

# Nonfinancial corporations and households in Austria strongly affected by the pandemic

## Vulnerabilities in the Austrian nonfinancial corporate sector mitigated by public support measures in the short term

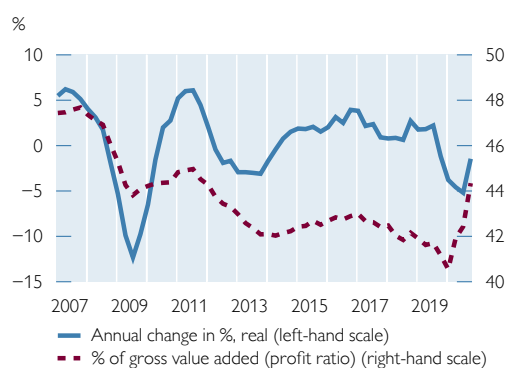
### Economic activity in Austria strongly hit by COVID-19

The coronavirus pandemic seriously impacted economic developments in 2020 and continues to do so in 2021. After contracting sharply during the first lockdown in spring 2020, the Austrian economy recovered over the summer months. The GDP losses during the second and third lockdowns in fall and winter 2020 were not as pronounced as those incurred during the first lockdown. Overall, Austrian GDP declined by 6.6% in real terms in 2020. The exceptionally high level of uncertainty caused by the pandemic prompted many businesses to halt or postpone investment projects. In some cases, interruptions or shortfalls in delivery or production made it impossible to fully complete ongoing investment projects. Construction investment was more stable on the back of ongoing high demand owing to rising property prices and favorable funding conditions.

Due to large-scale government support measures, profitability deteriorated only slightly despite the sharp contraction in economic activity. The gross operating surplus<sup>1</sup> of Austrian nonfinancial corporations was down 1.4% year on year in real terms in 2020 (see chart 2.1). Gross value added of nonfinancial corporations fell faster than the compensation of employees, but this decline was offset in part by an increase in production subsidies (“other subsidies on production”) resulting from the various support measures (such as short-time work schemes, fixed cost grants and compensation for sales losses). As a result, the reduction in profits since the onset of the pandemic has not only been less severe than during the global financial crisis of 2008–09 (GFC), it has also been less pronounced than the current fall in economic activity. Therefore, the profit ratio – as measured by gross operating surplus divided by gross value added – even increased in 2020, by 3 percentage points to 44.3%. Moreover, nonfinancial corporations’ balance of property income received minus property income paid – which is usually negative – improved (by almost 40%), mainly because of a diminished distribution of corporate profits to firms’ owners or shareholders<sup>2</sup>. This was primarily attributable to the fact that the distribution of profits and dividends was prohibited for businesses that received fixed cost grants. As a result, (gross)

Chart 2.1

### Gross operating surplus of Austrian nonfinancial corporations<sup>1</sup>



Source: Statistics Austria.

<sup>1</sup> Four-quarter moving sums.

<sup>1</sup> Including mixed income (income of the self-employed and other unincorporated businesses).

<sup>2</sup> It has to be taken into account that in the national accounts this item is derived as a residual and thus surrounded by a certain degree of uncertainty. Moreover, profits reinvested by foreign multinational corporations in their Austrian subsidiaries also declined, as did profits reinvested by Austrian corporations in their foreign subsidiaries.

internal financing, the most important source of funds for Austrian nonfinancial corporations, even improved by almost one-quarter in 2020. Yet, it has to be borne in mind that the current figures are distorted by the comprehensive government support measures. Therefore, they do not reflect the actual performance of the corporate sector during the pandemic and are not indicative of problems that may still lie ahead.

### Financing needs of Austrian nonfinancial corporations subdued

#### Nonfinancial corporations' external financing volumes plummeted in 2020, reflecting negative equity financing and reduced debt financing.

According to preliminary financial accounts data, external financing amounted to EUR 5.8 billion, a level two-thirds below the 2019 value. On the one hand, this reflected reduced financing needs as investment projects were postponed amidst the worsening of the short-term growth outlook. Also, the sizable liquidity buffers that had been built up in the first phase of the pandemic reduced financing needs. Moreover, ample internal financing might also have played a role. On the other hand, external financing continued to benefit from favorable financing conditions. Equity financing, which had already been rather subdued in the two preceding years, was negative in net terms at –EUR 7.1 billion in 2020, as foreign investors reduced their investments in resident corporations.

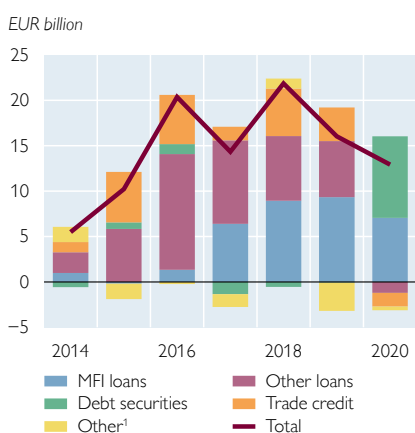
#### Thus, external financing took exclusively the form of debt in 2020.

Reflecting lower financing needs, net debt flows to nonfinancial corporations fell by 19.4% to EUR 12.9 billion (see chart 2.2). Debt financing was entirely long-term (with maturities over one year), while short-term funding decreased, and came to a large extent from domestic sources, primarily monetary financial institutions (MFIs). Trade credit, which typically moves in tandem with overall economic activity, was negative in 2020. In contrast, loans from other enterprises, which largely reflect transactions within corporate groups, increased slightly.

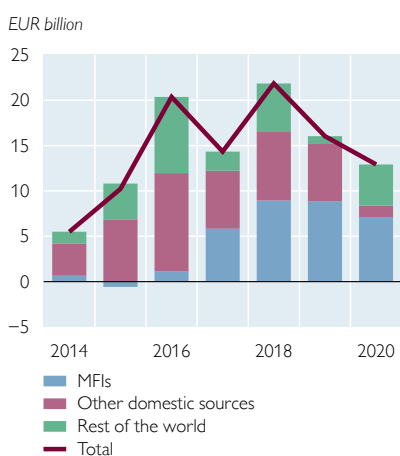
Chart 2.2

### Debt financing of Austrian nonfinancial corporations

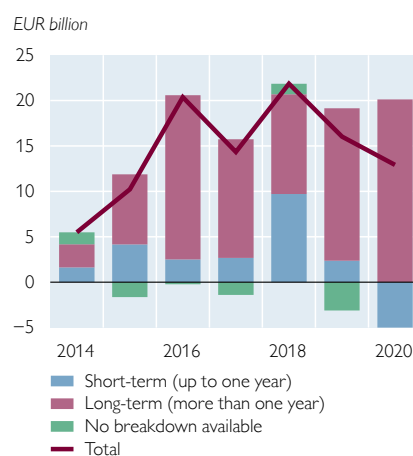
#### By instrument



#### By sector



#### By maturity



Source: Statistics Austria.

Note: 2020 data are preliminary.

¹ Pension entitlements and other accounts payable.

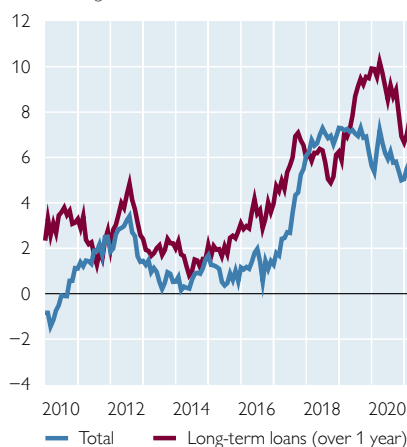
**Bank loans remained a central tool for maintaining companies' liquidity during the COVID-19 pandemic.** The Eurosystem eased banks' refinancing conditions through multiple monetary policy instruments, including direct asset purchases (under the pandemic emergency purchase programme – PEPP) as well as lending operations, in particular targeted longer-term refinancing operations (TLTRO III) aimed at encouraging banks to extend loans to the private sector. In addition, the government provided unprecedented fiscal stimulus to nonfinancial corporations. At the same time, moratoria on repayments and public guarantees for bank loans alleviated stress on borrowers and allowed banks to provide new lending, thereby offering short-term relief to firms in an environment of compressed cash flows and ensuing needs for working capital. Accordingly, loans by domestic banks, whose share in debt financing had already been comparatively high in recent years, accounted for more than half of debt financing in 2020. Their role was particularly important in the first two months of the pandemic, when firms took recourse to short-term loans to secure liquidity. After this spike, the annual growth rate of MFI loans to nonfinancial corporations moderated, reaching 5.8% in March 2021 (according to BSI data, adjusted for securitization as well as for reclassifications, valuation changes and exchange rate effects). While this value was down 1.4 percentage points from the level recorded in April 2020, it was still rather high by historical standards (see chart 2.3). One factor behind this decrease could have been the drop in the use of COVID-19-related moratoria, which had impacted loan growth rates by reducing repayments. From their peak recorded in mid-2020, the amount of loans under moratoria declined by almost two-thirds, as a significant share of deferrals expired.<sup>3</sup> In contrast, loans with

Chart 2.3

### MFI loans to Austrian nonfinancial corporations

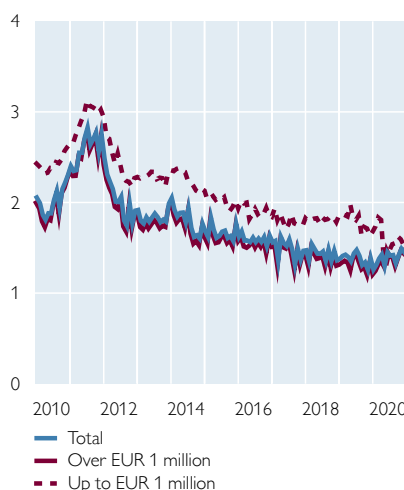
#### Volumes

Annual change in %<sup>1</sup>



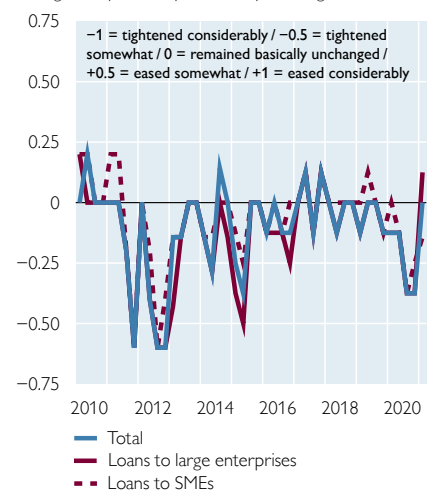
#### Interest rates on new loans<sup>2</sup>

%



#### Credit standards (bank lending survey)

Change over previous quarter, net percentages



Source: OeNB.

<sup>1</sup> Adjusted for reclassifications, valuation changes and exchange rate effects.

<sup>2</sup> Euro-denominated loans.

<sup>3</sup> See Fidesser, S., A. Greiner, I. Ladurner, Z. Mrazova, C. Schweiger, R. Spitzer and E. Woschnagg. 2021. COVID-19-related payment moratoria and public guarantees for loans – stocktaking and outlook. In: *Financial Stability Report 41*. OeNB.

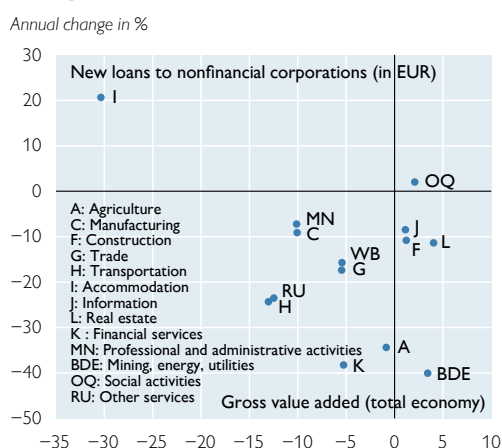
COVID-19-related public guarantees increased until early 2021, although their growth had leveled off markedly toward the end of 2020. Another factor was that enterprises could draw on the liquidity buffers accumulated in the first months of the pandemic, and liquidity needs arising during the second wave of the pandemic were lower than those during the first wave. Short-term loans (with a maturity of up to one year), which had made a large contribution to loan growth at the beginning of the COVID-19 pandemic, were redeemed in net terms in the second half of 2020. In contrast, the outstanding amount of medium- and long-term loans increased, to a large extent because government guarantees were typically given for loans with medium-term maturities.

**Gross new loans to nonfinancial corporations were down 16.5% in 2020 against the year before.** In general, new loans reflected firms' financing needs during the pandemic. On the one hand, there were differences by loan size: While new loans of more than EUR 1 million were down 20%, new loans of up to EUR 1 million rose by 6%. The latter include the loan category that is eligible for public loan guarantees, i.e. loans with a volume of up to EUR 500,000 and a maximum term of five years. Here, new lending even doubled in 2020 compared to the year before. On the other hand, loan growth differed across industries in 2020 (see chart 2.4<sup>4</sup>). One factor behind these differences in the uptake of new loans was the drop in the gross value added registered in 2020, and the industry most affected by the pandemic – accommodation and food service activities – even increased its volume of new loans by 20%. This indicates that loans were taken out not for investment but to bridge liquidity shortages or build up liquidity buffers.

**Credit standards for loans to enterprises were tightened throughout 2020, but remained stable in the first quarter of 2021,** according to the

Chart 2.4

### New loans to nonfinancial corporations and gross value added 2020



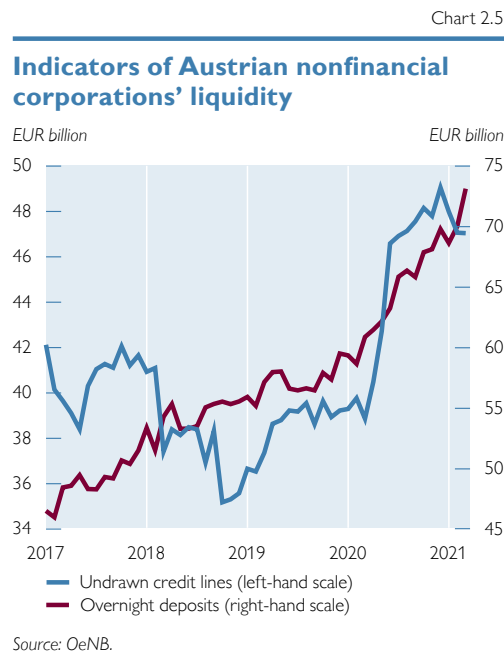
Austrian results of the euro area bank lending survey (BLS). The main factors contributing to this tightening were a deterioration in the assessment of risks stemming from the general economic and the firm-specific situation as well as banks' reduced risk tolerance. Notably, banks reported a significant easing of credit standards for loans with COVID-19-related government guarantees in 2020, while standards for loans without government guarantees were already tightened in the first half of the year. Likewise, demand for government-guaranteed loans – which had been particularly strong in the first half of 2020 – weakened in the second half of the year.

<sup>4</sup> Gross value added refers to the gross value added of the total economy.

Since the onset of the pandemic, nonfinancial corporations have built up substantial liquidity reserves. On top of the loans already disbursed to firms, banks provided additional liquidity in the form of new credit lines. As firms have so far only made partial use of the credit lines granted to them, undrawn credit lines increased briskly, rising by 18.5% year on year in March 2021, a reduction in the first months of this year notwithstanding (see chart 2.5). Additionally, firms' transferable deposits continued to rise (by 20% in March 2021), even though the interest rates on nonfinancial corporations' short-term deposits were negative throughout 2020 and early 2021. A large part of these funds were bank funds and funds raised on the bond market which have not yet been spent. While this increase may reflect precautionary motives, the very low interest rate level has also reduced the opportunity cost of holding liquidity.

**Credit conditions have tightened somewhat since the outbreak of the pandemic.** Between March 2020 and March 2021, interest rates on new loans to nonfinancial corporations decreased on average by 19 basis points, higher risk premia due to the economic impact of the pandemic on firms' revenues notwithstanding. This likely reflected the easing monetary policy stance. In particular in the first months of the pandemic, interest rates varied widely across different loan segments. While interest rates on larger loans (with a volume of more than EUR 1 million) rose, rates on smaller loans decreased in the first months following the onset of the pandemic. This was especially true for interest rates on loans with an interest fixation period of 1 to 5 years, which fell by 144 basis points in the second quarter of 2020. This is typically the size and maturity bracket of guaranteed loans, for which risk considerations are less of a concern. With the role of guarantees in the development of loans diminishing, the interest rate on loans of this size and maturity bracket rebounded by 77 basis points by March 2021. As in previous years, banks participating in the BLS stated that over the course of 2020 and in early 2021, interest margins on riskier loans to firms were widened to a larger extent than margins on loans with average risk (which were even eased slightly in the first quarter of 2021). Other terms and conditions, such as collateral requirements and loan covenants, were also tightened, according to the BLS.

**Corporate bond issuance has increased substantially since the beginning of the pandemic.** Securities statistics show that after three years of negative net issuance, Austrian nonfinancial corporations raised close to EUR 9 billion in net terms via debt securities in 2020. This was the highest value on record, and like in the years following the GFC, debt securities issuance surpassed the net amount obtained via MFI loans. Bond financing accounted for more than half of total external



financing in 2020, according to financial accounts data. On the one hand, this surge undoubtedly reflected growing financing needs, but on the other hand, corporate bond issuance also benefited from the narrowing of corporate bond spreads facilitated by the enhancement of the ECB's securities purchase programs, which include corporate bonds. That said, this form of finance was used by a comparatively small number of large firms.

### **Debt servicing capacity of the corporate sector affected by the pandemic**

**COVID-19 has seriously affected the debt sustainability of Austrian companies.** In 2020, the aggregate corporate sector's consolidated debt-to-income ratio surged by 14 percentage points to 325%.<sup>5</sup> Chart 2.6 shows that this increase was almost entirely driven by higher debt while lower gross operating surplus only played a minor role. However, as pointed out above, the gross operating surplus of nonfinancial corporations was largely underpinned by government support measures in 2020. Their eventual discontinuation could affect gross operating surplus and subsequently the debt-to-income ratio. Conversely, a rebound in economic activity could at least partially reverse the rise in the debt-to-income ratio. Moreover, the increase in corporate debt was accompanied by a significant increase in liquid assets (cash and bank deposits) held by the corporate sector so that in the aggregate, the balance of corporate debt and liquid assets even decreased slightly in 2020. Furthermore, the Austrian value was below the euro area average. However, this aggregate figure masks the substantial heterogeneity across industries as regards the impact of the pandemic. At least for firms hit most by the pandemic, the higher debt levels resulting from additional loans taken out to make up for lost revenues will persistently affect corporate indebtedness. This is all the more a concern as the conditions to generate equity have deteriorated in the current situation too, as raising external equity – which had been already muted in the years before the pandemic – has been seriously hampered by the uncertain economic outlook. Thus, further policy measures related to the pandemic should take into account possible effects on Austrian enterprises' equity.

### **Nonfinancial corporations' interest burden remained low in 2020.**

The ratio of interest payment obligations for (domestic) bank loans to gross operating surplus remained stable at 3% in 2020 (compared to 9% in 2008), despite the sizable increase in loan volumes since then. As the majority of guaranteed loans have medium-term interest rate fixation periods, the share of variable rate loans declined by 1.6 percentage points year on year to 79.7% in the first quarter of 2021.

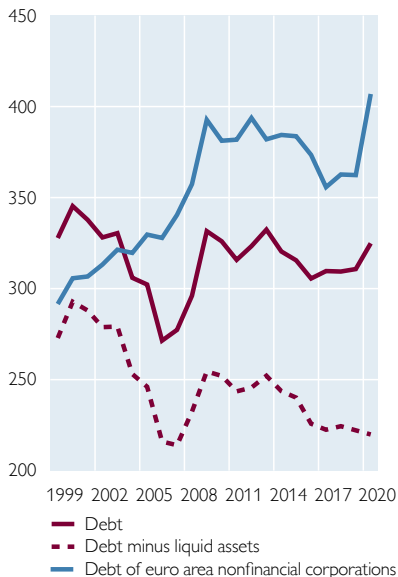
**Due to government support measures, insolvency numbers have fallen significantly since the start of the pandemic, but lagged effects are likely to materialize when support measures are eventually phased out.** The number of insolvencies dropped by 40% in 2020 compared to the previous year, according to the creditor protection association KSV 1870. However, this reduction did not reflect economic developments but was solely attributable to the large-scale government aid and protection measures. On the one hand, the impact

<sup>5</sup> This measure follows Eurostat's and the European Commission's debt measures for the macroeconomic imbalance procedure (MIP) surveillance mechanism. It excludes pension scheme liabilities, which are not very significant in Austria, and other accounts payable, such as trade credit and other items due to be paid, mostly on a short-term basis. These items essentially constitute operational debt, i.e. liabilities that a firm incurs through its primary activities. Data are presented in consolidated terms, i.e. transactions within the corporate sector are not taken into account.

### Consolidated debt and interest expenses of Austrian nonfinancial corporations

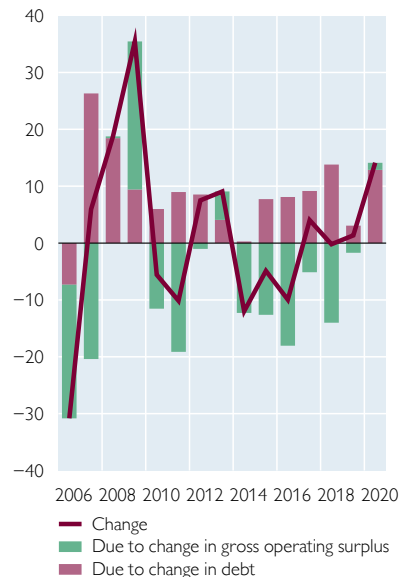
#### Consolidated debt

% of gross operating surplus



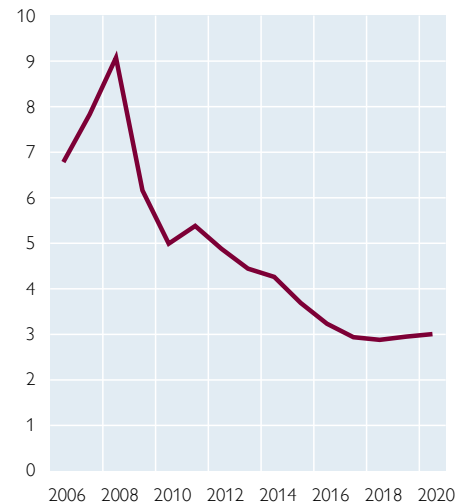
#### Change in consolidated debt

Percentage points



#### Interest expenses on MFI loans

% of gross operating surplus



Source: OeNB, Statistics Austria.

Note: Consolidated gross debt is the sum of total loans granted to and debt securities issued by nonfinancial corporations net of intra-sectoral lending. Data for 2020 are preliminary.

of the economic slump on companies was cushioned by a series of liquidity-supporting measures. On the other hand, companies benefited from deferrals of taxes and social security contributions. In addition, the obligation to file for bankruptcy due to overindebtedness was temporarily suspended. Other policy measures, such as loan guarantees and moratoria, which temporarily shielded firms from the economic effects of the pandemic, also contributed to this decline.<sup>6</sup> Yet, while these relief measures have so far helped avoid widespread bankruptcies, they have shifted insolvency risks into the future. Not only is there a danger of lagged effects when bankruptcy relief measures are phased out, but these measures may also touch off additional insolvencies. Moreover, the increased borrowing that went along with a number of those policy measures may impair the future repayment capacity of enterprises, a situation which may be further aggravated by the fact that loans to the industries hit hardest by the crisis expanded most.

### Households' debt sustainability weakened by the pandemic despite government support measures and increased savings

#### Households' financial investments increased strongly amid surging saving ratio

**The COVID-19 pandemic and the related containment measures have significantly dampened household income.** Yet, given the severity of the recession, households' real disposable income fell comparatively moderately – by

<sup>6</sup> See Elsinger, H., P. Fessler, S. Kerbl, A. Schneider, M. Schürz, S. Wiesinger. 2021. *The calm before the storm? Insolvencies during the COVID-19 pandemic*. In: *Financial Stability Report 41*. OeNB.

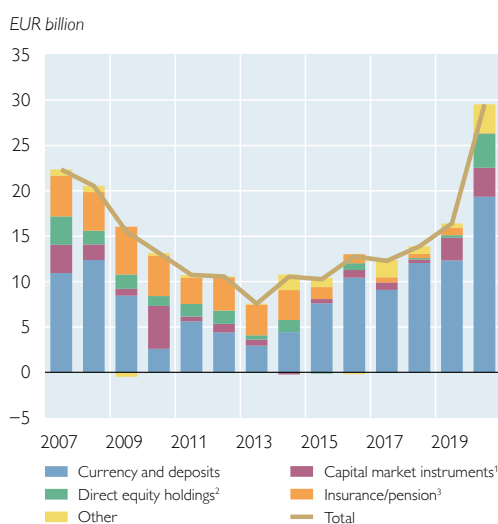
1.9% – in 2020 as income was supported by massive government transfers (unemployment benefits, short-time work subsidies, higher pension benefits, one-off payments, etc.). Apart from a drop in the compensation of employees, the main reason for the decline in disposable income was a 43% fall in property income, primarily due to a massive reduction in corporate income distribution (which had supported the internal financing capacity of the nonfinancial corporation sector, see above). As the COVID-19-related restrictions had limited consumption possibilities, private consumption declined much more strongly than income (by 9.4%), resulting in the saving ratio surging from 8.2% in 2019 to 14.4% in 2020. In addition to this forced saving, precautionary saving increased as people felt increasingly insecure about their income situation.

**Financial investment flows of households surged in 2020.** Mirroring the jump in the saving ratio, households' financial investment flows rose by 80% year on year to EUR 29.5 billion (see chart 2.7). Reflecting high uncertainty, liquid assets contributed more than three-quarters as households increased their cash holdings by EUR 2.4 billion and their overnight deposits by EUR 20.4 billion. Other bank deposits were reduced by EUR 3.5 billion as the shift from time and saving deposits to overnight deposits continued.

**By the end of 2020, households' capital market investment holdings recovered the sizable valuation losses suffered in the early stages of the pandemic.** In 2020, net financial investments in capital market instruments amounted to EUR 3.2 billion, the highest value in a decade. Investment in listed shares had been especially buoyant, reaching EUR 2.4 billion, the highest value since the start of the compilation of financial accounts data in 1996. Households also continued to invest in mutual fund shares, while further reducing their direct

Chart 2.7

### Households' net financial investments



Source: OeNB.

Note: Data for 2020 are preliminary.

<sup>1</sup> Debt securities, mutual fund shares and listed shares.

<sup>2</sup> Unlisted shares and other equity.

<sup>3</sup> Insurance, pension entitlements and severance funds.

holdings of debt securities. Given the massive price declines in national and international capital markets following the COVID-19 shock in spring 2020, households encountered massive (unrealized) valuation losses in the first quarter of 2020. However, as capital markets had recouped a significant share of these losses by the end of the year, households registered (again: unrealized) valuation gains of about EUR 1 billion in 2020 as a whole, equivalent to 0.8% of the outstanding amount at end-2019. In contrast, the GFC had caused cumulative valuation losses of EUR 19 billion in 2008. Apart from that, investments in capital market instruments are very much concentrated in the portfolios of higher-income households, who are in a better position to bear such valuation losses, as the results of the Household Finance and Consumption Survey



(HFCS) for Austria show.<sup>7</sup> Moreover, households invested EUR 3.8 billion in other equity, around EUR 3 billion of which were in fact capital injections by households into firms in economic distress because of the COVID-19 pandemic.

### **Housing loans remain buoyant amid favorable financing conditions and strong demand for real estate**

**After the onset of the pandemic, the growth of bank lending to households has subsided slightly.** In the twelve months to March 2021, the annual growth rate of bank loans to households slowed from 4.3% to 3.9% year on year (adjusted for reclassifications, valuation changes and exchange rate effects; see chart 2.8). This moderation reflected uncertainties among households about the impact of the pandemic on their disposable income and employment prospects. Moreover, as in the corporate loan segment, reduced repayments due to moratoria for persons who suffered substantial cuts in incomes as a result of the health crisis supported outstanding loans to households and thus growth rates. In line with the decrease in consumption of durables and the extraordinary fall in consumer confidence in 2020, consumer loans were down 5.4% year on year in March 2021. Other loans, which include loans to sole proprietors and unincorporated enterprises (which were eligible for loan guarantees), rose by 1.4%. As in past years, the main contribution to loan growth came from housing loans, not only because the latter are the most important 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 of all loan purposes, reaching 6.1% year on year in March 2021. At the same time, households faced tighter lending standards for housing loans from banks, which – according to the BLS – had been tightened between the second and the fourth quarters of 2020 (as they had already been throughout 2019) mainly because of the deteriorating general economic situation and a lower risk tolerance. Demand for housing loans, which had risen in the two years up to the third quarter of 2020, stabilized since then.

**The conditions for housing loans remained favorable overall.** Interest rates on new bank loans to households fell by 17 basis points to 1.62% in the period from March 2020 to March 2021, while interest rates on housing loans fell by 22 basis points to 1.18%, which may have buoyed demand. In contrast, rates on consumer loans rose by 55 basis points to 5.48%. However, conditions for taking out housing loans became tighter in 2020, especially for riskier borrowers. BLS results show that banks' margins for riskier housing loans were tightened to a larger extent than margins for loans to borrowers with an average risk profile. Other terms and conditions remained stable in the first quarter of 2021, after collateral requirements and loan size limits had been tightened in 2020.

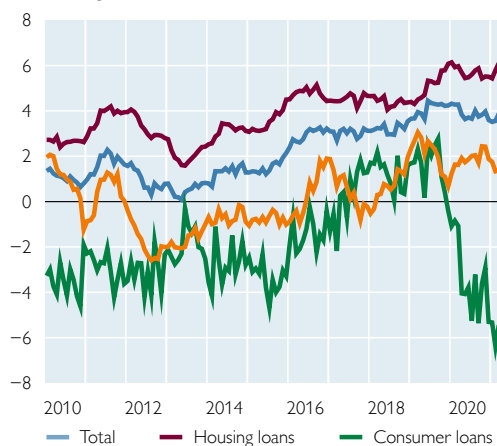
<sup>7</sup> For instance, 2.6% of households in the lowest income quintile but 18.4% in the highest income quintile own mutual fund shares. For stocks, the percentages are 1.6% and 11.3%, respectively.

Chart 2.8

## Loans to Austrian households

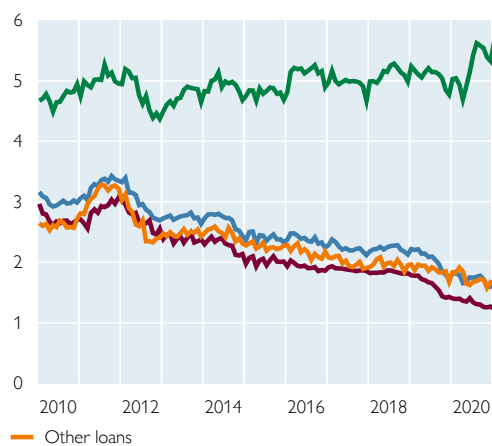
### Volumes

Annual change in %<sup>1</sup>



### Interest rates on new loans<sup>2</sup>

%



Source: OeNB.

<sup>1</sup> Adjusted for reclassifications, valuation changes and exchange rate effects.

<sup>2</sup> Euro-denominated loans.

**The sustainability of household debt has deteriorated somewhat since the onset of COVID-19.** Compared to 2019, households' debt-to-income ratio rose by 5.1 percentage points to 93.4% in 2020, which marked the highest growth rate in 15 years. Both the increase in outstanding debt and the reduction in disposable income contributed to this rise in roughly equal measure (see chart 2.9). Loan moratoria have eased the financial pressure on households that have made use of this measure for the time being but may increase the burden of debt servicing once moratoria expire. However, as is the case with financial assets, a significant share of household debt is held by households with higher incomes, who are more likely to have sufficient funds to service their loans.<sup>8</sup> Moreover, both a moderate increase in debt and the low interest rate level have kept households' interest expenses at a low 1.6% of aggregate disposable income in 2020. This was more than 2 percentage points below the rate recorded at the onset of the GFC in 2008, i.e. the year before interest rates had started to fall. Other risk factors of household loans likewise indicated a better situation than during the GFC: The share of variable rate loans (floating rate and up to one year initial rate fixation) in new housing loans decreased further in 2020 and the first months of 2021 – to roughly 39% – while the share of new housing loans with a very long interest fixation period (more than ten years) continued to rise, reaching 46% in the first quarter of 2021 and thus surpassing the variable rate share. Foreign currency loans also decreased further, to less than 6% of all outstanding loans (and to 8% of housing loans). Moreover, taking both financial investments and financing into account, the net lending position of the household sector rose sharply in 2020.

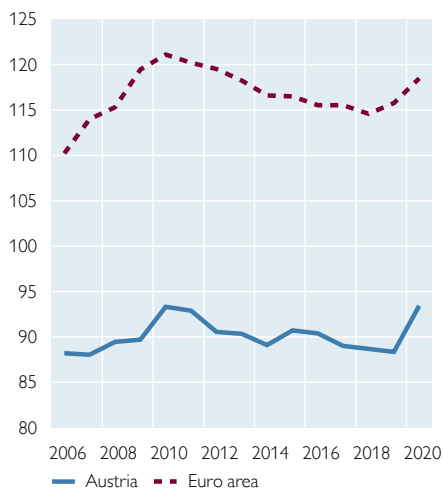
<sup>8</sup> According to the most recent HFCS data, about 21% of households in the lowest income quintile, but 46% in the highest income quintile had taken out a loan in 2017.

Chart 2.9

### Debt and interest expenses of Austrian households

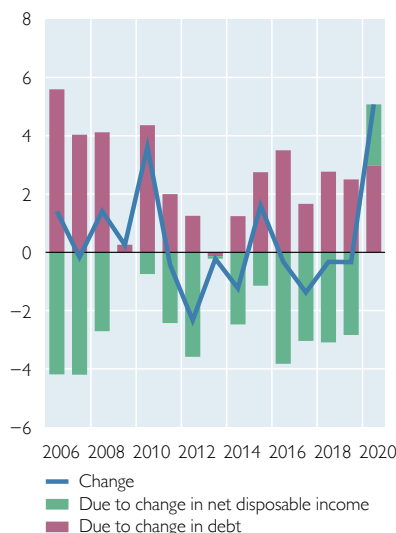
#### Debt

% of net disposable income



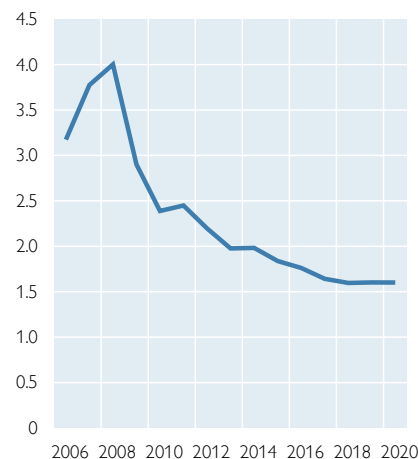
#### Change in debt

Percentage points



#### Interest expenses

% of gross operating surplus



Source: OeNB, Statistics Austria.

Note: Data for 2020 are preliminary.

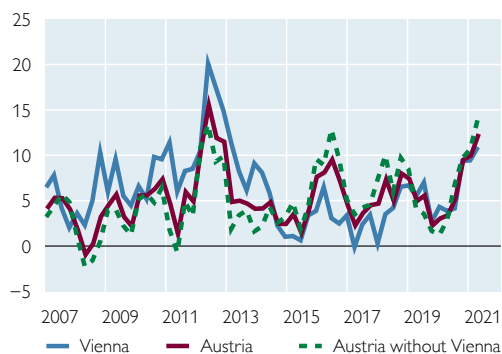
**Residential property prices in Austria show increasing signs of overheating.** In the first quarter of 2021, nominal prices increased by 12.3% year on year, with prices continuing to trend upward both in Vienna and in the rest of Austria. The overall pickup in prices was above all due to the pronounced increase in single-family house prices since the onset of COVID-19, which might be related to increased working from home and the lockdowns in general. The OeNB fundamentals indicator for residential property prices reached 18.8% in the first quarter of 2021, signaling an increasing overheating of the residential real estate market in Austria.<sup>9</sup>

Chart 2.10

### Austrian residential property market

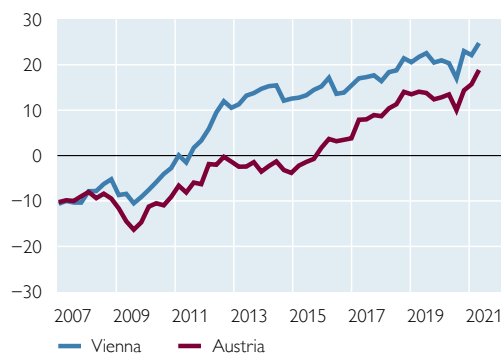
#### Residential property prices

Annual change in %



#### OeNB fundamentals indicator for residential property prices

Deviation from fundamental price in %



Source: TU Wien, OeNB.

<sup>9</sup> For more information on the property market in Austria, see the latest edition of our quarterly publication "Immobilien aktuell" (available in German only) at <https://www.oenb.at/Publikationen/Volkswirtschaft/immobilien-aktuell.html>.