

AUSTRIA | MACRO OUTLOOK

# Economy remains weak entering 2024, inflation still high

GDP shrinks again in the third quarter

Too early for interest rate cuts

AT risk premium remains high

Dollar should weaken further

Economy (%)	2023e	2024e	2025e
GDP (real, y/y)	-0.6	0.6	1.6
Unempl. Rate	5.1	5.1	4.9
CPI (y/y)	7.8	3.5	2.7
Public Debt/GDP	76.4	76.4	76.5

Source: Erste Group Research

Market	Spot	24Q1	24Q2	24Q3
ECB Target R.	4.50	4.50	4.25	4.00
3M Euribor	3.92	4.02	3.79	3.57
EUR/USD	1.10	1.12	1.15	1.16
10Y Bond (%)*	2.57	2.90	2.90	2.90

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	52,660

Source: Erste Group Research

**Spot Rates as of:**

19th Dec. 2023

**All Research on Austria:**

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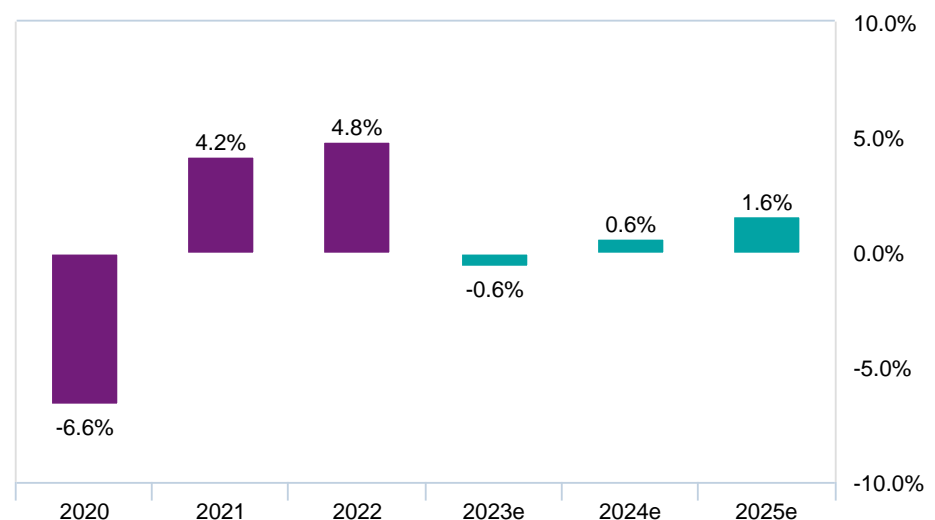
**Note:**

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

After a boom in 2022, the Austrian economy fell into recession from 2Q23. Industry and trade were particularly weak. Tourism supported the economy with a record number of overnight stays in the summer season. Inflation has fallen recently, but remains well above the Eurozone average, due to high energy prices and inflationary pressure in the services sector. The latter, supported by wage increases, is likely to keep core inflation high for a while yet.

At the December meeting, the ECB Governing Council left the key interest rates unchanged. The outlook, which points to stable interest rates, also remained the same as at previous meetings. Yields on German government bonds have fallen sharply since November. 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

### GDP shrinks again in the third quarter

According to the latest data from Statistics Austria, Austrian GDP fell by -1.8% y/y in 3Q23 (-0.5% q/q). After -1.4% y/y in 2Q23, this is the second decline in a row. Compared to the previous quarter, the trend reversal already began in 2H22; since then, q/q growth rates have been negative or close to zero. The economic decline in 3Q23 was mainly attributable to trade (-7.6% y/y), transport (-9.0% y/y) and industry (-4.2% y/y). On the spending side, private consumption (-1.9% y/y) and gross fixed capital formation (-3.6% y/y) were the main drivers of the recession.

We expect the economy to remain subdued in the coming months. However, the expected easing of inflationary pressure should increase real incomes and have a moderately positive effect on consumer demand in the coming quarters. In addition, foreign trade should gradually improve and support economic growth in 2024. Overall, we expect a recession of around -0.6% for Austria in 2023 and an upturn to +0.6% in 2024.

Annual	2021	2022	2023e	2024e	2025e
GDP real	4.2%	4.8%	-0.6%	0.6%	1.6%
CPI (y/y)	2.8%	8.6%	7.8%	3.5%	2.7%
Private Consumption	4.2%	5.7%	-0.4%	0.8%	1.5%

Source: Erste Group Research

## Inflation

### Decline in inflation paused at the moment

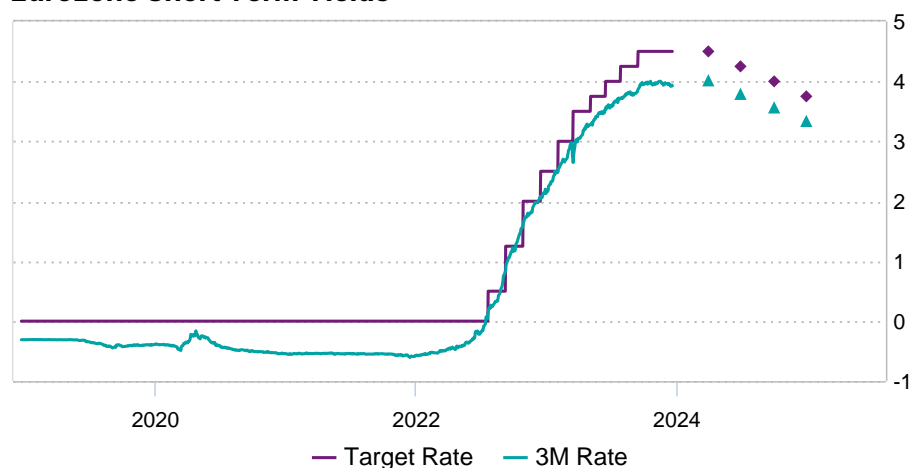
HICP inflation stagnated at 4.9% in November, meaning that the decline in inflation in Austria appears to have paused. This is mainly due to the fact that household energy prices had much less of a dampening effect on overall inflation in November than in previous months. In addition, there was a significant price increase for package holidays. On the other hand, price increases slowed in many areas, particularly in restaurants, and fuels continued to be significantly cheaper than last year. We expect the downward trend in inflation to continue in the coming months, albeit slower. We forecast HICP inflation of around 7.8% for 2023 and 3.5% for 2024.

## ECB Monetary Policy

### Too early for interest rate cuts

At the December meeting, the ECB Governing Council left the key interest rates unchanged. The outlook, which points to stable interest rates, also remained the same as at previous meetings. In the subsequent press conference, President Lagarde made it clear that it was too early to think about lowering interest rates. The ECB Governing Council wanted further confirmation that inflation was on a sustained downward path. Particular attention will be paid to the development of wages and profit margins. We assume that the data situation will only be sufficient at the March meeting of the ECB Governing Council to open the door verbally for interest rate cuts, which should be implemented from June. We expect interest rate cuts totaling 75 basis points in 2024.

## Eurozone Short Term Yields



Source: FactSet, Erste Group Research

Market (%)	Spot	24Q1	24Q2	24Q3	24Q4
Target Rate	4.50	4.50	4.25	4.00	3.75
3M Rate	3.92	4.02	3.79	3.57	3.34

Source: FactSet, Erste Group Research

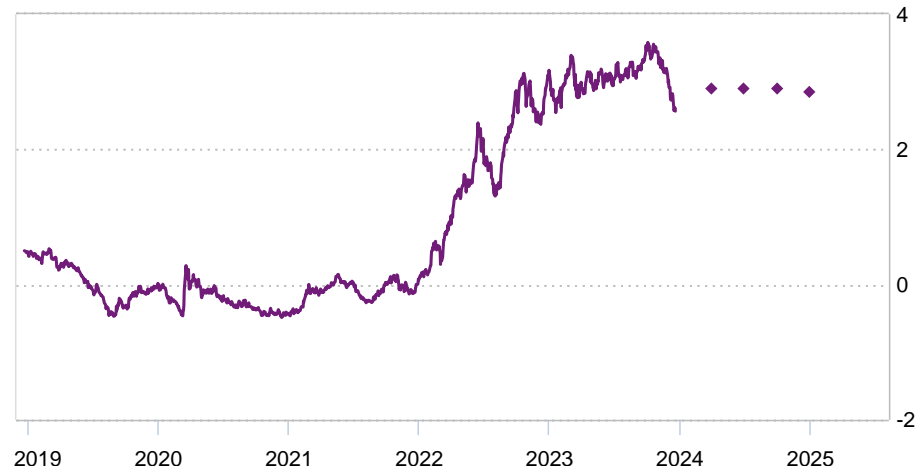
## Bond Yields

### AT risk premium remains high

Yields on German government bonds have fallen sharply since November. The bond market has thus reacted to the US, weak economic indicators from the Eurozone and a recent significant fall in Eurozone inflation. Investors are already anticipating ambitious interest rate cuts in 2024 and, in our opinion, have overreacted somewhat. There could therefore be counter-movements in the 10-year maturity segment in the coming weeks.

Yields on 10-year Austrian government bonds have been trading at above-average risk premiums compared to German yields since 2022. We do not expect spreads to narrow significantly in the coming months.

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



Source: Refinitiv, Erste Group Research

Market	Spot	24Q1	24Q2	24Q3	24Q4
10Y Bond*	2.57	2.90	2.90	2.90	2.85

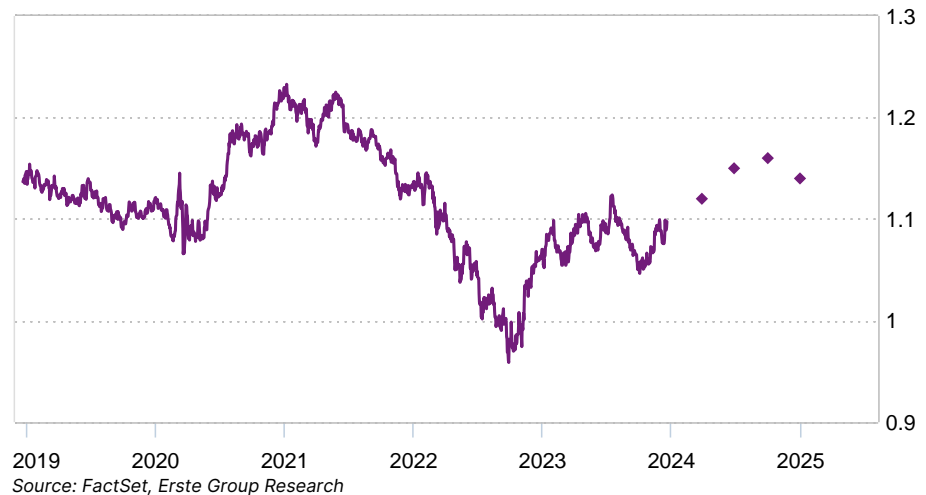
Source: Refinitiv, Erste Group Research

## Euro

### Dollar should weaken further

The euro rose sharply against the dollar over the course of November. The exchange rate reached levels last seen in August. This was a rapid counter-movement after the euro's previous sharp losses. This was triggered by an increasing probability that there would be no further interest rate hikes in the US and somewhat weaker US economic data. We assume that the slowdown in the US economy will continue. This will bring interest rate cuts in the US closer, which should lead to a further weakening of the dollar. We expect the first US interest rate cut in mid-2024.

### EUR/USD



	Spot	24Q1	24Q2	24Q3	24Q4
<b>EUR/USD</b>	1.10	1.12	1.15	1.16	1.14
vs. Spot		1.8%	4.5%	5.5%	3.6%

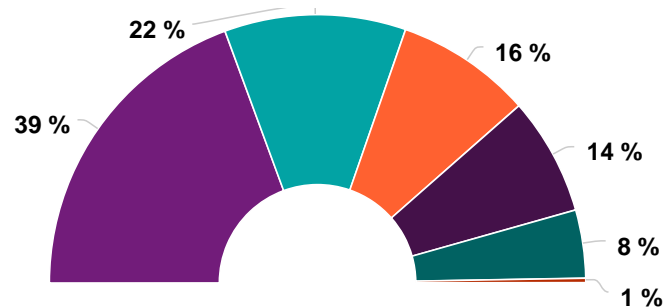
Source: FactSet, Erste Group Research

## Politics

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

The head of Austrian state is Federal President Alexander van der Bellen (re-elected 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 in autumn 2024.

#### 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

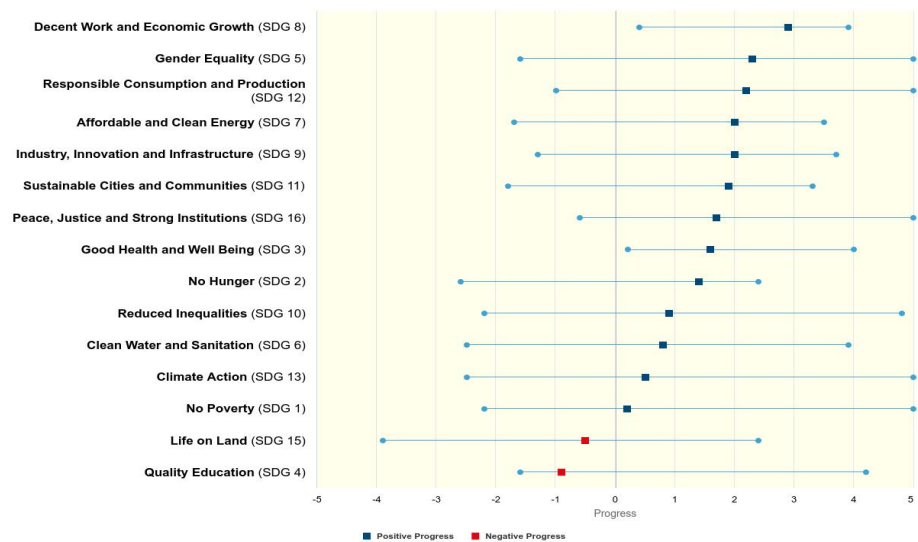
**Next Election:**  
2024

## Sustainable Development Goals

### Austria performs well in sustainability

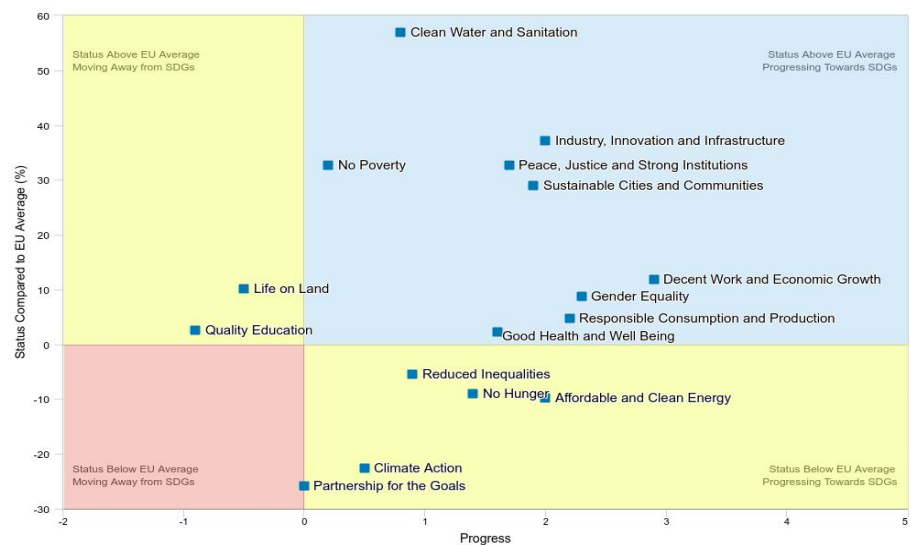
By international standards, Austria is one of the most developed countries in terms of sustainability. In a global comparison of the UN Sustainable Development Goals, Austria ranks fifth out of 166 with an aggregate score of 82.3. Two of the 17 goals have been achieved, but with two goals Austria is 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	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
<b>Real GDP growth</b>	2.3	2.4	1.5	-6.6	4.2	4.8	-0.6	0.6	1.6
<b>Inflation (CPI, avg)</b>	2.2	2.1	1.5	1.4	2.8	8.6	7.8	3.5	2.7
<b>Unemployment rate (avg)</b>	5.9	5.2	4.8	6.1	6.2	4.8	5.1	5.1	4.9
<b>Private consumption growth</b>	2.0	1.1	0.5	-8.5	4.2	5.7	-0.4	0.8	1.5
<b>Fixed capital formation growth</b>	4.2	4.4	4.5	-5.5	6.1	0.1	-2.0	-0.1	1.5
<b>Percent of GDP</b>									
<b>Trade balance</b>	-1.5	-1.6	-1.3	-1.6	-3.8	-2.6	-1.6	-1.5	-1.5
<b>Current account balance</b>	1.4	0.9	2.4	3.4	1.6	-0.3	1.5	1.9	2.3
<b>Budget balance</b>	-0.8	0.2	0.6	-8.0	-5.8	-3.5	-2.7	-2.7	-2.8
<b>Public debt</b>	78.5	74.0	70.6	82.9	82.3	78.4	76.4	76.4	76.5
<b>(percent)</b>									

Source: Erste Group Research



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