

Lending to households in CESEE with regard to Austrian banking subsidiaries and macroprudential measures addressing credit-related risks¹

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The macroeconomic environment improved significantly in 2017. And so did Austrian banks' lending activities in Central, Eastern and Southeastern Europe (CESEE) – the banks' most important foreign market. As Austrian banks' exposure in terms of volume and profit is concentrated in six countries of the CESEE region, namely the Czech Republic, Slovakia, Romania, Croatia, Hungary and Russia, these countries will be the focus of this study. Moreover, the analysis sheds light on lending to households, in particular on mortgage and consumer loans, and it reveals Austrian banking subsidiaries' relative importance for their host markets. All CESEE countries analyzed in this study have implemented several macroprudential measures – either legally binding ones or in the form of recommendations – to cope with credit lending risks. Some countries did so because they are already faced with high growth rates, others did so to prevent risks from accumulating once credit growth picks up again.

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Central, Eastern and Southeastern Europe (CESEE)³ is the most important foreign market for Austrian banks' business activities. In most CESEE countries, the macroeconomic environment improved significantly in 2017, which is also reflected in Austrian banking subsidiaries' lending activities. The study focuses, on the one hand, on the Czech Republic, Slovakia, Romania, Croatia, Hungary and Russia – i.e. on countries that are of importance in terms of size and profitability from an aggregate perspective – and, on the other hand, on the household segment, specifically on mortgage and consumer loans. Section 1 gives an overview of the aggregate loan portfolio and credit development of Austrian banking subsidiaries in CESEE. In sections 2 to 7, I analyze lending activities of Austrian banking subsidiaries in the aforementioned countries by comparing them to the respective market, and provide an overview of macroprudential measures with regard to risks stemming from household lending.

1 In CESEE, Austrian banking subsidiaries' lending is focused on household loans

CESEE is the most important foreign market for Austrian banks' business activities. Slightly more than 60% of Austrian banks' foreign claims⁴ were on CESEE in the first quarter of 2018. At end-2017, Austrian banking subsidiaries had total as-

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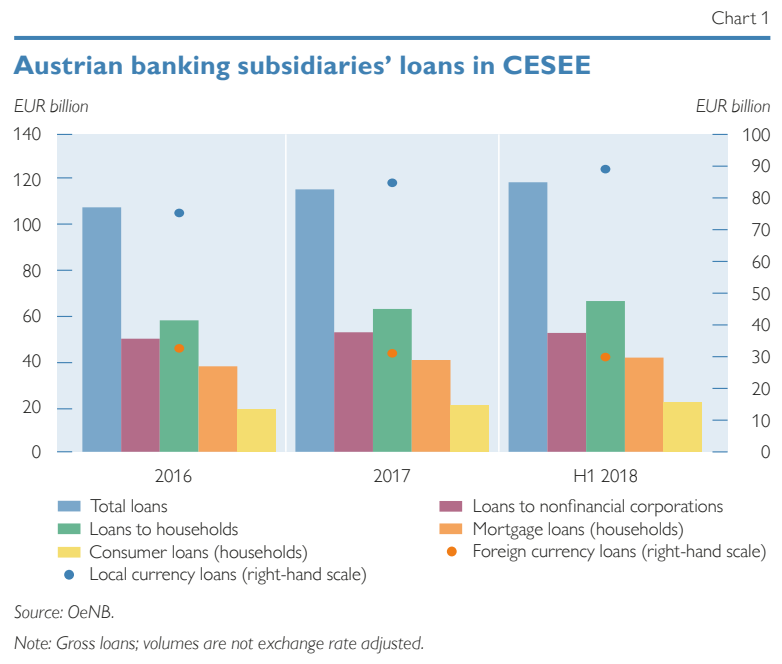
³ In this study, the CESEE region also comprises countries such as Russia and Ukraine.

⁴ Austrian banks in domestic and foreign ownership.

sets of EUR 206 billion and total outstanding loans⁵ of EUR 116 billion in CESEE. Their loan-to-deposit ratio was 79%. This reflects their business model of collecting deposits and lending to the real economy, confirming compliance with the Sustainability Package⁶, which the Oesterreichische Nationalbank (OeNB) and the Austrian Financial Market Authority (FMA) published in 2012. According to this package, lending shall be linked to a local stable funding base. In the first half of 2018, Austrian banking subsidiaries continued to grow and had total assets of EUR 212 billion, total loans of EUR 119 billion and a loan-to-deposit ratio of 82%.

The macroeconomic environment improved significantly in most CESEE countries in 2017, which is also reflected in the total asset growth of Austrian banking subsidiaries (11% year on year), credit growth (7% year on year), historically low credit risk provisions – which, however, may not be sustainable should the business cycle turn – and a rise in net profit after tax (11.6% year on year). Business activities in CESEE contribute substantially to Austrian banks’ overall profitability.

As to Austrian banking subsidiaries’ aggregate loan portfolio in CESEE, the share of household loans came to 56% in the first half of 2018, while the share of nonfinancial corporations’ loans came to 44%. This segmental composition has prevailed since 2014. This development may thus reflect a shift in Austrian banks’ business strategies and cycles. On a more granular basis, i.e. when breaking the household loan segment down into mortgage and consumer loans, mortgage loans prevailed with 62% in the first half of 2018 and were thus twice as high as consumer loans. In 2017, consumer loans grew slightly faster than mortgage loans (by about 1 percentage point). In the first half of 2018, consumer loan growth gained momentum, outpacing mortgage loans by 4 percentage points. Austrian banking subsidiaries’ lending in local currency prevails throughout CESEE. In 2017, loans in local currency grew by 12%, whereas loans in foreign currency decreased continuously. The OeNB and the FMA have advised against foreign currency lending in CESEE (Guiding Principles)

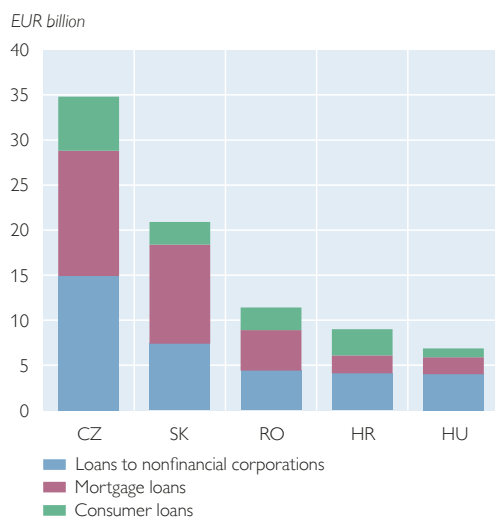


⁵ Data on loans used for the analysis in this study come from an OeNB survey that is conducted every six months and comprises large Austrian banks. The survey’s sample was adjusted for the purpose of this analysis, considering only banks that were still active in the first half of 2018. Loans are gross, i.e. before credit risk provisioning. Loan growth rates are exchange rate adjusted, volumes are not.

⁶ See <https://www.oenb.at/en/financial-market/financial-stability/sustainability-of-large-austrian-banks-business-models.html>.

Chart 2

Austrian banking subsidiaries' loans in CZ, SK, RO, HR and HU



Source: OeNB.

Note: Data as at H1 2018. Data for Russia are confidential and hence not included.

since 2010.⁷ Several banking supervisory authorities in CESEE have implemented measures targeting foreign currency loans as well.

The following analysis will focus on six CESEE countries, namely the Czech Republic, Slovakia, Romania, Croatia, Hungary and Russia, in which Austrian banks have, on the one hand, relatively large exposures and in which profit contributions are, on the other hand, relatively high. In the first half of 2018, Austrian banking subsidiaries had about 80% of their outstanding loans in the six countries listed above and approximately 80% of the CESEE net profit after tax came from these countries. Austrian banking subsidiaries' net profit after tax stood at EUR 2.6 billion at end-2017 (Q2/2018: EUR 1.6 billion).

2 In the Czech Republic, Austrian banking subsidiaries are part of a dynamic lending environment

The Czech Republic is the most important CESEE market of Austrian banks in terms of exposure size and profit contribution. Austrian banking subsidiaries reported an outstanding loan volume of about EUR 35 billion in the Czech Republic in the first half of 2018, which corresponds to 30% of Austrian banking subsidiaries' total CESEE loans. About 60% of loans were extended to the household sector. Close to 30% of profits came from the Czech Republic. In the second quarter of 2018, Austrian banking subsidiaries had a total assets market share of about 26%. Credit growth has been quite vivid in the last years. In 2017, loans to households grew by 9%, more specifically mortgage loans by 12% and consumer loans by 6%. Mortgage loans remained the key product in household lending for Austrian banking subsidiaries (as well as for the whole market), with volumes being twice as large as those of consumer loans. Austrian banks' lending development mirrors that of the local banking sector. In 2017, Austrian banking subsidiaries grew by almost 2 percentage points faster in the household sector than on the market as a whole, however. In the first half of 2018, Austrian banking subsidiaries' household loans increased by 6%, with mortgage and consumer loans growing at the same rate.

In general, household lending is very dynamic in the Czech Republic. Additionally, the Czech National Bank (CNB) identified a continuous spiral between property prices and property purchase loans as the most significant domestic risk. To cope with the risks stemming from household lending, the CNB implemented

⁷ In 2010, Austrian banking groups active in CESEE committed themselves to an agreement with the Austrian supervisory authorities (referred to as Guiding Principles). According to these principles, banking groups will no longer offer the riskiest types of foreign currency loans, i.e. mortgage and consumer loans in Swiss franc or Japanese yen, to households and small and medium-sized enterprises without income in the matching currency. In addition, consumer loans in euro are to be granted to borrowers with the highest creditworthiness only.

a set of macroprudential recommendations in the last two years. At the individual loan level, the CNB recommends a loan-to-value (LTV) ratio limit of 90% and that a maximum of 15% of new loans within one quarter may have LTV ratios between 80% and 90%. One year passed between the announcement of the LTV recommendation and its implementation in the second quarter of 2017. Nevertheless, some credit institutions exceeded both recommended limits according to the CNB. The share of loans with LTV ratios between 70% and 80% has risen significantly since then and banks are rather close to the 90% target. Moreover, the valuation of mortgages in connection with LTV recommendations is an important issue, especially in times when property prices are considered rather high. As mortgage loans in the Czech Republic are issued at fixed rates for several years (e.g. for three to five years) and are floating thereafter, households may be susceptible to interest rate risk (see CNB, 2018a).

In June 2017, the CNB recommended that lenders should monitor the debt-to-income (DTI) ratio as well as the debt service-to-income (DSTI) ratio, set internal limits for, and prudently assess, loan applications based on these ratios. This recommendation was updated in June 2018. The CNB defined levels for the DTI, i.e. 8 (9 with effect from October 1, 2018), and the DSTI, i.e. 40% (45% with effect from October 1, 2018), above which lenders should assess loan applications in a particularly prudent manner (see CNB, 2018c). The CNB aims to establish legally binding prudential limits.

Given the still dynamic mortgage loan growth – even though the CNB recognizes a slight slowdown in growth rates and rising costs of loans with high LTV ratios – as well as historically low credit risk costs, the CNB has implemented a countercyclical capital buffer (CCyB), gradually increasing its rate from 1.0% to 1.5% until July 2019.⁸ Challenges to profitability may arise once the business cycle changes pace or even turns (CNB, 2018b).

3 In Slovakia, Austrian banking subsidiaries are among dynamic household lending

Slovakia is the second most important CESEE market for Austrian banks in terms of exposure size. In the first half of 2018, Austrian banking subsidiaries' outstanding loans in Slovakia amounted to around EUR 22 billion, the lion's share of which, i.e. 50%, were mortgage loans, while 11% were consumer loans. When looking at yearly growth rates in 2017, mortgage loans grew by 10% year on year, while consumer loans even rose by 17% year on year, though starting from a rather low level. At year-end 2017, Austrian banking subsidiaries grew by slightly more than 2 percentage points faster than the banking system in the household segment as a whole. Austrian banking subsidiaries had a market share (measured by total assets) of 38% in Slovakia in the second quarter of 2018. In the first half of 2018, Austrian banking subsidiaries' household lending grew in line with the market by about 6%.

Due to low interest rates (as part of the European Central Bank's expansionary monetary policy), a benign economic environment and rising wages in a small open economy, loan growth surged in Slovakia. The National Bank of Slovakia (NBS) is closely monitoring the credit developments and has implemented several legally binding macroprudential debt caps. LTV ratios were tightened from 100%

⁸ CCyB rate valid from July 1, 2018: 1.0%; rate valid from January 1, 2019: 1.25%; rate valid from July 1, 2019: 1.5%.

to a maximum of 90% (effective from July 1, 2018) and the financial buffer was set to a minimum (20% effective from July 1, 2018). Additionally, limits on the terms of loans were established (e.g. not more than 10% of new housing loans should have maturities of over 30 years and not more than 10% of new consumer loans should have maturities of over 8 years). Finally, as of July 1, 2018, a DTI of 8 came into force (see NBS, 2018b).

According to the NBS, credit standards may ease in particular for consumer loans as the aggregate nonperforming loan (NPL) ratio for consumer loans has already increased since end-2015 despite exceptionally benign economic conditions and vivid credit growth. Even though consumer loans – in contrast to mortgage loans – only made up 14% of total loans in Slovakia at end-2017, they constitute one of the banking sector's principal income streams. This is due to the fact that interest margins on consumer loans in Slovakia are among the highest in Europe – reflecting, inter alia, that they are associated with higher risks given their status as unsecured any-purpose loans – and due to the rapid growth of consumer loans in the stock. According to NBS analyses, returns on consumer loans are equivalent to more than two-thirds of the income from housing loans, constituting almost half of total loans in Slovakia. Consumer loan growth therefore increases not only the significance of these kinds of loans within the financial sector, but also their potential risks to financial stability in Slovakia. Since the market for consumer loans is highly competitive and since consumer loans are susceptible to economic changes, adequate risk pricing is crucial. Should the currently favorable economic situation change in the future, then the default rate for consumer loans may increase even further. As far as mortgage loans are concerned, the NPL ratio is at its lowest levels since 2009. In Slovakia, mortgage loans often have variable interest rates that pose a risk once interest rates start to rise again (see NBS, 2017).

The CCyB rate was increased from 0% to 0.5% (effective from August 1, 2017) and further to 1.25% (effective from August 1, 2018) as a response to growth trends in the household and nonfinancial corporate loans market as well as easing credit standards (despite the measures taken to date) and vivid economic growth, all of which could lead to economic overheating according to the NBS. As of August 1, 2019, the CCyB rate will be increased further, namely to 1.5% (see NBS, 2018b).

4 In Romania, Austrian banking subsidiaries extend consumer loans, while government-subsidized program drives mortgage lending

Austrian banking subsidiaries in Romania had an outstanding loan volume of nearly EUR 12 billion in the first half of 2018, with housing loans accounting for 38% and consumer loans for 21%. Mortgage loan growth was negative (–5% in 2017), while consumer loan growth was vivid (10% in 2017). In the first half of 2018, however, consumer loan growth stagnated, while mortgage loan growth was clearly positive again. In the second quarter of 2018, Austrian banking subsidiaries had a market share of about 23% of total assets in Romania. In the Romanian banking system, loan growth in the household sector was driven by mortgage loan growth, which was quite dynamic in 2017, while consumer loan growth was in single digits. In sum, household lending by Austrian banking subsidiaries grew slower by 2.5 percentage points in 2017.

In the past, the National Bank of Romania (NBR) took regulatory measures early on to mitigate risks stemming mainly from foreign currency mortgage lending, which were in line with the respective European Systemic Risk Board (ESRB) recommendation⁹ from 2011. LTV ratios are capped at 85% for loans denominated in Romanian lei and at 80% for loans denominated in foreign currencies provided that the debtor has eligible income denominated in or indexed to the loan currency. For unhedged debtors, the maximum LTV ratio is 75% for loans denominated in euro and 60% for loans denominated in other foreign currencies (see NBR, 2012). In Romania, housing loans were mainly granted in euro. LTV ratios for mortgage loans stood at 80% at end-March 2018.

The government-subsidized “First Home Program” is exempted from the aforementioned regulation, which is why LTV ratios may reach 95%. The General Board of the National Committee for Macroprudential Oversight (NCMO) in Romania has issued a recommendation (R/1/2018) according to which the government should consider recalibrating the “First Home Program” from a social perspective by revising the requirements to access this program while preserving a sustainable level of indebtedness. In its country report on Romania, the International Monetary Fund (see IMF, 2018b) notes that the effectiveness of existing macroprudential tools on mortgages is undermined by this program. New mortgage lending in Romania is primarily driven by the public “First Home Program.” From March 2017 to March 2018, about 60% of new housing loans were taken out within the framework of this program. “First Home Program” loans account for approximately 50% of total mortgage exposure in the household segment (see NBR, 2018). According to the NBR (2018), borrowers who took out loans within this program exhibit higher levels of indebtedness than those who took out standard housing loans.

Additionally, there are more detailed regulations with regard to foreign currency loans, including consumer loans, such as a minimum guarantee level of 133% of the loan value and a cap on consumer loan maturity of five years (see NBR, 2012). To sum up, foreign currency loans have decreased significantly in the years following the implementation of the aforementioned limits. In 2017, new loans were granted almost entirely in domestic currency. As of December 2017, 34% of household loans were denominated in foreign currency.

Table 1

Overview of macroprudential measures related to household loans

	CZ	SK	RO	HR	HU	RU
Loan-to-value (LTV) ratios	x	x*	x	–	x	x**
Debt-to-income (DTI) ratios	x*	x**	–	–	–	–
Debt service-to-income (DSTI) ratios/ payment-to-income (PTI) ratios	x*	x*	x	–	x*	x**
Foreign currency loans	–	–	x	–	x	x
Countercyclical capital buffer (CCyB)	1.0%	1.25%	0%	0%	0%	0%
Liquidity ratios	–	–	–	–	x*	–

Source: National central banks.

Note: The list comprises macroprudential recommendations and regulations with a focus on household loans. x*... adapted in 2018. x**... newly implemented in 2018.

⁹ See <https://www.esrb.europa.eu/home/html/index.en.html>.

As in other CESEE countries, the share of mortgage loans at variable interest rates is quite high. In fact, 95% of new housing loans have variable interest rates, while 58% of consumer loans have fixed rates (as of September 2017) (see NBR, 2017). In March 2018, most new housing loans and around one-third of new consumer loans were granted at variable rates (see NBR, 2018). The interest rate risk is more pronounced for mortgage loans than for consumer loans given their long maturities (up to 30 years compared to an average of 5 years for consumer loans) and their large volumes.

In its Financial Stability Report of December 2017, the NBR stated that a DSTI ratio of over 55% was found to be risky and that it considered implementing it as a prudential DSTI limit. In September 2017, about 25% of debtors posted an indebtedness level in excess of 55%, indicating that a significant part of households is facing high risks of non-performance. Additionally, the NBR argued that the DSTI cap should be applicable to both, consumer and housing loans.

In 2016, the CCyB was set at 0% and has been maintained at this level since then as there is no excessive credit growth according to NBR analyses. At the sectoral level, however, there are signals indicating a buildup of vulnerabilities related to household lending, and residential property prices continued to increase at a fast pace (see NCMO, 2018). The NBR is closely monitoring these developments and a working group on household overindebtedness was set up.

Credit quality in Romania remains an issue, even though there has been steady progress in reducing large stocks of problem loans that arose due to the crisis in 2008. As a consequence, the systemic risk buffer, effective since June 2018, was implemented to address risks associated with problem loans.

5 In Croatia, Austrian banking subsidiaries focus on consumer lending – overall market growth rates are rather modest

In Croatia, Austrian banking subsidiaries reported EUR 9.5 billion of outstanding loans, with consumer loans accounting for 31% and housing loans for 21% in the first half of 2018. Mortgage loan growth registered by Austrian banking subsidiaries was negative in 2017, while consumer lending was positive, posting growth rates of around 8%. This credit development continued during the first half of 2018.

In 2017, loan growth in the Croatian banking system registered a mild recovery, showing acceleration tendencies in mortgage lending due to a government-subsidized housing loans program. In light of the borrowers' strong interest in this government-supported program, the latter will be continued until 2020. The Croatian National Bank (HNB) therefore expects a boost in demand for housing loans (see HNB, 2018c).

In 2017, Austrian banking subsidiaries grew by around 1%, which is in line with the loan growth rate observed for the Croatian banking system. Austrian banking subsidiaries' market share in total assets amounted to about 28% in the second quarter of 2018.

To date, there are no macroprudential lending caps on e.g. LTV or DTI ratios, also reflecting the currently rather weak lending activity. However, the HNB has implemented numerous measures aimed at consumer protection and awareness since 2013. Cases in point include measures to mitigate interest rate and exchange rate risks and to convert loans denominated in Swiss franc into euro (measure taken in 2015). As a result, the Croatian banking system still has a relatively high

share of foreign currency loans (Q4/2017: 51%). However, there are risk-mitigating factors, such as a high degree of euroization.

Another noteworthy measure is the recommendation¹⁰ issued by the HNB in September 2017 to mitigate interest rate risks related to long-term household loans, according to which credit institutions should extend their range of credit products to fixed-rate loans, while minimizing costs for borrowers. Moreover, the HNB recommends credit institutions to offer clients with already existing contracts to voluntarily change their loan financing conditions to protect themselves against interest rate risks should they have taken out loans at variable interest rates. The relatively uncertain economic recovery, which is mirrored in a still high unemployment rate and low household income levels, could amplify negative effects of a possible increase in annuities for households (see HNB, 2017b). The HNB recommendation was issued against the backdrop of a relatively high share of household loans with variable interest rates. A survey conducted by the HNB in mid-2016 revealed that 67% of household loans and 81% of mortgage loans were at variable rates, making the sector susceptible to interest rate changes. At end-2017, 61% of household loans had variable interest rates (see HNB, 2017a).

The HNB introduced a CCyB rate of 0% that took effect as of January 1, 2016. Although there has been a slight recovery in lending activity, there are still no cyclical pressures in terms of evolution of systemic risks, the HNB argues. According to the data for the first quarter of 2018, as analyzed by the HNB, GDP continued to grow, while the nominal debt of nonfinancial corporations and households continued to decline. Therefore, the HNB announced that it will maintain the CCyB rate of 0% for the third quarter of 2019 (see HNB, 2018d).

6 In Hungary, household lending rebounds after years of deleveraging with Austrian banking subsidiaries taking part in consumer loan growth

In the first half of 2018, Austrian banking subsidiaries in Hungary recorded an outstanding loan volume of EUR 7.2 billion, accounting for a market share of 14.2% (as measured by total assets in the second quarter of 2018). Housing loans had a share of 26% and consumer loans a share of 14% in the Austrian banking subsidiaries' aggregate loan book in Hungary. While growth rates registered by Austrian banking subsidiaries in 2017 were negative in the mortgage loan segment, they were relatively high in the consumer loan segment, coming to 21% in 2017 and continuing to rise in the first half of 2018. Compared to the credit growth rates of Hungary's banking system, Austrian banking subsidiaries grew faster in 2017.

Since 2016, annual growth rates of household loans have been positive in Hungary, mainly driven by mortgage loans and, more recently, also by consumer loans. In addition, mortgage

Table 2

Regulatory limits for PTI and LTV levels in Hungary

		HUF	EUR	Other currency
PTI (payment-to-income) ratio	Net monthly income lower than HUF 400,000	50%	25%	10%
	Net monthly income equal or higher than HUF 400,000	60%	30%	15%
LTV (loan-to-value) ratio	Mortgage loans	80%	50%	35%
	Motor vehicle loans	75%	45%	30%

Source: MNB (2016).

Note: LTV limits that are 5 percentage points higher can be applied to financial leases.

¹⁰ See https://www.hnb.hr/documents/20182/2042017/ep26092017_preporuka.pdf/63011671-4e66-4f21-bb92-5afd01c3d13a.

lending is supported by the “Home Purchase Subsidy Scheme for Families.” In the second quarter of 2018, 16% of new housing loans were granted within the framework of this program (see MNB, 2018a). Since the National Bank of Hungary (MNB) has not observed excessive lending yet, the CCyB rate is currently set at zero while credit development is being closely monitored.

Hungary implemented macroprudential debt cap rules in January 2015 to prevent excessive credit growth and a renewed buildup of foreign currency loans, as observed in the past (see MNB, 2016). Currently, household debt is at comparatively low levels in Hungary and is almost exclusively denominated in local currency. In parallel with the recovery of the economy, the outflow of household loans is increasing dynamically, and thus the prudential limits will gradually become effective. Measures taken in 2015 included the implementation of threshold levels to LTV ratios and payment-to-income (PTI) ratios to mitigate the impact of various risks (see table 2).

In its 2017 Macroprudential Report, the MNB stated that no trends had been observed suggesting potential circumvention of existing debt cap limits by extending the maturity of loans or sequential unsecured and collateralized borrowing, even though LTV ratios of mortgage loans were close to regulatory limits.

It is noteworthy that the share of variable-rate housing loans is high in Hungary, which was also reported in other CESEE countries. Most household loans have variable or fixed rates of up to one year. For this reason, the MNB has encouraged fixed-rate and longer-term lending and has taken measures to increase borrowers’ awareness of interest rate risks. As a case in point, the calculation of the PTI ratio was changed to not discourage fixed-rate borrowing in 2016. With effect from October 1, 2018, the PTI ratio has been reduced for loans with variable or fixed rates of less than five years, respectively, as well as for loans with fixed rates between five and ten years. The PTI ratio for loans with fixed rates of at least ten years or for the whole term has remained unchanged. Further changes to the PTI ratio include an increase in limits of monthly net income levels from currently HUF 400,000 to HUF 500,000. Thus, borrowers with higher income levels will still be allowed to take out loans, albeit with higher monthly instalments given their higher repayment capacity (see MNB, 2018b).

Furthermore, Hungary has implemented prudential liquidity requirements, such as the foreign exchange funding adequacy ratio (FFAR) in 2012 and the mortgage funding adequacy ratio (MFAR) in 2017. The FFAR was tightened to 100% in 2015 to prevent currency mismatches; the MFAR was tightened to 20% in 2018 to address maturity mismatches on banks’ balance sheets.

7 In Russia, mortgage lending is expanding, albeit from low levels

Since 2016, only one Austrian banking subsidiary has operated in Russia.¹¹ This subsidiary has a mixed loan portfolio, with loans to nonfinancial corporations making up the lion’s share in the first half of 2018, followed by consumer and mortgage loans. Mortgage lending has expanded significantly since 2015, coming closer to the volume of consumer loans. This subsidiary’s contributions to overall profitability of Austrian banks are substantial.

¹¹ For reasons of confidentiality, no banking data are published.

The Russian banking sector is dominated by Russian state-related banks that held 71% of total assets at end-2017, while foreign banks clearly play a subordinated role, holding only 7% of total assets. In the second quarter of 2018, the Austrian banking subsidiary had a market share of about 1%. With 72%, non-financial corporate loans accounted for the bulk of the Russian banking system's loan portfolio in 2017, while consumer and mortgage loans made up smaller shares, coming to 16% and 12%, respectively.

In recent years, banks in Russia have sought to increase lending to households to counter relatively weak demand for new loans from nonfinancial corporations. Furthermore, household lending, i.e. mainly mortgage lending, has picked up since 2015 as mortgage lending was subsidized by the government, interest rates have declined and mortgage penetration in Russia – currently at around 6% of GDP – is far below the CESEE average of 20%. Mortgage lending therefore gained the most momentum in loan growth in Russia, posting growth rates of about 19% as of April 1, 2018 (see CBR, 2018). According to Moody's (2018), banks are currently focusing on relatively creditworthy borrowers. The Russian ruble is the prevailing currency in mortgage lending. The Central Bank of Russia (CBR) reacted to the dynamic loan growth and introduced prudential preventive measures, i.e. higher risk weights for housing loans with down-payment ratios of less than 20% for loans originated after January 1, 2018. According to the CBR, the share of issued loans with LTV ratios of more than 80% was 14.0% in the first quarter of 2017 and already as high as 42.4% in the fourth quarter of 2017 (see CBR, 2018).

Lending activity in the retail sector has expanded since mid-2016. In April 2018, growth rates of about 14% were registered in consumer lending. The CBR again tightened risk weights for consumer loans issued after May 1, 2018 and plans to implement a prudential limit on the debt burden ratio (PTI) to mitigate risks associated with renewed accelerating growth in this credit segment. The Ordinance for the PTI should enter into force in the second half of 2018, and calculations of the PTI ratio will be mandatory from January 1, 2019 onward. In 2019, after calibrating the level of risk depending on the PTI ratio, it is planned to shift to the use of this indicator to establish the values of macroprudential buffers for consumer loans (see CBR, 2018). Consumer loans boomed once before, in 2011 and 2012, and urged the CBR to intervene to prevent systemic risks.

To discourage lending in foreign currency, the CBR raised risk weights early on in the past, particularly for borrowers lacking a corresponding foreign income. The share of unhedged foreign currency loans is therefore relatively low in Russia.

The CCyB rate is maintained at 0%. In the event of accelerated loan growth rates, a reduction of underwriting standards, or an excessive increase in the share of dividend payments, the CBR may consider establishing a positive buffer.

8 Summary and conclusions

Austrian banking subsidiaries' lending activities in the household sector broadly matched credit developments in the local banking systems of the Czech Republic, Slovakia, Romania, Croatia, Hungary and Russia in 2017. They grew faster in the household segment in the Czech Republic, Slovakia, Hungary and Russia than the market did in these countries. Due to already relatively high outstanding loan volumes with respect to Austrian banking subsidiaries' aggregate exposure to

CESEE countries, growth rates in the Czech Republic and Slovakia matter more. In Romania, Croatia and Hungary, lending activities of Austrian banking subsidiaries focused on consumer loans rather than on mortgage loans in 2017. This trend continued in the first half of 2018, except for Romania, where consumer lending almost stagnated. Austrian banking subsidiaries' outstanding mortgage loan volume in CESEE is twice as high as their outstanding consumer loan volume. Lending in local currency is prevailing, while foreign currency lending becomes more and more of a legacy issue. Credit growth of Austrian banking subsidiaries is based on a local funding base, which is in line with the corresponding macroprudential recommendations issued by the OeNB and the FMA.

In the six CESEE countries under review, numerous macroprudential recommendations and regulations with regard to household lending have been introduced (and have often been tightened). These measures mainly included debt cap tools, e.g. LTV ratios. In sum, macroprudential measures have contributed to strengthening the banking systems' resilience and to avoiding the buildup of systemic risks. Moreover, institutional settings are crucial for effective macroprudential policymaking. Greater independence of supervisory authorities is usually associated with reduced cyclicity of the riskiness of credit allocation (see IMF, 2018a).

Credit cycles in the Czech Republic and Slovakia are mature and authorities are well aware of the risks related to the ongoing credit boom. By making use of the macroprudential toolkits at their disposal, they have reacted accordingly. Furthermore, the CNB is making an effort to turn recommendations into legally binding rules. While the Czech Republic pursues its own monetary policy, thereby supporting current regulatory measures in a way, Slovakia's fast-growing economy is (procyclically) challenged by the European Central Bank's ultra-low interest rates. Both countries have activated countercyclical capital buffers and will increase them gradually. Hungary implemented its macroprudential measures in 2015 in anticipation of a rather vivid renewal of lending and to avoid a rise in vulnerabilities to unsustainable levels as observed in the past. Romania has successfully coped with the relatively high stock of foreign currency loans, proving that macroprudential measures taken early on are now bearing fruit. Moreover, Romanian authorities brace themselves for potential risks arising in particular in the real estate sector. The Romanian banking system is still struggling with NPLs from the last credit cycle. Therefore, the NBR has adapted the systemic risk buffer accordingly. In contrast to other CESEE markets, Croatia is lagging behind economic growth rates. The HNB has identified the high share of variable-interest mortgage loans amid relatively weak economic conditions as well as potential adverse developments (economic downturn, rise in interest rates) as possible risks and has published a respective recommendation. Hungary has adapted some of its macroprudential measures as well to react to interest rate-related risks. In Russia, the spotlight is currently on mortgage lending, which has exhibited the greatest growth momentum. Consumer lending, however, has also picked up in Russia. To avoid the (renewed, in the case of consumer loans) buildup of systemic risks, the CBR has reacted by imposing higher risk weights and tightening as well as extending their macroprudential toolkit.

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