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Growth to moderate but private consumption remains strong

Economic growth in Austria is expected to moderate but remain robust in 2019 and to stabilise in 2020 and 2021. Domestic demand is set to remain the main driver of growth, with strong private consumption supported by fiscal measures. Net exports are set to turn slightly positive in 2020 and 2021. The government headline balance is set to improve further this year before diminishing in 2020 due to recently adopted fiscal measures and a less favourable macroeconomic outlook.

Domestic demand supports growth in 2019
Data from the first half of 2019 suggests that the strong economic growth momentum that Austria has been experiencing since 2016 is starting to diminish. After a still strong outturn in the first quarter of 2019, GDP growth came to a halt in the second quarter. This can be linked to a fall in equipment investment as well as in goods and service exports. As imports fell to a lesser extent, the overall contribution of trade to GDP growth was negative. The decrease in exports is visible across sectors including chemicals but also machinery and manufactured goods, which have been affected amongst others by the weaknesses in the German automotive sector. By contrast, investment in the construction sector remained firm, as population growth and favourable financing conditions support demand for housing. Private consumption increased markedly in the first half of 2019, supported by real wage increases, employment growth and the tax relief provided by the new ‘family bonus plus’.

Growth to slow down but to remain robust
In the second half of the year, economic growth in Austria is expected to experience a drag from the weaknesses in Germany and the global economy. Business sentiment indicators have been gradually deteriorating. These developments are expected to mainly affect industrial production, export and investment growth. However, export growth is set to recover somewhat in 2020 and 2021 as Austria is well-placed to benefit from global growth, also thanks to its close links with the Central and Eastern European countries where growth is forecast to remain robust. As import growth is expected to decline, the contribution of trade to economic growth is set to turn positive again. GDP growth is set to stabilise at 1.4%. Supported by fiscal measures, private consumption is expected to remain strong and become the main driver of growth over the forecast horizon. Investment is set to slow down amid lower economic growth and as excess demand for housing is expected to wane.

Still positive but slowing labour market dynamics
Despite lower economic growth, employment growth remained firm in the first half of 2019 and the unemployment rate continued to fall. However, a decrease in the number of job vacancies suggests that the jobs market may already have peaked. As the economy is set to cool, employment growth is expected to decrease while the unemployment rate is set to roughly stabilise at 4.6%. Wages are projected to increase more moderately, in line with the lower GDP and inflation growth prospects.

Inflation expected to moderate
In 2019, a drop in oil prices is expected to lower headline HICP to 1.5%. As strong domestic demand should sustain domestic price pressures, the core inflation rate is set to exceed the headline rate over the forecast horizon. Overall, headline HICP is expected to remain around 1.6% in 2020 and 2021.

Public finances develop favourably
Having improved to 0.2% of GDP in 2018, the government budget surplus is expected to expand further to 0.4% of GDP in 2019. This positive development is largely due to higher-than-
expected revenues especially from the wage tax and assessed income tax, which is, in turn, the result of the strong employment growth in 2017 and 2018.

In 2020, the headline surplus is expected to narrow to 0.2% of GDP, which is largely due to a series of fiscal measures implemented in 2019. On the revenue side, increased tax credits and lower health contributions will relieve especially low-income earners, while a staggered pension increase will weigh on the expenditure side. This will support private consumption over the forecast horizon. Counter-financing measures include taxes on the digital economy and measures against tax fraud. Overall, the budgetary impact of all measures amounts to 0.2% of GDP.

In 2021, the general government surplus is expected to improve again to 0.4% of GDP, on the back of stable economic growth. This is largely due to still robust tax revenues, and the fact that the budgetary impact of discretionary measures falls mainly on to 2020.

Public debt is expected to continue its downward path and to decrease from 74.0% of GDP in 2018 to 69.9% and 67.2% of GDP in 2019 and 2020, respectively. This mainly reflects the favourable development of interest expenditures and the successful divestment of impaired assets.