

AUSTRIA

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CRISIS ATMOSPHERE

Once Covid-related restrictions are lifted, the economy is projected to rebound strongly in 2022, driven initially by household consumption. Next year, the fiscal stance is likely to tighten because of the gradual withdrawal of the special support measures. A major political risk is the possible falling apart of coalition between the conservative ÖVP and the Greens.

Following a mild recession at the beginning of the year, the gradual easing of lockdown measures allowed the economy to return to its pre-crisis level in Q3. The recovery was even held back by shortages of labour and material. That will be even more the case in the next months because of the measures announced by the government in response to the rapid increase in Covid-19 infections. A nationwide lockdown was decreed for a maximum of 20 days starting on 22 November, as well as the mandatory COVID-19 vaccination from 1 February 2022. After the announcement, the number of people in the unemployment and furlough schemes have been rising again.

AN AMBITIOUS TAX REFORM

Because of the withdrawal of special support measures, the fiscal stance is set to tighten next year. On the other hand, the government will implement a tax reform from July 2022. When fully implemented in 2024, the tax reduction will amount to EUR 7.8 bn per year (2% of GDP). The reduction should compensate the tax payer for the so-called "bracket creep", a situation in which inflation pushes tax payers into higher tax brackets. In 2024, the corporation tax rate will be lowered from 25% to 23%. From 1 July 2022, a carbon tax will be introduced for sectors that are not subjected to the EU ETS. Initially, the tax is fixed at EUR 30 per tonne of carbon and will rise to EUR 55 by 2025. The carbon price in the EU ETS is currently close to EUR 80 in recent months. The tax adds 10 cent to a litre of petrol and EUR130 on the annual heating costs of an average household. The receipts of the tax will be returned through a family tax credit, a special bonus for citizens living in rural areas and subsidies to firms to keep them competitive versus countries that have lower carbon prices.

ROBUST GROWTH IN THE COMING YEARS

The economy could quickly recover once these measures are lifted. Private consumption is likely to rebound strongly once lockdown measures are lifted, supported by the savings buffer build up during the Covid crisis and the tax reform from July 2022 onwards. Exports in goods will strengthen in the course of 2022 due to the easing of supply disruptions, in particular in the German car industry. Moreover, the export of tourism services may almost double in 2022. Investment is stimulated by the shift to low-carbon production technologies and persistent labour shortages, which will lead to further automation. Inflation is likely to increase temporarily to above 3% in 2022, in the first place due to higher energy prices. Moreover, from 1 January, VAT rates for catering, accommodation and events, representing around 13% of the consumption basket, will be raised from 5% to their original level of 8%. This hike is likely to be only partly passed through to consumers. On 1 July, the introduction of the carbon tax will contribute around 0.2 point to inflation.

GROWTH AND INFLATION

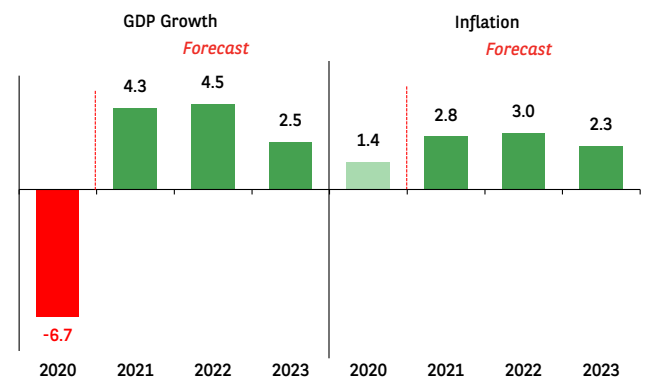


CHART 1

SOURCE: ECONOMIC RESEARCH BNP PARIBAS

MINISTERIAL WALTZ

A major uncertainty is the corruption scandal, in which the ÖVP (conservatives), the senior partner in the governing coalition, is entangled. In October, accused of funnelling EUR 1.2 bn of taxpayers' money between 2016 and 2017 to media outlets that served his interests, the ÖVP leader Sebastian Kurz resigned as Chancellor in October. He was temporarily replaced by the foreign minister Alexander Schallenberg. As in early December, Mr Kurz decided to quit politics altogether, Mr Schallenberg moved back to the foreign ministry and the interior minister Karl Nehammer took over as Chancellor. Moreover, finance minister Gernot Blümel resigned. For the moment, the Greens want to continue the coalition with the ÖVP in order to realise the green political agenda.

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