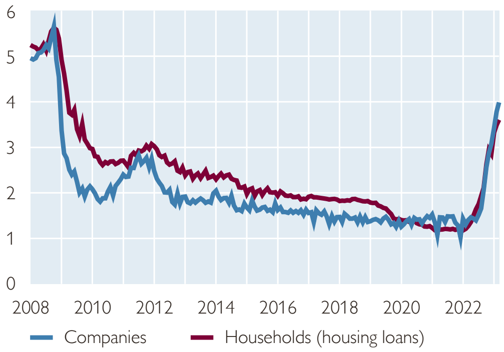
Austrian borrowers face tighter financing conditions

Chart 2.1

Austria: lending rates for new loans

% p.a.



Source: OeNB.

The Austrian economy grew by 5.0% in 2022 and will cool off markedly in 2023. Since mid-2022, economic growth has decelerated due to high inflation rates as a consequence of the war in Ukraine. The slowdown of the global economy has put a damper on export demand, which is expected to remain low in the first half of 2023. High lending rates (see chart 2.1) due to a tightening of monetary policy are dampening (construction) investment. As inflation is expected to come down only modestly over the course of 2023, lending rates are expected to remain high for quite some time. In spite of the economic slowdown, the labor market is very robust, and the unemployment rate remains low. Easing tensions in energy markets are gradually raising economic sentiment among companies and households. In the second half of 2023, the Austrian economy is projected to regain momentum and economic growth will come to around 0.5% for 2023 before accelerating further in 2024. Despite high inventories, disruptions in energy supply remain the main downside risk to activity in the near future.

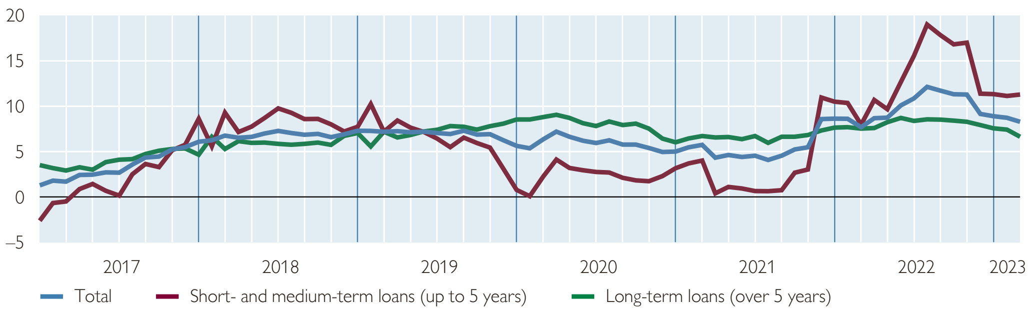
Rise of loan demand from companies came to a halt

During the last half-year, Austrian companies have been borrowing less. The growth rate of bank loans to companies started to decelerate in September 2022 and amounted to 8.3% (year on year) in March 2023, which is still high relative to historical levels (see chart 2.2). While this development applies to all loan maturities, the declining trend is most visible for short- and medium-term

Chart 2.2

Austria: bank loans to companies

Annual change in %



Source: OeNB.

loans (i.e. loans with maturities of up to five years), whose growth had accelerated particularly rapidly in the year before. According to the Austrian results of the euro area bank lending survey (BLS), the overall slowdown in credit growth is mainly attributable to a significant change in credit standards. Banks have comprehensively tightened their supply policies for corporate loans since the second quarter of 2022 and a further – albeit slighter – tightening is also expected for the second quarter of 2023. A less favorable risk assessment of the general economic situation is the main reason why banks implement stricter guidelines.

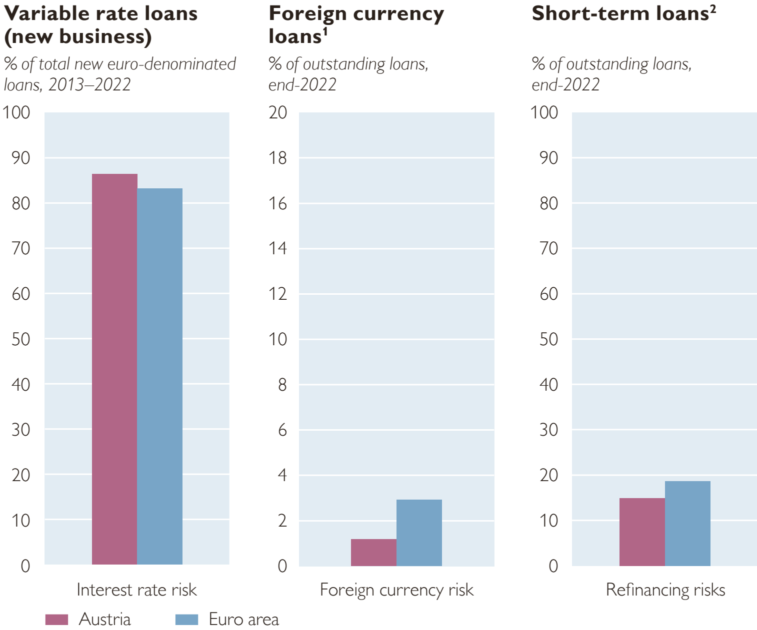
The increasing loan demand of Austrian companies came to a halt in the fourth quarter of 2022, according to the results of the BLS. While the demand for short-term loans continued to grow, the need for loans with terms of one year or more declined. Despite fading supply chain problems, financing needs for inventories and working capital are still high as companies aim to secure future deliveries. On the other hand, the uncertainty about the economic development dampens the demand for medium- and long-term loans. According to the surveyed banks, companies are more cautious about investments or are postponing them. This does not apply to investments in sustainable or renewable energies though, which are not affected by the decline in loan demand. For the second quarter of 2023, banks do not expect any further changes in overall loan demand.

Austrian companies' gross operating surplus grew more strongly than the sector's debt level. Overall debt in the corporate sector (i.e. loans and bonds) increased by EUR 11 billion in 2022. However, due to a marked increase in companies' profits, the aggregate corporate sector's debt-to-income ratio (DTI)[1] dropped by 10 percentage points within the last year. Standing at 307% at end-2022, the ratio remains below both the average value of 318% observed during the last ten years and the euro area average of 339% (end-2022). Hence, aggregate debt statistics so far do not point to any steady debt accumulation in the corporate sector. Still, credit risks are likely to increase for more vulnerable firms given high input costs, the tightening in financial conditions and the clouded economic environment.

Companies' debt-servicing costs are rising amid increasing interest rates. As the bulk of bank loans to companies are variable rate loans, indebted corporates are exposed to considerable interest rate risk. Over the last ten years, the average share of variable rate loans in total new (euro-denominated) loans amounted to 86%,

Chart 2.3

Austria versus the euro area: risk indicators for companies



Source: OeNB, ECB.

[1] Loans that are not denominated in euro.
[2] Loans with maturities of up to 1 year.

[1] *Defined as the consolidated gross debt of the corporate sector as a share of gross operating surplus.*

which is slightly higher than in the euro area (see chart 2.3, left-hand panel). Given this high share and the rise in interest rates, the ratio of companies' interest payment obligations for domestic bank loans to gross operating surplus surged by more than 2 percentage points and stood at 4.8% at end-2022. This is the highest level observed within the last ten years. Abstracting from interest rate risks, companies in Austria are less vulnerable compared to the euro area average when it comes to foreign currency and refinancing risks. As the share of short-term loans (with maturity periods of up to one year) make up only a small share of companies' outstanding loan volumes (15%), the related refinancing risks are rather moderate (see chart 2.3, right-hand panel). Also, the share of loans that are denominated in foreign currencies is very low (1.2%). Hence, possible losses from unfavorable exchange rate fluctuations are so far limited (see chart 2.3, middle panel).

Liquidity buffers (deposits and undrawn credit lines) are still above pre-pandemic levels. Companies' overnight deposits held by Austrian banks have been declining since the beginning of 2022 and have returned to levels seen before the COVID-19 pandemic. The observed reduction could reflect the gradual expiry of government support measures taken during the pandemic, which had significantly driven up firm deposits. However, in addition to overnight deposits, companies have a substantial amount of undrawn credit lines at their disposal. These credit lines also increased at the beginning of the COVID-19 pandemic but have remained constant so far.

For the first time, there were slightly more insolvencies compared to the period before the start of the pandemic. In the first quarter of 2023, the number of insolvencies stood at 619, compared to 535 in the first quarter of 2019. There were, however, no signs of an upward trend within the first quarter of 2023. The low number of insolvencies observed during the pandemic is a consequence of government support programs, which aimed to mitigate adverse developments in the corporate sector. As mitigating measures are now expiring, insolvencies are returning to pre-pandemic levels. Those industries that were strongly supported are still seeing significantly fewer insolvencies. This particularly applies to the restaurant industry. Overall, though, companies are challenged by the current economic environment and are likely to increasingly feel the effects of tighter financing conditions. Hence, over the medium term, while currently still low, the number of corporate insolvencies is likely to rise.