

AUSTRIA | MACRO OUTLOOK

Austrian economy experiences second year of recession in 2024

Economy shrinks in 2024

ECB: Further interest rate cuts expected

AT yields fall sharply in November

Slight USD appreciation expected for 1Q25

Economy (%)	2024e	2025e	2026e
GDP (real, y/y)	-0.7	0.6	0.9
Unempl. Rate	5.3	5.2	5.0
CPI (y/y)	2.9	1.9	1.7
Public Debt/GDP	79.7	81.6	83.4

Source: Erste Group Research

Market	Spot	25Q1	25Q2	25Q3
ECB (deposit)	3.25	2.50	2.25	2.00
3M Euribor	2.89	2.46	2.22	1.98
EUR/USD	1.05	1.03	1.05	1.05
10Y Bond (%)*	2.51	2.50	2.35	2.30

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	56,233

Source: Erste Group Research

Spot Rates as of:
11th Dec. 2024

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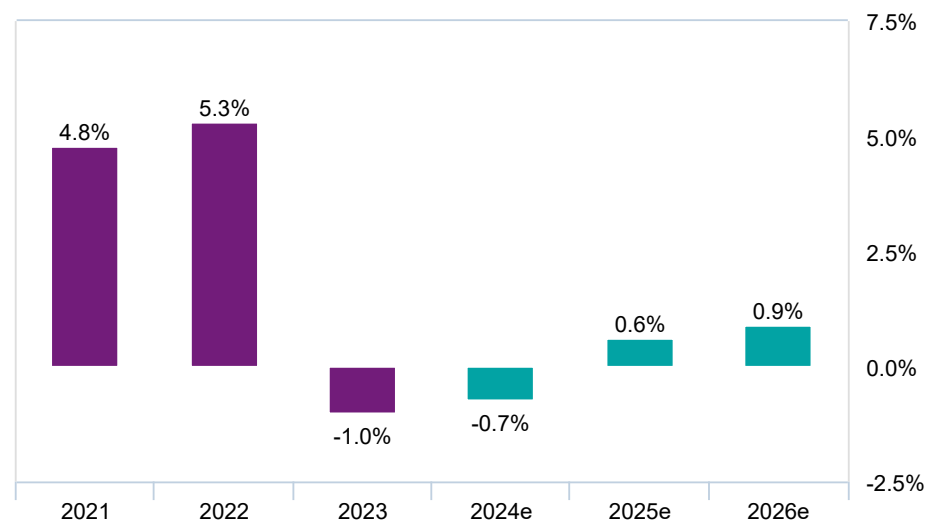
Note:

*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 has not shown signs of recovery in 2024 yet. Private consumption and fixed gross capital formation are well below their levels of last year in the quarters to date. Therefore, we expect the Austrian economy to shrink 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 October meeting, the ECB Governing Council lowered the key interest rate by 25 basis points. The incoming data shows that inflation falls in line with their forecasts, allowing further rate cuts at their next meetings. Yields on German government bonds are slightly below their September levels. In contrast, yields on 10-year Austrian government bonds fell sharply compared to the levels of September. We expect the risk premium compared to German government bonds to fall further, partly due to positive rating reports.

GDP (real,y/y)



Source: Erste Group Research

GDP

Economy shrinks in 2024

Statistics Austria published its preliminary calculation of the national accounts for 3Q24. According to the figures, Austria's gross domestic product (GDP) shrank by -0.6% y/y, marking the sixth consecutive quarter of decline. Seasonally and calendar-adjusted, real GDP also fell by -0.1% q/q. This is remarkable in that, as in 2Q24, the preliminary figures differ greatly from the Austrian Institute of Economic Research's (WIFO) estimate, which predicted a decline of -0.1% y/y and growth of +0.3% q/q. The decline in economic output continues to hit industry (-3.7% y/y) particularly hard.

A look at the components of GDP shows that all components except public consumption fell compared to the same quarter of the previous year. In view of this weak economic development and the revision of the 2Q24 data (GDP: -1.2% y/y, previously -0.9% y/y), we expect GDP growth of -0.7% for 2024 (previously -0,5%). However, this forecast is subject to downside risks. If there is no noticeable improvement in consumer spending or if the poor performance in industry, which is affecting investment and exports negatively, continues, the decline in GDP in 2024 could be even more pronounced.

Annual	2022	2023	2024e	2025e	2026e
GDP real	5.3%	-1.0%	-0.7%	0.6%	0.9%
CPI (y/y)	8.6%	7.7%	2.9%	1.9%	1.7%
Private Consumption	3.2%	-0.4%	0.1%	1.6%	1.7%

Source: Erste Group Research

Inflation

Inflation at 2% in November

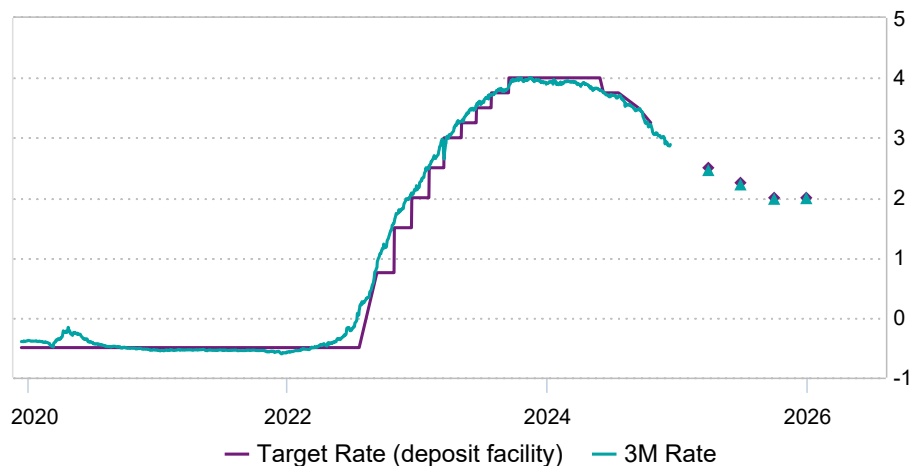
According to a flash estimate by Statistics Austria, Austrian inflation, as measured by the Harmonized Index of Consumer Prices (HICP), was 2.0% y/y in November. According to the data, energy prices continued to have a strong price-dampening effect. In contrast, services prices remain the main driver of inflation. We expect inflation to continue its downward trend as inflationary pressure eases 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 some time. For 2024 as a whole, we expect HICP inflation of around 2.9% and a further marked decline in 2025.

ECB Monetary Policy

ECB: Further interest rate cuts expected

As expected, the ECB Governing Council decided at its meeting in October to cut the deposit rate by a further 25 basis points to 3.25%. According to the ECB, the latest inflation data shows that the disinflationary process is well underway. We expect the ECB Governing Council to cut the key interest rates by a further 25bp at the December meeting. In view of the high level of political uncertainty in France and Germany, which is also having a negative impact on the growth outlook, we expect the next rate cut of 25 basis points as early as January 2025.

Eurozone Short Term Yields



Source: FactSet, Erste Group Research

Market (%)	Spot	25Q1	25Q2	25Q3	25Q4
ECB (deposit)	3.25	2.50	2.25	2.00	2.00
3M Rate	2.89	2.46	2.22	1.98	1.99

Source: FactSet, Erste Group Research

Bond Yields

AT yields fall sharply in November

Yields on German government bonds fell massively in November. The planned introduction of tariffs by US President Trump could dampen the propensity to invest and spend, and therefore also economic output, in the Eurozone. In addition, there were downside risks for yields such as political uncertainty in the Eurozone and the possibility of EU deficit proceedings against France and Italy, among others, which led to a move into German government bonds in the investment community.

We expect that, with the onset of economic recovery in the Eurozone, supported by further interest rate cuts by the ECB, the current yield level of medium- and longer-term German government bonds should be confirmed in the coming quarters. Yields on Austrian government bonds showed a similar trend in November and fell by around 35 basis points, narrowing the AT spread sharply. We expect the risk premiums of 10-year Austrian government bonds over German to continue to fall slightly in the coming quarters, partly due to positive rating reports.

10Y Generic Govt. Bond Yield (%)



Market	Spot	25Q1	25Q2	25Q3	25Q4
10Y Bond*	2.51	2.50	2.35	2.30	2.30

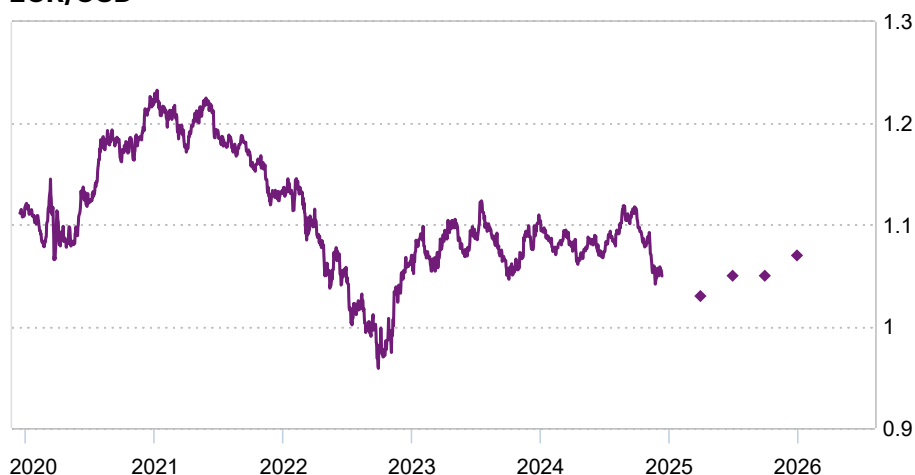
Source: Refinitiv, Erste Group Research

Euro

Slight USD appreciation expected for 1Q25

The latest US labor market data was positive and US inflation remained above the Fed's target. This led to lower expectations of US interest rate cuts, which manifested in a rising USD interest rate advantage and thus an appreciating USD. While Trump's election success was seen as positive for the economy, political and fiscal problems in the Eurozone contributed to the strength of the USD. We expect the ECB to lower interest rates faster than the Fed in the first quarter, which we believe could lead to a further slight strengthening of the US dollar. In the medium term, we expect a volatile sideways market.

EUR/USD



Source: FactSet, Erste Group Research

	Spot	25Q1	25Q2	25Q3	25Q4
EUR/USD	1.05	1.03	1.05	1.05	1.07
vs. Spot		-1.9%	0%	0%	1.9%

Source: FactSet, Erste Group Research

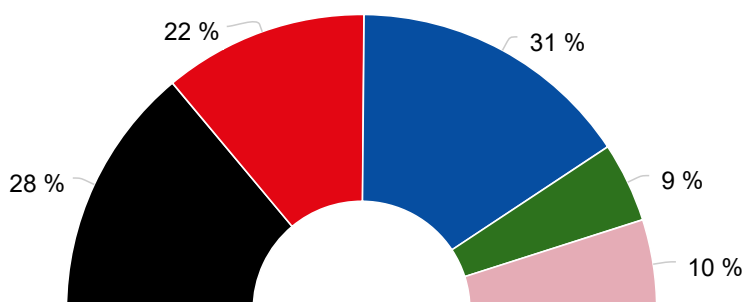
Politics

2024 Parliamentary elections brought reorganisation of political landscape

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 2024, the right-wing Freedom Party got the majority of seats in the National Council (lower house of the Austrian Parliament). However, they did not receive the mandate to form a government.

After the People's Party received the mandate to form a government, it is now in coalition negotiations with the Social Democratic Party and the liberal NEOS. Due to major differences in the content of the election programmes in the areas of finance, taxes and the economy, it can be assumed that the coalition negotiations will last until 2025, unless they are broken off. In the event of new elections, current polls suggest that the Freedom Party will be able to further increase its share of the vote.

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
- NEOS | centre/liberal

Source: Erste Group Research

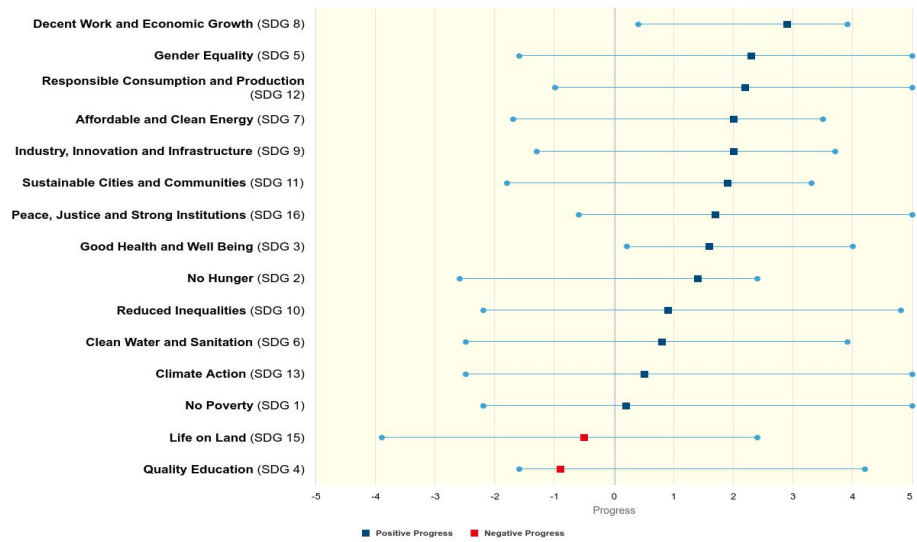
Last Election:
2024

Next Election:
2029

Sustainable Development Goals Austria performs well in ranking

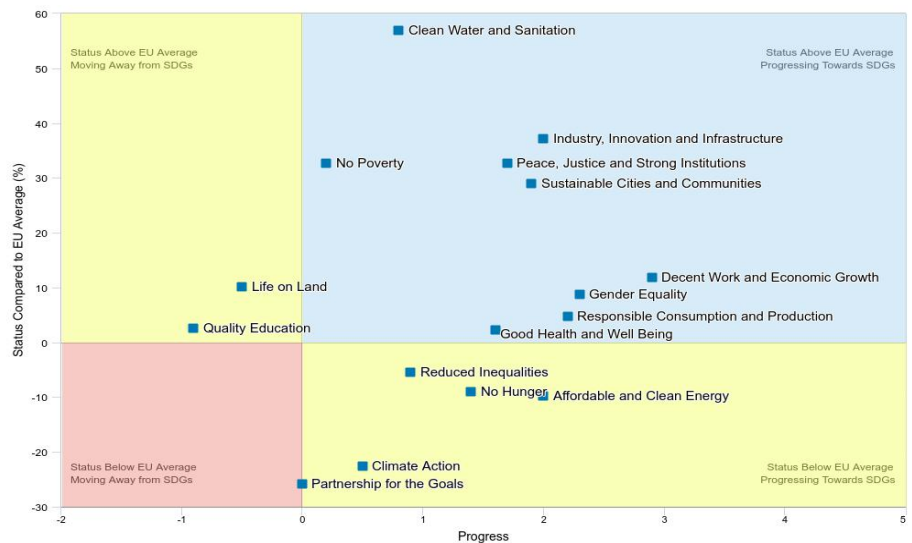
By international standards, Austria is one of the most developed countries in terms of sustainability. In a global comparison of the UN Sustainable Development Goals, Austria ranks sixth out of 166 with an aggregate score of 82.55. One of the 17 goals (SDG1 "No poverty") has been achieved, but with two 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	2.5	1.8	-6.3	4.8	5.3	-1.0	-0.7	0.6	0.9
Inflation (CPI, avg)	2.1	1.5	1.4	2.8	8.6	7.7	2.9	1.9	1.7
Unemployment rate (avg)	5.2	4.8	6.0	6.2	4.8	5.1	5.3	5.2	5.0
Private consumption growth	0.9	0.8	-5.7	5.6	3.2	-0.4	0.1	1.6	1.7
Fixed capital formation growth	4.4	4.3	-5.3	6.0	0.4	-3.2	-2.6	-0.2	0.7
Percent of GDP									
Trade balance	-1.5	-1.7	-2.1	-4.0	-2.9	-1.0	-1.2	-1.6	-1.9
Current account balance	0.9	2.4	3.4	1.6	-0.3	2.7	2.8	2.9	2.9
Foreign direct investment	0.5	1.4	2.3	2.3	-0.4	1.1	1.1	1.1	1.1
Budget balance	0.2	0.6	-8.0	-5.8	-3.3	-2.7	-3.9	-4.1	-3.7
Public debt	74.1	70.6	83.0	82.5	78.4	78.6	79.7	81.6	83.4
External debt, gross	149.8	154.4	164.9	146.9	131.7	130.5	129.6	128.5	128.5
(percent)									

Source: Erste Group Research

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