

## AUSTRIA | MACRO OUTLOOK

### Economy stagnates in 2024 ECB: next interest rate cut in October AT yields expected to rise slightly Weaker dollar expected

Economy (%)	2024e	2025e	2026e
GDP (real, y/y)	0.0	0.9	0.9
Unempl. Rate	5.1	4.9	4.7
CPI (y/y)	3.2	2.2	1.9
Public Debt/GDP	77.5	77.4	n.a.

Source: Erste Group Research

Market	Spot	24Q4	25Q1	25Q2
ECB Target R.	3.65	3.15	2.90	2.65
3M Euribor	3.48	3.09	2.86	2.64
EUR/USD	1.11	1.13	1.14	1.14
10Y Bond (%)*	2.65	2.95	3.00	3.00

Source: FactSet, Erste Group Research

Rating	Current	Outlook
Moodys	Aa1	stable
S&P	AA+	positive
Fitch	AA+	stable

Source: Erste Group Research

General	2024
Population mn	9.2
GDP/Capita EUR	53,535

Source: Erste Group Research

Spot Rates as of:  
12th Sep. 2024

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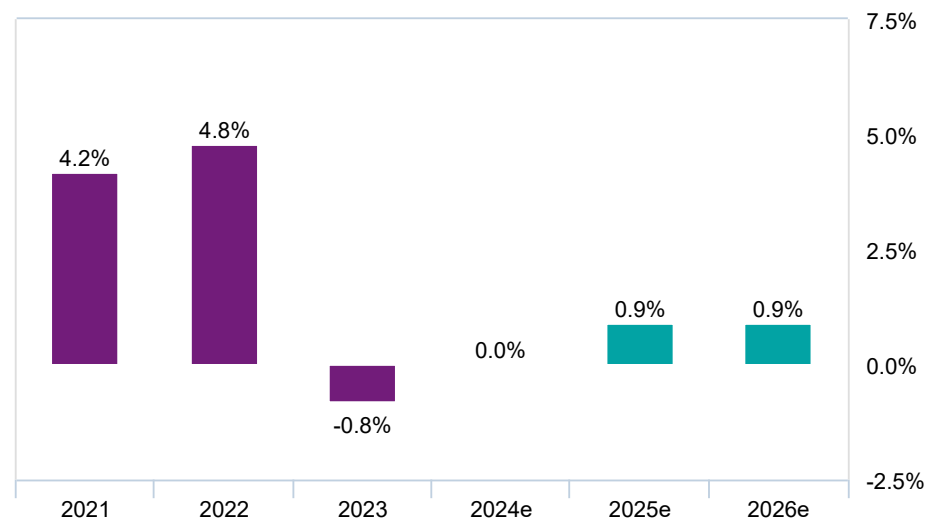
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After a recession in 2023, the Austrian economy has not shown signs of recovery in 1H2024. Private consumption and fixed gross capital formation are well below their levels of last year. Therefore, we expect the Austrian economy to stagnate in 2024. Inflation is further declining. This is partly due to price-dampening energy prices, but also to moderately rising food prices. However, inflation in the services sector, supported by wage increases, is likely to keep core inflation on an elevated level and in turn overall inflation is expected to remain above the eurozone average this year.

At the September meeting, the ECB Governing Council lowered the key interest rate by 25 basis points. The outlook shows the ECB does expect inflation to fall in line with their forecasts, allowing further rate cuts at their next meetings. Yields on German government bonds have risen since the beginning of the year. Yields on 10-year Austrian government bonds followed this development. We expect the risk premium compared to German government bonds to fall in the next months, partly due to positive rating reports.

#### GDP (real,y/y)



Source: Erste Group Research

## GDP

### Economy stagnates in 2024

Statistics Austria published national accounts figures for the second quarter. According to the figures, Austria's gross domestic product (GDP) contracted by -0.6% y/y. Adjusted for seasonal and calendar effects, real GDP also fell by -0.4% compared to the previous quarter. A look at the components of GDP shows that all GDP components except for public consumption fell compared to the same quarter of the previous year. Following an increase at the beginning of the year, consumer spending developed negatively. Gross fixed capital formation, exports and imports also fell, in some cases sharply.

In view of this development, which fell well short of our expectations, we are now forecasting GDP growth in Austria to stagnate this year (+0.0% y/y; previous +0,2% y/y). This is due to our expectations for consumption and investment growth for 2024 as a whole, which are even more pessimistic than in the last GDP revision at +0.6% y/y and -2.0% y/y, respectively. If there is no noticeable improvement in consumer spending or the poor performance in industry, which is impacting investment, continues, a decline in GDP over the year as a whole, i.e. another year of recession, cannot be ruled out.

Annual	2022	2023	2024e	2025e	2026e
GDP real	4.8%	-0.8%	0.0%	0.9%	0.9%
CPI (y/y)	8.6%	7.7%	3.2%	2.2%	1.9%
Private Consumption	5.7%	-0.3%	0.6%	2.0%	1.6%

Source: Erste Group Research

## Inflation

### Inflation decreases to 2.5% in August

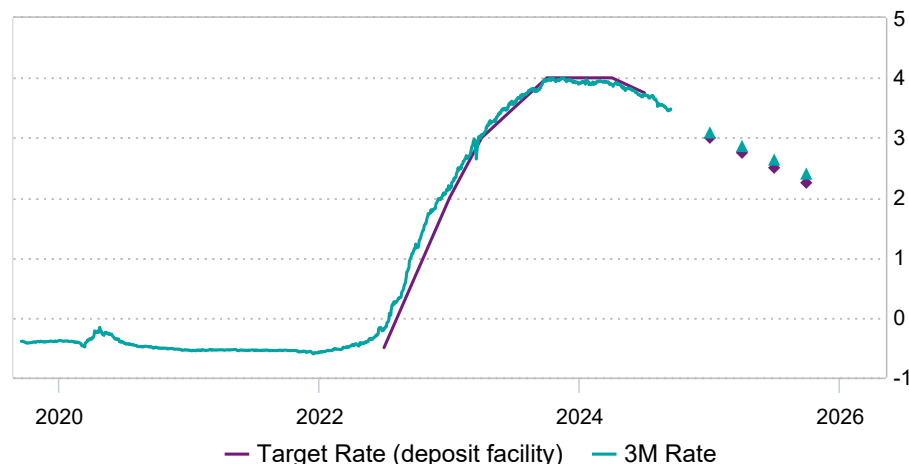
Inflation, as measured by the Harmonised Index of Consumer Prices (HICP), was 2.5% y/y in August, down on the July figure of 2.9% y/y. Inflation as measured by the Consumer Price Index (CPI) fell by 0.5 percentage points compared to July and stood at 2.4% y/y. According to the estimate, this decline in inflation is mainly due to fuels, but also heating oil, which no longer drive prices up but have a noticeable price-dampening effect. We expect inflation to continue its downward trend in 2024, as inflationary pressure is easing in almost all sectors and expect HICP inflation of around 3.4%.

## ECB Monetary Policy

### ECB: next interest rate cut in October

As expected, the ECB Governing Council decided to cut the deposit rate by 25 basis points to 3.50% at its meeting in September. The forecast for core inflation was raised slightly, while ECB economists continue to expect the core rate to fall rapidly from 2025. Leading data (including wage growth) give the ECB confidence that services inflation will lose momentum in 2025. We expect economic data to confirm disinflation and thus allow the ECB to make the next rate cut in October, which should be followed by a further rate cut of 25 basis points in December.

## Eurozone Short Term Yields



Source: FactSet, Erste Group Research

Market (%)	Spot	24Q4	25Q1	25Q2	25Q3
Target Rate	3.65	3.15	2.90	2.65	n.a.
3M Rate	3.48	3.09	2.86	2.64	2.40

Source: FactSet, Erste Group Research

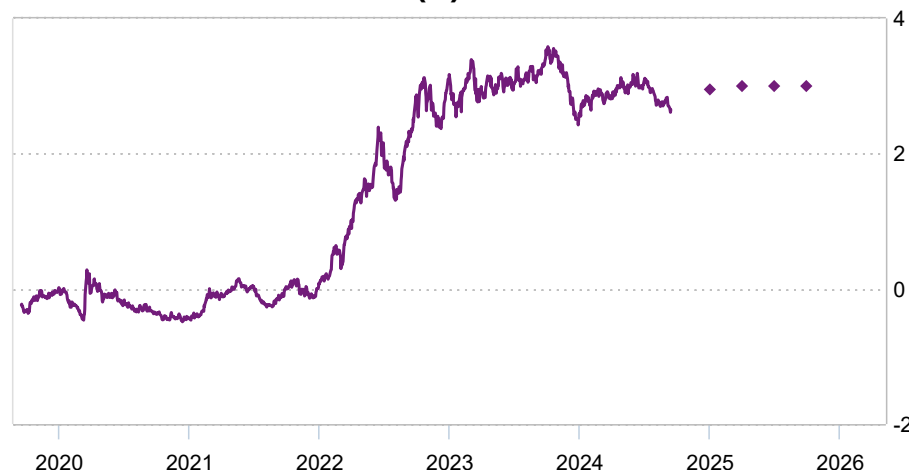
## Bond Yields

### AT yields expected to rise slightly

Following a rise at the beginning of the August, yields on German government bonds moved sideways over the course of August. Data from the USA regularly caused yields to fall, although this was always followed by a countermovement. In our view, this picture is unlikely to change much over the coming months. A new Donald Trump presidency represents a risk. If there is a trade conflict, this would probably weigh on the eurozone economy, which could cause yields to fall.

In our core scenario we expect a slight upward movement in yields on medium and longer-term German government bonds later in the year, given the economic recovery in the eurozone. Yields on Austrian government bonds showed a similar trend in August, moving sideways. The risk premiums on 10-year Austrian government bonds compared to Germany should fall slightly in the coming months, partly due to positive rating reports. However, we expect them to rise slightly in line with German yields.

#### 10Y Generic Govt. Bond Yield (%)



Source: Refinitiv, Erste Group Research

Market	Spot	24Q4	25Q1	25Q2	25Q3
10Y Bond*	2.65	2.95	3.00	3.00	3.00

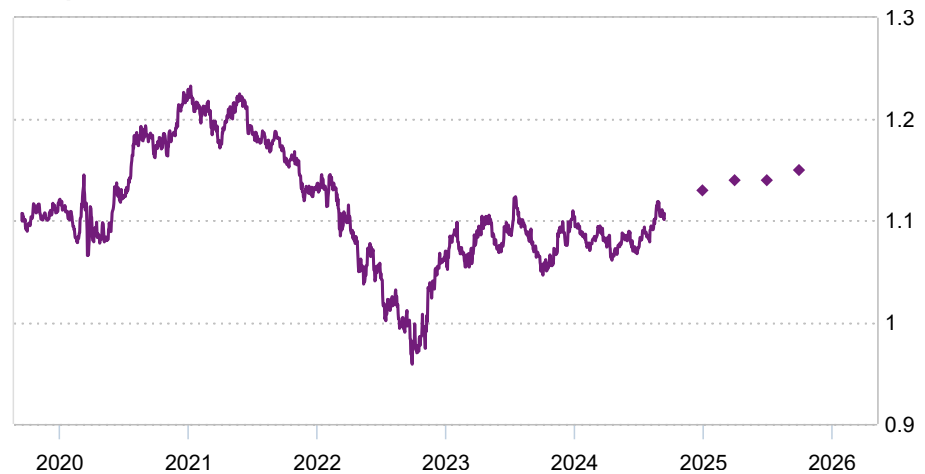
Source: Refinitiv, Erste Group Research

## Euro

### Weaker dollar expected

Weak US labor market data for July raised expectations of interest rate cuts in the US and triggered a weakening of the dollar. In addition, recent statements by the Fed Chairman contained clear indications of an interest rate cut in the US in September. From the market's perspective, this heralds the start of a series of US interest rate cuts. The speed will depend on the incoming data. The labor market offers risks for a faster approach by the central bank than the three interest rate cuts of 75 basis points in total that we currently expect by the end of the year. The ECB will also cut interest rates further. However, the momentum in the USA will be the main focus for the markets. We expect a further slow weakening of the dollar.

### EUR/USD



Source: FactSet, Erste Group Research

	Spot	24Q4	25Q1	25Q2	25Q3
EUR/USD	1.11	1.13	1.14	1.14	1.15
vs. Spot		1.8%	2.7%	2.7%	3.6%

Source: FactSet, Erste Group Research

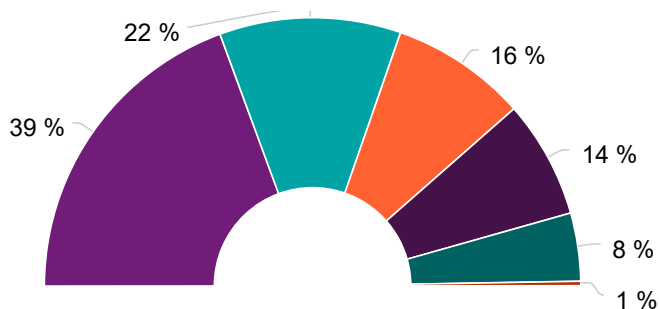
## Politics

### 2024 Parliamentary election upcoming

The head of Austrian state is Federal President Alexander van der Bellen (reelected in October 2022), while the head of Austrian government is Federal Chancellor Karl Nehammer (since December 2021), who together with the vice-chancellor and a cabinet of ministers forms the government. In the parliamentary election in September 2019, the conservative People's Party got the majority of seats in the National Council (lower house of the Austrian Parliament) and formed a coalition with the Greens.

The next parliamentary election is to be held on 29th September 2024. Polls suggest that the right-wing Freedom Party will win these elections ahead of the centre-right Peoples Party and the centre-left Social Democratic Party. The current coalition is no longer likely to have a parliamentary majority after the elections. Based on the current forecast, it must be assumed that forming a new government will take some time, as most parties are ruling out a coalition with the Freedom Party.

#### Parliament Seats



- Peoples Party (ÖVP) | centre-right
- Social Democratic Party (SPÖ) | centre-left
- Freedom Party (FPÖ) | right-wing/far-right
- Greens | centre-left/left-wing
- The New Austria and Liberal Forum (NEOS) | centre
- Independent |

Source: Erste Group Research

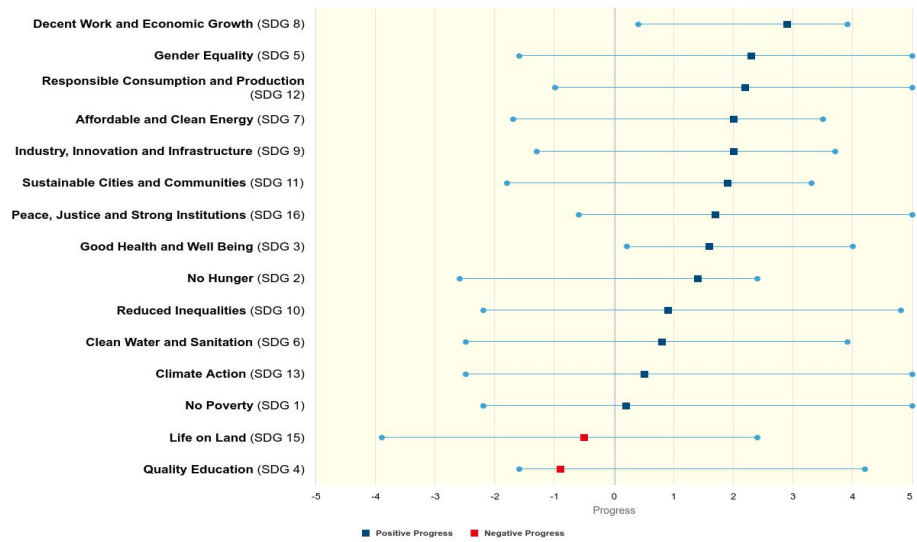
**Last Election:**  
2019

**Next Election:**  
2024

## Sustainable Development Goals Austria performs well in ranking

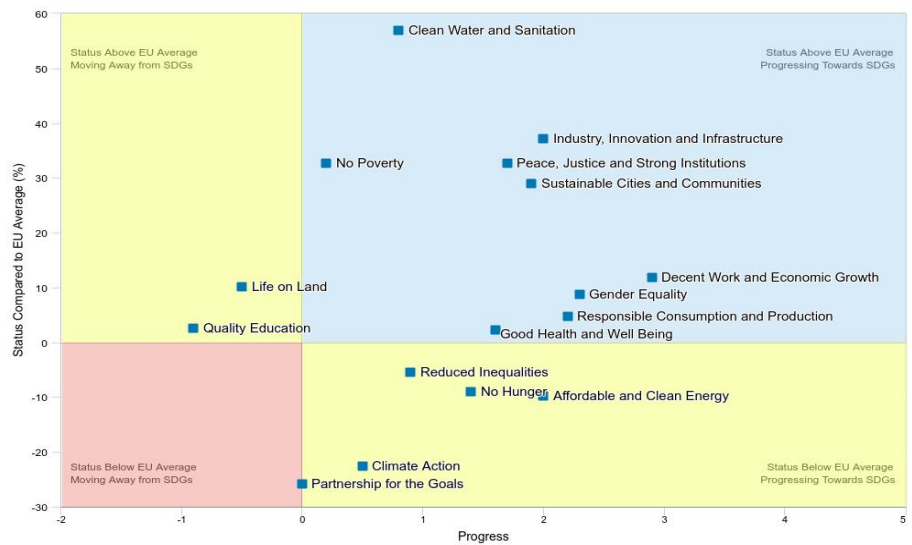
By international standards, Austria is one of the most developed countries in terms of sustainability. In a global comparison of the UN Sustainable Development Goals, Austria ranks sixth out of 166 with an aggregate score of 82.55. One of the 17 goals (SDG1 "No poverty") has been achieved, but with two goals Austria is in the "red zone", i.e. faces major challenges. These include climate protection and energy, and responsible consumption and production. From a credit perspective, the challenges lie particularly in the area of governance.

### Progress Overview



Source: Erste Group Research

### Progress Overview



Source: Erste Group Research

## Forecasts

Annual	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
Real GDP growth	2.4	1.5	-6.6	4.2	4.8	-0.8	0.0	0.9	0.9
Inflation (CPI, avg)	2.1	1.5	1.4	2.8	8.6	7.7	3.2	2.2	1.9
Unemployment rate (avg)	5.2	4.8	6.0	6.2	4.8	5.1	5.1	4.9	4.7
Private consumption growth	1.1	0.5	-8.5	4.2	5.7	-0.3	0.6	2.0	1.6
Fixed capital formation growth	4.4	4.5	-5.5	6.1	0.1	-2.4	-2.0	0.6	1.1
Percent of GDP									
Trade balance	-1.6	-1.3	-1.6	-3.8	-2.6	-1.8	-1.7	-2.3	-2.6
Current account balance	0.9	2.4	3.4	1.6	-0.3	2.7	2.8	2.9	n.a.
Foreign direct investment	-6.2	-1.7	0.4	6.1	1.7	1.0	1.0	1.0	n.a.
Budget balance	0.2	0.6	-8.0	-5.8	-3.3	-2.7	-2.9	-2.8	n.a.
Public debt	74.1	70.6	83.0	82.5	78.4	77.8	77.5	77.4	n.a.
External debt, gross	63.5	154.4	164.9	146.9	131.7	130.5	129.6	128.5	n.a.
(percent)									

Source: Erste Group Research





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