

AUSTRIA | MACRO OUTLOOK

Slight GDP growth in 1Q24

ECB decides on first interest rate cut

AT yields expected to fall slightly

Weaker dollar expected

Economy (%)	2023	2024e	2025e
GDP (real, y/y)	-0.8	0.4	1.5
Unempl. Rate	5.1	5.2	5.1
CPI (y/y)	7.7	3.4	2.5
Public Debt/GDP	77.8	76.4	76.5

Source: Erste Group Research

Market	Spot	24Q3	24Q4	25Q1
ECB Target R.	4.25	3.65	3.15	2.90
3M Euribor	3.72	3.40	3.09	2.86
EUR/USD	1.07	1.11	1.13	1.14
10Y Bond (%)*	3.02	2.90	2.95	3.00

Source: FactSet, Erste Group Research

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

Source: Erste Group Research

General	2023
Population mn	9.1
GDP/Capita EUR	52,445

Source: Erste Group Research

Spot Rates as of:

13th Jun. 2024

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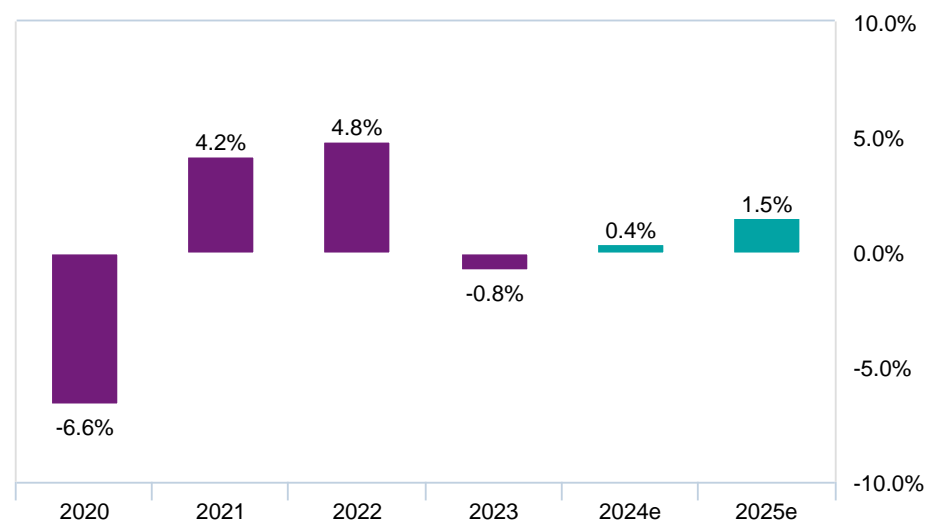
*Information on past performance is not a reliable indicator for future performance. Forecasts are not a reliable indicator for future performance.

After a recession in 2023, the Austrian economy shows slight signs of recovery in 1Q2024. Nevertheless, we expect only extremely moderate growth in 2024, which should be supported mainly by growing private consumption. 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.

At the June meeting, the ECB Governing Council lowered the key interest rates by 25 basis points. The outlook remained the same as at previous meetings and emphasised the meeting-to-meeting approach. Yields on German government bonds have risen from low levels. Yields on 10-year Austrian government bonds have been trading at above-average risk premiums compared to German yields since 2022.

GDP (real,y/y)



Source: Erste Group Research

GDP

Slight GDP growth in 1Q24

According to Statistics Austria, the Austrian economy grew by 0.1% overall in 1Q24. Year-on-year, the decline of -1.1% was less pronounced than in the previous quarters (4Q23: -1.6% y/y, 3Q23: -2.0% y/y). This decline is mainly attributable to the manufacturing (-5.9 %), trade activities (-4.8 %) and other economic services (-2.1 %; e.g. labor leasing). In January and February 2024, imports were 13.0% lower and exports 3.1% higher than in the same period of the previous year.

We expect the extremely moderate economic recovery to continue in the coming months. The recovery will be supported by consumer demand, which will benefit from an increase in real incomes. Foreign trade will only develop moderately due to the weaker economic development of important trading partners and will therefore only be able to support investment to a limited extent. Overall, we expect GDP growth in Austria of +0.4% in 2024.

Annual	2021	2022	2023	2024e	2025e
GDP real	4.2%	4.8%	-0.8%	0.4%	1.5%
CPI (y/y)	2.8%	8.6%	7.7%	3.4%	2.5%
Private Consumption	4.2%	5.7%	-0.3%	0.7%	1.5%

Source: Erste Group Research

Inflation

Inflation eases in Mai

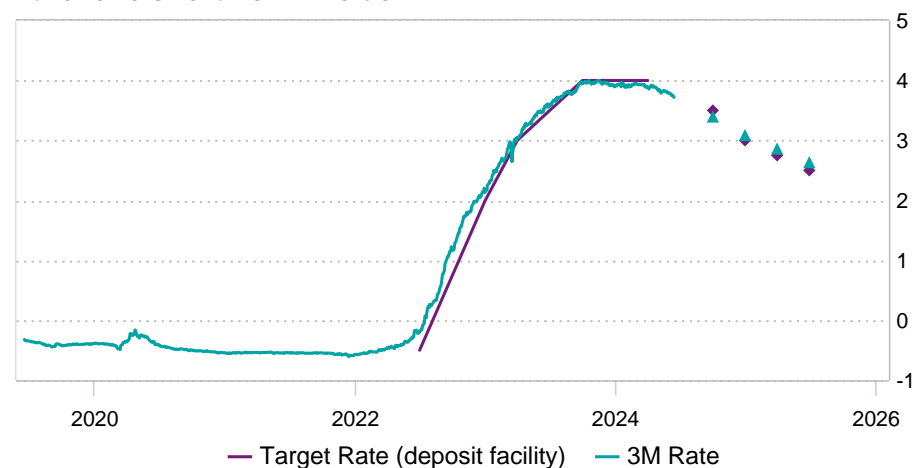
According to a flash estimate by Statistics Austria, HICP inflation in Mai was 3.3%. It further decreased compared to April due to lower price increases in sectors such as housing, including energy. However price increases in gastronomy are still above average. We expect inflation to continue its downward trend in 2024, as inflationary pressure is easing in almost all sectors. However, inflation in the services sector, supported by wage increases, is likely to keep core inflation at a high level for a while yet. For 2024 as a whole, we expect HICP inflation of around 3.4%.

ECB Monetary Policy

ECB decides on first interest rate cut

As had been widely expected, the ECB Governing Council decided to cut key rates by 25 basis points (bp) at its most recent meeting at the beginning of June. At the same time, it was made clear that the speed of further interest rate cuts was very uncertain. Price pressure is still strong and wage growth is elevated. However, the ECB economists' new forecasts also show that the ECB's inflation target of 2% remains within reach in the course of 2025. The upcoming data will have to confirm this assumption. We assume that the ECB will take a wait-and-see approach for the time being and will therefore not decide on the next rate cut until September. This should be followed by two more rate cuts, also on the order of 25bp, by the end of the year. The biggest risk to this is persistently high inflation in services.

Eurozone Short Term Yields



Source: FactSet, Erste Group Research

Market (%)	Spot	24Q3	24Q4	25Q1	25Q2
Target Rate	4.25	3.65	3.15	2.90	2.65
3M Rate	3.72	3.40	3.09	2.86	2.64

Source: FactSet, Erste Group Research

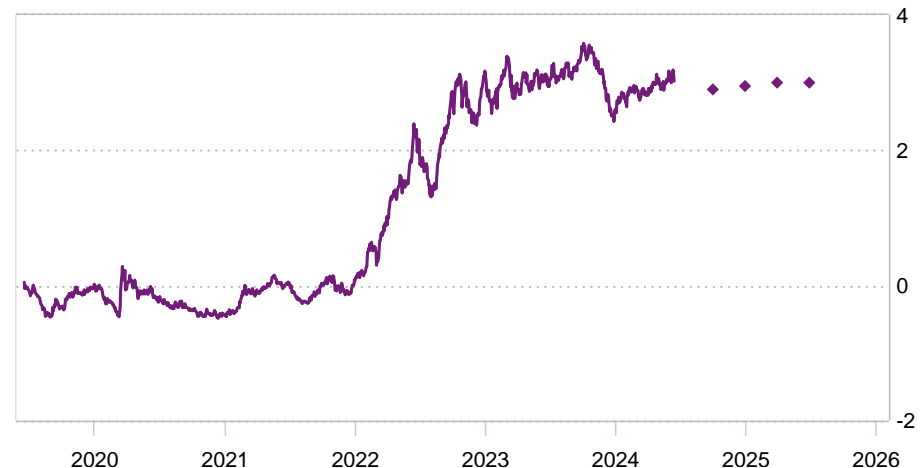
Bond Yields

AT yields expected to fall slightly

In May, yields on German government bonds rose across all maturities over the course of the month. There are increasing signs of an incipient economic recovery, while inflationary pressure continues to ease. We expect the eurozone economic data to justify gradual interest rate cuts. At the same time, economic data from the USA will continue to cause volatility on the bond markets.

We expect German yields to fall slightly in the coming months. The risk premiums on 10-year Austrian government bond yields compared to Germany should remain unchanged, which is why a slight yield decline is also expected here.

10Y Generic Govt. Bond Yield (%)



Source: Refinitiv, Erste Group Research

Market	Spot	24Q3	24Q4	25Q1	25Q2
10Y Bond*	3.02	2.90	2.95	3.00	3.00

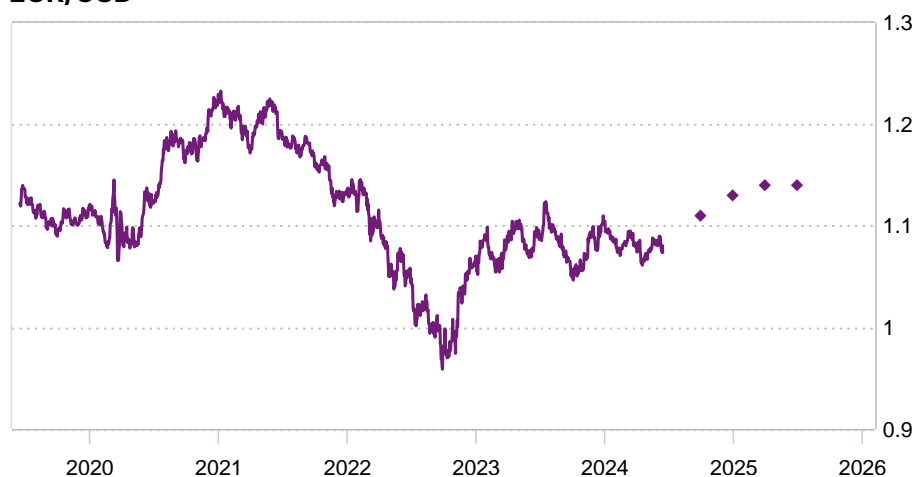
Source: Refinitiv, Erste Group Research

Euro

Weaker dollar expected

The dollar weakened slightly against the euro over the course of May. The different development of economic data had an impact here. While confidence in an upswing grew in the Eurozone, US data was somewhat weaker. However, the EURUSD remained around the middle of the range it has been in since the beginning of 2023. The economic data is not yet clear enough to give preference to one of the two currencies. However, we expect the US economic data to weaken in the future, while the data for the Eurozone will confirm the slow recovery, with a corresponding impact on interest rate expectations. All in all, this should lead to a further weakening of the dollar.

EUR/USD



Source: FactSet, Erste Group Research

	Spot	24Q3	24Q4	25Q1	25Q2
EUR/USD	1.07	1.11	1.13	1.14	1.14
<i>vs. Spot</i>		3.7%	5.6%	6.5%	6.5%

Source: FactSet, Erste Group Research

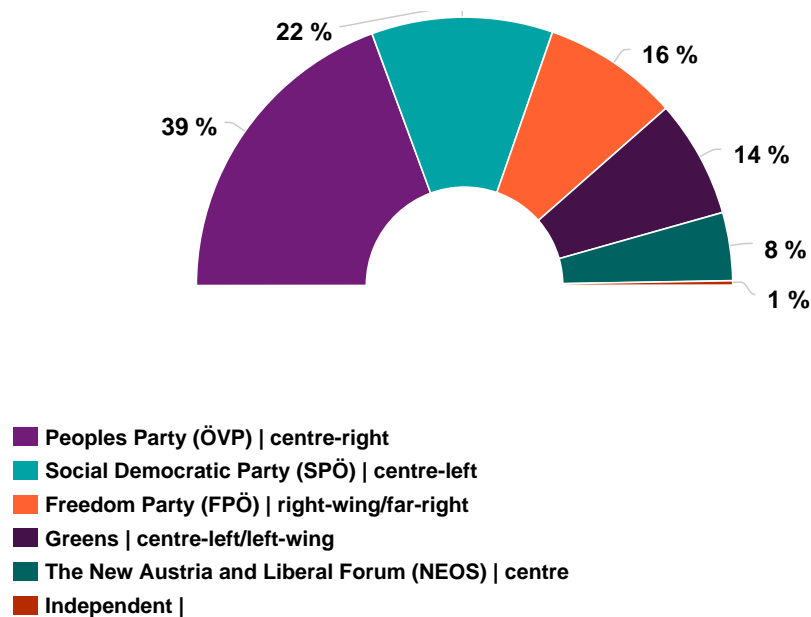
Politics

Centre-right/centre-left/left coalition leads Austrian parliament

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. A change of government in autumn 2024 is therefore highly likely.

Parliament Seats



Source: Erste Group Research

Last Election:
2019

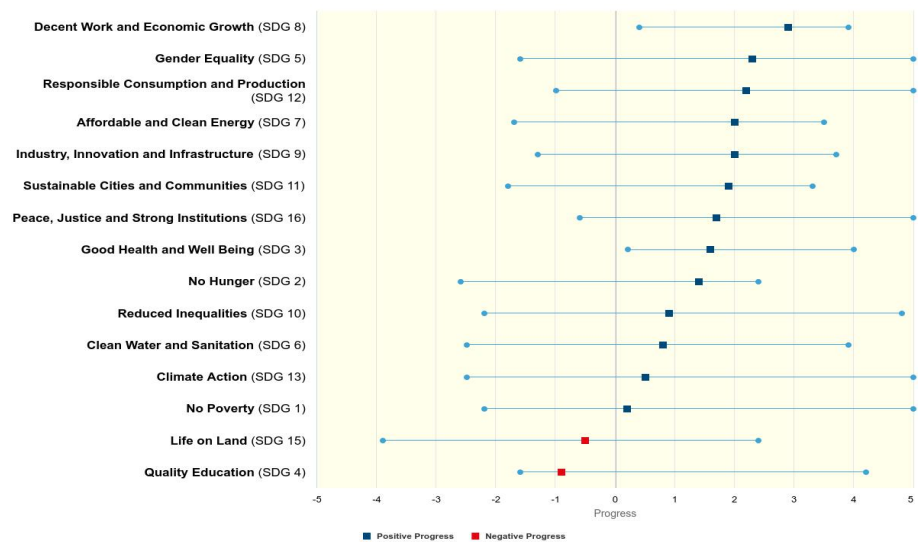
Next Election:
2024

Sustainable Development Goals

Austria performs well in sustainability

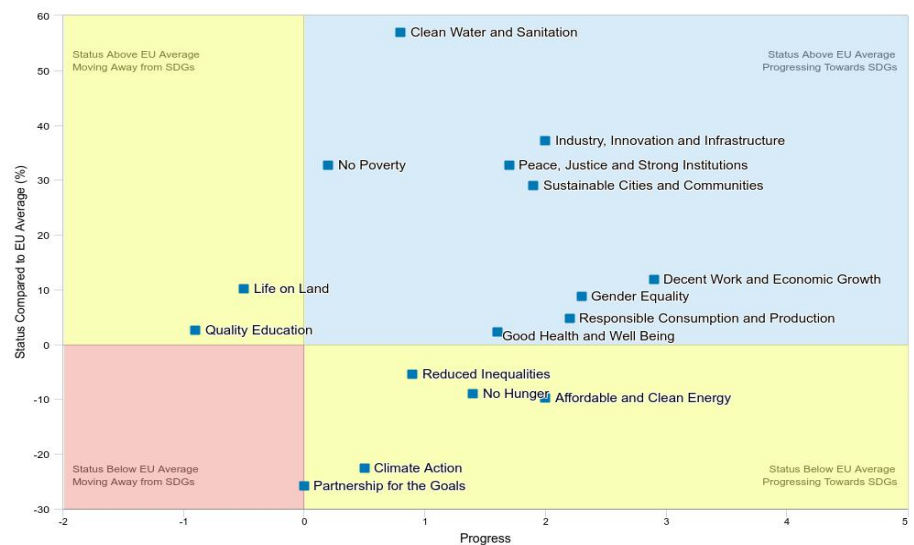
By international standards, Austria is one of the most developed countries in terms of sustainability. In a global comparison of the UN Sustainable Development Goals, Austria ranks fifth out of 166 with an aggregate score of 82.3. Two of the 17 goals have been achieved, but with two goals Austria is 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
Real GDP growth	2.4	1.5	-6.6	4.2	4.8	-0.8	0.4	1.5
Inflation (CPI, avg)	2.1	1.5	1.4	2.8	8.6	7.7	3.4	2.5
Unemployment rate (avg)	5.2	4.8	6.0	6.2	4.8	5.1	5.2	5.1
Private consumption growth	1.1	0.5	-8.5	4.2	5.7	-0.3	0.7	1.5
Fixed capital formation growth	4.4	4.5	-5.5	6.1	0.1	-2.4	-0.2	1.8
Percent of GDP								
Trade balance	-1.6	-1.3	-1.6	-3.8	-2.6	-1.8	-1.8	-1.8
Current account balance	0.9	2.4	3.4	1.6	-0.3	2.2	2.1	2.3
Budget balance	0.2	0.6	-8.0	-5.8	-3.3	-2.7	-2.7	-2.8
Public debt	74.1	70.6	83.0	82.5	78.4	77.8	76.4	76.5
(percent)								

Source: Erste Group Research

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