

# Austria

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## IN A NUTSHELL

- The economy is going well, with improved growth forecasts, decreasing unemployment and balanced public spending.
- Housing markets stabilised, with House prices in Vienna growing by less than inflation, while in other areas of the country price developments were steeper which can be interpreted as catch-up effect.
- Construction and building permits are increasing with respect to the previous year.
- Mortgage market depicts a stable growth with a sizeable, though decreasing amount of foreign currency mortgages of around 13%.
- New construction is at an all-time high and in aggregate terms it has risen above demand.

## MACROECONOMIC OVERVIEW

Austria is currently in its second year of an economic boom, with growth being supported by all demand components. Real economic growth amounted to 3.1% in 2017, which means that the pace of expansion doubled compared with 2016. Similar to the previous year, real GDP growth will reach 3.1% in 2018. In 2019 and 2020, growth is expected to slow down to 2.1% and 1.7%, respectively, as the current business cycle runs its course. These figures represent upward revisions of 0.3, 0.2 and 0.1 pps in 2018, 2019 and 2020, respectively, versus the December 2017 outlook. The unemployment rate will fall by half a percentage point to 5.0% in 2018, but will decline only marginally, namely to 4.9%, in the years thereafter. After peaking in 2017 and 2018 (2.2% in each year), inflation will subside somewhat, decreasing to 1.9% in 2020.

Besides exports, domestic demand is the second main pillar of economic activity, with equipment investment playing a decisive role.

After having cut back significantly on investment for several years, businesses began, from mid-2015 onward, to increasingly invest in replacing plants and equipment, and later on in further expanding their production capacities. This investment cycle started to moderate slightly in recent quarters and will peter out gradually in 2019 and 2020. By contrast, residential construction continued to strengthen over the last two quarters, with building permits indicating further acceleration. After having peaked at 4.9% in 2017, growth of total gross fixed capital formation will decline markedly to 2.0% by 2020. As the current business cycle runs its course, employment growth is expected to slow down significantly. The unemployment rate (Eurostat definition) will sink from 5.5% in 2017 to 5.0% in 2018 and to 4.9% in 2019, and remain at this level thereafter. Private consumption will grow by 1.5% in 2018, which is modest given the favorable framework conditions. In 2019 and 2020, private consumption is expected to decelerate slightly to 1.4% and 1.3%, respectively. The general government budget is projected to be balanced in 2018. The debt ratio is forecast to decline to 67.5% of GDP by 2020.

## HOUSING AND MORTGAGE MARKETS

### HOUSING MARKET

In 2017, the Austrian housing market faced a stabilisation phase. In Vienna, housing prices stabilised, growing by no more than 1.5% year on year and thus more slowly than the Harmonized Index of Consumer Prices (HICP), which rose by 2.2% in 2017. We saw four quarters with a quarter-on-quarter growth of below 1% and in Q4 2017 even a minus of 0.7%. The most recent data in Q1 2018 show a year-on-year growth of 3.5%.

For Austria excluding Vienna, we observed an opposite development throughout 2017, with price growth accelerating at a pace of 4.9% for the year as a whole. In Q1 2018 we saw a plus of 10% year on year. The western parts of the country show the price pressure. These price trends in the rest of Austria can be interpreted as catch-up effect.

In the first quarter of 2018, the OeNB fundamentals indicator for residential property prices for Vienna went up slightly to 21.9% quarter on quarter from a potential overvaluation (19.7% in the fourth quarter). For Austria as a whole, the indicator reached 11.2%.

Residential construction activity was up significantly in 2017 compared with previous years, as currently suggested by all available indicators. Apart from the production index for building activities and the number of hours worked in this field, residential construction investment has begun to pick up as well. In 2017, real residential construction investment grew by 2.2% per year, clearly outpacing the annual average of 0.2% registered from 2014 to 2016. In 1Q2018, the (smoothed) annual growth was 2.7% (after 2.4% in Q3 2017 and 2.5% in Q4 2017).

The dynamics of building permits and the number for new dwellings indicate a further acceleration in residential building activity. In the third quarter of 2017, the number of building permits issued all over Austria went up by 36% against the corresponding quarter of 2016. Since the number of building permits issued tends to be very volatile, it is more useful to observe the trend series, which augmented by 13% in the third quarter. In Vienna, the number of building permits issued increased by 82% (trend series: +44%) in the third quarter of 2017. Between 2010 and 2016, the number of building permits issued for dwelling units across Austria grew by 39%, while that of total floor areas increased by 26%.

### MORTGAGE MARKET

#### Market dynamics

Growth of housing loans to households was largely stable in the course of 2017. In April 2018, the nominal annual growth rate of domestic housing loans extended by Austrian monetary financial institutions (MFIs) came to 4.6% (adjusted for reclassifications, valuation changes and exchange rate effects), up from 4.4% in January 2017.

Housing loan growth was driven primarily by long-term loans (with a maturity of more than 5 years), whose outstanding volume was almost 95% of total housing loans in April 2018 (EUR 98,293 mn of EUR 103,877 mn).

<sup>1</sup> Nominal gross fixed capital formation as a percentage of nominal GDP.

Conditions for taking out housing loans, in terms of credit standards and lending conditions, have remained favorable. According to the results of the bank lending survey, Austrian banks slightly reduced loan margins for loans with an average default risk in the course of 2017 and the first quarter of 2018. Overall, there has been little change in lending standards and conditions in this segment over the past years.

The share of new foreign currency loans in outstanding housing loans is still sizeable despite its continued downtrend (13% in March 2018). Almost all foreign currency-denominated housing loans outstanding are denominated in Swiss francs (close to 97%). Likewise, the share of variable rate loans in new lending, which has been very high by international standards, still implies substantial interest rate risks even though it has contracted further recently (in March 2018 it came to 51.9%).

### Non-market led initiatives

The key characteristics of Austria's housing policy are still its focus on regulated (i.e. limited profit) rental housing and its financing tools. In 2017 the main emphasis was also put on state and regional supply-side subsidies, which aim at fostering affordable housing. Public subsidies accounted for around 0.6% of GDP, including a wide range of policy tools. The most important is the "Wohnbauförderung" of the Austrian provinces, with a focus on subsidies on bricks and mortar and subsidiary housing allowances. The financing system of the "Wohnbauförderung" gains its efficiency through the close interaction with the system of limited profit housing construction and additional capital market financing instruments. Social housing supply follows a generalist eligibility approach with high income limits. Hence Austrian housing policy still promotes integrated rental markets.

Other subsidy tools are and minimum income schemes coming from regional social budgets, subsidies for "Bausparkassen" and "housing bonds", very limited fiscal subsidies and a reduced VAT rate for rental housing. The overall state expenditure on housing is below most other European countries, such as UK, France or Netherlands. At the same time the outputs are quite remarkable, taking quality of housing, affordability and aspects of social integration.

Housing is well positioned in the political agenda both on the federal and the regional level. Despite this, some recent developments cause for concern. New construction (building permits) is at an all-time high and has, on an aggregate level, risen above housing demand. It is doubted whether an inevitable downturn is sufficiently anticipated. In this context it seems counterproductive that the Federal Government has rejected the establishment of a Housing Investment Bank (WBIB, Wohnbauinvestitions-bank). Investments in housing refurbishment are continuously declining.

|   | AUSTRIA<br>2016 | AUSTRIA<br>2017 | EU 28<br>2017 |
|---|-----------------|-----------------|---------------|
| Real GDP growth (%) (1)   | 1.5             | 3.0             | 2.4           |
| Unemployment Rate (LSF),<br>annual average (%) (1)                  | 6.0             | 5.5             | 7.6           |
| HICP inflation (%) (1)  | 1.0             | 2.2             | 1.7           |
| Outstanding Residential Loans<br>(mn EUR) (2)                       | 101,168         | 104,296         | 7,013,738     |
| Outstanding Residential Loans<br>per capita over 18 (EUR) (2)       | 14,075          | 14,391          | 16,872        |
| Outstanding Residential Loans<br>to disposable income ratio (%) (2) | 47.4            | 47.7            | 73.8*         |
| Gross residential lending,<br>annual growth (%) (2)                 | -3.8            | 38.0            | 3.5           |
| Typical mortgage rate,<br>annual average (%) (2)                    | 1.9             | 1.9             | 2.4**         |
| Owner occupation rate (%) (1)                                       | 55.0            | n/a             | 66.4*         |
| Nominal house price growth (%) (2)                                  | 7.3             | -100.0          | 6.0           |

\* The aggregate EU figure is from 2016.

\*\* Please note that this value is the simple average of the typical interest rate of the EU 28 countries.

#### Sources:

(1) Eurostat

(2) European Mortgage Federation - Hyostat 2018, Statistical Tables.

## AUSTRIA FACT TABLE

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| <b>Entities which can issue mortgage loans:</b>                            | Mortgage lending is mainly financed via banks and Bausparkassen. Mortgage loans are also issued within the subsidy schemes of the "Länder".  |
| <b>The market share of the mortgage issuances:</b>                         | Not available  |
| <b>Proportion of outstanding mortgage loans of the mortgage issuances:</b> | Bausparkassen hold the biggest proportion of residential mortgages in Austria. Combined with the Saving Banks Group, Bausparkassen make up one of the biggest banking groups in Austria representing the largest market share of the mortgage market.  |
| <b>Typical LTV ratio on residential mortgage loans:</b>                    | According to Oesterreichische Nationalbank's 2014 Financial Stability Report, the LTV is around 60%.   |
| <b>Any distinction made between residential and non-residential loans:</b> | Not available  |
| <b>Most common mortgage product(s):</b>                                    | Both variable rate loans and foreign currency loans are common mortgage products in Austria, but variable rate loans remain the most popular choice. In recent years, fixed interest rate loans are expanding.   |
| <b>Typical maturity of a mortgage:</b>                                     | Mortgages typically have a maturity rate of 25 – 30 years.   |
| <b>Most common way to fund mortgage lending:</b>                           | Mortgage funding in Austria is mainly deposit-based. According to the IMF covered bonds only made up 7.1% of the outstanding mortgages in 2008, meanwhile securitisation as a way of funding is even less popular making up only 3.1%.   |
| <b>Level of costs associated with a house purchase:</b>                    | Housing purchase has a VAT of 20%. Property transaction tax is 3.5%. Registry tax is 1%. Additionally there are minor costs for notary and contract drafting.  |
| <b>The level (if any) of government subsidies for house purchases:</b>     | The housing subsidy schemes of the "Länder" focus on rental housing. All Länder also provide subsidy schemes for single family homes and owner-occupied (affordable) housing, but with widely different ranges, from close to zero up to 50% of subsidized production. The cash value of subsidies also differs a lot, between below 10% and 20% of total costs. |