Recent developments

Policy measures alleviate debt servicing for the nonfinancial corporate sector in Austria

The Austrian economy has recovered in 2021 to date. In the second quarter of 2021, real GDP rose by 3.6% quarter on quarter. The lifting of COVID-19-related restrictions led to a significant increase in services while industrial activity and construction slowed somewhat. Gross fixed capital formation expanded strongly in the first quarter of 2021, which reflected not only pent-up demand following the setback in 2020 but also the need for increasing production capacity. In the second quarter, the expansion lost some momentum, however, even if real growth remained positive.

External financing volumes of Austrian nonfinancial corporations dropped strongly in the first half of 2021. At EUR 11.5 billion, total external financing was one-third less than in the same period of 2020, according to preliminary financial accounts data, notwithstanding a recovery in corporate investment activity and favorable financing conditions. Both equity and debt financing decreased in the first half of 2021 year on year. At EUR 0.9 billion, equity financing – which had already been rather subdued in the years before the onset of the pandemic – amounted to half the value recorded in 2020, and debt financing declined by almost one-third to EUR 10.6 billion.

Internal financing has increased since the onset of COVID-19, which has reduced the need for external financing. The gross operating surplus[1] of Austrian nonfinancial corporations (NFCs) was 7% higher in the first half of 2021 than one year earlier (and exceeded the respective 2019 value by 5%; see the left-hand panel of chart 1). While compensation of employees had shrunk, the increase was mainly due to a marked rise in subsidies[2] that NFCs received as a result of COVID-19-related support measures. Moreover, firms had considerably lowered profit distributions to their owners or shareholders (including reinvested profits by foreign multinational corporations in their Austrian subsidiaries).[3] For one thing, uncertainties about the current economic environment might have induced firms to safeguard their liquidity. More importantly, businesses having received a fixed cost grant had to comply with the prohibition of distributing profits and dividends. As a result, Austrian NFCs' gross internal financing rose markedly year on year, even though the analogous 2020 value had been substantial already.

Moreover, the sizable liquidity buffers built up in the first phase of the pandemic reduced financing needs. NFCs' overnight deposits continued to rise (by 8.8% in August 2021), although they had been increasingly subject to negative interest rates. The increase is to a large extent ascribable to funds raised after the onset of COVID-19 but not yet spent. Additionally, firms disposed of high undrawn credit lines, having made only partial use of new credit lines provided by banks (see the middle panel of chart 1).

[1] *Including mixed income (self-employed and other unincorporated businesses).*

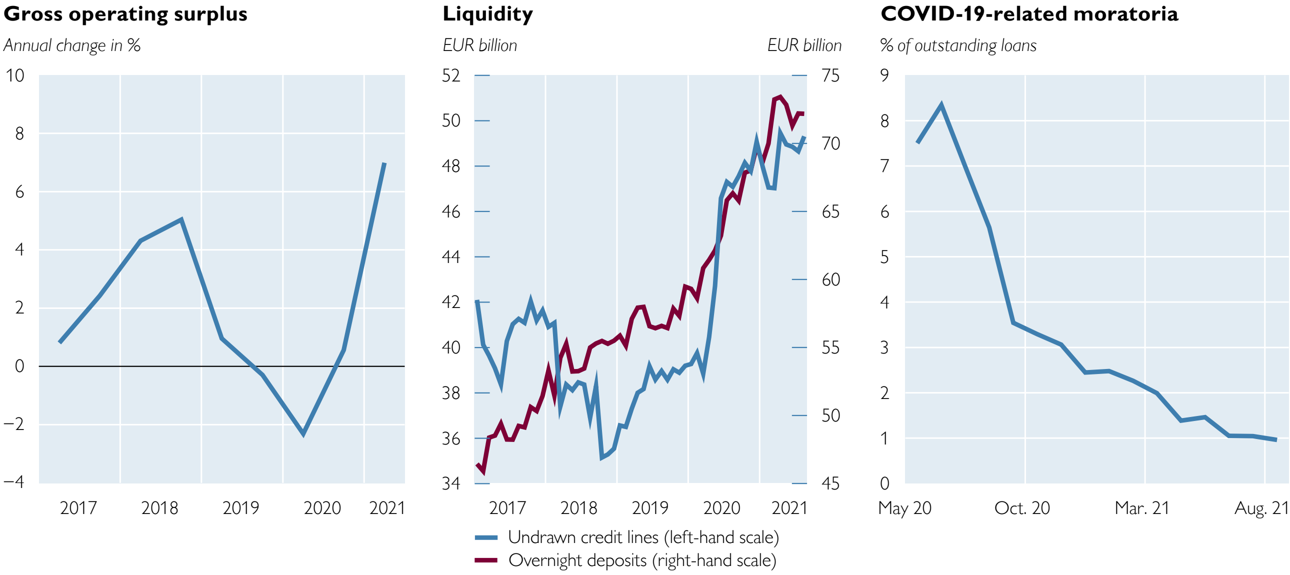
[2] *"Other subsidies on production" in the sector accounts.*

[3] *However, as the distributed income of corporations is derived as a residual and the reinvested earnings on foreign direct investment reflect an imputation in the national accounts, these figures are surrounded by a certain degree of uncertainty.*

Bank loans remained the backbone of firms' external financing throughout the pandemic. From the onset of the COVID-19 pandemic, support measures such as payment moratoria and public guarantees had ensured a sustained flow of bank financing to the real economy. In the first half of 2021, loans by domestic banks to NFCs, whose share in debt financing had already been comparatively high in recent years, accounted for almost half of firms' debt financing. Yet, the annual growth rate of loans by monetary financial institutions (MFIs) slowed down in recent months, reaching 4.1% (adjusted for securitization as well as for reclassifications, valuation changes and exchange rate effects) in August 2021, down from 7.2% in April 2020 (see the left-hand panel of chart 2). One factor behind this moderation was the drop in the use of COVID-19-related moratoria, which – by reducing repayments – had affected loan growth rates. In mid-2020, more than 8% of the outstanding loans to NFCs had been subject to a moratorium. After that peak, this share declined to 1% in August 2021, as most of the deferrals had expired (see the right-hand panel of chart 1). In the same vein, the importance of state guarantees for bank loans fell strongly in the course of this year. The diminished role of guarantees was also reflected by the fact that the annual growth rate of loans with medium-term maturities was negative in recent months, as government guarantees had primarily been given for bridging loans with medium-term maturities. Reduced liquidity needs were mirrored in a moderate expansion of short-term loans. By contrast, longer-term loans registered an annual growth of 6.0% in August 2021, on the back of the recovery in corporate investment. According to the Austrian results of the euro area bank lending survey (BLS), credit standards for loans to enterprises were tightened slightly in the third quarter of 2021, after having remained unchanged in the first half of the year.

Chart 1

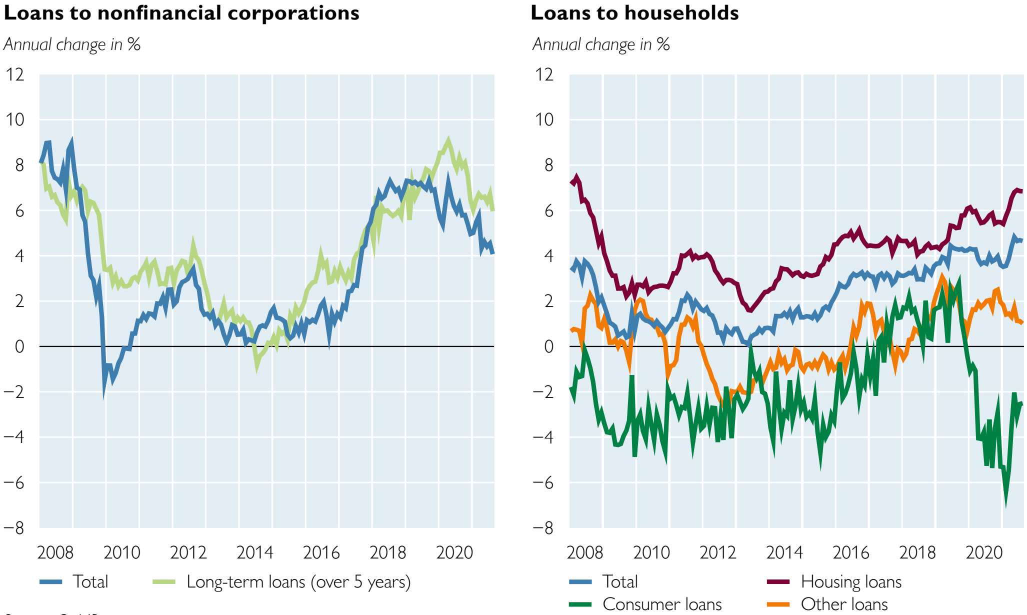
Factors affecting loans to Austrian nonfinancial corporations



Source: OeNB, Eurostat.

Chart 2

MFI loans to Austrian nonfinancial corporations and households



Source: OeNB.

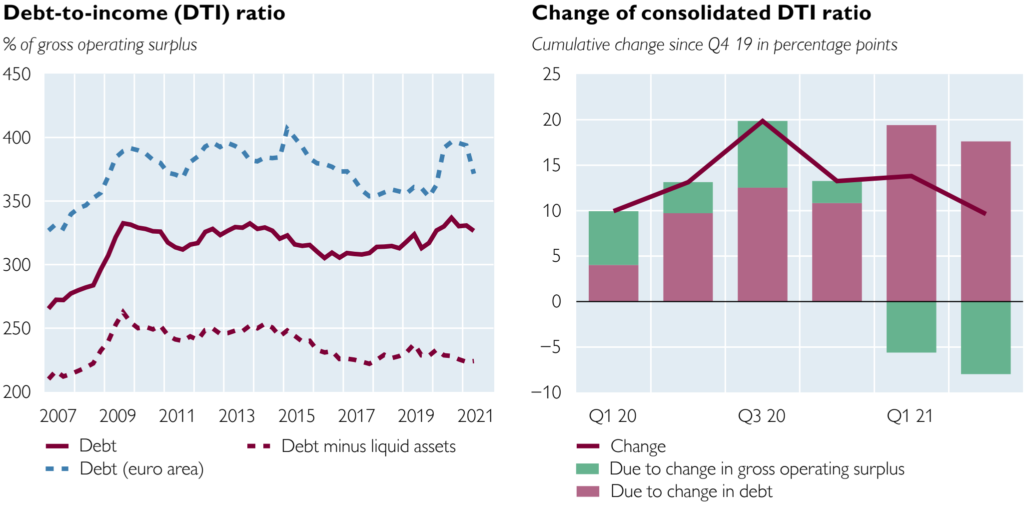
Credit conditions have tightened somewhat since the outbreak of the pandemic. Between February 2020, the last month before COVID-19, and August 2021, interest rates on new loans to NFCs increased on average by 17 basis points, the easing monetary policy stance notwithstanding, but remained low from a historical perspective. This increase probably reflected higher risk premia that were due to the economic impact of the pandemic. Banks participating in the BLS stated that, over the course of the pandemic, interest margins on riskier loans to firms widened much more strongly than margins on loans with average risk (which had also been the case in the years before the pandemic). However, there was large heterogeneity across different loan sizes. While interest rates on larger loans (with a volume of more than EUR 1 million) rose, rates on smaller-scale loans were still below their pre-pandemic value. Guaranteed loans – for which risk considerations are less of a concern – typically fell into this size bracket. Yet, with the role of guarantees in loans diminishing, the interest rate on smaller-size loans rebounded.

Corporate bond issuance has grown at a much slower pace so far than in the year before. According to securities statistics data, Austrian NFCs raised EUR 0.4 billion in net terms via debt securities in the first eight months of 2021, 7% of the value registered in the same period of 2020. However, this form of finance is mostly used by a comparatively small number of large firms.

The debt sustainability of Austrian companies improved somewhat in the first half of 2021. After having risen by more than 13 percentage points in 2020, the corporate sector's debt-to-income (DTI) ratio decreased by 4 percentage points to 327%, as rising corporate debt was offset by improved gross operating surplus (see chart 3). Yet, this improvement in gross operating surplus was not only due to the rebound in economic activity but to a large extent also to public support measures. Even if gross debt levels are currently manageable, their elevated

Chart 3

Consolidated debt of Austrian nonfinancial corporations



Source: OeNB, Statistics Austria, ECB, Eurostat.

Note: Consolidated gross debt: sum of total loans granted to and debt securities issued by nonfinancial corporations net of intrasectoral lending. Liquid assets: currency and deposits. Data for 2021 are preliminary.

level suggests a high sensitivity among NFCs to adverse shocks, in particular of highly indebted firms. At the same time, raising external equity has proven difficult in the current situation. Thus, it will be crucial for economic policy to address impediments in the buildup of equity of Austrian enterprises in general and SMEs in particular.

A number of factors alleviate firms' debt servicing. For one thing, gross indebtedness went hand in hand with a large buildup of liquid assets (cash and bank deposits). In the aggregate, the balance of corporate debt and liquid assets decreased slightly in the first half of 2021. If these liquid assets are held by indebted firms, this may be a mitigating factor. Furthermore, NFCs' debt servicing costs remained low in the first half of 2021, reflecting the still low interest rate level. In the second quarter of 2021, the ratio of interest payment obligations for (domestic) bank loans to gross operating surplus remained stable at 2.8%. Moreover, a large share of the debt incurred during the pandemic was longer-term debt, reducing refinancing risks, and was taken up in the form of guaranteed loans. The share of variable rate loans, which had decreased considerably in the years before the pandemic, increased by 1.0 percentage point year on year, to 78.6% in the second quarter of 2021.

Insolvency numbers remained significantly below pre-pandemic levels. In the third quarter of 2021, the number of insolvencies was almost one-quarter higher than in the corresponding period of 2020, but still nearly 40% below the value recorded in 2019, according to data provided by creditor protection agency KSV 1870. However, the lower numbers did not reflect underlying economic developments, but were attributable to large-scale government aid and mitigating measures. While these relief measures have helped avoid widespread bankruptcies so far, measures such as moratoria and short-term payment deferrals have shifted insolvency risks partially into the future.

Household debt fundamentals show resilience, but housing loans continue to rise strongly

In the household sector, growth of nominal disposable household income recovered in the first half of 2021 year on year. As in 2020, household income was supported by government transfers. Moreover, compensation of employees recovered. At the same time, the rise in inflation dampened real disposable household income. As private consumption rebounded in the second quarter of 2021 upon the lifting of lockdown restrictions, the saving rate declined but remained high in historical perspective.

Financial investment flows of households fell in the first half of 2021, which reflected the declining saving rate. In the first half of 2021, households' financial investment flows amounted to EUR 9.1 billion, which fell 33% short of the value registered in the first half of 2020. While a large share of financial investments continued to be allocated into liquid assets, the latter's role diminished somewhat, with liquid assets contributing less than half (46%) to total financial investment flows. In the first two quarters of this year, households' cash holdings increased by EUR 0.3 billion and bank deposits by EUR 4.2 billion.

Households' capital market investment has risen strongly since the second quarter of 2020, which suggests a search for yield in the face of negative real returns for low-risk assets. In the first half of 2021, households' net financial investments in capital market instruments amounted to EUR 3.4 billion, or more than one-third of total financial investments. Investments in mutual funds registered particularly strong growth. At EUR 4.3 billion, net financial investments in mutual fund shares equaled investment in bank deposits in the first six months of this year. Moreover, households continued to invest in listed shares but reduced their direct holdings of debt securities. From the second quarter of 2021 onward, households' capital market investment holdings registered sizable (unrealized) valuation gains, totaling more than EUR 25 billion. This figure corresponds to 24% of the amount outstanding at the end of the first quarter of 2020. The recent valuation gains offset the massive (likewise unrealized) valuation losses registered in the first quarter of 2020.

Growth of lending to households accelerated over the course of this year. In the twelve months up to August 2021, the annual growth rate of bank loans to households rose from 4.1% to 4.7% year on year (adjusted for reclassifications, valuation changes and exchange rate effects; see the right-hand panel of chart 2). As in past years, the main contribution to loan growth came from housing loans, not only because they are the largest loan category for households – accounting for more than two-thirds of the outstanding volume of loans to households – but also because they registered the highest growth rate, which reached 6.8% year on year in August 2021. According to the BLS, Austrian banks slightly eased the credit standards for housing loans in the third quarter of 2021. At the same time, banks reported a further slight increase in the demand for housing loans (as in the first half of 2021). In line with the decrease in the consumption of durables and the fall in consumer confidence after the onset of the pandemic, consumer loans were down 2.5% year on year in August 2021. Other loans, which include loans to sole proprietors and unincorporated enterprises, rose by 1.0%.

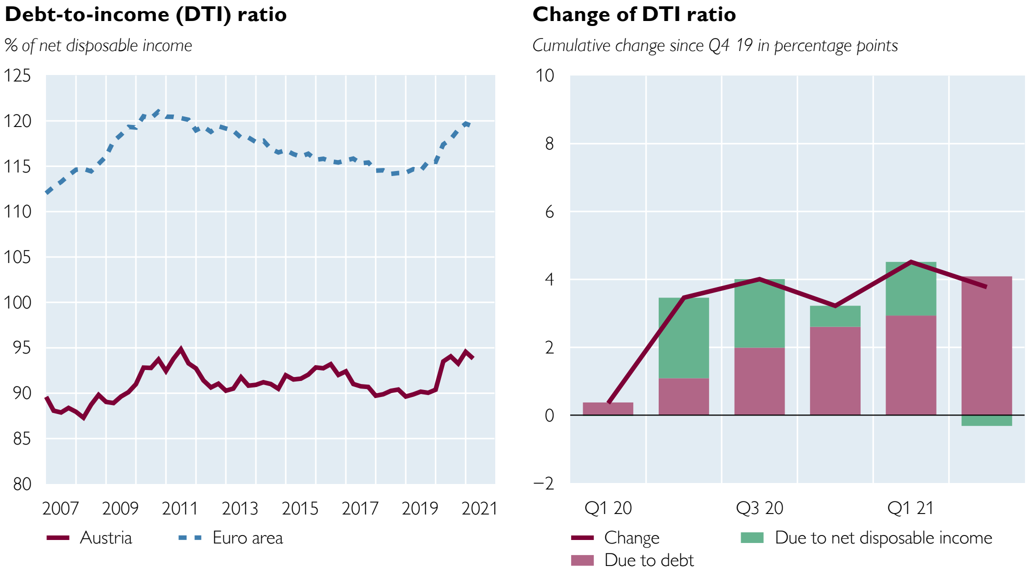
The conditions for housing loans remained favorable. In August 2021, interest rates on new bank loans stood at 1.78%, down 3 basis points against

February 2020, despite the rising trend seen in this year so far. Interest rates on housing loans fell by 20 basis points since February 2020, while those on consumer loans rose by 71 basis points. BLS results show that, due to risk considerations, banks' margins for riskier housing loans were tightened more often since the onset of COVID-19 than those for loans with an average risk profile.

Households' debt-to-income ratio has increased only slightly since the onset of COVID-19 and remained well below the euro area average. The 3.8-percentage-point rise in the DTI ratio to 93.8% between the end of 2019 and the second quarter of 2021 (see chart 4) was entirely due to an increase in household debt of about 5% over the same period. Most of this increase was ascribable to housing loans. In contrast, households' net disposable income, which had been underpinned by government support measures, even contributed to a slight decrease of the DTI ratio. Other policy measures also helped households service outstanding debt. Until their expiration in January 2021, loan moratoria had eased the financial pressure on households using this measure. Moreover, due to the low interest rate level, interest expenses remained low in 2021. They equaled 1.5% of aggregate disposable income in the second quarter of 2021, the increase in outstanding household debt notwithstanding. Other risk factors for household debt also developed favorably. The share of variable rate loans (with an initial rate fixation period of up to one year) in new loans, which had come down considerably in the years preceding the pandemic, amounted to 48.1% in the second quarter of 2021 (2.4 percentage points higher than in the same period of the year before). Compared with other euro area countries, this value is still quite high in Austria so that a relatively large amount of interest rate risk remains in the domestic household sector. The share of foreign currency loans decreased further in the first half of 2021, to less than 6% of all outstanding loans (and to less than 8% of housing loans).

Chart 4

Debt of Austrian households



Source: OeNB, Statistics Austria, ECB, Eurostat.

Note: Data for 2021 are preliminary. Households include nonprofit institutions serving households. Debt: total financial liabilities.

Residential property prices in Austria rose further in the course of 2021. In the third quarter of 2021, they increased by 10.4% year on year. In light of this marked price growth, the OeNB fundamentals indicator for residential property prices in Austria went up significantly, reaching 22.8% for Austria overall (and 31.0% for Vienna). In other words, residential real estate prices are increasingly deviating from the levels suggested by the factors tracked by the indicator, which warrants closer attention.[4]

Austrian banking sector rebounds from the pandemic's impact, but risks from real estate financing might warrant action

In the first half of 2021, Austrian banks' net profits quadrupled compared to the same period of 2020, as operating profits expanded and provisioning declined. Over the course of the first six months of the year, Austrian banks made a profit of EUR 3.7 billion. This was not only equivalent to a fourfold increase against the pandemic-burdened first half of 2020, but also the highest profit ever recorded by Austrian banks in a year's first half. Operating profit grew by half, as favorable market conditions improved fee and commission income as well as dividend income. Net interest income stagnated despite strong growth especially in mortgage lending, with the prolongation of the low interest rate environment putting further pressure on banks' interest margins. Widely used remote work and subdued business travel continued to have positive effects on administrative costs, which were down nearly 3%. At the same time, loan loss provisioning decreased by three-quarters to pre-pandemic levels, as fears of widespread credit defaults had not (yet) materialized.

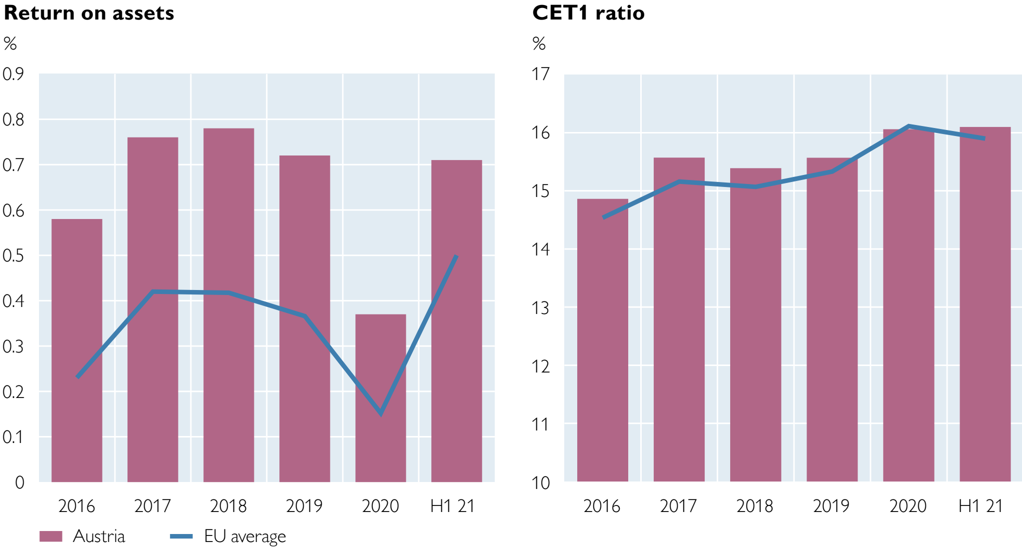
The quality of Austrian banks' loan portfolio continued to improve in the first half of 2021 due to the strong inflow of new loans and the stagnation of nonperforming loans (NPLs). Driven by a pronounced economic recovery and brisk demand for home ownership, loan growth continued to be strong in the first half of 2021, leading to a constant inflow of new loans into Austrian banks' loan portfolio. Together with a stagnating NPL volume, this resulted in a further reduction of the consolidated NPL ratio to 1.9% at the end of June 2021. The improvement was particularly apparent in loans to small and medium-sized enterprises (SMEs) and in commercial real estate loans.

Public support measures reduced credit defaults, but indicators show that banks' outlook remained cautious. Unprecedented monetary policy measures and fiscal aid – such as central banks' asset purchase programs, government guarantees or short-time work – helped reduce insolvencies and limit unemployment. Consequently, banks have not faced broad-based defaults in the pandemic so far. But they have nevertheless started to provide for a deterioration in loan quality as support measures are being phased out: despite brisk lending, the coverage ratio remained at 49% and the share of IFRS stage 2 loans continued to be well above the pre-pandemic level.

[4] *For more information on the property market in Austria, see the publication "Austrian Property Market Review" at https://www.oenb.at/en/Publications/Economics/property-market-review.html.*

Chart 5

Profitability and capitalization of banks



Source: OeNB, ECB, EBA (for data as at H1 21).

Amid strong loan growth, Austrian banks have kept their capitalization constant. Their common equity tier 1 (CET1) capital ratio remained at 16.1% in mid-2021. Supervisory recommendations for carefully considering profit distributions helped bolster banks' risk absorbing capacity. However, although banks increased their capital by more than 6%, continued strong loan growth in both Austria and Central, Eastern and Southeastern Europe (CESEE) drove up risk-weighted assets, which resulted in stable capital ratios.

Box 1

Solvency stress test

Background

The OeNB conducts annual stress tests for all Austrian banks under its dual mandate for banking supervision and financial stability. *The solvency stress test is designed to assess banks' resilience to adverse macroeconomic shocks and is meant to provide insights on both a bank and a system-wide level. Conducted in a top-down fashion, it relies on the OeNB's well-established stress testing framework ARNIE, which is continuously improved. Stress testing covers both significant and less significant institutions at the highest consolidated level. It focuses on risks relevant for the Austrian banking sector, including spillover effects among banks, which are particularly important for the cooperative sector. The most recent stress test provides an assessment of risks as at year-end 2020 and covers the period from 2021 to 2023.*

Scenario

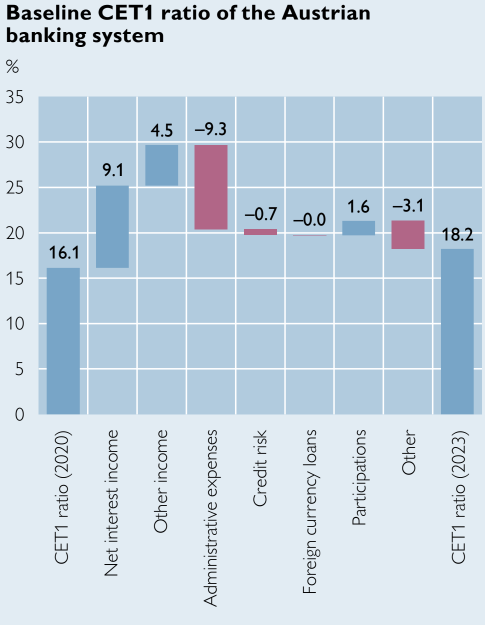
To be consistent with the recent EBA/ECB exercise, the OeNB employed the same baseline and adverse scenarios for its calculations. *The Austrian economy contracted by 7.6% in 2020, which is why the baseline scenario foresees a strong recovery with cumulative GDP growth of 9.5% over the stress test horizon (2021–23). The adverse scenario, in which we assume a prolongation of the COVID-19 pandemic, projects a cumulative decline of 2.9%,* *coupled with a general loss of confidence. This leads to a prolonged "lower for longer" interest rate environment, where long-term risk-free rates decline even further from an already historically low level. Real estate prices are projected to drop sharply by 24% for both commercial and residential real estate. Exchange rates for the US dollar, Swiss franc and pound sterling will remain stable but the currencies of most CESEE countries will depreciate against the euro.*[5]

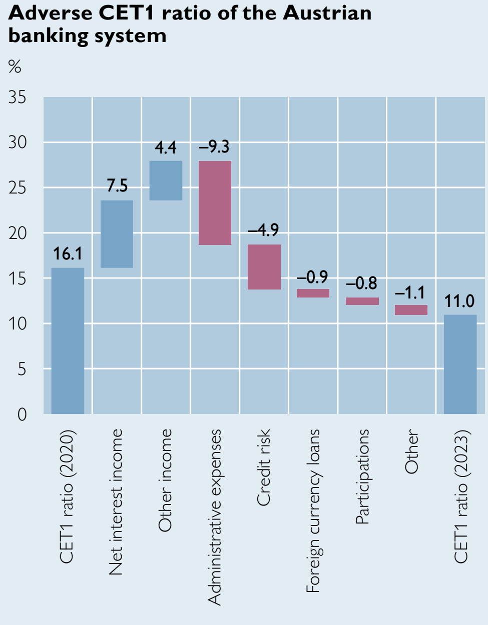
Results and risk drivers

While the aggregate CET1 ratio increases by 2.1 percentage points in the baseline scenario, it declines by 5.1 percentage points in the adverse scenario, landing at 11% at year-end 2023. *Despite the harsh economic environment, Austrian banks improved their aggregate CET1 ratios from 15.6% to 16.1% in 2020, partly also as a result of relatively generous fiscal and regulatory support measures. The following waterfall charts depict the most important risk drivers and their contribution to capital depletion for both the baseline and the adverse scenario. An interactive presentation of the results is available on the OeNB's website.*[6]

Chart B1

Austrian stess test – results and risk drivers





Source: OeNB.

Credit risk remains the main risk driver and draws down capital by 4.9 percentage points in the adverse scenario (baseline: –0.7 percentage points). *Gains and losses from equity participations in nonfinancial corporations and especially other banks are significant as well. While in the baseline scenario banks participate in the profits of entities they are invested in and build up capital (+1.6 percentage points), the picture reverses in the adverse scenario. Reduced dividend income and the revaluation of equity stakes result in a depletion of capital (–0.8 percentage points). Finally, net interest income shrinks from 9.1 percentage points in the baseline to 7.5 percentage points in the adverse scenario mainly as a result of both higher funding costs and reduced income generation capacity following increases in nonperforming exposures.*

[5] *For more information on the scenario, see https://www.eba.europa.eu/eba-launches-2021-eu-wide-stress-test-exercise.*

[6] *https://www.oenb.at/en/financial-market/banking-supervision/stress-tests.html.*

Conclusions

Overall, the stress test results indicate that the Austrian banking system is well placed to withstand substantial macroeconomic shocks. *Compared to last year's stress test, capital depletion is slightly more pronounced, driven by the combination of a weaker starting point of the economy due to the pandemic and a comparably more severe scenario. Nonetheless, capital ratios would not fall to concerning levels in the adverse scenario and remain well above those observed in 2007/2008, i.e. before the great financial crisis. The pandemic has demonstrated the important role that a well-capitalized banking sector plays in supporting lending to the real economy and in withstanding losses. In light of significant uncertainty and very low default rates, banks are advised to take advantage of positive economic developments to strengthen their resilience and to also exercise prudence with capital distributions.*

While the COVID-19 pandemic had a significant negative impact on Austrian banks' profitability, it did not dent balance sheet growth. The latter was largely due to the Eurosystem's targeted longer-term refinancing operations (TLTROs). Ongoing strong lending together with surging cash and central bank deposits drove up total assets to EUR 1,169 billion (as of mid-2021). Since the start of the COVID-19 pandemic, Austrian banks have increasingly funded their balance sheets by having recourse to the Eurosystem's TLTROs. By mid-2021, more than 8% of their aggregated (unconsolidated) balance sheet had been funded via these operations, up from 2% at end-2019. At the peak of the global financial crisis, that percentage stood at 4%. The current increase was driven by favorable terms, which provided a nonnegligible boost to banks' profitability.

Market confidence in the Austrian banking system has remained high over the course of the pandemic. Austria's Banking Industry Country Risk Assessment Rating issued by Standard & Poor's continued to be among the strongest in the world. When TLTROs will eventually have to be substituted, this – together with Austrian banks' strong liquidity position – should allow for issuances at competitive funding costs.

While the relative importance of nonbank finance increased somewhat over the past decade, no structural shift became evident in the Austrian financial system over the last years. Financing in Austria is still dominated by banks, and market-based finance continues to play a smaller role, accounting for less than one-quarter of the financial system's assets. Overall, the relatively small growth registered by nonbank financial intermediaries in Austria is not seen as a matter of concern, as neither their structure nor their size is currently considered to pose a threat to financial stability. Nevertheless, supervisors monitor closely whether nonbank financial intermediaries are likely to be affected by investors' herding behavior, to what extent they can withstand losses and how their use of leverage is developing.[7]

Austrian banking subsidiaries' profits in CESEE came to EUR 1.4 billion in the first half of 2021, while total assets amounted to EUR 258 billion. Czechia is by far the most important CESEE host market for Austrian

[7] *For more information see Schober-Rhomberg, A., A. Trachta and M. Wicho. 2021. Nonbank financial intermediation in Austria – an update. In: Financial Stability Report 42. OeNB.*

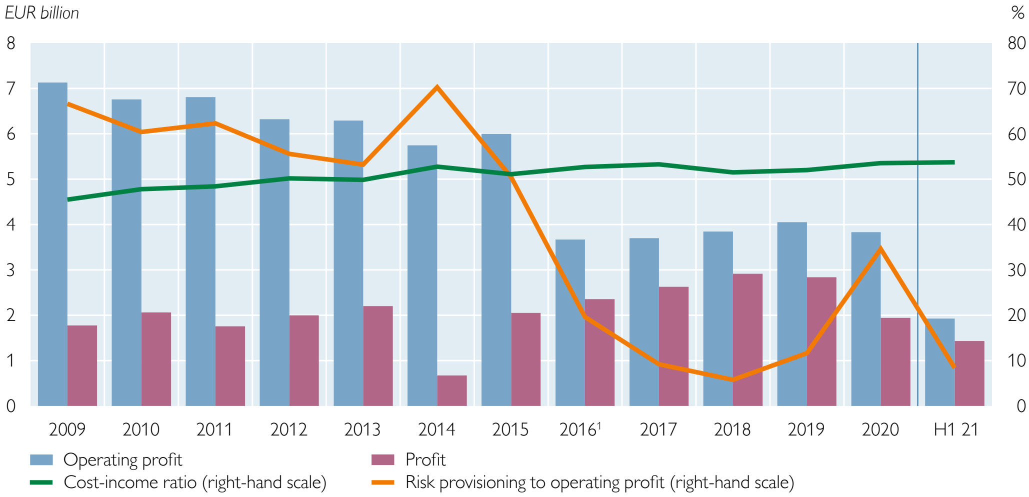
banking subsidiaries, accounting for more than one-third of total assets and close to one-quarter of profits. Measured by total assets, Slovakia and Romania complete the top three, with Hungary, Croatia and Russia close behind. The profit ranking for the first half of 2021 features the same countries, but highlights diverging profitability: behind Czechia, Russia takes the second and Romania the third place, followed by Slovakia, Hungary and Croatia. In total, Austrian banks' CESEE exposure is geographically well diversified, and more than four-fifths of total assets as well as more than two-thirds of profits relate to subsidiaries in the EU.

In the first half of 2021, Austrian banking subsidiaries in CESEE earned 56% more than during the same period of 2020, driven by much lower credit risk provisioning. Despite a slight reduction of net interest income and a negative contribution from trading losses, operating income rose by a slight 3%, as fees and commissions surged and other sources of income rebounded. With staff costs remaining flat but administrative costs rising noticeably, operating costs went up by 3%. As a result, operating profit increased by 4%. The largest contribution to the recovery in subsidiaries' first-half profit to EUR 1.4 billion came from much lower credit risk provisioning (–79% compared to the first half of 2020). While the subsidiaries were thus still provisioning for risks, the impact relative to operating profits returned to historically low pre-COVID-19 levels (see chart 6). This can be interpreted as a confirmation of banks' active provisioning in 2020, but given persistent uncertainties (e.g. related to low vaccination levels in several countries) and ongoing public support measures in the region, banks are well advised to exercise caution and ensure an adequate level of loan loss provisions.

The ratio of NPLs at Austrian banking subsidiaries in CESEE reached a new low of 2.2% in mid-2021, while capitalization remained solid. The low NPL ratio for total loans in the region masks several heterogeneities. Depending on the loan segment, the NPL ratio ranges from 1.9% for residential real estate

Chart 6

Profitability of Austrian banking subsidiaries in CESEE



Source: OeNB.

[1] *From 2016 onward, excluding subsidiaries of UniCredit Bank Austria.*

secured loans to 3.7% for corporate loans and 5.9% for consumer loans. In a country comparison, the lowest ratio was recorded in Czechia (1.3%), while it was, for instance, elevated in Croatia (4.7%). The aggregate coverage ratio ran to 64%. In mid-2021, the aggregate CET1 ratio of Austrian banking subsidiaries in CESEE stood at 18% and the loan-to-deposit ratio at 72%. The solid capital and funding levels bear testament to past efforts by banks and their supervisors to make banking systems more resilient, which serves financial stability well during the ongoing pandemic.

Systemic risks arising from real estate financing might warrant further action in Austria. Lending to households for house purchases continued to grow briskly in 2021, and house prices rose sharply. These developments were fueled by very low interest rates and strong competition among lenders. As a result, lenders saw their margins drop further and they were willing to tolerate more risk in the form of elevated loan-to-value and debt service-to-income ratios. Data for the first half of 2021 show that a considerable share of new lending still failed to comply with the recommendation issued by the Austrian Financial Market Stability Board (FMSB) in 2018[8]. In addition, variable rate loans still account for close to 40% of new lending, exposing households to considerable interest rate risk. Therefore, the FMSB has asked the OeNB to perform a comprehensive analysis of systemic risks arising from real estate financing, based on which the FMSB will decide on the need for further action.

The credit-to-GDP gap widened, yet primarily because of a negative business cycle, as annual GDP plummeted by 5.5% from the first quarter of 2020 to the first quarter of 2021. For the time being, the FMSB recommends applying a countercyclical capital buffer (CCyB) of 0%, but emphasizes that credit growth (relative to GDP growth) is high and appears to be less and less aligned with economic growth. Moreover, additional indicators signal substantial financial market mispricing, increased risk taking by banks and a significant overvaluation of property prices. In particular, the risk weights of mortgage-backed and corporate loans are at historically low levels. Thanks to public support measures, insolvencies have decreased markedly compared to pre-pandemic levels, but their number may still increase as measures expire. A prolonged decoupling of rising risks and reduced risk awareness may threaten systemic stability over the medium term. As the economy recovers, any future decision on whether a higher CCyB requirement should be recommended will thus depend on whether the relevant indicators point to a sustained improvement.

Recommendations by the OeNB

The COVID-19 pandemic and its repercussions have overshadowed almost everything else for much of the last two years. To date, Austrian banks have weathered this difficult situation well thanks to the buildup of macroprudential capital buffers, temporary restrictions on dividend payments as well as public support measures provided for companies and households. Importantly, banks were able to continuously support the economy. Even though the recovery in 2021 provides grounds for cautious optimism, many uncertainties persist regarding the situation of both public

[8] *For further information, please refer to www.fmsg.at/en/publications/press-releases/2018/17th-meeting.html.*

health and the economy. The OeNB therefore recommends that banks take the following measures:

- Focus on a solid capital base by exercising restraint with regard to profit distributions.
- Apply sustainable lending standards, particularly in real estate lending, both in Austria and in CESEE, and comply with the quantitative guidance issued by the Austrian Financial Market Stability Board.
- Ensure an adequate level of loan loss provisions, especially after the expiration of COVID-19-related support measures.
- Continue efforts to improve cost efficiency and operational profitability.
- Further develop and implement strategies to deal with the challenges of digitalization and climate change.[9]

[9] *Please refer to Guth, M., J. Hesse, C. Königswieser, G. Krenn, C. Lipp, B. Neudorfer, M. Schneider, P. Weiss. 2021. OeNB climate risk stress test – modeling a carbon price shock for the Austrian banking sector. In: Financial Stability Report 42. OeNB.*