15. AUSTRIA

The COVID-19 pandemic and related containment measures led to a strong economic contraction in the first half of 2020. The services and in particular tourism sectors were particularly affected. In 2021, growth is expected to pick up, before moderating in 2022. The general government balance, which took a strong hit in 2020, is set to improve in 2021 on the back of the expected economic recovery, though risks remain from the fiscal response taken to mitigate the socio-economic effects of the crisis.

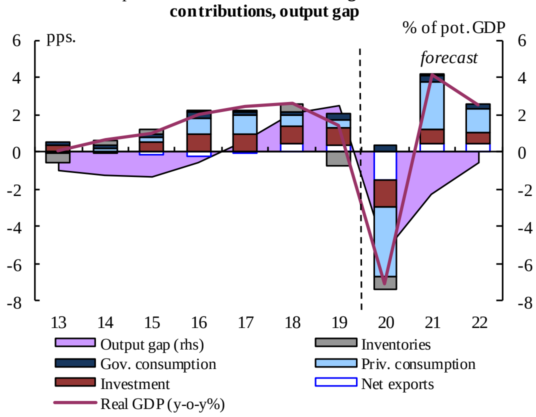
A deep contraction in the first half of 2020

The COVID-19 pandemic and related containment measures hit Austria’s economy hard in the first half of 2020. After dropping by 2.5% quarter-on-quarter in Q1-2020, GDP fell by 12.1 % in Q2-2020. Reflecting the lockdown phase and subsequent social distancing and containment measures in the second quarter, private consumption remained the main contributor to the fall in GDP. This was largely driven by a decline in the consumption of services and durable goods. Investment also fell significantly. Equipment investment was particularly affected but non-residential construction also dropped significantly. As the sharp decline in exports of both goods and services was accompanied by an equally strong decrease in imports, net external demand did not contribute notably to the downturn in Q2-2020.

Gradual recovery in 2021 and 2022

Although still subdued, economic and sentiment indicators suggest that a solid economic rebound began in the third quarter. The easing of travel restrictions in June also led to a partial recovery in the economically important tourism sector, with overnight stays in July and August down just 15% from 2019 levels, compared to decreases of 90% and 60% in May and June, respectively. An increase in overnight stays from German residents and domestic tourism helped compensate for the strong decrease in international tourists. However, rising infection rates and a tightening of containment measures in October dampen the growth outlook for the rest of the year and early next year, reducing the growth carry-over for 2021. Overall, GDP is expected to decrease by 7% in 2020, recover by around 4% in 2021 and moderate somewhat to about 2½% in 2022. Despite the robust recovery, the level of GDP is expected to return to pre-crisis levels only towards the end of 2022. A main downward risk to the projections is the performance of the winter tourism season, as related sectors are likely to suffer most from further tightening of containment measures and travel restrictions. In 2019, Statistik Austria estimates the total economic impact of tourism to have accounted for 7.3% of GDP. The potential impact of the Austrian Resilience and Recovery Plan on growth remains an upside risk.

Graph II.15.1: **Austria - Real GDP growth and contributions, output gap**



Effective short-time work schemes in place

The unemployment rate increased strongly in the first half of 2020, reaching 6.2% in June, before dropping to 5.4% in August. Short-time work schemes helped to mitigate the effect of the economic downturn on the labour market despite the strong drop in hours worked. In line with subdued growth, the recovery in the labour market is also expected to slow down towards the end of 2020. Overall, the unemployment rate is projected to increase from 4.5% in 2019 to around 5.5% in 2020, before falling to just below 5% in 2022.

Inflation to decrease only slightly

With the sharp economic downturn and the decrease in energy prices, inflation fell to 1% in the second quarter of the year before recovering quickly to 1.5% in the third quarter. Inflation in services remained especially high, leading to a core inflation rate of 1.8% and 2.2% in the second and third quarters respectively. Overall, inflation is forecast to remain at 1.5% in 2020, before increasing again to 1.7% in both 2021 and 2022.

Fiscal policy to mitigate the recession

The COVID-19 crisis has put an abrupt end to the favourable development of Austria's public finances in recent years. The government budget balance is expected to deteriorate to 9½% of GDP in 2020 in light of the working of automatic stabilisers and the fiscal response taken to mitigate the consequences of the economic downturn. The ‘COVID-19 crisis management fund’ launched in March provides for financial support to strengthen health care services, fixed cost subsidies, short-time work. Tax deferrals, reduced advance payments and public guarantees for loans should also help companies to avoid liquidity constraints. Despite the prolongation of several measures to 2021, the biggest budgetary impact will occur this year. The economic stimulus package adopted in June shifts the focus from the preservation of the production potential to support for private consumption and investment, including temporary VAT reductions, tax relief and investment premia. Revenues are expected to decline by 7½% while expenditures are expected to increase by 13%. The budgetary impact of discretionary measures amounts to an estimated 6¼% of GDP in 2020.

On the back of the economic recovery, the headline deficit is forecast to decline to 6½% in 2021 and to 3¾% of GDP in 2022, based on unchanged policies. Temporary (e.g., loss carryback, VAT reduction) and permanent (personal income) tax reliefs prevent a complete rebound in revenues, which are forecast to increase by 4% in 2021. Expenditures are set to gradually decrease by 2¾% in 2021. While several emergency measures are extended, most of them end in 2020. At the same time, fiscal stimulus measures materialise and pensions increase such that, on aggregate, the budgetary impact of discretionary measures amounts to 4% of GDP in 2021. This forecast does not include any measures funded by the Recorver and Resiliance Facility. Driven by the development of the headline deficit, public debt is expected to rise to 84¼% in 2020 after having fallen to a 10-year low of 70.5% of GDP in 2019. The debt-to-GDP ratio is set to further increase to 85¼% of GDP in 2021.

Table II.15.1:

Main features of country forecast - AUSTRIA

		2019		Annual percentage change						
		bn EUR Curr. prices	% GDP	01-16	2017	2018	2019	2020	2021	2022
GDP		397.6	100.0	1.4	2.4	2.6	1.4	**-7.1**	**4.1**	**2.5**
Private Consumption		205.5	51.7	1.1	1.9	1.1	0.8	**-7.2**	**5.0**	**2.5**
Public Consumption		77.3	19.4	1.3	0.9	1.2	1.5	**1.7**	**1.5**	**0.9**
Gross fixed capital formation		98.1	24.7	0.8	4.1	3.9	4.0	**-6.0**	**3.2**	**2.4**
of which: equipment		32.9	8.3	1.0	7.3	3.2	4.7	**-14.8**	**5.1**	**3.4**
Exports (goods and services)		221.0	55.6	3.5	4.9	5.5	2.9	**-11.5**	**5.5**	**3.8**
Imports (goods and services)		207.6	52.2	3.2	5.3	5.0	2.4	**-9.4**	**4.8**	**3.1**
GNI (GDP deflator)		399.6	100.5	1.5	1.4	2.6	2.9	**-6.8**	**4.4**	**2.5**
Contribution to GDP growth:	Domestic demand			1.0	2.1	1.7	1.7	**-4.8**	**3.6**	**2.1**
	Inventories			0.1	0.1	0.4	-0.8	**-0.7**	**0.0**	**0.0**
	Net exports			0.3	0.0	0.4	0.4	**-1.5**	**0.4**	**0.5**
Employment				-	1.6	1.7	1.1	**-2.5**	**1.5**	**1.2**
Unemployment rate (a)				5.0	5.5	4.9	4.5	**5.5**	**5.1**	**4.9**
Compensation of employees / f.t.e.				2.2	1.6	2.9	2.8	**1.1**	**0.5**	**2.0**
Unit labour costs whole economy				1.7	0.9	2.0	2.5	**6.0**	**-2.0**	**0.6**
Real unit labour cost				-0.2	0.0	0.3	0.8	**4.0**	**-3.8**	**-1.0**
Saving rate of households (b)				14.7	12.9	13.2	13.7	**18.3**	**14.4**	**13.4**
GDP deflator				1.8	0.9	1.7	1.7	**2.0**	**1.9**	**1.6**
Harmonised index of consumer prices				1.9	2.2	2.1	1.5	**1.5**	**1.7**	**1.7**
Terms of trade goods				0.0	-1.7	-0.9	-0.5	**1.1**	**0.1**	**-0.1**
Trade balance (goods) (c)				0.0	0.3	0.6	0.8	**0.4**	**0.6**	**0.7**
Current-account balance (c)				2.2	1.5	1.4	3.0	**2.3**	**2.9**	**3.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				2.1	1.4	0.8	2.9	**2.2**	**2.9**	**3.1**
General government balance (c)				-2.4	-0.8	0.2	0.7	**-9.6**	**-6.4**	**-3.7**
Cyclically-adjusted budget balance (d)				-2.2	-1.2	-1.0	-0.8	**-6.6**	**-5.2**	**-3.4**
Structural budget balance (d)				-	-1.2	-1.0	-0.8	**-6.6**	**-5.2**	**-3.4**
General government gross debt (c)				74.6	78.5	74.0	70.5	**84.2**	**85.2**	**85.1**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

Note : Contributions to GDP growth may not add up due to statistical discrepancies.