

Erste Bank and Sparkassen do not see credit crunch

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- Extended credit volume also for Q4 2008
- Austrian economy needs approximately 23 billion Euros credit for the next three years
- Elisabeth Bleyleben-Koren: "Austrian economy now needs capital and optimism."
- Alois Hohegger: "We have to fight the massive loss of confidence"

The savings bank group, comprising Erste Bank and Sparkassen, has not noted any signs of a credit crunch even in the last quarter. Overall, Austria needs 23 billion Euros of fresh credit in the next three years to avoid a long-term crisis. The savings bank group has now started an "Austria initiative" with which the demand for credit is to be boosted. Elisabeth Bleyleben-Koren, General Manager of Erste Bank of the Austrian savings banks: "We will continue to grant credit in order to boost the economy. We stick to our responsibility as a credit institute." What Bleyleben-Koren is warning of, however, is to unsystematically pouring it out.



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Based on the economic forecasts of Wifo and the IHS, Austria's economy will be sliding into a short recession in 2009. However, economists expect an economic growth of 0.9-1.3% in 2010. To achieve this trend reversal, credit growth is also needed. Erste Bank economists anticipate a credit volume of 23 billion Euros over the next three years. "I do, however, warn of excessively frivolous granting of credit," Bleyleben-Koren admits, "that was precisely one of the triggers of the US subprime crisis." Regarding the current credit crunch, Bleyleben-Koren states: "We don't see a credit crunch. Erste Bank and Sparkassen have already increased their credit volume by 2 billion Euros, or 3.3 percent, to 62.7 billion Euros in the fourth quarter of 2008."

"Austria could rapidly overcome the predicted slump in growth despite its difficult position," says Elisabeth Bleyleben-Koren in a yearly forecast; "Austria has healthy economic structures." The real income development which will increase from 2009, low inflation and low unemployment compared to the rest of Europe are some of the local economy's strengths. In addition, Austria has no property bubble compared to other countries. Erste Bank also presumes that housing and thermal redevelopment will play an important role in economic development.

Despite a high proportion of foreign currency credit, Erste Bank believes the local credit market has a healthy structure. Private household debt is at 147 billion Euros – just 32% of financial assets. In Austria, this percentage has remained stable over the last 10 years. One of the main reasons for borrowing in Austria is housing. 62 percent of all borrowers use the credit to finance a redevelopment or to purchase their own home.

High savings ratio, good liquidity

Austria has a historically high savings ratio, which is set to increase even further to over 13 percent of the income. Austrians invest around 23 billion Euros of this a year. Two thirds of these investments are usually made in less volatile forms of investment, such as savings books or life insurance. 46.3 percent of almost 500 billion Euros of the local financial assets lie in savings books and accounts. In Germany, this is 36 percent by comparison. Erste Bank sees the Austrian retail banks as a strength. With an investment credit structure of 113 percent, Erste Bank can, for

instance, refinance itself almost exclusively with its deposit banking. "Many banks would like to be an Austrian savings bank at the moment," says Erste Bank director.



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Austria's population reacts to the crisis

In the meantime, the crisis has already left its marks on the Austrian population. In a recent survey, 30 percent of Austrians are "worried" about the future. Two thirds have already taken measures regarding their consumer behaviour: 36% of Austrians admit they are buying less, 50% want to refrain from making larger purchases such as cars. The consequence: 73 percent of Austrians admit to wanting to save more.

In banking, financial service providers must prepare for more difficult times despite a higher willingness to save as the general confidence in banks has been tarnished. Alois Hochegger, President of the Savings Banks Association says "We must fight the massive loss in confidence. Confidence is our core business."

The crisis has also had another effect: The number of bank accounts continues to decline "In 2006, every Austrian had 1.4 bank accounts. At the end of 2007, this was just 1.3. In these conditions, I am pleased that we have been able to gain 70,000 new customers in the savings bank group despite this difficult context," Hochegger adds.

Banks will have to re-orientate themselves

Erste Bank and Sparkassen believe that the banks have to learn their lesson from the financial crisis quickly: "Bank products must be made simpler again, that's the only way we will be able to win back customer confidence", say both Elisabeth Bleyleben-Koren and Alois Hochegger. Banks will also have to focus more on quality and consultancy. In commercial client dealings, the classic local bank principle will again be of greater importance. "Two years ago, we probably would have called that boring," the savings bank managers conclude.

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