15. AUSTRIA

The GDP is forecast to contract sharply in 2020 as a result of the economic lockdown in the first half of the year. After the gradual lifting of the lockdown, the economy is expected to rebound, leading to a gradual recovery in 2021. The general government balance is set to materially deteriorate due to the economic downturn and fiscal packages launched to mitigate the socio-economic effects of the lockdown.

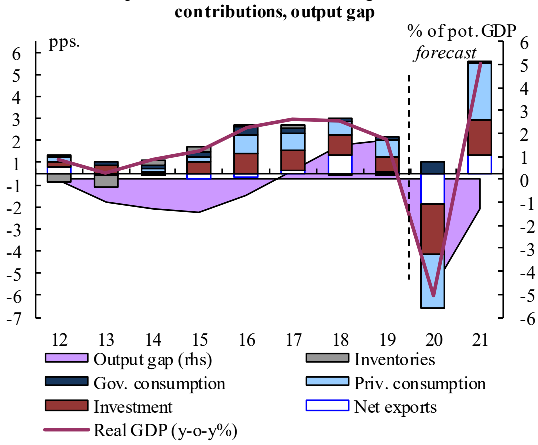
The health-policy response to the COVID-19 pandemic is expected to lead to a severe economic downturn

The rapid COVID-19 outbreak has strongly affected Austria's economy. National and international containment measures against the virus have hit both the demand and supply side of the economy, leading to a broad-based downturn. GDP is therefore projected to contract sharply by 5½% in 2020, more than during the economic and financial crisis in 2008-2009. However, given the relatively rapid fall in new infections, Austria was one of the first European countries to announce a progressive relaxation of containment measures beginning in mid-April. The contraction in the first half of the year is therefore expected to be slightly less severe than in other Euro area countries. Assuming a gradual normalisation of economic activity, GDP growth is expected to rebound in the second half of the year followed by a solid recovery in 2021, reaching 5%.

Domestic and external demand to plummet in 2020

Private consumption is expected to drop in 2020 in light of the temporary closure of shops, businesses and restaurants and the domestic and cross-border travel restrictions, but also as the effect of the crisis takes its toll on the labour market. This, together with increased uncertainty, is expected to drive household precautionary savings upwards. Being a small, open economy, developments in Austria's economy are strongly linked to those in its main trading partners. Investment is projected to decline sharply given the disruptions to supply chains and the high uncertainty surrounding the severity and length of the crisis. The service sector has been hit particularly hard by the containment measures and in particular the travel restrictions. Usually, services make up almost half of total private consumption expenditure in Austria, whilst tourism-related services account for around 30% of total services exports. Overall, exports and imports of goods and services are also expected to decrease strongly.

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



Strong increase in unemployment

Despite the quick policy response in setting up short-time work schemes, the effect of the crisis on the labour market has already been large. The number of registered unemployed increased by 50% to above 500,000 in March, affecting all sectors and services in particular. However, recent numbers suggest that the situation would have been noticeably worse without the measures. By the third week of April, support for more than 900.000 jobs had already been requested. In view of the relaxation of the containment measures and the projected rebound in the economy, the labour market is expected to start recovering in the second half of 2020. Overall, the unemployment rate is projected to increase from 4½ % in 2019 to 5¾ % in 2020 and decrease to around 5% in 2021.

Fall in oil prices dampens inflation

The significant fall in oil prices is set to dampen inflation in 2020 to 1.1% before increasing again to 1.5% in 2021. The impact of the crisis on non-energy prices is expected to put a drag on services prices in particular.

Risks mainly tilted to the downside

A main downward risk to the projections is the development in tourism-related sectors, which are expected to be the most affected in case of prolonged containment measures and travel restrictions. Another downward risk is linked to the labour market, especially in the services sector, if the recovery turns out slower than expected.

Public finances are set to deteriorate

From a surplus of 0.2% of GDP in 2018, the general government balance improved further to 0.7% of GDP over the course of 2019, thanks to the higher-than-expected receipts from wage and assessed-income taxes. In 2020, as a result of the major economic shock caused by the COVID-19 pandemic and related policy measures, the general government balance is expected to deteriorate significantly, reaching a deficit of 6¼% of GDP. On the revenue side, the expected decline in employment and corporate profits affects revenues from taxes on income and wealth, which are projected to decline by 3%. On the expenditure side, the acquisition of medical equipment increases intermediate consumption (+8¼%), while subsidies for the corporate sector go up as a result of funds made available for short-time work arrangements and emergency aid for distressed companies (+227¼%). Overall, the budgetary impact of measures related to the COVID-19 pandemic amount to EUR 15 bn (4% of GDP). In 2021, based on the assumption of unchanged policies, the general government balance is expected to improve to -2% of GDP, on the back of a solid economic recovery. Expenditure-related measures to mitigate the socio-economic effects of the COVID-19 crisis are expected to be largely temporary, affecting mostly 2020.

Driven by the development of the general government balance, public debt is expected to deviate from its recent downward path. Standing at 70.4% of GDP in 2019, public debt is projected to increase to 78¾% of GDP in 2020 before decreasing to 75¾% in 2021. The improvement of Austria's budgetary position in 2021 rests largely on the expected economic recovery and the smooth return to economic normality. The main risks underlying the budgetary projections stem from the extent to which the COVID-19-related fiscal packages are used, including the materialisation of available state guarantees to firms.

Table II.15.1:

Main features of country forecast - AUSTRIA

		2018		Annual percentage change						
		bn EUR Curr. prices	**% GDP**	**00-15**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**
GDP		385.7	100.0	1.5	2.1	2.5	2.4	**1.6**	**-5.5**	**5.0**
Private Consumption		199.7	51.8	1.2	1.6	1.4	1.1	**1.4**	**-4.8**	**4.9**
Public Consumption		74.5	19.3	1.2	1.8	1.1	0.9	**0.9**	**3.0**	**0.1**
Gross fixed capital formation		92.4	23.9	0.9	4.1	4.0	3.9	**2.9**	**-9.5**	**6.9**
of which: equipment		31.1	8.1	1.1	9.3	6.3	4.3	**3.4**	**-16.0**	**12.0**
Exports (goods and services)		215.1	55.8	4.1	3.1	5.0	5.9	**2.7**	**-12.5**	**10.3**
Imports (goods and services)		200.7	52.0	3.6	3.7	5.0	4.6	**2.8**	**-10.8**	**9.0**
GNI (GDP deflator)		384.7	99.7	1.5	3.1	1.6	3.1	**1.6**	**-5.6**	**5.0**
Contribution to GDP growth:	Domestic demand			1.1	2.1	1.9	1.7	**1.6**	**-4.2**	**4.2**
	Inventories			0.0	0.0	0.2	0.0	**-0.1**	**0.0**	**0.0**
	Net exports			0.4	-0.2	0.2	0.9	**0.1**	**-1.3**	**0.9**
Employment				-	1.3	1.7	1.7	**1.2**	**-1.4**	**1.4**
Unemployment rate (a)				4.8	6.0	5.5	4.9	**4.5**	**5.8**	**4.9**
Compensation of employees / f.t.e.				2.2	2.4	1.6	2.9	**2.9**	**0.7**	**1.2**
Unit labour costs whole economy				1.5	1.6	0.8	2.2	**2.4**	**5.1**	**-2.3**
Real unit labour cost				-0.2	-0.1	-0.3	0.5	**0.7**	**3.9**	**-3.3**
Saving rate of households (b)				14.8	13.1	12.8	13.1	**13.3**	**17.7**	**14.4**
GDP deflator				1.8	1.7	1.1	1.7	**1.7**	**1.2**	**1.1**
Harmonised index of consumer prices				1.9	1.0	2.2	2.1	**1.5**	**1.1**	**1.5**
Terms of trade goods				0.0	0.9	-1.8	-1.0	**0.3**	**0.0**	**0.3**
Trade balance (goods) (c)				-0.1	0.7	0.4	1.0	**1.1**	**0.1**	**0.8**
Current-account balance (c)				2.0	2.9	1.7	2.4	**2.3**	**0.9**	**1.6**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				1.9	2.8	1.6	2.4	**2.2**	**0.8**	**1.6**
General government balance (c)				-2.4	-1.5	-0.8	0.2	**0.7**	**-6.1**	**-1.9**
Cyclically-adjusted budget balance (d)				-2.3	-1.1	-1.0	-0.7	**-0.3**	**-3.4**	**-1.1**
Structural budget balance (d)				-	-1.1	-1.0	-0.7	**-0.3**	**-3.4**	**-1.1**
General government gross debt (c)				73.6	82.9	78.3	74.0	**70.4**	**78.8**	**75.8**

(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.