Austria: Solid growth and pockets full of money?

GDP growth for the first quarter of 2019 came in at 0.3% quarter-on-quarter, slightly lower than in the final quarter of 2018. Domestic demand is likely to remain the driving force in the foreseeable future, supported by tax relief

According to a flash estimate from the Austrian Institute of Economic Research, the Austrian economy grew by 0.3% quarter-on-quarter. The seasonally and working day adjusted Eurostat measure confirmed the positive picture, coming in at 0.3% quarter-on-quarter.

While household and public consumption expenditure held up nicely, each rising by 0.4% QoQ, exports and imports lost momentum. The cooling world economy and especially the cooling of the European industrial economy has started to leave its mark on Austria. Although imports rose moderately (+0.4%) in line with investment demand, exports expanded to the same extent, resulting in hardly any contribution to GDP growth in the first quarter. The divide between the manufacturing and services sectors seen in the eurozone is also reflected in Austria's numbers. Industry continued to lose momentum in the first quarter, while market services such as the accommodation and restaurant segment supported economic growth. Having said that, domestic consumption should remain a pillar of strength in the foreseeable future, probably also because of the government.

Thinking big?

The Austrian government is in a generous mood, increasing its already-announced tax relief measures from €4.5 billion to €6.5 billion until 2022, equivalent to 1.7% of GDP. If you add to that the government's tax deduction programme 'Family Bonus Plus', which has been in place since January 2019, all measures add up to a tax reduction of €8.3 billion. While details will only be announced later today, taxes will be lowered between 2020 and 2022 via different stages. In the first stage, low-income earners in particular will profit from lower health insurance contributions, starting in 2020. From 2021 onwards, tax rates for lower and middle income households are to be reduced. Lastly, corporate taxes will be reduced, with the aim of spurring investment. Austria has one of the highest tax-to-GDP ratios among EU countries, coming in sixth with a ratio of 42.4%, compared to an EU average of 40.2%, according to 2017 numbers, when looking at all taxes and social contributions in Austria.

How the tax package will be financed is not yet clear. Nevertheless, the government plans on fulfilling all Maastricht criteria by 2023, which would be the first year since joining the EU in 1995, according to Secretary of State Hubert Fuchs in a press conference. In fact, Austria's debt to GDP ratio has been continuously above the 60% threshold. One source of money will be the planned introduction of a national digital tax in the amount of 5% on online advertising sales from January 2020 onwards. This tax would apply for companies with a worldwide turnover of €750 million and a turnover of €25 million in Austria. In total, the planned digital tax package including the digital tax and other measures, should bring €200 million a year. An attempt to introduce an EU-wide digital tax failed in March because of differing interests among EU members.

Domestic demand is likely to remain in the driver seat

At least the macro environment helps. With fresh positive macro data from abroad, a healthy labour market, rising wages and household disposable income, the government's tax plans will get some tailwind. Domestic demand, spurred by those plans, is likely to remain a key driving force.

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