20. AUSTRIA

Favourable growth dynamics

Austria's economic growth is expected to strengthen slightly in 2017 and to expand at the same pace in 2018. Positive business and consumer sentiment indicators suggest that domestic demand should remain the main growth driver. Exports are projected to increase robustly as world trade strengthens, turning the contribution of foreign trade to GDP growth positive. Government revenues fell last year as a result of income tax reforms but are expected to gradually recover as the economy improves.

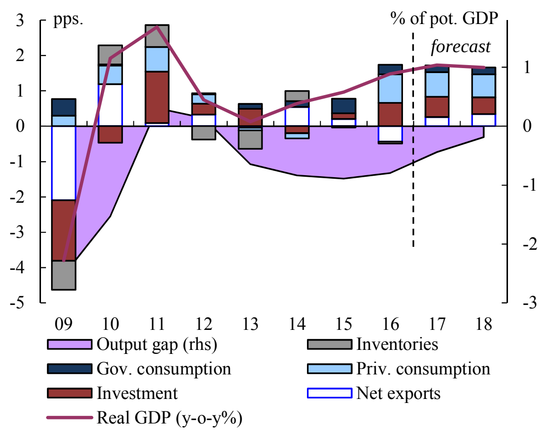
Solid economic growth in 2016

With real GDP growth of 1.5%, Austria has reached a turning point, leaving behind a period of subdued growth. The success of last year's tax reform was reflected in the significant pick-up of equipment investment and private consumption, which became the main growth drivers of the economy. Stronger investment led to higher imports, which together with weaker-than-expected exports, resulted in net exports detracting from GDP growth.

Pick-up in economic activity to continue

Positive business and consumer sentiment indicators point to continued strong growth in the first half of 2017. GDP growth is expected to climb to 1.7% this year and to continue at this level in 2018. Private consumption and investment are set to remain the main growth drivers, although at a slightly decreasing rate, as the effects of the tax reform fade. After relatively weak growth of 1.7% in 2016, exports are expected to rise by over 3.2% thanks to the favourable outlook for world trade.

Graph II.20.1: **Austria - Real GDP growth and contributions, output gap**



With imports growing slower than exports, net trade is set to contribute positively to GDP growth in both 2017 and 2018.

Construction investment is expected to stabilise over the forecast horizon, even though housing investment remains subdued despite fairly favourable factors such as rising house prices and rents, low financing and mortgage costs and rising demand.

Strong labour market stops the rise in unemployment

Employment growth in Austria remains strong, compensating for the growth in the labour force due to migration. After having peaked at 6.0% in 2016, the unemployment rate is expected to stabilise at 5.9% in 2017 and 2018, partly because of fewer refugees entering the labour market. Ongoing measures to improve the labour market participation of women and older workers are also expected to contribute to lower unemployment.

Inflation

The rise in oil prices since the middle of 2016 is expected to push HICP inflation up to 1.8% in 2017 and 1.6% in 2018. Core inflation is set to marginally increase from 1.5% in 2016 to 1.6% in 2017 and 1.7% in 2018. As wage increases in Austria are less dynamic compared to other euro area countries, the positive gap between the Austrian inflation rate and the euro area average is expected to close only gradually.

Public finances to gradually recover after the 2016 tax reform

As a consequence of the 2016 tax reform, the government headline balance worsened from -1.1% of GDP in 2015 to -1.6% of GDP in 2016. Revenues from household income taxation fell by 8%, mainly due to the reorganisation of tax brackets. On the other side, revenues from corporate taxation, value added taxes and social security contributions continued to grow at a good pace. Government expenditure decreased as a percentage of GDP from 51.7% to 51.1%, thanks to the strong decline in interest expenditure and the fading out of costs for bank support. These factors were partly offset by higher government consumption and social spending, partly due to the assistance and integration of asylum seekers.

In 2017, the government headline balance is expected to improve to -1.3% of GDP thanks to stronger economic growth. Rising employment and wages are projected to sustain the gradual recovery of revenues from household income taxes and the positive trend in social security contributions. Stronger exports and growing private consumption should support revenues from corporate profit taxes. Private consumption is also set to support revenues from production and imports, more than offsetting the legislated cuts in employer contributions to the Family Burden Equalisation Fund (*Familienlastenausgleichsfonds*). Government expenditure is projected to slightly decline as a percentage of GDP, with expenditure for asylum seekers expected to remain broadly constant in absolute terms. There is some chance for additional revenues in 2017 from measures against tax fraud, which yielded only part of the expected revenues in 2016. In 2018, the positive economic outlook is expected to further support the headline balance, which should reach -1.0% of GDP. Expenditure for asylum seekers is forecast to gradually decline, while revenues from income and wealth are expected to increasingly benefit from the fiscal drag. The government 'work programme' announced at the beginning of 2017 is not yet sufficiently specified to be considered in the projections, but its implementation represents a downward risk for public finances.

Thus, after deteriorating in 2016 due to the income tax reform, the structural balance is expected to remain broadly stable in 2017 and to slightly improve in 2018. Government debt peaked in 2015 at 85.5% of GDP, decreased to 84.6% of GDP in 2016 and is expected to further decline in 2017 and 2018.

Table II.20.1:

Main features of country forecast - AUSTRIA

	2015		Annual percentage change						
bn EUR	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	339.9	100.0	2.0	0.1	0.6	1.0	**1.5**	**1.7**	**1.7**
Private Consumption	179.1	52.7	1.5	-0.1	-0.3	0.0	**1.5**	**1.3**	**1.2**
Public Consumption	67.7	19.9	1.6	0.7	0.8	2.1	**1.3**	**1.0**	**0.9**
Gross fixed capital formation	76.8	22.6	1.0	2.2	-0.9	0.7	**2.9**	**2.5**	**2.1**
of which: equipment	25.3	7.5	1.3	2.4	-1.0	3.6	**6.4**	**3.8**	**2.5**
Exports (goods and services)	180.3	53.1	5.3	0.5	2.3	3.6	**1.7**	**3.2**	**3.1**
Imports (goods and services)	166.7	49.1	4.2	0.7	1.3	3.4	**2.8**	**3.0**	**2.7**
GNI (GDP deflator)	338.0	99.5	2.0	0.3	0.6	0.2	**1.5**	**1.7**	**1.6**
Contribution to GDP growth:	Domestic demand		1.4	0.6	-0.2	0.6	**1.7**	**1.5**	**1.3**
	Inventories		0.1	-0.5	0.3	0.0	**-0.1**	**0.0**	**0.0**
	Net exports		0.5	0.0	0.5	0.2	**-0.4**	**0.3**	**0.3**
Employment			-	0.3	0.9	0.6	**1.3**	**1.0**	**0.9**
Unemployment rate (a)			4.7	5.4	5.6	5.7	**6.0**	**5.9**	**5.9**
Compensation of employees / f.t.e.			2.1	2.1	1.9	1.9	**1.3**	**1.9**	**1.9**
Unit labour costs whole economy			1.1	2.3	2.1	1.5	**1.2**	**1.1**	**1.1**
Real unit labour cost			-0.4	0.8	0.4	-0.3	**-0.2**	**-0.2**	**-0.3**
Saving rate of households (b)			15.3	12.6	12.6	13.0	**13.8**	**13.2**	**12.7**
GDP deflator			1.5	1.6	1.8	1.9	**1.3**	**1.4**	**1.5**
Harmonised index of consumer prices			1.8	2.1	1.5	0.8	**1.0**	**1.8**	**1.6**
Terms of trade goods			-0.4	-0.1	0.5	1.8	**1.1**	**-0.7**	**-0.3**
Trade balance (goods) (c)			-0.6	-0.5	0.2	0.6	**0.4**	**0.2**	**0.3**
Current-account balance (c)			1.2	1.6	2.6	2.5	**2.1**	**2.0**	**2.2**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			1.1	1.5	2.4	2.0	**2.1**	**2.0**	**2.2**
General government balance (c)			-2.6	-1.4	-2.7	-1.1	**-1.6**	**-1.3**	**-1.0**
Cyclically-adjusted budget balance (d)			-2.6	-1.0	-2.3	-0.6	**-1.1**	**-1.1**	**-0.9**
Structural budget balance (d)			-	-1.2	-0.8	-0.3	**-1.0**	**-1.1**	**-0.9**
General government gross debt (c)			70.0	81.3	84.4	85.5	**84.6**	**82.8**	**81.2**

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.

Note : Contributions to GDP growth may not add up due to statistical discrepancies.