Austria: Walking a tightrope

Keeping Covid-19 cases under control whilst bringing the economy back on track will be a tough balancing act during the next few months. A loss of balance could easily trigger a long cycle of lockdowns and reopenings

Israeli Prime Minister Benjamin Netanyahu (L), along with Danish Prime Minister Mette Frederiksen (R) and Austrian Chancellor Sebastian Kurz (C) as they seek closer cooperation on Covid-19 and vaccines

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The Austrian economy contracted by 2.7% quarter-on-quarter in 4Q20. As a result, the alpine country's economy contracted by 6.6% in the full year of 2020. The feared double-dip could not be avoided as the tourism sector has almost come to a standstill since last November.

> *Looking ahead, keeping control over Covid-19 cases while simultaneously bringing the economy back on track will be akin to walking a tightrope.*

Since the easing of lockdown measures and the partial opening of the economy in February, Covid-19 cases are rising again. But according to Chancellor Sebastian Kurz, lockdown measures have been eased because the wider population no longer supports them - and Austria isn't alone, even though this increases the risk of new rounds of lockdowns in the long run.

As the vaccination programme progresses at a slow pace in the EU, the Austrian government has allied with Denmark and Israel to develop and possibly produce a vaccine and secure supplies in the long run. At the time of writing, nine out of 100 people were at least partially vaccinated in Austria, so while the partnership with Denmark and Israel will be a stabiliser in the long run, more headwinds can be expected in the short-term.

According to Eurostat, the seasonally-adjusted unemployment rate stood at 5.7%, which is 1.3 percentage points above the pre-pandemic level. While the increase in unemployment is relatively mild, it is much more significant in sectors most affected by lockdown measures. According to country data, unemployment in the tourism sector has doubled since last year. Additionally, this mainly hits female employment, as more women than men are employed in these sectors. However, the full impact of the crisis on the labour market will only be visible when fiscal support measures, like short-time-work schemes, expire.

> *Despite the headwinds in the short run, we expect the Austrian economy to grow by 2.4% in 2021*

Given that the economic recovery will take longer than expected and unemployment looks set to increase substantially in 2021, especially without further fiscal support, more labour market support measures will probably be introduced in the second half of 2021. To further support Austrian businesses, large fiscal support packages were granted to both companies affected by lockdowns and companies which were neither directly nor indirectly affected by containment measures but generated revenue losses of at least 40% between November 2020 and June 2021.

But all of these support measures mean that Austria's government debt rate is estimated to increase to 87% of GDP in 2021 and 88% in 2022. Having said that, we think it is unlikely for austerity measures to come back to the fore before 2022, and the government has recently noted that higher growth should help to reduce the debt burden rather than more taxation.

Austria's short-term growth outlook is dependent on how the country manages the balancing act between reopening the economy and containing the pandemic.

In any case, a strong construction sector, exports and hopefully the return of tourists on the back of vaccines by the summer should bring the economy back on track in 2021. Despite the headwinds in the short run, we expect the Austrian economy to grow by 2.4% in 2021.

The Austrian economy in a nutshell (%YoY)

	2020	2021F	2022F	2023F
GDP	-6.6	2.4	3.5	2.5
Private Consumption	-9.8	4.5	3.5	1.2
Investment	-4.9	3.1	2.8	2.3
Government Consumption	0.8	1.5	0.9	0.8
Net trade contribution	-1.3	0.5	0.7	0.6
Headline CPI	1.4	1.8	1.7	1.7
Unemployment rate (%)	5.3	5.5	4.9	4.5
Budget balance in % of GDP	-8.0	-5.5	-3.0	-1.5
Government debt in % of GDP	84.2	88.0	87.0	84.0

Source: Refinitiv Datastream, all forecasts ING estimates

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