15. AUSTRIA

The COVID-19 pandemic and related containment measures led to a strong economic contraction in 2020. In the beginning of 2021, growth was still constrained by lockdowns, but the second half of the year is expected to show an acceleration in the economic recovery that should continue in 2022. The general government deficit is set to narrow somewhat in 2021 on the back of the expected economic recovery and the phasing out of some emergency measures.

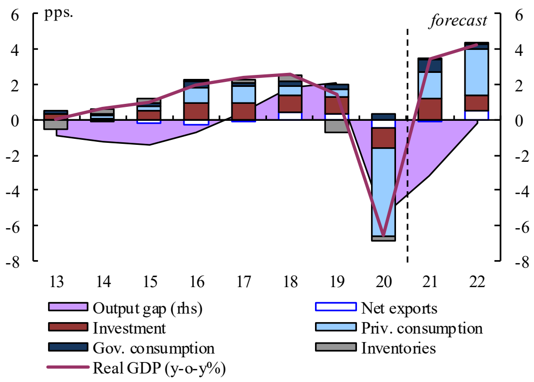
Economy to remain constrained in the first half of 2021

The COVID-19 pandemic and related containment measures hit Austria's economy hard in 2020. In line with the stringency of the containment measures, the sharp fall in GDP in the first half of 2020 was followed by a strong rebound in third quarter. A resurgence in infections in the autumn sparked another lockdown, which led to a 2.7% decline in GDP in the fourth quarter of 2020, with quarterly GDP increasing only slightly (by 0.25% q-o-q) in the first quarter of 2021. This was mainly due to the closing of non-essential shops and personal and tourism-related services, leading to a fall in private consumption and service exports, with a near total loss of the winter tourism season. While the nationwide lockdown was eased as of April, local lockdowns were put in place for several weeks in some Eastern regions. Nevertheless, due to the government announcement of a substantial easing of restrictions as of mid-May, economic growth in the second quarter is expected to rebound, with a 1.5% q-o-q GDP increase.

A gradual recovery is expected to take hold in the second half of 2021 and in 2022

The economic recovery is expected to accelerate in the second half of 2021 as containment measures and travel restrictions continue to be relaxed and as more Austrians get vaccinated. While Austria should also benefit from the expected solid growth in world trade, the recovery is set to be mainly driven by domestic demand. Both pent-up demand and the unleashing of precautionary savings are expected to boost private consumption over the forecast horizon, leading to a gradual although not total return of the saving rate towards pre-crisis levels. Business investment is also expected to contribute to the economic recovery, supported by government measures such as the COVID-19 investment premium for companies. Government consumption and investment are set to provide another boost to growth, with additional support stemming from RRF-financed measures. Activity in the tourism sector is expected to recover gradually over the summer, but remain somewhat below pre-crisis levels at the end of 2022. Overall, GDP is expected to grow by 3.4% in 2021 and more strongly in 2022 with 4.3%. The level of GDP is expected to return to pre-crisis levels in the first half of 2022. A main downward risk to the projections is linked to the possibility of a lower-than-expected recovery in the tourism sector.

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



Effective short-time work schemes in place

Despite the depth of the recession, the unemployment rate increased by only 0.9 pps. to 5.4% in 2020. Short-time work schemes helped to mitigate the effect of the economic downturn on the labour market, leading instead to a strong drop in hours worked. At the same time, the proportion of the population classed as economically inactive also rose, especially in sectors that were closed by containment measures, making it not possible to search for work, a prerequisite to be counted as unemployed according to the Eurostat definition.

After dropping by 1.7% in 2020, employment is expected to grow again over the forecast horizon, in line with the projected economic recovery. The unemployment rate is expected to gradually decrease, reaching 5.0% in 2021 and 4.8% in 2022. However, the recovery in the labour market should also be visible in the number of hours worked, as workers gradually return to full-time work, and in a decrease of the inactive population.

Inflation to decrease only slightly

Despite the sharp economic downturn, inflation has remained relatively stable, decreasing only slightly to 1.4% in 2020 and increasing again to 1.5% in the first quarter of 2021. Inflation in services has remained high, leading to a core inflation rate of 2% in 2020 and 1.7% in the first quarter of 2021. Base effects from the increase in oil prices are set to push average headline inflation to 1.8% in 2021 before moderating to 1.6% in 2022.

Fiscal policy is mitigating the recession

The COVID-19 crisis has brought several years of improvements in Austria's public finances to an abrupt end. The general government balance deteriorated to -8.9% of GDP in 2020 as a result of major policy measures to mitigate the socio-economic consequences of the pandemic. In 2021, the general government deficit is expected to narrow to -7.6% of GDP. This is due to the improved macroeconomic environment and the phasing out of certain temporary emergency measures taken in 2020. Overall, in 2021, the budgetary impact of measures related to crisis management and the economic stimulus package amounts to 5.1% of GDP. In 2022, the general government deficit is expected to further narrow to -3.0% of GDP on the back of the stronger GDP growth. This forecast includes all measures included in the Austrian RRP. The total budgetary impact of reforms and investments entailed in the Plan amounts to 0.1% of GDP in 2021 and to 0.3% in GDP in 2022.

Driven by the development of the general government balance, public debt is expected to deviate from its recent downward path. Public debt increased to 83.9% of GDP in 2020 and is projected to jump further to 87.2% of GDP in 2021 before decreasing to 85.0% of GDP in 2022.

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	**-6.6**	**3.4**	**4.3**
Private Consumption		205.5	51.7	1.1	1.9	1.1	0.8	**-9.6**	**3.0**	**5.3**
Public Consumption		77.3	19.4	1.3	0.9	1.2	1.5	**1.6**	**3.3**	**1.1**
Gross fixed capital formation		98.1	24.7	0.8	4.1	3.9	4.0	**-4.9**	**4.8**	**3.3**
of which: equipment		32.9	8.3	1.0	7.3	3.2	4.7	**-11.1**	**6.4**	**4.3**
Exports (goods and services)		221.0	55.6	3.5	4.9	5.5	2.9	**-10.4**	**7.5**	**7.2**
Imports (goods and services)		207.6	52.2	3.2	5.3	5.0	2.4	**-10.2**	**8.2**	**6.6**
GNI (GDP deflator)		399.6	100.5	1.5	1.4	2.6	2.9	**-7.2**	**3.4**	**4.2**
Contribution to GDP growth:	Domestic demand			1.0	2.1	1.7	1.7	**-5.8**	**3.4**	**3.7**
	Inventories			0.1	0.1	0.4	-0.8	**-0.3**	**0.0**	**0.0**
	Net exports			0.3	0.0	0.4	0.4	**-0.4**	**0.0**	**0.5**
Employment				0.9	1.6	1.7	1.1	**-1.7**	**1.2**	**1.3**
Unemployment rate (a)				5.0	5.5	4.9	4.5	**5.4**	**5.0**	**4.8**
Compensation of employees / head				2.2	1.6	2.9	2.8	**0.2**	**0.7**	**1.8**
Unit labour costs whole economy				1.7	0.9	2.0	2.5	**5.5**	**-1.5**	**-1.1**
Real unit labour cost				-0.2	0.0	0.3	0.8	**4.3**	**-2.8**	**-2.7**
Saving rate of households (b)				14.7	12.9	13.2	13.7	**19.0**	**16.3**	**14.1**
GDP deflator				1.8	0.9	1.7	1.7	**1.1**	**1.3**	**1.7**
Harmonised index of consumer prices				1.9	2.2	2.1	1.5	**1.4**	**1.8**	**1.6**
Terms of trade goods				0.0	-1.7	-0.9	-0.5	**1.3**	**-0.8**	**0.2**
Trade balance (goods) (c)				0.0	0.3	0.6	0.8	**1.4**	**0.8**	**0.8**
Current-account balance (c)				2.2	1.5	1.4	3.0	**2.7**	**2.2**	**2.7**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				2.1	1.4	0.8	2.9	**2.6**	**2.1**	**2.6**
General government balance (c)				-2.4	-0.8	0.2	0.6	**-8.9**	**-7.6**	**-3.0**
Cyclically-adjusted budget balance (d)				-2.2	-1.1	-0.9	-0.6	**-5.7**	**-5.7**	**-2.9**
Structural budget balance (d)				-0.5	-1.1	-0.9	-0.6	**-5.7**	**-5.8**	**-2.9**
General government gross debt (c)				74.6	78.5	74.0	70.5	**83.9**	**87.2**	**85.0**

(a) Eurostat definition. (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.