

## 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

Source: Shutterstock

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

### Author

**Franziska Biehl**

Senior Economist, Germany

[Franziska.Marie.Biehl@ing.de](mailto:Franziska.Marie.Biehl@ing.de)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).