

Austria: Crucial summer for recovery

Even though Austria has managed to come out of the lockdown faster than most other eurozone countries, the upcoming vacation period will be key for the pace of the recovery



Austrian Chancellor
Sebastian Kurz

Source: Shutterstock

Austria was among the first European countries hit by Covid-19.

According to some experts, one of the famous ski resorts was considered as a super-spreader event in February. In reaction to the Covid-19 outbreak, the government took strict lockdown measures, not only closing borders but also shutting down economic and social life.

The economy contracted by some 2.5% QoQ in the first quarter, we currently expect another contraction by more than 10% QoQ in the second quarter

While the downturn in the first quarter was still relatively muted, the high dependency on tourism and industrial production should not only lead to a severe economic slump in the second quarter

but could also place a cap on the pace of the rebound in the second half of the year. While the economy contracted by some 2.5% quarter on quarter in 1Q20, we currently expect another contraction by more than 10% QoQ in the second quarter. For the entire year, the economy could shrink by more than 8% before rebounding by some 6% in 2021. The fact that Austria was the very first eurozone country lifting the lockdown measures, with shops, restaurants and schools all being open again, should support the rebound.

The unemployment rate has almost tripled from some 4% at the start of the year to currently more than 12%

Despite short-term work schemes, unemployment has surged. Prior to the crisis, Austria had one of the lowest unemployment rates of all eurozone countries but as the crisis hit the service and tourism industry significantly, with a high share of freelancers or small enterprises, the unemployment rate almost tripled from some 4% at the start of the year to currently more than 12%, at least according to national measures. The Eurostat unemployment rate could double in the course of the year.

Initially, fiscal stimulus mainly focused on stabilising the economy, with some 38bn euro (10% of GDP). In mid-June, the government decided on an additional package of around 12bn euro. While the initial package consisted of guarantees, loans, reduced VAT rates for restaurants and hotels as well as short-term work schemes, the new package consists of measures aimed at supporting the recovery. The most significant elements are a one-off top-up payment to unemployment benefits of 450 euros spread over three months, cutting the lowest income tax bracket to 20% from 25%, and a tax break for company investments of up to 14%.

While Austria managed to come out of the lockdown faster than most other eurozone countries, the return to normality will not be without hurdles. The dependency on global supply chains and tourism are clear hurdles to the recovery. Particularly, the upcoming summer vacation period will be key for recovery. Even though borders within the EU are open again, the crucial question is whether social distancing and the risk or fears of a second virus wave play a substantial role in the recovery.

The Austrian economy in a nutshell (%YoY)

| | 2019 | 2020F | 2021F | 2022F |
|-----------------------------|------|-------|-------|-------|
| GDP | 1.5 | -8.2 | 5.8 | 2.8 |
| Private consumption | 1.3 | -6.5 | 6.8 | 2.7 |
| Investment | 2.8 | -7.2 | 5.2 | 3.1 |
| Government consumption | 0.7 | 1.5 | 1.9 | 0.7 |
| Net trade contribution | 0.1 | -2.3 | 0.8 | 0.7 |
| Headline CPI | 1.5 | 0.7 | 1.5 | 1.7 |
| Unemployment rate (%) | 4.4 | 7.5 | 6.5 | 5.8 |
| Budget balance as % of GDP | 0.7 | -9.5 | -4.2 | -2.0 |
| Government debt as % of GDP | 70.4 | 84.4 | 84 | 81 |

Source: Thomson Reuters, all forecasts ING estimates

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