Corporate and household sectors in Austria: debt levels remain low while interest rate risk persists[1]

Nonfinancial corporations: favorable financing conditions buttress investment recovery

Investment recovers after four years of weak growth

With an annual real GDP growth rate of 1.4% in 2016, Austria overcame a four-year period of weak GDP growth of less than 1%. Austrian industrial output gained significant momentum toward the end of 2016, which – together with improved sales prospects and favorable financing conditions – supported Austrian companies' propensity to invest. Over the past two years, Austrian companies expanded their investment in equipment by almost 10%. Demand for vehicles rose particularly strongly in 2016, but increasing investments were also made in the replacement of production capacities (machinery and equipment). The investment stimulus package launched by the Austrian government in October 2016 will provide further support for investment activity. In contrast, growth in housing investment remained relatively subdued in 2016, considering that house prices were soaring, population growth was high and lending rates were low.

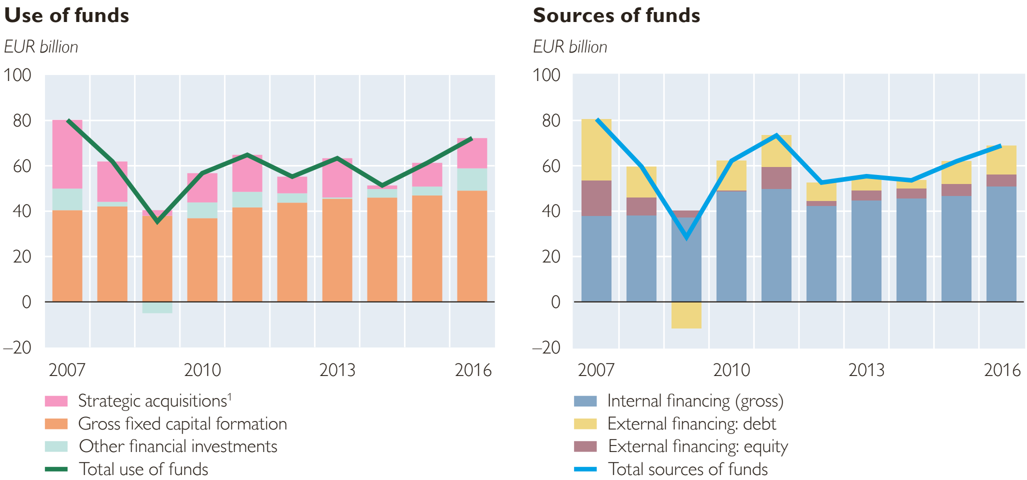
Equipment investment picks up

Financial investment does not substitute capital formation

The left-hand panel of chart 6 shows the development of (nominal) capital formation and financial investments, both in gross terms. The sum of the two items represents the total use of funds of nonfinancial corporations, which increased by 17.8% year on year in 2016. While gross fixed capital formation rose by 4.5% in nominal terms, nonfinancial corporations acquired 61.5% more financial assets than in the year before. More than half were equity[2] instruments and loans extended by nonfinancial corporations, summa-

Chart 6

Use and sources of funds of Austrian nonfinancial corporations



Source: OeNB, Statistics Austria, Eurostat.

[1] *Equity and loans.*

[1] *Due to changes in the methodology applied in the compilation of banking statistics, there are breaks in the time series in a number of banking-related items as of October 2016.*

[2] *(Listed and unlisted) shares and other equity, according to financial accounts data.*

rized as "strategic acquisitions." These items largely represent direct investments in other enterprises. The expansion of other financial investments was mainly driven by short-term items such as bank deposits and trade credit, which both about doubled. In total, less than one-third of the total use of funds went into financial investments in 2016.

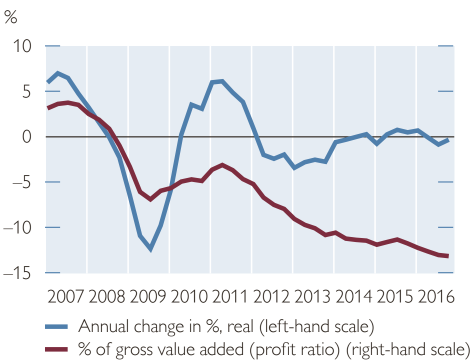
Corporate profits remain stable

Internal financing slightly surpasses investments

Despite the upturn in economic growth, the gross operating surplus of Austrian nonfinancial corporations showed a more or less flat development in 2016, posting a year-on-year decrease of 0.3% in real terms in the fourth quarter of 2016 (based on four-quarter moving sums; see chart 7). In nominal terms, gross operating surplus rose by 1.0%. The growth of nonfinancial corporations' value added remained below that of compensation of employees. As the expansion of gross operating surplus fell short of that of gross value added, profitability (as measured by gross operating surplus divided by gross value added) continued its downward trend, which had been registered since the onset of the crisis. In the fourth quarter of 2016, the gross profit ratio amounted to 40.8%, down 0.3 percentage points compared to end-2015. However, the low interest rate environment reduced the interest burden of indebted nonfinancial corporations (see below) and thus supported the nonoperational part of corporate income. Overall, increased earnings not only alleviated debt-servicing difficulties for vulnerable firms, but also augmented the internal financing potential of the corporate sector.

Chart 7

Gross operating surplus of Austrian nonfinancial corporations[1]



Source: Statistics Austria.

[1] *Moving four-quarter sums.*

Financing volumes of nonfinancial corporations expand

The recovery in investment increased the financing needs of nonfinancial corporations. Internal financing (measured as the sum of changes in net worth and depreciation) remained the most important and most stable source of funds for Austrian nonfinancial corporations (see right-hand panel of chart 6). It increased by 8.7% in 2016 to reach EUR 50.9 billion, a value slightly above that of gross fixed capital formation. At the same time, nonfinancial corporations' recourse to external financing picked up in 2016 and, at EUR 18.0 billion, was up 18.7% compared to the 2015 value. Despite recording the highest value in five years, external financing volumes still remained below pre-crisis figures, reflecting the ample liquidity on the asset side of firms' balance sheets.

As a result of the buoyant growth of internal and external financing, total financing of nonfinancial corporations continued to rise briskly in 2016 (11.1%). At 74%, the share of internal financing in total financing continued to be higher than before the crisis. Overall, the structure of corporate financing was again marked by a significant weight of own funds (internal financing and equity-based external financing), accounting for 82% of financing in 2016.

Roughly one-third of total external financing came in the form of equity in

Equity accounts for close to one-third of external financing

2016, which rose by 7%. The net issuance of listed shares slumped to a mere EUR 0.2 billion. There was one new listing of an Austrian company in Frankfurt, but none on the Vienna stock exchange. Thus, virtually all equity financing came from other equity instruments (mainly purchases by foreign strategic investors). Not only did firms have enough cash reserves to finance investment projects, debt financing continued to be very attractive in light of low interest rates (despite a decrease in the cost of equity issuance implied by rising stock prices).

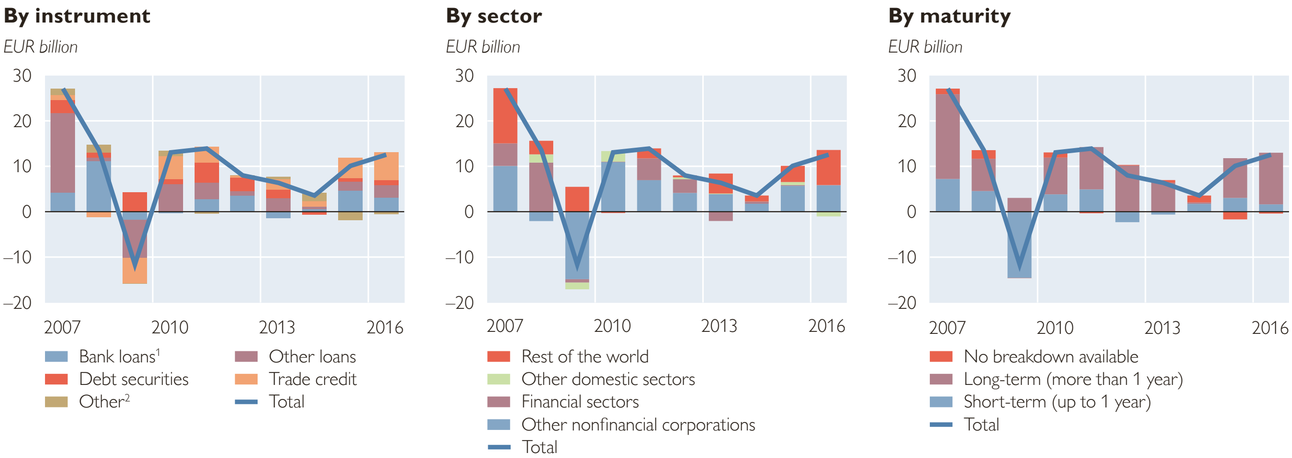
Debt financing continues to recover

Debt instruments provided two-thirds of nonfinancial corporations' external financing in 2016. Debt financing grew by 24.4% to EUR 12.6 billion but, as in the case of equity financing, still remained below pre-crisis levels despite reaching the highest value in five years. As in the years before, other nonfinancial corporations (both domestic and foreign) were the primary source of debt financing for the Austrian corporate sector. Mostly, this financing took the form of trade credit, which – including cross-border trade credit – accounted for almost half of total debt financing despite the fact that this form of finance is comparatively more expensive in a low interest rate environment. One reason for the large share of trade credit might be that as a key element of firms' working capital, trade credit is particularly relevant in the early stages of a cyclical upswing. Loans from other (domestic) enterprises, which mostly reflect transactions within corporate groups, played a minor role in 2016. In sum, domestic nonfinancial corporations provided 46% and foreign funding about 60% of external financing for the corporate sector. In contrast, the domestic financial sector contributed very little to external financing in 2016. This was especially true for short-term financing, as short-term bank loans were reduced significantly. Therefore, despite the strong recourse to trade credit, the maturity structure of nonfinancial corporations' debt financing continued its shift toward

Debt dominated by long-term financing

Chart 8

Debt financing of Austrian nonfinancial corporations



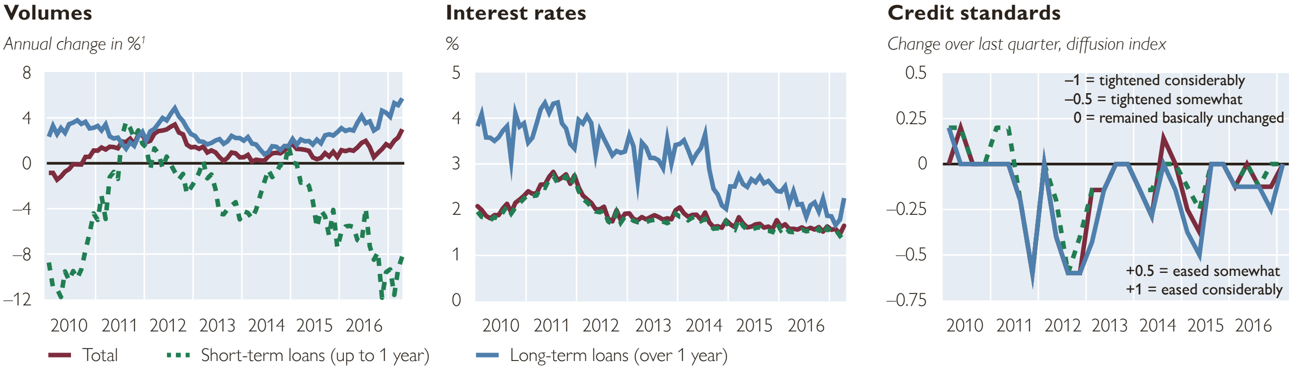
Source: OeNB.

[1] *By domestic and foreign banks.*
[2] *Pension entitlements and other accounts payable.*

Note: 2016 data are preliminary.

Chart 9

MFI loans to Austrian nonfinancial corporations



Source: OeNB.

[1] Adjusted for reclassifications, valuation changes and exchange rate effects.

long-term instruments (with a maturity over one year) in 2016.

Buoyant growth of longer-term bank loans

Looking at long-term debt financing only, financial institutions provided more than one-quarter of external financing to nonfinancial corporations in 2016 (twice the contribution of nonfinancial corporations). Long-term loans by Austrian monetary financial institutions (MFIs) accounted for 32% of all long-term debt financing. Over the past few months, overall lending by Austrian banks to domestic nonfinancial corporations has gained some momentum. In April 2017, its annual growth rate (adjusted for reclassifications, valuation changes and exchange rate effects) amounted to 3.0% in nominal terms, the highest value in more than four years (see left-hand panel of chart 9).[3] Short- and long-term loans have been following opposite trends: Loans with medium-term and longer maturities (more than one year), which are most relevant for business fixed investment, went on to expand, growing by 5.7% annually in April 2017, while short-term loans (with maturities of up to one year) have been decreasing for the past two years.

Cautious lending policies persist

Austrian banks continued their cautious lending policies and somewhat tightened their credit standards for loans to enterprises in 2016 and the first quarter of 2017 according to the euro area bank lending survey (BLS; see right-hand panel of chart 9). Respondent banks primarily attributed their tighter standards to reduced risk tolerance. Thus, firms with poor credit ratings and higher insolvency probabilities may have experienced difficulties in obtaining a bank loan. Moreover, banks cited costs related to their capital position and risk related to the collateral demanded as reasons for tightening their credit standards. In contrast, other factors reflecting banks' risk perception, such as their assessment of the general economic situation and of borrowers' creditworthiness, which had been named frequently in the past, played a minor role in recent survey rounds; this was largely attributable to the cyclical upswing of the Austrian economy.

At the same time, corporate loan demand began to recover in 2016, after a prolonged period of decline. From the second quarter of 2016, the banks

[3] *At the cutoff date, financial accounts data were available up to the fourth quarter of 2016. More recent developments of financing flows are discussed on the basis of data from the MFI balance sheet statistics.*

surveyed in the BLS reported a slight pickup in corporate loan demand. Reflecting the current cyclical situation, in late 2016 and early 2017 banks named funding requirements for fixed investment as a driver of increasing loan demand; previously, these had been cited as a dampening factor almost continuously since 2008. Merger and acquisition activities as well as debt restructuring and re-negotiations remained other factors behind this rise, while internal financing continued to dampen loan demand.

Bank interest rates decline further

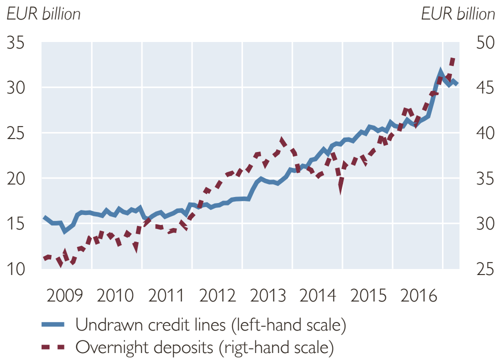
Historically low bank lending rates continued to support lending to the corporate sector, as lower bank funding costs continued to translate into reduced lending rates. Between end-2015 and April 2017, interest rates on new loans to nonfinancial corporations sank by 12 basis points (see middle panel of chart 9). In 2016 and 2017 so far, the spread between interest rates on loans of lesser amounts and larger loans, which – given the lack of other data – is commonly used as an indicator of the relative cost of financing for SMEs, averaged 37 basis points, one of the lowest levels recorded in the euro area.

Growing liquidity buffers

Moreover, firms continued to have substantial liquidity at their disposal. According to the OeNB's statistics on new lending business, the total amount of undrawn credit lines available to enterprises increased further, although a change in the data collection method as of October 2016 makes direct comparisons with former time periods difficult (see chart 10). Undrawn credit lines continued to expand more strongly than the overall volume of credit lines, implying a significant increase in unutilized liquidity on which enterprises could have drawn in if necessary. Additionally, firms' transferable deposits continued to rise (+12.5% year on year in April 2017). Over the past years, firms have built up sizeable deposits: Total corporate deposits outstanding in April 2017 exceeded gross investment in 2016 by more than 20%. While these liquidity buffers may reflect precautionary motives as well as low opportunity costs of holding liquid assets, in the current environment of budding loan demand recovery, they suggest that the restrictive policies of Austrian banks probably do not constrain financing the Austrian enterprise sector.

Chart 10

Indicators of Austrian nonfinancial corporations' liquidity



Source: OeNB.

Slight increase in corporate bond issuance

Debt securities' contribution to corporate financing remained moderate in 2016. According to financial accounts data, corporate bond issuance increased slightly, supported by low corporate bond yields; amounting to EUR 1.1 billion, it accounted for 6% of total debt financing (and 9% of long-term debt).

Interest rate risk remains elevated for the corporate sector

At 2.6% year on year, the growth of corporate debt (measured in terms of total loans raised and bonds issued) surpassed the nominal expansion rate of gross operating surplus in the fourth quarter of 2016. Hence, the debt-to-income ratio of the corporate sector increased by about 6 percentage points over the past year to reach 420% by the final quarter of 2016 (see upper left-hand panel of chart 11). Due to lower debt levels, the debt-to-income ratio is lower in Austria than in the euro area as a whole, whereas the debt-to-equity ratio, which fell slightly to 92% in 2016 according to financial accounts data[4], is higher in Austria than in the euro area, reflecting the greater importance of debt financing in Austria.

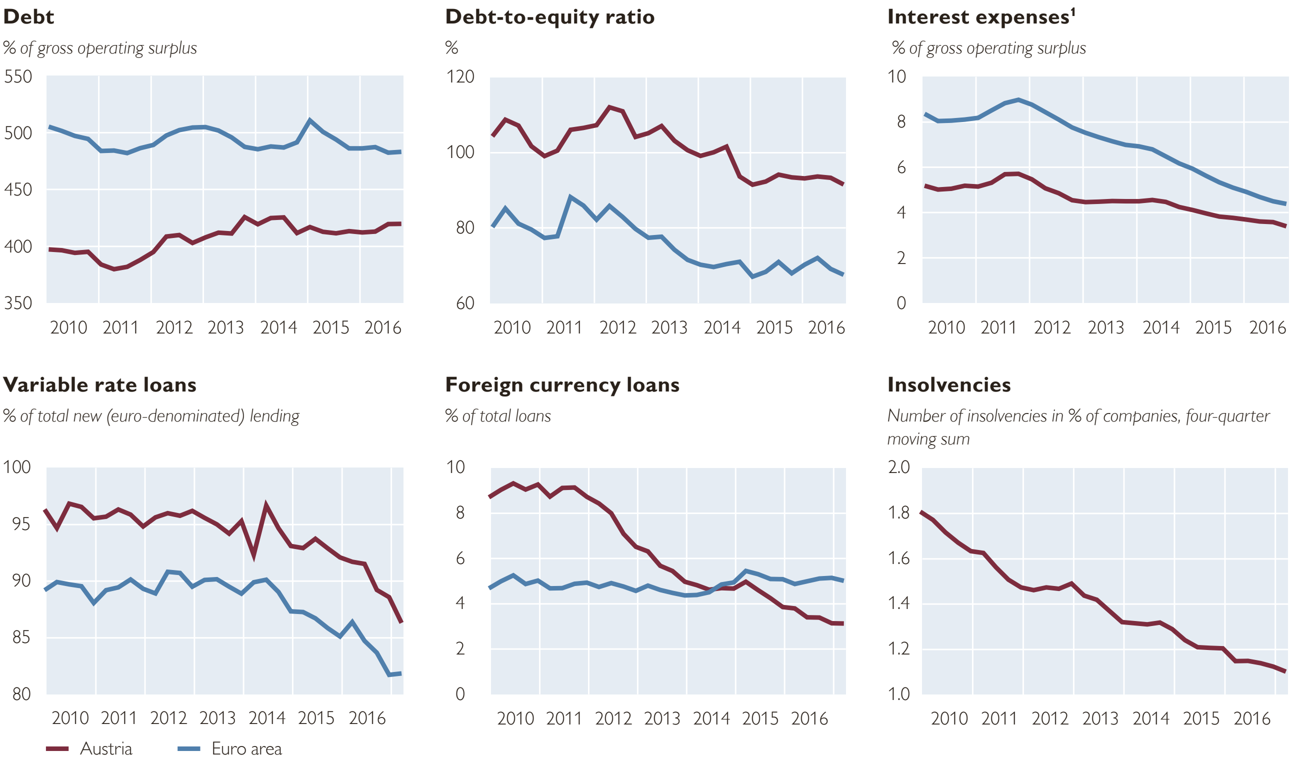
Share of variable rate loans remains high

The low interest rate environment continued to support firms' current debt-servicing capacity. In 2016, the proportion of gross operating surplus spent on interest payments for (domestic) bank loans continued to decline slightly, reaching 3.4% in the fourth quarter of 2016. This reduction reflected the still high share of variable rate loans in new loans, which has come down only 8 percentage points since mid-2014 to reach 86% in the first quarter of 2017. While Austrian companies are therefore currently experiencing lower interest expenses than their euro area peers, they face a higher exposure to interest rate risk. A rebound of interest rates could become a burden, especially for highly indebted companies, even if rising debt-servicing costs may be accompanied by increasing corporate earnings in an economic recovery.

The Austrian corporate sector's exposure to foreign exchange risk de-

Chart 11

Risk indicators for Austrian nonfinancial corporations



Source: OeNB, ECB, Eurostat, KSV 1870.

[1] *Euro area: euro loans only.*

[4] *According to international conventions, financial accounts value equity on the liabilities side of nonfinancial corporations' balance sheets at market prices. The fact that the debt-to-equity ratio decreased although debt financing grew more strongly than equity financing in 2016 reflects price increases in Austrian stocks.*

creased further, amounting to 3.1% of outstanding loans in the first quarter of 2017. Since the second quarter of 2014, the foreign currency loan share in Austria has remained below the figure for the euro area as a whole.

The insolvency ratio (i.e. the number of corporate insolvencies in relation to the number of existing companies), which had already shown a downward trend over the past years, came down further in 2016 and the first quarter of 2017 (based on a moving four-quarter sum to account for seasonality). This downtrend may be attributed to the moderate increase in debt financing and the low interest rate level, which makes debt servicing easier even for highly indebted companies, as well as to recent improvements in economic activity.

Household indebtedness remains comparatively low

Disposable household income improves

Austrian households' saving ratio increases in 2016

Having displayed some weakness over the preceding four years, households' income situation improved in 2016, with real disposable income rising by 2.3%. On the one hand, the tax reform, which had entered into force at the beginning of 2016, generated substantial tax relief, and on the other hand, the economic recovery led to an improvement in the labor market situation. Undoubtedly, this increase in disposable income contributed to households' financial soundness. At the same time, strong income growth revived consumer spending, even if – as already seen in the past – consumers reacted with a time lag to the income growth resulting from the tax reform. Thus, the saving ratio increased from 7.3% to 8.2% in 2016.

Households' preference for liquid assets persists

Households' financial investments rebound

Reflecting the higher saving ratio, financial investments by households surpassed the comparable 2015 value by more than one-quarter to reach EUR 13 billion in 2016 (see chart 12). Yet, they still amounted to less than two-thirds of the values seen before the onset of the crisis. Financial investments were again largely driven by deposits, reflecting a strong preference for highly liquid assets in the low nominal interest rate environment. In 2016, more than 85% of net financial investments were accounted for by currency and deposits.

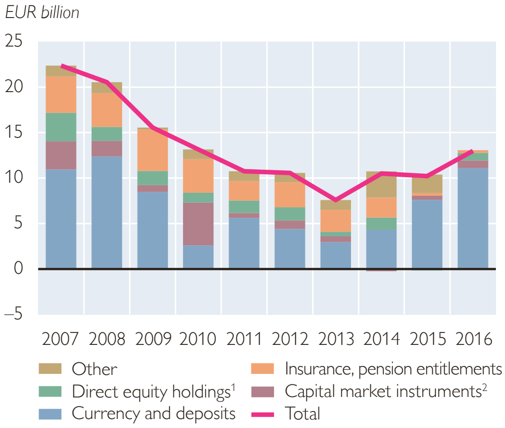
Insolvencies bottom out

Strong expansion of transferable deposits

Households shifted more than EUR 16 billion into transferable deposits at domestic banks (see chart 13). This value surpassed total financial investments in 2016, implying considerable substitution of other financial assets. In contrast, bank deposits with agreed maturity continued to decline, dropping by more than EUR 5 billion. Between 2009 and 2016, households' transferable deposits increased by

Chart 12

Net financial investments

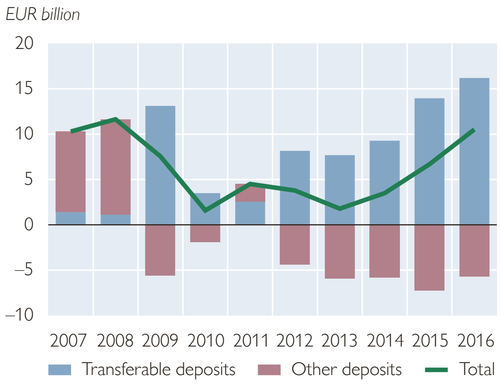


Source: OeNB.

[1] Unlisted shares and other equity.
[2] Debt securities, mutual fund shares and listed shares.

Chart 13

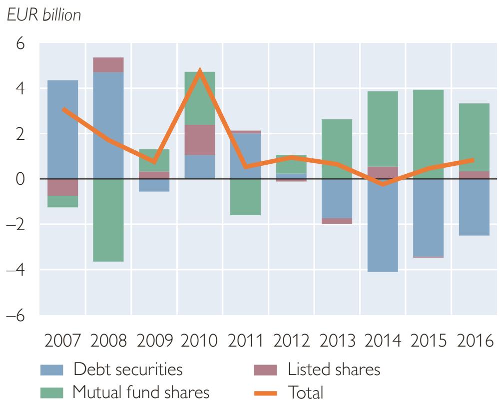
Net investments in deposits



Source: OeNB.

Chart 14

Net investments in capital market instruments



Source: OeNB.

almost EUR 75 billion, while deposits with agreed maturity fell by EUR 35 billion. As a result, the share of transferable deposits in total financial assets rose from 12.1% to 19.8% in the same period while the share of deposits with agreed maturity fell from 28.3% to 17.8%.

Similarly, as households shunned investments with longer interest rate fixation periods, they continued to reduce their direct holdings of long-term debt securities, cutting them by almost EUR 12 billion since 2013 (see chart 14). In the same period, net investments in mutual funds reached EUR 13 billion. In comparison, over the same period households invested EUR 0.6 billion in listed shares. In total, households' net financial investments in capital market instruments were quite muted in recent years, totaling EUR 2.7 billion in the five years from 2012.

Considerable (unrealized) valuation gains since 2012

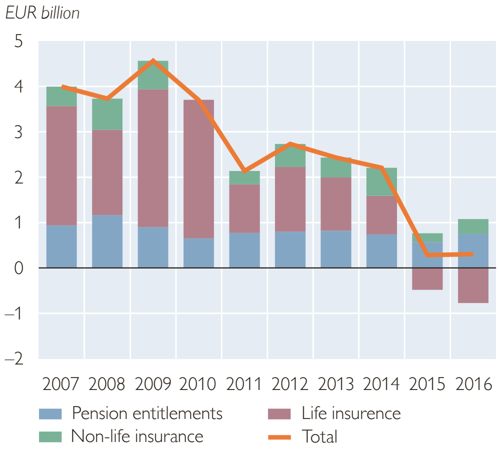
Since 2012, the Austrian household sector recorded unrealized valuation gains on its securities portfolios in the amount of EUR 11.8 billion on aggregate, of which EUR 2.6 billion occurred in 2016. As a result of rising stock prices, listed shares accounted for the lion's share, with valuation gains amounting to 8.2% of the holdings of listed shares at end-2015; in the case of mutual fund shares, the gains equaled 1.5% of the household portfolio. Thus, (unrealized) valuation effects were the main driver of the increase in the Austrian household sector's holdings of capital market instruments, contributing 79% to their increase in the period from 2012 to 2016. Hence, muted net investments notwithstanding, the share of capital market instruments in total financial assets has remained quite stable in recent years at around 18%. So while there are few indications that households made up for low interest rates by investing in riskier assets, the assets they hold contain increasingly risky elements in the form of unrealized valuation gains. However, capital market investments in general and stocks in particular are very much concentrated in the portfolios of households with higher income, which have a higher risk-bearing capacity, as the results of the Household Finance and Consumption Survey (HFCS) for Austria show.

Net investments in life insurance policies remain negative

Investments in life insurance and pension entitlements remained subdued in 2016, amounting to a mere EUR 0.3 billion, virtually unchanged against

Chart 15

Net investments in insurance and pension entitlements



Source: OeNB.

2015. This was mainly attributable to life insurance policies, where disbursements outstripped contributions by EUR 0.8 billion. The negative net investment in life insurance is all the more remarkable as a large proportion of gross inflows into these instruments were not an outcome of current investment decisions, but rather reflected past decisions, given the long maturities and commitment periods involved. Moreover, life insurance policies often serve as repayment vehicles for foreign currency bullet loans (even if these are converted into euro loans). By contrast, investments in pension entitlements (including both claims on pension funds and direct pension benefits granted by private employers) continued to expand, amounting to EUR 0.8 billion in 2016. Based on outstanding amounts, the share of these investments in total financial assets contracted to 20.3%.

Household loans expand at a steady pace

More than 85% of Austrian households' financial liabilities are made up of loans by (domestic) banks. The expansion of bank lending to households has remained stable in recent months. In April 2017, bank loans to households (adjusted for reclassifications, valuation changes and exchange rate effects) increased by 3.0% year on year in nominal terms. A breakdown by currency shows that euro-denominated loans continued to grow briskly (by 6.5%), while foreign currency loans continued to contract at double-digit rates; by April 2017, they had fallen by 15.3% year on year. Broken down by loan purpose (see chart 16), consumer loans and other loans shrank by 0.3% and 1.9% year on year, respectively, whereas housing loans grew by 4.1% year on year. Yet, housing loans continued to expand at a rather moderate pace if compared e.g. to property price growth or to pre-crisis growth rates (see top-left panel of chart 16). Housing loans are the most important loan category for households, accounting for almost two-thirds (64.8%) of all their bank loans in April 2017.

The conditions for taking out housing loans remained favorable. According to the results of the euro area bank lending survey, banks' credit standards for housing loans to households were stable in the first quarter of 2017 as well as in the previous quarter. Overall, there has been little change in lending standards in this segment over the past three years.

Credit terms also continued to be advantageous. At 1.85%, average interest rates on euro-denominated housing loans to households were 10 basis points lower in April 2017 compared to one year earlier. The interest rate on variable rate loans (with a rate fixation period of up to one year) decreased by 16 basis points to 1.70%. The effective annual rate of interest on housing loans, which reflects total borrowing costs (interest rate component and related charges) dropped by 11 basis points

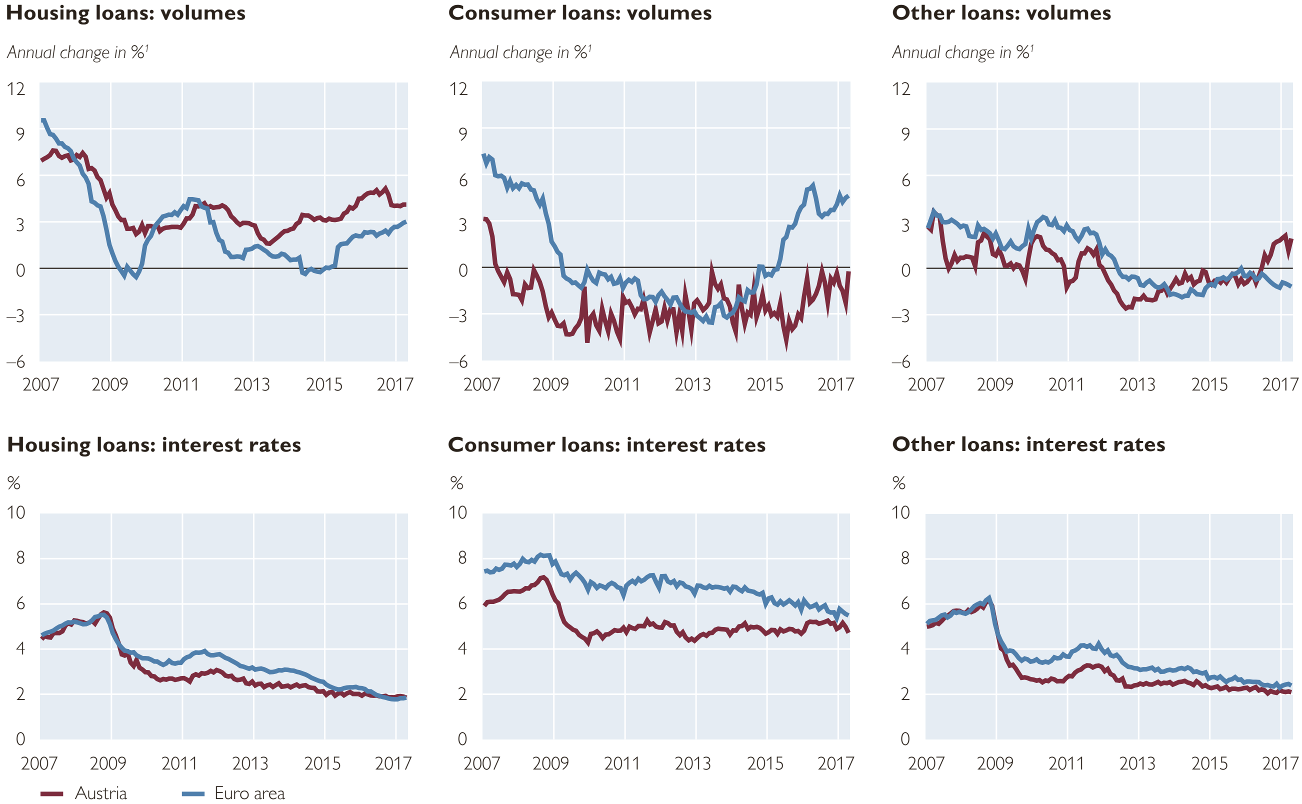
Loan growth driven by housing loans

year on year to reach 2.27% in April 2017.

At the same time, banks reported a slight increase in household demand for housing loans in the first quarter of 2017, which had remained rather stable in 2016. Since this factor was included in the BLS questionnaire in the first quarter of 2015, banks have largely attributed the increase in the demand for housing loans to the general level of interest rates. In contrast, housing market prospects, including expectations of rising house prices, which had affected the increasing demand for housing loans in former years, have been barely mentioned in recent survey rounds. Yet, the strong increase in house prices registered over the past years (see below) may have boosted the funding needs for real estate investment. In 2016, the transaction volume on the residential property market in Austria increased by roughly 8% year on year in nominal terms according to data published by RE/MAX and compiled from the land register by IMMOunited.[5] While this rise was lower than in the two years before, it nevertheless implied an increase in financing needs. Still, housing loans most likely continued to grow at a slower pace than the volume of residential property transactions in Austria.

Chart 16

MFI loans to households: volumes and interest rates



Source: OeNB, ECB.

[1] *Adjusted for reclassifications, valuation changes and exchange rate effects.*

[5] *This increase is in part attributable to the effects of the tax reform that entered into force in January 2016. The prospect of the new tax provisions led to anticipatory effects relating to free-of-charge transactions within families and thus to a temporary spike in transactions toward the end of 2015. Many of these transactions, however, were not recorded in the land register until the first quarter of 2016.*

Households' currency and interest rate risks

Households' debt-to-income ratio stable

By end-2016, the household sector's total liabilities amounted to EUR 181.5 billion according to financial accounts data, up by 3.7% in nominal terms against end-2015. As they expanded at the same pace as disposable income, household's debt-to-income ratio remained steady at 91% (see upper left-hand panel of chart 17). Accordingly, the debt ratio of households in Austria remained lower than that of households in the euro area as a whole. Moreover, it should be taken into account that, according to HFCS data, only about one-third (34%) of Austrian households have a loan outstanding. Thus, it is not the absolute level of Austrian households' indebtedness that is the primary concern, but rather the still high shares of variable rate and of foreign currency loans.

Share of variable rate loans continues to decrease

In the first quarter of 2017, variable rate loans (loans with an initial rate fixation period of up to one year) accounted for 59% of new lending (in euro) to households compared to 80% in the same quarter of the previous year; over the same period, their share in housing loans narrowed from 80% to 51%. But despite this recent decline, the share of variable rate loans is still very high by international comparison. On the one hand, this implies lower current interest expenses. In the fourth quarter of 2016, households' interest expenses equaled 1.6% of aggregate disposable income, more than 2 percentage points less than in 2008, i.e. the year before interest rates had started to fall. Lower current interest expenses result from the faster pass-through of the ECB's lower key interest rates to lending rates in Austria than to those in the euro area as a whole. In view of the comparatively low level of indebtedness of Austrian households, loan quality may also have played a role. On the other hand, however, the high share of variable rate loans in total lending implies considerable interest rate risks in the household sector over the medium term.

Foreign currency loans remain a concern

Likewise, despite a substantial decrease in past years and the fact that most foreign currency loan debtors have substantial wealth to cover their obligations,[6] the still very high share of foreign currency loans in the total stock of lending remains a major risk factor for vulnerable households. In April 2017, the share of foreign currency loans fell to 13.0%, less than half the peak value reached about ten years ago. The foreign currency share varies considerably depending on loan purpose: For housing loans, it was 16.9%, for consumer loans 3.9 % and for other loans 13.0%. Almost all outstanding foreign currency-denominated loans are denominated in Swiss francs (close to 97%).

Residential property prices in Austria continue to increase

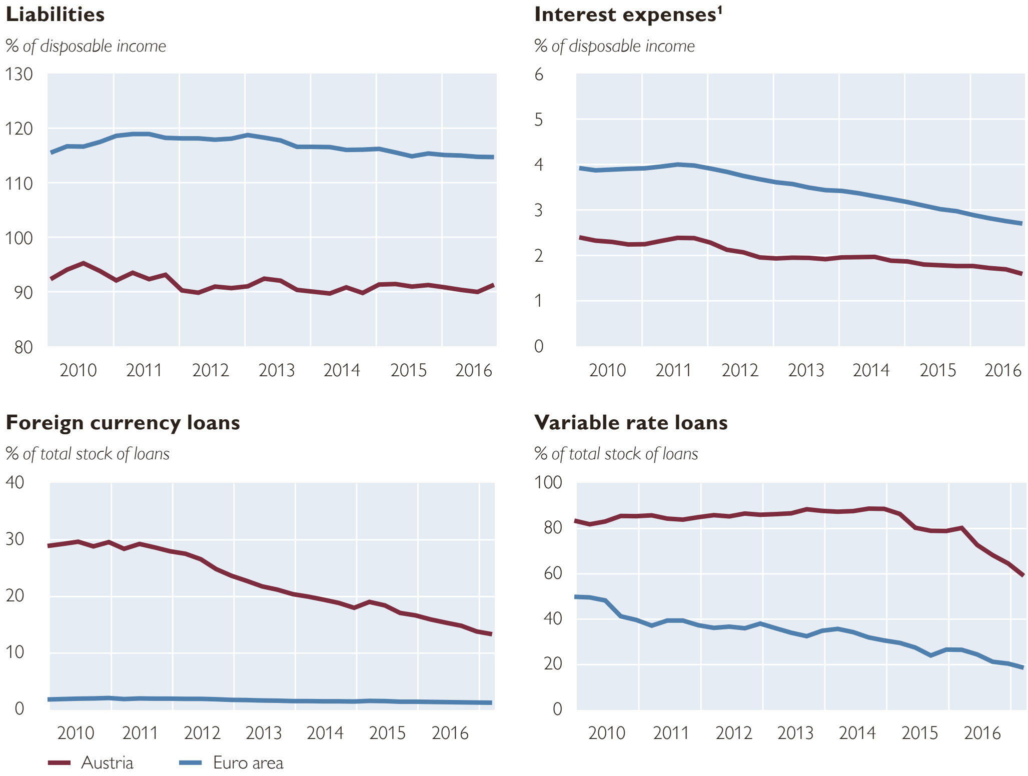
Property price growth in Vienna below the national average

The upward trend in residential property prices in Austria continued in 2016, although Austrian house price growth abated somewhat over the course of the year, reaching 4.6% year on year in the fourth quarter. For a long time price increases had been significantly more pronounced in Vienna than in the rest of Austria; however, in the last two and a half years, it has been the "Austria excluding Vienna" aggregate that has shown more pronounced residential property price growth, reaching 5.2% year on year in the fourth

[6] *See: Foreign currency borrowers in Austria – evidence from the new wave of the Household Finance and Consumption Survey. In: OeNB. Financial Stability Report 32. December 2016. 41–46.*

Chart 17

Indicators of household indebtedness



Source: OeNB, Statistics Austria, ECB, Eurostat.

[1] *Figures for the euro area represent only interest rate expenses on euro-denominated loans.*

quarter of 2016. In Vienna, residential property prices rose by 3.4% year on year in the fourth quarter of 2016. While cost pressures, such as building costs, remained moderate in 2016, housing supply did not keep up with high population growth, as real housing investment remained subdued for most of 2016.

Because of the price rise against the previous quarter, the OeNB fundamentals indicator for residential property prices in Vienna went up by 1.5 percentage points in the fourth quarter of 2016, reaching 19.8%. For Austria as a whole, the indicator reached 6.0%, which was attributable primarily to residential property price growth clearly outpacing the growth rates of household income, rents, construction costs and consumer prices.[7]

Systemic risks from the domestic real estate market remain limited

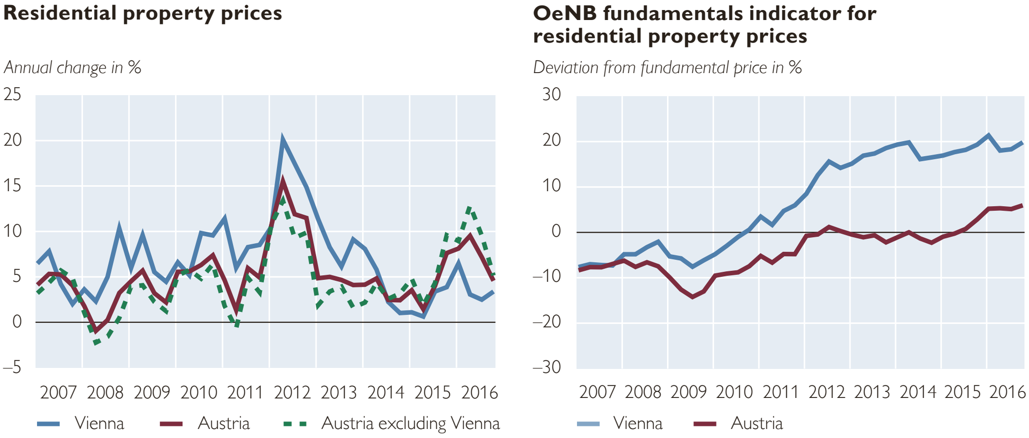
The OeNB's assessment of real estate-induced systemic risks rests on a comprehensive approach and takes into account real estate price growth, as well as the resilience of borrowers, the risk-bearing capacities of lenders and the wider context that influences the real estate market in Austria.

Real estate-induced systemic risks remain limited in Austria, largely due to the fact that Austrian households show low and decreasing indebtedness on the aggregate level and that mortgage borrowers feature income and wealth levels that are well above those of the median household. Furthermore,

[7] *For more analyses and data on the Austrian real estate market, see https://www.oenb.at/en/Monetary-Policy/real-estate-market-analysis.html.*

Chart 18

Austrian residential property market



Source: Vienna University of Technology, OeNB.

the strongest surge in real estate prices coincided with a period of stable mortgage loan growth of around 4%, indicating that it was largely equity-funded, driven by shifts in asset allocation. Recently, price growth has come down considerably. Also, more vulnerable households benefit from the high share of social housing provided by public entities and from nonprofit cooperative housing (58% of rented main residences in Vienna[8]). Social housing substantially reduces the need for vulnerable households to borrow in order to achieve acceptable housing conditions.

The share of nonperforming loans in overall real estate loans to domestic borrowers remained low at 1.6% in the fourth quarter of 2016, down from 2.1% one year earlier. Mortgage loans in Austria in relation to the capitalization of Austrian banks are low (167% of consolidated common equity tier 1 in the third quarter of 2016) compared to other EU economies and declined further in 2016.

FMSB promotes sustainability of lending standards

The OeNB remains vigilant and has launched a sustainability initiative together with the Financial Market Stability Board (FMSB) and the Financial Market Authority (FMA). This initiative has at its heart sustainable loan-to-value (LTV), debt service-to-income (DSTI) and debt-to-income (DTI) ratios.[9] In this regard, the FMSB recommends that lenders, when granting residential real estate loans, ensure that borrowers provide a minimum down payment and document sufficient buffers of disposable income. This recommendation is aimed at preventing the potential buildup of residential real estate-induced systemic risks and at reducing the necessity to take further macroprudential measures.

Residential real estate lending standards warrant increased attention

Lenders have broadly adhered to sustainable lending standards so far, though some occurrences warrant heightened supervisory vigilance: an OeNB survey indicates that a nonnegligible part of new mortgage lending was granted with LTV, DSTI and DTI ratios beyond of what the notion of sustainable

[8] *Source: Statistics Austria.*

[9] *See for example the FMSB press release after its ninth meeting: https://www.fmsg.at/en/publications/press-releases/2016/Ninth-meeting.html.*

lending standards would suggest. Against the backdrop of record-low interest rates, these developments confirm the need to reinforce the FMSB's recommendation on sustainable lending standards for housing loans.