

**2.20. AUSTRIA: STRONG GROWTH DYNAMICS STABILISING**

Austria’s economy likely grew twice as fast in 2017 as it did in 2016. Another quarter of strong GDP growth at the end of 2017 suggests real GDP growth of 3.1% for the year as a whole, compared to 1.5% in 2016. Optimistic business and consumer sentiment indicators suggest that economic growth should remain strong in 2018 (2.9%) before easing somewhat in 2019 to 2.3%.

Austria has clearly benefited from the strengthening of world trade and additional demand from neighbouring countries. After moderate growth in 2016 (1.9%), exports are likely to have increased by more than 5% in 2017. As Austria is well integrated into global value chains, imports also increased noticeably. Growth was driven predominantly by domestic demand with strong investment, particularly in machinery and equipment, as well as construction. Companies are seeing higher levels of capacity utilisation and have started expanding their production bases as well as making replacement investments. Private consumption was also strong - still benefitting somewhat from tax reforms in 2016.

In 2018 and 2019, investment is set to continue supporting growth but to a lesser extent. Private consumption is expected to stay stable as good labour market conditions and falling unemployment contribute to supporting household disposable incomes. Exports should grow robustly on the back of the favourable outlook for world trade but their growth rate is expected to moderate slightly over the next two years.

HICP inflation increased markedly to 2.2% in 2017, driven not only by stronger oil prices but also by price increases for industrial goods, restaurant, hotels, plane tickets and rents. Headline inflation has thus more than doubled compared to 2016 (1.0%) and remains visibly above the euro area average. Similarly, core inflation increased noticeably to 2.2% in 2017, after 1.5% the year before. In 2018, HICP and core inflation are expected to stabilise at around 2.1% before decreasing slightly in 2019.

