Austria

Outlook

	Average 10-14	2015	2016	2017	2018	2019	2020	Forecasts 2021	Forecasts 2022
GDP growth (%)	1.3	0.9	2.0	2.4	2.6	1.4	-7.4	2.5	4.4
CPI inflation (%)*	2.3	0.8	0.9	2.2	2.1	1.5	1.4	2.0	1.2
Fiscal balance (% of GDP)	-2.8	-1.0	-1.5	-0.8	0.2	0.7	-9.9(e)	-3.9	-2.3
Public debt (% of GDP)	82.5	84.9	82.8	78.5	74.0	70.5	84.8(e)	84.3	82.4
Reference rate (%)*	0.8	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exchange rate (EUR/USD)*	1.3	1.1	1.1	1.1	1.2	1.1	1.1	1.2	1.2
Current account balance (% of GDP)	2.1	1.7	2.7	1.4	1.3	2.8	2.4(e)	2.5	2.3
External debt (% of GDP)	191.1	169.8	163.4	153.0	147.5	153.5	167.2(e)	183.1	200.5

Notes: * Annual average. (e) estimation.
Source: CaixaBank Research, based on data from national statistical agencies and the IMF.

- **The Austrian economy has been among the worst affected by COVID-19 in the EU.** Despite weathering the first wave of the pandemic with relative ease, the impact of the second wave in autumn was very bad and led to Austria becoming one of the countries with the largest drop in GDP in 2020. The extreme importance of the tourism sector, which has been badly hit by restrictions on mobility, largely explains this substantial decline in GDP. Looking ahead to 2021, activity is expected to recover gradually, as the situation with the pandemic means that many sectors can not yet be opened and the rate of vaccinations is somewhat slower than the EU average.

- **Real shock of COVID-19.** While the number of people infected in the first outbreak was similar to the European average, the situation deteriorated significantly in November and the number of detected cases per 100,000 inhabitants was 65% higher than in the EU. This led to a greater decline in GDP than recorded across the region in Q4. Therefore, over the whole of 2020, only six countries recorded larger falls in GDP (Spain, France, Greece, Italy, Malta and Portugal). The persistence of the pandemic and the excessively slow rate of vaccination suggest that 2021 will not get off to the best start in a country where tourism is extremely important in the winter months.

- **Economic policy response**
  - **Domestic fiscal policy**. The government implemented various fiscal measures in 2020, with the aim of mitigating the pandemic's impact on the economy and supporting the start of the recovery. These measures cost over 50 billion euros (13% of pre-pandemic GDP). They include direct transfers to households and businesses, which have made Austria one of the euro area countries that have focused most of their efforts on this type of expenditure. Moreover, the Austrian government also approved other measures such as tax deferrals and public credit guarantees, which played a more modest role than in its neighbouring countries.
  - **European policy.** During the crisis, the EU approved a set of aid packages to member states. These measures include loans from the SURE fund to pay for work schemes (of which Austria is yet to avail itself) and the European Recovery Plan (or NGEU), from which Austria may receive around 3 billion euros (0.7% of GDP) that are non-refundable between 2021 and 2026. A significant part of this support should go towards digitisation and the fight against climate change, both long-term challenges that it shares with the EU as a whole.

Outlook *(continued)*

- **Monetary policy.** Additionally, the launch of the ECB's asset purchase programmes and its announcement that it would be keeping official interest rates at record lows, have helped to maintain the Austrian lending interest rate at very low levels and we expect this to continue over the coming quarters. Furthermore, through TLTROs (bank loans at low interest rates), the ECB is also seeking to help reduce the risk of a severe impact on credit in the Austrian economy.

- **Medium-term outlook.** Activity may recover somewhat more gradually in Austria than in the other euro area countries, but the reopening of the tourism sector and the increase in consumption resulting from unlocking "excess savings" should boost economic growth in the second half of 2021. Looking further ahead, Austria should continue to address the challenges faced by its economy, most notably its very moderate productivity growth and the ageing population. In particular, this latter challenge may pose a threat to public finances, as Austria's labour force participation rate among people aged between 55 and 64 and its effective retirement age are below the levels in EU and OECD countries.

Main risks

- **Political stability.** The coalition government currently has a small parliamentary majority (97 seats from a total of 183). This does not suggest that it is likely to undertake the structural changes necessary to improve the economy in the long term. In any event, we expect the coalition that was formed by the centre-right party (ÖVP) and the greens (GRÜNE) to continue throughout the term, until the next elections in September 2024.
- **Financial stability.** Before the outbreak of the pandemic, the country's financial system had a certain level of resilience, allowing it to keep any risks to financial stability well contained. Nevertheless, they include growing bank exposure to the real estate sector, rising house prices in certain areas and lower profitability in the financial sector. Now, after COVID-19, these vulnerabilities will coexist alongside others resulting from a slow recovery in activity, which may end up being more gradual than expected.

	Rating	Last changed	Outlook	Last changed
STANDARD & POOR'S	AA+	13/01/12	Stable	29/01/13
Moody's	Aa1	24/06/16	Stable	24/06/16
FitchRatings	AA+	13/02/15	Stable	15/05/20

■ Indicates that the country has "investment grade".
□ Indicates that the country does not have "investment grade".

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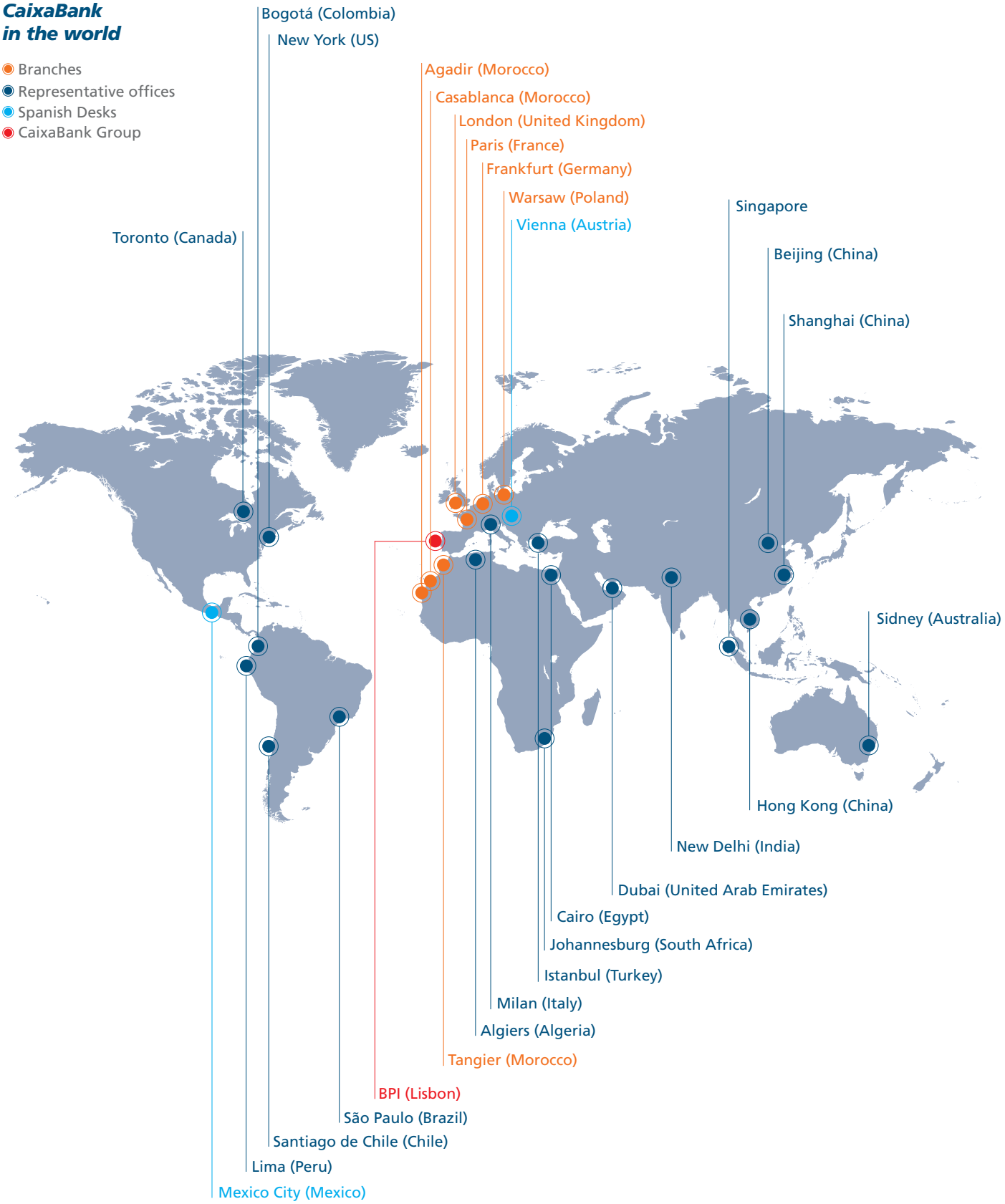

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