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Outlook in times of the "corona crisis"

2020

International environment

	2018	2019	Forecast 2020	2021
(GDP, change in %)				
Eurozone	1.9	1.2	-13.0	10.0
Germany	1.5	0.6	-10.0	10.0
France	1.7	1.3	-13.8	11.6
Italy	0.8	0.3	-15.0	9.0
Spain	2.4	1.9	-15.5	9.5
UK	1.3	1.4	-10.5	9.8
USA	2.9	2.3	-10.8	11.8
Japan	0.3	0.7	-7.5	6.0

	2016	2017	2018	2019
(annual average)				
USD per euro	1.11	1.13	1.18	1.12
CHF per euro	1.09	1.11	1.15	1.11
GBP per euro	0.82	0.88	0.88	0.88
JPY per euro	120.3	126.7	130.4	122.1
Oil (USD/barrel)	45	55	72	64
10y Gov. bond (A)	0.37	0.56	0.69	0.05
3m Euribor	-0.26	-0.33	-0.32	-0.36

Source: UniCredit Research

The economic impact of the coronavirus crisis on Austria

	2018	2019	Rev.[1]	2020	Rev.[1]	2021	Rev.[1]
GDP (real, change in %)	2.4	1.6		-9		8	
Inflation (CPI, in %)	2.0	1.5		0.9		1.9	
Unemployment rate (in %)	7.7	7.4		11		8	

1) Revision since last report

- **The coronavirus crisis is causing the most severe economic downturn of the post-war period, creating both supply and demand shocks**
  The positive signals at the beginning of 2020, which indicated that the economy has stabilised following a slowdown in growth to 1.6% in 2019, came to an abrupt end with the outbreak of the coronavirus pandemic. The initial problems—in particular for Austrian industry—caused by the interruption of global value chains as a result of facility closures in China have been significantly overshadowed by the forced temporary closure of the economy and public life as part of measures put in place in mid-March 2020 to contain the spread of the virus. This means that the focus of the crisis is now more on the demand side. Following a decline in economic performance of 2.5% in the first quarter, this will lead to a considerable reduction of at least 15% in the second quarter, in comparison with the previous quarter.

- **V-shaped economic recovery expected — but Austria's economic output will not reach pre-crisis levels until mid-2022**
  In our cautiously optimistic recovery scenario, we largely assume a V-shaped economic development. Following the sharp fall in the second quarter, we expect substantial lockdown easing measures from the summer onwards, which should lead to a noticeable upturn for the economy in the second half of the year. Austria is still expected to see an average decline in GDP of around 9%. Despite strong growth of up to 8% next year, Austrian economic output will still be around 2 percentage points below the pre-crisis level by the end of 2021.

- **Value added losses of around EUR 36 billion expected in 2020 — only a few sectors barely affected**
  Assuming a gradual recovery of economic activity from May, Austria's nominal economic performance for the overall year 2020 is expected to be 10%—or around EUR 36 billion—lower compared to a scenario without a pandemic. Particularly affected sectors, with value added losses of up to 40%, will primarily be personal service providers, accommodation and catering companies, cultural and sports events organisers, and numerous retail businesses. However, there are some sectors that will see basically no losses, or very few. These include, for example, the pharmaceutical industry, the food retail trade, public services, pharmacies and chemists.

- **The coronavirus crisis and the fall in crude oil prices are reducing inflation**
  Following the fall in inflation in 2019 to an annual average of 1.5%, mainly due oil prices, the start of 2020 saw inflation rise to more than 2% year-on-year as oil prices increased. The drop in the price of oil due to lower demand during the coronavirus crisis, along with OPEC's initial disagreement over oil production cuts, will significantly dampen inflation in 2020, combined with the lack of demand-side price pressure. We expect an average inflation rate of 0.9% in 2020 and, in parallel with the oil price, a slight increase to 1.9% in 2021.

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As at: April 2020

- **ECB and public authorities together against the crisis**
  As in all other eurozone countries, the government in Austria has put together a package of measures to cushion the economic consequences of the lockdown. The total volume is EUR 38 billion (direct measures and guarantees) or 10% of GDP. Alongside fiscal measures, the ECB has also taken monetary policy measures to provide banks (and therefore companies) and individual countries with sufficient liquidity. Among other measures, an additional securities purchase programme was launched and regulatory easing was agreed. The measures that have been put in place seem appropriate to achieve their objective, particularly as it has been indicated that, where necessary, they will be increased.

- **Huge rise in unemployment — unemployment rate to remain above pre-crisis levels over the long term**
  Following the favourable development of the job market at the beginning of 2020, the imposition of the lockdown led to a sudden, massive rise in unemployment, despite a new flexible short-time working model. The easing of restrictive measures should see the situation gradually levelling out again later in the year. Nevertheless, we expect an unemployment rate of almost 11% on average for 2020. At around 8%, the unemployment rate in 2021 will still be above the 7.4% seen in 2019.

- **A high budget deficit and rising debt in 2020 due to COVID-19 measures and loss of revenue — lower budget deficit in 2021**
  The measures to cushion the economic impact of the lockdown and the loss of revenue from the economic downturn will create a budget deficit of almost 10% of GDP in 2020. These factors mean that public debt is rising again for the first time in four years. A budget deficit can also be expected for 2021, but at around 2% of GDP we expect it to be much lower than in 2020.

Economic situation at a glance

	2008	2009	2016	2017	2018	2019	forecast UCBA 2020	forecast UCBA 2021
Real change in %								
GDP	**1.5**	**-3.8**	**2.1**	**2.5**	**2.4**	**1.6**	**-9**	**8**
Private consumption	0.9	0.9	1.6	1.4	1.1	1.4	-11	10
Public consumption	3.7	2.5	1.8	1.1	0.9	0.6	3	1
Gross fixed capital formation*)	1.6	-7.2	4.1	4.0	3.9	2.7	-10	14
Investments in plant and machinery	2.7	-11.2	9.3	6.3	4.3	3.4	-17	21
Investments in construction	0.4	-7.9	0.5	3.3	3.7	2.4	-5	5
Exports	2.2	-14.4	3.1	5.0	5.9	2.7	-10	8
Imports	1.0	-11.9	3.7	5.0	4.6	2.7	-8	9
CPI (change in %)	**3.2**	**0.5**	**0.9**	**2.1**	**2.0**	**1.5**	**0.9**	**1.9**
HCPI (change in %)	3.2	0.4	1.0	2.2	2.1	1.5	0.8	1.9
Saving ratio (in %)	**12.4**	**11.4**	**7.7**	**7.3**	**7.7**	**8.3**	**13**	**8**
Current account (in euro bn)	13.2	7.5	9.7	5.7	9.0	10.5	3	6
Current account (in % of GDP)	4.7	2.6	2.7	1.6	2.3	2.6	1	1
Employment (in 1,000)**)	3,283	3,234	3,502	3,573	3,661	3,720	3,619	3,706
Employment (change in %) **)	1.7	-1.5	1.6	2.0	2.5	1.6	-3	2
Unemployment rate (nat. def.)	**5.9**	**7.2**	**9.1**	**8.5**	**7.7**	**7.4**	**11**	**8**
Unemployment rate (EU def.)	4.1	5.3	6.1	5.5	4.9	4.5	7	5
Unemployed (annual average in 1,000)	212	260	357	340	312	301	448	330
General gov. balance (in % of GDP)	**-1.5**	**-5.3**	**-1.5**	**-0.8**	**0.2**	**0.7**	**-10**	**-2**
Public-sector debt (in % of GDP)	68.7	79.9	82.9	78.3	74.0	70.3	86	80
Nominal GDP (in euro bn)	294	288	357	370	386	399	366	402

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

Source: Statistik Austria, OeNB (Central Bank of Austria), UniCredit Research

A sharp economic downturn due to the coronavirus crisis

- Economic stabilisation following a slow-down in economic growth to 1.6% in 2019 ends abruptly with the coronavirus crisis
- Supply disruptions in the economy caused by the interruption of global value chains and by the lockdown trigger a severe recession in Austria
- We expect GDP to decline by around 9% in the overall year 2020, characterised by a strong economic downturn in the first half of the year and a bounce-back from the middle of the year
- The largest losses of up to 40% in the overall year 2020 in the area of accommodation and catering
- Economic recovery is expected with economic growth of around 8% in 2021, but pre-crisis levels are expected to be reached only by mid-2022
- Focus: Slight east-west gap in the economic performance of the Austrian federal states

Coronavirus crisis halts economic stabilisation following 2019 slow-down

Weakening of economic growth in 2019 to 1.6% as an annual average

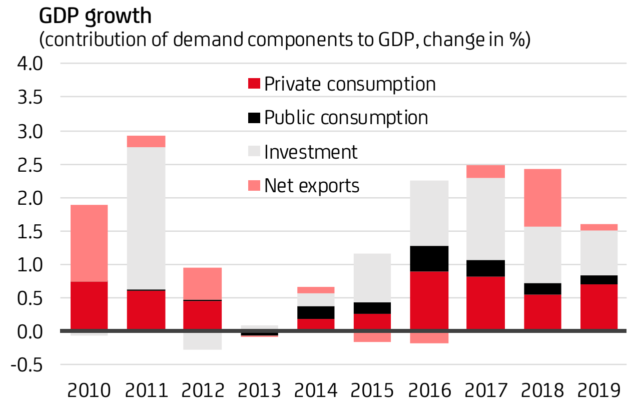
In 2019, strong domestic activity was counterbalanced against weak global trade

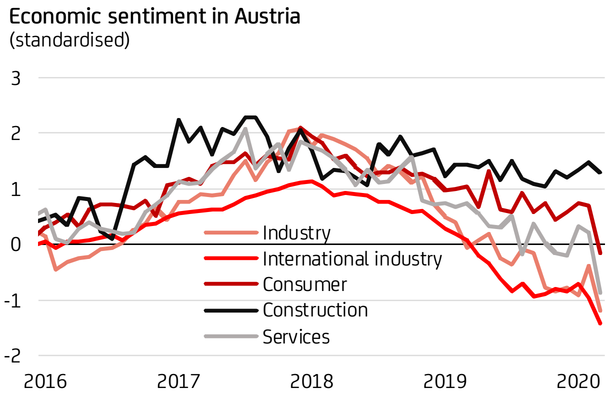
Ongoing political uncertainty, increasing protectionist trends with respect to international trade in the wake of the USA–China dispute, the Brexit negotiations and the effects of past tightening of monetary policy (for example in the USA) resulted in a marked deterioration in global economic confidence over the course of 2019 and a slowdown in global economic growth. In this environment, following three years of growth above the 2% mark, economic momentum in Austria has slowed noticeably over the course of 2019. Due to the weakness of global trade, domestic foreign trade has lost momentum and, for the first time in two years, has not made a significant contribution to economic growth in Austria. Under these conditions, Austrian industry, which is a strong exporter, even slipped into recession in the middle of the year. However, as a result of strong domestic demand, economic growth slowed to 1.6% on average for 2019. On the one hand, strong private consumption, which benefited from rising actual earnings and fiscal stimuli such as the introduction of the "Familienbonus Plus" scheme, increased by 1.4% in real terms. On the other hand, while the increase in gross fixed capital formation remained high at almost 3% year-on-year, the momentum of investments in both equipment and construction remained lower than in the previous year, despite the continued favourable financing environment, in the face of reduced foreign demand and a general deterioration in economic confidence.

Abrupt end to economic stabilisation from the beginning of 2020

At the start of 2020, the economic mood in Austria had brightened for the first time in months. The downwards trend of the Austrian economy seen in 2019 came to an end. Uncertainty in the global economy declined thanks to the trade agreement between the USA and China.

GROWTH SLOW-DOWN IN 2019 AND ABRUPT FALL IN ECONOMIC CONFIDENCE IN THE SPRING OF 2020





Source: Statistik Austria, European Commission, UniCredit Research

The weakness of global trade decreased. The Austrian economy benefited from a more favourable export environment. Foreign trade resumed its pace, with the recession in domestic industry coming to an end. The robust job market and continued optimism of consumers led to high sales in the retail sector. The foundations for positive economic development in the first quarter of 2020 appeared to have been lain.

With the start of the lockdown in mid-March 2020, Austria's economy suddenly plunged into a severe recession

However, with the outbreak of coronavirus in China, dark clouds appeared in the economic sky. Initially, the economic consequences were limited to the interruption of the value added chains as a result of plant closures in China and subsequent supply difficulties for Austrian industrial enterprises. As the virus continued to spread to European countries and then finally to Austria, possible supply-side disruptions to the economy were no longer the focus, but rather the demand-side effects of initial restrictions on the business activities of companies affected by the mid-March lockdown.

Following a slight fall in GDP in the first quarter, the full scope of the crisis will be seen, in particular, in the second quarter of 2020

After the good start to the year, we estimate that the imposition of the lockdown resulted in a sharp drop in economic performance of between around 75% and 80% of the normal level for the last two weeks of the quarter. Private consumption plummeted as a result of the closure of retail and commercial businesses, as did investment activity, which was held back by prevailing uncertainty and the initial lack of a clear schedule for easing measures. In addition, due to similar economic restrictions in other European countries, exports no longer worked smoothly, in particular as border closures also made the transport of goods already in progress more difficult, or delayed. Therefore, despite the good start to the year, GDP declined by 2.5% in the first quarter of 2020 in comparison with the previous quarter.

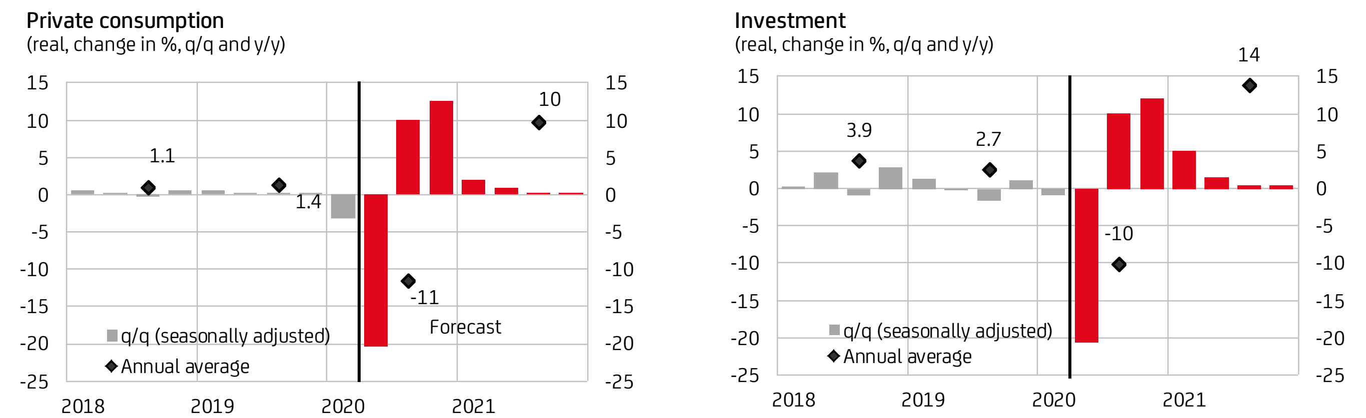
For the second quarter, we expect a massive decline in economic output of at least 15% compared with the previous quarter. Following the strict lockdown until Easter—only food retailers, chemists and pharmacies were excluded from the closures—only very restrained easing measures have been taken so far. We assume that for the time being, the pace of easing will remain very modest with a view to keeping the number of infections down. As a result, compared with the severe lockdown at the start of April, the capacity of the economy is not likely to be much higher in the coming weeks.

V-shaped economic trend expected

Gradual recovery of the economy as lockdown measures are progressively eased

Although restrictions are likely to be eased gradually in the next half of 2020, a noticeable bounce-back from this economic downturn can be expected in the second half of the year, with growth rates of up to 8% compared with the previous quarter. However, consumer demand and investments will not immediately recover to full capacity. In an environment characterised by considerable uncertainty, the tense situation on the job market will lead to continued reticence in consumer purchasing. In particular, the purchase of durable consumer goods will be slow to pick up momentum. Investment activity will see a revival, even if there is reticence at first. For one thing, expansion investments will not be required for the time

PRIVATE CONSUMPTION AND INVESTMENT ACTIVITY MOST AFFECTED BY LOCKDOWN AND UNCERTAINTY



Source: Statistik Austria, UniCredit Research

being due to insufficient utilisation of existing capacities in many companies as a result of cautious demand. For another, renewal investments—even where these are necessary—will be postponed for as long as possible due to the uncertain demand environment, both domestically and internationally, and the tighter liquidity situation in many companies following the lockdown.

A decline in GDP of around 9% in 2020 should be followed by a strong increase of almost 8% in 2021

Overall, our optimistic outlook assumes a more or less V-shaped economic trend. The sharp decline seen from March should be followed by a strong growth phase from the second half of the year. That said, on average for 2020, this will lead to a decline in economic output of around 9% in real terms. In 2021, we expect economic growth of up to 8%. This means that our economic development is not an ideal V, but instead features a slightly hesitant upwards movement following the rapid downwards movement. As a result, we estimate that the Austrian economy will fall below pre-crisis level by around 2% at the end of 2021. It will not be possible until mid-2022 to completely close the gap compared with 2019. Comprehensive monetary and fiscal measures will be able to severely limit but not completely neutralise the lasting economic damage. There is also a risk that existing structural changes will be implemented more quickly, which may have a positive effect in the medium term but could lead to additional burdens in the short term.

Compared with the 2008/2009 financial crisis, we expect the coronavirus crisis to have a much stronger impact on the Austrian economy. During the financial crisis, following a drop in GDP over five quarters, economic output in Austria fell to just under 95% of the baseline level. In our current forecast scenario, we expect economic performance to fall to a level up to 80% of baseline levels in just two quarters. However, we also expect the coronavirus crisis to recover much more rapidly, at least at the beginning, than during the financial crisis.

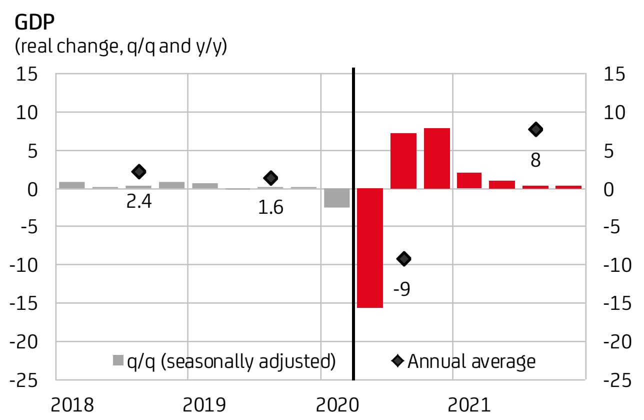
Industry impact

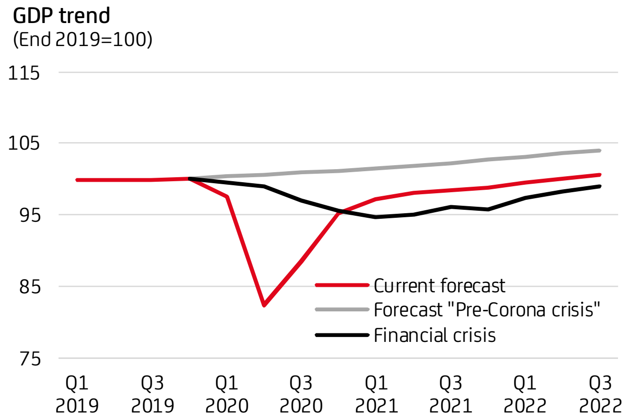
Nominal value added in 2020 expected to fall by around 10% — around EUR 36 billion

The impact of the coronavirus countermeasures at sector and industry level is essentially based on the assumption of a two-month "freeze" of public and therefore also economic life, followed by at least two "recovery months" with restricted activities. In particular, the accommodation and catering, personal service providers, cultural and sports event organisers and many retail sectors are being affected by a total shutdown in work during the lockdown. Beyond these sectors, activities have been and will be continued at least in part, depending on the sector. Those only barely affected by the crisis are food manufacturers, food retailers and all sectors that are more or less system-sustaining, such as health care, public administration or utilities. In addition, some sectors, particularly in the area of production, are expected to benefit from "catch-up effects" in the second half of 2020.

In line with the assumptions outlined above, in particular the gradual resumption of economic activity from May, we expect a decline in nominal economic performance of around 10%—around EUR 36 billion—in 2020, compared to a scenario without a pandemic.

V-SHAPED ECONOMIC TREND, BUT ECONOMIC PERFORMANCE REMAINS BELOW PRE-CRISIS LEVELS UNTIL MID-2022





Source: Statistik Austria, UniCredit Research

If the lockdown is extended by around one month, a decrease in value added of 14% must be factored in. By contrast, the loss of economic performance would remain in the 6% range if much of the economy resumed its original growth trajectory in May. Given the trends seen among Austria's important trading partners, this is an unlikely assumption for the time being. It should be noted that uncertainty surrounding the duration of the measures and the speed of the economic recovery remains considerable. The range of possible recovery scenarios is correspondingly high until the economy normalises, which may be the case by the fourth quarter of 2020.

Industry — facing considerable setbacks in parts

Industry has experienced more severe setbacks than during the 2009 financial crisis

Industrial production began to slow back in 2019 and fell by 0.2% for the overall year. In the first two months of 2020, the sector saw a slow recovery, a trend that ended abruptly with the imposition lockdown in the mid-March in response to the coronavirus pandemic. With restrictions in key supply and sales markets continuing at least into May, domestic industry is expected to experience more severe setback in 2020 than it did in 2009, when industrial production output fell by 13% and nominal value added by just under 8%.

Overall, the coronavirus crisis will have more of an impact on industry than on the economy as a whole. Compared to the baseline scenario, we expect industry value added to decline by 13% in nominal terms in 2020, equating to a loss in value added of around EUR 8.5 billion. In total, this is almost a quarter of the total loss in value added that Austria expects in 2020 (by comparison, industry contributes 19% to economic output).

At sector level, food manufacturers are also being affected by the lockdown, as can be seen from the sharp increase in the number of registered unemployed workers in March alone. That said, this sector does not have to fear a drop in demand for the overall year; nor does the pharmaceutical industry. By contrast, the production sectors that primarily produce consumer-dependent products—such as the textile and clothing sector, furniture manufacturers, and game and sports equipment manufacturers—are at risk of above-average losses. For one thing, these sectors have lost an important sales channel with the shutdown of retailers. For another, demand for durable consumer goods is expected to pick up slowly, hampered by job market uncertainties and loss of income across large sections of the population.

The downturn is likely to be less severe in investment-related industries or in sectors that directly or indirectly produce products for the construction industry. However, industries that are closely integrated into international supply chains and that export the bulk of their products will have to face greater setbacks. At present, the economic outlook for 2020 for key domestic industry export markets is in some cases considerably more bleak than at home. Car suppliers, the steel industry, parts of the metal/plastic goods manufacturing and electrotechnical product manufacturing sectors have been particularly affected.

Ultimately, the crisis is likely to have very different impacts on capital goods manufacturers, as shown, for example, by the results of a recent survey of companies in the fields of metal production, metal processing and mechanical engineering. According to the survey, most companies are reporting a significant decrease in capacity utilisation for April, although the proportions of those companies that are at a complete standstill, or whose production activities have not been affected, have remained roughly the same, each between 7% and 8%.

Construction remains relatively stable

With a loss in value added of 11%, or EUR 2.9 billion, the construction industry is still able to hold its own comparatively well

In 2019, the construction industry still recorded a 9% increase in revenue, with the industry's economy slowing down only slightly in the second half of the year. As the first data for 2020 shows, this sector benefited from stable orders and favourable weather conditions until the crisis broke out. Most recently, in March, companies assessed their business situation as similarly positive to the above-average growth recorded over the last three years. Equally positive signals came from the building materials industry, which in the first quarter still benefited from a high level of orders from the construction industry and the supply chains, which were predominantly national and functioning well.

The effect of site closures and the loss of foreign labour, expected to continue for some time, is being felt across all three construction segments. However, the more labour-intensive segments, structural engineering and construction, are expected to see more significant sales losses than civil engineering (some road and tunnel construction work was still being continued until the end of March). For example, commercial construction will suffer considerable setbacks in 2020, not just in the retail sector or in the tourism sector. In addition, a considerable reduction in residential construction must be expected, compared with the dynamism seen in previous years.

Overall, the outlook for the construction industry is comparatively favourable for 2020, depending on how long the lockdown ends up lasting. For 2020, we expect a loss in value added for the construction sector of 11%, or EUR 2.9 billion, compared to the baseline scenario.

Depending on sector, retail is further declining

Since mid-March, retail has been an economic sector that has been disproportionately affected by the coronavirus pandemic, as a result of forced business closures. Overall, we expect value added in the sector to fall by 12% in 2020 compared with the baseline scenario, which corresponds to a loss of EUR 5 billion.

Retail is disproportionately hard-hit by the coronavirus crisis

Back in March, companies' expectations for the next few months in the automotive and retail sectors were very high. In the motor vehicle trade, the balance of positive and negative assessments generated the lowest results seen since the survey began more than two decades ago. However, the division was already in crisis mode before the start of the lockdown, as illustrated by the massive drop in car registrations during the first quarter of more than 30%. Although catch-up effects can still be expected in the second half of 2020, the motor vehicle trade is expected to record a value added loss of at least 25% compared with the baseline scenario. The downturn for garages should be somewhat more moderate.

Reduced mobility as a result of the pandemic measures is at any rate reducing the demand for fuel. Moreover, fuel prices have sunk to a four-year low and sales at the petrol stations are falling accordingly, although the sector—which counts as essential—is not required to close its locations and is generating additional revenue through its outlets. Parts of the retail sector that have also been excluded from the lockdown measures as they sell products required for daily use—in particular food retailers, pharmacies and chemists—are being barely affected by the crisis. By contrast, traders who offer durable consumer goods and have had to close their businesses are, in some cases, expecting huge losses. If retailers are not able increase their trading presence online, they will not only lose the demand of local customers during the lockdown period; they will also lose a significant portion of tourist revenue later in the year.

The effects of the coronavirus crisis on wholesale, which contributes around half of value added for retail, are comparatively moderate, but also negative overall. We expect a decline in value added of around 10% in 2020, compared with the baseline scenario. The division at least has the advantage that many transactions are conducted without customer contact and that in most cases they have not suspended deliveries to industry, construction and food retailers. It is practically impossible to compensate for the considerable losses in the restaurant business.

Varying losses, from few to very high, in transportation and other business-related services

The coronavirus crisis is affecting the various sectors of the services industry very differently, and this is being reflected within individual sectors. In the transport sector, for example, only parcel delivery services will experience relatively little impact from the crisis. This division will benefit from flourishing online trade, however, losses in B2B business are not expected to be fully offset by B2C business. Not least, for many years the division has seen increased competition and price pressure, which has hampered the development of nominal sales.

Most sectors in the transport division seriously impacted; only parcel delivery services and ICT barely affected

In the field of IT and communication services, IT service providers, one of the fastest-growing service industries for many years, will be able to maintain this position in the current year. This is particularly true in light of increased demand for online or remote working infrastructures. At the same time, demand for the services of telecommunications operators is also growing.

By contrast, freight transport is expecting a much more severe negative impact in 2020 as a result of the coronavirus crisis, as indicated by companies' highly pessimistic business forecasts back in March. Further slowdown in the industrial and export economy over the course of 2020 will not only reduce demand for transport services, but also for other business services, such as employment agencies, building cleaning and security services. In these sectors, as for transport service providers, we do not expect to see significant catch-up effects. The heterogeneous professional and technical services sector will overall suffer demand losses that will only be recovered in some sectors, for instance the legal advisory or business consultancy sectors. We expect value added to decline by an average of 10% compared with the 2020 baseline scenario.

In 2020, the tourism sector suffered particularly severe setbacks, both as a result of authorities insisting on the closure of businesses during lockdown and the protracted loss of domestic and foreign demand. Moreover, after restrictions are lifted, demand is likely to recover only very slowly. In particular, travel budgets across large parts of the population have decreased considerably due to losses in income. Nevertheless, Austria's tourism industry—depending of course on the duration of the crisis—will likely still benefit from economic recovery in the 2020 summer season.

In the past, it has been proven that demand for far-flung holiday destinations declines in times of crisis. It is also expected that many major European tourism markets will be subject to restrictions as a result of coronavirus for longer than Austria. The industry can expect not only an increase in domestic tourists, but also of guests from neighbouring target markets, in particular Germany.

Tourism sector is hardest hit by the coronavirus crisis

Despite the fact that accommodation companies and the restaurant industry began 2020 with a very good occupancy rate, the division is expected to lose around 30% of its value added during the year overall, compared with the baseline scenario. This represents almost EUR 6 billion, or around 17%, of the total estimated economic losses.

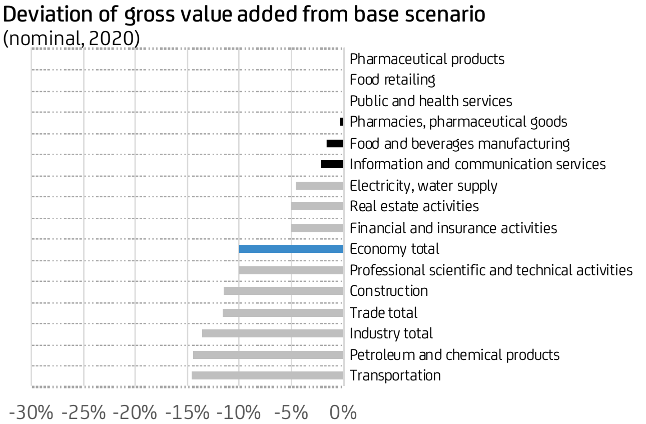
Limited possibilities for excursions and restricted travel have also resulted in turnover erosion for the passenger transport sector, which includes car rental companies, travel agencies and cultural and sports events organisers. As barely any catch-up effects to be expected to be seen in this area, depending on sector we expect nominal value added to decline by at least 25% to 40% in 2020, compared with the baseline scenario.

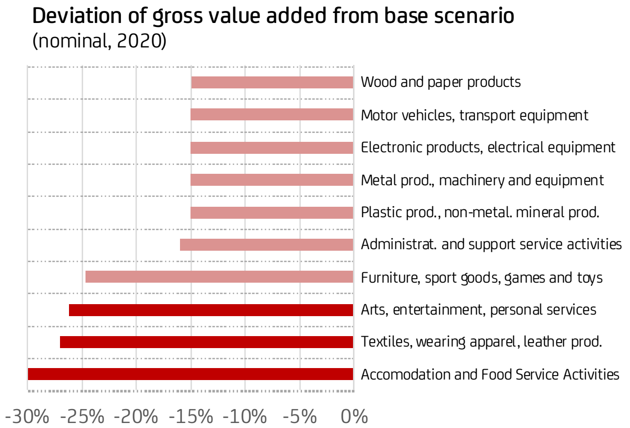
High forecast uncertainty

The uncertainty surrounding the national and international spread of COVID-19 and the effectiveness of the assistance measures in place has resulted in increased uncertainty in forecasting than during "normal times"

Under the current conditions, the outlook for economic trends is far more uncertain than it would be in "normal" times. Despite this great uncertainty, in particular regarding the further spread the coronavirus, our most likely scenario is based on a slow discontinuation of containment measures over the course of the second half of the year. The risks for our forecast are that the precise impact of the worldwide coronavirus pandemic, and the further development of countermeasures to combat it, are difficult to assess in a global context.

IMPACT OF THE 2020 LOCKDOWN ON INDIVIDUAL SECTORS





Source: Statistik Austria, UniCredit Research

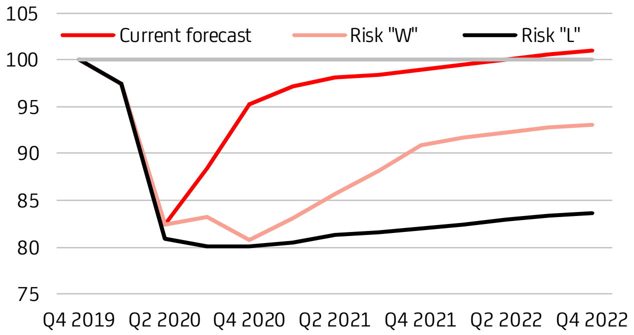
We are relatively optimistic about our main scenario, which predicts the start of a gradual, substantial easing of restrictions from the summer and a strong recovery, following the sharp decline in the first half of the year. However, an even more favourable economic trajectory, in the form of a steeper "V", could be conceivable if the lockdown in most European countries continues until mid-May and then restrictions are relaxed before the summer. In this case, economic output would "only" fall by 10% in the second quarter and would then recover fairly quickly, meaning that the Austrian economy would almost reach pre-crisis levels by the end of 2020. This would result in an average drop in GDP of less than 5% for the year, roughly the same as during the 2009 financial crisis.

We see the forecast risk of our main scenario tending more downwards

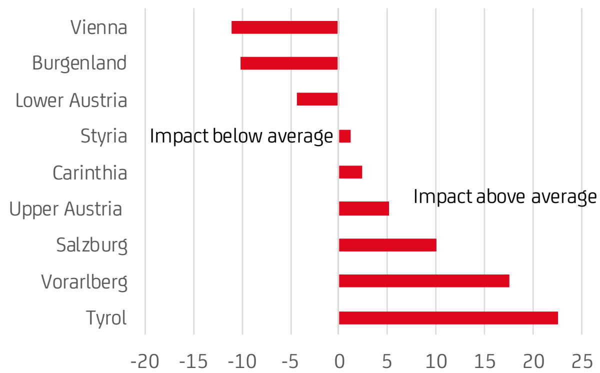
That said, we are more likely to see the risks trending downwards, which could lead to a W-shaped or even an L-shaped economic trend. If a second wave of the virus occurs during the summer following the easing of restrictions, with a corresponding increase in the number of cases, and a new set of restrictions needed to be introduced in the winter of 2020/21, it would take considerably longer than 2022 for the Austrian economy to return to 2019 levels. If the monetary and fiscal measures put in place do not succeed in encouraging business activities—in particular among small and medium-sized enterprises— and in reviving consumer demand, a decline in GDP of up to 15% is realistic in 2020, and the Austrian economy would continue to shrink during 2021. The recovery to the baseline level seen at the end of 2019 could take up to a decade.

"V", "W" OR "L"-SHAPED ECONOMIC TREND, IN ANY CASE ALL FEDERAL STATES WILL BE STRONGLY AFFECTED

Real GDP - risk scenarios
(Q4 2019=100)



Economic impact on the federal states
(Austria=100)



Source: Statistik Austria, UniCredit Research

The relatively small differences in the economic impact of the coronavirus crisis seen between the individual federal states are linked to the importance of tourism and the public sector in each respective state

All federal states are heavily affected

Measures to contain the spread of coronavirus will also have varying economic consequences in each of the Austrian federal states, depending on the prevailing industries. Generally speaking, all Austrian federal states have experienced a hugely negative impact as a result of the coronavirus crisis, with very little difference between them. However, there is a slight gap between the East and West of the country, with above-average effects seen in the tourist areas of Tyrol, Salzburg and Vorarlberg. By contrast, the Vienna administrative centre, Lower Austria and Burgenland are likely to see just below average effects.

Of all the Austrian federal states, Tyrol will most likely have to expect the strongest decline in its real economic performance for the overall year 2020. The high rate of tourism and a strong focus on foreign tourists will also lead to above-average economic losses in Salzburg and Vorarlberg, at a similar level as in Tyrol. The economy of Vorarlberg is also particularly badly affected by the interruption of global value chains, due to its high levels of industry. The industrial centres in Upper Austria and Styria are also suffering from this supply-driven disruption to the economy. Nevertheless, we estimate that these two states are likely to see only an average impact from the coronavirus crisis, in particular as tourism is of much less importance for the economy as a whole and is also primarily geared towards domestic tourists. In Lower Austria and in particular in Vienna, the tourism sector—which has been particularly hard hit—also plays a much smaller role in value added. Public services occupy a strong position, particularly in the capital Vienna but also in Burgenland. As a result, of all the federal states, Vienna is expected to suffer the lowest economic losses as a result of the coronavirus crisis. However, we estimate that the decline in economic performance in 2020 will also be severe in Vienna.

Coronavirus crisis puts an abrupt stop to improvements in the Austrian job market

- In 2019, the rate of unemployment fell to an average of 7.4% (national method) or 4.5% (Eurostat). At the same time, the upwards trend in the job market slowed; the average employment growth of 1.5% in 2019 was significantly lower than in 2018 (2.4%)
- Good weather led to more favourable job market data at the turn of 2019/20. However, since March the coronavirus crisis has had a negative impact on the Austrian job market
- The unemployment rate will rise to over 13% during the course of the year, reaching an annual average in excess of 10%
- Focus: Record unemployment in March 2020

2019 saw the unemployment rate fall for the third year in a row

Economic slowdown decelerated employment growth in 2019 to an annual average of 1.5%

Fewer new jobs were created in 2019, especially in the industrial and services sectors

The favourable economic situation in 2019 enabled the Austrian job market to continue to develop positively. The number of non-self-employed workers increased by 1.5% on average during the year. This represents an increase of almost 60,000 people in the past year, to almost 3.8 million. However, compared with 2018, this positive momentum has slowed down considerably. This is primarily due to employment trends seen in the manufacturing sector. Following growth of more than 3% in the previous two years, employment growth in the sector has steadily slowed, reaching an annual average of 1.6%, as a result of the slowdown in global trade and a slight recession in domestic industry. Employment growth was also significantly lower in the services sector, up 1.4% compared with 2.2% in 2018. By contrast, employment dynamics in the primary sector remained strong at almost 2% and even increased to 3.8% year-on-year in construction sector.

The fall in unemployment rate in 2019 was also lower than in previous years

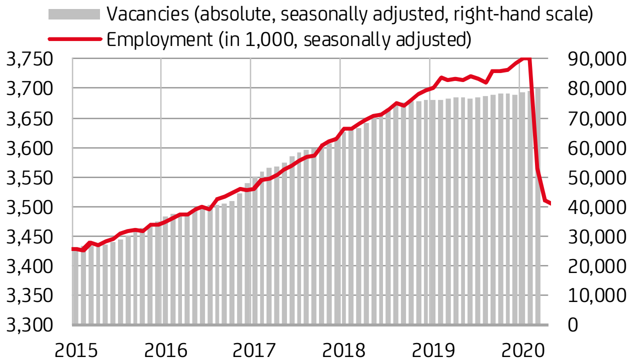
The unemployment rate continued to decline, bolstered by strong year-on-year employment growth. The average unemployment rate for 2019 fell to 7.4% according to the national method (2018: 7.7%) or 4.5% according to Eurostat calculation (2018: 4.9%). Thus, despite the drop in recent years, the rate of unemployment was still above the level before the onset of the financial crisis.

Good weather and successful tourism once again reduced the seasonally adjusted unemployment rate in winter

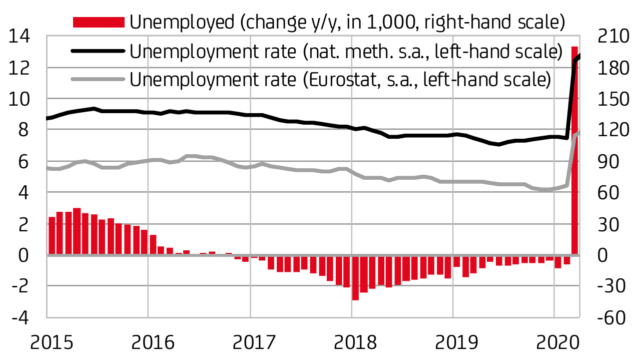
The slowdown in the economy was expected to put an end to the improvement trends in the domestic job market over the course of 2019. Following the downturn at the beginning of 2019, the seasonally adjusted unemployment rate subsequently stagnated at 7.4%. However, by the end of the year we saw continuous improvements in contrast to the economic trend. This was mainly due to the good weather conditions. The mild winter caused high capacity utilisation in the construction industry, and as a result there was very low seasonal unemployment. The tourism season was also very successful.

THE UPWARDS TREND IN THE JOB MARKET ENDED ABRUPTLY WITH THE START OF THE CORONAVIRUS CRISIS IN MARCH 2020

Employment and vacancies



Unemployed



Source: Statistik Austria, Eurostat, UniCredit Research

The coronavirus crisis has resulted in a sharp rise in unemployment

Following a favourable start to the year, the unemployment rate in Austria will increase sharply in 2020 as a result of the coronavirus crisis

The positive development of the Austrian job market abruptly ended in the middle of March. Measures to curb the spread of the coronavirus and the economic consequences led in March to the sharpest increase in unemployment in Austria's history. Within a month, the number of unemployed rose by more than 50% to over 500,000. This corresponds to an increase of as much as 65% year-on-year. At the end of March, the unemployment rate soared to 12.3% (national method), while employment fell by almost 150,000, or 4%, compared with the previous year. Without the possibility of registering short-time working, the effect would have been much greater. By the end of March, around 25,000 companies applied for short-time working for around 250,000 employees. More than 870,000 applications have been filed to date. In 2009, during the financial crisis, just over 60,000 people were engaged in short-time working.

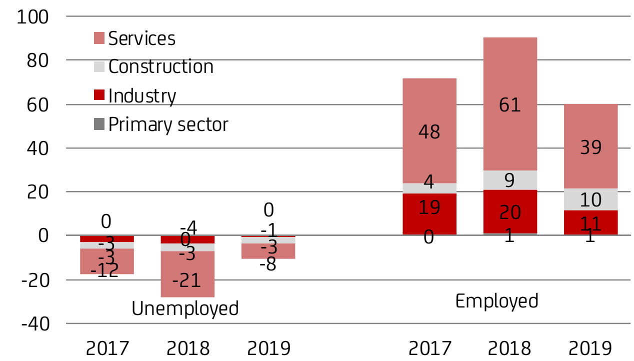
The unemployment rate is expected to rise to over 13% in the coming months. It is only through the gradual easing of measures to curb the spread of coronavirus that we can expect the Austrian job market to level out once again. We forecast that initial improvements will become apparent in the summer. The flexible short-time working model and other assistance measures, including those aimed at maintaining the liquidity of companies and ensuring the survival of sole traders, should prove to be beneficial. That said, unemployment will still be significantly higher by the end of the year than it was at the beginning of the year. On average for 2020, we expect the unemployment rate to be almost 11%, or 6.6% according to the Eurostat method.

The expected economic bounce-back following COVID-19 should once again reduce unemployment in 2021

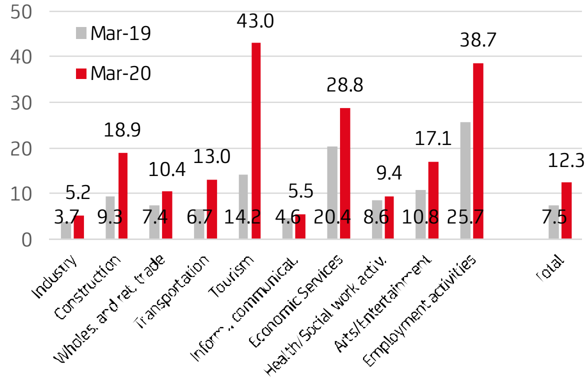
For the year 2021, we expect significant improvements to the situation on the Austrian job market as a result of an economic bounce-back effect as the coronavirus crisis comes to an end. However, at an average of 8.0%, or 4.9% according to Eurostat, the unemployment rate will not reach pre-crisis levels for some time.

REDUCED EMPLOYMENT GROWTH AND REDUCED UNEMPLOYMENT IN 2019

Short-term employment trends
(change y/y, in 1,000)



Unemployment rate of selected industries



Source: Statistik Austria, Eurostat, UniCredit Research

Record unemployment in March 2020: considerable industry differences

The lockdown and initial lack of exit strategy meant that unemployment increased at a record pace in March. The seasonally adjusted unemployment rate rose from 7.5% to 12.3% in March 2020, compared with the same month of the previous year. Unemployment rate trends not only provide an insight into the macroeconomic effects of the abrupt interruption to economic activity in Austria resulting from the lockdown; it also, in particular, paints an initial picture of the actual impact on individual economic sectors.

While industry, for example, has been relatively mildly affected with an increase in unemployment rate from 3.7% in March 2019 to 5.2% in March 2020, the construction industry, which has seen its unemployment rate double in this period from 9.3% to 18.9%, has been especially badly affected. Unemployment has increased sharply, in particular in some service sectors which have been affected by government-mandated business shutdowns. In the accommodation and restaurant sector, the unemployment rate has tripled to over 40%, while this has doubled among transport service providers and other service providers. The health, public administration, financial and IT and communication services sectors have shown below-average increases. The rise in the unemployment rate among temporary agency workers was also clearly below average at around 50% year-on-year. However, at 40% the unemployment rate is now the highest of all sectors, excepting tourism.

The varying degrees to which the individual sectors are impacted is reflected in unemployment rate trends in the federal states, depending on the predominant industries. The highest unemployment rate in all federal states, at 16.7% in March 2020, continues to be in the federal capital, Vienna. The sharpest rise, however, was seen in the popular tourist destination of Tyrol, with an almost threefold increase to more than 12%. Despite an increase of more than 70% year-on-year, at 8.2% Upper Austria has the lowest unemployment rate of all Austrian federal states.

Lower oil prices and the coronavirus crisis are causing inflation in Austria to decline in 2020

- Following a rate of 2.0% in 2018, inflation slowed to an average of 1.5% in 2019
- The more moderate oil price dampened inflation, particularly in the second half of 2019
- Significant increase in inflation at the beginning of 2020, but the drop in oil price and fall in demand will significantly reduce inflation over the course of the year
- We expect an average inflation rate of 0.9% in 2020. The economic bounce-back will see inflation rise to 1.9% in 2021
- Additional liquidity measures from the ECB for crisis management and unchanged zero interest rate policy
- Focus: The effects of the coronavirus crisis on inflation

Inflation fell in 2019 despite strong consumer demand

In 2019, inflation fell to 1.5% year-on-year

Housing and hospitality services drove inflation, the price of oil declined

For two years in a row, with values around or above the 2% mark, consumer price inflation fell in 2019 to an annual average of just 1.5%. This was mainly due to a relief from oil prices, which having seen an increase of around 25% in 2018, fell in 2019 by more than 5% year-on-year in terms of euro. The effect on inflation was much more pronounced in the second half of the year, when in October and November inflation reached its lowest level of the year, at 1.1%. A stronger reduction in the annual average was prevented, on the one hand, by a short-term rise in oil price just before the end of the year, and on the other by continued strong consumer demand, which was reflected in an above-average increase of 2.0% in service prices. As in previous years, rents and prices in the tourism sector proved to be particularly strong price drivers. In 2019, the communications sector was the only relative and absolute price damper category (see graphics below).

Inflation started significantly higher in 2020

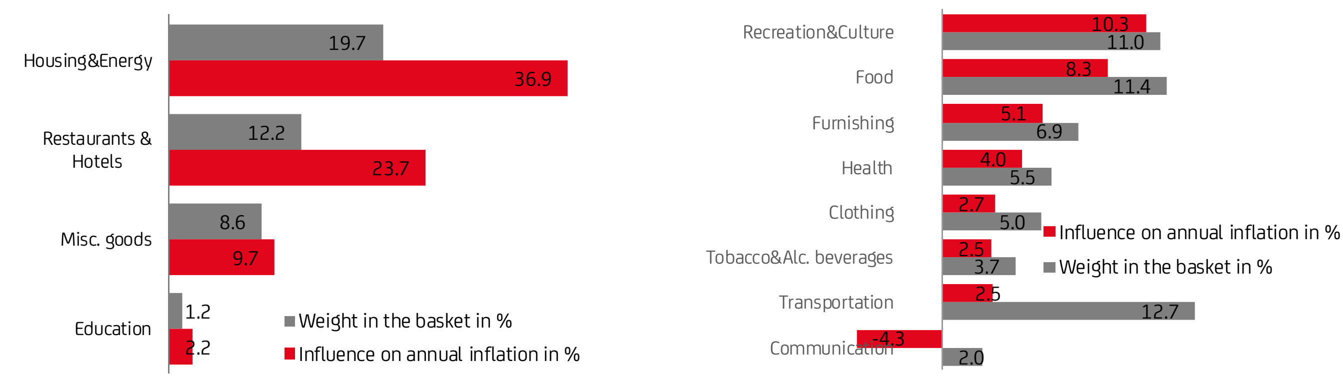
Low oil prices and a demand shortfall resulting from the coronavirus crisis will reduce inflation to an average of 0.9% in 2020

As a result of the short-term rise in oil prices around the end of 2019/beginning of 2020, the start of the year saw inflation climb above the 2% mark for the first time in just over a year. From the end of January 2020, the uncertainty surrounding the spread of COVID-19 in China and subsequent production losses has caused oil prices to fall once again. The continued spread of the coronavirus and the resulting weaker demand will keep the oil price low. On average for the year, we expect a value of around EUR 36 per barrel. The fall in euro oil prices compared with 2019 should result in a noticeable decrease in inflation over the coming months.

On average for the year, we expect an increase in inflation of 0.9% for 2020. Once the measures that restrict public life are lifted, consumer demand will start to grow. However,

INFLATION IN 2019 DRIVEN BY HOUSING, ENERGY AND HOSPITALITY SERVICES

Inflation drivers 2019 | (Relative) Inflation dampers 2019



Source: Statistik Austria, UniCredit Research

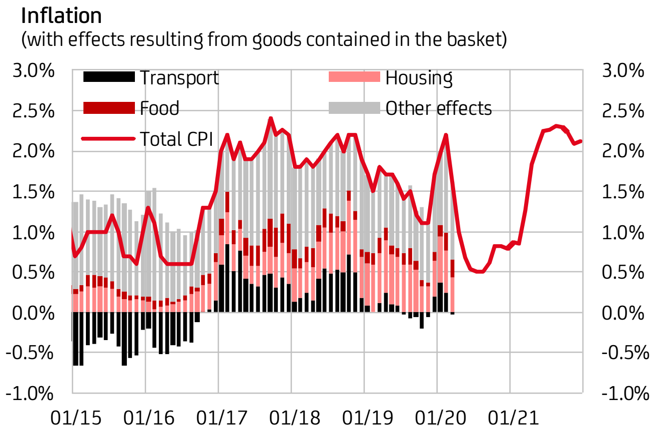
these measures are expected to be eased only gradually, meaning that demand will still not be able to be fully realised. Continuing economic uncertainty and increasing concerns around workplaces will also curb demand. As a result, although demand will exert greater pressure on higher prices in 2021 and commodity prices will also pick up slightly, we estimate that inflation will remain moderate at just under 2% on average for the year.

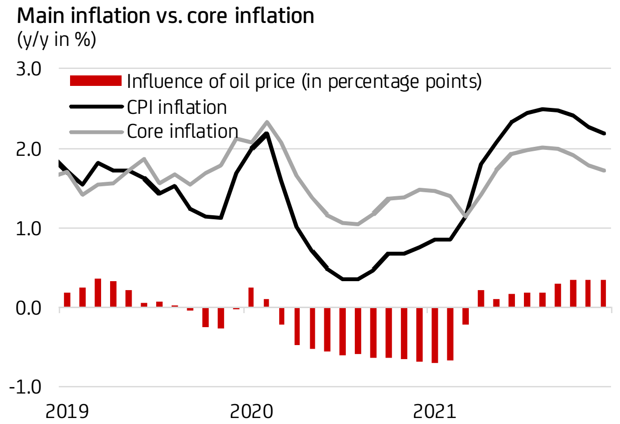
The ECB is launching extensive liquidity measures

In mid-March, the new leadership of the European Central Bank, led by President Christine Lagarde, reacted quickly to the start of the coronavirus crisis in Europe in order to ensure the continued functioning of the markets. While key interest rates in the eurozone remain 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. The auction in March provided banks with a volume of EUR 115 billion over three years. Moreover, the ECB provides sufficient liquidity in US dollars via currency swap lines, which now take place on a daily basis. In particular, the ECB has launched a new emergency bond-buying programme (PEPP — Pandemic Emergency Purchase Programme) worth EUR 750 billion, alongside the current securities purchase programme. As part of the programme, the ECB will purchase on average more than EUR 100 billion in assets per month until the end of 2020. In addition, by lifting the restriction on the purchase of securities to a maximum of 33% of a country's bonds, the ECB is sending a strong signal that it will continue to operate as a last-resort buyer in the market as long as is necessary to keep interest rates low and maintain low interest rate spreads across the eurozone. In this way, the ECB has provided affected countries with a certain amount of leeway during the coronavirus crisis.

The ECB has agreed additional securities purchase programme and relaxation of regulations

LOW INFLATION EXPECTATIONS IN 2020 DRIVEN MAINLY BY THE OIL PRICE





Source: Refinitiv Datastream, Statistik Austria, Eurostat, UniCredit Research

Despite the demand effects of the coronavirus crisis, we estimate that the oil price will be the driving factor for inflation in 2020

The effects of the coronavirus crisis on inflation

The lockdown and the gradual revival of the Austrian economy will have a significant impact on the development of inflation over the coming months. The lockdown will severely restrict private consumption, and demand for goods and services in many industries will decline sharply. This applies to the sectors identified in our industry analysis that are particularly affected by the lockdown, such as tourism and restaurant businesses, leisure and cultural services and transport services, but also large sections of the retail sector (clothing, equipment, electrical markets). These divisions together account for around two thirds of the Austrian basket of goods for calculating inflation. Other sectors, such as food, housing, communications and healthcare have experienced no, or a very slight, decline in demand. These areas have a weighting of around one third in the inflation basket. Some of these sectors are even likely to see increased demand over the coming months, which could also be reflected in price increases. Overall, however, changes in demand are expected to have a dampening effect on inflation in 2020.

However, the rapid fall in the price of crude oil will have a particularly strong influence on the inflation trend in the months to come. The global drop in demand for oil triggered a rapid downturn, especially as, at least initially, oil-producing countries could not agree on a supply reduction. The price even fell to a 20-year low. Although the oil price has since increased somewhat, we expect the oil price to remain low due to a combination of reduced demand and large stockpiles. Compared to the 2019 average of EUR 57 per barrel, we expect a drop to an average of EUR 35 in 2020. According to our calculations, the drop in oil prices of around 40% reduces inflation on average for 2020 by approximately 0.4 percentage points, compared with the previous year. The price of oil alone therefore accounts for almost three-quarters of our reduced inflation forecast compared with 2019, making it, by our estimates, the decisive factor influencing inflation in 2020, despite the effects that the coronavirus crisis are also having on consumer demand.

Fiscal policy in the fight against the coronavirus crisis

- Thanks to good revenue trends and low interest rates, budget surplus rose to 0.7% of GDP in 2019
- Government package of measures to cushion the impact of the coronavirus crisis amounts to EUR 38 billion, or 10% of GDP
- A high budget deficit of almost 10% of GDP likely for 2020. Increased budget deficit to be expected in the following years
- Following a four-year downwards trend, public debt will rise sharply in 2020
- Focus: Not only Austria is at home (an international comparison of economic stimulus packages)

The economy and low interest rates contributed to the second consecutive budget surplus in 2019

Following an initial budget surplus in 2018, the financial year 2019 actually ended with a 0.7% increase of GDP

2019 again saw a surplus in the general government budget, which at EUR 2.9 billion, or 0.7% of GDP, was slightly higher than in 2018. A disciplined spending policy bolstered by low interest rates, which enabled borrowing at lower refinancing costs, coupled with positive revenue trends as part of an ongoing favourable economic environment characterised by a robust job market, resulted in a slight cash surplus in all subsectors — and as a result in the federal government, for the first time.

Measures against the coronavirus crisis result in a high budget deficit and a rise in debt

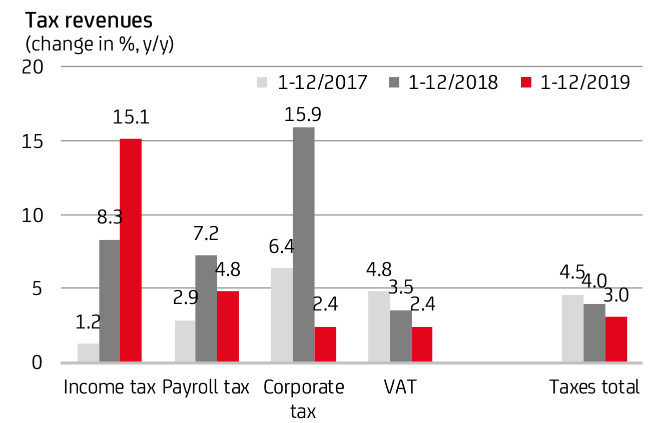
Elections in the autumn of 2019 and the formation of government in January 2020 meant that parliament was not able to approve a draft budget for 2020 in time. For this reason, budget execution in Austria has been based on a provisional budget since the start of the year. The Ministry of Finance presented a draft budget for 2020 in mid-March, which allowed for a general government deficit of 1% of GDP. However, before this budget could be submitted to parliament as planned in April, the outbreak of the coronavirus required a number of emergency fiscal measures to be put in place. In order to maintain the greatest possible flexibility in controlling the economic impact, the provisional budget will be used for the time being.

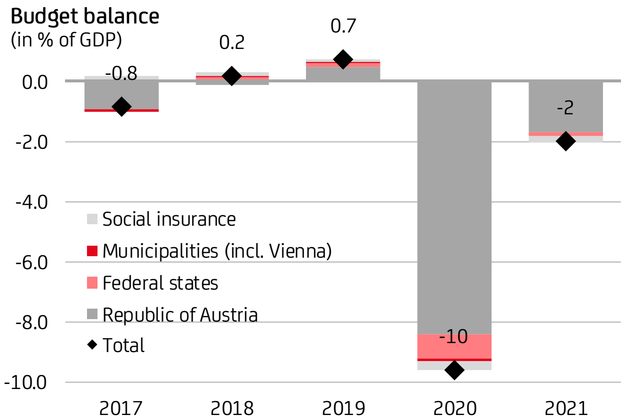
For the time being, budgetary management in 2020 will continue on the basis of a provisional budget

So far, the government has set an amount of EUR 38 billion as a framework for fiscal measures, as well as federal government guarantees and liabilities. This corresponds to around 10% of GDP. Not all of these measures will be directly represented in the budget. We expect a budget deficit of around 35 billion for 2020, approximately half of which can be attributed to the fiscal measures adopted, while the other half is the result of reduced revenues compared with the previous year. At 9.6% of GDP, the budget deficit will also lead to a marked increase in Austria's overall debt. After seeing a steady decline in liabilities in relation to Austria's economic output—at just 70.4% of GDP at the end of 2019—over the past four years, public debt is expected to rise to over 85% of GDP in 2020.

A large budget deficit to cushion the effects of the coronavirus crisis is driving up national debt in 2020 significantly

A STRONG ECONOMY AND ROBUST JOB MARKET LED TO A 3% INCREASE IN REVENUE IN 2019 COMPARED WITH THE PREVIOUS YEAR



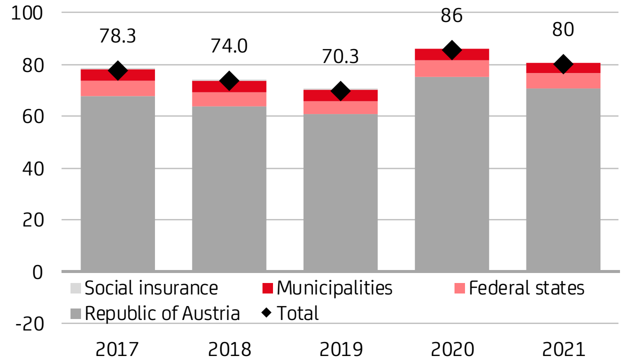


Source: Statistik Austria, Eurostat, UniCredit Research

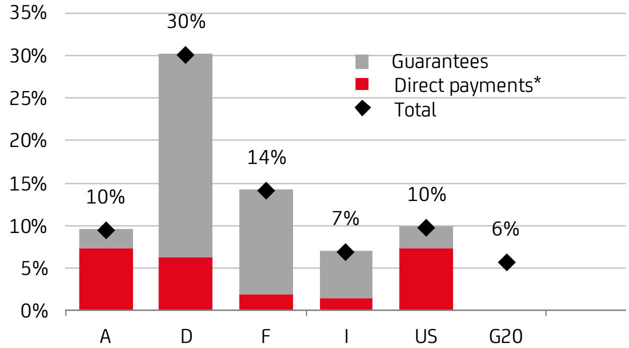
As a result, the Austrian figures for 2020 do not correspond to the EU's budget and debt rules. However, the Commission has already proposed that the exemption clause to the financial management rules should be activated in light of the pandemic. This still requires the approval of the EU finance ministers, which is to be expected as conditions are currently the same for all countries.

STRONG INCREASE IN TOTAL DEBT AS A RESULT OF FISCAL MEASURES TO MITIGATE THE CORONAVIRUS CRISIS

Public debt
(in % of GDP)



Overview of previously announced measures
(in % of GDP of 2019)



*including also tax deferrals and tax discounts

Source: BMF, Statistik Austria, Eurostat, UniCredit Research

The EUR 38 billion package corresponds to around EUR 4300 per Austrian

The Austrian coronavirus package by international comparison

As well as the central banks, when the crisis began national governments also took drastic measures to cushion the economic consequences. The Austrian government has launched a package of measures totalling EUR 38 billion, around 10% of GDP. Of this amount, EUR 28 billion will be processed through the newly created COVID-19 crisis management fund. At its core, it contains emergency aid measures in the coronavirus relief fund amounting to more than EUR 10 billion. These measures are intended to provide liquidity to affected companies in the form of loans and non-repayable grants. In addition, up to EUR 5 billion is earmarked to finance the new short-time working model. Up to EUR 2 billion is dedicated to the hardship fund, which provides compensation to microenterprises and sole traders for lost income as a result of the coronavirus crisis. The remainder is available for federal government guarantees and liabilities for operating loans of affected companies. EUR 10 billion is also earmarked for tax and duties levies.

With a volume of around 10% of GDP, the Austrian package of measures is on a par with measures taken by other European countries. Generally speaking, all countries have put together a package consisting partially of direct fiscal aid, as well as liabilities and guarantees. The individual composition between them is quite different. While in Austria the share of guarantees in the overall package is just under 25%, in France almost 90% of the total amount of EUR 354 billion (14% of GDP) is earmarked for guarantees. In Italy, 80% of the package and therefore 7% of GDP, or EUR 125 billion, is being used for guarantees. Emergency measures are considerably larger in Germany, where a total volume of 30% of GDP is being rolled out. However, around three quarters of this is earmarked for guarantees. At just under 6% of GDP, the amount for direct fiscal measures is lower than that of Austria.

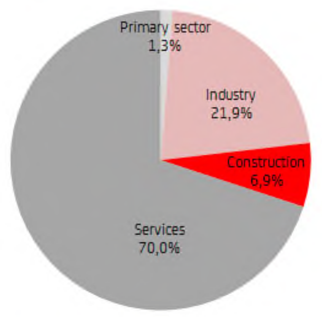
Austria at a glance

Structural indicators	*2019*	
Area (in km²)	83,879	
Population (in mn)	8.838	
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)	398.7	
GDP per capita (in EUR)	44917	
GDP per employee (in EUR)	87797	
GDP per capita (in % of EU27 average, PPS)	128.0	
Gross domestic product (real change against previous year in %)	1.6	1.9 (Ø 2015-2019)
Workforce (in 1,000)	4098.6	
Employed (in 1,000)	3797.3	3663 (Ø 2015-2019)
Employment rate (in %)	43.0	
Number of unemployed (in 1,000)	301.3	333 (Ø 2015-2019)
Vacancy rate (in %)	1.9	
Monthly average income (gross, in EUR)	3696.5	

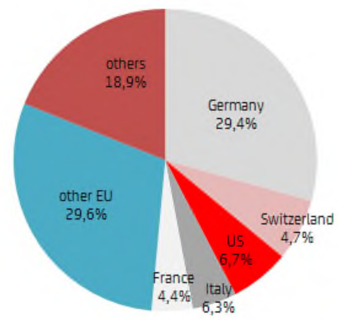
International competitiveness	*Ranking*	*Trend*
IMD-World Competitiveness Index	19	
IMD Economic Performance	20	
IMD Government Efficiency	28	
IMD Business Efficiency	17	
IMD Infrastructure	11	
WEF Global Competitiveness Index	21	
WEF Inclusive Development Index	10	
Transparency International Corruption Perceptions Index	12	
European Innovation Scoreboard	9	

Research&Development Ratio (R&D-expenses in % of GDP)	3.2		
Investment ratio (Investments in % of GDP)	24.3		
Tax and levies ratio (Tax and levies in % of GDP)	42.8		
Merchandise exports (in EUR bn)	153.8	3.8	(Ø 2015-2019)
Export ratio (in % of GDP)	38.6	38.1	(Ø 2015-2019)
Merchandise imports (in EUR bn)	158.0	4.0	(Ø 2015-2019)
Import ratio (in % of GDP)	39.6	39.3	(Ø 2015-2019)
Foreign direct investment (outward, in EUR bn)	6.2	7.0	(Ø 2015-2019)
Foreign dircet investment (outward, in % of GDP)	1.5		
Foreign direct investment (inward, in EUR bn)	0.9	4.0	(Ø 2015-2019)
Foreign direct investment (inward, in % of GDP)	0.2		

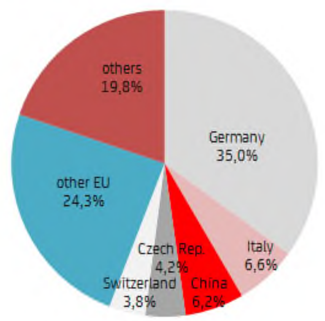
GDP by sectors 2019



Export markets 2019



Import markets 2019



Federal states 2018	*Area (in km²)*	*GDP (real, yoy in %)*	*(Ø 2014-2018)*	*GDP/capita (in EUR)*	*GDP (in % of Austria)*	*Unemploy-ment rate in %*
Burgenland	3,962	1.5	1.6	30,741	2.3	7.7
Carinthia	9,538	4.0	1.5	37,237	5.4	9.2
Lower Austria	19,186	3.4	1.8	36,460	15.8	7.8
Upper Austria	11,980	2.6	1.7	44,561	17.1	5.0
Salzburg	7,156	2.3	2.0	52,434	7.5	6.3
Styria	16,401	2.9	1.9	39,964	12.9	5.0
Tyrol	12,640	2.0	1.7	46,092	9.0	4.9
Vorarlberg	2,601	2.4	2.2	48,539	4.9	5.4
Vienna	415	2.2	1.3	50,956	25.0	12.3

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

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