Corporate and household sectors in Austria: improving risk indicators[1]

Nonfinancial corporations' financing volumes on the rise

Strong growth and low debt financing costs support Austrian firms' profits

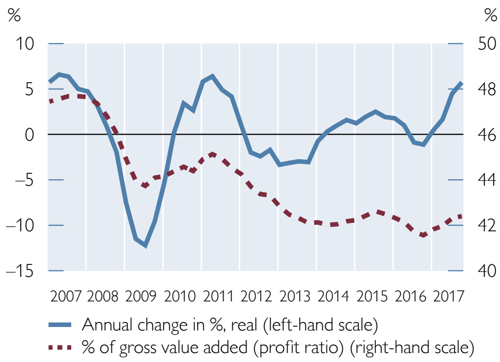
Robust investment demand

Coupled with strong export growth, strong domestic economic activity resulted in real GDP growth of 3% in 2017 (trend-cycle adjusted) in Austria, signaling a boom phase. Domestic demand was mainly driven by strong investment demand; investment in plant and equipment has seen an exceptionally long phase of expansion, although motives for investment have increasingly shifted from replacing equipment to expanding capacity.

Increasing corporate profitability

Chart 2.1

Gross operating surplus of Austrian nonfinancial corporations[1]

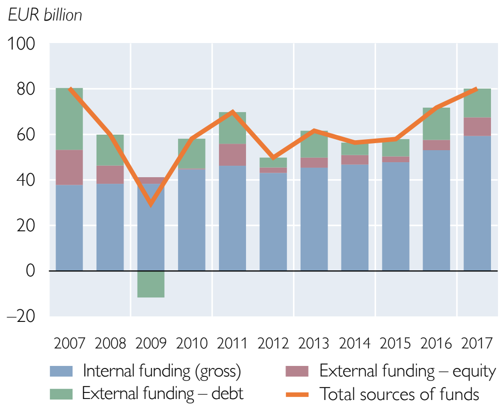


Source: Statistics Austria.

[1] Four-quarter moving sums.

Chart 2.2

Sources of funds for Austrian nonfinancial corporations



Source: OeNB, Statistics Austria.

Note: 2017 data are preliminary.

Buoyant economic growth supported the earnings-generating capacity of Austrian nonfinancial corporations. According to the sectoral accounts, the gross operating surplus[2] of Austrian nonfinancial corporations rebounded in 2017, posting a year-on-year increase of 5.7% in real terms in the fourth quarter of the year (based on four-quarter moving sums; see chart 2.1). In nominal terms, gross operating surplus rose by 7.3%. Yet, by historical standards corporate profitability remained muted, even if its downward trend – as measured by gross operating surplus divided by gross value added – eventually began to reverse. In the fourth quarter of 2017, the gross profit ratio amounted to 42.4%, up 0.8 percentage points from the post-crisis low registered in the third quarter of 2016. However, as the gross operating surplus does not include interest received or paid, it does not take into account that the low interest rate environment reduced the net interest burden of indebted nonfinancial corporations and thus supported the non-operational part of corporate income. Overall, increased earnings not only alleviated debt servicing, but augmented the corporate sector's internal financing potential.

[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] Gross operating surplus and mixed income (self-employed and other unincorporated business income).

Austrian nonfinancial corporations' need for financing increased

Internal financing remains most important source of funds

The ongoing recovery in corporate investment raised the financing needs of Austrian nonfinancial corporations. Internal financing (measured as the sum of changes in net worth and depreciation) remained the most important source of funds for nonfinancial corporations (see chart 2.2). In 2017, it increased by 11.7% year on year to reach EUR 59.3 billion. At the same time, nonfinancial corporations' recourse to external financing picked up briskly and, at EUR 20.8 billion, registered a similar rate of annual growth of 11.4%.

As a sum of internal and external financing, nonfinancial corporations' total financing continued to expand in 2017 and was up 11.7% against the value registered in 2016. Thus, in nominal terms, financing volumes returned to pre-crisis levels. At 74%, the share of internal financing in total financing remained above the values seen before the crisis, corroborating its significant role in corporate financing. Including equity-based external financing, the overall structure of corporate financing was again marked by a significant weight of own funds (internal financing and equity), which accounted for 84% of financing in 2017. In sum, the recent expansion of financing volumes implies that Austrian nonfinancial corporations had sufficient means to fund their investments during the current cyclical upswing. This is also reflected by the fact that corporate sector net lending was positive in both 2016 and 2017, indicating a persistent surplus of funding over gross fixed investment.

Equity financing on the rise

As to the structure of nonfinancial corporations' external financing in 2017, roughly 40% came in the form of equity financing, which is clearly above the corresponding figures of 2016 and 2015, when this share was about one-quarter. In absolute terms, equity financing rose by 80% year on year to EUR 8.2 billion. The majority of equity financing was unquoted equity whereas listed shares played only a comparatively small role, amounting to EUR 1.3 billion. In 2017, there had been two new listings of Austrian nonfinancial corporations on the Vienna stock exchange and one in Zurich. In 2018 so far, there has been no new listing.

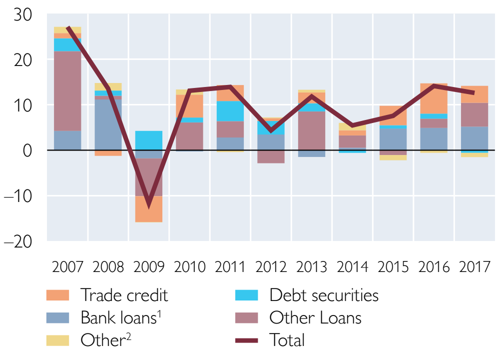
Debt financing goes down slightly

Financial sector as primary source of debt financing

Yet, in spite of the increasing recourse to equity, debt instruments again provided the bulk of nonfinancial corporations' external financing in 2017, even if, at EUR 12.6 billion, its volume fell short of the 2016 figure by about 10%. In the light of low interest rates, debt financing continued to be very attractive. For the first time in five years, the domestic financial sector regained its role as the Austrian corporate sector's primary source of debt financing, providing 46% of net debt flows to nonfinancial corporations. Almost all these flows came from monetary financial institutions (MFIs). About 42% of debt financing stemmed from other nonfinancial corporations. For one, this financing took the form of loans from other enterprises, which largely reflect transactions within corporate groups. Moreover, trade credit – including cross-border trade credit – still played a prominent role in corporate debt financing, even though it fell by some 40% compared to 2016 volumes. Although this form of finance is comparatively more expensive in a low interest rate environment, one reason for the strong recourse to trade credit might be that trade credit constitutes a major part of firms' working capital and is therefore particularly relevant in a cyclical upswing. Foreign funding, which had afforded half the debt financing of nonfinancial corporations in 2016 and 2015, only played a minor role in corporate financing in 2017.

Chart 2.3

Debt financing of Austrian nonfinancial corporations



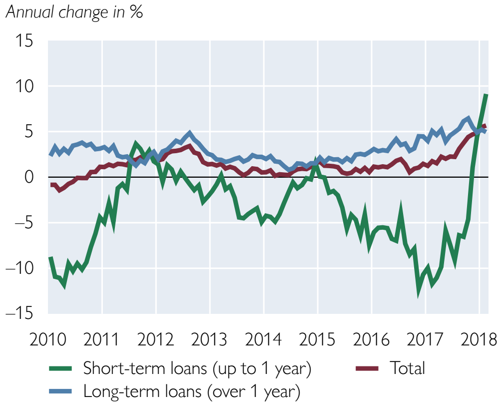
Source: OeNB.

[1] Loans by domestic and foreign banks.
[2] Pension entitlements and other accounts payable.

Note: 2017 data are preliminary.

Chart 2.4

MFI loans to nonfinancial corporations



Source: OeNB.

Buoyant growth of bank loans

Looking at maturities, short-term (with maturities up to one year) and long-term financing contributed in roughly equal measure to net corporate debt flows.

Loans by (domestic and foreign) banks accounted for 41% of debt financing in 2017. Whereas loans from foreign banks, which had exhibited buoyant growth in 2016 and 2015, decreased in 2017, lending by Austrian banks to domestic nonfinancial corporations gained further momentum in 2017 and early 2018.[3] In February 2018, its annual growth rate (adjusted for securitization as well as for reclassifications, valuation changes and exchange rate effects) reached 5.7% in nominal terms, the highest value in more than nine years (see chart 2.4). While loans across all maturities showed lively growth, the strongest contribution to this upturn came from loans with longer maturities (more than five years), which are most relevant for business fixed investment. Apart from the low interest rate environment, the greater importance of long-term loan contracts can most likely be attributed to both the economic upswing and expectations of rising interest rates in the future.

Banks' lending policies remain cautious

Loan growth picked up even though Austrian banks continued their cautious lending policies in 2017 and the first quarter of 2018, according to the euro area bank lending survey (BLS), notwithstanding a slight easing of their credit standards for loans to enterprises in the second and fourth quarters of 2017. Given the prolonged period of tightening from 2010 to 2015, credit standards are probably still rather tight overall. Among the factors affecting banks' stance toward lending to firms, pressure from competition, especially from other banks, was most often cited as having caused banks to ease their internal guidelines or loan approval criteria. Risk perception, especially banks' assessment of their borrowers' creditworthiness, also contributed somewhat to the easing of credit standards, re-

[3] *At the cutoff date, financial accounts data were available up to the fourth 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.*

flecting the cyclical upswing of the Austrian economy, whereas reduced risk tolerance contributed to a slightly more cautious stance.

Loan demand goes up

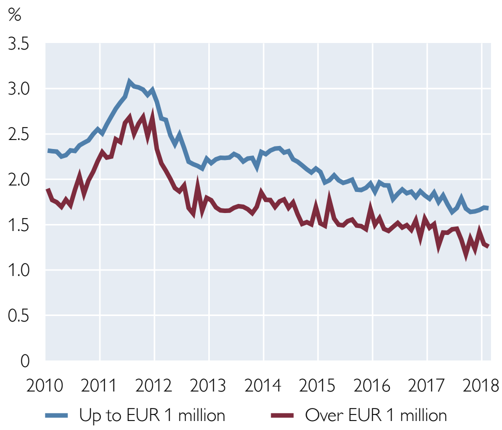
At the same time, corporate loan demand continued its recovery that had begun two years ago. From the second quarter of 2016 onward, the banks surveyed in the BLS reported a continuous pickup in corporate loan demand. Reflecting the current cyclical situation, in recent quarters banks named funding requirements for fixed investment as a major driver of increasing loan demand. Inventories and working capital, merger and acquisition activities as well as debt restructuring and renegotiations were 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. Not only did the Eurosystem preserve a high degree of monetary policy accommodation, but the translation of lower bank funding costs into reduced lending rates was likely to be supported by higher capital ratios and improved ratings of the Austrian banking sector. As a result, interest rates on new loans to nonfinancial corporations decreased by a further 26 basis points during 2017 and the first two months of 2018 (see chart 2.5). During this period, the spread between interest rates on loans of smaller amounts and those 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 37 basis points and thus was another 2 basis points lower than in 2016.

Chart 2.5

Interest rates for floating rate MFI loans



Source: OeNB.

The results of the BLS show how banks differentiated interest margins by credit risk. According to the survey, the margins for average loans have been eased (i.e. lowered) in most of 2017 and in 2018 so far. As to the factors behind this easing, respondent banks mainly named the competitive situation in the Austrian banking market.[4] In contrast, the margins on riskier loans were largely left unchanged during the last few quarters, pointing to a differentiated risk assessment by banks. Collateral requirements and other terms and conditions (such as noninterest charges, loan covenants, loan maturity and loan size) remained broadly unchanged during the same period.

Abundant liquidity buffers

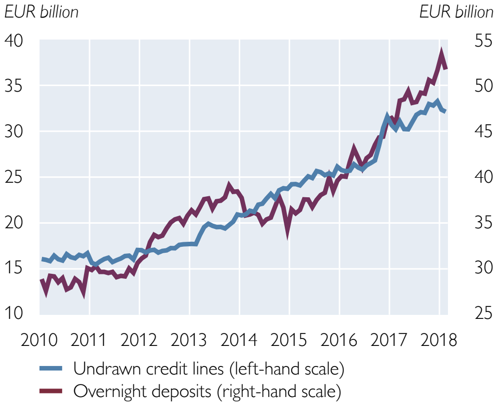
On top of increasing outstanding loan volumes, firms continued to have substantial liquidity at their disposal. On the one hand, the total amount of undrawn credit lines[5] available to enterprises rose further in 2017, and fell only slightly in early 2018, implying a significant increase in unutilized liquidity on which enterprises can draw if necessary (see chart 2.6). On the other hand, firms'

[4] *On the structure of the Austrian banking market, see table A10 in the annex and p. 33f of the OeNB's Financial Stability Report 34.*

[5] *According to the OeNB's statistics on new lending business.*

Chart 2.6

Indicators of Austrian nonfinancial corporations' liquidity



Source: OeNB.

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

transferable deposits continued to rise briskly (+12.8% year on year in February 2018). Apart from the low opportunity cost of holding liquid assets and the small yield difference relative to longer-term deposits, these strong inflows into transferable deposits are also likely to mirror nonfinancial corporations' improved earnings.

Net issuance of corporate bonds negative

Debt securities' net contribution to corporate financing was negative in 2017. According to financial accounts data, corporate bond issuance decreased by EUR 1.7 billion, low corporate bond yields notwithstanding. Yet, despite this decline, bonds play a relatively important role in Austrian corporate finance, even if this form of funding is available only to a limited number of mainly larger companies. By the end of 2017, the outstanding amount of long-term bonds issued by the corporate sector amounted to 10.8% of GDP. Risk aspects of corporate bonds compare favorably with those of bank loans. Both the share of floating rate issues, amounting to 14.1% in February 2018, and the foreign currency share, amounting to 1.3% of the outstanding volume of corporate bonds, were considerably below the respective values for bank loans.

Box 1

Alternative forms of finance for SMEs in Austria

Access to funding for SMEs in Austria has been rated suboptimal by some market participants, especially with respect to equity finance. In December 2014, these market participants, namely the Austrian Federal Economic Chamber (Professional Association of Financial Service Providers), the AustrianStartups platform, the Senate of Economy, the Austrian Angel Investors Association (aaia) and the Austrian Private Equity and Venture Capital Organisation (AVCO), published a common position paper containing proposals how to improve the legal framework for alternative SME financing in Austria. This box presents these proposals and contrasts them with corresponding policies implemented since they were published.

First, the position paper proposed a tax exemption for investments in young Austrian SMEs of up to EUR 100,000. Such general tax exemptions face a rather high risk of windfall gains, but the Austrian government deemed more equity investment in young SMEs beneficial and thus introduced a risk capital premium, i.e. a subsidy of 20% (up to a maximum of EUR 50,000) for investments in SMEs' equity or subordinated liabilities, in 2017.

Second, the paper proposed changes in the regulatory framework for retail investment in SMEs ("crowd investing"), especially an increase in the limit that would require firms to publish a prospectus if they wanted to raise capital. Preparing a fully-fledged prospectus was considered too expensive for SMEs and, hence, a significant barrier to funding. In this context, the new Alternative Financing Law (Alternatives Finanzierungsgesetz – AltFG), enacted in September 2015, reduced the informational requirements for a prospectus if the capital issue aimed at raising less than EUR 1.5 million. As crowd investing bears a significant loss risk, the investment of retail investors was limited at 200% of their monthly net income or 10% of their net financial assets.

Third, the paper suggested tax incentives for business angel investors. As the proposed tax exemption model was associated with a high risk of windfall gains, the government opted to raise the funding of the present business angels fund by EUR 5 million. The aws Business Angels Fonds Austria is managed by Austria Wirtschaftsservice Gesellschaft mbH (aws) and leverages business angel investments in Austrian SMEs by up to 100%; its volume totals EUR 32.5 million.

Fourth, the position paper argued that the efficiency of public investments in SMEs could be raised by pursuing fund-of-funds investment strategies. A fund-of-funds strategy would allow a public fund to invest in private investment funds; the position paper claims these private funds exhibit a higher propensity to invest and better performance. Although some private funds might indeed exhibit higher returns than public funds, this statement cannot be generalized to apply to all existing private investment funds. Additionally, public funds often serve more objectives than simply maximizing the rate of return. Nevertheless, the aws Venture Capital Initiative follows exactly this strategy in supporting seed funding for start-ups that rely heavily on R&D or new technologies.

Fifth, the paper criticized the legally binding minimum investment for retail investors in alternative investment funds (AIFs). The current legislation requires retail clients of AIFs to invest a minimum of EUR 100,000 to prevent less liquid private investors from taking on too much risk. According to the position paper, this minimum threshold was too high to mobilize much retail capital for AIFs and prevented retail clients from choosing risk-efficient portfolios. Although the question whether retail investors need access to AIFs to optimally pool their financial risks remains debatable, legislation was introduced in mid-2017 to lower the minimum.

Sixth, the paper called for reactivating a former investment vehicle for SMEs, the so-called Mittelstandsfinanzierungsgesellschaft (MIFIG). MIFIGs are funds providing finance to and taking minority holdings in medium-sized enterprises, carrying tax incentives for investors to boost equity funding. The new MIFIG act (MIFIGG 2017) was introduced in mid-2017. It allows MIFIGs to invest up to EUR 15 million into a single SME and caps the tax incentives at EUR 15,000 per investor. Both the MIFIG act and the lower limit for retail investments in AIFs were codified in the same legal act and are still[1] pending for notification by the European Commission.

Many of the policy measures that addressed the proposals made in the position paper were enacted under the government's "start-up package" passed in July 2016. In 2017, when reviewing these reforms to improve access to finance for Austrian SMEs, the European Commission[2] assessed that "progress in this area can be considered substantial."

[1] Cutoff date: April 2018.

[2] See 2017 SBA Fact Sheet Austria at https://ec.europa.eu/docsroom/documents/26562.

Corporate sector debt servicing capacity improved

The debt sustainability of Austrian nonfinancial corporations improved in 2017 due to enhanced profitability. In the course of the year, the corporate sector's debt-to-income ratio decreased considerably, by almost 20 percentage points, to reach 388% at the latest reading (see upper left-hand panel of chart 2.7). At 2.1%, the growth of corporate sector financial debt (measured in terms of total loans raised and bonds issued)[6] remained well below the expansion rate of the gross operating surplus. Likewise, the debt-to-equity ratio fell by 6.4 percentage points to 89.0% in 2017. The debt-to-equity ratio is higher in Austria than in the euro area, reflecting the lower equity ratio.

[6] *This measure follows Eurostat's and the European Commission's debt measures for the macroeconomic imbalance procedure (MIP) surveillance mechanism. Pension scheme liabilities, which are not very significant in Austria, and other accounts payable, including trade credit and other items due to be paid, mostly on a short-term basis, are not included. These items essentially constitute operational debt, i.e. liabilities that a firm incurs through its primary activities.*

Share of variable rate loans continues to decline

The low interest rate environment, together with the economic recovery, continued to support firms' current debt-servicing capacity. Lower interest rates can reduce the interest service burden on both variable rate loans and new debt. In 2017, the ratio of interest payments for (domestic) bank loans to gross operating surplus continued to decline slightly, reaching 2.9% in the final quarter of last year. This reduction reflected the still high share of 83% of variable rate loans in new loans, despite a reduction by 13 percentage points between mid-2014 and the fourth quarter of 2017. While Austrian companies have therefore recorded lower interest expenses, they still face a high exposure to interest rate risk. A rebound of interest rates could become a burden, in particular for highly indebted companies, especially if it were not accompanied by a commensurate improvement in macroeconomic conditions.

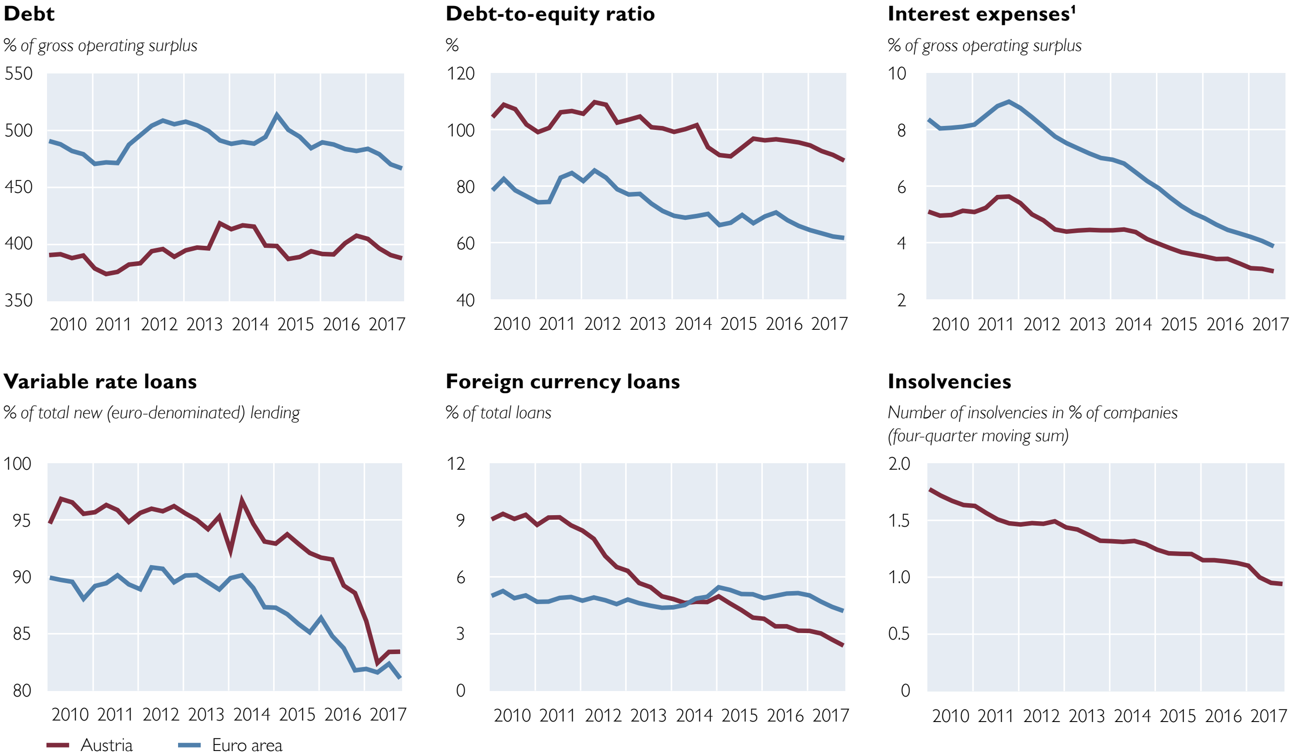
The Austrian corporate sector's exposure to foreign exchange risk decreased slightly further, amounting to 2.4% in the fourth quarter of 2017.

Insolvency ratio diminishes further

The declining trend in insolvencies observed in the past few years remained on course as the insolvency ratio (i.e. the number of corporate insolvencies in relation to the number of existing companies) came down further in 2017. This downtrend may be attributed to moderate debt financing in the past few years as well as the low interest rate level, which makes debt servicing easier even for highly indebted companies. In part, it might also be connected to the fact that insolvencies usually lag cyclical movements.

Chart 2.7

Risk indicators for Austrian nonfinancial corporations



Source: OeNB, ECB, Eurostat, KSV 1870.

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

Expansion of household loans gains momentum

Private consumption growth above historical average

Saving rate decreased in 2017

The favorable cyclical position of the Austrian economy is reflected in labor market developments, with the number of payroll employees growing by 1.9% in 2017 and the number of unemployed decreasing by 4.9%. Despite the improved labor market situation, which clearly fostered consumer sentiment in the course of 2017, nominal household income growth halved to 1.7% in 2017 (compared to 3.9% in 2016). This drop was triggered by the end of the positive stimulus of the tax reform that had come into force at the beginning of 2016. Coupled with increased HICP inflation (2.2% in 2017), real disposable household income even slightly shrank by 0.2% in 2017. Looking at the structure of Austrian households' disposable income, wages climbed slightly whereas property income and mixed income accruing to self-employed households decreased. As households aimed to smooth their spending levels, private consumption growth stayed at the same rate as in 2016 (1.5%), which is slightly above the average consumption growth rate recorded between 1999 and 2016 (1.3%). This resulted in a clear drop in the saving ratio (from 7.9% to 6.4%). Furthermore, the composition of households' disposable income may also have reduced their propensity to save as property income usually has a higher marginal saving ratio than earned income.

Households' financial investments decrease

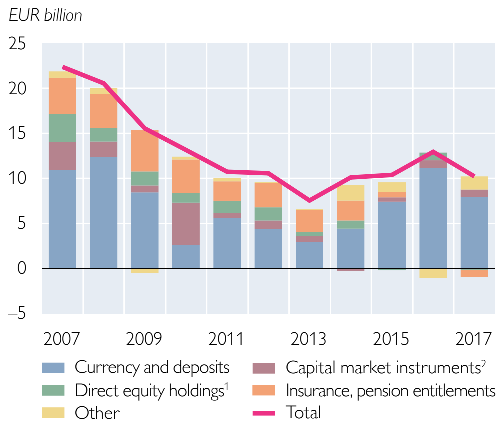
The decrease in households' saving ratio was reflected in a reduction of their financial investments by 21% to EUR 10.2 billion in 2017. This was less than half of the values seen before the onset of the crisis (see chart 2.8).

Transferable deposits expand further

In the low nominal interest rate environment, households continued to display a strong preference for highly liquid assets. In 2017, they shifted EUR 14.0 billion into overnight deposits with domestic banks (and another EUR 0.6 billion into cash holdings). For the third year straight, the build-up of overnight deposits surpassed total financial investments, implying a considerable substitution of other financial assets. In contrast, bank deposits with an agreed maturity continued to decline, dropping by EUR 6.6 billion in 2017 (see the left-hand panel of chart 2.9). Taking a longer-term perspective, households increased their overnight deposits by EUR 88 billion between end-2008 and end-2017 (which was the equivalent of 87% of total financial investment in that period), while deposits with an agreed maturity were reduced by EUR 41 billion. As a result, the share of overnight deposits in total financial assets has more than doubled to 21% since end-2008 while the share of deposits with an agreed maturity has almost halved to 16%.

Chart 2.8

Net financial investments



Source: OeNB.

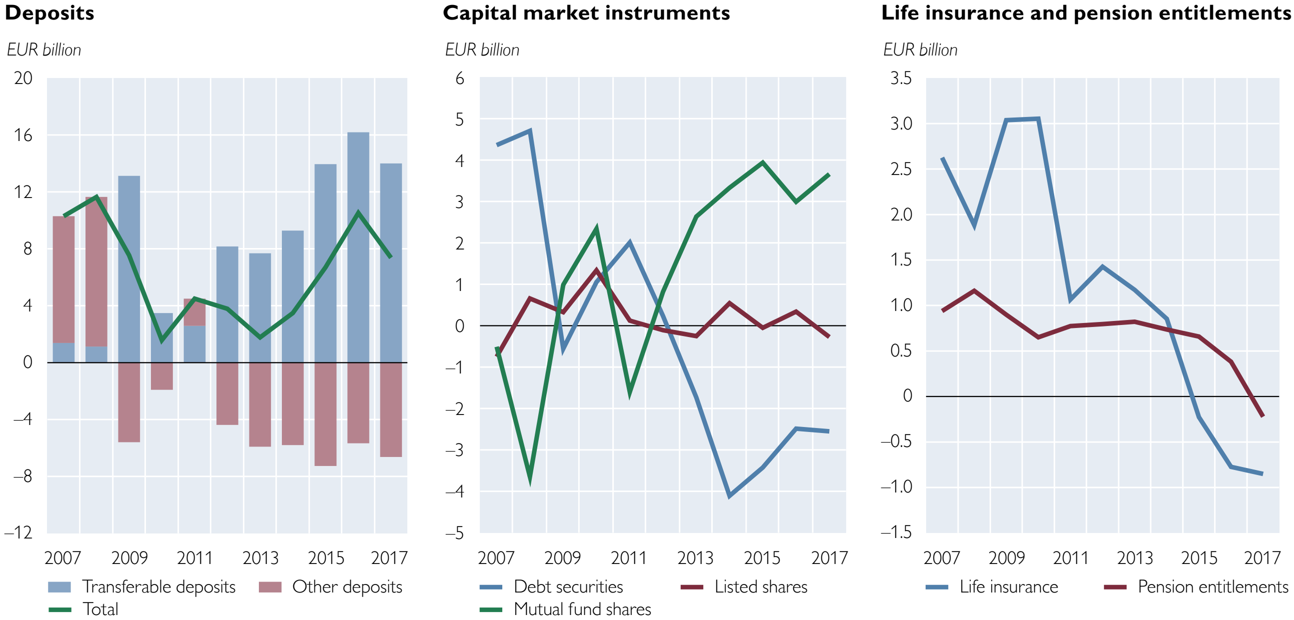
[1] Unlisted shares and other equity.
[2] Debt securities, mutual fund shares and listed shares.

Ongoing shifts into mutual funds

Over the past years, households considerably reduced their direct holdings of debt securities. This concerned

Chart 2.9

Households' net investments in selected financial instruments



Source: OeNB.

Note: 2017 data are preliminary.

in particular bonds issued by banks, reflecting continued redemptions over the past few years. In the period 2012–2017 (in which households saw sizeable unrealized valuation gains in their portfolio; see below), their securities portfolio shrank by EUR 14.1 billion (see the middle panel of chart 2.9). As freed-up funds were partly transferred into mutual funds, net investments in mutual funds reached EUR 17.4 billion over the same period. Investments in listed shares remained mute, amounting to only EUR 0.2 billion since 2012 (and were even negative last year). In total, households' net financial investments in capital market instruments were quite moderate in recent years, totaling EUR 3.5 billion in the years from 2012 to 2017. This weak development is all the more remarkable as, at the same time, the Austrian household sector recorded sizeable unrealized valuation gains in its securities portfolios, amounting to EUR 16.7 billion since 2012 (EUR 4.9 billion of which were recorded in 2017). In 2017, as a result of rising stock prices, listed shares accounted for the lion's share of valuation gains, which came to 19% of the holdings of listed shares at end-2016; for mutual fund shares, gains equaled 1.7% of households' portfolio.

Thus, valuation effects were the main driver of the increase in the Austrian household sector's capital market exposure, contributing more than 80% to its increase between 2012 and 2017. As for listed shares, all of the increase in households' nominal holdings in this period was accounted for by (unrealized) valuation gains. 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 investments into stocks in particular are very much concentrated in the portfolios of higher-income households, 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 again negative

Investments in life insurance and pension entitlements were negative in 2017 (see right-hand panel of chart 2.9). For life insurance policies, disbursements outstripped contributions for the third year in a row. In 2017, the negative net investment amounted to EUR 0.8 billion. The negative net investment in life insurance can be attributed inter alia to the sharp slump in one-time premium life insurance policies due to the currently low interest rates and changes in the tax treatment for life insurance policies.[7] A large proportion of gross inflows into these instruments did not result from 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 if these are converted into euro-denominated loans). Investments in pension entitlements (including both claims on pension funds and direct pension benefits granted by private employers), which had recorded falling net growth rates for several years, turned negative for the first time in 2017, amounting to –EUR 0.2 billion.

Loans to households gain further momentum

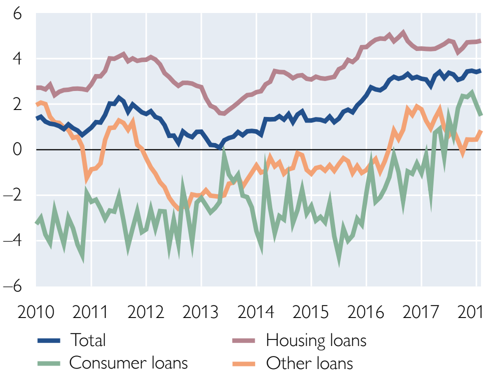
Housing loans are main contributors to loan growth

The growth rate of bank lending to households gained further momentum in recent months. In February 2018, bank loans to households (adjusted for reclassifications, valuation changes and exchange rate effects) increased by 3.5% year on year in nominal terms. Euro-denominated loans continued to grow briskly (by 6.2%), while foreign currency loans continued to contract at double-digit rates; by February 2018, they had fallen by 14.6% year on year, partly reinforced by the depreciation of the Swiss franc against the euro. The dynamics of loan growth is expressed by the fact that since 2017, loans for all purposes showed positive nominal year-on-year growth rates (see chart 2.10). In February 2018, consumer loans, which had been shrinking for almost ten years, grew by 1.5% year on year, and other loans by 0.7%. However, the main contribution to loan growth came from housing loans, not only because they are the most important loan category for households – accounting for almost two-thirds of the outstanding volume of loans to households – but also because their growth rate, reaching 4.8% year on year in February 2018, was the highest among all loan categories. Lately (i.e. in the second half of 2017), year-to-year growth rates of housing loans to households were broadly in line with that of property prices.

Chart 2.10

Loans to households

Annual change in %



Source: OeNB.

[7] *Insurance premiums paid under insurance policies taken out after December 31, 2015, are no longer tax deductible.*

Credit conditions remain favorable

Credit terms continued to be favorable as interest rates for new bank loans decreased slightly below the already very low levels recorded in the preceding years. At 1.83%, average interest rates on euro-denominated housing loans to households were 11 basis points lower in February 2018 than one year earlier. The interest rate on variable rate housing loans (with a rate fixation period of up to one year) decreased by 19 basis points to 1.61%. The effective annual rate of interest on housing loans, which reflects total borrowing costs (interest rate component and related charges), dropped by 10 basis points year on year to reach 2.22% in February 2018.

The conditions for taking out housing loans also remained favorable. According to the results of the BLS, banks' credit standards for housing loans to households remained stable overall in 2017 and the first quarter of 2018. At the same time, banks reported a slight but continuous increase in households' demand for housing loans. They attributed this increase primarily to growing consumer confidence as well as to the general level of interest rates. Additionally, improving housing market prospects, including expectations of rising house prices, have been mentioned in recent survey rounds. The rise in house prices registered over the past years (see below) may have boosted the funding needs for real estate investment.

Households' currency and interest rate risks

Households' debt-to-income ratio stable

By end-2017, the household sector's total gross liabilities amounted to EUR 184.5 billion according to financial accounts data, up 2.1% in nominal terms against one year earlier. Households' debt-to-income ratio remained broadly stable at 90% (see upper left-hand panel of chart 2.10). Accordingly, the debt ratio of Austrian households remained lower than that of households in the euro area as a whole.

Share of variable rate loans on the decline

The share of variable rate loans (loans with an initial rate fixation period of up to one year) continued to decrease in 2017. In the final quarter of 2017, they accounted for 59% of new lending (in euro) to households compared to 89% in the same quarter three years earlier; over the same period, their share in housing loans narrowed from 86% to 51%.[8] But despite this recent decline, the share of variable rate loans is still quite high by international comparison. At the same time, this implies lower current interest expenses resulting from a positive slope of the yield curve, which favorably affects debt servicing. In the fourth quarter of 2017, households' interest expenses equaled 1.7% of their 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 had started to fall). However, the high share of variable rate loans in total lending implies a considerable exposure of the household sector to interest rate risks over the medium term.

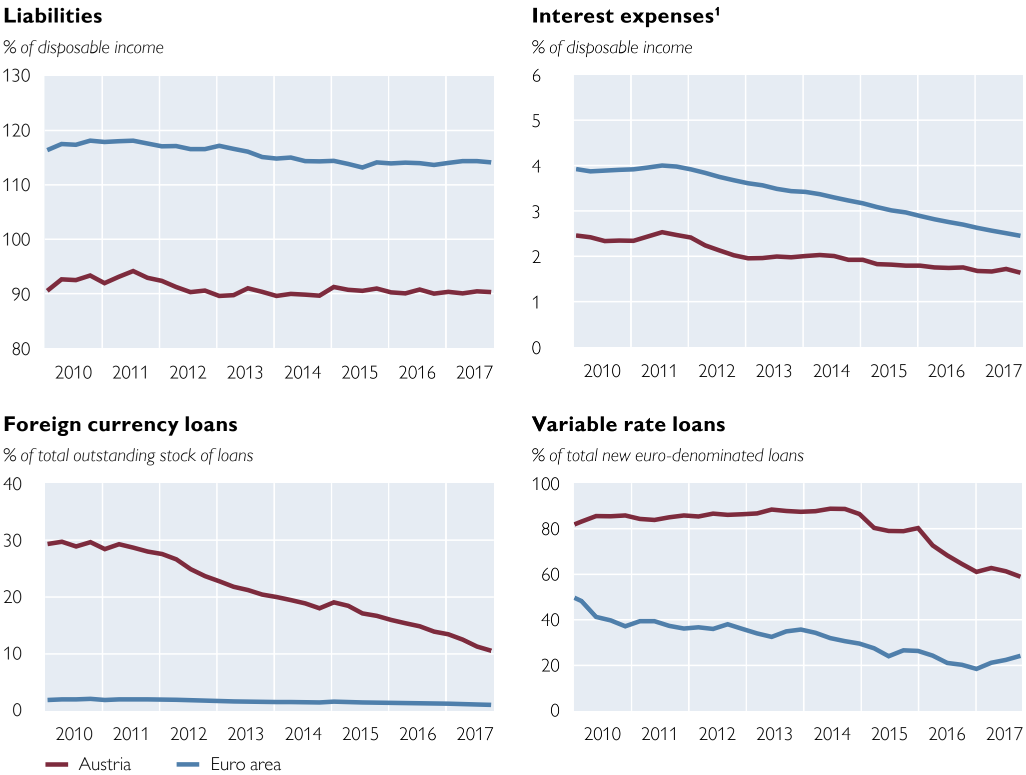
Foreign currency loans remain a risk

Likewise, despite a substantial decrease over the past few years, the still high share of foreign currency loans in the total stock of lending remains a risk factor, especially for households with a low debt servicing capacity. By the end of 2017, the share of foreign currency loans had fallen to 10.5%, about one-third of the peak value reached around ten years ago. The foreign currency share varies considerably depending on a loan's purpose. For housing loans, it was 13.7%, for

[8] *In return, new housing loans with a very long interest fixation period (more than ten years) increased from less than 2% in 2014 to more than one-quarter at the end of 2017.*

Chart 2.11

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.

consumer loans 3.2 % and for other loans 5.7%. Almost all outstanding foreign currency-denominated loans are denominated in Swiss franc (close to 97%).[9]

Residential property prices in Austria continue to rise

Property price growth slows down in Vienna, but accelerates in the rest of Austria

Residential property prices in Austria continued to rise in 2017 and in early 2018. Again, as in the past three years, the "Austria excluding Vienna" aggregate showed more pronounced price growth, reaching 10.0% in the first quarter of 2018, compared to 3.5% in Vienna. 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, rising by 2.2% year-on-year in real terms. The number of building permits in Austria was up 8% in 2017 against the – already very high – corresponding 2016 figure.

Reflecting this pick-up in price dynamics, the OeNB fundamentals indicator for residential property prices in Vienna went up slightly to 21.7% in the first quarter of 2018. For Austria as a whole, the indicator reached 11.2%, implying that the increasing overvaluation observed in recent years continued.[10]

[9] *For details on the systemic risk assessment of foreign currency loans in Austria and CESEE, please refer to p. 42 et seq.*

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