

AUSTRIA

A SLUMP ON THE HORIZON ?

After dynamic business activity during the first six months of the year, Austrian growth slowed very dramatically during Q3 2022, due to the economic downturn both nationally and internationally. GDP is not expected to rebound over the final months of the year and is even poised to stagnate in 2023. However, the downturn in business activity has not stopped the government from announcing an ambitious reduction in the public deficit, which would fall below 3% from next year. This would result in a sharp decrease in the public-debt-to-GDP ratio. These commitments appear to be credible, as the incumbent Green President, Alexander Van der Bellen, was easily re-elected on 9 October, offering political stability to the country following the debacle of the 2016 election.

Over the first six months of the year, Austrian GDP grew very substantially (+1.2% during Q2, following growth of +1.9% during Q1). However, this strong momentum was halted during Q3, as GDP growth slowed dramatically to +0.2% (q/q). This slight decrease in business activity is expected to continue during the final months of the year, as the European Commission is anticipating growth of +4.6% in 2022, with the growth rate carried over at the end of Q3 standing at +4.8%. 2023 is expected to be marked by stagnating business activity in particular, as well as a slight resurgence in inflation. Business activity is only expected to recover gradually, with no green shoots until 2024. Austria's exposure to and dependence on Germany will negatively impact its trade in 2023 and 2024, even though the country is expected to have a small surplus in its trade balance in 2022, thanks to the recovery in service exports, led by tourism (a sector which accounts for almost 15% of GDP).

The government has high public-debt reduction targets. The high nominal GDP growth buoyed by double-digit inflation (+10.6% y/y in November, i.e. the highest level since 1952) has helped to sharply increase government revenue, while expenditure is still under control with limited support measures. As a result, the government's budget balance is expected to fall below the 3% deficit-to-GDP ratio from next year. The public-debt ratio is expected to dip by 7 points between 2021 and 2024 (82% to 75% of GDP) (see Chart 2).

Despite the adverse economic climate, the unemployment rate is expected to stabilise at its current level of around 5% in 2023. This level, which is close to the NAWRU (estimated at 5.25% by the European Commission), is consistent with a projected decline in inflation to +6.7% on average in 2023, followed by +3.3% in 2024. Wage dynamics are expected to contribute to this disinflation, as, after peaking during Q1 (+6% y/y), a slowdown is looming, with wages only rising +5% (y/y) during Q3.

In the world of politics, the Austrian people re-elected the 78-year-old incumbent Green President, Alexander Van der Bellen, as the country's leader on 9 October. Van der Bellen won 56.7% of the votes cast in the first round. This landslide victory was not a surprise, as the leader of the Green (Grüne) Party, supported by the traditional parties (the Social Democratic Party and the People's Party), had enjoyed a clear lead in the polls. This result was due to the declining support for the far right party, the Freedom Party of Austria (the FPÖ), the largest opposition party in Austria, over several years as a result of a number of corruption scandals that have ruined the nationalist party's credibility. The re-election of the incumbent President offered political stability in Austria following a tumultuous election in 2016, where suspected fraud when counting the ballot papers led to the results of the second round being cancelled and the second round being rerun.

GROWTH & INFLATION

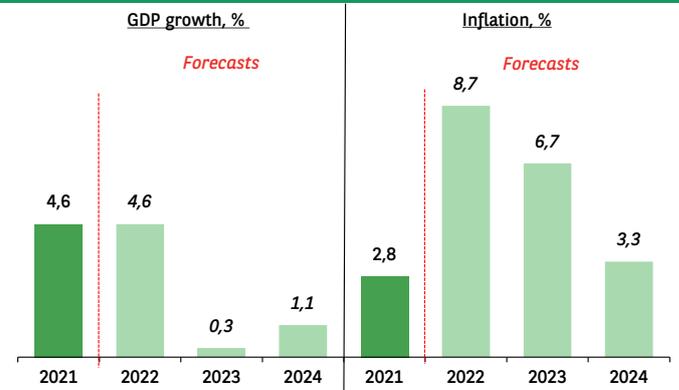


CHART 1

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

AUSTRIA: FISCAL BUDGET BALANCE AND PUBLIC DEBT

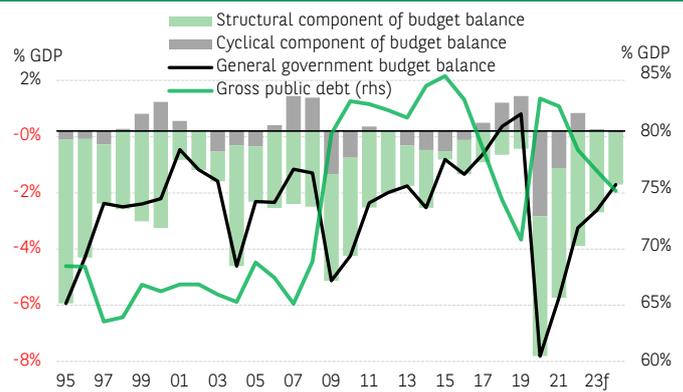


CHART 2

SOURCE: MACROBOND, EUROPEAN COMMISSION (AMECO), BNP PARIBAS

Anthony Morlet-Lavidalie

anthony.morletlavidalie@bnpparibas.com

