Focus Austria

Bank Austria
Member of UniCredit

MARCH 2021

Review and Outlook 2021/2022

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International environment

	2019	Forecast 2020	2021	2022
(GDP, change in %)				
Eurozone	1.3	-6.6	3.5	4.4
Germany	0.6	-4.9	3.3	4.2
France	1.5	-8.1	4.5	4.5
Italy	0.3	-8.9	3.4	4.4
Spain	2.0	-11.0	4.4	6.0
UK	1.4	-9.9	4.6	6.7
USA	2.2	-3.5	4.8	3.5
Japan	0.7	-5.6	2.0	1.8

	2017	2018	2019	2020
(annual average)				
USD per euro	1.13	1.18	1.12	1.14
CHF per euro	1.11	1.15	1.11	1.07
GBP per euro	0.88	0.88	0.88	0.89
JPY per euro	126.7	130.4	122.1	121.8
Oil (USD/barrel)	55	72	64	43
10y Gov. bond (A)	0.56	0.69	0.05	-0.28
3m Euribor	-0.33	-0.32	-0.36	-0.42

Source: UniCredit Research

Recovery in sight

	2019	2020	Rev.[1]	2021	Rev.[1]	2022	Rev.[1]
GDP (real, change in %)	1.4	-6.6		2.6		5.7	
Inflation (CPI, in %)	1.5	1.4		2.0		1.9	
Unemployment rate (in %)	7.4	9.9		9.5		8.6	

1) Revision since last report

- **The Austrian economy shrank by 6.6% in 2020 – another recession around the start of the new year**
  The pandemic caused a massive slump in the economy in 2020. The first recession in the first half of the year was followed by a strong rebound in the third quarter, thanks to the gradual opening of the economy. The Austrian economy has once again wandered off the path of growth since the autumn when the second wave of infections hit. On average, economic output fell by 6.6% in real terms in 2020, with large-scale sectoral differences. While industry was able to adapt its operations to respond positively to general conditions after initial difficulties and the construction industry was only briefly affected by the pandemic, some market services, particularly in the restaurant and hospitality sectors and in personal services, suffered the most.
- **Rebound in 2021 and acceleration of recovery expected in 2022 – economic performance likely to reach pre-crisis level in mid-2022**
  Despite the expected recovery, the growth prospects for 2021 overall are limited due to the more recent lockdowns over the winter. Boosted by the warmer weather and the continuing vaccination of the population in the second quarter a turnaround of the economy is expected, but this will initially only be driven by catch-up effects. The easing of restrictions as a result of the pandemic is only expected to allow for a widespread relaxation of measures to kick-start the sustained recovery during the summer. We are forecasting economic growth of 2.6% in 2021, which is expected to accelerate to 5.7% in 2022.
- **The peak of crisis-related unemployment passed, but unemployment rate is still likely to be above the pre-crisis level at the end of 2022**
  The labour market will continue to suffer the consequences of the pandemic for some time to come, as there will be a delay to any economic recovery on the jobs market. After an initial hesitant relaxation, a noticeable improvement in the situation can only be expected starting in 2022. Following an unemployment rate of 9.9% in 2020, we expect to see a drop in the yearly average to 9.5% in 2021 and 8.6% in 2022. A seasonally adjusted unemployment rate of around 8% is anticipated by the end of 2022 — still well above the pre-crisis level
- **Slight fall in inflation to 1.4% on average in 2020 – moderate rise in post-pandemic inflation to around 2%**
  Despite the government's aggressive fiscal policy and the continuation of the ECB's expansionary monetary policy stance, annual average inflation in Austria will remain at a manageable level of around 2% in 2021 and 2022. After low values at the beginning of the year, values well above the 2% mark can also be expected in 2021. One reason for this is due to increased demand, which is likely to lead to higher price trends in some service sectors and another is due to the increased price of oil. The slight strengthening of the euro and the lower wage pressures during the pandemic are likely to somewhat dampen upwards pressure.
- **ECB continues quantitative easing – no interest rate changes expected**
  The ECB has reacted rapidly to the onset of the coronavirus crisis in Europe to safeguard the operation of the markets. For example, the ECB launched additional longer-term refinancing (TLTRO-III) and further improved the conditions for this in December 2020. In particular, since March 2020 the ECB has made a

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as of March 2021

new Pandemic Emergency Purchase Programme (PEPP) available alongside the current securities purchase programme, which given the low inflation expectations has now been increased to EUR 1.85 trillion by March 2022.

Due to the ongoing output gap, we expect the PEPP and favourable conditions for TLTRO III to be extended beyond March 2022. However, a PEPP extension envisaged until the end of 2022 is likely to be accompanied by a "tapering signal." We believe that a cut in key interest rates is unlikely.

- **Continuation of the expansionary fiscal course – once again, a high budget deficit causes overall indebtedness for 2021 to reach record levels**
The measures to cushion the economic impact of the lockdown and the loss of revenue from the economic downturn created a budget deficit of around 10% of GDP in 2020. As a result, public debt is rising again for the first time in four years. A budget deficit can also be anticipated for 2021, but at just over 7% of GDP we expect it to be lower than in 2020. Fiscal policy will increasingly focus on measures to strengthen economic growth, in line with the European "Next Generation EU" recovery plan. We do not expect any financing problems from the expansionary fiscal policy and the resulting higher public debt, as the decline in interest rates observed for years will increase the affordability of debt even further in 2021/22, measured by interest service in relation to budget revenues.

Economic situation at a glance

								forecast UCBA	
	2008	2009	2016	2017	2018	2019	2020	2021	2022
Real change in %									
GDP	**1.5**	**-3.8**	**2.0**	**2.4**	**2.6**	**1.4**	**-6.6**	**2.6**	**5.7**
Private consumption	0.9	0.9	1.5	1.9	1.1	0.8	-9.6	1.9	7.7
Public consumption	3.7	2.5	1.8	0.9	1.2	1.5	1.6	2.3	1.1
Gross fixed capital formation*)	1.6	-7.2	4.3	4.1	3.9	4.0	-4.9	3.8	5.7
Investments in plant and machinery	2.7	-11.2	9.5	7.3	3.2	4.7	-11.1	5.5	7.0
Investments in construction	0.4	-7.9	0.3	2.5	3.6	3.6	-3.3	2.6	2.4
Exports	2.2	-14.4	3.0	4.9	5.5	2.9	-10.4	5.1	6.0
Imports	1.0	-11.9	3.7	5.3	5.0	2.4	-10.2	6.0	5.5
CPI (change in %)	**3.2**	**0.5**	**0.9**	**2.1**	**2.0**	**1.5**	**1.4**	**2.0**	**1.9**
HCPI (change in %)	3.2	0.4	1.0	2.2	2.1	1.5	1.4	2.1	2.0
Savings ratio (in %) *)**	**12.4**	**11.4**	**7.8**	**7.5**	**7.8**	**8.2**	**15.0**	**12.7**	**8.0**
Current account (in euro bn) ***)	13.2	7.5	9.7	5.1	4.8	11.3	10.0	11.5	13.0
Current account (in % of GDP) ***)	4.7	2.6	2.7	1.4	1.3	2.8	2.7	2.9	3.1
Employment (in 1,000)**)	3,283	3,234	3,502	3,573	3,661	3,720	3,644	3,662	3,728
Employment (change in %) **)	1.7	-1.5	1.6	2.0	2.5	1.6	-2.0	0.5	1.8
Unemployment rate (nat. def.)	**5.9**	**7.2**	**9.1**	**8.5**	**7.7**	**7.4**	**9.9**	**9.5**	**8.6**
Unemployment rate (EU def.)	4.1	5.3	6.0	5.5	4.9	4.5	5.3	5.4	5.2
Unemployed (annual average in 1,000)	212	260	357	340	312	301	410	392	360
General gov. balance (in % of GDP) *)**	**-1.5**	**-5.3**	**-1.5**	**-0.8**	**0.2**	**0.7**	**-10.4**	**-6.9**	**-3.5**
Public-sector debt (in % of GDP) ***)	68.7	79.9	82.8	78.5	74.0	70.5	84.8	87.8	85.0
Nominal GDP (in euro bn)	294	288	358	369	385	398	376	393.0	423.1

*) excluding changes in inventory **) excluding persons drawing maternity benefits, military service and training ***) 2020 estimate

Source: Statistik Austria, OeNB, UniCredit Research

A long, ardous way through the coronavirus crisis

- The sharpest drop in economic performance in Austria by 6.6% in 2020 since the second World War
- "Double dip" recession due to repeated lockdowns in the winter putting a strain on growth prospects for 2021
- Consumer and corporate behavior crucially important for speed of recovery
- International trade will support global recovery
- After the rebound in the second quarter of 2021, warmer weather and vaccinations will only allow a sustained recovery for the Austrian economy in the second half of 2021
- High recovery rate in 2022 with GDP up by 5.7% after moderate economic growth of 2.6% in 2021; Austria's economy only reaching pre-crisis level in the first half of 2022
- Focus: The bankruptcy paradox of the coronavirus crisis

Austria’s economy under the cloud of the coronavirus crisis

The economy shrank by 6.6% in 2020, above average compared to Europe overall

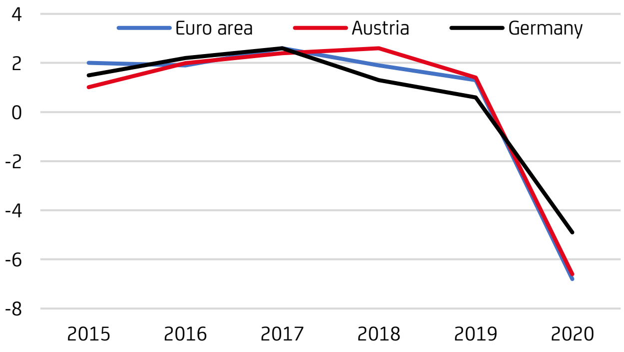
At the beginning of 2020, business sentiment in Austria had brightened for the first time in months and the downwards trend witnessed in 2019 in the Austrian economy halted, supported by a more favourable export environment. However, the global spread of the coronavirus and subsequent measures to contain the pandemic abruptly resulted in an enormous economic slump as of March. The recession in the first half of 2020 was followed by a strong rebound in the third quarter, thanks to the gradual opening of the economy. With the second wave of infection starting in the autumn and a new lockdown beginning in November, the Austrian economy once again deviated from the path of growth. On average in 2020, economic performance fell in real terms by around 6.6%.

Tougher, longer lockdowns and the unfavourable economic structure were impacted, along with a high proportion of sectors

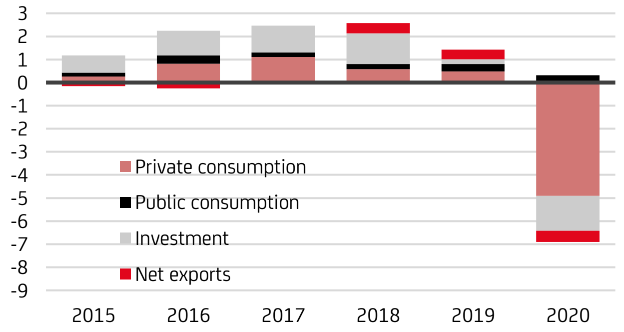
Performance was characterized by markedly different trends in the individual economic sectors. After initial difficulties, the industrial sector was able to adapt its processes well to the environment in existence and began to grow again along with international momentum in the second half of the year. While the construction sector was only briefly impacted by the pandemic, some market services on the other hand suffered severe economic losses, above all in the restaurant and hotel industry as well as in personal services, which has also persisted into 2021. The profound concern of the tourism sectors, which constitute a particularly high share of Austria's overall economic performance compared to the rest of Europe, as well as the relatively longer lockdowns, some of them also involving more severe restrictions, are mainly responsible for the poor performance of the Austrian economy compared to the rest of Europe. In the eurozone, the decline in GDP was also just below 7% in 2020 and the economy fell by 5% in neighbouring Germany.

AFTER TWO YEARS WITH A HIGHER MOMENTUM, A SHARPER FALL IN 2020 IN AUSTRIA THAN IN GERMANY

GDP growth in comparison
(real change of GDP in %, yoy)



GDP growth
(change of GDP in % and contribution of demand components)



Source: Statistik Austria, European Commission, UniCredit Research

Private consumption was the hardest hit demand component in 2020, with a decline of almost 10% in real terms year-on-year

Rebound in consumption will be the driving force of economic recovery starting in the second half of 2021, despite some limiting conditions

Consumption roller coaster ride

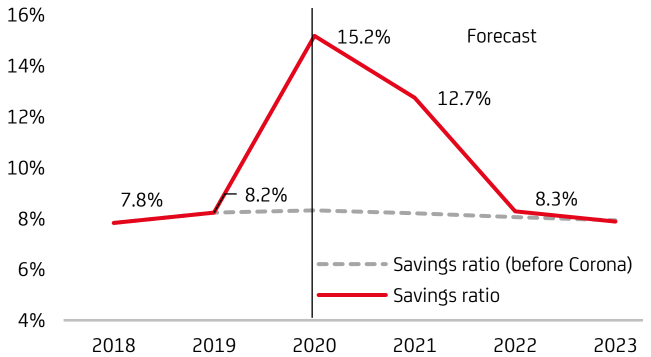
In 2020, the impact of the pandemic mitigation measures was particularly evident in the development in domestic demand, especially in private consumption. It decreased in real terms by an average of almost 10% compared to 2019, in a fluctuating trajectory. Despite a relatively good start to the year, a noticeable decline had already set in for the first quarter due to regulatory restrictions during the first lockdown starting in mid-March, which accelerated sharply in the second quarter. An enormous reaction began with the easing from early summer, especially with the opening of restaurants and hotels for business, leading to a double-digit increase in the third quarter. There was once again a sharp decline in private consumption due to the start of the second lockdown at the beginning of November, which offered only temporary relief for businesses just before Christmas, although not for hotels and restaurants.

Immediately after the outbreak of the pandemic, the general conditions for the development of private consumption were considerably affected by the rapid rise in unemployment to record levels. This led to a significant decline in disposable income in Austria compared to 2019, because the 2.4% increase in wages, which led to real growth with an average inflation rate of 1.4%, was not enough to compensate for the losses caused by the sharp fall in employment of more than 2% or more than 80,000 people, as well as the reduction in the income of self-employed workers. It was possible to keep income losses significantly below the overall economic losses measured by GDP through various support measures, such as additional unemployment and sales compensation benefits. Although the serious impact of consumer demand in the coronavirus year 2020 is characterized by the developments in income, it was the lockdown measures themselves, the "artificial shortage" of supply following the compulsory closure of businesses and premises, that chiefly caused the extremely sharp decline in private consumption. This is mainly reflected in the development of the savings rate, which almost doubled over the past year, from just over 8% in 2019.

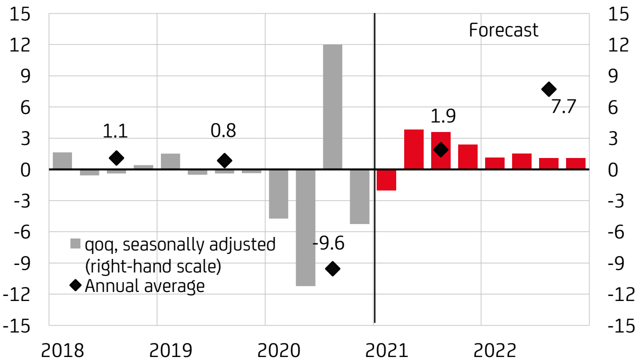
After the continuing consumer reluctance at the beginning of 2021, domestic demand and in particular the rebound of private consumption, should be the driving force behind the economic recovery. The sharp slump since the beginning of the pandemic suggests there will be a correspondingly clear catching-up process. With the gradual normalisation of economic life, especially commencing in the second half of 2021, we expect a fairly rapid adjustment of consumer spending patterns, based on the savings volumes accumulated during the lockdowns. However, the continuing uncertainty after the initial catch-up effects in the following months will limit developments in consumption, especially as the situation on the labour market is only improving in fits and starts and wage trends in 2021 and 2022 will not allow for any resulting real income growth. On the other hand, a tangible fiscal stimulus should be able to support the recovery of private consumption.

CONSUMPTION DURING THE CORONAVIRUS CRISIS FELL PARTICULARLY SHARPLY; SAVINGS BEHAVIOUR WILL INFLUENCE FURTHER RECOVERY

Savings ratio of private households in Austria
(in % of disposable income)



Private consumption
(real change in %, qoq and yoy)



Source: OeNB, Statistik Austria, UniCredit Research

Pent-up investment demand supported by fiscal measures

Fall in investment activity in 2020 was limited to first lockdown phase in the Spring

Demand for investment in 2020 was affected from the outset by the impact of the start of the coronavirus crisis in China on the export-oriented areas of the Austrian economy. The increased uncertainty caused by China's business closures and the disruption of supply chains abruptly reduced investment readiness. There was already a decline in investment activity in the first quarter. Above all, entrepreneurs reacted quickly with regard to short-term investment decisions, such as the purchase of vehicles. With the coronavirus crisis overflowing into Austria and the imposition of the lockdown from mid-March, the reluctance to invest spread more strongly to the construction sector. However, with the first easing measures, this sector was the first to recover while investment in equipment picked up afterwards. The lockdown starting in November had far less impact on investment than on consumption, especially as the continued recovery in industry, supported by the revival of export demand, counteracted reticence in other sectors. Overall, the decline in gross investments in 2020 was almost 5%, significantly less than in the financial crisis.

Investment recovery begins in mid-2021, but some obstacles will limit the pace of growth

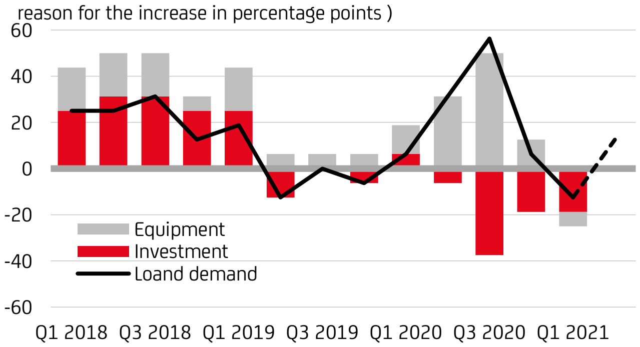
After a weak start in 2021 with a slight decline in investment, we expect a moderate recovery in the rest of the year to follow the normalisation of economic life and the consequent reduction in uncertainty over future economic development. This recovery is supported by the still very favourable financing conditions, especially since no change in monetary policy is on the horizon by the ECB. Determination to exploit these favourable conditions led to lively demand for corporate credit in 2020, with an increase of 5.5% year-on-year. Although a weakening in the trend is expected in 2021, the focus on the acquisition of liquidity buffers by means of operating credits will increasingly move in the direction of borrowing for temporarily deferred new and alternative investments. The investment appetite of domestic companies is also supported by the state investment premium for health, digitalisation and ecological projects. The positive effects of the enlarged EU financial environment and the "Next Generation EU" programme should also be implemented from the start of the second half of the year. However, due to the decline in tax revenues, the financial resources of the major public investors - municipalities and states - are more scarce, which can only be partially offset by the increase in federal municipal aid for municipal investments at EUR 2.5 billion. The rate of recovery for investments will be limited, especially in 2021, by the economic difficulties in many sectors due to the pandemic. This means that a wave of insolvencies can be expected from the middle of 2021. Many companies will be forced to prioritise reducing debt, which rose in 2020, rather than increasing investment. Overall, we expect investment to increase by around 4% in 2021, which should accelerate to over 5% in 2022.

Recovery in the trade in goods, but tourism is continuing to slow the trend in services

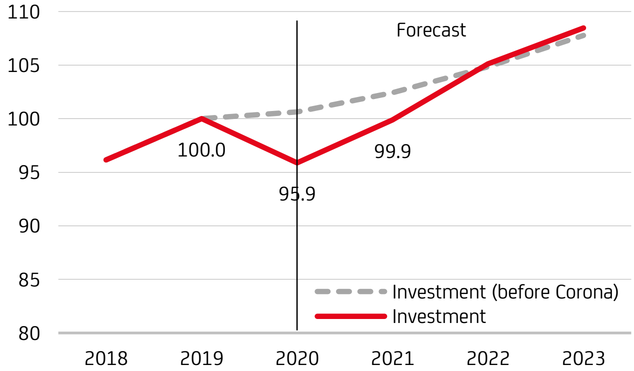
Following the slowdown in international trade in 2019, there were signs of a slight recovery at the beginning of 2020, but this was soon impacted by the effects of the coronavirus crisis. The disruption of global value chains due to company closures and quarantine measures in China

INVESTMENT IN 2020 WAS NOTICEABLY LESS ADVERSELY AFFECTED BY THE CORONAVIRUS CRISIS THAN CONSUMPTION

Change in corporate loan demand and purpose of the loan in Austria
(Net share of banks that reported an increase in loan demand and the reason for the increase in percentage points)



Investment in Austria
(real, 2019=100)



Source: Statistik Austria, Refinitiv Datastream, UniCredit Research had already caused a noticeable decline in Austrian exports in the first quarter of 2020, which initially showed a greater impact on goods. The negative trend in foreign trade intensified with the start of the lockdown in the spring, which was increasingly influenced by the service component. However, starting with China in the middle of the year, there were the first positive signals in the trade in goods and service exports benefited from the interim relaxation in tourism.

Coronavirus crisis leads to drop in foreign trade in 2020 by more than 10% in real terms compared with the previous year

While the positive development in goods trading continued to a large extent until the end of the year, the renewed tightening of travel restrictions and the shutdown of restaurant and hotel service providers in Austria, which started in November, led to another enormous decline in tourism. Overall, exports fell by just over 10% in real terms in 2020 compared to the previous year. While exports of goods remained around 7% below the previous year, the problems in tourism led to a far sharper decline in trade in services of 15%. The number of overnight stays in Austria fell by more than a third in 2020, with overnight stays by foreigners even dropping by more than 40%. However, Austrian foreign travel also declined sharply, such that the decrease in imports was about the same. Imports in the trade in goods also fell sharply due to lower demand for consumption and investment, so that the impact on economic growth remained limited, despite the large-scale distortions in foreign trade. However, the contribution of net exports to growth was slightly negative for the first time in two years.

Trend in the recovery of trade since mid-2020. By comparison, trade in services is still burdened by restrictions on tourism

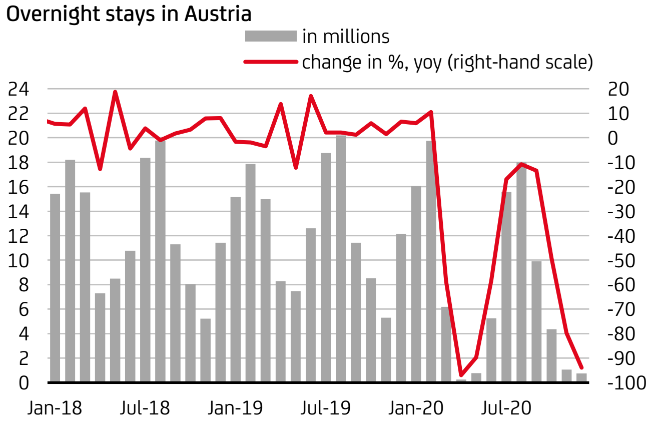
The global spread of coronavirus, the ongoing measures to contain the pandemic and the supply-side difficulties caused by the lack of transport and production capacity in the incipient recovery will limit the upturn in global trade for at least the first half of 2021. The pace of export growth should accelerate in the second half of the year. Austrian exports of services will suffer not only from the initially still limited momentum of goods transactions, but above all from the restrictions affecting tourism. After the almost non-existent winter season, normal operations are not yet expected in the summer of 2021 either, due to travel restrictions and the risk of infection. Overall, this will result in a strong increase in exports compared with 2020, although the volume of foreign trade in 2021 will still be well below the pre-crisis level. The rising demand in consumption and investment will strongly drive imports, but we expect a positive contribution to growth and an improvement in the current account surplus in 2021.

Step by step to former strength

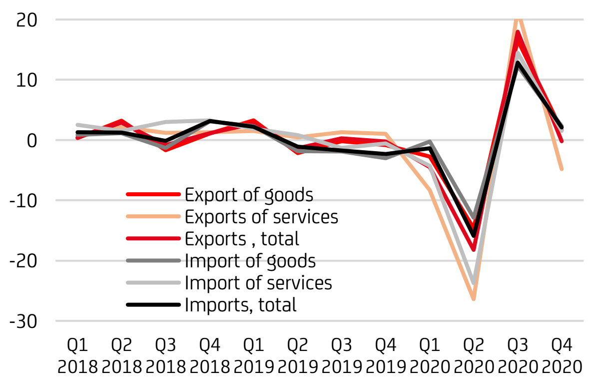
The Austrian economy started 2021 under difficult conditions, given the second wave of infection that has been ongoing since autumn 2020 and the further lockdowns. However, with the launch of the immunisation campaign, a gradual return to normal economic life is definitely in sight. But the Austrian economy is likely to weaken further throughout the first quarter of 2021, due to necessary health restrictions. The uneven sectoral development of the Austrian economy as a result of the various lockdown measures is continuing for the time being. The comparatively favourable conditions are apparent at the beginning of the year in the construction industry, despite a slight decline in optimism. With order books being well filled, sentiment in

GLOBAL RECESSION IS PUTTING A STRAIN ON AUSTRA'S EXPORTS OF GOODS, SERVICE BUSINESS CHARACTERIZED BY A SLUMP IN TOURISM

Overnight stays in Austria



Export and import dynamics in Austria
(seasonally adjusted, qoq in %)



Source: Statistik Austria, UniCredit Research

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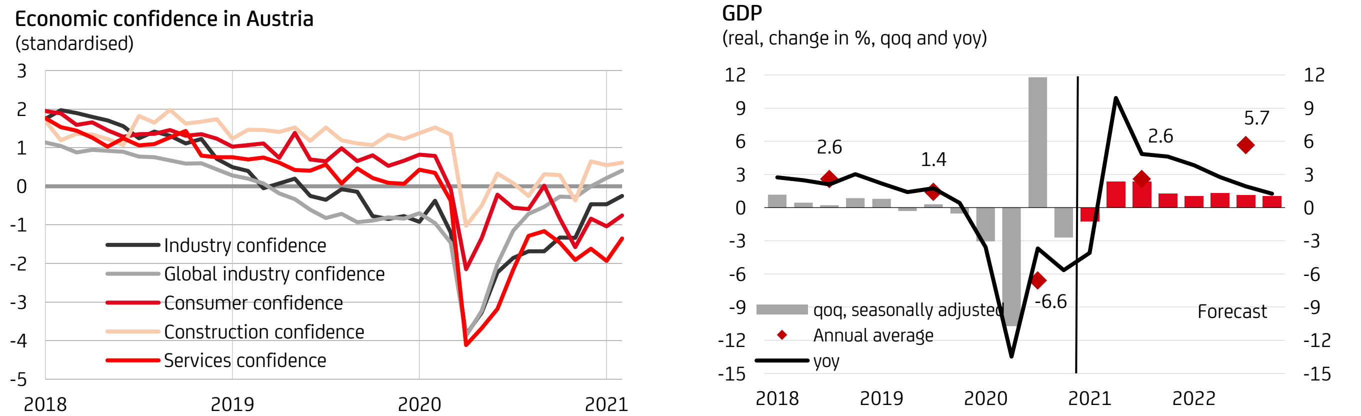
Classic double dip recession in Austria resulting from measures to curb the pandemic

special construction activities sector has actually improved somewhat, but confidence remains highest in the civil engineering sector. Domestic industry is hardly affected by the current restrictions, as the global conditions have become more favourable. The export environment improved significantly in terms of sentiment in the international industrial sector, weighted by the Austrian share of trade. The impetus for growth, particularly from the Asian region, has ensured that the situation is the most favourable it has been for two years. While the steel industry, for example, has more of a tailwind behind it, less export-oriented areas of the domestic industrial sector, such as the food and beverage industry, are nevertheless still feeling the strain. The tense situation on the labour market once again dampened consumer sentiment at the beginning of the year. Pessimism in the services sector has also increased due to regulatory restrictions at the start of the year in various businesses, such as restaurants and hotels.

A weak transition from 2020 to 2021 limits growth prospects for the new year, so that the Austrian economy is not likely to reach the pre-crisis level again until the middle of 2022

Following the sharp fall in GDP in the fourth quarter of 2020, a further – albeit smaller – decline was expected in the first quarter, so that the Austrian economy has once again slipped into recession, as it did in spring 2020. Only around Easter are we expecting an easing of measures, which should have a positive effect on economic development, so that after the recession at the turn of the year – favoured by the warmer weather and due to the progressive vaccination of the population in the second quarter – a counter-movement in the economy is anticipated, although this will initially only be driven by catch-up effects. The easing of restrictions as a result of the pandemic is only expected to allow for a widespread relaxation of measures to kick-start the sustained recovery during the summer. Despite the high momentum from late summer onwards, growth prospects for all of 2021 are limited due to the large-scale impact of the lockdown on Austrian economic development over the winter and the increase in GDP in Austria will be below 3% in 2021. However, the trend in growth should accelerate to 5.7% in 2022, as the recovery progresses. Nevertheless, the overall economic losses brought about by the pandemic are therefore not expected to be recouped until the middle of 2022

ECONOMIC RECOVERY IS NOT ANTICIPATED UNTIL THE SECOND HALF OF 2021 IN AUSTRIA



Source: Statistik Austria, UniCredit Research

The bankruptcy paradox of the coronavirus crisis

Sharp fall in insolvency cases in 2020 due to legal protection, but large increase in liabilities mainly due to individual cases (e.g. Commercial Bank Mattersburg)

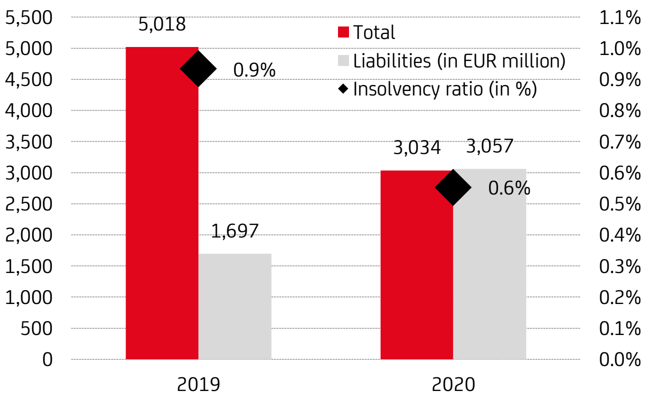
The trend in the number of bankruptcies is intuitively assumed to decline in favourable economic times and rise during difficult times. This connection also holds true for the number of corporate insolvencies, based on an empirical examination of the past few decades. According to the report, a sharp rise in corporate insolvencies was to be expected in 2020 due to the coronavirus crisis, with the greatest economic slump in the post-war period. In fact, the number of corporate insolvencies has fallen by almost 40% or almost 2000 compared to last year to 3,034 cases. The insolvency rate, the number of initiations of insolvency proceedings in relation to the number of active members of the Austrian Economic Chamber (WKÖ) has fallen to only 0.6%. A list of insolvency cases by sector also shows that the decline in pending insolvency cases compared to 2019 was particularly high in those sectors that were exceptionally affected by the economic impact of the pandemic, especially the hospitality sector.

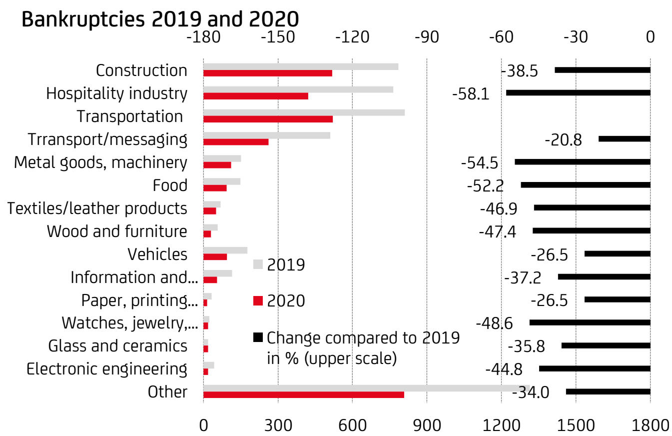
A sharp increase in bankruptcies is expected after the expiry of the protection regulations

This double paradox was caused by government measures to cushion the economic impact of the coronavirus crisis. The obligation of the debtor to apply for insolvency proceedings in the event of over-indebtedness is currently suspended by law for the period from 1 March 2020 to the end of March 2021. No insolvency proceedings can be initiated until the end of the specified period, even at the request of a creditor, which normally affects around 50% of the initiations, in particular by the public sector (e.g. social security and tax office).

Since the extension of tax and charge deferral is to be extended until mid-2021, a sharp increase in the number of insolvency initiations is expected starting in the second half of 2021 at the latest. KSV1870 anticipates an increase in insolvency of 20 to 25% for 2021 and, as an after-effect of the coronavirus crisis, an increasing proportion of liquidations due to a lack of assets for restructuring. In addition, the forthcoming reform of insolvency law, which in compliance with the EU restructuring directive provides for a reduction in the debt relief period to three years for companies, could further increase the trend in insolvencies.

”ARTIFICIAL“ FALL IN INSOLVENCY CASES IN 2020 MAINLY SECTORS HEAVILY AFFECTED BY THE CORONAVIRUS CRISIS





Source: KSV1870, UniCredit Research

Gradual improvements in the labour market expected from mid-2021

- **The economic downturn reduced employment and increased the unemployment rate to 9.9% on average in 2020 (national method) and 5.3% (Eurostat), respectively.**
- **Dramatic peak of the unemployment rate in April 2020 and to a lesser extent during the second wave at the turn of the year 2020/21 despite the extended short-time work programme**
- **We expect a moderate decline in the unemployment rate to 9.5% on average in 2021, which should accelerate to 8.6% in 2022. At around 8% (seasonally adjusted), the unemployment rate will still be clearly above pre-crisis levels at the end of 2022**
- **Focus: Why the coronavirus crisis has exacerbated social disparities**

Record unemployment due to the 2020 coronavirus crisis

The fall in unemployment since 2016 ended abruptly in the spring of 2020 due to the coronavirus

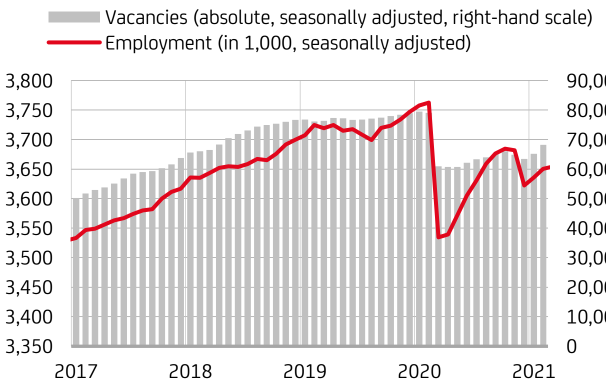
The relaxation phase in the Austrian labour market, which led to a reduction in the unemployment rate in 2019 to an average of 7.4% according to national calculations or 4.5% according to Eurostat calculations – the lowest figure in around eight years – ended abruptly in 2020 due to the effects of the coronavirus crisis. While the situation at the end of 2019 and early 2020 improved slightly due to a slight revival of the global economy and supported by favourable weather conditions for construction and tourism, the spread of the pandemic led to a reversal of the trend. This was already slightly indicated in February, when the impact of quarantine measures in China and the disruption of global value chains confronted international companies with supply and sales difficulties and initial changes in staffing levels. The spread of COVID-19 and the measures introduced by the federal government to contain it during the first lockdown in the spring of 2020 resulted in a sudden large-scale upheaval on the labour market.

The peak was in April 2020, with an unemployment rate of 12.6%, seasonally adjusted

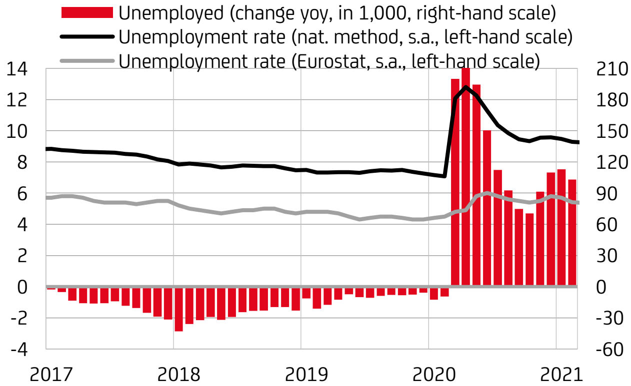
The seasonally adjusted unemployment rate, which had fallen to 7.2% in February 2020, quickly soared. After 11.9% at the end of March, the unemployment rate climbed to its previous historical peak of 12.6% in April. This rise was associated with an increase in the number of job seekers in Austria from 295,000 to over 520,000 at the end of April, a spike of almost 80% in just two months. At the same time, contrary to the seasonal pattern, employment in Austria fell rapidly from its original 3,830,000 to about 3,610,000 people. This corresponds to a decline of almost 6%. The employment growth of the past three and a half years had thus vanished into thin air within six weeks, although comprehensive short-term work arrangements were quickly introduced to cushion the effects of the pandemic and the lockdown. In April some 1.3 million employees were employed in short-time work. Taking into account the approximately 50,000 trainees, at the height of the crisis in the labour market almost 50% of Austrian workers were affected by the impact of the pandemic on their professional activity.

ANOTHER LOCKDOWN AFTER SPRING 2020 BRINGS A SECOND PEAK IN UNEMPLOYMENT OVER THE WINTER

Employment and vacancies



Unemployed persons



Source: Statistik Austria, Eurostat, UniCredit Research

Ups and downs of the unemployment rate related to lockdown measures in the course of 2020

With the easing of measures, the unemployment rate began to fall at a decreasing rate to 9.3% at the end of October. At that time, almost 390,000 people were registered as seeking work in Austria at the Labour Market Service (AMS) and the employment figure of 3,750,000 was at least 140,000 people higher than in April. Around 130,000 people were still affected by short-time work. With the new lockdown commencing at the beginning of November, the situation in the labour market began to cloud over again. The unemployment rate rose to 9.7% by the end of 2020, although the number of short-time workers increased again to over 400,000. Thus, including job seekers and trainees, more than 900,000 people or almost 22% of the domestic labour supply were adversely affected in exercising their profession at the end of 2020.

The annual average unemployment rate for 2020 was 9.9% according to the national method and climbed to 5.3% according to Eurostat calculations. Despite the short-time work model, the situation deteriorated significantly more than in the eurozone, where the unemployment rate rose from 7.6% to 8%, i.e. by around 5%, while in Austria – albeit based on a lower level – the unemployment rate had recorded an increase of almost 20%.

For the time being, relief in the labour market is only progressing slowly

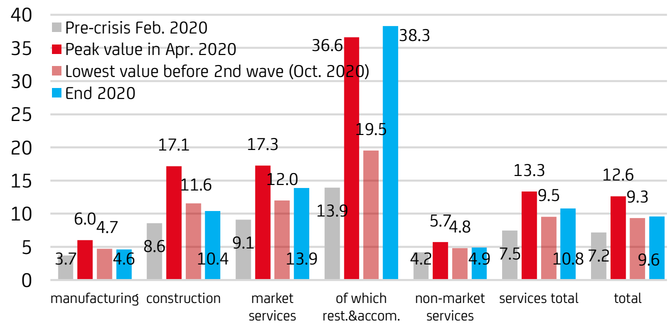
The expected economic bounce-back following COVID-19 is expected to reduce unemployment in 2021

The negative impact on the labour market has been significantly lower in the second pandemic wave than in the first phase in spring 2020 and is mainly limited to particularly affected industries in the service sector. As a result of the measures taken, we continue to expect fewer consequences for the labour market than during the first wave. Due to the current underutilisation of the Austrian economy, the labour market will suffer for even longer, especially as the economic recovery that is starting to take place here will only materialise slowly. The situation on the labour market will initially ease from Q2 2021 onwards, though to start with progress will be slow; there is not expected to be any marked improvement in the situation until 2022.

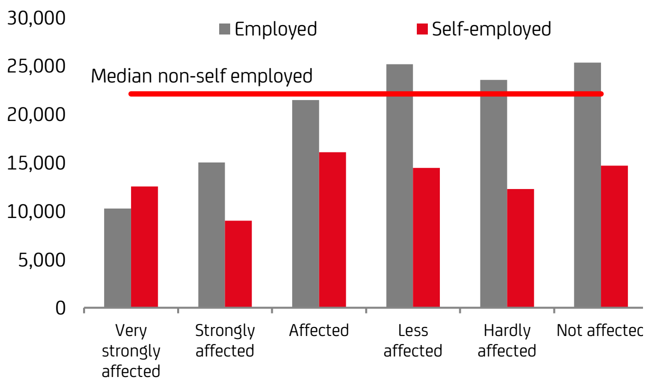
We expect the unemployment rate to fall relatively moderately to 9.5% on average in 2021. We are anticipating a noticeable improvement in the situation on the labour market only with the acceleration of the recovery starting in the second half of the year and in particular next year. On average, we expect an unemployment rate of 8.6%. At the end of 2022, the unemployment rate is expected to remain at 8% seasonally adjusted, which is still well above the level before the outbreak of the pandemic.

INCREASE IN UNEMPLOYMENT, ESPECIALLY IN INDUSTRIES WITH INCOMES BELOW THE AUSTRIAN AVERAGE

Unemployment by branches
(Unemployment rate in %, seasonally adjusted)



Annual net salary for employed and self-employed persons
(Median income 2019 in Euros)



Source: Statistik Austria, Eurostat, BMAFJ, UniCredit Research

Why the coronavirus crisis has excacerbated social disparities

The COVID-19 pandemic severely affected economic development in Austria in 2020 and has led to the most severe disruption on the Austrian labour market since the Second World War. Unemployment rose at a very high rate to a record level. At an average of 9.9% according to the national method, the unemployment rate was 1.5 percentage points or one third higher than before the outbreak of the pandemic.

The measures taken to control infections have had highly variable effects on the various sectors of the economy. The construction industry was severely but only briefly affected and began to recover quickly thanks to full order books. In industry, the labour market was particularly hit in individual sectors of non-material goods production, which, also had to contend with difficulties in global value chains, in addition to the effects of the spring lockdown. These specifically include the production and processing of metals, the vehicle manufacture, the production of food and beverages and the production of textiles, clothing and printed products. Thanks to the adjustment of production conditions, the second wave of the pandemic was largely weathered by Austrian industry, supported by the recovery in global trade, in particular by stimuli from the Asian region. The most significant effects were on average in the service sector, although even in the sectors most affected overall, such as restaurants and hotels, financial and personal services and various transport services, some service sectors confronted the effects with relatively little impact or even benefits, such as food retailing.

The unequal fallout in individual sectors as a result of the measures put in place leads to a worsening in social disparities, because the net income in the sectors most affected is below the Austrian reference value. This means that those people who only receive below-average income in Austria are particularly affected by unemployment and thus loss of income. Our analysis, the result of which is shown in the chart (net annual salary for the non-self-employed and self-employed) on page 11, shows the greatest adverse effect of the crisis in sectors such as restaurants and hotels, in which income in 2019 was only around 50% of Austrian median income. By contrast, the median income in non-negatively affected sectors, such as the health sector, the pharmaceutical industry or the energy sector, is significantly higher than the Austrian median.

Details on the consequences of the first wave of infection on employment and unemployment in Austria can be found in our latest analysis "The Effects of the First Wave of the Pandemic on the Labour Market", January 2021: https://www.bankaustria.at/en/markets-research-analyses.jsp (short version). The entire study in only available in German on our homepage: Die Auswirkungen der ersten Pandemiewelle auf den Arbeitsmarkt

Post-coronavirus inflation in a moderate upwards trend

- Slight fall in inflation in Austria at 1.4% in 2020, mainly thanks to the drop in oil prices
- ·Higher oil prices and demand pressure in some service industries will cause inflation to increase in the course of 2021; it is expected to temporarily rise to over 2%
- Inflation is expected to remain manageable at an average of 2% in 2021 and 1.9% in 2022
- ECB continues its relaxed monetary policy: We do not expect base rates to change before the end of 2022
- Focus: Why the ECB's monetary policy does not pose any risk of runaway inflation

Fluctuating inflation in coronavirus year 2020

Inflation averaged only 1.4% in 2020 compared to the previous year

After the slowdown in inflation in 2019 to 1.5% on annual average, inflation climbed above 2% due to a short-term rise in oil prices at the beginning of 2020. From the end of January 2020, uncertainty surrounding the spread of COVID-19 in China and subsequent production losses caused oil prices to fall once again. The lower oil price was the dominant cause of the decline in inflation in the following months, with a 0.7% year-on-year low in May. In addition, lower demand caused by the coronavirus crisis and numerous discounts to boost customer traffic during the period of easing after the first lockdown also curbed price increases in early summer.

Housing, hospitality and food services drove inflation up, the price of oil pushed it down

As the second half of 2020 started, inflation in Austria rose more sharply. Despite the overall economic demand shortfall caused by the pandemic, the summer saw higher price increases in some sectors, such as trade, tourism and leisure or not the anticipated slowdown in inflation, due to the temporary reduction of VAT on hospitality, accommodation and cultural services. Instead, the passing on of the additional costs of hygiene measures to prices by suppliers led to an increase in inflation. The inflation upturn has increased significantly compared with the eurozone and our key trading partner Germany, especially from the middle of 2020 onwards. Inflation, measured by the national consumer price index and the internationally comparable harmonised consumer price index, averaged 1.4% in Austria in 2020. Inflation fell to 0.3% in the eurozone and to 0.5% in Germany. As a result, inflation in Austria has always been higher than in the eurozone since 2013 and even higher than in Germany since 2008.

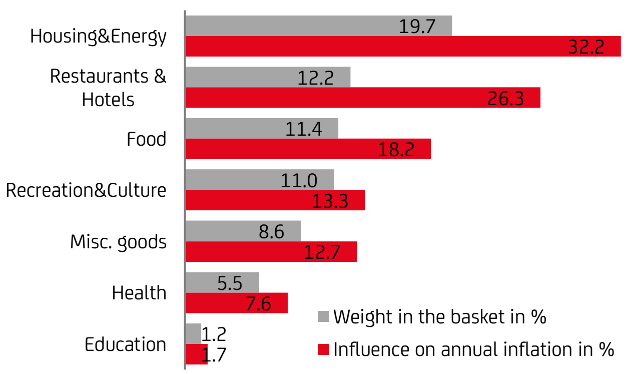
Rise in inflation in 2021

Oil prices and recovery mean that inflation for 2021 and 2022 is expected to be around 2% year-on-year

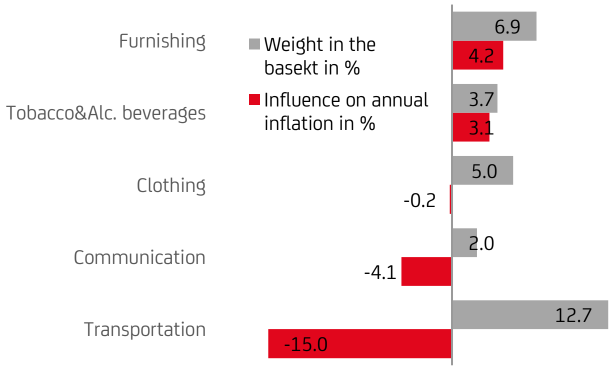
Relatively low inflation levels are expected in the first months of 2021. In January, inflation fell to 0.8% year-on-year, but an upwards trend will prevail, which is expected to intensify from March. This is due to the rise in the price of oil, which has so far dampened inflation compared to the previous year. While the fall in the price of oil by around one third to an average of EUR 38 per barrel dampened inflation by almost 0.5 percentage points in 2020, we

INFLATION IN 2020 DRIVEN BY HOUSING AND ENERGY, RESTAURANTS AND HOTES AND FOOD PRICES

Inflation drivers 2020



(Relative) inflation dampers 2020



Source: Statistik Austria, UniCredit Research

expect an increase in the price of oil of around 15% to an average of EUR 44 per barrel in 2021 will push the price up slightly. In addition, due to the increasing demand during the course of the expected recovery of the Austrian economy, a higher price trend is anticipated, especially in some service sectors, such as restaurants and hotels. Values are therefore expected to be well above the 2% year-on-year mark in the course of 2021. However, the annual average inflation rate of 2% in the current year and 1.9% in 2022 will remain manageable, especially as the expected slight strengthening of the euro towards US$ 1.30 for EUR 1 by the end of the year and the lower wage pressure due to the strained labour market situation willnot dampen upwards pressure.

ECB continues its relaxed monetary policy

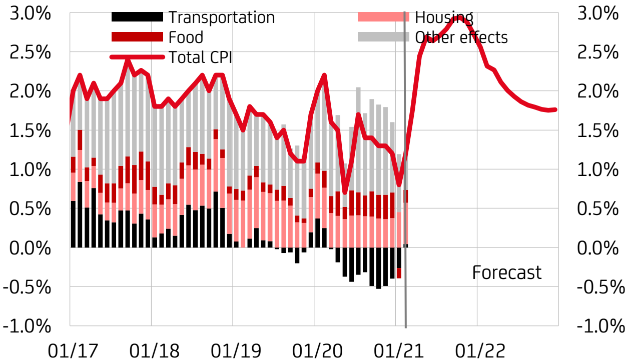
The ECB will increase its securities purchase programme PEPP at the end of 2020 to EUR 1.85 trillion to March 2022

The European Central Bank has reacted rapidly to the onset of the coronavirus crisis in Europe in order to safeguard the functioning of the markets. While 2020 key interest rates in the eurozone remained unchanged – with the interest rate for the primary refinancing instrument at 0% and the deposit rate unchanged at -0.5% – the ECB has implemented extensive liquidity measures and regulatory easing, such as the relaxation of capital regulations for banks. For example, the ECB has launched an additional longer-term refinancing operation (TLTRO-III) to support lending by banks to small and medium-sized enterprises and the conditions for this were further improved in December. In particular, starting in March 2020 the ECB launched a new emergency bond-buying programme (PEPP – Pandemic Emergency Purchase Programme), originally at EUR 750 billion, alongside the current securities purchase programme. In the light of the low inflation expectations, this programme has now been increased to EUR 1.85 trillion by March 2022.

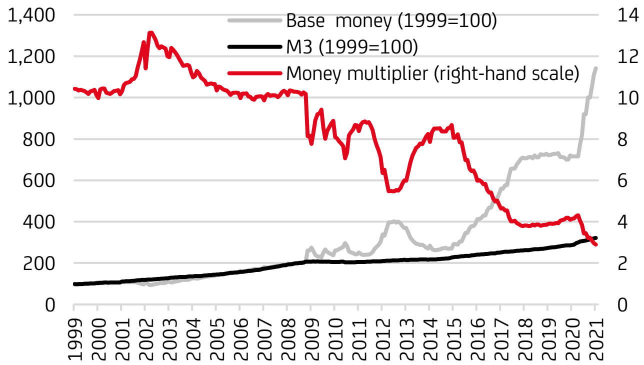
We expect the PEPP and favourable conditions for TLTRO III to be extended beyond March 2022, as GDP should still be below pre-pandemic levels at the time of the ECB's decision (probably in September or December). The expected rise in inflation in 2021 might lead to some criticism of monetary policy, but the ECB should be able to withstand this. Nevertheless, a PEPP extension is likely to be accompanied by a "tapering signal." We expect PEPP to finish at the end of 2022. A cut in key interest rates remains unlikely.

OIL PRICES ARE CAUSING MODERATE INFLATION RISES, BUT NOT A THREAT OF A HIGH PRICE TREND THROUGH MONETARY POLICY

Inflation
(with effects resulting from goods contained in the basket)



Development of the money multiplier
(Euro area)



Source: ECB, Statistik Austria, Eurostat, UniCredit Research

Money multiplier has collapsed since the start of the euro

As long as GDP is below potential, there is no risk of runaway inflation

Why the ECB's monetary policy does not pose any risk of runaway inflation

The expansion of the so-called unconventional measures of the European Central Bank - the PEPP, launched in the coronavirus crisis in addition to the Assets Purchase Programme (APP), has in many places raised concerns that this quantitative easing could lead to an outbreak of inflation. In fact, the ECB's actions have led to an enormous increase in so-called base money, which includes the cash flow and the deposits of commercial banks in their current accounts with the ECB to cover the reserve requirement and the holdings of credit institutions in highly liquid deposits that go beyond the reserve requirement (e.g. excess central bank reserves and use of the deposit facility). By contrast, the broad M3 money supply, which consists of very liquid liabilities of domestic banks held by households and companies, has increased much less during the same period. The close link between base money and M3 has weakened since the beginning of the financial crisis. The so-called money multiplier, which results from the division of the broad M3 money supply and base money, had a value of around 10 before the financial crisis. Currently, the money supply multiplier is only around 3 (see chart p. 14). This means that the sharp increase in base money is not reflected in the performance of the M3 broad money supply.

However, from a monetary analysis of inflation trends, the M3 broad money supply is relevant, as it relates to the total available resources in the economy for the purchase of goods, services and non-monetary assets, as well as for capital expenditure. However, with the beginning of the coronavirus crisis, the growth of the M3 broad money supply has also accelerated significantly since then to double-digit growth rates year-on-year. Banks' lending to companies has increased significantly. However, companies use the loans primarily to safeguard liquidity and not to invest. Thus, the recently observed growth in credit, which directly amounts to liquidity hoarding, does not have an inflationary effect.

Inflation can only occur when the real demand for goods and services sustainably exceeds supply, i.e. when too much broad M3 money supply meets too few goods and services. The ECB's quantitative easing can therefore only lead to inflation by boosting demand. However, a sustained rise in inflation is not expected as long as demand-related factor utilisation is low. The high output gap in the Austrian economy and the tense situation on the labour market show that the ECB's monetary policy stance does not pose a risk of inflation for the time being.

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Coronavirus crisis triggered an expansionary fiscal stance

- Fighting the coronavirus crisis led to a record public deficit in 2020 of around 10% of GDP
- Public debt rose from 70.5% in 2019 to an estimated 85% of GDP
- A significant reduction in the budget deficit in 2021 despite continued support measures; loss of revenue also suggests a significant decline in the public budget in 2022
- A further increase in public debt in 2021, but a reduction in comparison to GDP from 2022, thanks to high economic growth
- Focus: Why the rise in public debt is not problematic

Record deficit in 2020

After two years of budget surpluses, the 2020 coronavirus crisis caused a record depletion in the public budget

After two years of slight surpluses in public finances, the collapse of the economy as a result of the coronavirus crisis has led to a huge fall in revenue. In addition, to cushion the impact of the pandemic, it has also resulted in a shift to an expansionary fiscal stance that has led to significantly increased spending. According to an initial projection by the Ministry of Finance, the administrative deficit in the federal budget in 2020 was around EUR 22.5 billion, after an increase of EUR 1.5 billion in 2019. This is due to around 8.5% lower deposits, as income in particular from income taxes (-39.5% year-on-year), corporate income taxes (-32.5%), sales taxes (-8.3%) and fuel taxes (-15,4%) declined significantly. At the same time, expenditure rose by almost 22% compared to 2019. This was particularly the case for the labour item, where the costs of short-time work amounted to around EUR 5.5 billion and the additional costs of higher unemployment around EUR 650 million. The COVID-19 Hardship Fund Act also resulted in additional expenditure of over EUR 1 billion in the economy budget area. In the area of family and youth, disbursements of COVID-19 crisis management funds and the children's bonus also resulted in higher spending of almost EUR 1 billion.

The debt level rose to around 85% of GDP by the end of 2020, compared to 70.5% in 2019

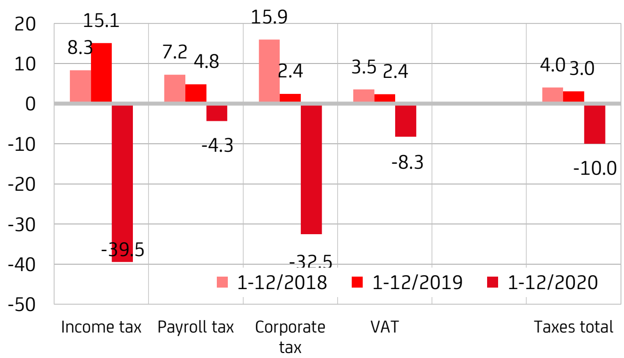
The administrative federal budget deficit gives an initial indication of the expected level of the general government balance according to the Maastricht definition. We expect a deficit of around 10% of GDP in 2020, including the states, municipalities and social security institutions. This means that the budget shortfall in Austria reached a record level in 2020. As a result, total public debt, which had fallen to 70.5% of GDP in 2019, has increased significantly. We estimate public debt will rise to around 85% of GDP by the end of 2020, slightly above the previous 2015 peak.

No rush to reduce the budget deficit in 2021

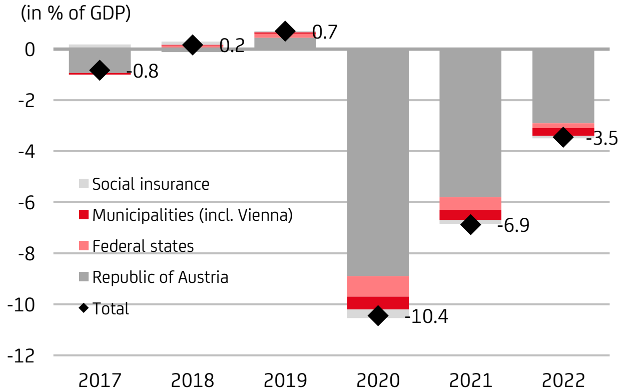
After the sharp decline in the previous year, a turnaround in development of budget revenues is expected in 2021, with the incipient recovery of the Austrian economy behind it. The open-

MASSIVE REVENUE SHORTFALLS AND ADDITIONAL SPENDING DRIVE A RECORD BUDGET DEFICIT IN 2020

Tax revenues
(change in %, yoy)



Budget deficit
(in % of GDP)



Source: BMF, Statistik Austria, Eurostat, UniCredit Research

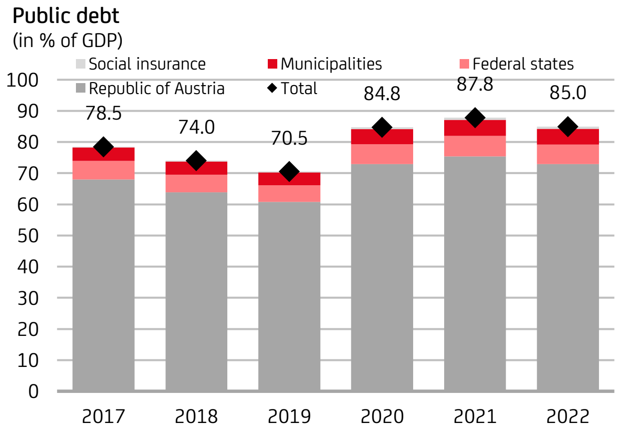
Also high expenditure in 2021 to cushion the effects of the coronavirus crisis

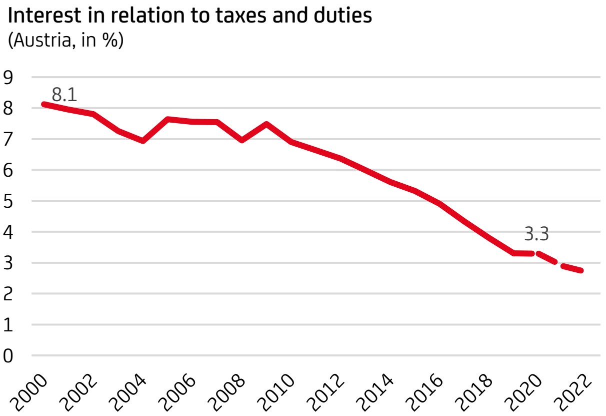
Stronger focus in the 2021 budget on growth support

up of the economy and the improvement of the situation on the labour market lead to expectations of higher inflow, in particular from income tax, corporation tax and VAT. Furthermore, expenditure is expected to fall, as many transfers and support measures will no longer be as necessary as in 2020. Nevertheless, the estimate adopted by the Austrian National Council in October continues to include a series of crisis-relieving measures for particularly affected sectors, as well as the extension of short-time work. In addition, the focus of fiscal measures for 2021 has moved significantly towards economic support, both through tax relief, especially for low-income earners and through the promotion of private investment through an investment premium or the possibility of lowered depreciation and the increase in public investment, particularly in the field of climate protection, digitalisation and public transport. With almost 7% of GDP, we expect again a considerable fall in the general government budget for 2021.

As a result of the new high level of debt, total public debt will again rise slightly in relation to GDP in 2021, reaching a new record level of around 88% of GDP.

TOTAL DEBT HAS RISEN SHARPLY, BUT AFFORDABILITY HAS INCREASED FURTHER





Source: Ameco, BMF, Statistik Austria, Refinitiv Datastream, UniCredit Research

Why the rise in public debt is not a problem

Sharp rise in public debt

The budget balance turned sharply negative in 2020 due to measures to cushion the negative impact of the pandemic on the Austrian economy. The loss of income from taxes and duties, as well as increased expenditure on social benefits and economic development, can be expected to result in large budget deficits in 2021 and 2022 as well. This means that total public debt will be around 85% of GDP at the end of 2022, after 70.5% at the end of 2019.

A significant decline in interest rate service for 20 years makes higher debt manageable without any problems

Despite this increase, the level of public debt in Austria is not considered problematic, because the usual position of government debt in relation to GDP is a misleading measure, comparing a cumulative figure, namely the snapshot of the accumulated budget deficits of the past, to a non-cumulative figure, the income generated at a given point in time. Since governments can prolong their debt almost indefinitely, annual interest-rate spending is crucial to sustainable performance. The average interest rate on Austrian public debt is falling for structural reasons, such as the decline in inflation and productivity, not only since the financial crisis and independent of interventions by the ECB the average interest rate dropped from 5.4% in 2000 to 1.6% in 2020. Despite an absolute total debt increase of 70%, interest-rate expenditure fell by one third in 2020, to only around EUR 5 billion.

In our opinion, the ratio of the annual interest expense for the public sector against the annual revenue from taxes and duties in the general government budget is far more meaningful in assessing the sustainability of public debt than the total debt in relation to GDP. In Austria, the interest service in 2020 amounted to only 3.3% of the income from taxes and levies. Twenty years ago, over 8% of budget revenue was reserved for interest expenses.

Time for leveraged investments never so cheap

This favourable development is unlikely to reverse in the foreseeable future. By deliberately extending the remaining maturity of government bonds by issuing very long-term securities to over 10 years, the rollover risk is reduced and a low average interest rate level is frozen. Even an early turnaround in the interest rate trend - for which there are no signs at the moment, however - would only slowly influence the affordability of public debt. Given the negative impact of the coronavirus crisis, the current circumstances are ideal for financing new investments through increased assumption of debt, including financing for accelerating digital and environmental change, which will increase the potential of the economy and benefit future generations.

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Liquidity hoarding as the imperative of the coronavirus crisis

- Continued strong credit growth in 2020 of over 4% year-on-year
- Strong demand for corporate loans to boost liquidity and persistently high demand for housing loans, but a sharp fall in consumer credit as a result of the coronavirus crisis
- Strong deposit growth of over 6% in 2020 from both corporate and private clients, with a focus on the short-term sector
- Focus: Why the growth in housing loans is not so strong at all

Persistently high lending and savings trends

2020 was another year of substantial upwards trends in the Austrian Banking Market

Despite the coronavirus crisis, 2020 brought sustained strong credit growth in the Austrian banking market of over 4% year-on-year. The strong trend was supported by the continuing favourable financing conditions and the prevailing uncertainty as a result of the pandemic, which gave high priority to maintaining liquidity. Loans to small and medium-sized enterprises have grown substantially as a result of the deferrals. The increase in corporate loans in 2020 averaged 5.6% year-on-year. According to the ECB Bank Lending Survey, this strong trend is almost exclusively due to the increased financing requirements for inventory and operating resources, which was clearly a consequence of the liquidity shortage caused by the coronavirus crisis. Moreover, the granting of state guarantees greatly supported this trend. The demand for credit from large companies was lower than from small and medium-sized operations, as smaller firms tend to have comparatively thinner liquidity buffers and fewer opportunities to raise funds on the financial markets. Borrowing rates in new business fell to around 1.3% per year in private residential construction. This supported the demand for residential property, which in 2020 was reflected in a rise in residential loans of around 4.5% year-on-year. However, due to the decline in consumer loans, the growth in loans to private households fell below this, at not quite 4% on average annually.

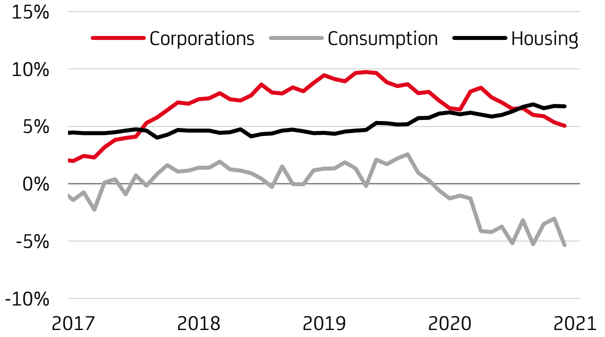
Major expansion of credit demand with focus on liquidity hedging

Short-term investments once again boomed in 2020

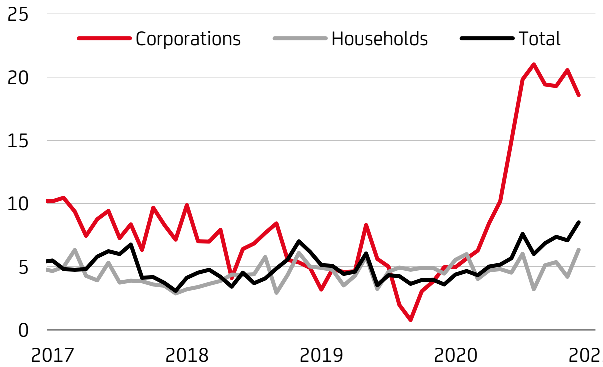
Despite the low interest rate environment, deposits grew strongly in 2020, at over 6% on average, supported by household deposits, but above all by deposits from companies. In order to safeguard liquidity, companies increased their deposits with banks by an average of over 14% year-on-year in 2020, with a strong focus on short-term investments. At over EUR 30 billion, the absolute increase in deposits was therefore more than twice as high as the absolute increase in loans of not quite EUR 14 billion.

THE UNCERTAINTY OF THE CORONAVIRUS CRISIS DETERMINED 2020 LENDING AND DEPOSIT DEVELOPMENTS IN AUSTRIA

Development of loans
(12 months accumulated transactions excluding loan sales and securitisations as % of the portfolio 12 months ago)



Development of deposits
(change in %, yoy)



Source: ECB, UniCredit Research

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Recovery from the coronavirus crisis is shaping demand for loans and investment behaviour

High growth in housing loans expected thanks to favourable financing conditions

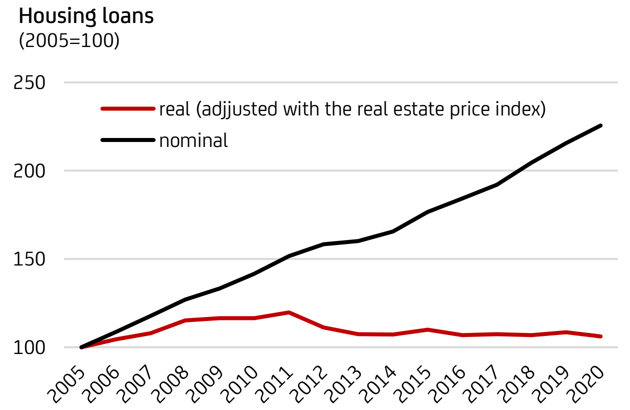
Slowdown in corporate finance and only slow improvement in the negative trend In consumer loans

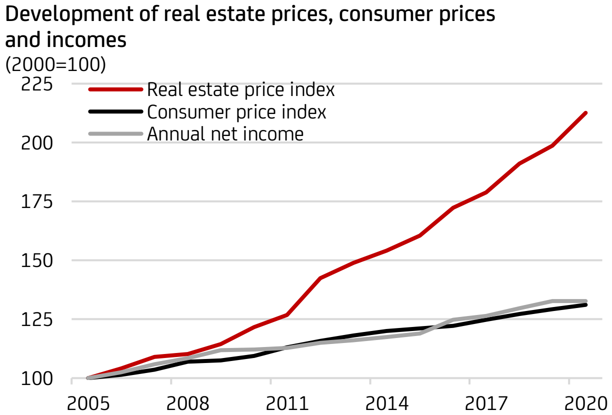
Trends in deposits will slow down noticeably after crisis-related setbacks in 2021

Developments in financing as well as deposits are subject to a particularly high degree of uncertainty in 2021 and will depend on the development of the pandemic and the pace of the expected recovery. From today's perspective, however, demand for housing finance should remain strong in 2021. The demand for property has increased due to the uncertainty in the pandemic, and also the continuing favourable financing conditions are also supporting demand. While demand for corporate loans should noticeably decline, there will also be increases, whereby the focus of businesses should move from securing liquidity back to financing investments. The decline in consumer credit over the past year is expected to improve only marginally, given the ongoing uncertainties, including the tight labour market situation.

Deposits, whose overall growth may slow down significantly compared to the swings of the previous year caused by the pandemic, will experience a continuation of the moderate change in investment focus in 2021. The slight revival in demand of Austrian households for investment funds from 2020 should continue. However, in 2021, the bulk of household reinvestment should continue to be made in the form of deposits, but the trend should be a little less strong. The low interest rate environment in Austria will only lead to changes in investment behaviour very slowly.

STRONG DEMAND FOR HOUSING LOANS DUE TO HIGH PRICE RISES SINCE 2011 REMAINS ALMOST UNCHANGED IN REAL TERMS





Source: OeNB, ECB, UniCredit Research

Why the growth in housing loans is not so strong at all

Property price-adjusted volume of residential loans has stagnated since 2011

High price trends have significantly reduced the affordability of residential property

The volume of loans in Austria has risen by around 2.5% annually to a level of 145% of the 2005 level. The trend in residential loans is one of the strongest drivers of credit volume in Austria. Since 2005, they have risen by an average of 5.5% per year, so that the real estate credit volume in 2020 has reached 225% of the 2005 level. In 2020, the increase slowed to around 4.5% (2019: 5.5%); however, this was once again higher than the growth in total loans of just over 4% on average for the year.

Nevertheless, the high nominal increase in housing loans is relative, considering price development in the real estate sector. Due to strong demand and limited supply, real estate prices have risen by more than 5% annually since 2005, while consumer price inflation has only increased by 1.8% annually over the same period. If you adjust the nominal increase in housing loans by the property price index, it is clear that residential loan volume in 2020 was actually only around 7.5% higher than in 2005. Meanwhile, since 2012 the price-adjusted lending volume for housing construction has stagnated. In other words, although residential loans have risen sharply in nominal terms, on average no more housing was being created with the capital raised. The sharp rise in prices has therefore also led to a reduction in the affordability of residential property. While general consumer prices have risen by around 30% since 2005, property prices have more than doubled. Average net income increased by more than 30% over the same period, slightly exceeding the general price increase, but the affordability of housing has been greatly reduced. While in 2005, the average net income of an employee in Austria was approximately 14 m^2 in housing, in 2020, an average net income was only sufficient for just under 9 m^2 of housing.

Austria at aglance

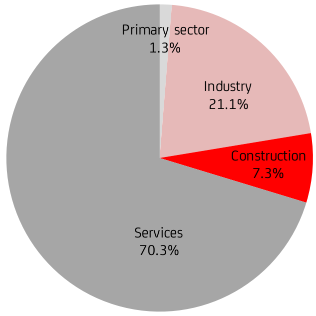
Structural indicators	*2020*	
Area (in km²)	83,879	
Population (in mn)	8.909	
President	Dr. Alexander van der Bellen	
Chancellor	Sebastian Kurz	
Rating (Moody´s/S&P/Fitch)	Aa1/AA+/AA+	

Economic performance		
Gross domestic product (in EUR bn)	375.6	
GDP per capita (in EUR)	42155	
GDP per employee (in EUR)	87588	
GDP per capita (in % of EU27 average, PPS)	128.0	
Gross domestic product (real change against previous year in %)	-6.6	0.3 (Ø 2016-2020)
Workforce (in 1,000)	4126.8	
Employed (in 1,000)	3717.2	3700 (Ø 2016-2020)
Employment rate (in %)	41.7	
Number of unemployed (in 1,000)	409.6	344 (Ø 2016-2020)
Vacancy rate (in %)	1.5	
Monthly average income (gross, in EUR)	3766.5	

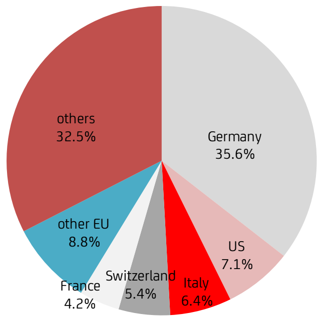
International competitiveness	*Ranking*	*Trend*
IMD-World Competitiveness Index	16	↗
IMD Economic Performance	15	↗
IMD Government Efficiency	25	↗
IMD Business Efficiency	16	↗
IMD Infrastructure	10	↗
WEF Global Competitiveness Index	21	↗
WEF Inclusive Development Index	10	↻
Transparency International Corruption Perceptions Index	15	↘
European Innovation Scoreboard	8	↗

Research&Development Ratio (R&D-expenses in % of GDP)	3.2		
Investment ratio (Investments in % of GDP)	25.3		
Tax and levies ratio (Tax and levies in % of GDP)	43.0		
Merchandise exports (in EUR bn)	144.8	2.1	(Ø 2016-2020)
Export ratio (in % of GDP)	38.6	38.2	(Ø 2016-2020)
Merchandise imports (in EUR bn)	147.7	2.3	(Ø 2016-2020)
Import ratio (in % of GDP)	39.3	39.5	(Ø 2016-2020)
Foreign direct investment (outward, in EUR bn)	9.5	8.3	(Ø 2016-2020)
Foreign dircet investment (outward, in % of GDP)	2.5		
Foreign direct investment (inward, in EUR bn)	0.7	4.4	(Ø 2016-2020)
Foreign direct investment (inward, in % of GDP)	0.2		

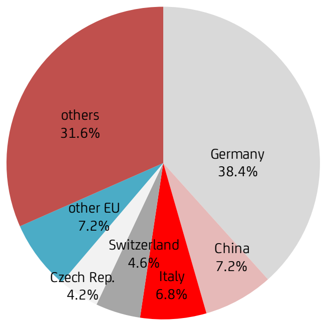
GDP by sectors 2020



Export markets 2020



Import markets 2020



Federal states 2020	*Area (in km²)*	*GDP (real, yoy in %)*	*(Ø 2016-2020)*	*GDP/capita (in EUR)*	*GDP (in % of Austria)*	*Unemployment rate in %*
Burgenland	3,962	-5.0	0.4	30,200	2.4	9.4
Carinthia	9,538	-7.0	0.4	35,800	5.4	11.3
Lower Austria	19,186	-6.5	0.2	34,600	15.6	9.4
Upper Austria	11,980	-7.0	0.5	43,200	17.2	6.5
Salzburg	7,156	-8.0	0.2	49,800	7.4	8.4
Styria	16,401	-8.0	0.2	37,900	12.6	7.3
Tyrol	12,640	-9.0	-0.1	44,200	8.9	8.1
Vorarlberg	2,601	-6.5	0.1	45,800	4.8	7.7
Vienna	415	-5.5	0.5	50,300	25.6	15.1

Source: Statistik Austria, OeNB, IMD, TI, WEF, European Commission, UniCredit Research

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