interest income divided by assets, interest expenses divided by assets or net interest income divided by assets, and r_t represents the three-month EURIBOR, where daily data are averaged over the corresponding quarter. Following DSS, we allow for three lags of interest rate changes to capture the cumulative effect of interest rate changes over a full year, which makes our results directly comparable to those of DSS.[2]

The bank-specific betas are then computed as the sum of the contemporaneous and lagged coefficients for interest income, interest expenses and net interest income, respectively:

$$\beta_i = \sum_{\tau=0}^{3} \beta_{i,\tau}.$$

The resulting betas can be interpreted as the cumulative response of income or expenses to a 100 basis-point change in the reference rate over a one-year horizon. For example, an income beta of 0.50 implies that a 100-basis point increase in the three-month EURIBOR is associated with a 50-basis point increase in annualised interest income relative to assets.

[2] Results are robust to using the one-month EURIBOR or ECB rates like the deposit facility rate (DFR). DSS motivate the use of the one-year estimation window by the impulse responses of interest income and interest expense rates to changes in interest rates, which take about one year to build up and then flatten out.

The estimated beta distributions are winsorised at the 1st and 99th percentiles to reduce the influence of extreme observations.

To assess the influence of the recent interest rate hiking cycle, we estimate betas separately for

1) a pre-pandemic subsample ending in Q4 19 and

2) the full sample ending in Q2 26.

A direct post-pandemic estimation is not feasible because the available period contains only 26 quarterly observations, which is insufficient for reliable bank-level beta estimation.

Results

Interest rate sensitivity of Austrian vs US banks

Table 1 shows the unweighted averages of the estimated bank betas, including their standard errors. The left-hand panel shows figures for the pre-pandemic subsample from 1998 to 2019. Our first finding is that Austrian banks generally exhibit higher interest rate sensitivities than those reported for US banks by DSS. In the pre-pandemic subsample, the unweighted average of income betas is approximately 0.49, while the corresponding expense beta average equals roughly 0.43. In contrast, DSS report values of approximately 0.35 for both income and expense betas of US banks from 1984 to 2017. One explanation for the higher interest rate sensitivity of Austrian banks could be that the assets of US banks are more long term and fixed rate compared to those of Austrian banks.

Table 1

Average beta estimates

Panel A: all banks

	Pre-pandemic		Full sample	
	Mean	Standard deviation	Mean	Standard deviation
	(1)	(2)	(3)	(4)
Interest rate sensitivity				
Interest income beta	.493	.173	.530	.166
Interest expense beta	.428	.137	.406	.132
NIM beta	.062	.112	.123	.120
Sample				
Number of observations		53,696		64,642
Number of banks		697		697

Panel B: largest 10% of banks

	Pre-pandemic		Full sample	
	Mean	Standard deviation	Mean	Standard deviation
	(1)	(2)	(3)	(4)
Interest rate sensitivity				
Interest income beta	.530	.253	.550	.233
Interest expense beta	.508	.221	.499	.182
NIM beta	.019	.109	.056	.124
Sample				
Number of observations		5,528		7,048
Number of banks		70		70

Note: Averages reported are calculated from individual bank estimates winsorised at the 1% and 99% level. The full estimation sample contains 64,642 quarterly observations due to the inclusion of three lags in the model specification. The largest 10% of banks are selected according to the lifespan average of inflation-adjusted total assets.

Source: Authors' calculations.

The key result of DSS is that US banks closely align the interest rate sensitivities of their interest income and expense streams, and thus their NIM betas are close to zero. In practical terms, this implies that a bank with low liability-side sensitivity to interest rate changes (e.g. because it relies heavily on retail deposits that adjust only sluggishly to changes in policy rates) will also tend to hold assets whose returns reprice slowly, such as long-term fixed-rate loans. As a result, the bank closely matches the sensitivity of its interest income and interest expense streams. At the other end of the spectrum, a bank whose funding costs respond more rapidly to changes in short-term interest rates (e.g. because it relies more heavily on market-based funding) is predicted to hold a greater share of short-term or variable rate loans. Such a balance sheet structure ensures that increases in funding costs are offset by corresponding increases in interest income.

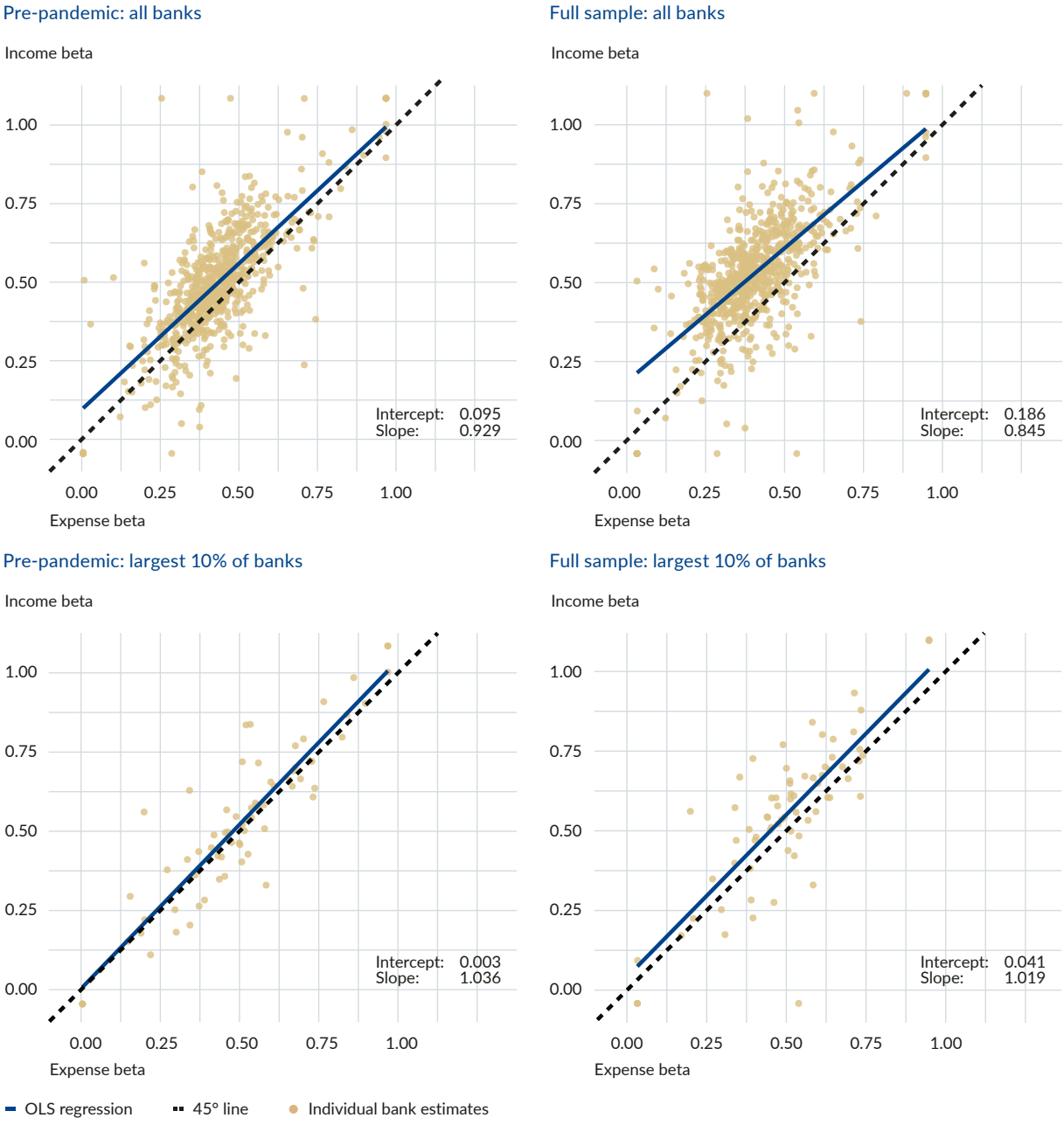
As table 1 shows, the DSS result for US banks is most closely mirrored by the net interest income sensitivity of the largest Austrian banks in the pre-pandemic subsample, which is the period most comparable with the DSS sample period. The difference between the means of bank-level interest income betas (0.49) and interest expense betas (0.43) of all Austrian banks in the sample is larger than in DSS, who report 0.35 for both. However, income and expense betas for the largest 10% of Austrian banks (covering 82% of total assets) are much closer together (0.53 and 0.51), implying NIM sensitivities close to zero (0.019). For the largest 5% of Austrian banks (covering 73% of total assets), both income and expense sensitivities are essentially identical (both 0.50), resulting in a NIM beta of 0.0002. These findings are consistent with the DSS hypothesis. Prior to the latest interest rate cycle, large Austrian banks appear to have matched their interest income and interest expense sensitivities sufficiently closely to eliminate systematic NIM exposure to interest rate changes.

The matching between interest income and expense sensitivities can also be visualised in a plot of income betas against expense betas. The left-hand panels in chart 2 shows individual bank estimates from the pre-pandemic subsample, where each dot represents one bank. Under the DSS prediction, observations should cluster around the 45-degree line (dashed line). The upper left-hand panel shows the results for all Austrian banks while the lower left-hand panel focuses on the largest 10% of banks.

The pre-pandemic sample reveals strong matching, particularly among large banks. With a slope coefficient of 1.04 and an intercept of 0.00, the estimated regression line for the largest 10% of banks lies almost directly on top of the 45-degree line, indicating near-perfect matching between interest income and expense sensitivities. This result closely mirrors evidence documented by DSS. Considering all banks, we obtain a slope coefficient of 0.93 with an intercept of 0.10, indicating substantial although not full insulation from interest rate movements.

Chart 2

Bank-level beta estimates



Note: Individual bank estimates are winsorised at the 1% and 99% percentiles.
Source: Authors' calculations.

Did NIM sensitivity change with the latest interest rate cycle?

Now we turn to the question of whether the net interest income of Austrian banks has become more sensitive to changes in interest rates since the latest interest rate cycle. To answer this question, we compare our previous results for the pre-pandemic period to the results obtained for the full sample. Our main finding is that the inclusion of the most recent monetary tightening cycle increases estimated NIM sensitivities, driven particularly by the asset side of balance sheets.

As table 1 shows, for all banks, the average income beta rises from 0.49 in the pre-pandemic subsample to 0.53 for the full sample, while the average expense beta declines from 0.43 to 0.41. Consequently, the

average NIM beta doubles from approximately 0.06 to 0.12. For the largest 10% of banks, the average income beta increases from 0.53 to 0.55 while the expense beta decreases from 0.51 to 0.50. While these changes appear smaller in magnitude compared to the full sample, the NIM beta increases by a much larger factor: From 0.019 in the pre-pandemic subsample, it increases three-fold to 0.059. For the largest 5% of banks, the average NIM beta increases from 0.0002 pre-pandemic to 0.040 in the full sample.

Chart 2 conveys a similar message. A comparison of the scatterplots of the bank-level estimates for the pre-pandemic subsample and the full sample shows that including the most recent tightening cycle shifts the distribution of bank-level estimates upward and slightly leftward, further away from the 45-degree line. This pattern, which is visible both in the panel with all banks and the panel with the largest 10% of banks only, implies a growing divergence between income and expense betas following the inclusion of the latest interest rate cycle.

A higher sensitivity of the NIM to interest rate changes since the latest interest rate cycle is also supported by comparing how many banks have NIM betas significantly different from zero in the pre-pandemic subsample and the full sample. While in the pre-pandemic subsample, 652 institutions or 93.5% of all banks exhibit a NIM beta not significantly different from zero, these figures drop to 571 institutions or 81.9% when including the latest interest rate cycle. For the largest 10% of banks, the figures decline from 94.3% (66 out of 70 banks) in the pre-pandemic subsample down to 81.4% (57 out of 70 banks) in the full sample.

These findings complement the results of Breyer et al. (2023). Their evidence of unusually low deposit pass-through during the recent interest rate hiking cycle implies that banks were able to maintain a large stock of comparatively inexpensive deposit funding while asset yields adjusted upward. In our framework, these developments appear as a widening gap between interest income and expense betas and consequently as larger NIM sensitivities.

Discussion

The Austrian evidence paints a nuanced picture of the DSS hypothesis. Prior to 2020, the near-neutrality of banks' NIMs to interest rate changes found by DSS was most evident among large Austrian banks. Once the recent monetary tightening cycle is taken into account, however, this result weakens substantially. Several factors may help explain why NIM sensitivities increased with the latest interest rate cycle.

First, Austrian banks entered the most recent interest rate cycle with unprecedented levels of excess liquidity and therefore a lower need to attract retail deposits for financing. This may help explain the unusually low pass-through of rising market rates to retail deposit rates in the latest interest rate cycle. At the same time, banks directly benefited on the asset side from higher interest payments on excess reserves held with the central bank.

Second, (Eichenbaum et al., 2025) emphasise the importance of the exceptionally low and, at times, negative interest rate environment prevailing before the latest monetary tightening cycle. They argue that, as the effective zero lower bound on retail deposit rates limited the pass-through of negative policy rates to depositors, depositors were more willing to accept low deposit rates when interest rates turned positive again. Consequently, monetary tightening following prolonged periods of low or negative interest rates can lead to substantially larger increases in banks' NIMs than tightening cycles that start from a positive interest rate environment.

Whether the increase in estimated NIM sensitivities documented in this study merely reflects the unique characteristics of the latest monetary tightening episode or marks a more persistent change in Austrian banks' NIM sensitivities remains to be seen.

An important limitation of the present analysis is that it focuses on aggregate interest income and interest expenses rather than their individual components. Consequently, the results cannot identify which specific income statement positions drove the increase in estimated income and expense sensitivities during the latest tightening cycle. On the income side, relevant questions include the relative contribution of traditional lending activities, securities portfolios and the remuneration of excess reserves held with the Eurosystem. On the expense side, it remains unclear to what extent the observed developments were driven by overnight deposits, term deposits, debt securities or other funding instruments.

Given the relevance of these questions for understanding the recent increase in Austrian banks' profitability, a decomposition of income and expense sensitivities into their underlying components appears warranted. Such an analysis would provide a more granular understanding of the drivers of the recent rise in NIM sensitivities and help assess whether the observed changes primarily reflect cycle-specific factors or more persistent structural developments. A detailed investigation of these channels is beyond the scope of the present study but represents a promising avenue for future research.

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13 pages

Bank taxes in CESEE: rationale, design and effects

After a series of economic shocks and related support measures, fiscal consolidation intensified across the European Union. Governments, particularly in Central, Eastern and Southeastern Europe (CESEE), turned to banks for additional revenue, often motivated by high bank profits following monetary policy tightening. We compile and compare bank taxes implemented in CESEE and Austria since 2010, assess their effects on tax burdens and profitability, and discuss the financial stability implications of different tax designs.

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Bank taxation, bank levies, windfall profit taxes, bank profitability, fiscal consolidation, CESEE



From stability levies to fiscal tools

Bank taxation in the EU has shifted: from post-GFC balance-sheet levies aimed at financial stability towards profit and revenue measures used to tax perceived windfall gains and support fiscal consolidation and new spending needs. Particularly banks in CESEE have been hit with several new taxes in recent years.



Banks' profitability still high, despite greater tax burden

After-tax profitability remains well above 2019 levels in most CESEE banking sectors despite additional taxes. Effective income tax burdens are often comparable with, or below, those elsewhere in the EU. Including bank levies raises the broader burden considerably in some cases, however.



Bank tax design shapes financial stability risks

Central banks in CESEE assess the effects of recent bank taxes on financial stability to be largely contained, supported by high profits and capital buffers. Adverse lending effects could intensify, however, if the buffers erode or if tax burdens grow, persist or become less aligned with banks' capacity to pay.

The views expressed are those of the authors and do not necessarily reflect those of the Oesterreichische Nationalbank or the Eurosystem.

1 Introduction to bank taxation in EU countries

Following the recent monetary tightening cycle, bank profitability in Europe increased markedly as banks benefited from higher net interest margins. At the same time, fiscal consolidation pressures intensified. Public debt ratios and deficits increased to a level that excessive deficit procedures were opened for eight EU member states in 2024 and 2025. Against this backdrop, bank-specific taxation has re-emerged as a prominent policy instrument. Governments in Central, Eastern and Southeastern Europe (CESEE) were particularly active in implementing new taxes or increasing existing ones. This may partly reflect the comparatively high profitability of CESEE banking sectors (e.g. Maneely and Ratnovski, 2024). In some countries, the high share of foreign ownership may have lowered the perceived domestic political cost of additional taxation.[1] Austrian banks have a strong presence in the region and are exposed to local bank taxes and their implications.

We consolidate information from a wide range of legal, official and analytical sources to document the evolution of bank taxation in eight CESEE countries since around 2010. These CESEE-8 countries are Bulgaria, Croatia, Czechia, Hungary, Poland, Romania, Slovakia and Slovenia. We compare developments in CESEE-8 and in other EU countries, focusing on Austria. We complement this stock-taking with a comparative analysis of bank tax burdens and after-tax profitability. Moreover, we discuss the main advantages and disadvantages of different bank tax designs, and synthesise recent analyses in which national central banks assessed the implications of bank taxation for financial stability.

We use a typology of bank taxation instruments to classify the measures covered, focusing on taxes levied solely on the banking sector, or jointly with other selected sectors. We do not comprehensively review general changes in corporate income taxation, financial transaction taxes, changes in deposit guarantee scheme contributions, or other policy measures that may impose costs on banks, including interest-rate caps and operational or service-provision requirements.

2 Types of taxes and theoretical considerations for implementation

Where bank tax revenues contribute to credible fiscal consolidation, banks may benefit indirectly from lower sovereign risk. For one thing, improved sovereign creditworthiness can reduce government bond risk premiums, thereby increasing the market value of banks' existing (fixed-rate) government securities and reducing associated credit and valuation risks. For another, it may also support banks' ratings and funding conditions, as lower sovereign risk reduces concerns about banks' direct government bond exposures and about risks arising from the domestic macroeconomic environment. These potential benefits must nevertheless be weighed against the potentially adverse effects that bank taxation may have on banks' profitability, capital generation and financial intermediation. This trade-off can be framed in terms of optimal tax theory, which assesses whether the social benefits associated with the revenue raised outweigh the social costs of taxation.[2]

Among the potential costs, effects on financial intermediation and financial stability have received particular attention from national central banks (see section 4) and the European Central Bank (ECB). In

[1] The CESEE country cases examined do not suggest a clear relationship between foreign bank ownership and the level of bank taxation. Hungary and Poland combine comparatively high bank tax revenues with lower foreign ownership, while Czechia has high foreign ownership but relatively low revenues from its bank windfall tax; Slovakia records high values for both.

[2] Optimal tax theory examines how a tax system can maximise social welfare while meeting the government's revenue requirement and considering distributional objectives and taxpayers' behavioural responses (Mankiw et al., 2009). This involves weighing benefits associated with taxation against the deadweight losses caused by behavioural adjustments and the administrative and compliance costs of the tax system. Within this framework, the case for sector-specific taxation depends on whether its welfare benefits outweigh the additional distortions arising from differential treatment. From this perspective, the case for bank taxes is stronger where taxation targets economic rents, corrects sector-specific externalities, reduces distortions arising from implicit public guarantees, or helps cover the expected fiscal costs of bank resolution and support (IMF, 2010; Perotti and Suarez, 2011; Keen, 2018).

its November 2023 Financial Stability Review, the ECB warned that "recent initiatives to impose taxes on banks may have negative repercussions for financial stability, as they make it harder for banks to accumulate capital" (ECB, 2023a, p. 15). In the same report and in several Opinions on national taxes, the ECB also warned that extraordinary taxes may contribute to fragmentation in the European financial system (ECB, 2023a; Pekanov and Schratzenstaller, 2025). Insofar as taxes increase uncertainty about the outlook for the banking sector, they may raise the costs of wholesale funding and equity. Besides competitiveness concerns within the EU, high bank taxes may also make EU banks less competitive on a global level, e.g. relative to US banks. Taxes may also have adverse spillover effects through higher lending margins and a lower supply of credit to the private sector (ECB, 2023b).

Empirical studies provide evidence of these transmission channels for asset-based bank levies in CESEE countries. For instance, using loan-level data for Poland, Borsuk et al. (2023) find that the levy introduced in 2016 raised lending margins and reduced credit growth. At the same time, it encouraged banks to shift household lending from relatively safe, low-margin mortgages towards higher-margin, riskier consumer loans in an effort to offset the pressure on profitability. For Hungary, Capelle-Blancard and Havrylchyk (2017) find that the levy introduced in 2010 was passed on mainly to customers with less elastic demand, particularly households, through higher net interest and fee margins and higher rates on outstanding housing loans. Using Slovenian credit-register data, Volk (2024) finds that the levy introduced in 2011 reduced the supply of corporate credit: a one-percentage-point increase in the tax burden relative to bank capital raised corporate lending rates by 8 basis points and reduced outstanding corporate lending by 0.5% within five months. Overall, evidence from these papers and from the broader empirical literature on bank taxation suggests that bank taxes can affect not only the price and aggregate supply of credit, but also its allocation across borrowers and loan types. Nature and magnitude of these effects depend on the tax design as well as banks' exposure to the measure and capacity to adjust through prices or portfolio composition.

The following discussion therefore considers the main tax design features that shape these effects. A particularly important aspect is the tax base. Broadly, taxes can be divided into (1) taxes levied on balance sheet items, i.e. assets or liabilities or parts of them, and (2) taxes levied on profit and loss items, often profits or revenues or parts of them.[3] Taxes also differ in their rates, duration, implementation (ad hoc or pre-announced), permitted deductions and other design features. These choices affect banks' ability to adjust to, or mitigate, their tax burden and therefore influence the level and stability of fiscal revenues, as well as the effects on financial intermediation and financial stability.

Flow-based taxes are more cyclical, which leads to declining fiscal revenues in downturns. Taxes based on stocks rather than flows usually generate more stable revenues. Yet, this also means an unchanged burden in difficult economic situations, which may affect financial stability negatively. Fiscal revenues also tend to be higher when measures are ad hoc because pre-announcements allow banks to react and pre-emptively reduce their tax base and thus tax burden (Maneely and Ratnovski, 2024). Different tax bases also entail different implications for financial intermediation. For instance, asset-based taxes create incentives to reduce the balance sheet size and may therefore adversely affect credit growth, consistent with the empirical evidence discussed above. This is particularly concerning in countries where the level of financial intermediation is comparatively low, e.g. in Romania and Hungary. Among flow-based measures, taxes on profits allow for costs and provisions to reduce the tax base, unlike taxes on revenues or net interest income. This may support provisioning incentives, but profit taxes may also weaken incentives to invest in cost efficiency. Generally, governments may also design taxes to explicitly steer

[3] There are some special cases as well, such as Denmark's financial sector payroll tax, or France's (abolished) systemic risk tax on regulatory capital requirements. They are not covered here.

behaviour. In Poland and Hungary, for example, deductions for government securities encourage banks to hold government bonds. Although such securities fulfil important liquidity and collateral functions, the tax incentive may reinforce the already pronounced sovereign-bank nexus.

Higher tax rates and longer-lasting measures increase the likelihood of behavioural responses. The statutory incidence of a bank tax does not necessarily determine who ultimately bears its economic cost: banks may absorb it through lower profits and internal capital generation, or adjust lending rates, fees, credit supply, employment, branch networks, investment and service provision. It is difficult to prevent such a pass-through via regulation. Tax design should therefore balance fiscal objectives against effects on customers, financial intermediation and bank resilience, while limiting cross-border distortions and double taxation.

3 Overview of bank taxes applied in CESEE and Austria

The cross-country overview in table 1 points to a clear broadening of bank taxation in the region. While early measures were mainly balance-sheet-based bank levies, recent measures are more diverse and include windfall profit taxes, higher corporate income tax (CIT) rates and bank turnover taxes.

Balance-sheet-based bank levies are generally imposed on assets or liabilities. Such levies were originally introduced as post-global-financial-crisis (GFC) instruments to make banks contribute to financial stability, crisis-resolution costs or the fiscal costs associated with bank support. As discussed above, such bank levies can provide more stable and predictable revenues. Over time, the link to financial-stability objectives has weakened. Some levies have remained unchanged, while others have been increased, redesigned or reintroduced in response to new fiscal pressures. This applies to Austria (see box 1), Hungary and Poland, the historical Slovak levy and the reintroduced Slovenian levy for flood reconstruction. Other EU countries, which have balance-sheet-based levies are Belgium (since 2012), Cyprus (since 2011), Finland (2013–2014), Greece (since 2011), Ireland (since 2014), the Netherlands (since 2012), Portugal (since 2011) and Sweden (2009–2015, 2022 to date) (AFME-KPMG, 2026).

Box 1: Austrian stability levy

Following the GFC, a stability levy on the operations of credit institutions has been applied in Austria since 2011. It was enacted in December 2010, as part of the Budget Accompanying Act 2011. The tax base equals the average unconsolidated total assets of the credit institution, reduced by some liabilities, particularly secured deposits as well as subscribed capital and reserves. Both the tax rate and the relevant thresholds were amended over time. In addition, temporary supplementary payments to the stability levy were collected, initially for the first years starting from 2011 and later between 2017 and 2020. The original purpose of the stability levy was to make banks contribute to the budgetary costs of banking-sector support measures and to strengthen financial stability. The tax is designed in a progressive manner to impose a bigger burden on larger institutions that pose greater risks to financial stability.

Recently, as part of Austria's fiscal consolidation measures, the government increased the stability levy and re-activated the temporary supplementary payments to the stability levy again from 2025. The tax rate was increased to 0.033% for the part of the tax base between EUR 300 million and EUR 20 billion, and to 0.041% for the tax base exceeding EUR 20 billion. In 2029, the tax rate is set to be re-evaluated. For the fiscal years 2025 and 2026, temporary supplementary payments amount to 0.050% for the part of the tax base between EUR 300 million and EUR 20 billion, and to 0.061%

for the tax base exceeding EUR 20 billion. The measure is expected to generate approximately EUR 500 million per year in both 2025 and 2026, with lower revenues thereafter. Since 2011, tax revenues of around EUR 6.3 billion have accrued from the stability levy.

Table 1

Characteristics of bank taxes implemented in Austria and the CESEE-8 countries

Country: tax type	Applied	Rationale	Tax base	Thresholds	Rate, p.a., selected years		Revenue (average p.a.)
						%	EUR
Austria: Bank levy (+ temporary supplementary payments)	2011 to date	Financial stability contribution; more recently, to support fiscal consolidation	Asset-based: average unconsolidated total bank assets with deductions for secured deposits and subscribed capital and reserves	I: 2011–2016: EUR 1 to 20 billion I: from 2017: EUR 300 million to 20 billion II: from 2011: > EUR 20 billion	2011	I: 0.055, II: 0.085	2011–2016: 510 to 570 million 2017–2020: 350 million 2021–2024: 100 to 150 million 2025–2026: 500 million (Fiscal Advisory Council estimates)
					2021	I: 0.024, II: 0.029	
					2025–2026	I: 0.033 + 0.050, II: 0.041 + 0.061	
Croatia: Windfall profit tax	2022	To finance inflation support measures	Profit-based: 2022 gross earnings exceeding 120% of 2018–2021 average	Gross earnings > HRK 300 million	2022	33	about 200 million (estimate by Hrvatska narodna banka)
Czechia: Windfall profit tax	2023–2025	To finance energy-price support measures	Profit-based: annual corporate income tax (CIT) base exceeding 120% of 2018–2021 average	Annual net interest income (NII) > CZK 50 million & 2021 NII > CZK 6 billion	2023–2025	60 (on top of standard CIT rate)	about 24 million (substantially below initial projections)
Hungary: Bank levy ("special tax on financial institutions")	2010 to date	To support post-GFC fiscal consolidation; subsequently extended as recurring sectoral tax	Asset-based: total bank assets, with deductions for interbank loans and other intra-financial-sector exposures	I: ≤ HUF 50 billion	from 2010	I: 0.15	2010: about 660 million
				II: > HUF 50 billion	2010–2015	II: 0.53	
					2016	II: 0.31	
					2017–2018	II: 0.21	2017–2021: about 180 million
					from 2019	II: 0.2	
Hungary: Special tax on banks	2020	To fund pandemic-related support measures		> HUF 50 billion	2020	0.19	about 150 million
Hungary: Windfall profit tax	2022 to date	To finance household inflation protection measures and defence expenditure	Net sales revenue in t-1 (about NII + fee income)	None	2022	10	2022–2025: about 790 million (bank levy & extra-profit tax)
					2023H1	8	
			Adjusted pre-tax profit in t-1 (tax reduction for government bonds from 2024; tightened in 2025)	I: ≤ HUF 10 billion II: > HUF 10 billion	2023H2–2024	I: 13, II: 30	
				I: ≤ HUF 20 billion II: > HUF 20 billion	2025	I: 7, II: 18	
					from 2026	I: 10, II: 30	
Poland: Bank levy	2016 to date	To finance government expenditure	Asset-based: total bank assets with deductions for government securities and regulatory capital	Assets > PLN 4 billion	2016–2026	0.44	2016–2020: about 1 billion 2021–2024: about 1.4 billion
					2027	0.40	
					from 2028	0.35	

Note: Only measures implemented by the cut-off date of 31 August 2026 are included. "Bank levy" is used for bank-specific balance-sheet-based taxes, whether levied on assets or liabilities. For the sake of readability, more detailed information on exemptions and deductions is not reported. Unless indicated otherwise, reported annual revenue figures are realised amounts, with euro equivalents calculated using approximate contemporaneous annual average exchange rates.

Source: Authors' compilation based on national legislation and budget documents, publications by national central banks, finance ministries and tax authorities, EU and IMF reports, academic and policy studies (e.g. Kosztowniak and Drapała, 2026), tax-consultancy analyses, banking-industry publications and specialist financial media. For analogous comparison tables covering a broader set of European countries, see AFME-KPMG (2026), Maneely and Ratnovski (2024) or Pekanov and Schratzenstaller (2025).

Table 1 continued

Characteristics of bank taxes implemented in Austria and the CESEE-8 countries

Country: tax type	Applied	Rationale	Tax base	Thresholds	Rate, p.a., selected years		Revenue (average p.a.)
						%	EUR
Poland: Higher CIT rate for banks	Higher rate since 2026	To cover increased defence spending and to support fiscal consolidation	Profit-based: standard CIT base	Lower rates for cooperative and smaller banks (taxable revenue <EUR 2 million)	2025	19	
					2026	30	2026: about 1.5 billion billion (Ministry of Finance estimate)
					2027	26	
					from 2028	23	
Romania: Bank turnover tax	2024 to date	To support fiscal consolidation	Net revenue (income from interest, dividends, fees, gains, and losses from various sources)	All banks	2024–06/2025	2	about 260 million
				Market share < 0.2%	07/2025–2026	2	about 540 million (estimate by the National Bank of Romania)
				> 0.2%		4	
Slovakia: Bank levy ("special levy on selected financial institutions")	2012–2020	Financial stability contribution; later also used for fiscal consolidation	Liability-based: total bank liabilities, with deductions for equity and other statutory items; insured deposits deductible only initially	None	2012–2015	0.4	2012–2020: about 146 million
					2016–2019	0.2	
					2020	0.4	
Slovakia: Windfall profit tax (regulated-sector levy extended to banks)	2024–2027	To support fiscal consolidation	Profit-based: pre-tax profit, adjusted by the share of regulated banking activities in total revenues	(Forecast) pre-tax profit ≥ EUR 3 million	2024	30	2024: 336 million 2025: 280 million 2026: 240 million (Ministry of Finance estimates)
					2025	25	
					2026	20	
					2027	15	
Slovakia: Higher CIT rate for large firms	Higher rate since 2025	To support fiscal consolidation	Profit-based: standard CIT base		2024	21	2025: 517 million (economy-wide Ministry of Finance estimate)
				Taxable income > EUR 5 million	from 2025	24	
Slovenia: Bank levy	2011–2015, 2024–2028	2011–2015: financial stability contribution and promotion of corporate lending, 2024–2028: finance reconstruction following 2023 floods	Asset-based: total bank assets (2024–2028: capped at 30% of annual pre-tax profit, deductions for higher CIT payments & other flood-related contributions)	None	2011–2015	0.1	2014: 25 million 2024–2028: 100 million (IMF estimate)
					2024–2028	0.2	
Slovenia: Temporary higher general CIT rate	2024–2028	Finance reconstruction following 2023 floods	Profit-based: standard CIT base	None	2023	19	n.a.
					2024–2028	22	

Note: Only measures implemented by the cut-off date of 31 August 2026 are included. "Bank levy" is used for bank-specific balance-sheet-based taxes, whether levied on assets or liabilities. For the sake of readability, more detailed information on exemptions and deductions is not reported. Unless indicated otherwise, reported annual revenue figures are realised amounts, with euro equivalents calculated using approximate contemporaneous annual average exchange rates.

Source: Authors' compilation based on national legislation and budget documents, publications by national central banks, finance ministries and tax authorities, EU and IMF reports, academic and policy studies (e.g. Kosztowniak and Drapała, 2026), tax-consultancy analyses, banking-industry publications and specialist financial media. For analogous comparison tables covering a broader set of European countries, see AFME-KPMG (2026), Maneely and Ratnovski (2024) or Pekanov and Schratzenstaller (2025).

The more frequent use of profit-based measures reflects the perception that banks benefited from monetary policy tightening. Tax design often seeks to isolate "excess" or windfall profits by comparing current profits or tax bases with a pre-shock reference period. Croatia and Czechia are prime examples of this approach.[4] Slovakia follows a different model: its bank windfall tax is based on pre-tax profit from regulated banking activities, rather than on a historical profit benchmark, and its tax rate declines annually from 30% in 2024 to 15% in 2027. Hungary is another hybrid case: the tax was introduced in response to high bank profitability, but it initially relied on a revenue-type base and later shifted to an adjusted pre-tax-profit base with progressive rates. Moreover, it has been extended repeatedly and is therefore no longer a pure temporary windfall instrument.

A related distinction concerns higher statutory CIT rates rather than narrowly defined windfall taxes. Poland's bank-specific CIT increase and Slovakia's higher CIT rate for large firms, which also affects large banks, fall into this category. While Poland's initial rate hikes are transitional, neither the Polish nor the Slovak arrangements currently provide for a return to the previous CIT rate or have a defined sunset. Slovenia, by contrast, temporarily increased its general CIT rate from 2024 to 2028 to finance post-flood reconstruction, alongside the reintroduction of its bank levy. The distinction between temporary windfall taxes, temporary CIT increases and permanently higher CIT rates matters because the measures have different implications for investment incentives, tax certainty and fairness (i.e. level playing field) and the banking sector's long-term tax burden.

In the remaining EU countries, profit-based taxes were implemented in Latvia (2024), while parts of profits are or were taxed in Spain (bank net revenue, 2023–2026), Lithuania ("excess" net interest income (NII) in 2023–2026) and Italy ("excess" NII, 2023). In CESEE, Romania chose bank turnover as the tax base, and Hungary's hybrid net sales tax discussed above also partially fits into this category.

Many countries try to avoid taxing smaller or less systemically important institutions by using thresholds, exemptions or differentiated rates. Bank levies often exempt some types of assets or liabilities; windfall profit taxes often apply only above a given profit, tax-base or sector-specific size threshold; and Romania's bank turnover tax differentiates between banks by market share. These mechanisms introduce some burden differentiation, but they do not necessarily make the tax economically progressive. A balance-sheet tax can still weigh on a low-profit bank, while a turnover tax can burden large institutions disproportionately because it applies before costs and provisions.

4 Bank profitability and financial stability implications of bank taxation

The design and size of bank taxes have important consequences for both financial intermediation and financial stability and are relevant from a cross-border perspective. Varying tax burdens contribute to different business environments for EU banks, which can hinder the Single Market and banking union. In this section, we examine bank taxation in the CESEE-8 countries from a financial stability perspective, focusing on differences in tax burdens and profitability across countries and over time and, where available, on assessments by national central banks.

Chart 1 shows banks' profit tax expense as a share of pre-tax profits across EU countries, based on the ECB's consolidated FINREP data for reporting banks. Importantly, it does not encompass all so-called bank taxes, as most accounting practises differentiate between taxes based on taxable profit and other levies. Generally, taxes on balance sheet items or revenues are booked as operating expenses and lower

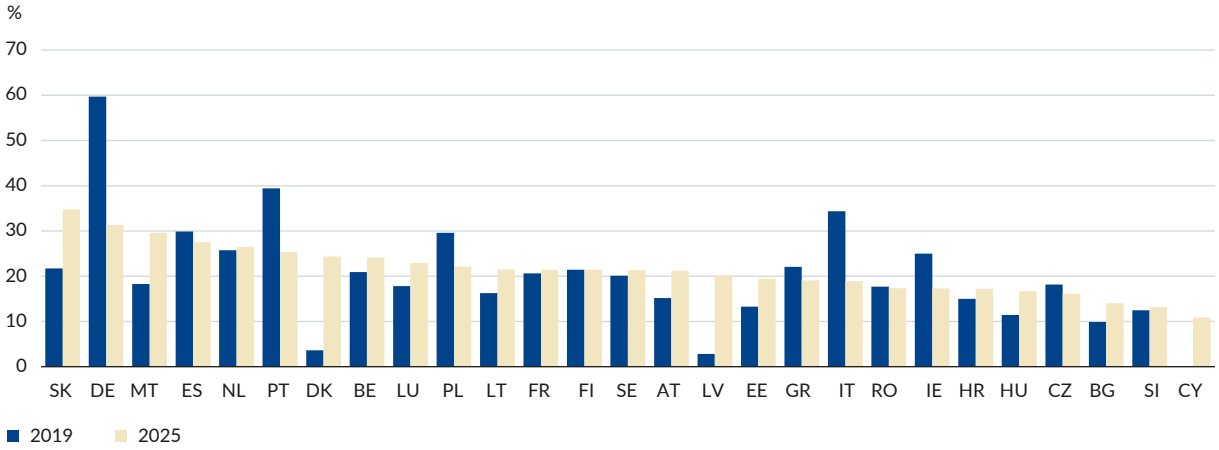
[4] At the time of writing, the Bulgarian government was considering a one-off windfall profit tax for 2027 covering banks and five other sectors. The proposed 33% tax would apply to the portion of a company's 2027 taxable profit exceeding 120% of its average taxable profit over 2020–2025, similar to the approach in Croatia and Czechia.

pre-tax profits. While not a comprehensive metric for the overall tax burden[5], the ratio in chart 1 provides a simple proxy for the effective tax burden on reported bank profits. A fully comparable assessment of the broader fiscal burden across countries remains a challenge, however.

The ratio in chart 1 varies widely across countries and over time. In 2025, it ranged from above 35% in Slovakia to below 15% in Cyprus, Bulgaria and Slovenia. The country ranking looks very different pre-COVID-19. To a certain extent the fluctuations over time are due to the volatility of the flow measures used, but they are also partially due to the changed macroeconomic and institutional environment. Most CESEE countries are found towards the lower end of the distribution, which indicates a comparatively moderate tax burden on reported profit.

Chart 1

EU banks: profit tax expenses over profit before tax, 2019 vs 2025



Note: Foreign and domestic banks. Tax rates in countries which host consolidating mother companies might include (parts of) taxes paid in foreign countries. Cyprus for 2019 is an outlier (140%) and not plotted. Data for Ireland from 2024, as 2025 is not yet available.

Source: ECB Consolidated Banking Statistics (FINREP).

In chart 2, we take a closer look at how the tax burden has evolved over time in the CESEE-8 countries. For countries where bank levies are recorded as operating expenses (Hungary, Slovenia, Romania, Poland), we use information from the national central banks to additionally calculate an adjusted ratio including bank levies. These estimates are a rough approximation as they ignore deductions and other accounting details. Chart 2 indicates heterogeneous developments.

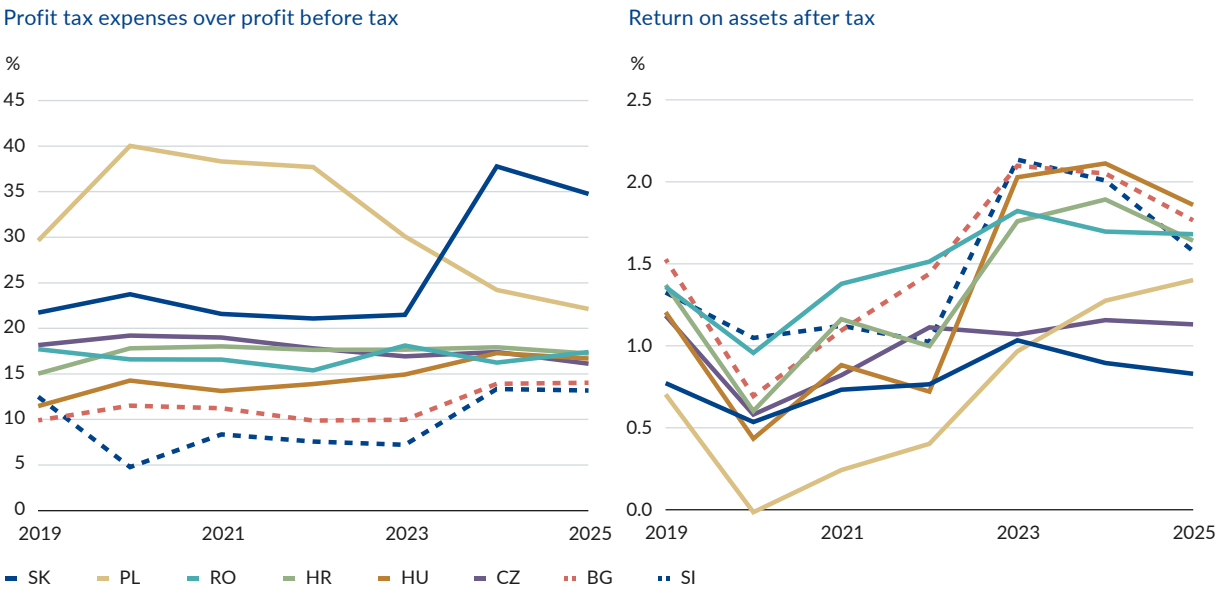
In Croatia, the ratio remained broadly stable between 2019 and 2025. This is consistent with the Croatian national bank's (HNB) assessment that the windfall profit tax had only a mild dampening effect on bank profitability in 2022 and posed negligible risks to financial stability, given the relatively low tax burden, the one-off nature of the measure and strong competition limiting banks' ability to pass the tax on to customers (HNB, 2023a and 2023b).

In Romania, the chart does not suggest a clear trend in either. When we adjust the Romanian ratio for the fact that the turnover tax is booked as operating expense, however, the tax ratio increases from 16% to 22% in 2024. The National Bank of Romania (NBR) commented the tax critically, noting that its initially envisaged permanent nature makes it more burdensome than one-off windfall taxes in other countries. It assessed that banks could absorb the tax, but that it might have negative financial stability implications

[5] Income-tax expense recognised in the accounts may differ from cash taxes paid, e.g. because of deferred tax effects. The ratio may also be volatile when pre-tax profits are low, while cross-country comparability may be affected by differences in accounting treatment, consolidation scope and FINREP reporting coverage.

Chart 2

CESEE-8: banking sector tax burden and profitability, 2019 until 2025



Source: ECB Consolidated Banking Statistics (FINREP), national central banks.

due to higher business uncertainty and potentially lower credit growth in a context of already low financial intermediation (NBR, 2023). The OECD (2026) raised a related concern, arguing that turnover is a poorly targeted tax base because it may disproportionately burden banks with high revenues relative to profits and discourage lending.

In Czechia and Poland, the tax burden decreases over time. In Czechia, the windfall tax generated substantially less revenue than initially expected as profitability did not rise much compared to reference values. The Czech National Bank (CNB) regarded the introduction of the tax as a political decision and noted that it would not compromise the resilience of Czech banks (CNB, 2022; Pečinková, 2022).

In Poland, the tax burden was historically high due to higher general CIT rates and limited deductions, and profitability was low, partially due to provisioning related to the legal disputes surrounding Swiss franc loans (NBP, 2024). The fall in the tax burden ratio mostly reflects a sharp recovery in profitability since 2022. Back-of-the-envelope calculations suggest that the ratio would be even 8 to 9 percentage points higher if the bank levy were included in 2023–2025. As discussed in section 2, Borsuk et al. (2023) find that the levy introduced in 2016 increased lending margins, reduced credit growth and encouraged a shift towards higher-risk household lending. Kapuściński (2022), on the other hand, finds no significant effect on loan volumes, risk-taking or profitability, but reports higher mortgage rates and lower corporate deposit rates. The absence of a significant profitability effect may reflect banks' adjustment through balance-sheet reallocation and higher lending margins. Despite differences between the empirical findings, both studies indicate that banks adapted their pricing or portfolios in response to the levy. Its exemption of government securities also encouraged greater sovereign exposures, reinforcing the sovereign-bank nexus. The National Bank of Poland (NBP) has therefore repeatedly recommended redesigning the levy to make lending to the real economy more attractive relative to government bonds and called for a reduction in broader legal and regulatory risks (NBP, 2016a, 2016b, 2017, 2024, 2025).

Returning to chart 2, four countries show a visible increase in the profit tax burden ratio: Hungary, Slovakia, Slovenia, and Bulgaria. In Hungary, the ratio has risen gradually. Hungarian bank taxes are booked as levies, reducing profit before tax, which can increase the ratio. The rise may also be influenced by other factors, such as the volatility of profits and structural shifts in the Hungarian banking market.

Including bank levies in the tax burden, the ratio increases substantially to between 25% and 27% from 2023 to 2025 (instead of 15% to 17%). The pass-through of the levy introduced in 2010 to less price-sensitive customers, documented by Capelle-Blancard and Havrylchyk (2017; see section 2), is consistent with the Magyar Nemzeti Bank's (MNB) earlier warning that banks could pass the levy on through higher lending rates (MNB, 2010). Regarding the windfall tax introduced in 2022, the MNB found that it materially reduced profitability, although strong interest income more than offset this effect at the time (MNB, 2023). More recent MNB assessments indicate that high profitability and sizeable capital buffers have so far preserved the sector's resilience and lending capacity despite these tax burdens, although tax relief linked to government security purchases also encouraged banks to increase such holdings (MNB, 2025 and 2026).

In Bulgaria, Slovakia and Slovenia, the increase in the respective tax burden is likewise consistent with recently implemented tax measures. Bulgaria is not included in table 1 because, as of the cut-off date, imposing a possible additional tax on the banking sector was only under discussion. The observed increase in banks' tax burden reflects the transposition of the EU Directive 2022/2523 into national law[6], rather than a discretionary bank-specific tax measure. Given Bulgaria's comparatively low statutory CIT rate of 10%, the new legislation introduced top-up taxation for affected large enterprises whose effective CIT rate falls below 15%. As foreign-owned banks account for a large share of the Bulgarian banking sector, the impact on the sector-wide tax burden appears to be pronounced.

In Slovakia, the windfall profit tax introduced in 2024 and the higher CIT rate applied to large firms from 2025 pushed the effective tax burden on reported bank profits to the highest level in the EU in 2025 (see chart 1). In an Opinion, the ECB (2024) voiced concerns because the law was passed before a thorough analysis of potential negative effects could be undertaken. While welcoming the scheduled decline in the windfall profit tax rate, the ECB cautioned that maintaining the initially high rate could "seriously hamper the longer-term capital generation capacity of credit institutions" (p. 5). This could in turn diminish the ability of banks to lend to the economy and have adverse effects on economic growth. The National Bank of Slovakia (NBS) also stressed that bank profitability would be negatively affected but noted that banks' resilience and ability to lend would not be compromised provided that interest income and credit losses continued to develop favourably (NBS, 2024a). This conditional assessment underlines the importance of incorporating bank tax changes into stress tests, as their financial stability implications may become more pronounced when economic conditions deteriorate. The NBS also assessed the entire fiscal consolidation package of the Slovak government – including, for instance, the introduction of a financial transaction tax – and concluded that it would increase costs for banks but not jeopardise financial stability under the prevailing conditions (NBS, 2024b).

In Slovenia, the higher general CIT rate applied since 2024 accounts for most of the increase in the tax burden ratio, with a smaller contribution from the transposition of the EU Directive 2022/2523 (Bank of Slovenia, 2025). When the bank levy reintroduced in 2024 is also taken into account, our broader tax burden estimate rises from 13% to around 20%. The Bank of Slovenia (2025) estimates that the levy accounted for more than half of the increase in banks' operating costs in 2024. Nevertheless, strong earnings and sizeable capital buffers allowed banks to absorb the additional costs without compromising banking sector resilience. Levy payments declined by just over 10% in 2025, partly because the higher CIT rate reduced the levy base. Although profitability moderated, it remained above its long-term average, while retained earnings continued to support capital accumulation and banking sector resilience (Bank of

[6] This Directive implements the OECD/G20 Pillar Two framework within the EU and aims to limit profit shifting and harmful tax competition by ensuring a minimum effective CIT rate of 15% for large multinational and domestic groups with consolidated annual revenues of at least EUR 750 million. As a general CIT measure it is not covered in this study. Its national impact is likely to be greater in countries with low effective CIT rates and a substantial presence of large multinational groups.

Slovenia, 2026). These recent reports do not identify a system-wide lending constraint attributable to the levy, although Volk's (2024) findings for the earlier Slovenian levy, discussed in section 2, illustrate its potential adverse effects on corporate lending conditions.

Overall, after adjusting the tax burden ratios for bank levies, Slovakia and Poland would continue to record the highest burdens, as in chart 2, followed by Hungary, Romania and Slovenia, while Croatia, Czechia and Bulgaria would have the lowest ratios. As noted above, caveats apply to these back-of-the-envelope calculations. Despite additional taxes, after-tax profitability rose relative to 2019 in all CESEE countries except Czechia (see the right-hand panel of chart 2). Comparing the 2023–2025 average with 2019, after-tax return on assets (RoA) increased by around 20% to 30% in Slovakia, Romania, Croatia and Bulgaria, 43% in Slovenia, 66% in Hungary and 72% in Poland. Pre-tax RoA increased at a similar rate in most countries except for Slovakia, where the increase exceeded that of the after-tax RoA by 20 percentage points.

5 Conclusions

Bank-related fiscal interventions have become widespread in the EU, particularly in CESEE. Bank taxation has evolved from post-GFC balance-sheet levies, originally associated with financial stability and the public costs of bank support, towards a more heterogeneous set of profit- and revenue-based instruments. Recent measures have primarily sought to tax perceived windfall gains and mobilise revenue for fiscal consolidation and new spending needs. Credible fiscal consolidation may benefit banks indirectly by reducing sovereign risk, supporting the value of their sovereign exposures and improving funding conditions. However, these potential benefits must be weighed against potentially adverse effects of bank taxes on lending, internal capital generation, investment and service quality as well as the risk that tax incentives favouring government bond holdings reinforce the sovereign-bank nexus. Considerable cross-country differences in tax design and duration may also distort competition within the Single Market and the banking union. Greater coordination among EU member states could help limit cross-border distortions, double taxation and further fragmentation of the EU banking market.

Despite additional bank taxes, after-tax profitability has remained high and above 2019 levels in most CESEE banking sectors. Reported profit tax burdens are often comparable with, or below, those elsewhere in the EU, although the broader burden is substantially higher in several countries once bank levies recorded as operating expenses are included. The financial stability implications observed in recent years have generally remained contained. In Croatia and Czechia, the relevant windfall profit taxes were temporary or imposed a comparatively limited burden, and the respective central banks assessed their effects on resilience as negligible or limited. In Hungary, Slovakia and Slovenia, more material effects on profitability or operating costs were absorbed by strong income generation and sizeable capital buffers. These assessments were nevertheless often conditional on favourable profitability, credit-loss and capital developments. The central banks of Poland and Romania expressed stronger concerns about longer-term effects on financial intermediation and incentives. In Poland, the exemption of government securities from the levy base encouraged banks to increase their sovereign exposures. Romania's revenue-based tax is weakly aligned with profitability and may discourage lending in a banking system with comparatively low financial intermediation. These concerns are broadly consistent with assessments by both the ECB and OECD.

Overall, the effects of bank taxes depend on their tax base, duration and scale, as well as banks' capacity to absorb the burden. The absence of an immediate systemic impact should not be interpreted as evidence that bank taxes are neutral for financial stability. Empirical studies from the region, including studies of earlier bank tax episodes, document partial pass-through to borrowers, higher lending rates, weaker credit growth and changes in the allocation of credit and bank portfolios. Such effects may become more

pronounced if profitability moderates, credit losses increase or temporary measures become long-lasting. Tax design should therefore reflect the measure's objective and intended duration. Especially for recurring taxes, predictable, proportionate and non-discriminatory rules are important.

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