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EUROSYSTEM

FINANCIAL STABILITY REPORT 47

Security through stability.

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The OeNB's semiannual Financial Stability Report provides regular analyses of Austrian and international developments with an impact on financial stability. In addition, it includes studies offering in-depth insights into specific topics related to financial stability.

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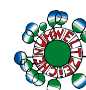

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Editorial close and latest data as at: May 16, 2024

Opinions expressed by the authors of studies do not necessarily reflect the official viewpoint of the Oesterreichische Nationalbank or the Eurosystem.

Financial stability means that the financial system – financial intermediaries, financial markets and financial infrastructures – is capable of ensuring the efficient allocation of financial resources and fulfilling its key macroeconomic functions even if financial imbalances and shocks occur. Under conditions of financial stability, economic agents have confidence in the banking system and have ready access to financial services, such as payments, lending, deposits and hedging.

Reports

Management summary[1]

Real GDP in Austria contracted by 0.7% in 2023. This was due to persistently high inflation, the very weak external economic environment and the resulting poor sentiment. In its June 2024 outlook, the OeNB expects the economy to grow by 0.3% in 2024 and 1.8% in 2025. The inflation rate will fall by more than half to 3.4% in 2024. This is attributable to all main HICP components, but above all to industrial goods excluding energy as well as energy and food. Austria's inflation differential to the euro area narrowed substantially in recent months and is expected to record long-term average levels in 2025 and 2026 (0.6 percentage points). The risks to the growth forecast are balanced. Geopolitical tensions and Austria's dependence on Russian gas represent downside risks, while a stronger recovery in domestic demand represents an upside risk. For the inflation forecast, in contrast, all three risk factors result in an upside risk. In the EU member states of Central, Eastern and Southeastern Europe (CESEE), real economic growth fell significantly in 2023 and inflation peaked at the beginning of the year. While Russia's invasion of Ukraine continued to affect (energy) prices and sentiment, the second half of the year saw some improvements. Also, the region's central banks ended their interest rate hikes. Some already started loosening monetary policy.

In 2023, the Austrian banking sector earned a record profit of EUR 14 billion. Its common equity tier 1 capital ratio climbed to 17.5%. The capitalization of Austrian significant institutions surpassed the average in the Single Supervisory Mechanism (SSM) after years of trailing it. This means that Austrian banks have used their profits to increase their resilience to future uncertainties. Profits were driven by a rising net interest margin, as monetary policy tightened and ensuing rate rises translated into higher income from borrowers on variable interest rates. At the same time, loan loss provisioning was stable despite rising loan defaults. For the first time ever, the sector recorded a cost-to-income ratio slightly below 50%. Earning EUR 5.5 billion, the subsidiaries in CESEE also continued to be highly profitable in 2023.

Loan growth lost further momentum in Austria. Real estate lending growth turned negative in mid-2023 and the demand for corporate loans declined. Depositors continued to shift savings from sight to term deposits. This increased banks' funding costs. Credit quality started to deteriorate in late 2023, especially in the corporate loan portfolio. By contrast, the quality of loans to households remained stable. At the end of 2023, the Austrian banking sector recorded an increase of the consolidated ratio of nonperforming loans (NPLs) to 2.6%, up from around 2%, where the rate had stood since 2021. Compared to historical figures, however, an NPL ratio of 2.6% is still moderate. The coverage ratio decreased on the back of new NPLs, for which provisions are still low, and the write-down of highly provisioned vintage NPLs. While the share of variable rate loans in new residential real estate (RRE) lending fell, it was still above 40% at the beginning of 2024. This is more than double the euro area average. Interestingly, this share remained high even though interest rates for variable rate loans exceeded those for fixed rate loans – indicating that market participants expected falling rates.

In a rapidly changing macrofinancial environment, systemic risks from real estate markets continue to be elevated. They are, however, being addressed effectively by borrower-based measures. Since these measures were introduced, lending

[1] *For a German-language management summary of the Financial Stability Report 47, see Finanzmarktstabilitätsbericht – Oesterreichische Nationalbank (OeNB).*

standards have improved significantly. The share of sustainable loans[2] has risen substantially, namely from 12% to 80%. A large part of the exemptions to the regulation for sustainable lending standards for residential real estate financing (KIM-V for short) remained unused in 2023, which suggests that this regulation is not a major factor behind declining lending volumes. When it comes to commercial real estate (CRE) lending by Austrian banks, both exposure and riskiness are high. At end-2023, 30% of CRE loans had a loan-to-value ratio above 100% or were unsecured. For one thing, this is attributable to cyclical factors, such as higher interest rates that led to a deterioration in the credit quality of CRE loans. For another, structural pressure is at play, including the trend toward remote work, online shopping or the need for climate-related adaptations.

The revised EU instant payments regulation published in March 2024 will lead to further innovation in financial services. Cases in point are the promotion of real-time transfers and the introduction of IBAN checks that verify that the beneficiary's IBAN and name match. Last, but not least, the EU is one of the first jurisdictions that has implemented a recovery and resolution framework for central counterparties that will strengthen the resilience of securities markets.

Recommendations by the OeNB

The profitability of the Austrian banking sector was strong in 2023. However, high net interest margins and low credit risk costs are likely to fade over time. Austrian banks profited from rising incomes resulting from the automatic repricing of variable rate loans. Besides, low unemployment and the post-pandemic recovery kept provisioning low. Both trends may soon go into reverse: If interest rates on loans decrease and depositors rush to lock in current rates that are still high (as published on a new OeNB transparency platform), the net interest margin is set to fall. Meanwhile, lagged effects of tighter monetary policy and geopolitical shocks may further affect the macroeconomic situation and lead to more nonperforming loans. Also, wage increases are still catching up with inflation and will continue to exercise pressure on banks' operating costs. From a financial stability perspective, it is thus positive that Austrian banks have used their high profits of 2023 to build up risk buffers. The OeNB recommends that banks further strengthen financial stability by taking the following measures:

- Continue to safeguard or, where appropriate because of exposed business models, the risk situation or the current capitalization, further strengthen the capital position by exercising restraint regarding profit distributions (i.e., dividend payments and share buybacks).
- Adhere to sustainable lending standards for residential as well as commercial real estate (CRE) financing and prepare for higher risk weights for CRE loans as defaults increase.
- Ensure adequate credit and interest rate risk management practices, including higher provisioning and conservative collateral valuations.
- Ensure sustainable profitability by
  - maintaining cost discipline and
  - investing in new information technologies as well as protection against cyber risks and the impact of climate change.

[2] *A sustainable loan has a loan-to-collateral ratio of up to 90%, a debt service-to-income ratio of up to 40% and a maturity of up to 35 years.*

Austrian economy in a moderate recovery, while CESEE economies are cooling down

Declining inflation drives moderate economic recovery in Austria[1]

GDP will grow by 0.3% in 2024, by 1.8% in 2025, and by 1.5% in 2026, according to the OeNB's June 2024 Economic Outlook for Austria.

The risks to the growth forecast are balanced. Geopolitical tensions and Austria's dependence on Russian gas represent downside risks, while a stronger recovery in domestic demand represents an upside risk.

The Austrian economy was in recession in 2023. This was due to persistently high inflation, the very weak external economic environment and the resulting poor sentiment.

The OeNB expects the economy to stabilize in 2024. Private consumption is recovering due to a significant rise in real wages, and exports are also contributing positively to economic growth. Gross fixed capital formation, by contrast, will shrink again. High financing costs and poor profit expectations are dampening investment in residential construction and equipment, which is very sensitive to economic cycles. The OeNB's Economic Indicator signals slight quarter-on-quarter growth of 0.3% for the second quarter of 2024 and 0.4% for the third quarter. In 2025 and 2026, the economy is forecast to grow by 1.8% and 1.5%, respectively, amid an improvement in the external economic environment, but above all due to very strong growth in real consumption.

The labor market is proving resilient to the crisis. After the unemployment rate rises slightly to 6.7% (national definition) in 2024, it will be down at 6.3% again in 2026.

In 2024, the public budget balance will deteriorate to –3.1% of GDP (2023: –2.7%) and thus slightly exceed the Maastricht limit. The main reason for this is the delayed impact of the inflation shock on public finances. While deteriorating further in 2025, the budget balance will improve again to

Table 1

OeNB June 2024 Economic Outlook for Austria – main results

	2023	2024	2025	2026
	Annual change in % (real)			
Gross domestic product (GDP)	–0.7	0.3	1.8	1.5
Harmonised Index of Consumer Prices (HICP)	7.7	3.4	2.7	2.5
	%			
Unemployment rate (national definition)	6.4	6.7	6.5	6.3
	% of nominal GDP			
Current account balance	2.7	2.8	2.9	2.9
Budget balance	–2.7	–3.1	–3.3	–3.0
Government debt	77.8	77.3	77.6	78.2

Source: 2023: Statistics Austria; 2024 to 2026: OeNB June 2024 outlook.

[1] *This text is based on Fritzer et al. 2024. Economic outlook for Austria – Declining inflation drives economic recovery. OeNB Report 2024/7.*

–3.0% in 2026. The debt ratio falls to 77.3% of GDP in 2024 but is expected to increase in the following years, to reach 78.2% in 2026.

HICP inflation is expected to fall by more than half, to 3.4% in 2024 (7.7% in 2023), according to the OeNB's June 2024 Economic Outlook for Austria. In 2025 and 2026, the inflation rate will edge down further, to 2.7% and 2.5%, respectively.

The core inflation rate, i.e. HICP inflation excluding energy and food, will also drop significantly, to 4.2% in 2024, 2.9% in 2025 and 2.6% in 2026. It will, however, remain above HICP inflation over the entire forecast horizon. From 2024 to 2026, both overall inflation and the core inflation rate will therefore remain well above their long-term averages (from 2011 to 2019: 1.9% and 2.0%, respectively).

The risks to the inflation forecast are on the upside. Geopolitical tensions, Austria's dependence on Russian gas and a stronger recovery in domestic demand could lead to stronger-than-expected inflation.

The decline in the inflation rate in 2024 is attributable to all main components of the HICP, but above all to industrial goods excluding energy as well as energy and food. This is due to weak demand and falling producer prices. In addition, household energy prices are expected to go down further in the second half of 2024. In the case of services, the dynamic development of wage costs is counteracting a stronger decline in the inflation rate.

Fiscal measures primarily influence energy and service inflation. At the beginning of 2025, the expiry of fiscal policy measures (electricity price brake, reintroduction of the electricity and natural gas levy, reintroduction of the renewables levy) and the increase in the CO2 price will raise the HICP inflation rate by around 0.6 percentage points. The cap on rent increases implemented by the government in August 2023 and the suspension of the fee adjustment will slightly reduce service inflation in 2024 and the following years.

Austria's inflation difference to the euro area narrowed substantially during recent months. The inflation differential between Austria and the euro area average was 2.3 percentage points on average in 2023. In May 2024, the inflation differential was only 0.7 percentage points. The decline is primarily attributable to energy, but also to industrial goods excluding energy. In 2025 and

Table 2

OeNB June 2024 Economic Outlook – inflation

	2023	2024	2025	2026
	Annual change in %			
HICP inflation	7.7	3.4	2.7	2.5
Food	10.0	4.0	3.5	2.3
of which: unprocessed food	*7.6*	*2.3*	*2.7*	*x*
of which: processed food	*10.6*	*4.4*	*3.7*	*x*
Industrial goods excluding energy	6.4	1.6	1.3	x
Energy	6.9	–4.7	–0.5	2.6
Services	7.8	5.7	3.7	x
HICP excluding energy	7.8	4.2	3.0	2.5
HICP excluding energy and food	7.3	4.2	2.9	2.6

Source: 2023: Statistics Austria; 2024 to 2026: OeNB June 2024 outlook.

2026, the inflation differential will return to the long-term average (2011–2019) of 0.6 percentage points. One reason for the normalization of the inflation differential is the pass-through of lower wholesale prices for household energy to end consumers. Furthermore, services inflation will decline significantly in 2025 and contribute to the narrowing of the inflation gap.

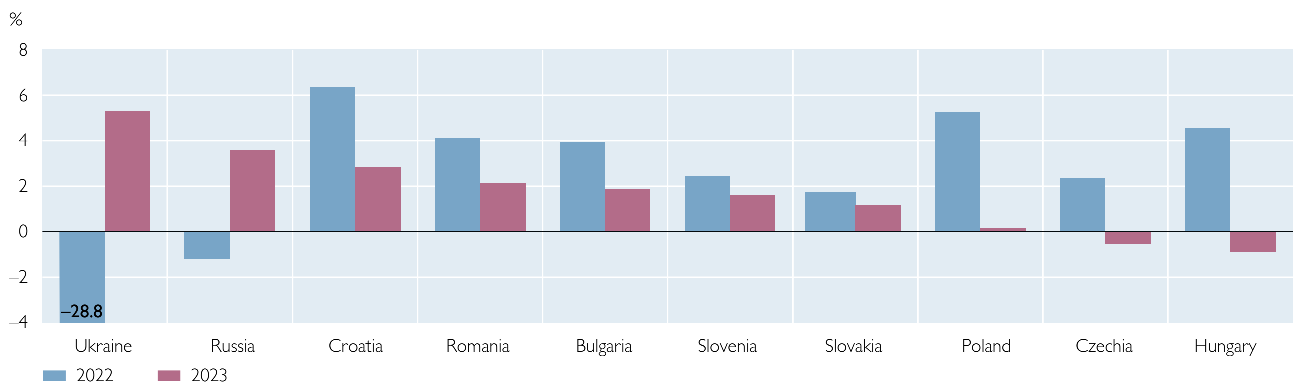
CESEE economies within the EU cool down, while economic growth in Ukraine and Russia recovers moderately from the war-induced slump

Real economic growth in the EU member states of Central, Eastern and Southeastern Europe (CESEE) fell significantly in 2023, averaging a subdued 0.4% in the region. In 2022, real economic growth had still amounted to 4.1%. Weak economic dynamics were mainly due to the effects that Russia's invasion of Ukraine had on (energy) prices, sentiment and the broader international environment. The region's vital industrial sector went into recession in early 2023 amid rising energy bills, lower international demand and a large-scale depletion of partly pandemic-related stocks. Consequently, exports contracted, and imports shrank even more. Declining real import demand reflected weak private consumption. Consumers were less able to spend because of high inflation rates eating into real incomes. Also, they were less willing to spend, as sentiment soured to levels last observed at the peak of the COVID-19 pandemic. In the second half of 2023, however, we saw some improvement among households. Wage growth accelerated and consumers became less pessimistic about their economic situation. This positive trend was based, among other things, on the resilience of the region's labor markets. They mastered the growth slowdown with virtually no increase in unemployment. To the contrary, companies frequently reported labor shortages throughout the economy. Robust investment spending likewise helped avoid an even sharper decline in GDP dynamics. The CESEE EU member states recorded increasing inflows of foreign direct investments and EU funds.

The wave of inflation observed in the CESEE EU member states from mid-2021 peaked at the beginning of 2023. The average inflation rate fell from peaks of over 16% to close to 4% in February 2024. The decrease was strongly influenced by declining energy and food price inflation. The disinflationary

Chart 1

Real GDP growth in CESEE



Source: Eurostat, national statistical offices, wiiw.

process, however, was much broader based and encompassed large parts of the consumption basket. In February 2024, some 80% of all items within the HICP reported falling inflation rates. These trends were based on three factors: First, weaker cyclical demand pressures and inflation expectations supported the restrictive monetary policy stance. Second, declining producer and commodity prices were slowly feeding through the price chain. Third, upstream price pressures generally decreased and external supply shocks faded.

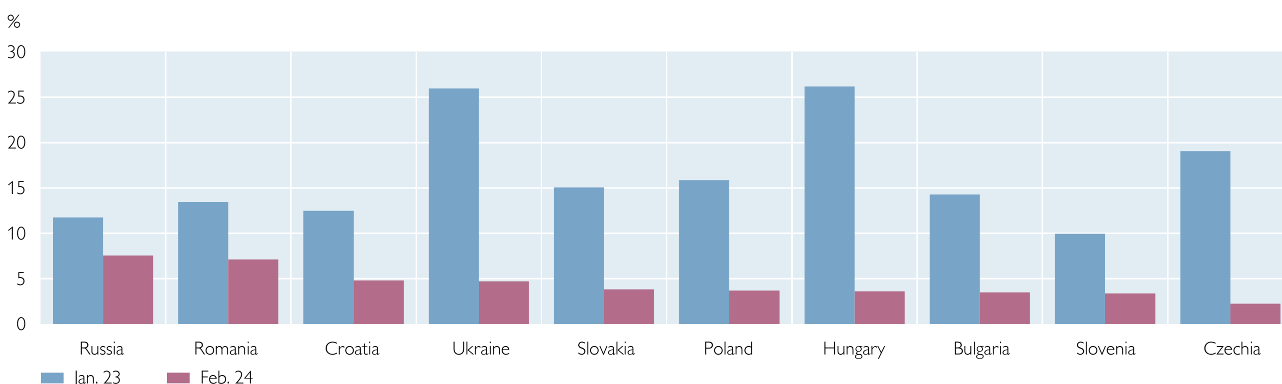
This enabled the region's central banks to end their interest rate hike cycles, with some central banks initiating a turnaround. In Hungary, the effective policy rate was reduced from 18% at the beginning of 2023 to 8.25% in April 2024. In Poland, the policy rate was lowered from 6.75% to 5.75% in the same period, and in Czechia, it was cut from 7% to 5.75%. By February 2024, inflation rates in all three countries had returned to their respective target rates.

Ukraine's economy recovered and grew by 5.3% in 2023, after GDP had contracted by 28.8% in the first year of the war. Remarkably, the recovery clearly exceeded earlier projections. Better-than-expected growth was due to a strong harvest, a rather stable situation in the energy sector as well as the establishment of export routes. In general, loose fiscal policy supported domestic demand: investments were underpinned, among other things, by defense spending and reconstruction, consumer demand through social programs and military allowances. Wage growth in the private sector also backed private consumption, while the private sector in turn contributed to soaring investment growth. Ukraine's success in creating its self-managed Black Sea corridor facilitated exports not only of grain, but also of other goods.

Nonetheless, the Ukrainian economy continues to deal with an immense burden as a result of Russia's aggression. First, the energy infrastructure is exposed to constant threats. Second, labor supply is constrained due to migration and mobilization. Third, the public deficit is deeply in the red, which reflects high expenditure needs and revenue losses. External financial support, however, helps build up international reserves and – in tandem with high real interest rates – stabilizes the foreign exchange market. A further considerable disinflation was brought about by an only moderate depreciation of the hryvnia, a

Chart 2

Inflation in CESEE



Source: Eurostat, wiiw.

good harvest, lower global energy prices and a moratorium on raising some utility tariffs.

The Russian war economy drove up output growth to 3.6% in 2023. Substantially rising budgetary outlays, a sharp increase in consumer spending and growing capital expenditure contributed to accelerating growth in the second half of 2023. Hence, the recovery rested on booming war-driven armaments production, rising household incomes and dynamic lending. The economy has clearly been showing signs of overheating, however. The unemployment rate declined to below 3% in early 2024, i.e. a new post-Soviet record low, and real wages reached record levels. This indicates a very tight labor market saddled with persisting shortages of skilled staff. Price growth was fueled by this as well as swelling consumer demand, the expansionary fiscal stance and the substantial decline of the ruble. By February 2024, inflation had moved up to 7.7%, after having declined to 2.3% in April 2023. The monetary authority reacted energetically with a series of tightening steps, bringing the key rate from 7.5% in June 2023 to 16% in April 2024 – a level more than twice as high as ten months earlier.

Austrian banks generated record profits in 2023, but loan defaults are increasing

The size of the Austrian banking sector remained largely constant

The size of the Austrian banking sector remained fairly constant in the course of 2023. The Austrian banking sector's total assets rose by 1% to just above EUR 1.2 trillion during 2023. However, in relative terms, the sector continued its downward trend, recording a minor reduction to 255% of Austrian GDP at end-2023. The biggest three banking groups – Erste Group Bank, Raiffeisen Bank International and UniCredit Bank Austria – accounted for more than half of total banking sector assets. This fact underpins the continuing concentration.

Box 1

Macroprudential measure: The capital buffer for other systemically important institutions (O-SII buffer)

The O-SII buffer addresses the risk that a large, complex and interconnected bank fails. *Through direct and indirect contagion, a potential failure of a bank can create losses and liquidity stress for other banks. A failure can also cause severe repercussions for the real economy as borrowers hasten to find substitutes and the smooth functioning of the payment infrastructure may be jeopardized. The O-SII buffer addresses these risks that are commonly labeled as too-big-to-fail risk.*

The O-SII buffer requires systemic banks in Austria to hold additional common equity tier 1 (CET1) capital with a view to lowering their probability of failure. *In the yearly process of identifying systemically relevant banks and their respective buffer levels, the OeNB pays particular attention to a relevant contagion channel that works through loss sharing in deposit guarantee schemes (DGSs). Banks with a high share of covered deposits are therefore considered systemically relevant. Also, banks can be systemically relevant on a solo or a consolidated basis. Currently, ten banks or banking groups must hold an O-SII buffer, with additional CET1 requirements ranging from 0.25 percentage points to 1.75 percentage points. Totaling EUR 4.2 billion, the O-SII buffer is the largest macroprudential buffer that has been activated in Austria.*

Monetary tightening led to a reshuffling of the funding structure. The increase in consolidated total assets was driven by an upsurge in debt securities holdings and lending to companies. In contrast, the ECB's monetary tightening led to lower deposits from and falling cash balances at central banks. The repayment of deposits from central banks was primarily financed by the issuance of debt securities (see table 3). The total amount of nonbank deposits increased marginally in 2023. Depositors did, however, switch from sight to term deposits due to higher interest rates for the latter.

Austrian banks' balance sheets have a high share of variable interest rate positions. The balance sheet of the Austrian banking sector is marked by a comparatively high share of variable interest rate assets. The same is true for its liabilities, given that demand deposits – which generally have variable interest rates – are reported with an "undefined" interest structure (see chart 3). Compared to the EU, Austrian banks consequently have higher shares of variable interest rates, both on the assets and the liabilities side. It is, however, possible to alter the

ultimate interest structure of balance sheets by using derivatives. As the share of demand deposits remains high in Austria, the maturity of liabilities is rather short (see chart 4).

Table 3

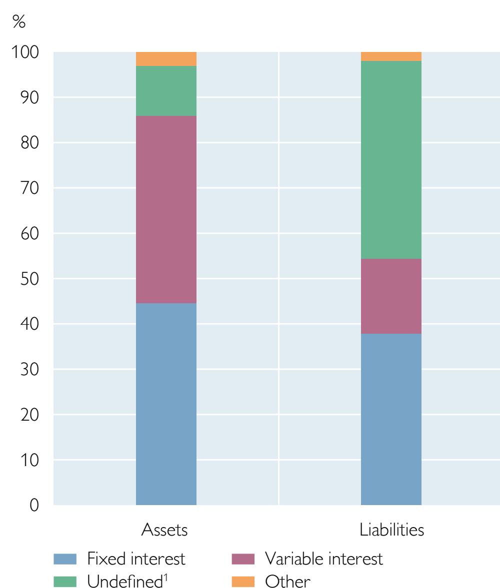
Balance sheet of the Austrian banking sector

	End-2020	End-2021	End-2022	End-2023	2023 vs. 2022	
	Consolidated figures in EUR billion or %				*%*	*EUR billion*
Cash and cash balances at central banks	164	186	161	152	–5.8	–9.3
Loans and advances	752	787	814	820	0.7	6.1
Debt securities	134	138	146	164	12.0	17.5
Equity instruments	9	9	9	10	7.2	0.6
Tangible assets	12	24	11	13	18.1	2.0
Intangible assets	3	3	3	3	2.1	0.1
Investments in proportionally consolidated subsidiaries	21	23	23	25	9.2	2.1
Other assets	42	27	32	30	–7.3	–2.4
Deposits of central banks	74	96	63	25	–60.8	–38.3
Deposits of credit institutions	102	106	106	113	6.0	6.4
Deposits of nonbanks	656	686	709	717	1.0	7.4
Debt securities issued	153	152	163	195	20.2	32.9
Provisions	13	14	12	12	0.2	0.0
Equity and minority interests	96	101	108	119	9.7	10.5
Other liabilities	43	41	39	37	–5.7	–2.2
Total assets/liabilities	1,136	1,197	1,200	1,216	1.4	16.7

Source: OeNB.

Chart 3

Interest structure of the balance sheet of the Austrian banking sector



Source: OeNB.

[1] *"Undefined" includes demand deposits.*

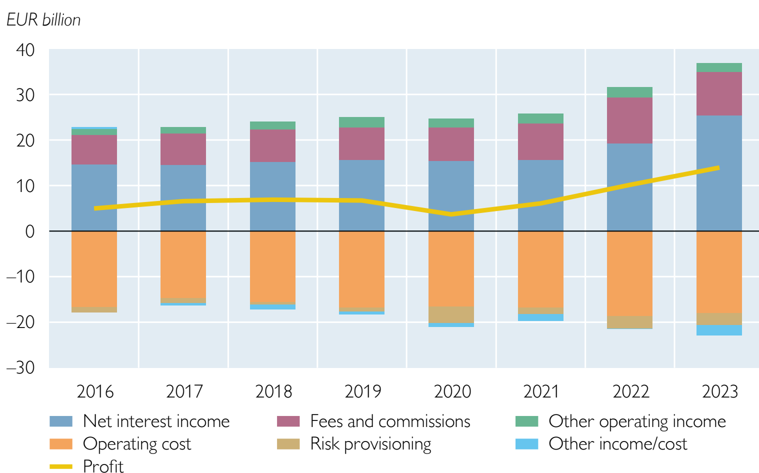
Chart 4

Maturity structure of the balance sheet of the Austrian banking sector

Source: OeNB.

Chart 5

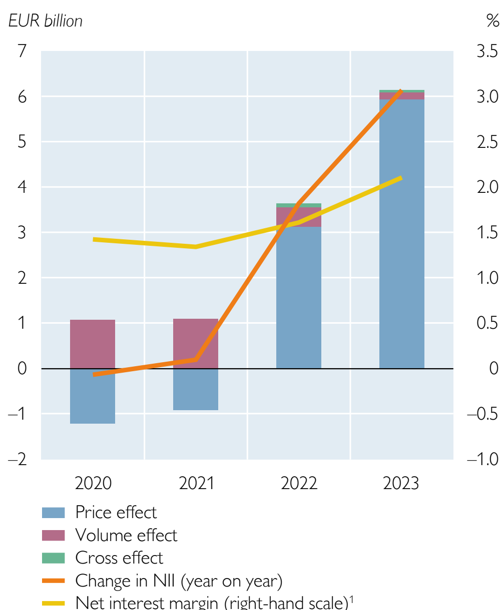
Austrian banking sector: Profit and loss statement



Source: OeNB.

Chart 6

**Austrian banking sector:
Drivers of net interest income (NII)**



Source: OeNB.

[1] Net interest income to average total assets.

The domestic business of Austrian banks shrank slightly in 2023, whereas foreign activities flourished. Loans to Austrian companies, while still posting a growing volume, could not completely offset the decline in central bank holdings and loans to households in 2023. Hence, domestic business contracted slightly. At the same time, foreign exposures – that account for around 40% of assets – grew by more than EUR 17 billion, mainly driven by expansions in neighboring countries like Czechia, Germany, Slovakia and Hungary.

Austrian banking sector reached record profit

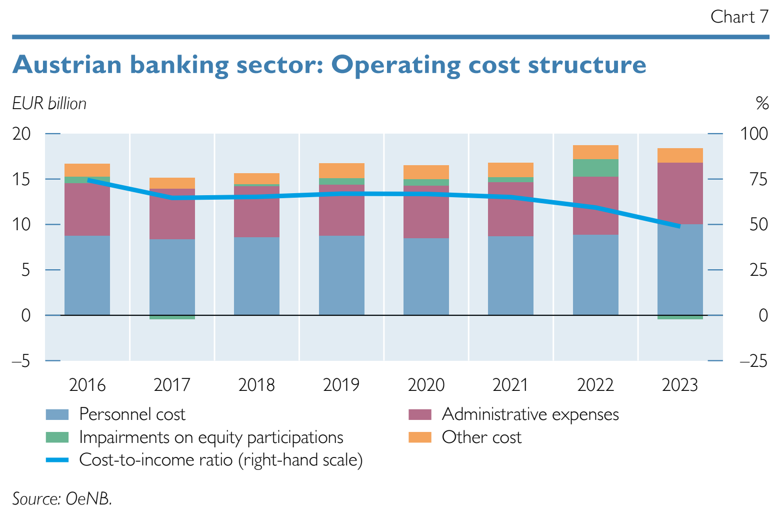
The Austrian banking sector earned EUR 14 billion in 2023. This latest increase in profit was mainly driven by domestic business and a substantially higher net interest margin. Rising policy interest rates on deposits in risk-free overnight central bank accounts also contributed to banks' profitability. In an environment marked by rising interest rates, the sector's net interest income expanded by more than 30% to EUR 25 billion (see chart 5). This single-handedly boosted operating income by 17% year on year to EUR 37 billion, despite fees and commissions income falling by 6%. Given that operating costs declined, the cost-to-income ratio dropped by 10 percentage points to 49%, for the first time ever reaching a level below 50%. The operating profit thus came to EUR 19 billion. As risk provisioning remained stable year on year, profits rose by 37% to EUR 14 billion. However, the increase was also supported by rising policy interest rates on deposits in risk-free overnight central bank accounts.

The Austrian banking sector's net interest income (NII) continued its strong growth, predominantly driven by a margin expansion. In 2023, the Austrian banking sector managed to raise its consolidated net interest margin

by half a percentage point to 2.1%. This was due to the interest structure of banks' balance sheets (see chart 3 above) and the varying speed of rate pass-throughs on variable rate loans and deposits as well as some depositors' stickiness. With average total assets remaining fairly stable during the year, nearly the entire boost to banks' NII came from higher pricing. Chart 6 shows that during and shortly after the pandemic, price pressures weighed on NII in a very low interest rate environment and net new lending played a counterbalancing role. The picture reversed as rates rose in 2022 and 2023, when a higher net interest margin took over as the driver of higher operating income.

Chart 7

Austrian banking sector: Operating cost structure



Source: OeNB.

Rising cost for staff and non-recurring impairments on equity participations marked the development of operating expenses in 2023. Personnel cost accelerated by 13% year on year, as wage increases started to catch up with inflation. Administrative expenses rose by 5%. The biggest cost swing occurred in impairments on equity participations: one-off costs of EUR 1.9 billion in 2022 reversed to a minor write-up in 2023 (see chart 7). Consequently, operating costs fell by 4% to EUR 18 billion. Driven by strong NII, the cost-to-income ratio dropped to a historic low of 49%.

The environment of rising net interest margins and very low credit risk costs may not last. Austrian banks profited from rising incomes from the automatic repricing of variable rate loans. Moreover, low unemployment and the post-pandemic recovery kept provisioning low. However, the net interest margin will fall again if interest rates on loans start to decline and depositors lock in comparatively high rates.[2] At the same time, lagged effects of tighter monetary policy may affect the macroeconomic situation further. This may, in turn, lead to more nonperforming loans. Also, wage increases are likely to continue to exercise pressure on operating costs.

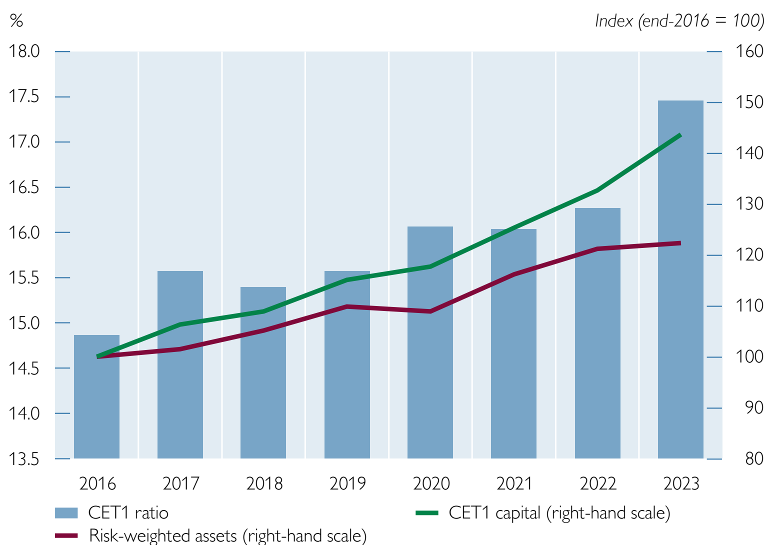
The return on equity (RoE) of the Austrian banking sector was 15.7% in 2023. A simple analysis highlights the sensitivity of banks' profitability, however. An RoE of 15.7% equaled the highest yearly level of the Austrian banking sector since 2008, when the global financial crisis started.[3] This strong result was driven by several factors: (1) an operating income margin (OIM) of slightly above 3%, (2) a cost-to-income ratio (CIR) of just below 50%, (3) provisioning that only cost 14% of the operating profit (before risk) and (4) leverage

[2] *The OeNB's transparency platform "Sparzinsen Österreich" provides an overview of deposit rates offered by Austrian banks. The platform is meant to support households' financial decisions. For further information, please refer to https://www.oenb.at/Statistik/sparzinsen-oesterreich.html (in German only).*

[3] *Here, equity refers to regulatory tier 1 own funds, i.e. not balance sheet equity or market capitalization. The RoE strongly depends on leverage and is most commonly used by shareholders, while financial stability analysts often prefer assessing a banking system's profitability by using the unlevered return on assets.*

Chart 8

CET1 ratio of the Austrian banking sector



Source: OeNB.

Note: All data points are as at year-end.

of 13 times.[4] Each of these parameters can be altered to simulate profitability paths. Currently, the most relevant scenario is one of a falling OIM and rising risk costs. Based on 2020 as a worst-case scenario, the OIM was at a low 2.3% and risk costs were elevated, i.e. they consumed 45% of the operating profit before risk. When we keep all other profitability drivers at their 2023 levels, the 2020 scenario would yield an RoE of 7.5%. Note that the RoE of EU banks was slightly below 7% in 2022, according to the ECB. The result of 7.5% for the Austrian banking sector is likely to be positively biased: the CIR would very likely deteriorate from today's solid levels, as, under strong margin pressure, costs are likely to prove stickier than income.

Record profit boosted capitalization

Due to a record profit in 2023, Austrian banks' common equity tier 1 (CET1) ratio climbed to 17.5%. The CET1 capital of the Austrian banking sector increased by more than EUR 7 billion in 2023, although banks released reserves and faced a further fall of their other comprehensive income. But these two negative effects were more than offset by an increase in retained earnings of over EUR 9 billion. As risk-weighted assets stagnated, the CET1 ratio of the Austrian banking sector reached 17.5% at end-2023 (see chart 8).

The consolidated leverage ratio of the Austrian banking sector improved to 8.4% at the end of 2023. Besides the CET1 ratio, the leverage ratio is one of the major elements of the Basel III framework and its implementation in the EU. The leverage ratio serves as a prudential backstop. It sets a bank's regulatory tier 1 capital in relation to its on-balance and off-balance sheet total exposure. Unlike risk-based capital requirements like the CET1 ratio, individual exposures are not risk weighted for the purposes of the exposure measure. The leverage ratio's aim is, inter alia, to counteract the fundamentally cyclical effect of risk-based capital requirements. As a supplementary, it is meant to ensure a minimum level of capital, thus having a backstop function. As CET1 capital increased in 2023, the leverage ratio of the Austrian banking sector rose to 8.4% at end-2023 (+37 basis points year on year).

[4] *For the sake of simplicity, the impact of other profit or the tax rate are excluded, as they concern non-core business areas and a (mostly) external factor. For further details on this type of DuPont analysis, see Gruber et al. 2017. What drives Austrian banking subsidiaries' return on equity in CESEE and how does it compare to their cost of equity? In: Financial Stability Report 33. OeNB. 78–87., as well as Gruber and Kavan. 2022. DuPont reloaded: the profitability of the Austrian banking sector and the impact of the COVID-19 pandemic. In: Financial Stability Report 44. OeNB. 79–87.*

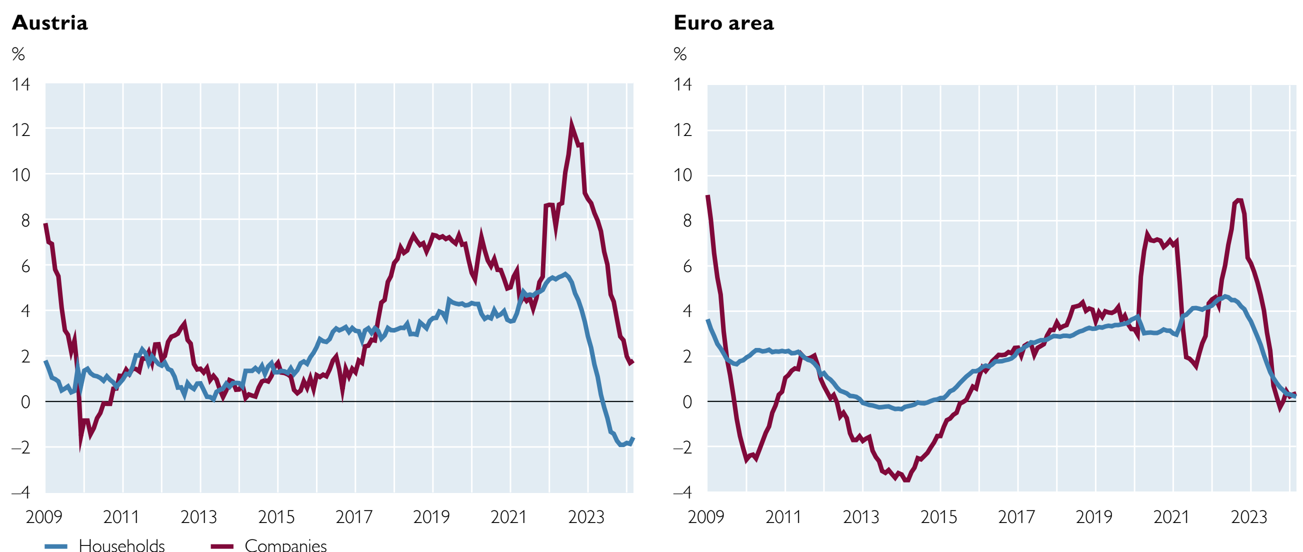
The capitalization of Austria's largest banks surpassed that of their European peers, after years of trailing the average in the Single Supervisory Mechanism (SSM). Given current uncertainties, however, Austrian banks should continue to safeguard or, where appropriate, further strengthen their resilience. Austrian significant institutions (SIs) increased their CET1 ratio to 16.0% in the last quarter of 2023, surpassing the SSM average of 15.7%. Over the last two years, their leverage ratio had increased steadily, reaching 7.4% at the end of 2023 (SSM average: 5.8%). Nevertheless, given macroeconomic and geopolitical uncertainties, banks should continue to safeguard or, where appropriate, further strengthen their resilience.

Credit growth weakened further and loan defaults started rising

Loan growth in Austria lost further momentum in 2023, with real estate lending growth turning negative in mid-2023. Demand for corporate loans in Austria continuously declined in 2023 and the first quarter of 2024. This was mainly influenced by three factors: First, short-term financing requirements for inventory and operating resources abated. Second, the decrease in long-term financing needs for fixed investments persisted. The third factor were rising interest rates. In particular because of the latter demand for loans to households diminished. Chart 9 shows annual growth rates of bank loans to households and corporations in both Austria and the euro area. It is evident from both panels that momentum in bank lending faded from mid-2022. But in Austria, the decline was more pronounced. This holds true especially for loans to households, which contracted for lack of demand for residential real estate (RRE) loans. Lending to Austrian companies still expanded, however. Growth remained above the euro area level, despite the plunge in both the supply of and demand for loans to the real estate industry.

Chart 9

Annual loan growth in Austria and the euro area



Source: ECB.

Note: Data up to and including March 2024.

Box 2

Macroprudential measure: The countercyclical capital buffer (CCyB)

The CCyB serves to meet the intermediate objective of mitigating and preventing excessive credit growth. *The activation of the CCyB depends on risks related to excessive credit growth. Vice versa, the designated authority can lower the CCyB in times of crisis to bolster banks' risk-bearing capacity. This macroprudential instrument is therefore an effective tool to mitigate (1) excessive credit growth in boom phases and (2) overshooting credit tightening in a downturn.*

The CCyB has been kept at 0% in Austria since 2015. *The Financial Market Stability Board (FMSB) has consistently recommended to keep the rate at 0%. The recommendation has been based on the lead indicator for the buffer application, notably the credit-to-GDP gap. This indicator accounts for the difference between the credit-to-GDP ratio and its trend. Over the past two years, the credit-to-GDP gap has remained well below the critical threshold of 2 percentage points.*

Triggered by major bankruptcies in the commercial real estate sector, Austrian banks' overall loan quality started to deteriorate in late 2023. The Austrian banking sector had observed declining or stable NPL ratios for years. In the last quarter of 2023, an increasing number of insolvencies triggered a deterioration in the quality of the loan portfolio. To be precise, the commercial real estate sector recorded major bankruptcies. In Austria, the fall in quality was more pronounced than in other European countries. At the end of 2023, the consolidated NPL ratio of the Austrian banking sector increased to 2.6%, having stood at around 2% since 2021. Compared to its peak of nearly 7% in 2015, however, 2.6% is still moderate. The increase was particularly distinct in the corporate loan portfolio (see chart 10), especially for loans to commercial real estate (CRE) companies and small and medium-sized enterprises. At a sectoral level, the deterioration in credit quality was most pronounced in the real estate and construction sectors. At end-2023, the NPL ratio in these two sectors was 3.3% (+2.4 percentage points year on year) and 6.3% (+3.5 percentage points year on year). At the same time, the NPL ratio for loans to households remained stable, thanks to low unemployment and falling indebtedness coupled with improved lending standards.[5]

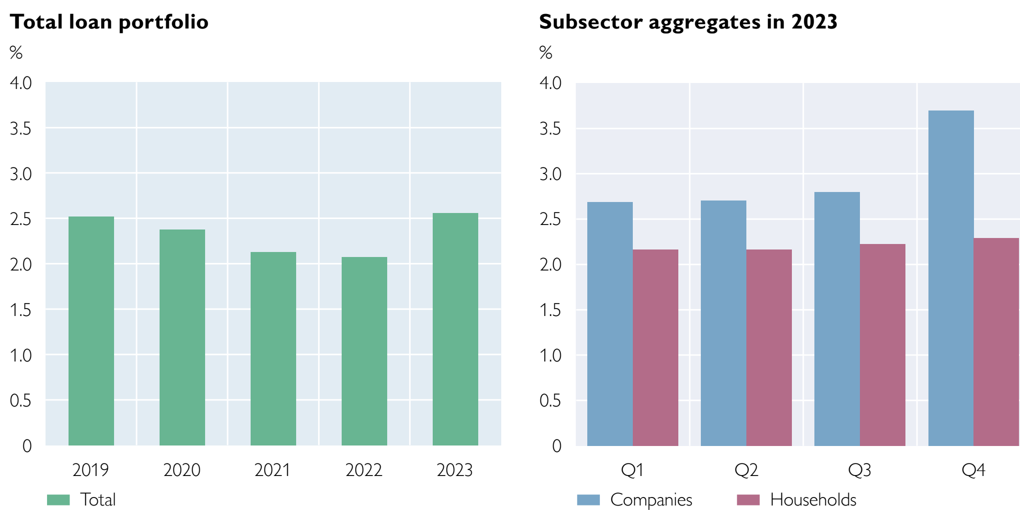
At Austrian banks, new nonperforming loans are crowding out legacy NPLs amid rising volumes. At the same time, the coverage with provisions has been falling. Austrian banks continued reducing legacy NPLs, i.e. loans that have been nonperforming for at least two years. In contrast, the share of newer NPLs is continuously increasing. Austrian banking groups that report under the IFRS regime[6] reported a net NPL increase of more than EUR 3 billion. The NPL volume of all Austrian banks reached EUR 21 billion at end-2023. At the same time, Austrian banks only cautiously provisioned for loan losses in 2023. The percentage of NPLs covered with provisions therefore fell to nearly 40%, with even lower figures for CRE and RRE loans. Therefore, banks should reinforce loan

[5] *In 2023, household debt (relative to net disposable income) continued to fall, dropping to 81%. At the same time, corporate debt (relative to gross operating surplus) rose slightly to 437%. For time series, see the key financial indicators in the annex.*

[6] *IFRS stands for international financial reporting standards.*

Chart 10

Consolidated NPL ratios of the Austrian banking sector



Source: OeNB.

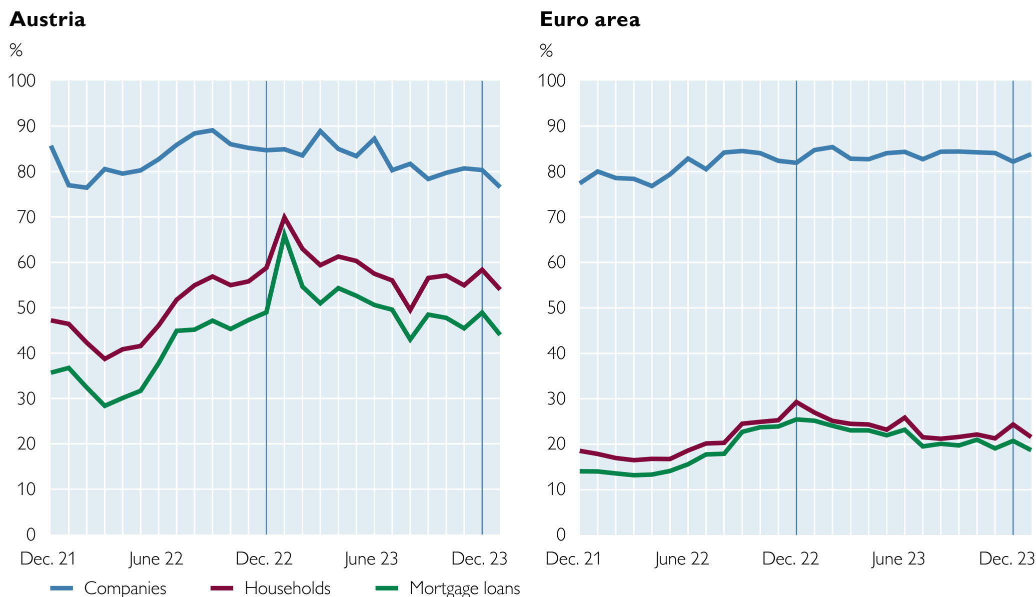
loss provisioning in times of high profitability as credit quality is expected to deteriorate further.

The decline in Austrian banks' loan quality in 2023 was more pronounced than in other European countries. The deteriorating credit quality faced by Austrian banks was, among other things, driven by a weak macroeconomic environment. In Austria, the fall in credit quality was more pronounced than in other European countries. Within the euro area, Austrian significant institutions showed the second-highest increase in NPL ratios after Luxembourg. The SSM average stagnated in 2023, as southern European countries like Greece, Portugal and Italy even reported loan quality improvements.

Although the trend to variable interest rate loans reversed in 2023, their high share poses a challenge. Although the proportion of variable rate loans in new RRE lending fell in 2023, it still amounted to around 44% at the beginning of 2024 (see chart 11). This is well above the euro area average of 19%. In Austria, this share remained high, although interest rates for variable rate loans exceeded those for fixed rate loans. This suggests that market participants expect falling rates. The situation warrants close monitoring, as variable rate loans carry additional credit risk for the banking system.

Chart 11

Share of variable interest rate loans in total new lending



Source: ECB.

Note: Data up to January 2024.

The volume of foreign currency loans continued to decline sharply, and the remaining stock is small. In March 2024, the volume of outstanding foreign currency loans extended to Austrian households stood at EUR 7.1 billion, down 17% year on year (exchange rate adjusted). Their share dropped to 4%. Foreign currency loans are almost entirely denominated in Swiss francs. In October 2008, the Austrian Financial Market Authority (FMA) recommended that banks refrain from granting new foreign currency loans to households. Since then, their volume has shrunk by EUR 32 billion or 87%, as adjusted for exchange rate effects. Austrian banking subsidiaries in CESEE also continued reducing their foreign currency loans to households. In 2023, their volume fell by 48% to EUR 4.5 billion, as adjusted for exchange rate effects (21% adjusted for the effect of Croatia's introduction of the euro). The percentage of foreign currency loans in total loans dropped to 5.3%. The lion's share (81%) of these loans is denominated in euro.

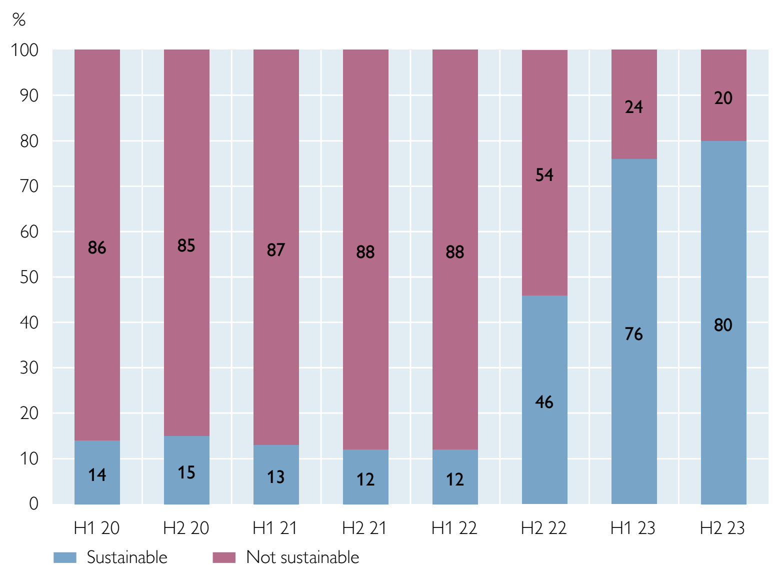
Macroprudential measures for residential real estate (RRE) lending continue to be effective

The significant improvement in lending standards demonstrates the effectiveness of the respective KIM-V regulation. Given that systemic risks from RRE financing are elevated (see below), the regulation for sustainable lending standards for residential real estate financing (KIM-V) continues to be an important instrument for ensuring sustainable lending. Sustainable lending means that loans

have (1) a loan-to-collateral ratio[7] of 90% at most, (2) a debt service-to-income ratio that is not higher than 40% and (3) a maximum maturity of 35 years. Since such standards increase the quality of banks' mortgage loan portfolios, they also contribute effectively to raising banks' resilience. Chart 12 shows that, following the introduction of the KIM-V in August 2022, the share of sustainable loans increased substantially, namely more than sixfold, from 12% in the first half of 2022 to 80% in the second half 2023.

Chart 12

Share of sustainable loans in new lending volume



Source: OeNB.

Note: Loans that are not clearly assignable are classified as sustainable.

A large part of exemptions from the KIM-V lending standards remained unused in 2023. This underpins that the regulation does not limit lending to households. In the first half of 2023, 50% of all banks did not even use half of the exemption volume available to them (see chart 13). In the second half, the same was true for 45% of all banks. As a result, banks did not use approximately EUR 1 billion of possible exemptions. Each bank has a theoretical exemption volume of 20%. However, effective exemptions do not correspond to only 20% of the new lending volume for various reasons. First, further exemptions apply, such as a minimum exemption volume of EUR 1 million per bank. Second, banks may choose the reference period (previous or current period). And third, bridge loans and small loans[8] are exempted. In the end, effective exemptions accounted for 42% of the new lending volume in the first half of 2023, and for 33%[9] in the second half. In an international comparison, the KIM-V thus provides generous exemptions. The large share of unused exemptions indicates that the decline in the lending volume is due to low demand for new loans. The latter is primarily attributable to the increase in interest rates. This finding is consistent with observations in other euro area countries, where new lending volumes exhibit similar developments. In addition, Austrian banks have given the increase in interest rates as the main reason for the decline.[10]

[7] *Previously referred to as loan-to-value ratio. The term "loan-to-collateral ratio" is more precise, however. In the formula used to calculate the ratio, the denominator is the minimum market value of the property minus prior liens or mortgages in the land register plus other collateral eligible under the CRR.*

[8] *Small loans are loans of up to EUR 50,000. Each bank can exempt small loans of up to 2% of their lending volume in the reference period.*

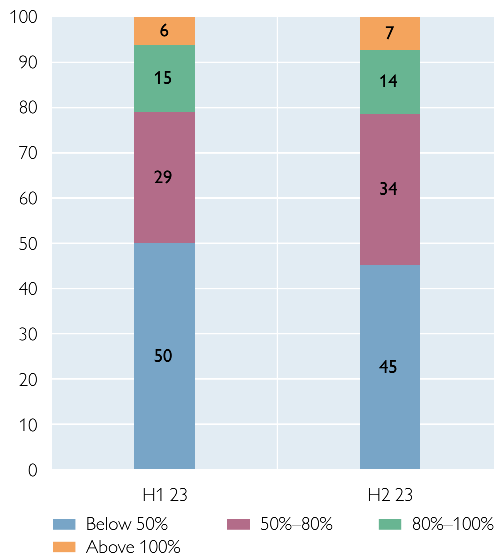
[9] *Effective exemptions are calculated by considering the minimum exemption volume, the reference period, the possible exemption of 2% of small loans per bank as well as all non-sustainable bridge loans in the current period.*

[10] *OeNB Report 2024/4: Bank Lending Survey – Tiefpunkt bei der Nachfrage nach privaten Wohnbaukrediten durchschritten.*

Chart 13

Use of exemptions in 2023

% of banks according to their use of exemptions (not volume weighted)



Source: OeNB.

The necessity of the regulation for sustainable lending standards for residential real estate financing was confirmed in the current macroeconomic environment. Systemic risks from the RRE sector continue to be elevated in light of major macroeconomic changes. The latter include a spike in inflation, a subsequent reduction in disposable real income, interest rate hikes, the reduction in the new lending volume and weaker house price growth. That the KIM-V regulation was necessary, adequate and sufficient to address these systemic risks was confirmed by several institutions: the Constitutional Court of Austria[11], the European Systemic Risk Board[12] and the International Monetary Fund[13].

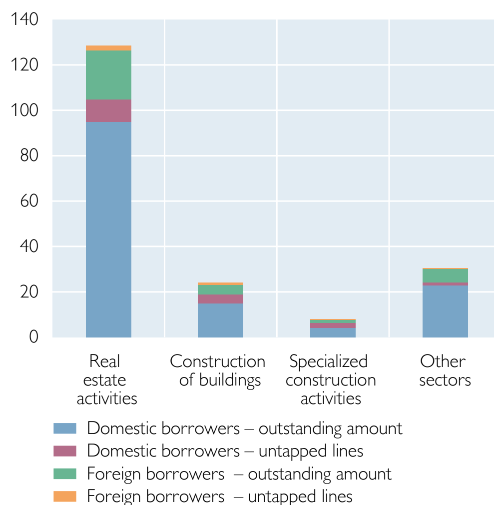
Austrian banks are substantially exposed to commercial real estate (CRE) loans

Both the size of the CRE exposure and its riskiness – measured as high loan-to-value ratios (LTVs) – are well above average in international comparison. Austrian banks are the main providers of CRE funds, mostly in the form of loans. By contrast, other financial intermediaries and the role of market-based finance are less prominent than in other EU member states. CRE loan growth remained robust, despite headwinds from interest rate increases and the macroeconomic downturn. In 2023, CRE loans grew by 4.5%, down from 8.1% in 2022. At end-2023, the total exposure of Austrian banks to CRE loans amounted to EUR 191 billion[14]. CRE loans are particularly concentrated in the real estate

Chart 14

Commerical real estate (CRE) exposure by economic sector

EUR billion



Source: OeNB.

Note: Data as at December 31, 2023.

[11] *See https://www.vfgh.gv.at/medien/KIM-VO.php.*

[12] *See https://www.esrb.europa.eu/news/pr/date/2024/html/esrb.pr240201~2abae96aef.en.html.*

[13] *See https://www.imf.org/en/Publications/CR/Issues/2024/05/10/Austria-2024-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-548775.*

[14] *CRE loans are defined as loans to legal persons that use the loan to buy or construct residential or commercial real estate, plus loans for the real estate activities and construction sectors (the latter excluding civil engineering). The data are sourced from the central credit register/AnaCredit.*

activities sector (EUR 129 billion or 67% of the total). CRE loans to the sectors construction of buildings and specialized construction activities amounted to EUR 24 billion and EUR 8 billion, respectively. The CRE sector in Austria is very heterogeneous and ranges from relatively risky CRE loans to exposures to limited-profit housing associations with low-risk profiles. The latter contributed to approximately 20% of overall CRE loans in Austria. Further, the CRE loan segment in Austria is characterized by a large share of loans with high LTVs. At end-2023, 30% of CRE loans had an LTV above 100% or were unsecured. Both exposures and leverage of CRE loans in Austria are noteworthy in an EU comparison. According to data of the European Central Bank (ECB), the Austrian banking sector's CRE exposure amounts to 13% of its aggregate balance sheet size. By contrast, the overall EU banking system reports a share of 7%.[15] According to data by the European Banking Authority, the share of CRE loans with LTVs above 100% equals 20% for Austrian banks, but only 11% for EU banks.[16]

Chart 15

NPL ratio for commercial real estate (CRE) loans

Source: OeNB.

Note: Data as at quarter-end.

Since the start of the interest rate hiking cycle, overall credit quality in the CRE segment has deteriorated. Various indicators for CRE loans point to worsening credit quality. For instance, NPLs increased substantially, namely from EUR 2 billion at end-2022 to EUR 6.3 billion at end-2023. As is evident from chart 15, the NPL ratio rose from 1.1% (end-2022) to 3.3% (end-2023).[17] The largest increase was observed in the fourth quarter of 2023, when the NPL ratio doubled. Consequently, banks have also increased credit provisioning in this segment: from EUR 1.8 billion (end-2022) to EUR 3 billion (end-2023). Plus, ratings of counterparties engaged in CRE loans have been downgraded. NPL ratios of non-CRE loans to legal persons have moved sideways and, at 0.8% at end-2023, have remained significantly lower. Rising NPLs also reflect the high share of CRE loans that are exposed to rising interest rates; three-quarters of the CRE loan volume exhibit a variable component in interest rates. Additional strain on NPLs is due from a volume of EUR 46 billion of CRE loans that will mature by the end of

[15] *European Central Bank. Statistical Data Warehouse. Consolidated Banking Data. Data as at Q3 2023. CRE loans in this case: mortgage loans to nonfinancial corporations.*

[16] *European Banking Authority. December 2023. Risk Assessment Report of the European Banking Authority. Data as at Q2 2023. CRE loans in this case: loans to nonfinancial corporations that are secured by CRE (i.e. non-RRE) property.*

[17] *The NPL ratio is calculated based on the CRE loan definition relying on central credit register/AnaCredit data. Note that the NPL ratio according to FINREP (i.e. domestic corporate loans secured by non-RRE property) amounted to 4.8% as at end-2023.*

2025. The predominant share of these loans does not have a fixed amortization schedule. Based on data provided by the European Banking Authority,[18] the NPL ratios of CRE loans in Austria do not particularly stand out in an EU comparison. However, relative to their EU peers, Austrian banks are among those with the strongest increase over the course of 2023 – third after Germany and Hungary. Cyclical factors must be considered together with structural factors: remote work and online shopping have been changing the demand for office, retail and logistics properties. Furthermore, the need to adapt to climate-related challenges induces another level of heterogeneity in real estate values.

The OeNB calls upon banks to further shore up their capital levels – to brace for more headwinds in the CRE market. Currently, Austrian banks' profits and capital are large enough to cushion the impact of deteriorating CRE markets. In the face of these risk-absorbing capacities, the bankruptcies of large real estate companies have but limited isolated effects on financial stability. However, the market remains vulnerable to second-round effects arising from contagion via price and confidence channels. Overall, higher NPLs lead to higher risk weights through various channels. The OeNB reminds banks of its recommendation to use the headroom generated by strong profits over the last years to shore up risk provisions and capital cushions in the CRE segment. Banks should also apply caution in determining market values of properties used as collateral and should aim for timely revaluations. Similar calls have been issued by Austria's Financial Market Stability Board and Financial Market Authority as well as the European Systemic Risk Board and the ECB.

Austrian banks adapted funding plans as central banks provide less liquidity

Austrian banks responded to lower liquidity provision by central banks by adapting their funding plans. From 2020 to 2023, banks considerably relied on long-term liquidity from the Eurosystem. Notably, targeted longer-term refinancing operations (TLTRO III) proved an extremely attractive funding source for a maturity of three years. Demand for refinancing operations increased significantly once the conditions of the TLTRO III liquidity-providing operations had been adapted in reaction to the COVID-19 pandemic. The operations expanded to approximately EUR 2.2 trillion in the euro area and EUR 87 billion in Austria. To prepare for the maturing of TLTRO III operations in 2023 and 2024, banks in the euro area adapted their funding plans. They increased their market-based funding, notably in covered bonds (see chart 16).

Chart 16

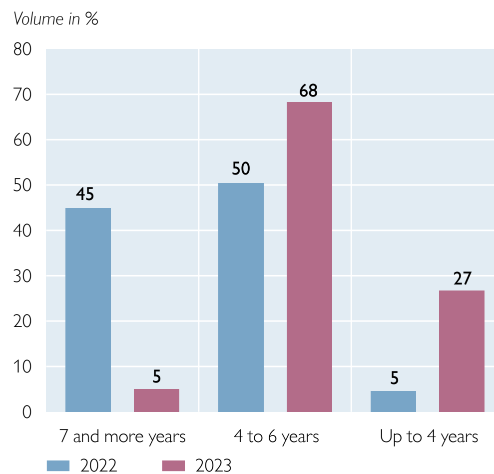
Euro area: Net issuance of covered and senior unsecured bonds (EUR)

Source: OeNB.

[18] *European Banking Authority. Q4 2023. Risk Dashboard.*

Chart 17

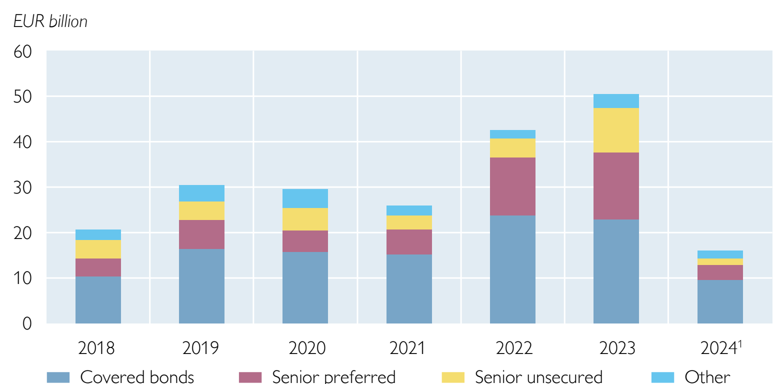
Austrian covered bonds: Issue volume by maturity (2022 vs. 2023)



Source: OeNB.

Chart 18

Issued amount by Austrian banks by security type



Source: Bloomberg.

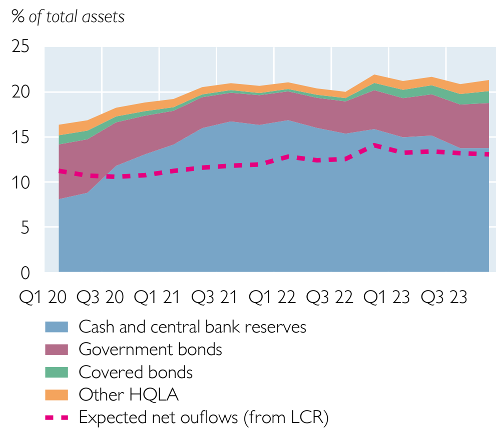
[1] Data for 2024 up to end of April.

In 2022, issuances of Austrian covered bonds reached a new high of EUR 32 billion and remained at almost the same level in 2023. One reason is the new Austrian covered bond act (Pfandbriefe Act) that was enacted in July 2022 and transposed the EU's Covered Bond Directive. This helped boost foreign investors' interest in Austrian covered bonds. Banks also tapped into the asset purchase program (APP) and the pandemic emergency purchase program (PEPP). They anticipated a stop of Eurosystem investments in the covered bond segment and front-loaded their funding plans. APP reinvestments continued until mid-2023, and PEPP reinvestments are due to continue until the end of 2024. This helped neutralize the negative impact that the TLTRO III repayments had on banks' liquidity coverage ratios. Plus, it helped diversify the maturity profiles. A shrinking maturity profile of Austrian covered bond issues was observable in 2023 compared to 2022 (see chart 17). In other words, maturity profile buckets of up to four years accounted for 27% of total issuances, maturities between four and six years for nearly 70%. Maturities of over seven years were reduced from 45% to just 5% of total issuances. In 2023, covered bond issue volumes almost reached the record level of the year before. Notably, banks also diversified their funding structure by raising the share of bonds with other payment ranks, such as senior preferred or senior unsecured bonds (see chart 18).

Monetary tightening caused banks to reshuffle their liquidity positions. The Austrian banking sector's total holdings of high quality liquid assets (HQLA) remained broadly stable in 2022 and 2023, fluctuating around 21% of total assets (see chart 19). What has been changing is their composition, however. Given that the ECB started reducing excess liquidity in the Eurosystem in 2022, cash and reserve holdings have decreased. Banks have substituted them with higher government and covered bond holdings. Despite this shift, central bank liquidity is still the centerpiece of banks' liquid asset holdings. Under the short-term market stress scenario of the liquidity coverage ratio (LCR), central bank liquidity exceeds the aggregate expected net outflows. On the liability side, the relative

Chart 19

High quality liquid assets (HQLA) of the Austrian banking sector

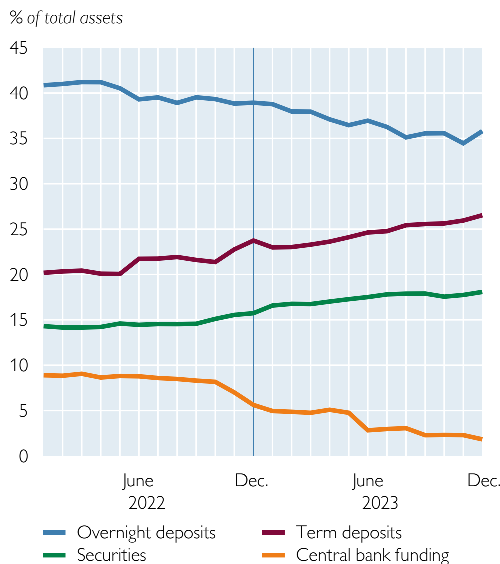


Source: OeNB.

Note: LCR = liquidity coverage ratio.

Chart 20

Liability structure of the Austrian banking sector



Source: OeNB.

importance of overnight deposits and central bank funding has decreased with monetary tightening (see chart 20). Banks increasingly relied on funding from securities and term deposits. A platform the OeNB launched at the end of 2023 has increased the comparability of interest rates on term deposits.[19] The change in banks' funding mix mainly reflects the slow and incomplete transmission of interest rate increases to overnight deposits. Term deposits and bonds, by contrast, reacted more in line with market rates.[20]

Despite less central bank liquidity, the funding position of the Austrian banking sector remains sound. In 2023, the liquidity coverage ratio (LCR) of the consolidated Austrian banking sector remained broadly stable at a weighted average of 161%. This reflects the overall solid short-term liquidity position of the Austrian banking system. The consolidated net stable funding ratio (NSFR), which measures the ability of the banking sector to resist funding shocks in the medium term, increased slightly in 2023. At year-end, it stood at a weighted average of 134%. On a disaggregated level, all Austrian credit institutions without a liquidity waiver reported LCR and NSFR levels above the respective regulatory minimum at end-2023.[21] The average LCR and NSFR of Austrian SIs stood above the average of their SSM peers.

Systemic liquidity risks need to be monitored more closely. Liquidity monitoring through both the LCR

[19] *See https://www.oenb.at/Statistik/sparzinsen-oesterreich.html (in German only).*

[20] *The incomplete pass-through to overnight deposit rates is e.g. documented in Breyer et al. 2023. Repricing of bank assets and liabilities in the current rate hike cycle: historical perspective and impact on bank profitability. In: Financial Stability Report 46. OeNB. 29–38.*

[21] *Banks with a liquidity waiver must satisfy liquidity requirements on a more aggregate group level and are thus exempted.*

and the NSFR is an important aspect of microprudential supervision. Yet, these metrics tend to underestimate systemic aspects of liquidity risks, such as contagion risk; interconnectedness; market liquidity risk, especially during periods of market stress; off-balance sheet exposure or liquidity risks from nonbank financial institutions. Therefore, the LCR and the NSFR might underestimate a bank's liquidity externalities for other market participants, which can significantly affect financial stability. To monitor systemic liquidity risks, a set of indicators is currently being developed. If significant unmitigated liquidity risks are identified, appropriate macroprudential instruments could mitigate these risks and further enhance financial stability. The first indicator that has been identified is the ratio of encumbered assets in the entire banking sector. This ratio measures the ability of banks to use collateral for their liquidity needs. The monetary tightening begun in 2022 has had no significant effect on the ratio of encumbered assets. Therefore, this indicator does not point to increased systemic liquidity risk. Furthermore, asset encumbrance for Austrian banks remains around the median compared with other European banks.

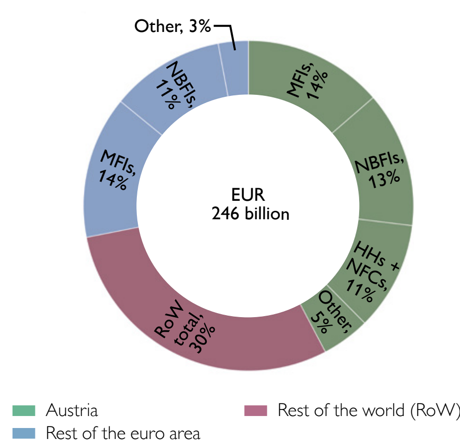
Austrian banks are mostly interconnected with euro area counterparties[22]

At end-2023, the majority of securities issued by the Austrian banking sector were held by counterparties based in the euro area (70%). The total value of market instruments issued by Austrian banks (at an unconsolidated level) stood at EUR 246 billion, of which bank shares made up EUR 66 billion and debt securities EUR 179 billion. Austrian buyers accounted for 42%, while 28% of the buyers came from the rest of the euro area (see chart 21). After excluding the rest of the world, for which no granular data are available, monetary financial institutions (MFIs) and nonbanking financial institutions (NBFIs) are almost on par and each held about one-quarter of the total securities issued. Notably, Austrian households (HHs) together with nonfinancial corporations (NFCs) held more than 10% of the securities issued by Austrian banks.

Austrian banks' security portfolio is dominated by securities issued by MFIs and governments that are based in the euro area (70%, see chart 22). At end-2023, Austrian banks held EUR 140 billion of securities. Government bonds, which banks also hold to meet liquidity requirements, and securities issued by MFIs accounted for the lion's share (EUR 120 billion). Austrian issuers represented a volume of EUR 45 billion (euro area as a whole: EUR 98 billion).

Chart 21

Holders of securities issued by Austrian banks



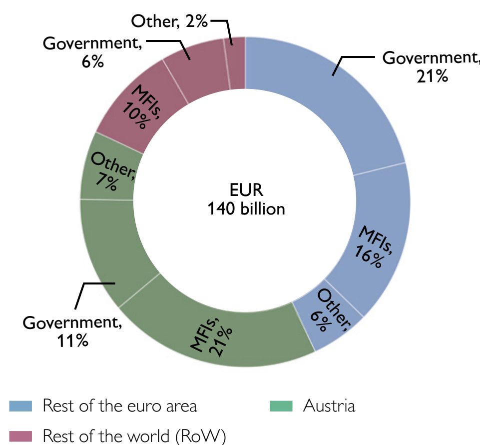
Source: OeNB.

Note: Data as at end-2023. MFIs stands for monetary financial institutions; NBFIs for nonbank financial institutions; HHs for households; NFCs for nonfinancial corporations.

[22] *In this section, banks are defined as monetary financial institutions.*

Chart 22

Issuers of securities held by Austrian banks



Source: OeNB.

Note: Data as at end-2023. MFIs stands for monetary financial institutions.

In terms of all securities, the most important countries of origin are Austria (EUR 55 billion), followed by Germany (EUR 9 billion), France (EUR 8 billion) and Czechia (EUR 6 billion). The euro area as a whole accounts for a volume of EUR 115 billion, which equals 82% of the total. The banks' portfolio is therefore well diversified geographically. Yet, the large share of securities issued by MFIs could open intrasectoral contagion channels, which require close monitoring.

The secured money market is expected to become ever more important, especially given the Eurosystem's tighter monetary policy. While the unsecured money market segment remains dormant for the time being, the secured money market exhibits normal liquidity levels. Money market statistical reporting (MMSR)[23] by euro area banks allows the analysis of secured market interconnectedness through liquidity takers and providers on the one hand and the provided collateral on the other hand. Austrian banks are typically and predominantly liquidity providers, with the share of cash lending transactions accounting for 80% in the first quarter of 2024. However, Austrian banks only represent a small fraction of around 0.2% in the MMSR aggregate market volume for the secured segment.

Subsidiaries in CESEE again recorded high profits, driven by a rising net interest margin and very benign credit risk costs

About 24% of the Austrian banking sector's total assets are located in CESEE. Of a consolidated balance sheet of EUR 1.2 trillion at the end of 2023, EUR 288 billion are accounted for by subsidiaries in CESEE. As more than 80% of them are based in the EU, Austrian banks' CESEE subsidiaries predominantly operate within the common European framework (see chart 23). At 7% of total assets, Russia is the only sizable non-EU exposure, but this business – albeit shrinking – still produced a substantial profit contribution of one-quarter of all profits from the region (compared to 10% and 38% in 2022). The Russian profit, however, cannot be transferred to the headquarters in Austria.

Austrian banks' subsidiaries in CESEE were highly profitable again in 2023, as they earned EUR 5.5 billion (+5% year on year). In a benign interest rate environment, net interest income – that makes up two-thirds of operating income – was up more than 10% year on year. But despite this boost, total operating income decreased to EUR 12.7 billion, since fees and commissions

[23] *See https://www.ecb.europa.eu/stats/financial_markets_and_interest_rates/money_market/html/index.en.html.*

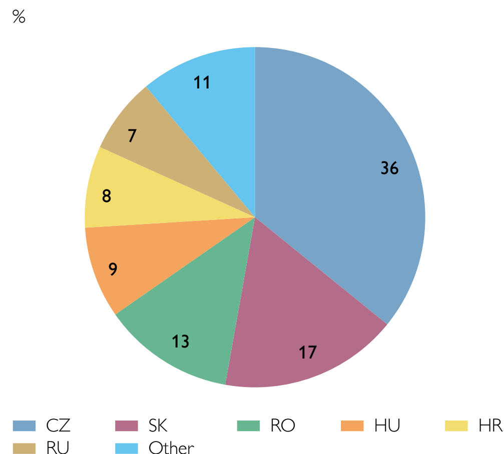
were down 15% and trading income turned negative. As operating costs rose by 7% to EUR 5.5 billion, the operating profit fell by 6% to EUR 7.2 billion. These negative developments notwithstanding, the subsidiaries' profit still increased year on year, as credit risk provisioning contracted by nearly 70% to less than EUR 300 million. Chart 24 summarizes the absolute impact all these developments had on profit evolution in 2023 (compared to 2022), highlighting the important role the rise in net interest income and very benign credit risk costs had in compensating the fall in non-interest income.

Chart 23

Austrian banking subsidiaries in CESEE: Total assets by host country

Total assets as at end-2023: EUR 288 billion

%



Source: OeNB.

Chart 24

Austrian banking subsidiaries in CESEE: Profit drivers in 2023

Impact in EUR million

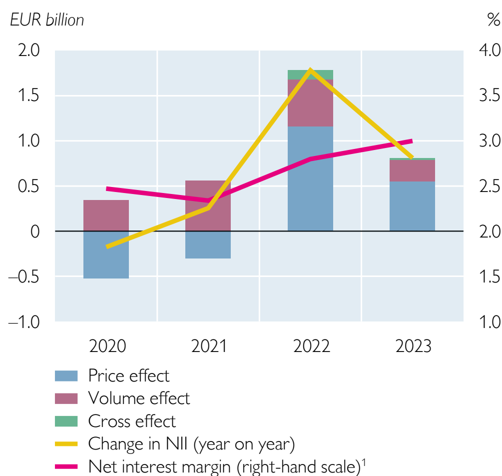
Source: OeNB.

As to the positive profit drivers, net interest income was mainly boosted by renewed margin upside, while NPL ratios remained at low levels. When dissecting the rise in net interest income in 2023, two drivers can be discerned: First and foremost, the increase in the net interest margin from 2.8% to 3.0% in 2023 ("the price") and, second, the rise in average total assets by 3% ("the volume"). Both bear testament to the fact that the higher interest rate environment helped raise banks' operating profitability, while still allowing for balance sheet growth. As highlighted by chart 25, the post-pandemic years of 2022 and 2023 marked a clear step-up in the net interest margin, reversing previous price pressures when interest rates were low. While this was clearly positive for the subsidiaries' income, the price effect lost some momentum in 2023. Given that local central banks in CESEE started to lower interest rates recently, this profitability driver may fade in the near future. The flip side of higher interest rates – i.e. an intensified pressure on the borrowers' credit quality – has not yet materialized, as the NPL ratio for total loans further trended down to 2.0%.[24] This benign year-on-year trend was broad based (see chart 26). The drop in credit risk provisioning mentioned above may be traceable to the very good credit quality observed during 2023, especially when compared to pre-pandemic

[24] *Excluding cash at central banks and other demand deposits.*

Chart 25

Austrian banking subsidiaries in CESEE: Drivers of net interest income (NII)

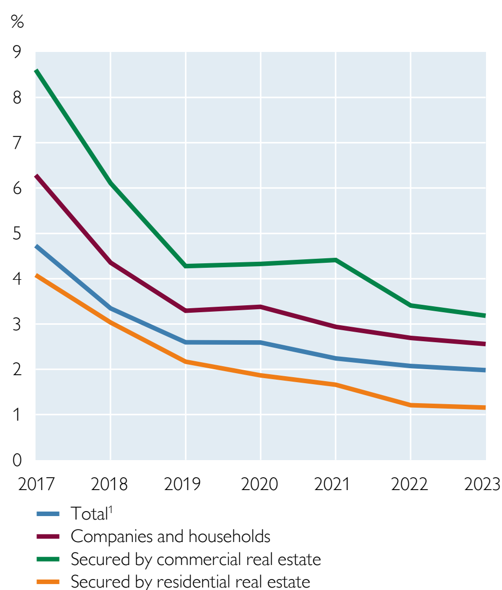


Source: OeNB.

[1] Net interest income to average total assets.

Chart 26

Austrian banking subsidiaries in CESEE: Nonperforming loan (NPL) ratios by loan segment



Source: OeNB.

[1] Excluding cash at central banks and other demand deposits.

Note: Data are as at year-end.

levels. Also, NPL ratios are likely to have bottomed out at these levels.

Austrian banking subsidiaries' risk-bearing capacity remained strong and their business model locally funded. Strong profitability in 2023 (as described above) led to a considerable increase in the subsidiaries' CET1 ratio. The latter climbed to 18.2% (+190 basis points year on year). Furthermore, the subsidiaries are also predominantly self-funded through local deposits from nonbanks. This is highlighted by a loan-to-deposit ratio of 73% at end-2023. Credit for the sound situation today is also due to the timely implementation in 2012 of a macroprudential measure to this end. For further details, see box 4 "Success of the Austrian Sustainability Package."

Box 3

Macroprudential measure: The systemic risk buffer (SyRB)

A banking sector's concentration in its exposure to foreign markets can pose structural systemic risks to the domestic economy. *Economic and financial shocks in foreign countries can swiftly lead to disruptions in banks' domestic financial market. The shock is transmitted by the foreign subsidiaries' parent companies to other domestic market participants. Such a transmission may for example be triggered when banks have similar business models, or the credit quality in banks' subsidiaries deteriorates and requires capital injections from the parent. Such developments may amplify a financial or economic crisis in the domestic economy.*

Austrian banks are important foreign investors in the CESEE region. *Thanks to its substantial foreign engagement, the Austrian banking sector earns a large share of its profit abroad. Given the large size of the Austrian banking sector relative to its economy, the Austrian financial sector is vulnerable to foreign shocks. As risk parameters correlate across the CESEE region, particularly in crisis times, diversification effects are limited. An SyRB can address*

related risks. Since the implementation of the SyRB, Austrian banks have increasingly focused on certain CESEE core markets, like Czechia, Slovakia, Hungary, Romania or Croatia.

In 2015, the Austrian Financial Market Stability Board (FMSB) recommended to activate a systemic risk buffer (SyRB) for the first time.[25] *This macroprudential capital buffer aims to address multiple structural systemic risks with a view to improving both the risk-sharing mechanism within the banking system and the resilience of Austrian banks. This way, it also strengthens the Austrian resolution regime.*[26] *An SyRB applies only to banks that are particularly exposed to the identified structural risks in line with the principle of proportionality. Specifically, banks with a relevant market size are selected that are exposed either to systemic vulnerabilities and/or systemic cluster risks.*

Systemic vulnerabilities can emerge if banks are highly connected with each other and/or the real economy and the financial sector is large relative to the country's economic activities. *Austrian banks which e.g. have a high share of guaranteed deposits or strong interbank connections can be particularly exposed to systemic vulnerabilities. In addition, there is a risk that banking crises lead to high social costs for the public, particularly if banks are (partly) in public ownership. Also, public ownership hampers recapitalization in crisis times. Systemic cluster risk means that banks rely on similar business models and have substantial exposures of a similar nature which become systemically important. In other words, these exposures are large relative to the banking sector's overall activities. In Austria, banks falling in this category have a strong CESEE focus and their profits are highly dependent on the foreign operations.*[27] *At the beginning of 2024, 13 Austrian banks were subject to an SyRB. Its rate ranges from 0.5% to 1.0% of CET1 relative to the total risk exposure amount.*[28] *The SyRB is currently being evaluated by the FMSB, which will take a decision in the second half of 2024.*

Box 4

Success of the Austrian Sustainability Package

In 2012, the OeNB and the Austrian Financial Market Authority (FMA) published supervisory guidance on strengthening the sustainability of the business models of large internationally active Austrian banks.[29] *After the global financial crisis that started in 2008, this "Sustainability Package" was meant to strengthen financial stability both in Austria and in the subsidiaries' host countries. More specifically, the original set of measures aimed at increasing parent banks' capitalization, ensuring the early drafting of recovery and resolution plans and achieving more balanced refinancing structures at some of the foreign subsidiaries, especially in CESEE.*

Since the publication of the guidance, banks' capitalization and the crisis management framework have improved considerably. *In terms of capitalization, macroprudential buffers helped raise systemically important banks' risk-bearing capacity. Also, the entire banking sector's CET1 ratio increased substantially (see chart 27). Furthermore, the national transposition of the European Bank Recovery and Resolution Directive (BRRD) as well*

[25] *See https://www.fmsg.at/en/publications/warnings-and-recommendations/2015/recommendation-4.html.*

[26] *Macroprudential policy in Austria aims at achieving consistency between macroprudential regulation, the applicable bank resolution regime and the deposit guarantee scheme. The evaluation of the SyRB thus considers this integrated macroprudential approach in Austria, e.g. by identifying and considering any overlap with other prudential policy measures.*

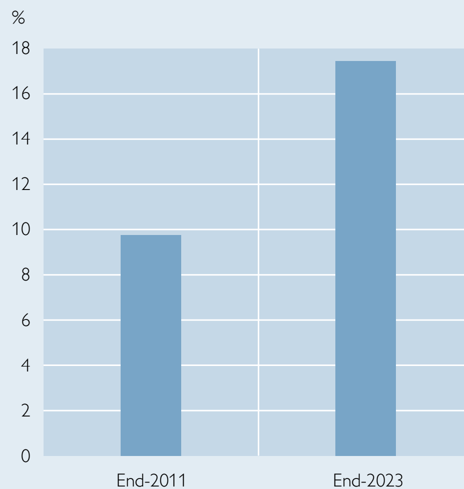
[27] *For more details on the SyRB methodology, see https://www.oenb.at/finanzmarkt/makroprudenzielle-aufsicht/massnahmen_und_methoden/systemrisikopuffer.html (in German only).*

[28] *Please also see table A7 on the macroprudential stance in the annex; and for the specific bank sample and buffer sizes, see https://www.fmsg.at/en/publications/warnings-and-recommendations/2022/recommendation-fmsb-5-2022.html.*

[29] *For further details, see https://www.oenb.at/dam/jcr:7cfe514f-5fb7-45c5-9be3-6ce0da0408d6/supervisory_guidance_on_austrian_sustainability_package_tcm16-246089.pdf.*

Chart 27

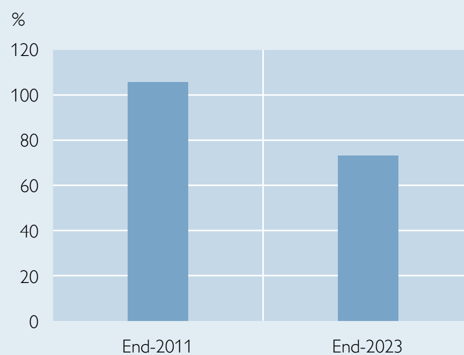
CET1 ratio of the Austrian banking sector



Source: OeNB.

Chart 28

Loan-to-deposit ratio of Austrian banking subsidiaries in CESEE



Source: OeNB.

as the establishment of resolution authorities put crisis management on a stronger footing and fostered financial stability in the case of bank failures. Therefore, the Sustainability Package has helped accomplish the first two objectives. Consequently, the FMA and the OeNB withdrew these two pillars of the original guidance from the Sustainability Package.

Analyzing the local stable funding position of foreign subsidiaries remains important to prevent boom-bust cycles in lending. *Before the global financial crisis, there was a partial lack of local stable funding, especially regarding deposits from nonbanks. This is why some Austrian banking subsidiaries depended on liquidity transfers from their headquarter to rapidly expand lending in CESEE. The macroprudential lesson from the crisis was as follows: Subsidiaries that originated loans much faster than they gathered local stable funding were more vulnerable to credit losses. Credit losses are the prime threat to retail-oriented banking systems and can negatively affect not only the concerned banking groups, but also financial stability in the respective markets. Hence, Austrian supervisors aimed to improve the balance of the subsidiaries' funding to proactively reduce the likelihood of boom-bust cycles in lending. A clear focus on the flow of new lending helped avert any undue procyclical deleveraging. At the same time, both the local deposit base and debt issuance were progressively strengthened.[30] This approach brought about several positive developments: The funding of banking subsidiaries in CESEE became primarily local (see chart 28) and therefore more risk-adequately priced. In turn, this led to more sustainable lending growth, which over time was accompanied by local borrower-based measures to reduce systemic risks from residential real estate lending. Also, cross-border intragroup liquidity transfers were substantially reduced, and de-centralized debt issuance strengthened. Both are preconditions for successfully implementing banking groups' multiple point of entry resolution strategies that call for greater local funding autonomy. Taken together, the improvements brought about by the Austrian Sustainability Package strengthened financial stability both in the host countries and in Austria. Going forward, it is necessary to continue monitoring the subsidiaries' funding balance via standard supervisory reporting data – especially trends in loan and deposit volumes. The supervisory guidance therefore remains in effect regarding this pillar. What has been put on hold, however, is a more in-depth data collection from parent banks.*

[30] *The prudential view is that business models run a risk of not being sustainable and of contributing to vulnerabilities in crisis situations when a subsidiary's loan-to-local stable funding ratio (LLSFR) is above 110% in the stock and when its flow LLSFR also exceeds 110%, which would further worsen the situation.*

New legislation fosters stability of payment and securities clearing systems

The revised EU instant payments regulation published in March 2024 will promote further innovation in financial services. The regulation promotes real-time transfers and introduces IBAN checks verifying that the beneficiaries' IBAN and name match. In addition, the regulation amends the Settlement Finality Directive (SFD). This amendment will enable payment and e-money institutions to participate in payment systems according to the SFD.

Regarding securities clearing systems, the EU is one of the first jurisdictions in the world that has implemented a recovery and resolution framework for central counterparties (CCPs). The Central Counterparty Recovery and Resolution Regulation (CCPRRR) intends to strengthen the resilience of securities markets and to prevent adverse systemic effects for European CCPs or their participants. Similar to the requirements for credit institutions, it mandates CCPs to draft recovery plans. The resolution plans must be prepared by the respective national resolution authorities. While the recovery plans must be approved by the already existing CCP colleges for the ongoing supervision, resolution plans are assessed in newly established resolution colleges. The college setup comprises national as well as European authorities, i.e. competent authorities, central banks, exchange supervisory authorities, the ECB and the European Securities and Markets Authority (ESMA). Most recovery plans for CCPs have already been implemented. In contrast, EU-wide drafting of resolution plans started in 2023.

Austrian nonbank financial intermediaries have recovered, but real estate exposures are in focus

In an international context, the size of nonbank financial intermediaries in Austria appears relatively modest. Their combined share accounts for less than one-third of banks' total assets. Among other things, this is due to the Austrian pay-as-you-go pension system and the predominant role banks play in funding the real economy, especially for small and medium-sized companies.

The environment of insurance companies[31] has been shaped by inflation as well as higher interest rates and financial assets prices. These factors contributed to low economic growth and a reduction in real household income in 2023, which dampened insurance demand. Yet, the profitability of Austrian insurance companies recovered compared to the previous year, across all insurance segments. Index clauses widely embedded in insurance contracts led to higher premium income and mitigated claim cost inflation. Moreover, financial market performance improved in 2023 year on year, which proved beneficial for insurers' profitability. Key figures attest to this. For example, the financial result increased by 40% to EUR 3.1 billion, and profit before tax grew by 81% to EUR 1.7 billion. Almost half of total premiums were generated abroad, with Czechia, Poland, Slovakia, Romania and Hungary among the key markets. Nevertheless, downside risks are apparent, given the high uncertainty in the macrofinancial environment.

Austrian insurance companies maintain a relatively high level of capitalization. Insurers generally benefit from rising interest rates. Technical provisions decrease and solvency ratios increase when liabilities have a longer

[31] *The analysis is based on data on insurance companies and therefore excludes financial conglomerates.*

duration than assets. Compared with their European peers, Austrian insurance companies maintain a relatively high level of capitalization, at a solvency capital requirement of 270%.

Debt securities play an important role in the asset composition, also indirectly via mutual funds. Thus, they highlight the relevance of credit risk. Banks and insurance companies have different business models: Banks mainly collect deposits and provide loans to the real economy. Insurance companies mainly provide protection against risks and mobilize and invest savings of households. Banks' balance sheet is dominated by loans (67% or EUR 820 billion), while insurance companies' assets are dominated by debt securities, mutual fund shares and equities (79% or EUR 104 billion). At 5% of total assets, bank-like activities in insurance are small. Figure 1 provides an overview of the assets held by Austrian insurance companies. It highlights in particular their exposure to real estate, domestic banks and the Austrian government.

Insurers are affected by developments in real estate markets. Mitigating factors are the long investment horizon and the hidden reserves built up during the real estate upswing. 10% of Austrian insurance companies' investments are allocated in real estate. A decline in real estate market values and/or higher interest rates will lower the risk-bearing capacity. Insurance companies are only to a limited extent interconnected with domestic banks and the Austrian government. The exposure to banks amounts to a mere 4.1% of total assets of Austrian insurance companies, three-quarters of which are debt securities. Those three-quarters only represent approximately 2% of debt securities issued by Austrian banks. At 2.3%, the exposure to the Austrian government is even lower,

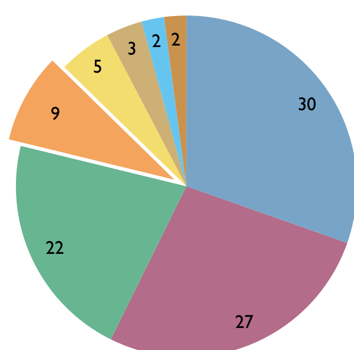
Figure 1

Insurance companies: Assets and contagion channels

Composition of assets

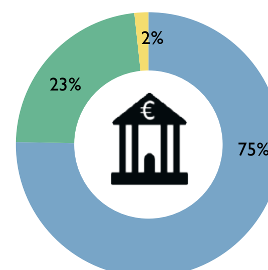
Total assets as at end-2023: EUR 131.8 billion

%

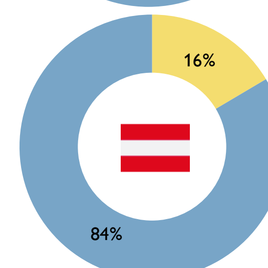


Contagion channels – Austrian banks and Austrian government

Insurers' exposure to banks 4.1% of total assets



Insurers' exposure to government 2.3% of total assets



Debt securities | Mutual funds | Shares and other equity | Nonfinancial assets | Loans
Remaining assets | Insurance technical reserves and related claims | Currency and deposits

Source: OeNB.

with the majority consisting of debt securities. The combined share of assets connected to domestic banks and the Austrian government has steadily decreased over the years. It has almost halved since 2016. Possible spillover effects have therefore gone down as well.

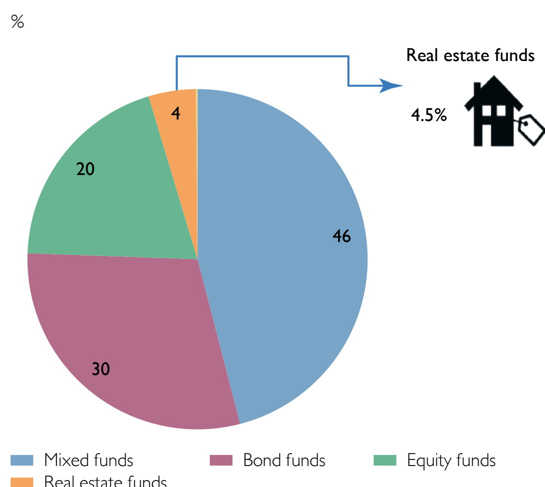
The Austrian mutual fund market by and large followed general financial market trends, with conditions benign in 2023 and well into 2024. A major driver of markets is the expectation that monetary policy interest rates will come down in the course of 2024. Should inflation remain more persistent or should other adverse shocks occur, we might see market corrections and deteriorating market sentiment among investors. At end-2023, Austrian mutual funds had a total of EUR 213.1 billion assets under management (see figure 2), up approximately 6.5% year on year. However, this figure remains 7% below that recorded at end-2021, when the turn in the interest/yield levels occurred and consequently led to a re-evaluation of debt securities. As to the asset composition of mutual funds, debt securities are still prominent (39% of total assets), whereas shares and other equity securities gained in importance (22% of total assets, up 5 percentage points since 2020). By contrast, the cash position declined to 3% in January 2024, the lowest level since 2008. On the one hand, this reduction lowers liquidity risk for banks if mutual funds draw down their deposits suddenly. Yet, on the other hand, it increases the risk of forced sales if investors "dash for cash." In 2023, the largest net inflows were observed in foreign equity funds and Austrian bond funds. The largest outflows occurred in Austrian equity and real estate funds. When we compare the transaction flows with the net asset value of the respective mutual fund category, it becomes apparent that the changes are relatively minor.

Figure 2

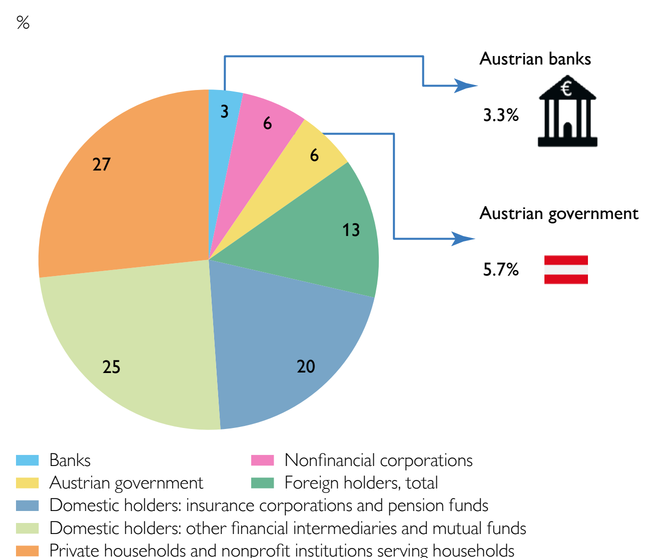
Mutual funds: Assets and investors

Categories

Total net asset value as at end-2023: EUR 213.1 billion



Investors



Source: OeNB.

Open-end real estate funds showed structural liquidity mismatches between the daily redemption of fund shares for investors and illiquid real estate investments by funds. Such mismatches are also pronounced in a European comparison.[32] The environment is marked by declining real estate transactions and prices as well as increased opportunity costs of holding such fund shares, e.g. higher deposit rates. Hence, risks for net outflows materialized, due to more attractive investment alternatives. In 2023, outflows amounted to around 15% of total assets. Funds therefore launched liquidity-enhancing measures like asset sales and borrowings. Even so, in October 2023, one retail fund suspended, until further notice, the unit certificate business in accordance with the Real Estate Investment Fund Act and in conjunction with the Alternative Investment Fund Managers Act. These developments are being closely monitored. In Austria, the liquidity mismatches will, from 2027 onward, be addressed by new regulations
for redemptions adopted in 2021. Then, the new liquidity provisions set out in Article 11 of the Real Estate Investment Fund Act will take effect.

At end-2023, Austrian pension funds held EUR 27 billion in total assets, of which more than 90% were held indirectly through mutual funds. Investments in real estate funds increased to 5.3% of total assets at the end of 2023, strongly up from 4.1% just six months before. As defined contribution schemes dominate (81%) in Austria, the performance risk is primarily borne by prospective beneficiaries.

[32] *See ESMA TRV Risk Analysis. "Assessing risks posed by leveraged AIFs in the EU", 30 January 2024.*

Key financial indicators and macroprudential stance

Macroeconomic indicators for Austria

Economic indicators

https://www.oenb.at/en/Statistics/Standardized-Tables/Economic-and-Industry-Indicators/economic-indicators.html

Selected economic measures

https://www.oenb.at/isaweb/report.do?lang=EN&report=7.1

Interest rates and exchange rates

https://www.oenb.at/en/Statistics/Standardized-Tables/interest-rates-and-exchange-rates.html

Consumer prices

https://www.oenb.at/en/Statistics/Standardized-Tables/Prices--Competitiveness/Consumer-Prices.html

Economic sector breakdown of households

https://www.oenb.at/isaweb/report.do?lang=EN&report=801.1.2

Economic sector breakdown of nonfinancial corporations

https://www.oenb.at/isaweb/report.do?lang=EN&report=801.1.1

Property market

https://oenb.shinyapps.io/Immobiliendashboard_en/
https://www.oenb.at/en/Publications/Economics/reports.html?category=-63df104a-6070-41fe-ab54-90c4ee84344a&year=

Table A1

Bank lending

	2017	2018	2019	2020	2021	2022	2023
	%						
Loan growth (year on year): households	3.4	3.5	4.2	3.6	5.3	3.5	–1.9
Loan growth (year on year): residential real estate	4.8	4.4	6.1	5.5	6.9	5.0	–2.4
Loan growth (year on year): corporations	4.9	6.9	6.2	5.0	8.7	9.2	2.7
	% of total loans						
Share of variable rate loans (outstanding): households	91	69	65	60	57	51	45
Share of variable rate loans (outstanding): corporations	83	72	70	69	67	67	66
Share of variable rate loans (new lending): households	56	55	51	46	47	59	58
Share of variable rate loans (new lending): corporations	83	81	82	77	86	85	80

Source: OeNB.

Table A2

Debt ratios

	2017	2018	2019	2020	2021	2022	2023
	%						
Household debt (relative to net disposable income)	90.7	90.3	90.1	94.7	94.4	89.9	81.1
Corporate debt[1] (relative to gross operating surplus[2])	447.1	453.4	457.8	460.8	469.2	431.5	436.6

Source: OeNB.

[1] *Short- and long-term loans, money and capital market instruments.*
[2] *Including mixed income of the self-employed.*

Indicators for the Austrian banking sector

Structural indicators

https://www.oenb.at/en/Statistics/Standardized-Tables/Financial-Institutions/banks/Number-of-Banks.html
https://www.oenb.at/en/Statistics/Standardized-Tables/Financial-Institutions/banks/banks-business-structure.html

Table A3

Consolidated banking data

	2017	2018	2019	2020	2021	2022	2023
	EUR billion						
Total assets	949	986	1,032	1,136	1,197	1,200	1,216
Loans	668	704	744	752	787	814	820
Shares and debt instruments	139	138	137	143	147	155	173
Cash balance and deposits at central banks	71	75	75	164	186	161	152
Deposits by nonbanks	559	584	615	656	686	709	717
Deposits by credit institutions	101	103	101	102	106	106	113
Debt instruments issued	120	141	150	153	152	163	195
Profit	6.6	6.9	6.7	3.7	6.1	10.2	14.0
Operating income	22.8	24.0	25.0	24.8	25.8	31.6	36.9
Operating costs	14.8	15.7	16.7	16.5	16.8	18.7	18.0
Operating profit	8.1	8.4	8.3	8.2	9.0	12.9	18.9
Risk costs	1.0	0.4	1.0	3.7	1.4	2.7	2.7
Key ratios	%						
Common equity tier 1 (CET1) ratio	15.6	15.4	15.6	16.1	16.0	16.3	17.5
Leverage ratio	7.3	7.5	7.6	7.4	7.7	7.9	8.4
Return on assets (annualized)	0.8	0.8	0.7	0.4	0.6	0.9	1.3
Cost-to-income ratio	65	65	67	67	65	59	49
Nonperforming loan (NPL) ratio[1]	3.4	2.6	2.2	2.4	2.1	2.1	2.6
Coverage ratio	52	51	49	49	48	46	40
Liquidity coverage ratio (LCR)[2]	153	148	146	181	176	163	173
Net stable funding ratio (NSFR)[2]	n.a.	n.a.	n.a.	n.a.	135	131	134

Source: OeNB.

[1] *As of 2020, the NPL ratio excludes cash balances at central banks and other demand deposits.*
[2] *Historical data calculated using the March 2024 banking sample at the highest consolidation level.*

Table A4

Unconsolidated banking data[1]

	2017	2018	2019	2020	2021	2022	2023
	EUR billion						
Total assets	815	855	885	974	1,024	1,014	1,011
Loans	596	627	654	669	700	730	704
Shares and debt instruments	94	93	94	95	93	104	130
Cash balance and deposits at central banks	42	51	50	123	141	102	97
Deposits by nonbanks	403	426	444	474	496	505	516
Deposits by credit institutions	164	168	166	217	240	213	174
Debt instruments issued	117	128	137	140	140	160	190
Profit	4.9	5.7	4.8	2.7	6.5	5.0	12.3
Operating income	19.5	19.4	19.7	19.3	21.2	23.7	26.2
Operating costs	12.9	13.3	14.2	13.6	14.2	14.0	11.6
Operating profit	6.6	6.1	5.5	5.7	6.9	9.7	14.6
Risk costs	0.9	0.3	0.2	2.5	–0.4	3.6	1.1
Key ratios	%						
Return on assets (annualized)	0.6	0.7	0.6	0.3	0.7	0.5	1.2
Cost-to-income ratio	66	68	72	71	67	59	44
Nonperforming loan (NPL) ratio (Austria)	3.0	2.5	2.2	2.0	1.8	1.7	2.4
Coverage ratio (Austria)[2]	60	62	61	68	70	74	62
Liquidity coverage ratio (LCR)	153	144	142	174	171	155	168
Net stable funding ratio (NSFR)	n.a.	n.a.	n.a.	n.a.	129	124	127

Source: OeNB.

[1] *As of 2023 and due to reporting changes, comparability to previous years' data is limited.*
[2] *Total loan loss provisions as a percentage of NPLs in domestic business.*

Table A5

CESEE subsidiaries

	2017	2018	2019	2020	2021	2022	2023
	EUR billion						
Total assets	206	207	223	234	271	279	288
Loans	137	147	161	165	186	184	188
Shares and debt instruments	38	37	38	42	48	49	55
Cash balance and deposits at central banks	26	18	18	22	30	39	39
Deposits by nonbanks	150	154	167	178	205	211	214
Deposits by credit institutions	25	23	22	16	18	18	17
Debt instruments issued	4	4	5	11	15	12	19
Profit	2.6	2.9	2.8	1.9	3.0	5.2	5.5
Operating income	7.9	7.9	8.4	8.2	8.9	12.8	12.7
Operating costs	4.2	4.1	4.4	4.4	4.6	5.1	5.5
Operating profit	3.7	3.8	4.1	3.8	4.3	7.7	7.2
Risk costs	0.3	0.2	0.5	1.3	0.5	1.0	0.3
Key ratios	%						
Return on assets (annualized)	1.3	1.4	1.3	0.8	1.2	1.9	1.9
Cost-to-income ratio	53	51	52	54	52	40	43
Nonperforming loan (NPL) ratio[1]	4.5	3.2	2.4	2.6	2.2	2.1	2.0
Coverage ratio	61	64	67	67	64	64	64

Source: OeNB.

[1] *As of 2020, the NPL ratio excludes cash balances at central banks and other demand deposits.*

Table A6

Financial stress indicators

	2017	2018	2019	2020	2021	2022	2023
	Indicator value						
Austrian financial stress indicator (AFSI)	–0.71	–0.24	–0.72	–0.57	–0.66	0.67	–0.29
Composite indicator of systemic stress (CISS)	0.03	0.07	0.02	0.10	0.05	0.33	0.06

Source: OeNB, ECB.

Indicators for other financial intermediaries in Austria

Mutual funds

https://www.oenb.at/en/Statistics/Standardized-Tables/Financial-Institutions/Mutual-Funds.html

Pension funds

https://www.oenb.at/en/Statistics/Standardized-Tables/Financial-Institutions/pension-funds.html

Insurance corporations

https://www.oenb.at/en/Statistics/Standardized-Tables/Financial-Institutions/insurance_corporations.html

Overview of the macroprudential stance in Austria

The primary goal of macroprudential supervision in Austria is to reduce systemic risks in the Austrian financial system. The OeNB pursues this goal in a proportional manner by using the most appropriate tool available. The measures applied consist of moral suasion and borrower-based measures to mitigate the buildup of systemic risk, as well as other macroprudential instruments, such as capital buffers, changes to risk weights, to strengthen banks' resilience. In its expert opinions to the Financial Market Stability Board (FMSB), the OeNB recommends measures in line with a steady-hand policy, allowing banks sufficient time to adapt. The consistent implementation of macroprudential policy helped Austrian banks keep top ratings throughout the COVID-19 pandemic and even shielded them from potential negative impacts resulting from Russia's war of aggression against Ukraine. Strong capitalization and top ratings reduce banks' refinancing costs and provides households and firms with more stable financing conditions.

For an overview of the currently applicable risk warnings and recommendations by the FMSB, see table A7 and the FMSB's website.

Table A7

Overview of capital-based and borrower-based measures in Austria

As at January 1, 2024	CCoB	CCyB	O-SII buffer	SyRB	Borrower-based measures (residential real estate)
Rate	2.5%	0%	0.25% – 1.75%	0.5% – 1.0%	90% LTC, 40% DSTI, max. maturity of 35 years
Number of banks	All banks	n.a.	7 (consolidated) 8 (unconsolidated)	12 (consolidated) 10 (unconsolidated)	All banks

Source: OeNB.

Note: For more details, see www.fmsg.at/en. CCoB = capital conservation buffer; CCyB = countercyclical capital buffer; O-SII buffer = capital buffer for other systemically important institutions; SyRB = systemic risk buffer; LTC = loan-to-collateral ratio; DSTI = debt service-to-income ratio.