AUSTRIA

CORPORATE SECTOR SEVERELY WEAKENED BY COVID-19 CRISIS

The government decreed a second lockdown in November due to the rapid rise in Covid-19 infections. Business indicators point to a fall in activity. Thanks to the short-time work scheme, unemployment has only risen moderately. Moreover, inflation has remained at a relative high level compared to other eurozone countries. In 2021, fiscal policy remains very accommodative and the deficit might only shrink to 6.3% of GDP. The economy is projected to rebound by 3.5% in 2021 compared with a slump in 2020 (-7.5%). A major downside risk is the increased indebtedness of the non-financial corporate sector.

SECOND LOCKDOWN HALTS RECOVERY

Austria weathered the first wave of the sanitary crisis reasonably well, but the second wave in autumn turned out to be much more severe. It forced the government to decree a second lockdown in early November, resulting in the closing of hotels, bars, restaurants and theatres at least until 6 January. After a strong recovery in the third quarter (11.1%), the second lockdown has provoked a renewed slump, albeit less severe than in the spring. The WIFO business climate index fell deeply into the red, as companies assessed the current situation as worse, and were quite concerned about the coming few months. In particular, economic conditions in the sectors tourism, transport and the consumer goods were considered as very unfavourable.

Labour market conditions have deteriorated although less than might have been expected thanks to the short-time work scheme. The unemployment rate peaked at 5.9% in June compared with 4.5% before the crisis. In recent months, unemployment has come down, reaching 5.4% in October. However, the early warning indicator of the Austrian employment service points to more layoffs coming in the weeks ahead.

To provide financial support for the hospitality industry, the VAT rate for food and accommodation services was temporarily cut to 5% in July 2020. This rate will probably apply until December 2021. However, in line with government intentions, the lower VAT rate has not been passed on to consumers. In the first place, it could be considered as a kind of compensation for the sector, which faces higher costs and lower incomes due to the sanitary regulations to stop the spread of the virus. In addition, numerous businesses in this sector are struggling with liquidity problems. Mainly because of rising prices in the services sector, inflation has remained relatively high compared to other eurozone countries. Overall, inflation is forecast at around 1.5% in 2020.

FISCAL STANCE TO REMAIN ACCOMMODATIVE

As in 2020, several budgetary rules such as the debt brake and those of the European Stability and Growth Pact will be suspended in 2021, as the budget will still be dominated by the effects of the Covid-19 crisis. Support measures for the most affected sectors - such as the fixed cost subsidy, the short-time work scheme or the support fund for non-profit organisations - will continue. Investment expenditures, in particular in climate protection, public transport and digitalisation are increasing. Moreover, active labour market policies will replace spending on short-time work allowances. Nevertheless, government expenditure is set to decline by 1.3% from 2020, when spending was boosted by several emergency measures. On the revenue side, some relief measures, such as the temporary loss carry-back will take the full effect. This rule allows companies to offset the losses caused by the Covid-19 pandemic against the profits made in earlier years. Moreover, the marginal tax rate of the first income bracket will be lowered. However, this will be compensated by the increase in tax revenues associated with the expected strong recovery. The general government revenue ratio is expected to decline to 47.1 % of GDP compared with 47.9 % in 2020. The deficit could improve to 6.3 % of GDP compared with 9.5% in 2020. The debt-to-GDP ratio is expected to inch up to 84.8 % from 84% in 2020. In 2019, it amounted to 70.5%.

GROWTH AND INFLATION (%)

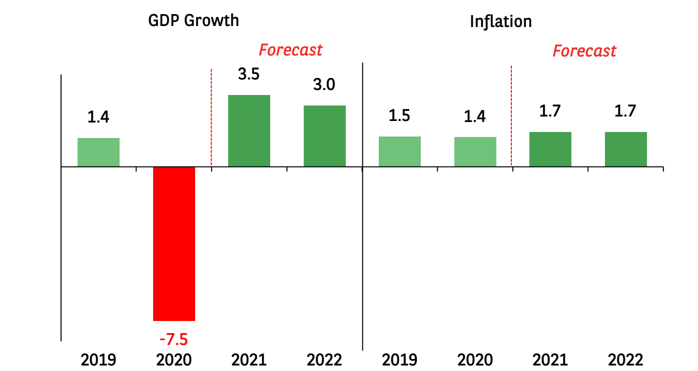

CHART 1 SOURCE: BNP PARIBAS GLOBAL MARKETS

PRIVATE SECTOR IS SEVERELY WEAKENED

The economy is expected to rebound 3.5% in 2021 after the slump in 2020 (-7.5%). A major downside risk for the economy is the fragility of the non-financial corporate sector. Corporate profitability, which was already substantially lower than during the Great Recession, has further declined. Moreover, in the first half of 2020, the debt-to-income ratio of the corporate sector increased by 13 bp to almost 324%. Despite the sharp fall in activity, the number of bankruptcy proceedings and insolvencies will probably be lower in 2020 compared to last year, because of the legal measures taken during the Covid-19 crisis. An increase in insolvency proceedings could be expected once these measures expire.

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