Companies and households in Austria were recovering from the pandemic in 2021

Debt servicing capacity of Austrian companies rebounded in 2021

Economic growth in Austria still subdued because of supply shocks

The Austrian economy had been recovering from the pandemic when the war in Ukraine hit. In 2021, the Austrian economy swiftly recovered from the sharp contraction of the economy caused by COVID-19-related restrictions in 2020. This recovery was only briefly interrupted by new containment measures at the end of the year, which – as in early 2021 – particularly affected the tourism sector. However, as global disruptions in the supply of intermediate goods became more frequent and delivery times for plant and equipment lengthened, investment activity, which had grown rapidly until early 2021 thanks to robust industrial production and the Austrian government's investment premium, shrank in real terms in the second half of the year. The war in Ukraine has sharply increased uncertainty and has already started to weigh on the recovery due to rising energy and commodity prices and negative confidence effects.

Since COVID-19, companies have more strongly relied on internal financing to improve their liquidity conditions. Although the gross value added of Austrian companies[1] remained below 2019 figures, their gross operating surplus[2] was 9% higher in 2021 than one year earlier (and 8% higher when compared to 2019). This increase mainly reflected a marked rise in the subsidies[3] received by firms as part of the comprehensive government support measures (such as short-time work schemes, fixed cost grants and compensation for lost sales). As a result, the profit ratio (as measured by gross operating surplus divided by gross value added) even increased slightly in 2021, climbing to 44.0%. Additionally, in 2021, distributions of corporate profits to firms' owners or shareholders[4] remained as low as in the year before.[5] Although uncertainty in the current economic environment may have motivated firms to safeguard their liquidity, distributions were primarily limited because the distribution of profits and dividends was prohibited for businesses that made use of the fixed cost grant. As a result, after having already realized a marked increase in 2020, Austrian companies' gross internal financing rose further in 2021 and continued to surpass gross capital formation.

Austrian firms are turning to external sources of financing again

Both nonfinancial and financial investments have risen strongly. In 2021, Austrian companies stepped up their investments compared to the year before (see chart 2.1). At EUR 31.2 billion, financial investments more than doubled against the previous year, surpassing the pre-pandemic level. This increase was primarily due to a strong surge in strategic acquisitions, which to a large extent represent direct investments in other enterprises. After having been reduced in the

[1] *For the sake of brevity, we use the terms "companies" and "firms" to refer to nonfinancial corporations in this section.*

[2] *Including mixed income (self-employed and other nonincorporated businesses income).*

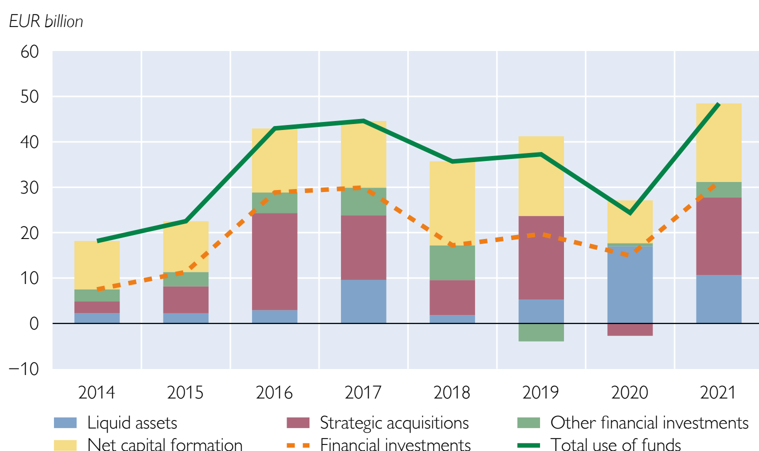
[3] *"Other subsidies on production" in the sector accounts.*

[4] *Including profits reinvested by foreign multinational corporations in their Austrian subsidiaries.*

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

Chart 2.1

Use of funds by Austrian companies

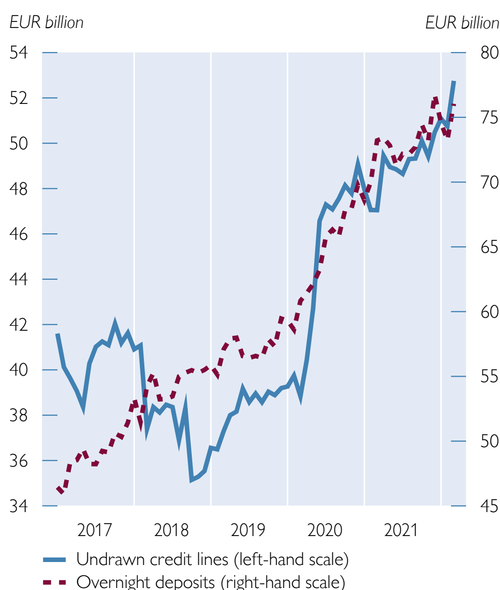


Source: Eurostat, OeNB.

Note: Liquid assets: cash, bank deposits, bonds, listed shares, investment fund shares; strategic acquisitions: unlisted shares, other equity and loans; other financial investments: trade credits, nonlife insurance technical reserves, other accounts payable; net capital formation: gross capital formation minus consumption of fixed capital. 2021 data are preliminary.

Chart 2.2

Indicators of Austrian companies' liquidity



Source: OeNB.

uncertain environment of the year 2020, they recovered swiftly in 2021. However, this item is in many instances driven by a few large transactions. The exceptionally large buildup of liquid assets, in particular bank deposits, which had been registered in the first phase of the pandemic, abated in 2021: Having reached more than two-thirds in 2020, the share of liquid assets in total investments fell to about one-fifth in 2021. Yet, firms' liquidity remains high, as a considerable part of the funds that had been raised from banks and on the bond market after the onset of COVID-19 have not yet been spent. The amount of liquid assets held by Austrian companies at the end of 2021 was equivalent to almost 42% of their outstanding debt, 7 percentage points more than at the end of 2019. On the one hand, this may reflect precautionary motives; on the other hand, the very low level of interest rates reduced the opportunity cost of holding liquidity. Additionally, firms had substantial undrawn credit lines as they had only made partial use of new credit lines provided by banks (see chart 2.2). The overnight deposits firms held at Austrian banks remained high (recording year-on-year growth of 3.9% in March 2022), although over the past years they have been subject to negative interest rates. As firms' net capital formation[6] returned to pre-pandemic levels (in nominal terms), the total use of funds in 2021 doubled from a year before.

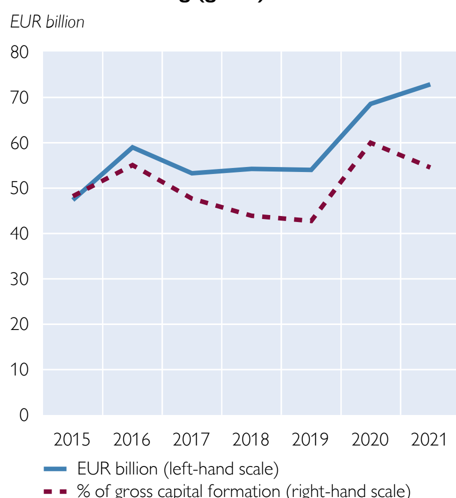
After having plunged in 2020, firms' external financing volumes rebounded in 2021. Despite the ample liquidity available to companies, external financing more than tripled to EUR 32.0 billion in 2021 against the year before, and was 44% higher than in 2019, the year before the onset of the COVID-19 pandemic (see chart 2.3, right-hand panel).

[6] *Gross capital formation minus consumption of fixed capital.*

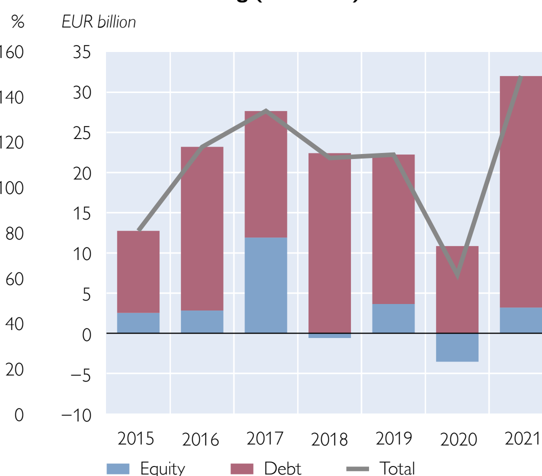
Chart 2.3

Sources of funds for Austrian companies

Internal financing (gross)[1]



External financing (net flows)



Source: Eurostat, OeNB.

[1] Sum of changes in net worth and depreciation.

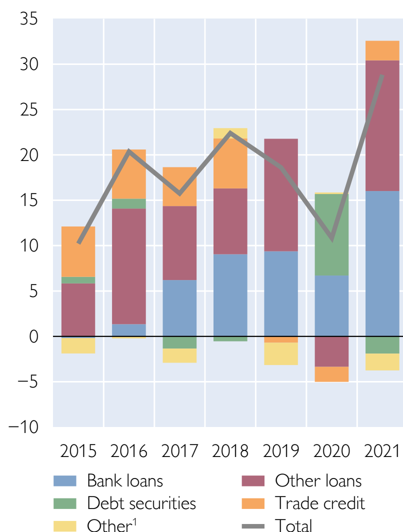
Note: 2021 data are preliminary.

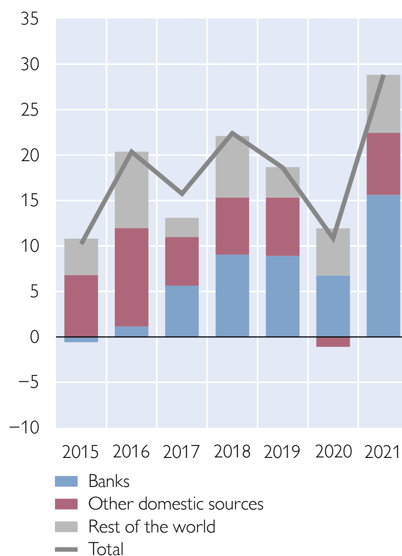
Most likely, this growth reflected the (nominal) increase in corporate investment activity and favorable financing conditions. Equity financing, which had been negative in the past year, recovered in 2021, as both domestic and foreign investors increased their investments in resident companies, yet remained 12.3% below the 2019 figure. At about 10%, its contribution to total external financing was rather low.

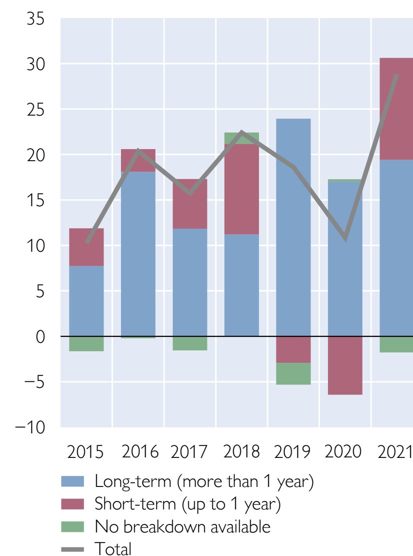
Debt instruments provided the bulk of external financing in 2021. Net debt financing by Austrian firms more than doubled to EUR 28.8 billion (see chart 2.4). In real terms, this was the highest value since 2007. As in 2020, domestic banks were the primary source of debt financing for the Austrian corporate sector, accounting for 54% of net debt transactions, mostly bank loans in the amount of EUR 16.0 billion. Another EUR 3.4 billion came from foreign banks. In contrast, net issuance of bonds, which had been a major source of financing for Austrian companies in the year before, was negative in 2021. However, this form of finance is typically used by a comparatively small number of large firms. Trade credit, which – as a key element of firms' working capital – typically moves in tandem with overall economic activity, recovered in 2021. Funds raised through trade credit largely came from foreign sources. Overall, 22% of the corporate sector's net debt financing was funded abroad. About the same share was provided by other domestic nonfinancial corporations. Long-term debt (with maturities over one year) accounted for roughly two-thirds of net debt flows to companies, even though short-term funding rebounded from the strong decrease in the year before.

Chart 2.4

Austrian companies' debt financing







Source: OeNB.

[1] Pension entitlements and other accounts payable.

Note: 2021 data are preliminary.

Throughout the pandemic, bank loans remained the backbone of external financing for companies. In March 2022, the annual growth rate of bank loans amounted to 7.6% (see chart 2.5). Apart from the three preceding months, this was the highest growth rate observed in twelve years. According to the Austrian results of the euro area bank lending survey (BLS), corporate loan demand rose throughout the four quarters leading up to the first quarter of 2022. According to the respondent banks, this increase was most frequently driven by inventories and working capital needs, which probably resulted from material and labor shortages. These shortages increased inventory and operating costs, exacerbated by higher energy costs, and primarily drove up the demand for short-term loans. Financing requirements for fixed investment, mergers and acquisitions and for corporate restructurings remained significant drivers of loan demand, most likely for loans beyond the short term. Overall, the role of public support in the granting of corporate loans diminished as COVID-19-related moratoria and state guarantees played almost no role anymore. During most of 2021, the main drivers of loan growth were the real estate-related sectors, benefiting from the government's investment premium and the real estate boom. From end-2021, loans to other industries registered noticeably higher expansion rates, with loans to service industries increasing particularly briskly (see chart 2.5, right-hand panel).

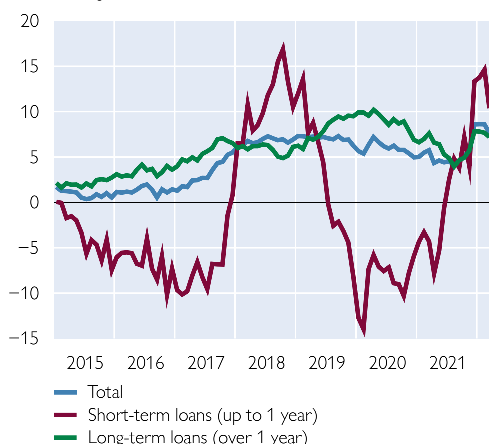
Banks have somewhat tightened their credit standards for corporate loans. According to BLS results, banks have tightened their corporate credit standards in recent quarters. In the first quarter of 2022, this decision was mainly driven by the worsening general economic and firm-specific outlook as well as the uncertain implications of the war against Ukraine for firms' credit risks. The share

Chart 2.5

Bank loans to Austrian companies

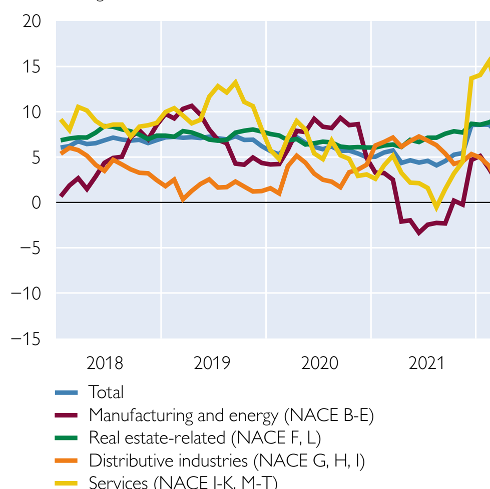
Loan growth by maturities

Annual change in %



Loan growth by industries

Annual change in %



Source: OeNB.

Note: Growth rates adjusted for reclassifications, valuation changes and exchange rate effects.

of rejected corporate loan applications remained broadly stable in 2021 and early 2022.

Overall credit conditions remained favorable. By keeping banks' funding costs low, the Eurosystem's expansionary monetary policy has kept bank lending rates at historically low levels. In March 2022, interest rates on new loans to companies were only 9 basis points higher than in February 2020, before the onset of the pandemic. When setting their lending rates, banks continued to differentiate based on risk considerations. Banks stated in the BLS that, while interest margins[7] on loans with average risk had been eased slightly over the course of 2021 and in early 2022, margins on riskier loans had been widened. Other terms and conditions, such as collateral requirements and loan covenants, remained mostly unchanged according to the survey.

Firms improved their debt-servicing capacity in 2021 but will be tested as they face the fallout of the war in Ukraine

Austrian companies' debt sustainability recovered in 2021. After having risen by more than 13 percentage points in 2020, the aggregate corporate sector's debt-to-income ratio decreased by 9 percentage points to 321% in 2021, thus almost returning to its pre-pandemic level (see chart 2.6, left-hand panel).[8] In nominal terms, debt was 10% higher at end-2021 than at end-2019. This rise in

[7] *Defined as the spread over relevant market reference rates.*

[8] *This measure follows Eurostat and the European Commission's debt measures for the MIP surveillance mechanism (Macroeconomic Imbalance Procedure). 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.*

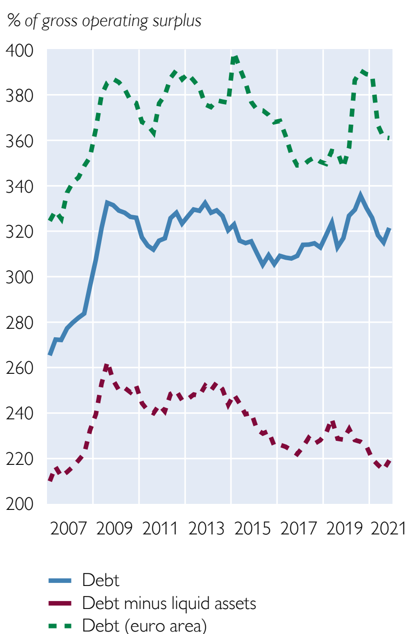
corporate debt was offset by an improvement in gross operating surplus in 2021, which – like in the year before – was not only explained by rebounding economic activity but also by public support measures. By strengthening corporate debt sustainability, these measures have so far prevented a liquidity crisis which could have turned into a solvency crisis. For firms that had experienced temporary liquidity squeezes due to COVID-19 but are otherwise viable, a continuation of the economic recovery should bring about further normalization. This recovery may, however, be put under strain by the war in Ukraine. A further increase of gross debt levels would make especially highly indebted firms more vulnerable to adverse shocks. Moreover, the impact of the pandemic has been very uneven across industries. For firms that have been severely hit by the pandemic and that are affected by the war in Ukraine, a further rise in debt levels due to lost revenues will persistently affect debt sustainability. Firms with larger debt are also more sensitive to a withdrawal of monetary accommodation as well as to repercussions of the war in Ukraine. At the same time, raising equity has proven difficult in the current situation, with the net contribution of equity to total external financing falling slightly into negative territory during the first two years of the pandemic, and will continue to be affected by the uncertain economic outlook. Thus, broadening the funding sources of Austrian firms beyond debt financing could reduce corporate vulnerabilities.

Chart 2.6

Risk indicators for Austrian companies

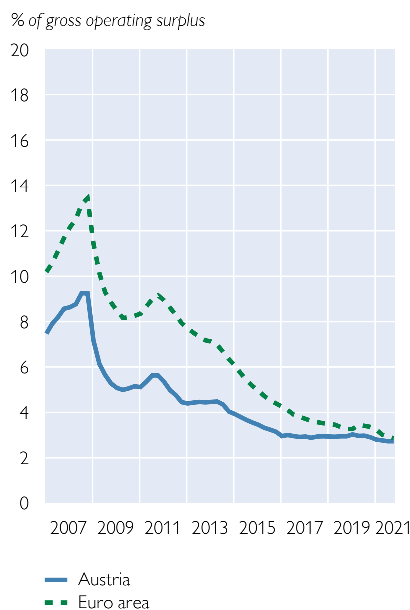
Debt-to-income ratio[1]

% of gross operating surplus



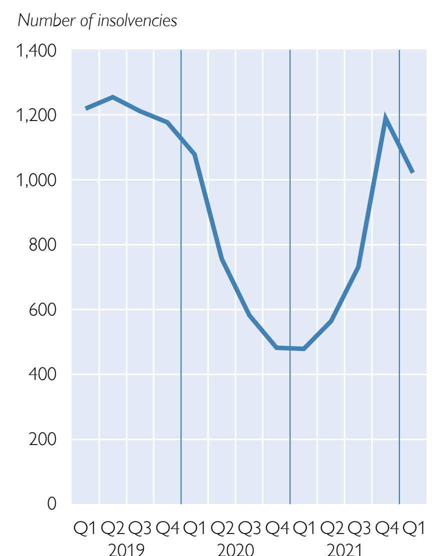
Interest expenses[2]

% of gross operating surplus



Insolvencies[3]

Number of insolvencies



Source: OeNB, Statistics Austria, KSV 1870.

[1] 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.
[2] For loans by domestic banks.
[3] New time series starting in 2019.

Note: 2021 data are preliminary.

A number of factors improved companies' capacity to service their debt in 2021. For one, the increase in gross 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 by 9.2 percentage points between end-2019 and end-2021. To the extent that these liquid assets are held by indebted firms, they would be available for debt service. Furthermore, companies' debt-servicing costs remained low in 2021, reflecting the still low interest rate level. In 2021, the ratio of interest payment obligations for (domestic) bank loans to gross operating surplus remained stable at 2.7% compared to more than 9% in 2008, despite the sizable increase of loan volumes recorded since then (see chart 2.6, middle panel). Moreover, a large share of the debt incurred since the onset of the COVID-19 pandemic has been longer-term debt, which reduces refinancing risks, and a significant share of the take-up of new loans in the first year of the pandemic was covered by public guarantees. The share of variable rate loans in new (euro-denominated) loans, which had decreased considerably in the years before the pandemic, increased by 3.3 percentage points to 82.1% in 2021. Thus, a considerable share of companies' debt is exposed to interest rate risk. Consequently, rising interest rates could test the debt sustainability of highly indebted firms, especially if they are accompanied by a possible squeeze on profit margins due to impaired revenues caused by the economic slowdown and rising input prices as a result of the war in Ukraine.

Since late 2021, insolvency numbers have returned to pre-pandemic levels. In both 2020 and 2021, the number of insolvencies was about 40% lower than in 2019, according to data provided by the creditor protector agency KSV 1870 (see chart 2.6, right-hand panel). However, this reduction did not reflect underlying economic developments, but was attributable to large-scale mitigating measures. Simulations with the OeNB insolvency model[9] show that, among these measures, short-term deferrals of payment obligations had the strongest effect on keeping the number of insolvencies low in the years 2020 and 2021 (e.g. through deferred payment options for social security contributions and delayed insolvency filings). Their effect clearly outweighed the impact of long-term liquidity measures such as loan guarantees and moratoria as well as equity injections via grants and subsidies. Yet, since the fourth quarter of 2021, the number of insolvencies has returned to pre-pandemic levels, mainly because: (1) deferrals by health insurance companies and tax offices have expired and (2) the obligation for companies to file for insolvency in the event of overindebtedness was re-introduced with effect from mid-2021 (in addition to the expiry of some state aid measures). Yet, the surge in insolvencies expected when mitigating measures expire has not materialized so far, not even in the sectors particularly affected by the pandemic. The reduced number of insolvencies during the pandemic implies that some firms that would have normally exited the market have remained in operation. This gives rise to concerns that the number of highly indebted firms might increase in the future. Whether insolvencies will rise further down the road also depends on firms' vulnerability to future economic shocks.

[9] *Hesse, J. and M. Schneider. 2022. Unternehmensinsolvenzen: Auswirkungen der Hilfsmaßnahmen und Prognose bis 2023. https://www.oenb.at/dam/jcr:37e15b3c-dcae-4a42-a8d2-4c2a0b1bebd0/Insolvenzprognose.pdf (available in German only).*

Household loans show buoyant growth amid brisk demand for real estate

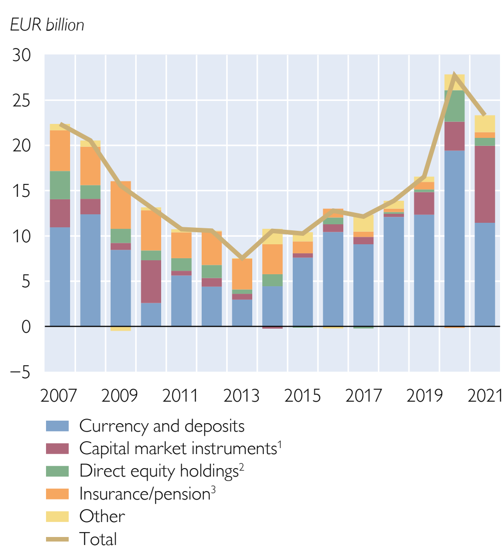
Households' saving ratio still above pre-pandemic level

In 2021, household income in Austria recovered from its fall in the year before. However, due to the rise in inflation, real disposable household income rose by only 0.4% year on year, remaining below the level of 2019. Compensation of employees recovered strongly. After the sharp slump in 2020, when COVID-19 containment measures had limited consumption possibilities, private consumption rebounded in the second half of 2021 as households resumed their pre-pandemic spending patterns and tapped excess savings. As a result, the saving ratio declined below the record value observed in the first year of the pandemic but, at 11.8%, remained well above its pre-pandemic level. Large savings have enhanced households' resilience but are unevenly distributed. Strongly rising consumer prices as well as increasing uncertainties in the wake of Russia's war in Ukraine are dampening consumer demand.

Austrian households' financial investments remained high in 2021. Reflecting the reduction in the saving ratio, households' financial investment flows, while decreasing by 15.7% year on year to EUR 23.3 billion, remained high in a historical comparison (see chart 2.7). Almost half of these financial investments went into liquid assets. While cash holdings shrank slightly, households' bank deposits continued to grow in 2021. Overnight deposits remained buoyant, increasing by EUR 14.8 billion in 2021, whereas other bank deposits were reduced by EUR 3.1 billion as the shift from time and saving deposits to overnight deposits continued. In the low interest environment, households still had a preference for highly liquid assets.

Chart 2.7

Net financial investments by Austrian households



Source: OeNB.

[1] Debt securities, mutual fund shares and listed shares.

[2] Unlisted shares and other equity.

[3] Insurance, pension entitlements, severance funds.

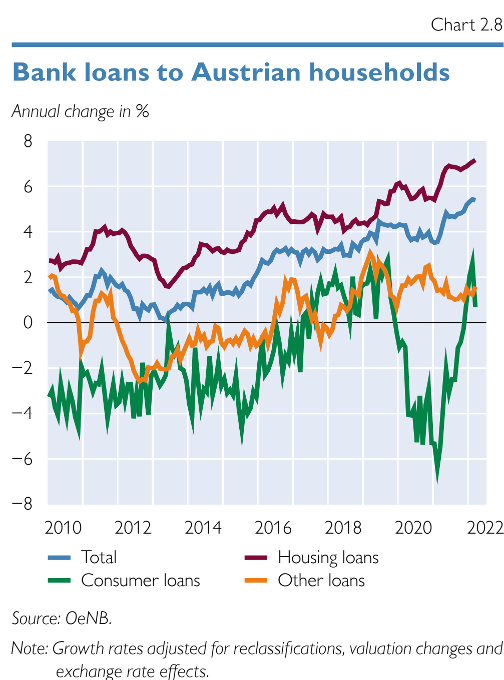
Note: 2021 data are preliminary.

Households' capital market investment rose strongly in 2021. Net financial investments in capital market instruments more than doubled to EUR 8.5 billion from the already high value of the first year of the pandemic. In particular, mutual funds registered keen demand, reflecting the search for yield in an environment of low interest rates. Net investments in mutual fund shares increased to EUR 9.1 billion, the highest value since the start of the compilation of financial accounts data in 1996. Investment in listed shares, which had been especially buoyant in the year before, fell by roughly one-third to EUR 1.6 billion – still a high value in a historical perspective. Direct holdings of debt securities were reduced further. Reflecting the increases in stock market prices in 2021,

households registered (unrealized) valuation gains of more than EUR 14 billion in 2021, equivalent to 11.4% of the outstanding amount at end-2019. But the fall in stock market prices in the first months of 2022 will have brought about (equally unrealized) valuation losses. However, capital market instruments are mostly held by higher-income households, who are in a better position to bear valuation losses.[10] Moreover, households invested EUR 1.0 billion in other equity.

Chart 2.8

Bank loans to Austrian households



Source: OeNB.

Note: Growth rates adjusted for reclassifications, valuation changes and exchange rate effects.

Household loans grow further

Growth of lending to households has accelerated further in recent months. In the twelve months up to March 2022, the annual growth rate of bank loans to households rose from 3.9% to 5.4% year on year (see chart 2.8). As in the 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 70% of the outstanding volume of loans to households – but also because they registered the highest growth rate, reaching 7.1% year on year in March 2022. As is evident from the chart, this growth rate represented a historical high. According to the BLS, Austrian banks slightly tightened their credit standards for housing loans in the second half of 2021 and the first quarter of 2022, mainly because of lower risk tolerance. Households' demand for housing loans, which had risen in the first three quarters of 2021, stabilized thereafter. The growth rate of consumer loans returned to positive territory in late 2021, reflecting the increase in consumption of durables, standing at 0.7% year on year in March 2022. Other loans, which include loans to sole proprietors and unincorporated enterprises, rose by 1.6%. As in the years before, the vast majority of net new loans to households were long-term loans (with maturities over 5 years). In 2021, their share amounted to 88.4%.

The conditions for housing loans remained favorable. In March 2022, interest rates on new bank loans to households were at 1.75%, 6 basis points lower than before the onset of the pandemic in February 2020. Interest rates on housing loans fell by 12 basis points in the same period, which may have contributed to higher demand. (In contrast, rates for consumer loans rose by 73 basis points.) Yet, especially for riskier borrowers, banks have tightened the conditions for housing loans since the onset of the pandemic. BLS results show that, since the outbreak of

[10] *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 (source: Austrian results of the Household Finance and Consumption Survey – HFCS) for 2017.*

COVID-19, banks have more frequently increased their margins on riskier housing loans than on loans with an average risk profile.

Rising household debt is being cushioned by higher incomes but interest rate risk remains considerable

Households' debt-to-income ratio has increased slightly since the onset of COVID-19. Between end-2019 and end-2021, the debt-to-income (DTI) ratio rose by 5.0 percentage points to 93.6% but remained well below the euro area average (see chart 2.9, upper left-hand panel).[11] Since the onset of the pandemic, total household debt has grown by more than 7%, mostly driven by housing loans. At the same time, the slight increase in households' net disposable income, bolstered by government support measures, contained the DTI over the past two years. Despite the increase in outstanding household debt, interest expenses remained low in 2021 due to the low interest rate level, equaling 1.5% of aggregate disposable income in the fourth quarter of 2021. Rising debt may reduce the resilience of highly indebted households to adverse shocks such as an increase in interest rates or a fall in disposable income. However, a significant share of household debt is held by higher-income households, which are more likely to have sufficient funds to service their loans.[12] Nevertheless, the effects of higher inflation on households' real income might weaken debt sustainability.

The still rather high share of variable rate loans implies considerable interest rate risk and remains a matter of concern. Although the share of variable rate loans[13] in new (euro-denominated) loans already went down considerably in the years preceding the pandemic, it is still quite high when compared to the euro area average. It declined by 8 percentage points since the final quarter of 2019 to stand at 42% in the first quarter of 2022; for housing loans, the share was 32%. This means that the household sector continues to be exposed to a considerable amount of interest rate risk.

The share of foreign currency loans decreased further. In the first quarter of 2022, foreign currency loans accounted for 5% of all outstanding loans (and for less than 7% of housing loans). Yet, due to the significant appreciation of the Swiss franc – in which 97% of all foreign currency loans in Austria are denominated – the outstanding volume in euro terms increased slightly in the fourth quarter of 2021 for the first time since 2015, highlighting the risks that foreign currency loans entail for households.

Throughout the pandemic, residential property prices in Austria soared, showing increasing signs of strong overheating. In the first quarter of 2022, nominal residential property prices increased by 12.3% year on year, with prices continuing to trend upward both in Vienna and the rest of Austria (see chart 2.10). This is also reflected in the further substantial increase in the OeNB's fundamentals indicator for residential property prices, which indicated an overvaluation of 34.0% in the first quarter of 2022 in Austria (and 40.1% for

[11] *However, it has to be taken into account that the aggregates in the national accounts include the incomes of nondebtors.*

[12] *According to the most recent HFCS data, only about 33% of all Austrian households had taken out a loan in 2017. This share differed markedly across income groups: About 21% of households in the lowest income quintile, but 46% in the highest income quintile, had taken out a loan.*

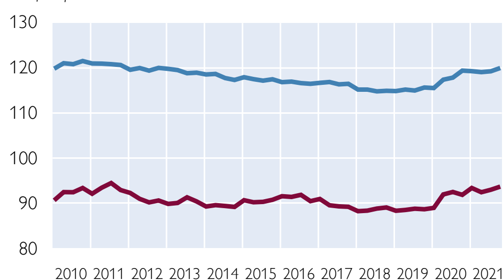
[13] *Loans with an initial rate fixation period of up to one year.*

Chart 2.9

Indicators of household indebtedness

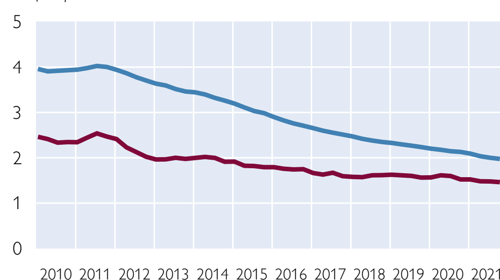
Liabilities

% of disposable income



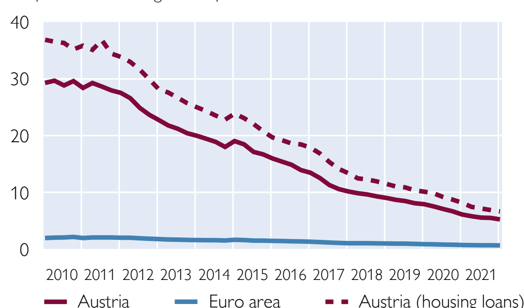
Interest expenses[1]

% of disposable income



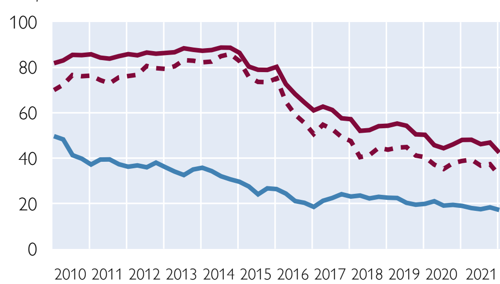
Foreign currency loans

% of total outstanding stock of loans



Variable rate loans

% of total new euro-denoninated loans



Austria   Euro area   Austria (housing loans)

Source: OeNB, Statistics Austria, ECB, Eurostat.

[1] *Figures for the euro area only represent interest rate expenses on euro-denominated loans.*

Note: 2021 data are preliminary.

Vienna) as compared to economic fundamentals based on past empirical relations. Besides the sharp increase in prices, interest rate risk was a main factor driving the increase in the indicator. The low interest level, on the one hand, drives up the loan volume that is affordable at current rates and, on the other hand, encourages investors to look for alternative investment opportunities in the residential property market. Uncertainty (flight to safety) and preference changes due to the pandemic (working from home) might also have contributed to higher demand for residential property. Yet, while low interest rates have reduced the financing costs of housing loans, they entail repayments risks, if and when yields rise, for housing loans with floating rates or short interest rate fixation periods.[14] This growing gap between the changes in residential real estate prices and the explanatory factors that the indicator tracks points to increasing signs of overheating in Austria's residential property market, warranting increased and close attention.

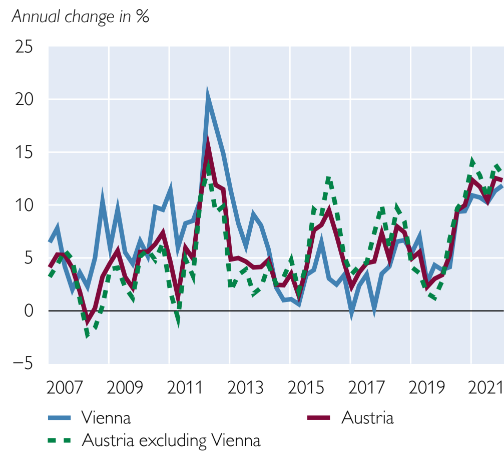
[14] *The subindicator for interest rate risk within the OeNB fundamentals indicator compares the three-month interest rate for the euro area with an interest rate estimated from the current development of GDP and inflation according to a Taylor rule. Since the current interest rate is considerably below the Taylor interest rate, this signals a risk of rising interest rates in the OeNB's fundamentals indicator (see OeNB Property Market Review Q1/22, p. 7).*

Chart 2.10

Austria's residential property market

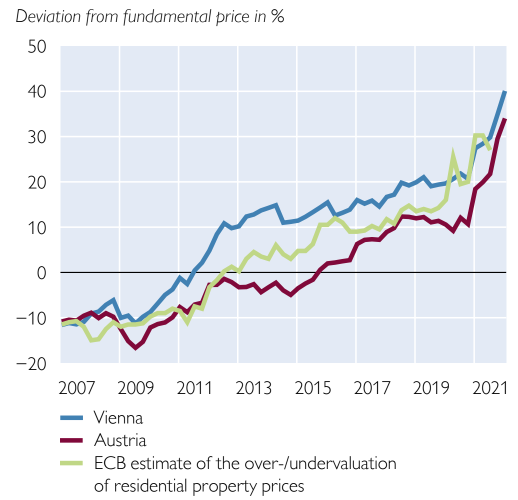
Residential property prices

Annual change in %



OeNB fundamentals indicator for residential property prices

Deviation from fundamental price in %



Source: Vienna University of Technology, DSS GmbH, ECB, OeNB.