Panel II: Macropudential Policy in Austria – Country experience

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Consistency of all financial stability analyses

• Interaction between macroprudential buffers, resolution, too-big-to-fail, deposit guarantee scheme and crisis management

• Consistent ex ante systemic risk analysis with ex post crisis management/resolution

To evaluate the overall financial stability impact of bank failures and to identify systemically important banks is a core function of financial stability analyses.
High level principles: systemic resilience as basis for buffer decisions

**High resilience**
- Maintain top rating, secure favorable refinancing costs and improve capital adequacy of Austrian banks

**Incentives for markets**
- Market participants can reduce systemic risk exposure or be subject to capital buffers

**Targeted measures**
- Different instruments to address various risk channels

**A steady hand...**
- Building buffers takes time and is sometimes fraught with resistance
- Avoiding reputational effects of revoking buffer decisions that have not been (fully) implemented
Covid-19: buffer use instead of buffer release

OeNB/FMA explicitly refrained from reducing the combined buffer requirement for Austrian banks to maintain market confidence during the pandemic.

- Active communication to banks / markets to use their buffers – instead of buffer release – in times of crisis with sufficient time to rebuild buffers.
- Austrian banks had EUR 38.3 bn of CET1 at their disposal (thereof ~ EUR 18 bn macroprudential buffers) to absorb the impact of the pandemic.

The communication proved to be successful:

- The rating of the Austrian banking system remained stable
- Funding conditions remained excellent
- Credit supply remained strong
Resilience: structural buffers

- Systemic risk buffer (SyRB) and O-SII buffer apply to a subset of banks since 2016
- FMSB announced in September 2022 cumulative SyRB and O-SII buffer rates of up to 2.5%; 0.25% phase-in over the next 2 years effective with 1.1.2023
- Objective: to address heightened systemic risks, improve Austrian banks´ capital ratios also in international comparison and ensure the banking system´s top rating
Setting of Austrian buffer decisions: Residential real estate price developments

**RRE loans to households**

- **annual growth rate**
- **Q2**: 7.1%
- **Q2**: 5.4%

**Source:** BSI Index of Notional Stocks (SDW).

**RRE price development**

- **2010Q1 = 100**
- **Q2**: 220
- **Q1**: 143

**Quelle:** Data Science Service GmbH, TU Wien, Prof. Feilmayr, OeNB, EZB.
FMSB issues a **qualitative communication** on sustainable lending standards

- Loan decision based on conservative loan-to-value (LTV) ratios
- Level of indebtedness of households, measured by debt-to-income (DTI) and debt-service-to-income (DSTI) ratios, should be such that households are also able to pay back their loans under stress (e.g. by a decline in household income or unexpected payment obligations)

Enhanced **public communication by OeNB (presentation of 35th FSR) and FMA:**

- 20% down payment for RRE lending desirable, debt service not more than 30-40% of households net income; maturities at origination should not exceed 35 or 40 years

Enhanced communication and **quantitative guidance by FMSB** (17th Meeting)

**Recommendation by the FMSB to the FMA to introduce BBM**

**BBM regulation enters into force**

- 90% LTV; 40% DSTI; max. loan majority of 35 years; 20% exemption bucket
CCyB in AT

Credit-GDP-Gap (main indicator):
- Based on encompassing credit aggregate from national financial account

Additional indicators (in part based on ESRB recommendation, ESRB/2014/1):
- Austrian Financial Stability Indictor (AFSI)
- Credit growth
- Credit quality
- Risk weights
- Banking sector: leverage, interest margin
- Real estate sector
- HH and NFC indebtedness
- Credit spreads
- Current account
- Development of insolvencies

Additional credit-GDP-Gaps:
- Based on MFI (ECB, domestic): loans to NFC and households (incl. NPISH)
- Household debt (incl. NPISH)
- NFC debt

Legal background: Austrian law relies on main indicator, deviation is possible in exceptional cases but requires strong and well substantiated arguments → burden of proof on authority.
Going forward: Priorities for the Macroprudential Review 2022

- **Reduce complexity**: by removing regulatory overlaps between capital buffers and minimum requirements (MREL, Leverage Ratio)

- **Increase resilience**: by maintaining current minimum and buffer requirements and building additional capital for crises

- **BCBS compliance**: by sticking to internationally agreed standards (level playing field) and coupling buffer releases with payout restrictions
Danke für Ihre Aufmerksamkeit

Thank you for your attention

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