# Austria in 2021: This time it's different

Strong growth in the third quarter was only a snapshot. The new lockdown measures in Austria will push the economy into recessionary territory, and there's likely to be more bad news ahead

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## Lockdowns, unemployment and debt

The Austrian economy grew by 11.1% quarter-on-quarter in 3Q20, which is still 5.3% below last year's level.

After the easing of lockdown measures in April and May, catch-up effects led to a sharp increase in private consumption of 11.8% during the third quarter. The opening of borders in June enabled both the tourism and the export sector to gain some momentum, resulting in a market services growth rate of 14.5%, under which these sectors are grouped.

The last two months of the year will bring some economic challenges. Like everywhere in Europe, cases began to rise sharply again in October, forcing the government to introduce new lockdown measures at the beginning of November which were further tightened in mid-November. Austrians are not permitted to leave their homes, except if they are commuting for work. As curfews are only allowed for 10 days, these measures will initially remain in place until 26 November and will then be extended if necessary.

*New lockdown measures in the entire eurozone have put yet another tourist season at risk*

All schools and kindergartens have been closed too, but in case of emergencies, care services will be available. Retail stores, restaurants, hotels and cultural sites were forced to close and this will hold until 6 December. While restaurants are allowed to offer delivery and pick-up services from 6am until 7pm, other sectors may be unable to bridge the widening gap.

Therefore, the government has decided to support the labour market and businesses by granting affected businesses compensation up to 80% of the revenue in the same month of last year. The payment of this compensation is bound to the condition that no employee is made redundant. Additionally, the short-time work scheme has been adjusted and extended until the end of March 2021. And to make it possible for families to celebrate Christmas together, mass testing will be introduced when the lockdown is eased.

Since January, the seasonally adjusted unemployment rate (Eurostat) increased by 1.2 percentage points to 5.5%. Given that the new lockdown measures in the entire eurozone have put yet another tourist season at risk, unemployment looks set to increase more substantially in 2021. Although this second wave should not come with a strong supply shock as we experienced during the first wave, there is definitely the risk of a demand shock due to precautionary savings as uncertainty about the duration of the lockdown, or the introduction of a third one increases.

With all the supportive measures taken so far, Austria's government debt rate is estimated to increase by some 14 percentage points to 84.2% of GDP in 2020 and to 85.2% in 2021. The government has not yet announced any proposals for reducing the debt ratio. Plans to increase taxes would become relevant in 2022 at the earliest, according to the president of the fiscal council, however, it might take up to 10 years until the debt ratio returns to pre-crisis levels.

## No protective shield

The diversity of the Austrian economy, which usually guarantees stable, albeit moderate, growth, may not work as a protective shield this time, as the crisis affects all sectors and one of Austria's growth engines - the tourism sector, which could well remain affected into next year. Government support should reduce the negative impact, but we expect the Austrian economy to shrink by 1.5% in the fourth quarter and an overall contraction of 7.5% for the whole of 2020.

We expect the economy to rebound by some 2.9% in 2021.

## The Austrian economy in a nutshell

| | 2019 | 2020F | 2021F | 2022F |
|---|---|---|---|---|
| GDP | 1.5 | -7.5 | 2.9 | 3.5 |
| Private Consumption | 1.3 | -7.5 | 3.6 | 4.0 |
| Investment | 2.8 | -6.2 | 3.1 | 2.4 |
| Government Consumption | 0.7 | 1.7 | 1.5 | 0.9 |
| Net trade contribution | 0.1 | -1.5 | 0.3 | 0.5 |
| Headline CPI | 1.5 | 1.5 | 1.7 | 1.7 |
| Unemployment rate (%) | 4.4 | 5.7 | 6.0 | 5.2 |
| Budget balance in % of GDP | 0.7 | -9.6 | -6.4 | -3.7 |
| Government debt in % of GDP | 70.4 | 84.2 | 85.2 | 85.1 |

Source: Thomson Reuters, all forecasts ING estimates

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