

# Corporate and household sectors in Austria: benign financing conditions<sup>1</sup>

## Nonfinancial corporations' financing volumes expand

### Equipment investments reach cyclical peak

Strong growth of the Austrian economy

Rising corporate profits

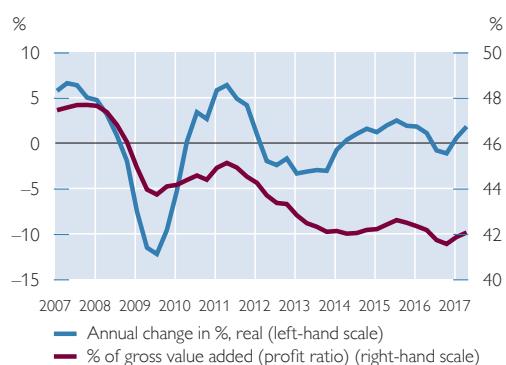
The Austrian economy gathered further momentum in the first three quarters of 2017, underpinned by both domestic and foreign demand. A number of economic risks, which had reduced business confidence and the propensity to invest in recent years, abated. Austrian exporters were able to profit from improved prospects for the global economy and world trade. The favorable export development provided a sizeable impetus for domestic producers, who also benefited from strong domestic demand. The investment cycle that had set in already in late 2015 reached its peak in 2017. While replacement had initially been the main investment motive, high capacity utilization rates eventually resulted in an increasing need for investment in capacity expansion. Investments in machinery and vehicles that had already risen significantly in

2016 expanded further in the first three quarters of 2017, albeit at a slightly slower pace. Housing investment moderated somewhat in the course of this year, after very strong growth in the first quarter.

Reflecting the upturn in economic growth, the gross operating surplus<sup>2</sup> of Austrian nonfinancial corporations started to rebound in 2017, posting a year-on-year increase of 1.8% in real terms in the second quarter of 2017 (based on four-quarter moving sums; see chart 6). In real terms, gross operating surplus rose by 1.8% as the growth in nonfinancial corporations' value added just outpaced that of compensation of employees. The downward trend in corporate profitability (as measured by gross operating surplus divided by gross value added), which had been observed since mid-2015, eventually came to a halt. In the second quarter of 2017, the gross profit ratio amounted to 42.1%, up 0.5 percentage points compared with the post-crisis low registered in the third quarter of 2016. However, the operating surplus – which is the income earned in production by the factor capital – does not include interest received or paid. Therefore it does not reflect the fact that the low interest rate environment has reduced the net interest burden of indebted nonfinancial corporations (see below) and thus supported the nonoperational part of corporate income. Overall, increased earnings not only alleviated the debt-servicing difficulties of vulnerable firms, but also augmented the internal financing potential of the corporate sector.

Chart 6

### Gross operating surplus of Austrian nonfinancial corporations<sup>1</sup>



Source: Statistics Austria.

<sup>1</sup> Moving four-quarter sums.

<sup>1</sup> 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.

<sup>2</sup> Gross operating surplus and mixed income (self-employed and other unincorporated business income).

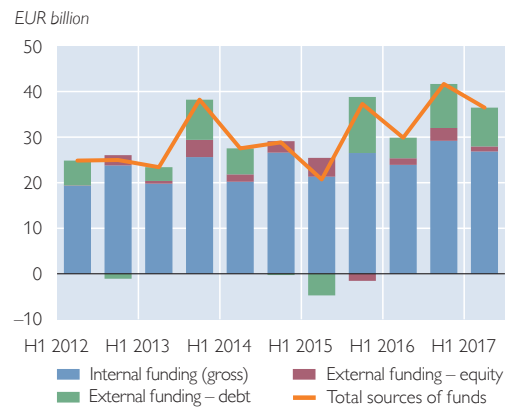
### Financing volumes of nonfinancial corporations continued to expand

The recovery in investment fueled 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 chart 7). It increased by 12.3% year on year in the first half of 2017, and hence slightly more than gross fixed capital formation, to reach EUR 26.9 billion. At the same time, nonfinancial corporations' recourse to external financing picked up briskly in the first half of 2017, which, at EUR 9.6 billion, was up 61.7% compared with the value recorded in the first half of the preceding year. Yet, external financing volumes remained below pre-crisis figures, reflecting the ample liquidity on the assets side of firms' balance sheets.

Adding internal and external financing, total financing of nonfinancial corporations continued to expand in the first half of 2017 and was up 22.1% against the first half of 2016. The significant role of internal financing is corroborated by the fact that, at 74%, its proportion of total financing continued to be higher than before the crisis. Thus, adding the – albeit small – contribution of equity-based external financing, the overall structure of corporate financing was again marked by a significant prominence of own funds (internal financing and equity), which accounted for 77% of financing in the first half of 2017.

Looking at the structure of external financing in the first half of 2017, less than one-eighth of total external financing came in the form of equity, falling short of the – already rather low – corresponding 2016 figure by roughly one-quarter. Almost all equity financing stemmed from net new issu-

Chart 7  
**Sources of funds of Austrian nonfinancial corporations**



Source: OeNB, Statistics Austria.

Internal financing slightly surpasses capital formation

ance of listed shares, which amounted to EUR 1.0 billion. There were two new listings of Austrian firms on the Vienna stock exchange and one in Zurich, accompanied by a number of capital increases. However, this was offset by a slightly greater slump worth EUR 1.1 billion of unlisted shares. Other equity instruments (mainly purchases by foreign strategic investors) registered increases by EUR 1.2 billion. Not only did firms have enough cash reserves to finance investment projects, but debt financing also continued to be very attractive in the light of low interest rates.

### Debt financing continues to recover

In view of the modest recourse to equity, debt instruments provided the bulk of nonfinancial corporations' external financing in the first half of 2017, almost doubling to EUR 8.5 billion from the same period in the previous year, but falling short of the amount registered in the second half of 2016 by 12%. Other nonfinancial corporations (both domestic and foreign) remained the primary source of debt financing for the Austrian corporate sector. This financing consisted mostly in loans

Debt is dominated by long-term financing

Small contribution of equity to external financing

### Buoyant growth in longer-term bank loans

from other (domestic) enterprises, which largely reflect transactions within corporate groups. Moreover, despite a decrease by 45% compared with the volume of the first half of last year, trade credit – including cross-border trade credit – still played a prominent role in corporate debt financing even though this form of finance is comparatively more expensive in a low interest rate environment.<sup>3</sup> One reason for the strong recourse to trade credit might be that, as a main part of firms' working capital, trade credit is particularly relevant in the early stages of a cyclical upswing. In sum, domestic nonfinancial corporations provided half of the external financing for the corporate sector in the first half of 2017. Other domestic sectors and foreign funding accounted for around one-

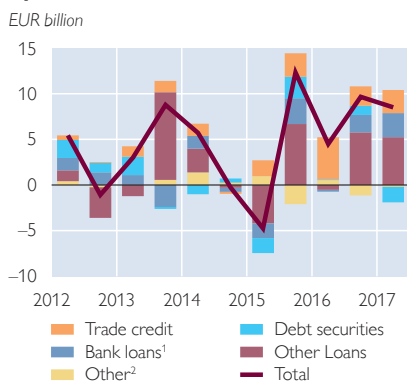
tenth each, and close to one-third was provided by the domestic financial sector. While short-term bank loans continued to be reduced significantly, half of nonfinancial corporations' total debt financing was accounted for by long-term instruments, i.e. with a maturity of over one year.

With regard to long-term debt financing, financial institutions accounted for more than half of the external financing provided to nonfinancial corporations in the first six months of 2017, thereby exceeding financing by nonfinancial corporations.<sup>4</sup> The lion's share of this type of financing was supplied by Austrian monetary financial institutions (MFIs). Over the past few months, lending by Austrian banks to nonfinancial corporations has gained further momentum. In September

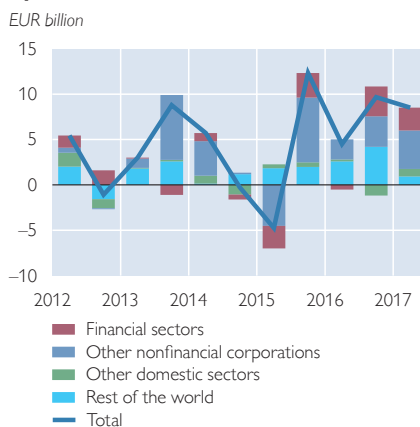
Chart 8

## Debt financing of Austrian nonfinancial corporations

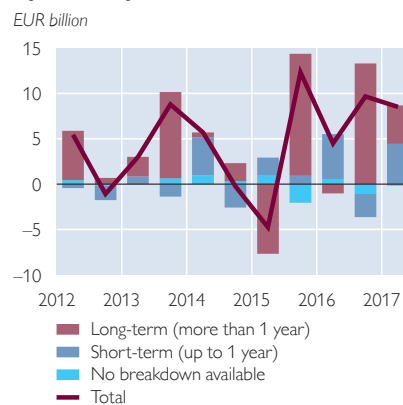
### By instrument



### By sector



### By maturity



Source: OeNB.

<sup>1</sup> By domestic and foreign banks.

<sup>2</sup> Pension entitlements and other accounts payable.

Note: H1 2017 data are preliminary.

<sup>3</sup> Trade credit is often used as a means of sales financing. Usually, the supplier grants the buyer a credit period, which can range from a few weeks up to several months. However, if it pays immediately, the firm will be granted a cash discount. While trade credit does not entail any outright interest, foregoing this cash discount implies substantial costs. In relative terms, these increase as the costs of other forms of finance, such as bank loans, go down. Data are unavailable, however, due to the opaque nature of these relationships.

<sup>4</sup> At the cutoff date, financial accounts data were available up to the second quarter of 2017. More recent developments of financing flows are discussed on the basis of data from the MFI balance sheet statistics and the securities issues statistics.

2017, its annual growth rate (adjusted for securitization as well as for reclassifications, valuation changes and exchange rate effects) reached 3.8% in nominal terms, the highest value in more than eight years (see the left-hand panel of chart 9). Short- and long-term loans continued to follow 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 6.1% year on year in September 2017. At the same time, short-term loans (with maturities of up to one year) have been decreasing for the past two and a half years. Apart from the exceptionally low interest rates, the greater prominence of long-term loans can most likely be attributed to the economic upswing and expectations about a rise in interest rates in the future. In contrast, the reduction in short-term loans should be seen against the backdrop of the abundant funds currently available from alternative sources of financing.

Austrian banks continued their cautious lending policies in 2017 according to the euro area bank lending survey (BLS), tightening their credit standards for loans to enterprises in the

third quarter of 2017 as well as for most of 2016 (see the right-hand panel of chart 9). Respondent banks attributed their tighter standards primarily to reduced risk tolerance, in addition to citing costs related to their capital position and risk related to the collateral demanded. Thus, firms with poor credit ratings and higher insolvency probabilities may have experienced difficulties in obtaining a bank loan. 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, reflecting the cyclical upswing of the Austrian economy.

At the same time, corporate loan demand continued its recovery that had begun last year. From the second quarter of 2016 onward, the banks surveyed in the BLS reported a slight pickup in corporate loan demand. Reflecting the current cyclical situation, banks named funding requirements for fixed investment as one of the drivers of the increase in loan demand in recent quarters; previously, these requirements had since 2008 almost invariably been cited as a dampening factor. Stepped-up

Loan demand recuperates

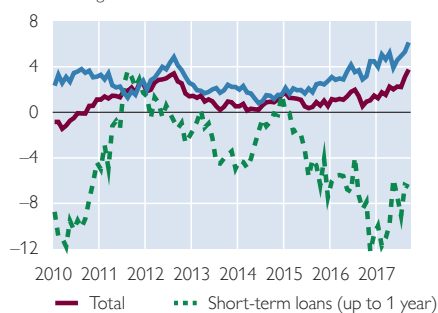
Cautious lending policies persist

Chart 9

## MFI loans to Austrian nonfinancial corporations

### Volumes

Annual change in %<sup>1</sup>



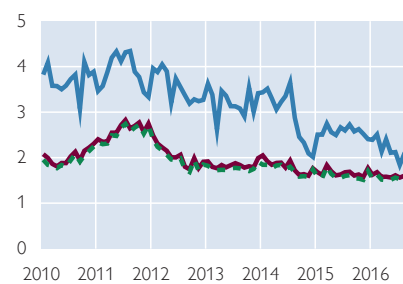
Source: OeNB.

<sup>1</sup> Adjusted for reclassifications, valuation changes and exchange rate effects.

<sup>2</sup> Interest rate fixation periods for new euro-denominated loans.

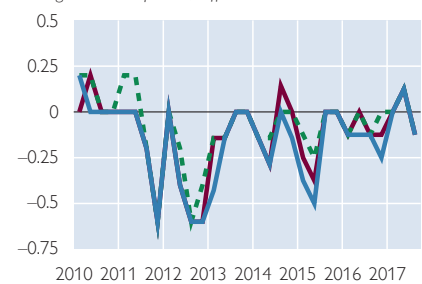
### Interest rates<sup>2</sup>

%



### Credit standards

Change over last quarter, diffusion index



Bank interest rates  
decline further

loan demand was also attributable to merger and acquisition activities and debt restructuring and renegotiations, while internal financing continued to dampen loan demand.

Historically low bank lending rates continued to support lending to the corporate sector. Moreover, lower bank funding costs, most likely supported by higher capital ratios and improved ratings in the Austrian banking sector, translated into reduced lending rates. Between end-2015 and September 2017, interest rates on new loans to nonfinancial corporations dropped by 48 basis points (see the middle panel of chart 9). In the first nine months of 2017, the spread between interest rates on smaller and on larger loans, which – given the lack of other data – is commonly used as an indicator of the relative cost of financing for SMEs, averaged 36 basis points, which was 1 basis point lower than in the same period last year.

According to the BLS, the margins on average-risk loans have been eased (i.e. lowered) in most of 2016 and 2017 so far. In contrast, the margins on riskier loans were largely left unchanged during the last few quarters, which points to an increasingly differentiated risk assessment by banks. The latter cited a more competitive environment as a reason for easing the margins on average-risk loans.

Liquidity buffers are  
still on the rise

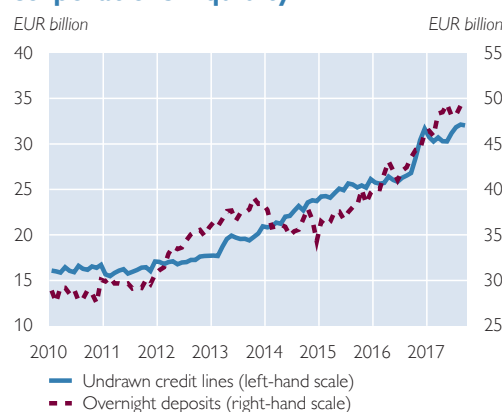
Moreover, firms continued to have substantial liquidity at their disposal. According to the OeNB's statistics on new lending business, the total amount of undrawn credit lines available to enterprises increased further in 2017 so far, although a change in the data collection method as of October 2016 complicates direct comparison with previous time periods (see chart 10). Undrawn credit lines still expanded more strongly than the overall volume of credit lines, which implies a significant

increase in unutilized liquidity, which enterprises could have had recourse to if necessary. Additionally, firms' transferable deposits continued to rise (+12.8% year on year in September 2017). Over the past years, firms have built up sizeable deposits. Total corporate deposits outstanding in September 2017 almost equaled annual gross investment in 2016. Apart from the small yield difference relative to longer-term deposits, these strong inflows into transferable deposits are also likely to reflect nonfinancial corporations' improving earnings position. In the current environment of recovering loan demand, these liquidity buffers suggest that the cautious lending policies of Austrian banks are unlikely to constitute a binding constraint for the Austrian corporate sector.

The net contribution of debt securities to corporate financing was negative in the first half of 2017 (see the left-hand panel of chart 4). According to financial accounts data, corporate bond issuance decreased by EUR 1.7 billion, low corporate bond yields notwithstanding.

Chart 10

### Indicators of Austrian nonfinancial corporations' liquidity



Source: OeNB.

Note: Break in time series in October 2016 due to changes in data collection methodology.

In sum, the recent expansion in financing volumes – both internal and external – implies that the Austrian nonfinancial corporations had sufficient means to fund their investments in the current cyclical upswing. This is also reflected by the fact that net lending by the corporate sector was again positive in 2016 and the first half of 2017, which indicates a persistent surplus of funding over gross fixed investment.

### Interest rate risk remains elevated for the corporate sector

In the second quarter of 2017, growth in financial debt (measured in terms of total loans raised and bonds issued)<sup>5</sup> of the corporate sector accelerated to 3.3% year on year. Relating indebtedness of nonfinancial corporations to their income, which is the primary source for servicing debt, provides an indication of debt sustainability. At 2.9%, the nominal expansion rate of gross operating surplus was slightly lower than that of financial debt, which caused the debt-to-income ratio of the corporate sector to increase by 1.5 percentage points over the past year. This ratio reached 392% at the latest reading (see the upper left-hand panel of chart 11). Whereas the debt-to-income ratio is lower in Austria than in the euro area as a whole, the debt-to-equity ratio, which fell slightly to 91.5% in 2016 according to financial accounts data<sup>6</sup>, is higher in Austria than in the euro area. This is attributable to the generally low degree to which

companies finance their activities out of equity (which also explains their low equity ratio).

The low interest rate environment, together with the economic recovery, continued to support firms' current debt-servicing capacity, as lower interest rates are likely to reduce the interest-service burden on both variable rate loans and new debt. In the first half of 2017, the ratio of interest payments on domestic bank loans to gross operating surplus continued to decline slightly, reaching 3.1% in the second quarter. This reduction reflected the still high share of variable rate loans in new loans, despite a 13-percentage-point contraction to 84% between mid-2014 and the third 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 increasing debt-servicing costs are accompanied by higher corporate earnings on the back of economic recovery.

The Austrian corporate sector's exposure to foreign exchange risk edged further down, landing at 2.7% in the third quarter of 2017. Over the past three years, the proportion of outstanding foreign currency loans in Austria was below the figure for the euro area as a whole.

The declining trend in insolvencies of the past years continued as the insol-

Proportion of variable rate loans is still high

Insolvency ratio lessens further

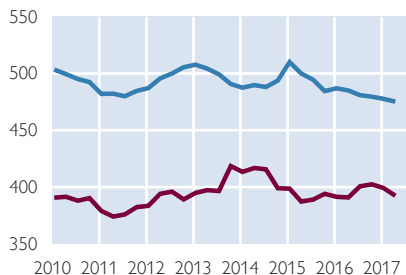
<sup>5</sup> This measure follows Eurostat and the European Commission's debt measures for the macroeconomic imbalance procedure (MIP) surveillance mechanism. It excludes pension scheme liabilities, which are not very significant in Austria, and other accounts payable, such as trade credit and other items due to be paid, mostly on a short-term basis. These items essentially constitute operational debt, i.e. liabilities that a firm incurs through its primary activities.

<sup>6</sup> 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 and the first half of 2017, reflects price increases in Austrian stocks.

## Risk indicators for Austrian nonfinancial corporations

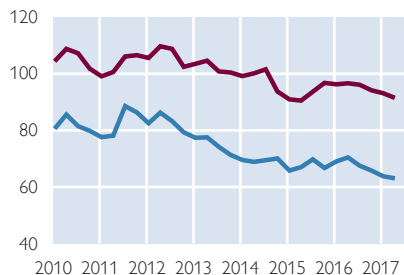
### Debt

% of gross operating surplus



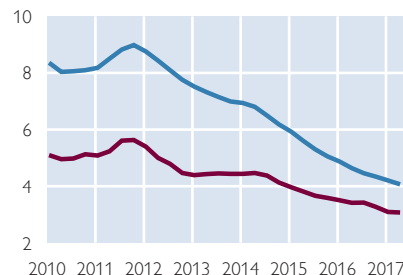
### Debt-to-equity ratio

%



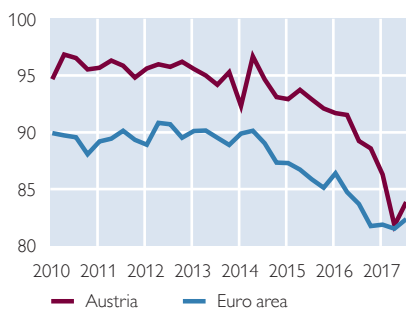
### Interest expenses<sup>1</sup>

% of gross operating surplus



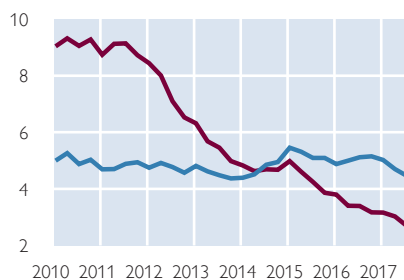
### Variable rate loans

% of total new (euro-denominated) lending



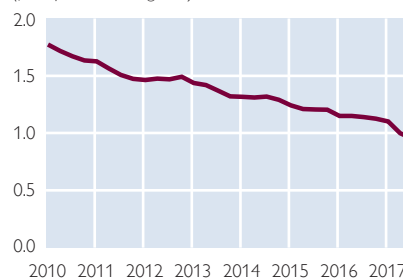
### Foreign currency loans

% of total loans



### Insolvencies

Number of insolvencies in % of companies (four-quarter moving sum)



Source: OeNB, ECB, Eurostat, KSV 1870.

<sup>1</sup> Euro area: euro-denominated loans only.

vency ratio (i.e. the number of corporate insolvencies in relation to the number of existing companies) came down further in 2017 so far, based on a moving four-quarter sum to account for seasonality. This downward trend may be attributed to the moderate recourse to debt financing in the past years and the low interest rate level, which makes debt servicing easier even for highly indebted companies.

### Household loans: foreign currency and variable rate loans decline further

#### Household income improves

The favorable cyclical position of the Austrian economy was reflected in the labor market, with the number of payroll employees growing by 1.9% in the first three quarters of 2017. The improved

labor market situation boosted household incomes and buoyed consumer sentiment. Growth in real private consumption accelerated slightly in the course of this year, even though the positive stimulus of the tax reform – that had come into force at the beginning of 2016 – wore off and inflation went up because of rising crude oil prices. Compared to the historical average, private consumption growth is still weak. Having increased in 2016 as a result of lagged spending of the additional income arising from the tax reform, the household saving ratio continued to rise, albeit slightly, from 8.1% in 2016 to 8.4% in the first half of 2017 (based on moving four-quarter averages). Additionally, the emphasis on the non-wage elements in the income trend – which usually go hand in hand with a

Households' saving ratio increases in the first half of 2017

relatively low propensity to save – contributed to the increase in the saving ratio.

### Households' preference for liquid assets persists

The slight increase in the saving ratio was reflected in a moderate rise of households' financial investments in the first half of 2017, which reached EUR 4.5 billion. This was 1.8% above the figure recorded for the first six months of the preceding year, and still about less than two-thirds of the values

seen before the onset of the crisis (see chart 12).

In the low nominal interest rate environment, households continued to display a strong preference for highly liquid assets. In the first half of 2017, they shifted EUR 7.4 billion into overnight deposits with domestic banks and another EUR 0.2 billion into cash holdings, thereby exceeding total financial investments, which implies a considerable substitution of other financial assets. In contrast, bank deposits with an agreed maturity continued to decline, namely by EUR 2.7 billion in the same period (see the left-hand panel of chart 13). When we take a longer-term perspective, households increased their overnight deposits by EUR 82 billion between end-2008 and mid-2017 (which was the equivalent of 85% of total financial investment in that period), while deposits with an agreed maturity were reduced by EUR 37 billion. As a result, the share of overnight deposits in total financial assets has almost doubled to 20.9% since end-2008, while the proportion of deposits with an agreed maturity has plummeted from 31.7% to 17.3%.

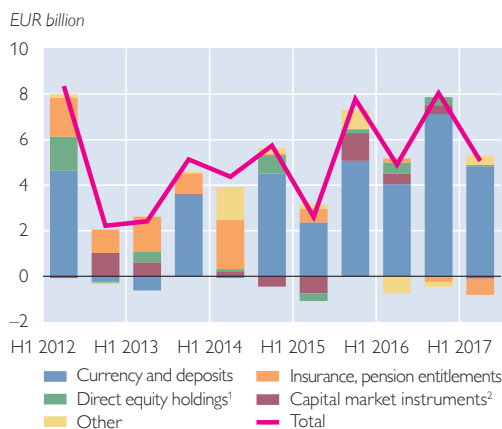
In the same vein, households continued to reduce their direct holdings

Transferable deposits continue to expand strongly

Households' financial investments increase moderately

Chart 12

### Net financial investments



Source: OeNB.

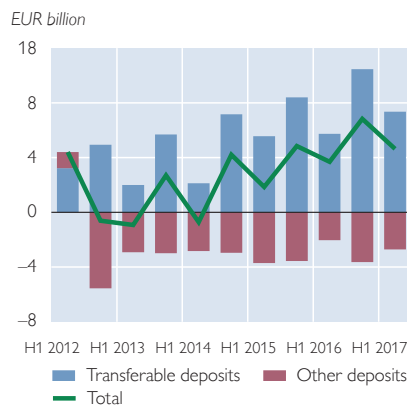
<sup>1</sup> Unlisted shares and other equity.

<sup>2</sup> Debt securities, mutual fund shares and listed shares.

Chart 13

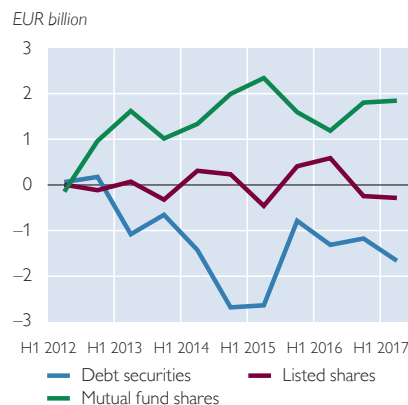
### Net investments by households in selected financial instruments

#### Deposits



Source: OeNB.

#### Capital market instruments



#### Life insurance and pension entitlements

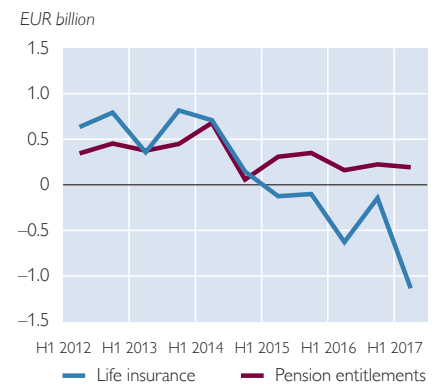
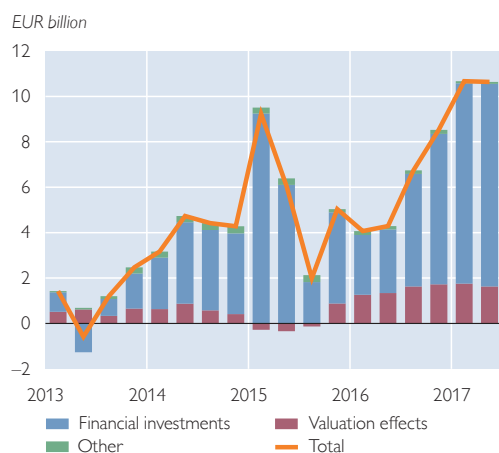




Chart 14

### Cumulative change in capital market instruments held by Austrian households



of long-term debt securities in the first half of 2017, by EUR 1.7 billion to be precise. Since 2013, the portfolio of securities has been cut by EUR 13.4 billion (see the middle panel of chart 13). In the same period, net investments in mutual funds reached almost EUR 15 billion (of which EUR 0.3 billion in the first half of 2017). Net investments in listed shares remained muted, at a mere EUR 0.3 billion as of 2013, and were even negative in the first six months of this year. Totalling EUR 1.6 billion between 2013 and mid-2017, households' net financial investments in capital market instruments were quite moderate (see chart 14). This weak development is all the more remarkable since, at the same time, the Austrian household sector recorded sizeable unrealized valuation gains on its securities portfolios. These gains have amounted to EUR 8.9 billion since 2013, EUR 2.3 billion of which were observed in the first half of 2017. In the six months ending June 2017, rising stock prices caused listed shares to account for the majority of the valuation gains, with the latter amounting

to 10.2% of the holdings of listed shares at end-2016. In the case of mutual fund shares, the gains equaled 0.6% of the household portfolio. Thus, unrealized valuation effects were the main driver of the increase in the Austrian household sector's capital market exposure, contributing more than 80% to the rise seen between 2013 and the second quarter of 2017. So, while there are few indications that households made up for low interest rates by investing in riskier assets in a search for yield, 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.

Investments in life insurance and pension entitlements remained subdued in the first half of 2017 (see the right-hand panel of chart 13). In the case of life insurance policies, disbursements outstripped contributions by EUR 0.8 billion. The negative net investment in life insurance can be attributed to the sharp slump in single-premium life insurance policies due to the current low interest rates and changes in tax treatment of life insurance policies.<sup>7</sup> Gross inflows into these instruments were to a large extent not an outcome of current investment decisions but rather reflected past decisions, given the long maturities and commitment periods involved. Life insurance policies often serve as repayment vehicles for foreign currency bullet loans, even when the latter are converted into euro loans. By contrast, investments in pension entitlements (including both claims

Net investments in life insurance policies remain negative

Considerable unrealized valuation gains in households' capital market-related assets

<sup>7</sup> Insurance premiums paid under insurance policies taken out after December 31, 2015, are no longer tax deductible.

on pension funds and direct pension benefits granted by private employers) continued to expand, amounting to EUR 0.8 billion in 2016.

### **Expansion of household loans gains momentum**

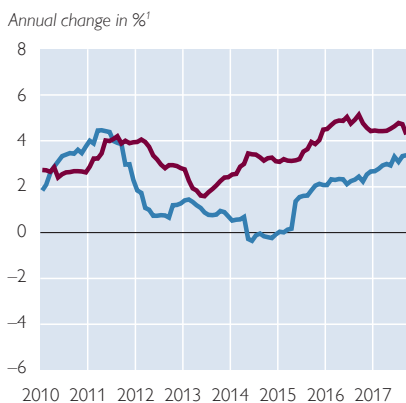
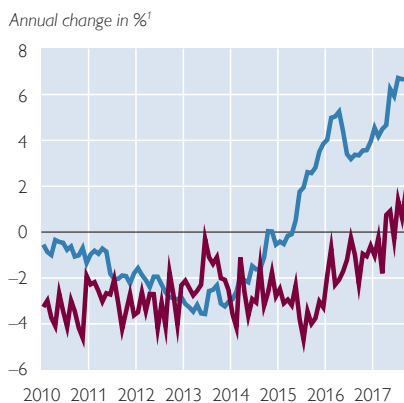
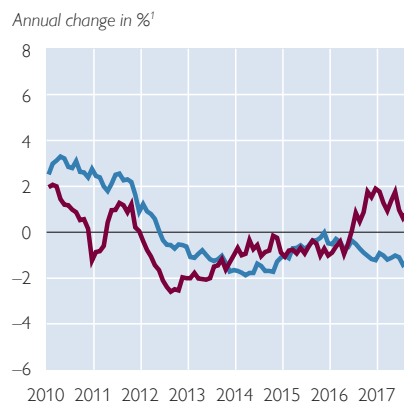
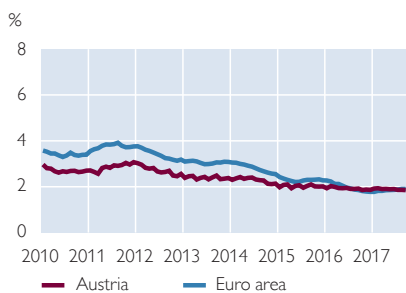
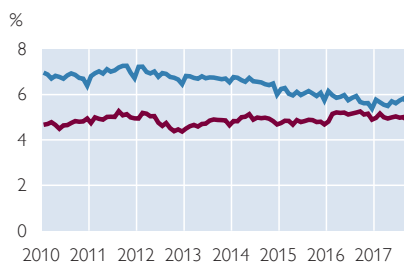
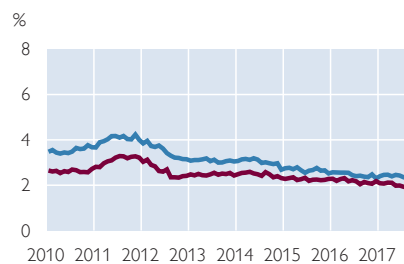
The expansion of bank lending to households gained momentum in recent months. In September 2017, bank loans to households (adjusted for reclassifications, valuation changes and exchange rate effects) increased by 3.1% year on year in nominal terms. A breakdown by currency shows that euro-denominated loans continued to grow briskly (by 6.5%), whereas foreign currency loans continued to contract at double-digit rates. By September 2017, the latter had fallen by 16.8% year on year, partly reinforced by the depreciation of the Swiss franc against the euro. The dynamism in loan growth is reflected by the fact that for some months now loans for all purposes showed positive nominal year-on-year growth rates (see chart 15). In September 2017, consumer loans, which had been shrinking for almost ten years, grew by 0.4% year on year, and other loans firmed by 1.8%. However, the main contribution to loan growth came from housing loans. For one thing, they are the most important loan category for households, accounting for almost two-thirds of the outstanding volume of loans to households. For another, their growth rate accelerated somewhat, reaching 4.3% year on year in September 2017. In the first two quarters of this year, year-on-year growth rates of housing loans to households slightly surpassed that of property prices but stayed below pre-crisis growth rates (see the upper left panel of chart 15).

Credit terms continued to be favorable as bank interest rates decreased slightly from last year's already very

low levels. At 1.85%, average interest rates on euro-denominated housing loans to households were 7 basis points lower in September 2017 than one year earlier. The interest rate on variable rate housing loans (with a rate fixation period of up to one year) decreased by 14 basis points to 1.73%. The effective annual rate of interest on housing loans, which reflects total borrowing costs (interest rate component and related charges), dropped by 12 basis points year on year, to reach 2.27% in September 2017.

The conditions for taking out housing loans also remained supportive. According to the results of the BLS, banks' credit standards for housing loans to households were stable overall in the first three quarters of 2017. At the same time, banks reported a slight increase in household demand for housing loans in the first three quarters of 2017, after flat demand in the year before. Ever since this factor was included in the BLS in 2015, banks have largely regarded the general level of interest rates as having a positive impact on the demand for housing loans. Improving housing market prospects, including expectations of rising house prices, and increasing consumer confidence were also mentioned in recent survey rounds. The strong uptick in house prices registered over the past years (see the subsection on residential property prices below) may have boosted the funding needs for real estate investment. In the first half of 2017, transaction volumes on the residential property market in Austria increased by roughly 6% year on year in nominal terms according to data published by RE/MAX and compiled from the land register by IMMOUnited. Although the rate of increase was lower than in the two preceding years, it still implies rising financing needs.

Loan growth is driven by housing loans

**MFI loans to households: volumes and interest rates****Housing loans: volumes****Consumer loans: volumes****Other loans: volumes****Housing loans: interest rates****Consumer loans: interest rates****Other loans: interest rates**

Source: OeNB, ECB.

<sup>1</sup> Adjusted for reclassifications, valuation changes and exchange rate effects.

Households' debt-to-income ratio dips slightly

Proportion of variable rate loans declines further

**Households' currency and interest rate risks**

By mid-2017, the household sector's total liabilities amounted to EUR 181.6 billion according to financial accounts data, up 2.7% in nominal terms against one year earlier. As liabilities expanded at a somewhat slower pace than disposable income, the households' debt-to-income ratio contracted slightly to 90% (see the upper left-hand panel of chart 16). Accordingly, the debt ratio of households in Austria remained lower than that of households in the euro area as a whole. This is in part traceable to the comparatively small

percentage of Austrian households that have a loan outstanding.<sup>8</sup> Thus, it is not the absolute level of Austrian households' indebtedness that is of primary concern, but rather the still high proportions of variable rate and foreign currency loans.

In the third quarter of 2017, variable rate loans (with an initial rate fixation period of up to one year) accounted for 60% of new euro-denominated lending to households, compared to 88% in the same quarter three years earlier. Over the same period, their share in housing loans narrowed from 85% to 51%.<sup>9</sup> Despite this recent decline, the propor-

<sup>8</sup> According to data from the Household Finance and Consumption Survey (HFCS), in Austria only 34% of households have taken up a loan, compared to 42% in the euro area as a whole.

<sup>9</sup> In contrast, the proportion of new housing loans with very long interest fixation periods (more than ten years) increased from less than 2% three years ago to more than one-quarter.

tion of variable rate loans is still very high by international standards. On the upside, this implies lower current interest expenses resulting from a positive slope of the yield curve and swifter pass-through of the ECB's monetary policy measures to banks' lending rates. In the second quarter of 2017, households' interest expenses equaled 1.7% of aggregate disposable income, 0.8 percentage points less than in 2010 (and more than 2 percentage points less than in 2008, i.e. the year before interest rates started to decline). Low interest rates as well as improving household income had a beneficial effect on debt servicing. The flip side is, however, that given the high proportion of variable rate loans in total lending households

are to a considerable extent exposed to interest rate risks over the medium term.

Likewise, and despite a substantial decrease in past years, the still high proportion of foreign currency loans in the total stock of lending remains a risk factor, especially for vulnerable households. By the end of the third quarter of 2017, the proportion of foreign currency loans sank to 11.3%, thus amounting to just over one-third of the peak value reached about ten years ago. The foreign currency ratio varies considerably depending on a loan's purpose. For housing loans, it was 14.6%, for consumer loans 3.4 % and for other loans 5.9%. Almost all outstanding foreign currency-denominated loans are in Swiss franc (close to 97%).

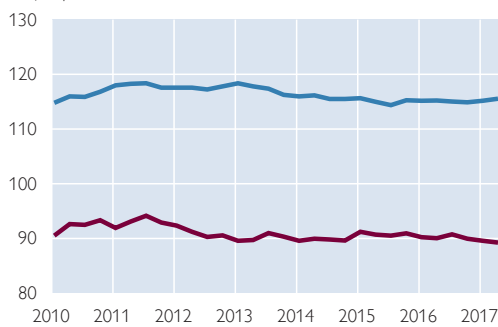
Foreign currency loans remain a concern

Chart 16

## Indicators of household indebtedness

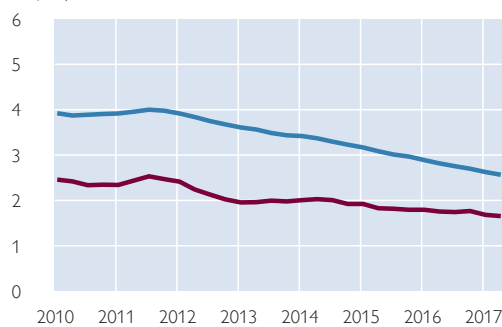
### Liabilities

% of disposable income



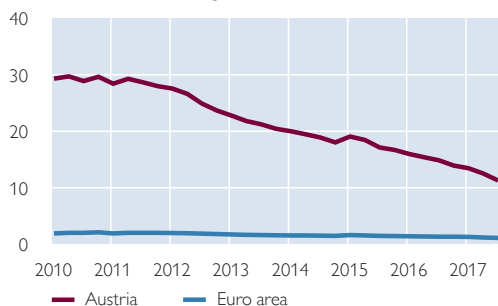
### Interest expenses<sup>1</sup>

% of disposable income



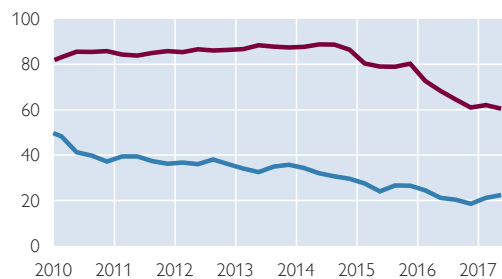
### Foreign currency loans

% of total stock of outstanding loans



### Variable rate loans

% of total new euro-denominated loans



Source: OeNB, Statistics Austria, ECB, Eurostat.

<sup>1</sup> Figures for the euro area represent only interest rate expenses on euro-denominated loans.

Property price growth rate in Vienna remains below the national value

### Residential property prices in Austria continue to increase

Residential property prices in Austria continued to rise in the first three quarters of 2017, albeit at a slightly slower pace than in the year before, reaching 4.5% year on year in the second quarter. This moderation was mainly driven by developments in Vienna, where prices were up 3.4% against the same period of the previous year. This is all the more remarkable given that price increases had long been significantly more pronounced in Vienna than in the rest of Austria. However, this trend reversed three years ago, and the “Austria excluding Vienna” aggregate has since shown stronger residential property price growth, reaching 4.5% year on year in the third quarter of 2017.

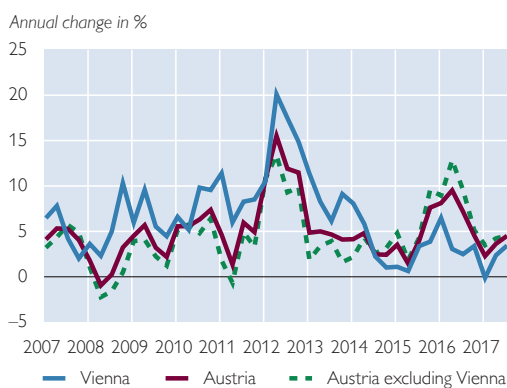
Cost pressures, arising, for example, from building costs, remained moderate and edged up in the first half of 2017. At the same time, housing supply, which had not kept up with population growth in recent years, eventually started to catch up as housing investment accelerated against the previous year. The number of building permits in Austria was up 2.5% in the first half of 2017 against the – already very high – corresponding 2016 figure.

Reflecting the moderate price rises in recent quarters, the OeNB fundamentals indicator for residential property prices in Vienna remained unchanged at 21.0% in the third quarter of 2017. For Austria as a whole, the indicator reached 9.2%, implying that residential property prices increasingly depart from their fundamentally justified values.<sup>10</sup>

Chart 17

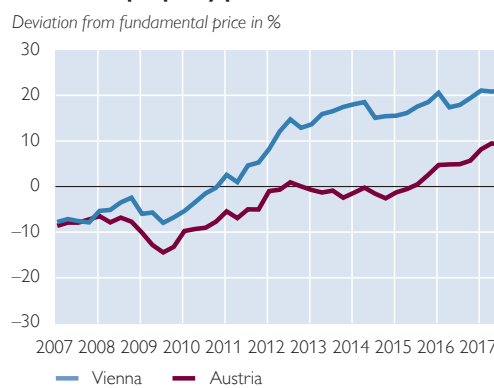
## Austrian residential property market

### Residential property prices



Source: Vienna University of Technology, OeNB.

### OeNB fundamentals indicator for residential property prices



<sup>10</sup> For more analyses and data on the Austrian real estate market, see <https://www.oenb.at/en/Monetary-Policy/real-estate-market-analysis.html>.