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August 26, 2021

**Statement by Mr. Dresse and Mr. Voinea on Austria
(Preliminary)
Executive Board Meeting
August 30, 2021**

We would like to thank Mr. Franks and his team for an insightful report and Mr. Just for the informative Buff statement. **We broadly agree with staff's robust macroeconomic outlook and balanced risk assessment.** We commend the authorities for their appropriate fiscal policies prior to and during the crisis and support the reform priorities reflected in Austria's ambitious Recovery and Resolution Plan. We associate ourselves with Mr. Pösö's statement and would like to add the following comments for consideration:

Regarding the financial sector, we concur with staff's call to reinforce auditing and supervision in smaller banks, as well as to mitigate the concerns related to the fragmentation of the Deposit Guarantee Scheme (DGS). The failure of two small banks exposed **two potentially broader issues: resolution strategies and the AML/CFT framework.** First, *in view of the high level of interconnectedness of the Austrian banking sector, could staff elaborate on possible cross-border implications of the fragmentation of DGS for the protection of deposit holders in foreign affiliates of large Austrian banks? This also relates to their choice of resolution strategy.* Second, **we endorse the recent FSAP recommendations to revise AML/CFT** scoring reflecting cross-border risks, increase onsite inspections and improve the exchange of information, in particular with countries outside EU/EEA. Moreover, we reiterate our call for stronger consistency of FSAPs recommendations across countries in a same region.

Also related to the financial sector, we are concerned by the buoyant price and credit dynamics in the **residential real estate**, driven by historically low interest rates and pandemic-induced structural changes in housing demand (which could become permanent). Therefore, a close monitoring of these developments is necessary coupled with the strict **implementation of prudential borrower-based measure** (such as debt to income ratio).

Regarding the green transition, in line with other European Directors, we agree that the crisis provides an opportunity for Austria to shift taxes away from labor into areas less detrimental to growth, and welcome staff's analysis on how carbon pricing could contribute to achieving climate neutrality. We also note that the **Green Finance Agenda** aims at mobilizing private investment by providing services to improve bankability.

Finally, we concur with staff's general remarks that "excessive fiscal austerity deepens recession in the short run and has negative consequences on growth and productivity in the long run" and that "the negative effects of austerity are particularly pronounced when it distorts labor income".

Therefore, **we support the policies aimed at reducing the labor tax wedge, compensating the vulnerable households, supporting the reallocation of workers, and reducing the regional and skills mismatches.**