Nontechnical summaries in English

The calm before the storm? Insolvencies during the COVID-19 pandemic

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In the course of the COVID-19 pandemic, the Austrian government has adopted comprehensive support measures aimed at cushioning the shock on the real economy. Moreover, parts of insolvency legislation have been suspended. For these reasons, the number of corporate insolvencies in Austria declined by 31% in 2020 compared to 2019. The resulting backlog in insolvencies may also have implications for financial stability.

We use firm-level data on insolvencies from the Austrian insolvency register to provide a timely picture of how insolvency numbers evolved in Austria before and during the COVID-19 pandemic from January 2019 to March 2021. Merging several sources of firm-level data allows us to gain some insight into insolvency developments and their potential impact on financial stability.

We show that only 40% of insolvent firms had loans above EUR 25,000 with Austrian banks when they turned insolvent. Moreover, 30% of insolvent firms had already been rated as "defaulted" by banks twelve months before they filed for insolvency. The decline in insolvencies in 2020 compared to 2019 was seen across all nine Austrian provinces and turned out to be particularly pronounced in sectors that had been hit hard by the crisis and had also received the largest amounts of government aid. Linking insolvency and balance sheet data, we find that the majority of firms that turned insolvent had had negative or very low equity capital long before the crisis. When we also consider banks' internal ratings of corporate borrowers, we see that government support apparently tended to protect firms with higher equity ratios from insolvency rather than firms that had high risk ratings and low equity ratios already before the crisis.

Our study also provides a statistical basis for further work in this field. Firm-level information on government support is not available at the moment; however, combining such data with our data would allow us to analyze a number of relevant questions on the effectiveness of government support in cushioning the impact of the crisis.

COVID-19-related payment moratoria and public guarantees for loans – stocktaking and outlook

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In light of the economic impact of the COVID-19 pandemic, measures were taken in Austria to provide loan repayment relief to companies and households. These measures included payment moratoria, which make it possible to delay the payment of debt for specific periods of time, and public guarantees for loans. In this study, we examine how Austrian banks have been addressing potential loan defaults, i.e. the possibility of losses resulting from borrowers' failure to repay their loans. We also investigate how the support measures have impacted on the credit quality of banks' outstanding loans and advances to companies and households. To this end, we analyze the use of moratoria and guarantees from the second quarter to year-end 2020, drawing on data that banks reported to the Oesterreichische Nationalbank. We find that moratoria were used to a much larger extent than guarantees, with most moratoria agreed in 2020 scheduled to expire at the end of March 2021 at the latest. Banks started to set aside risk provisions for potential loan defaults early on while nonperforming loans increased only slightly in the last quarter of 2020. Loans are classified as nonperforming if they are unlikely to ever be repaid or loan payments are past due by 90 days or more. Thanks to the risk provisions set aside in 2020, Austrian banks are well prepared for potential COVID-19-related deteriorations in credit quality in 2021, not least due to the lessons learned from the 2007–2008 financial crisis. Our analysis of a severe hypothetical scenario shows that, owing to the built-up capital buffers and risk provisions, banks would even be able to manage relatively high credit defaults. Still, it is important for banks to take precautions now to be ready for delayed effects that might manifest themselves once the public support measures expire.