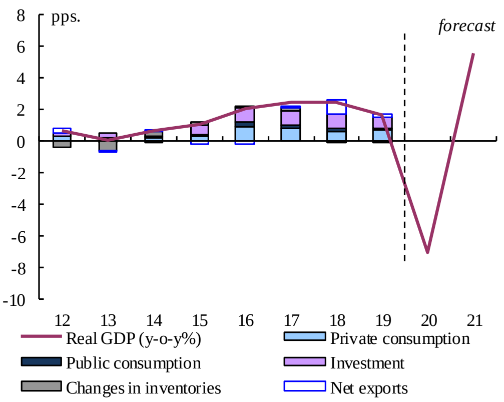
2.15. AUSTRIA

The COVID-19 pandemic and related containment measures have strongly affected Austria's economy, leading to a quarter-on-quarter contraction in GDP of 2.6% in 2020-Q1. As a result of the general shutdown, registered unemployment rose significantly in March and April and, despite decreasing since then, remains at high levels. The parallel substantial uptake in short-time work, with at its peak in May, more than 1.3 million applications, is another indication of the extent of the impact of the crisis on the Austrian labour market ([1]).

In the second quarter, the economic contraction is expected to be more severe as social distancing and containment measures continue to put a strain on the economy. However, a turning point seems to have been reached in April when the lockdown started to be gradually withdrawn. Together with the subsequent easing of travel restrictions, this led to improving economic and sentiment indicators, which is also reflected in the weekly GDP indicator published by the Austrian central bank (OeNB) ([2]). Private consumption in 2020-Q1 was visibly affected by the containment measures and accounted for roughly two-thirds of the decrease in GDP. The services sector, an important share of private consumption, but also the consumption of durable goods have been particularly affected and are expected to remain subdued in 2020-Q2. Investment is also expected to decline further, in particular due to a fall in equipment investment. Disruptions in supply chains, the fall in domestic demand in Austria's main trading partners and the slow expected recovery in the tourism sector, also put a drag on GDP growth in 2020-Q2, as exports are expected to fall more strongly than imports.

Graph 2.15: **Austria - Real GDP growth and contributions**



In the second half of the year, GDP growth is expected to rebound, assuming a gradual normalisation of economic activity. Overall, the economy is projected to contract by 7% in 2020 followed by a solid recovery with 5½ % growth in 2021, which would nevertheless leave the level of real GDP below pre-crisis levels.

Oil prices are set to fall significantly in 2020, dampening inflation. Additionally, the crisis is expected to put a drag on services and industrial good prices in light of subdued demand. Overall, inflation is expected to fall to 0.8% in 2020 and increase to 1.2% in 2021.

The government has taken sizeable measures to help stabilise the economy and preserve production potential. In June, the government announced a new fiscal stimulus package in the order of €19 billion (4.7% of 2019 nominal GDP). While not all details of the measures (e.g. the budgetary impact over the years) are yet known, the current projections assume a positive impact on private consumption and investment in 2020 and 2021.

(1) https://www.bmafj.gv.at/Services/News/Aktuelle-Arbeitsmarktzahlen.html
(2) https://www.oenb.at/Presse/20200619.html