SUERF: Key takeaways from the ECB’s new Financial Stability Review

Discussion and Q&A

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Disclaimer: Views are my own
Austrian banking sector: Profits at a record high, but this might not last

Profitability of the Austrian banking sector

Rapid change in interest rates

Loans to nonbanks

PHH saving deposit rates in Austria

NPL ratios in Austria

Source: OeNB. * Since 2020 excl. cash balances at central banks and other demand deposits, previous to that with a respective add-on (dashed line).
OeNB FSR: Recommendations for Austrian banks

- Continue to strengthen the capital base by exercising restraint regarding profit distributions.
- Adhere to sustainable lending standards for RRE- and CRE-financing.
- Proactively provision for CRE credit risks and value collateral conservatively.
- Adequately control credit and interest rate risks in a challenging environment.
- Maintain cost efficiency improvements to ensure structurally strong profitability.

Source: SSM. Data as of June 2023.

Note: For further details, please refer to the OeNB FSR.
ECB key findings that we agree with and what is being done in Austria

➢ **Report encourages maintaining existing capital buffers**, targeted sectoral buffers, and borrower-based measures (BBMs) in the current environment.
   - ✓ In Austria, implemented capital measures (Systemic Risk Buffer, O-SII buffer), and BBMs are deemed to be **sufficient** and should **not be released** at this stage.

➢ **Preserve high level of resilience** to adverse developments.
   - ✓ Macroprudential measures in Austria (i) contribute to **enhanced resilience** and (ii) banks should use their currently high profits to **strengthen** their core capital.

➢ **ECB classifies BBMs** as a „structural backstop“.  
   - ✓ Supports the Austrian view that higher indebtedness cannot be the **solution** for reduced affordability.
Time between last series of hikes and Lehman collapse was about 2.5 years

Source: ECB / Key ECB interest rates, Main refinancing operations
First cracks are showing …

- **Economy cooling down**: weak macro-financial environment
- **Limited capacity** to deal with unexpected shocks in the area of fiscal policy (indebtedness) and monetary policy (inflationary risks more present)
- **Real estate market turbulences in many countries**:
  - cooling real estate prices and excessive indebtedness
  - first real estate firms and funds getting into trouble
- **Spring banking crisis in the US and CH**: SVB, Credit Suisse (idiosyncratic events, but massive intervention to avoid systemic impact → moral hazard)
Where we could increase awareness

- Stronger language regarding dividend distributions
- Liquidity risk of banks and macroprudential policy
- More push for CRE macroprudential activity
- Did rising rates reach the previously identified pockets of vulnerability?
Danke für Ihre Aufmerksamkeit
Thank you for your attention

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