Focus Austria

Bank Austria
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OCTOBER 2023

Review and Outlook 2023/2024

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International environment

	2021	2022	Forecast 2023	2024
(GDP, change in %)				
Eurozone	5.6	3.3	0.5	0.6
Germany	3.2	1.8	-0.6	0.4
France	6.4	2.5	0.9	1.0
Italy	8.3	3.7	0.8	0.8
Spain	6.4	5.8	2.6	1.4
UK	8.7	4.3	0.3	-0.1
USA	5.8	1.9	2.0	0.1
Japan	1.8	1.3	1.8	0.8

	2019	2020	2021	2022
(annual average)				
USD per euro	1,12	1,14	1,18	1,05
CHF per euro	1,11	1,07	1,08	1,01
GBP per euro	0,88	0,89	0,86	0,85
JPY per euro	122,1	121,8	129,7	138,0
Oil (USD/barrel)	64	43	71	99
10y Gov. bond (A)	0,05	-0,28	-0,27	1,61
3m Euribor	-0,36	-0,42	-0,55	0,34

Source: UniCredit Research

Growth prospects slowly improving, but patience is needed

	2021	2022	Rev.[1]	2023	Rev.[1]	2024	Rev.[1]
GDP (real, change in %)	4.2	4.8	↘	0.1	↘	0.9	↘
Inflation (CPI, in %)	2.8	8.6		7.8	↗	3.6	↗
Unemployment rate (in %)	8.0	6.3		6.4		6.4	↗

1) Revision since last report

- **Austria's economy weakened in the first half of 2023 - economic slump still persists**

  The Austrian economy grew by only 0.2 percent year-on-year in the first half of 2023. This slight plus resulted thanks to a statistical overhang, while after a plus at the beginning of the year, a significant minus in GDP had to be recorded in the second quarter compared to the previous quarter. Declining demand from abroad and at home led to a recession in the manufacturing sector, which towards the middle of the year increasingly spread to the services sector, which had initially benefited from catch-up effects from the pandemic, but was dampened due to the effects of inflation on real wage development and consumer sentiment.

- **Stagnation until the turn of the year 2023/24 - moderate recovery expected from 2024 based on consumption**

  The current indicators point to a continuation of the weak economic development at least until the end of 2023, even if no collapse is to be expected. We remain optimistic that an improvement in the framework conditions will have a positive impact on economic momentum in 2024 due to a decline in inflation. However, declining catch-up effects, the increase in the cost of credit and the high level of uncertainty with regard to geopolitical challenges, among other things, will only contribute to a change in sentiment in the domestic economy with a delay. Thus, the pace of recovery will remain manageable in 2024. After stagnation in 2023, we expect only a slight pick-up in economic growth to 0.9 percent in 2024.

- **Unemployment rate fell to 6.4 percent in 1H 2023 - upward trend since spring, but only moderate increase expected overall**

  The average unemployment rate for the first six months was 6.4 percent (1-6/2022: 6.5 percent). Since spring, however, there has been a slight upward trend, starting from only 6.2 percent at the turn of the year. Even if hopes for a revival of the Austrian economy around the turn of the year 2023/24 are fulfilled, the upward trend will only reverse with a delay. We expect the unemployment rate to remain at this level in 2024 after averaging 6.4 percent in 2023.

- **Second-round effects slowed energy price-driven inflation decline in 1H23 - slowdown continues**

  The decline in inflation from over 11 percent at the beginning of the year to 6.1 percent in September should continue in the autumn. Inflation is expected to slow to below 5 percent by the end of the year. For 2023 as a whole, we expect average inflation of 7.8 percent. In view of the loss of support from energy price developments and the high wage momentum with real increases, the further decline in inflation will be slower in 2024. We expect inflation to average 3.6 percent, which will remain clearly above the ECB target.

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as of October 2023.

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- **Interest rate peak should be reached - easing of monetary policy in the euro area expected in the second half of 2024**
  The ECB raised the refinancing rate to 4.50 percent and the deposit rate to 4.00 percent with effect from 20 September 2023. We assume that the interest rate ceiling has thus been reached. With the continuing easing of inflation, the beginning of an interest rate reduction cycle can be expected in the euro area from the second half of 2024.

- **Fiscal policy has switched to inflation compensation - budget policy more cautious**
  The relatively favorable budget development in the first half of the year, considering the general conditions, leads us to expect a renewed decline in new debt in 2023. We expect a budget deficit of 2.8 percent of GDP. For 2024, we consider a further reduction of the budget deficit to around 1.8 percent of GDP likely. The reduction in new debt, in combination with the high nominal GDP growth due to inflation, will have a positive impact on the development of total debt. We expect the debt ratio to improve to 75 percent at the end of 2024.

- **Interest rate hike dampened loan demand, weak economy dampened deposit growth - headwinds persist**
  Loan growth was dampened to around 4 percent year-on-year in the first half of 2023 by the weak economy and tighter monetary policy, with demand for housing finance in particular falling very sharply. Despite higher interest rates, deposit growth declined to only one percent in the first half of 2023. The weak economy and the unchanged restrictive monetary policy will continue to shape the development of financing and deposits. With declining new business, a further slowdown in loan growth is to be expected and deposits are also unlikely

Economic situation at a glance

	2016	2017	2018	2019	2020	2021	2022	2023 (forecast UCBA)	2024 (forecast UCBA)
Real change in %									
GDP	**2.0**	**2.3**	**2.4**	**1.5**	**-6.6**	**4.2**	**4.8**	**0.1**	**0.9**
Private consumption	1.5	2.0	1.1	0.5	-8.5	4.2	5.7	0.2	0.7
Public consumption	1.8	0.8	1.3	1.3	-0.4	7.5	0.0	0.4	1.0
Gross fixed capital formation*)	4.3	4.2	4.4	4.5	-5.5	6.1	0.1	-2.4	0.2
Investments in plant and machinery	9.5	7.4	1.2	1.7	-8.5	7.9	-0.4	1.0	1.5
Investments in construction	0.3	2.7	5.6	3.6	-3.6	1.8	-2.0	-3.5	-3.0
Exports	3.0	4.9	5.2	4.1	-10.6	9.1	11.2	5.0	3.3
Imports	3.7	5.3	5.3	2.2	-10.0	14.3	7.9	0.3	3.1
CPI (change in %)	**0.9**	**2.1**	**2.0**	**1.5**	**1.4**	**2.8**	**8.6**	**7.8**	**3.6**
HCPI (change in %)	1.0	2.2	2.1	1.5	1.4	2.8	8.6	7.6	3.5
Saving ratio (in %)	**7.8**	**7.5**	**7.7**	**8.6**	**13.3**	**12.0**	**8.5**	**8.0**	**8.6**
Current account (in euro bn)	9.7	5.1	3.5	9.5	11.3	1.4	3.1	9.0	9.0
Current account (in % of GDP)	2.7	1.4	0.9	2.4	3.0	0.4	0.7	1.9	1.8
Employment (in 1,000)**)	3,502	3,573	3,661	3,720	3,644	3,734	3,845	3,887	3,922
Employment (change in %) **)	1.6	2.0	2.5	1.6	-2.0	2.5	3.0	1.1	0.9
Unemployment rate (nat. def.)	**9.1**	**8.5**	**7.7**	**7.4**	**9.9**	**8.0**	**6.3**	**6.4**	**6.4**
Unemployment rate (EU def.)	6.5	5.9	5.2	4.8	6.0	6.2	4.8	5.0	5.0
Unemployed (annual average in 1,000)	357	340	312	301	410	332	263	272	272
General gov. balance (in % of GDP)	**-1.5**	**-0.8**	**0.2**	**0.6**	**-8.0**	**-5.8**	**-3.5**	**-2.8**	**-1.8**
Public-sector debt (in % of GDP)	82.8	78.5	74.1	70.6	83.0	82.5	78.4	76.3	75.0
Nominal GDP (in euro bn)	358	369	385	397	381	405.2	447.2	477.2	497.9

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

Source: Statistik Austria, OeNB, UniCredit Research

Stubborn economic stagnation

- Continued stagnation of the Austrian economy after highest GDP increase since 1974 of 4.8 percent in 2022
- Economic output still rose by 0.2 percent in the first half of 2023 thanks to statistical overhang
- High inflation and monetary policy response dampened consumption and investment
- Subdued global demand slowed down export dynamics, but falling commodity prices strongly reduced imports, so that foreign trade has positively supported economic development in Austria so far.
- Prospect of recovery only in 2024: Growth forecast lowered to 0.1 percent in 2023 and only moderate GDP growth in sight in 2024 at 0.9 percent
- In focus: challenges for the construction industry increase

Weak demand in industry and construction spreads to services in 2023

Economic growth of 4.8 percent in 2022 despite recession in second half of year

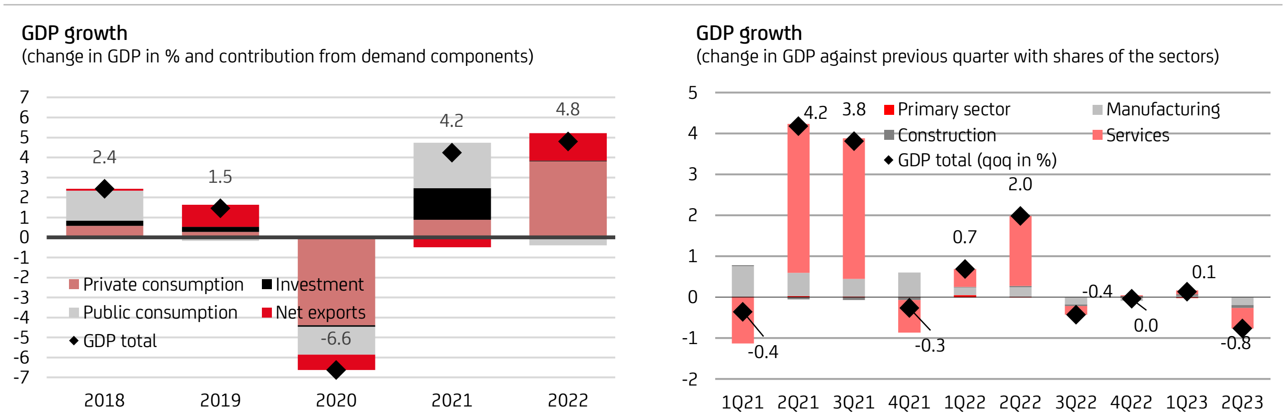
The waning of the Corona pandemic allowed consumption and investment to strengthen in the first half of 2022, resulting in strong economic growth in Austria despite the growing challenges posed by the war in Ukraine. In the second half of the year, however, the consequences of rising commodity prices, which were passed on to consumer prices, became increasingly noticeable and the economy fell back into stagnation. Nevertheless, GDP still increased by 4.8 percent in 2022 as a whole.

Weak economy in first half of 2023 reduces GDP growth to 0.2 percent yoy

After an improvement in economic sentiment at the beginning of the year, economic concerns increased significantly in the Austrian economy in view of persistent inflation, and sentiment clouded over in industry and construction. The service sector was able to compensate for the negative development in the production sector thanks to catch-up effects, above all in tourism and in the leisure industry, and in the first quarter still enabled a GDP increase of 0.1 percent compared to the previous quarter. This interrupted the slight (technical) recession of the second half of 2022.

From spring 2023, the economic situation in industry and construction began to deteriorate again with the increasing effect of the tightening of monetary policy. While at the beginning of the year a strong service sector had stood up to the weakening production, the slack in demand in industry and construction now increasingly spread to the service economy. GDP fell by 0.8 percent in the second quarter compared to the previous quarter. Year-on-year, this corresponds to a decline of 1.1 percent. In the first half of the year, however, there was still an increase of 0.2 percent compared to the previous year thanks to the better start to the year and a statistical overhang.

AUSTRIA´S ECONOMY HS BEEN WEAKENING SINCE THE SECOND HALF OF 2022



Source: Statistik Austria, Refinitiv Datastream, UniCredit Research

Inflation decline will revive consumption

Domestic demand was a strong but declining pillar of economic growth in 2022

Domestic demand was again able to make a major contribution to economic growth in Austria in 2022. However, at just over 3 percent in real terms, the increase was below average. In addition to weak investment activity, this was mainly due to the decline in public consumption caused by the cutback in health policy spending to combat the Corona pandemic. In contrast, private consumption growth increased to almost 6 percent in real terms, supported by the withdrawal of pandemic-related restrictions, the use of accumulated savings and strong catch-up effects, especially in tourism.

With the improvement in economic sentiment at the beginning of 2023, a high dynamic of private consumption set in. While sales development in the retail sector suffered from high inflation, the vehicle trade was able to reap high gains with the resolution of supply chain problems. However, supported by remaining financial reserves from the pandemic and government grants to compensate for inflation, demand in many service sectors, such as hospitality and tourism, increased in the first quarter, enabling a strong increase in private consumption.

Slowdown in consumption growth in the first half of 2023 due to high uncertainty and real income losses from high inflation

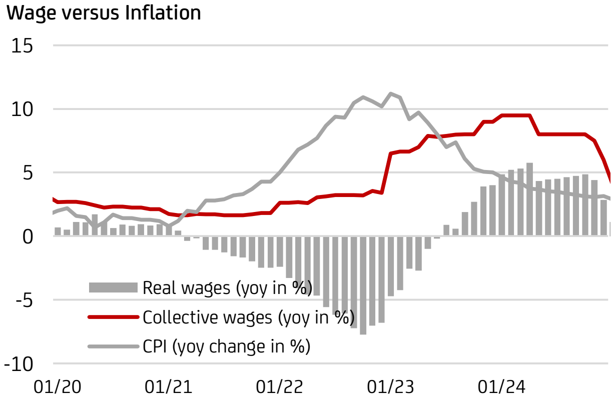
Due to the only slow decline in inflation, which led to noticeable losses in real wages, as well as the lack of signals of an economic recovery, the mood among domestic consumers deteriorated significantly again in the further course of the year and slowed down the development of private consumption. In addition, the second quarter also saw a slight deterioration in the situation on the labour market for the first time. Despite the slump in the second quarter, private consumption was still able to close the first half of 2023 with a plus of almost 1 percent compared to the previous year. At 0.9 percent compared to the previous year, the overall increase in consumption was somewhat lower, as public consumption was only able to increase slightly in the first half of the year after a strong decline at the beginning of the year due to the expiry of pandemic-related support and a noticeable growth in the second quarter, promoted by measures to compensate for inflation.

Slowdown in inflation leads to real wage increases and should make private consumption the strongest force of an economic recovery in 2024

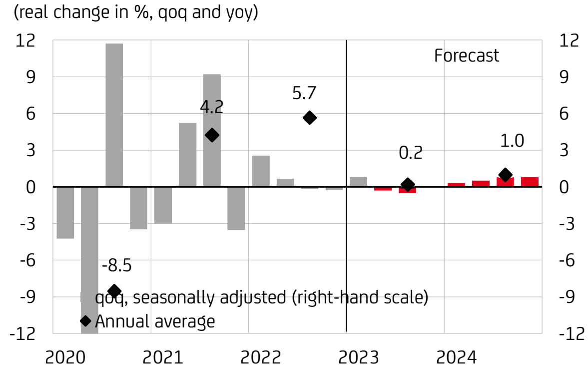
We assume that consumption will suffer noticeable losses in the second half of the year. While public consumption should increase slightly throughout, private consumption will continue to suffer from the loss of purchasing power due to inflation. However, in the course of the year and especially in 2024, the development of private consumption should improve due to falling inflation and the associated increase in real wages. While inflation should already be below 5 percent towards the end of 2023 and generally below 4 percent in 2024, collectively agreed wages will be around 8 percent higher in 2023 than in the previous year and even stronger wage increases are expected for 2024. Hopes for a recovery of the domestic economy thus rest above all on private consumption, which should become the determining driver of economic growth in the coming year.

REAL WAGE INCREASES FROM MID-2023 ONWARDS WILL GRADUALLY GIVE CONSUMPTION MORE STRENGTH

Wage versus Inflation



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



Source: OeNB, Statistik Austria, UniCredit Research

Weak demand and tighter monetary policy still dampen investment activity

Stagnation of gross fixed capital formation in 2022 mainly due to a significant decline in construction investments

The slowdown in economic activity and the changed financing conditions in the second half of 2022 strongly dampened investment activity in the previous year. Gross fixed capital formation stagnated over the year. While investment in equipment increased slightly in the previous year, construction investment declined by 2 percent in 2022, driven by a sharp drop in commercial construction, while residential investment still expanded solidly.

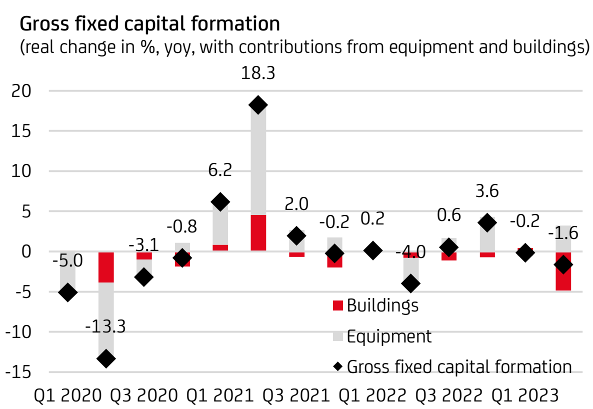
Willingness to invest declined in the first half of 2023 as the economy weakened and financing conditions became tougher

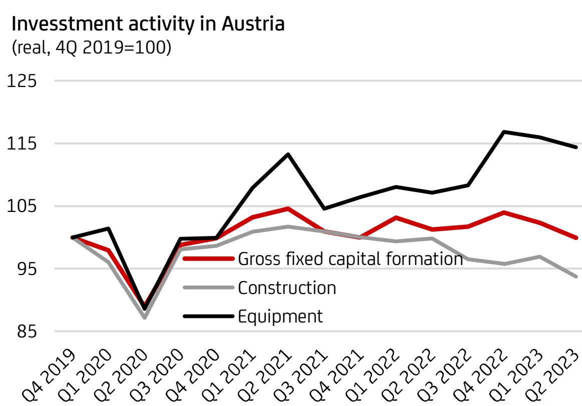
In view of the continuing tightening of financing conditions due to the ECB's interest rate hikes and the weakening economy, which was evident in both industry and construction with sharp declines in orders, investments did not develop any momentum in the first half of 2023. The decline in gross fixed capital formation at the beginning of the year even deepened to over 2 percent in real terms in the second quarter. Construction investments had a particularly strong influence on the negative development, sliding clearly into the red, as residential construction investments in particular declined at an above-average rate in view of the higher interest rates for financing and the sharp rise in construction costs. Investments in equipment have also been declining slightly since the beginning of the year, whereby only investments in vehicles have proved to be a lasting supporting factor after the resolution of the delivery problems, especially for semiconductors. Due to a static overhang from the previous year, gross fixed capital formation in the first half of 2023 "only" fell by less than 1 percent in real terms despite the sharp decline during the year. Equipment investment in particular showed a strong performance with an increase of more than 2 percent, partly due to the particularly strong rise in vehicle investment, while construction investment showed a significant year-on-year decline of more than 5 percent after the boom in the previous year.

Prospect of an incipient revival of investment only in the second half of 2024

Investment activity is likely to continue to weaken for the time being. The utilisation of production capacities has begun to decline, both in industry and in the economy as a whole. Thus, there is currently hardly any need to invest in the expansion of capacities. In addition, there are still strong headwinds due to the tighter financing conditions caused by the key interest rate hikes, which are expected to peak this autumn. We do not expect an easing of monetary policy, which should translate into a gradual improvement in financing conditions, until the second half of 2024. Combined with the slow onset of economic recovery and the renewed reduction in the corporate tax rate, as well as the absence of any supply chain problems, this should contribute to a gradual improvement in investment momentum in the course of 2024. However, the pace of investment recovery is likely to be dampened by uncertainty related to the geopolitical situation and the likely deterioration in international competitiveness due to the rise in unit labor costs. For 2023 and 2024, we expect investment to develop just above the zero line.

DETERIORATION IN GENERAL CONDITIONS AND UNCERTAINTY SLOW INVESTMENT MOMENTUM





Source: Statistik Austria, Refinitiv Datastream, UniCredit Research

Energy price hike worsened trade balance in 2022

Foreign trade supported economic growth in Austria in 2022

The strong growth in foreign trade of 2021 continued in 2022 despite the slowdown in global economic activity and the fading of pandemic catch-up effects. Exports again grew by as much as 11.2 percent year-on-year in real terms, supported by strong growth in services exports, especially in travel. Imports, on the other hand, lost momentum, but rose very strongly by 7.9 percent, also thanks to services. In any case, after two years with a negative contribution to growth, foreign trade has strongly supported economic growth in Austria in 2022.

High export and import momentum with declining trend in the course of the year

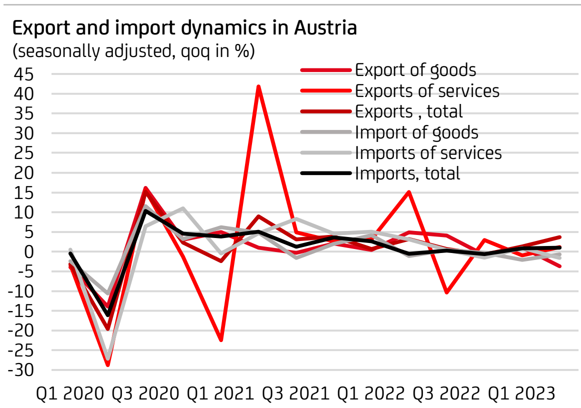
The development of foreign trade in the first half of 2023 reflects the weakening of the economy on the one hand, but also the resolution of supply chain problems on the other. Although export momentum was significantly lower than in the previous year, it remained relatively high at around 3.5 percent in real terms given the economic conditions. Due to the resolution of the supply problems, backlogs of orders could be worked off in the first months of the year and the goods could now be delivered. The sharp decline in new orders, which worsened in the course of the year, was thus not yet as significant. In addition, the development of exports was also supported by exports of services, which also increased in real terms in the first half of the year, mainly thanks to the good development of travel. Imports, on the other hand, fell significantly by over 2 percent in real terms year-on-year. While imports of services continued to increase, also due to travel, imports of goods fell by almost 3 percent compared to the same period last year. Here, the lack of new orders and the deteriorating economic sentiment were reflected in a cautious procurement policy to reduce storage costs.

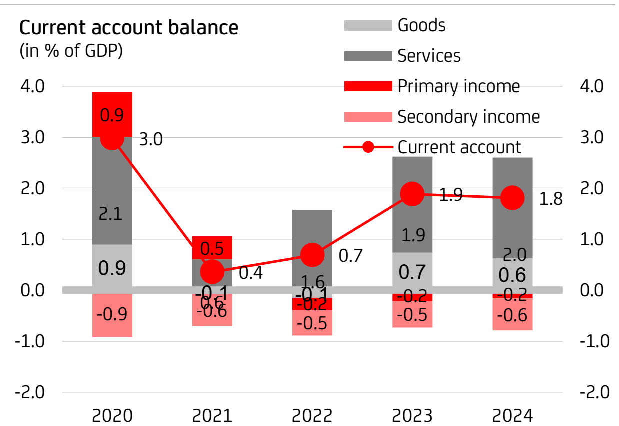
Services balance benefits from tourism comeback

The foreign trade trends of the first half of 2023 are expected to continue in the coming months. Export dynamics will continue to suffer from the global economic weakness, which will dampen growth in goods exports in particular. Services exports will continue to benefit, albeit with a declining trend, from catch-up effects in travel. Import demand will not gain momentum under the current framework conditions, so that overall we can assume a high growth contribution of foreign trade to economic growth in 2023. With the slow improvement in economic activity in the course of 2024 and a slight pick-up in investment, import growth should increase again. We expect a relatively balanced development of exports and imports and thus a largely neutral contribution of foreign trade to GDP.

Significantly lower foreign trade momentum in 2023, but improvement in current account balance

ECONOMIC SLOWDOWN WILL DAMPEN FOREIGN TRADE DYNAMICS IN THE COMING MONTHS





Source: Statistik Austria, OeNB, Refinitv Datastream, UniCredit Research

Decline in inflation will slowly boost economy

Economy remains weak in 2H23

After a weak first half-year with a persistent cooling of the economy towards the middle of the year, the prospects for an improvement in the Austrian economy have dimmed for the time being. Sentiment in the services sector deteriorated noticeably at the beginning of the third quarter, although consumer pessimism has eased somewhat - also in view of the easing inflation. While consumer-related services in the leisure and tourism sectors are still benefiting from pent-up demand, business-related services in particular are increasingly feeling the effects of the economic slowdown in the manufacturing sector. In addition to the gloom in the service sector, the lack of industrial demand from abroad is also depressing the mood in the economy. Furthermore, the slump in the construction sector is increasingly burdening the Austrian economy in view of the tightened financing conditions.

Decline in inflation fuels prospect of recovery before the turn of the year

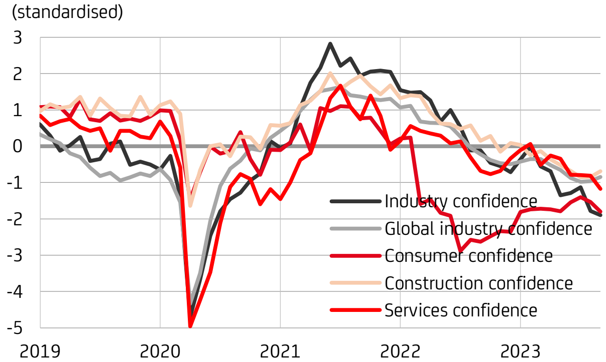
According to the current economic and sentiment indicators, instead of the hoped-for start of a recovery, a continued cooling of the economy is in sight for the coming months. However, we do not expect a sharp downturn in the Austrian economy and remain optimistic that an improvement in the framework conditions due to a decline in inflation will have a positive effect on economic dynamics in 2024.

Following stagnation in 2023, slight upswing expected in 2024 with GDP growth of 0.9%

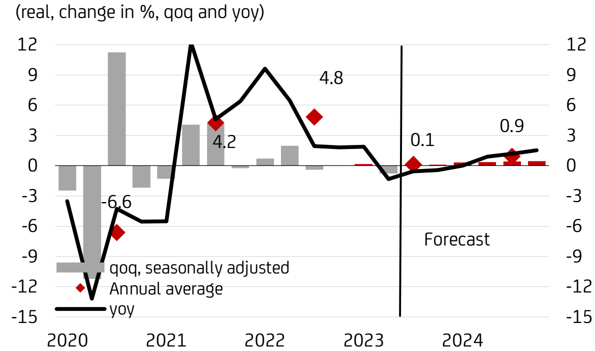
The challenges for the construction industry will be great in the coming months. The price-related reduction in the affordability of residential real estate in combination with stricter lending regulations and rising interest rates have led to a significant decline in orders, especially in building construction, and are dampening the outlook. The coming months are also likely to be difficult for the export-oriented industry. Growth in world trade is likely to cool further. On the one hand, the massive simultaneous interest rate hikes by central banks are weighing on the manufacturing sector in particular, especially the durable goods industry. Also, the Chinese manufacturing sector remained weak after the opening up at the beginning of the year and the anticipation of consumer demand for goods during the pandemic (instead of service consumption) will continue to take its toll globally. Thus, for the time being, hopes for a recovery rest solely on the services sector, which should benefit from the slowdown in inflation and thus also from real wage increases. However, the slowdown in catch-up effects, the increase in the cost of consumer loans and the high level of uncertainty, also with regard to the development of the labour market, will only contribute to a change in sentiment among domestic consumers with a delay, which should only become more noticeable in 2024. This means that the pace of recovery, which will only slowly spread to the other economic sectors in view of the effect of monetary tightening, will remain manageable in 2024. After stagnation in 2023 with a GDP increase of 0.1 percent, we expect economic growth to pick up only slightly to 0.9 percent in 2024, especially since geopolitical strains will continue unchanged.

PROSPECTS OF RECOVERY INITIATED BY THE FALL IN INFLATION IS DELAYED

Economic confidence in Austria
(standardised)



GDP
(real, change in %, qoq and yoy)



Source: Statistik Austria, UniCredit Research

Contribution of the construction sector to GDP currently down to 7.6 percent

Further loss of share in economic output expected due to lower demand and lower productivity gains

Challenges for the construction industry on the rise

Construction has been losing importance in the Austrian economy for a long time. Adjusted for prices, construction investment has increased by 14 percent in the last thirty years, while economic output as a whole has increased by 67 percent. In nominal terms, the sector's contribution to GDP has fallen from around 8 percent to 7.6 percent over this period. Compared to other sectors of the economy, demand for construction is slowed not only by the longstanding high stock of buildings in very good condition, but also by the low productivity gains. Measured in terms of value added per hour worked, labour productivity is about 20 percent below that of industry. Apart from short-term fluctuations, this trend will not change. The construction industry will continue to lose shares of economic output.

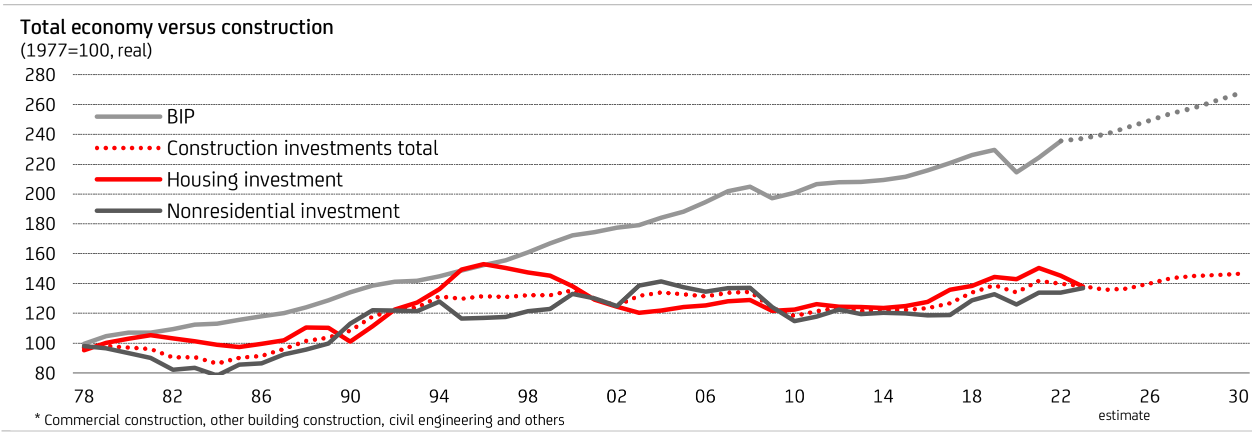
In the coming years, the focus in the construction industry will increasingly shift towards renovation measures. However, the strengthening of these measures will not reverse the trend in the long term, while at the same time new construction is declining. The demand for affordable housing and the necessary investments in the adaptation of the building stock, the transport infrastructure and the energy supply to climate policy goals will secure orders for the sector in the future. However, demand for retail shops and office buildings, for example, remains subdued, as here the utilisation concepts of buildings are increasingly being called into question by online platforms and a new organisation of work. In addition, no new major construction projects in high-level road building are in sight and a decline in infrastructure investments by ÖBB is to be expected.

After several years of above-average activity, residential construction in Austria is currently being held back by the uncertain development of real estate prices and high construction costs. Even if the demand for new housing will soon increase again due to the decline in new construction and due to the sudden increase in the number of households as a result of the flight from Ukraine, the most recent household forecasts do not indicate a stronger growth in housing demand in the long term.

Last but not least, construction is one of the largest consumers of resources and generates almost two thirds of the waste produced in Austria. A significant contribution to resource conservation in the building sector and to the reduction of land sealing is the extension of the service life and the conversion of existing buildings. Another aspect that is expected to lead to a reduction in the volume of new construction in building construction and civil engineering.

More details can be found in our analysis: "Prospects for the construction industry". (https://www.bankaustria.at/en/markets-research-analyses.jsp).

CONSTRUCTION GROWTH HAS DECOUPLED FROM GDP GROWTH AND WILL CONTINUE TO LOSE RELATIVE IMPORTANCE



* Commercial construction, other building construction, civil engineering and others

Source: Statistik Austria, UniCredit Research

Economic slowdown impacts labor market - but only moderately

- **Recovery from the pandemic supported a strong decline in the unemployment rate to 6.3 percent on average in 2022 (national method)**
- **Economic slowdown causes trend reversal since spring with slight increase in unemployment rate despite new employment record**
- **We expect only a slight increase in the unemployment rate to an annual average of 6.4 percent in 2023 and stabilisation at this level in 2024**
- **In focus: part-time work fully in trend**

Slight increase in the unemployment rate to 6.4 percent in 2023

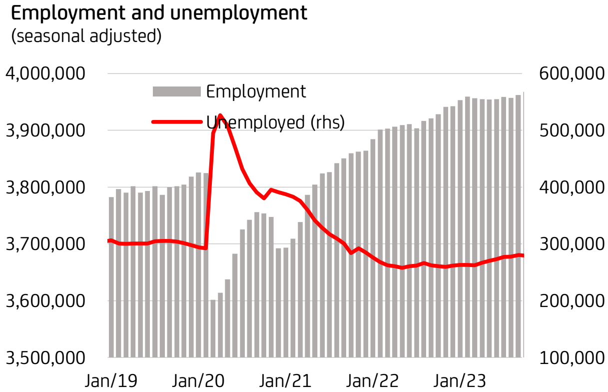
Strong decline in unemployment in 2022

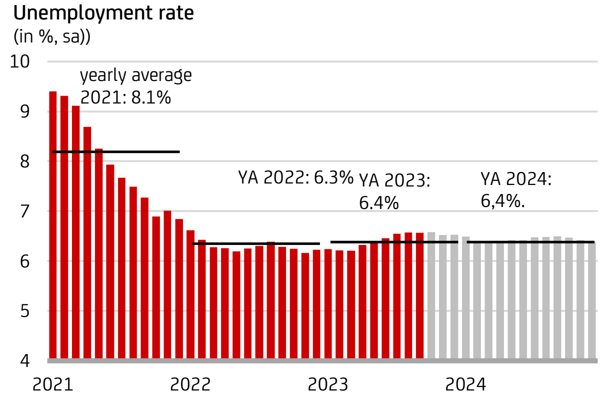
Supported by the economic recovery in the first half of the year, there was a noticeable improvement in the labour market situation in 2022. Employment increased by more than 100,000 persons or almost 3 percent to a record high of over 3.9 million. The number of jobseekers decreased by an average of 20 percent, which lowered the unemployment rate to an annual average of 6.3 percent. According to Eurostat calculations, the unemployment rate was 4.8 percent. Thus, the unemployment rate in Austria was once again significantly below the average in the European Union of 6.2 percent and even more significantly below the value in the euro area of 6.7 percent.

Economic slowdown triggered trend reversal in the domestic labor market in the first half of 2023

Despite the weak economy, the unemployment rate remained low in the first months of 2023. On average, the unemployment rate was 6.4 percent in the first six months and was thus even lower than in the same period of the previous year (1-6/2022: 6.5 percent). Since spring, however, the seasonally adjusted figures have shown a slight upward trend, starting from an unemployment rate of only 6.2 percent at the turn of the year. In September, the seasonally adjusted unemployment rate was already 6.6 percent. For the time being, the economic slowdown has led to an increase in the number of jobseekers, especially in the production sector. Particularly in construction, the number of unemployed has risen sharply as a result of the sharp decline in orders since the spring. In industry, the increase remained significantly below that, since in view of the tight supply on the labour market for qualified skilled workers, staff reductions were only limited and mainly through the termination of temporary employment contracts. In addition, vacancies were not filled. With some delay, unemployment has now also increased in the service sector. While in the first half of the year employment was still rising steadily despite the worsening economic situation, the rise in unemployment is now so strong that for the first time in two and a half years in Austria, employment (seasonally adjusted) no longer increased at the beginning of the second half of the year.

UNEMPLOYMENT HAS SHOWN A SLIGHT UPWARD TREND SINCE SPRING 2023





Source: AMS, Statistik Austria, UniCredit Research

Stabilisation on the labour market in 2024 with continued employment growth

Only slight increase in unemployment rate to 6.4 percent in 2023

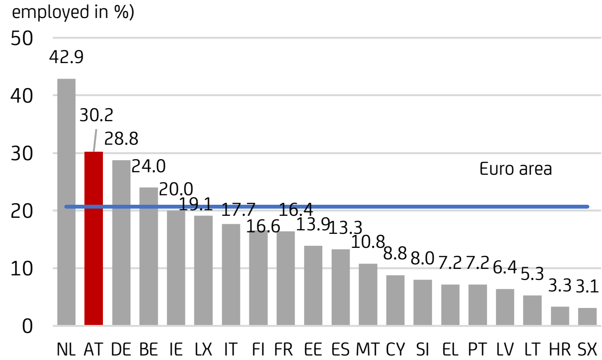
Due to the continued slack in the economy, especially the weakness of the industrial and construction sectors, which is expected to spread more strongly to the service sector in the coming months, the situation on the Austrian labour market could deteriorate further by the turn of the year 2023/24. The increase in employment is likely to slow down further and, in turn, the number of jobseekers will increase. However, due to the lower increase in labour supply compared to previous years, the unemployment rate will hardly move upwards. In 2023 as a whole, we expect the unemployment rate to average 6.4 percent (EU method: 5.0 percent), only slightly above the previous year's level despite the stagnation of the Austrian economy. The labour market showed itself to be very resilient to the economic cycle, since due to the strong recovery phase directly from the pandemic there is still in part a backlog demand for filling vacancies and since due to the tightness of the labour market, especially in industry, attempts are being made to retain qualified workers.

Stabilisation of unemployment rate at 6.4 percent in 2024 despite slow pace of recovery

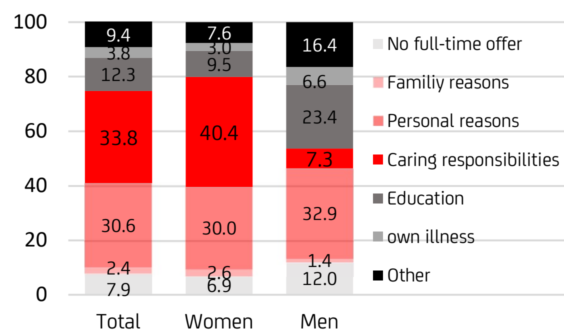
Even if hopes of a revival of the Austrian economy around the turn of the year 2023/24 are fulfilled, the upward trend of unemployment on the domestic labour market will only be reversed with a delay. Despite the relatively moderate expected pace of recovery, however, the unemployment rate will decline again in the course of 2024. While employment growth of less than one percent is even expected to be slightly lower than in 2023, the decline in the unemployment rate will be supported by demographic effects. As the baby-boom generation approaches retirement age, the increasing supply of foreign workers, partly due to the integration of Ukrainian refugees into the labour market, and the rising employment of women will be offset by a stronger outflow from employment than in previous years. We expect the unemployment rate to stabilise at 6.4 percent in 2024. The unemployment rate according to the EU method is expected to average 5.0 percent.

SECOND HIGHEST PART-TIME EMPLOYMENT RATE IN THE EURO AREA, WITH THE MAJORITY NOT AIMING FOR FULLTIME EMPLOYMENT

Part-time ratio in EA
(2Q 2023, share of part-time workers in total number of employed in %)



Main reason for part-time employment in Austria
(in % of total)



Source: Statistik Austria, Bali web, UniCredit Research

Part-time work is the trend

Since 1995 until the middle of 2023, employment in the euro area has increased by about 30 percent. However, since the volume of working hours increased by just over 20 percent, the average working time decreased by about 6 percent or about 90 hours per year during this period. In Austria, the decrease was above average at over 11 percent or 180 hours per year.

Boom in part-time work reduces average working time per employee in Europe, especially in Austria

The reduction in individual working time in Europe is reflected in an increase in part-time employment. The absolute number of part-time workers almost doubled during this period to over 32.1 million. In Austria, the number of part-time workers increased from just under 500,000 in 1995 to just over 1.3 million in 2022. This corresponds to an increase of 170 percent. Only in Luxembourg, Malta, Spain, Italy and Finland was the growth even higher.

The part-time rate in Austria is currently over 30 percent of the total workforce, and even 50 percent for women.

In the euro area, part-time workers accounted for 20.7 percent of total employment in mid-2023. In 1995, the part-time rate in the current euro area member countries was only around 13 percent. In 2015, the part-time employment rate in the euro area reached a peak of 21.5 percent. The onset of the economic upswing after the euro crisis led to a decline in the part-time rate, which only reversed at the beginning of 2023.

In Austria, the part-time rate rose to over 30 percent by mid-2023. This is the highest part-time rate in the euro area apart from the Netherlands. In contrast to the overall European trend, the part-time rate in Austria has increased steadily since 1995, even after 2015. While around 50 percent of women in Austria are employed part-time, but only one third in the euro area, the part-time rate for men is only 12 percent, relatively slightly above the comparative value of almost 10 percent in the euro area.

55 percent of part-time workers in Austria do not aim for a full-time job.

Only about one third of part-time workers in Austria state that they have care responsibilities for children or other family members. Not quite 8 percent cannot find full-time employment and almost 4 percent work only part-time due to their own illness or disability. This means that about 55 percent of part-time workers in Austria voluntarily do not seek full-time employment. While this share is exactly 50 percent for women, it is as high as 75 percent for men.

Inflation continues to slow

- Energy prices fueled inflation in Austria to an annual average of 8.6 percent in 2022
- After peaking at 11.2 percent at the beginning of the year, inflation fell to an average of 9.7 percent in the first half of 2023 thanks to falling fuel prices
- After an average of 7.8 percent in 2023, we expect inflation to fall to an average of 3.6 percent in 2024.
- The end of the interest rate hike cycle has been reached: the ECB should gradually reduce the refinancing rate from the current 4.5 percent from mid-2024 onwards.
- In focus: Is there a chance of a faster decline in interest rates than generally expected?

Second-round effects slowed the decline in inflation in the first half of 2023

Due to the continuing supply bottlenecks and in the second half of the year due to the energy crisis in Europe triggered by the war in Ukraine, inflation accelerated significantly to double-digit values in the course of 2022. Thanks to the more moderate start to the year, the average for the year was "only" 8.6 percent.

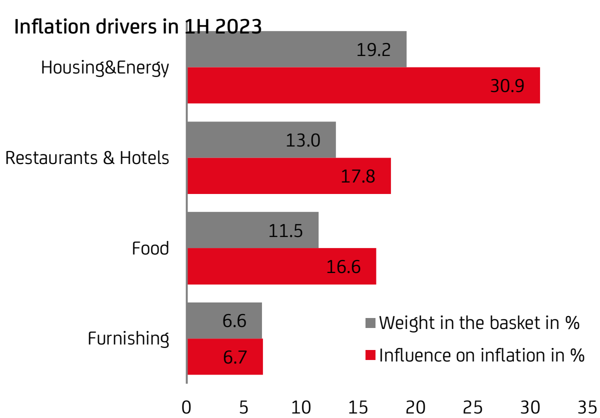
After 11.2 percent at the beginning of the year, inflation began to decline, primarily due to the falling oil price.

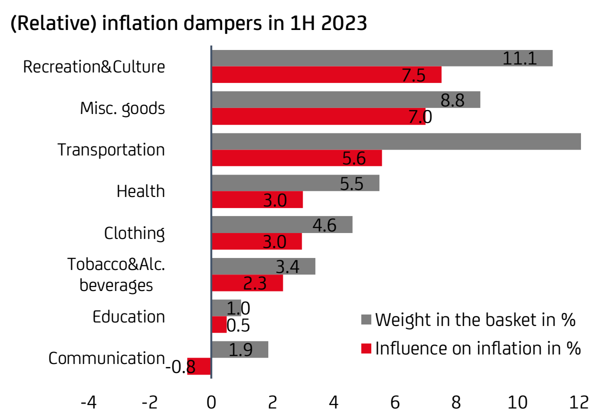
After even 11.2 percent year-on-year at the beginning of 2023, inflation in Austria began to slow down. While the upward pressure on fuel prices gradually decreased in the course of the first half of the year due to the stabilisation of crude oil prices and the slight appreciation of the euro against the US dollar, and the dynamics of food prices also decreased, the upward pressure on inflation for end consumers increased with a time lag due to household energy. Second-round effects of energy price dynamics increasingly determined the inflation trend in the further course of the year and led to sharply rising rents and higher prices for many services such as accommodation and catering services, especially since demand continued to be strong in many areas due to government compensation measures to households, catch-up effects after the pandemic, the previously high savings rate and record employment in Austria.

Core inflation falling only slowly

Core inflation (excluding energy and food), in contrast to overall consumer prices, continued to accelerate after the beginning of the year and only began to fall slowly from May onwards. Nevertheless, core inflation has been above consumer price inflation since then. In the first half of the year, core inflation averaged just over 9 percent.

HOUSING AND HOUSEHOLD ENERGY, FOOD AS WELL AS RESTAURANT AND HOTELS WERE THE PRICE DRIVERS IN 1H 23





Source: Statistik Austria, UniCredit Research

Inflation expected to slow to an average of 7.8 percent in 2023 and 3.6 percent in 2024

ECB "wait and see" in the coming months

Interest rate cuts likely as of the second half of 2024

Inflation continues to decline

The decline in inflation from over 11 percent at the beginning of the year to 6.1 percent in September should accelerate in the autumn. However, the dampening effect of fuel prices on inflation is weakening. Following the production cuts by Opec+, the price of oil should tend to increase somewhat in the coming months and move above the USD 90 per barrel mark and thus above the previous year's price. The expected slight strengthening of the euro against the US dollar will not be able to compensate for this increase. However, the - albeit hesitant - passing on of lower wholesale prices for gas and electricity to consumers will support the decline in inflation in the coming months. In addition, the decline in food and industrial goods prices should also exert downward pressure on inflation. The rise in prices for services, especially tourism and leisure services, which have been the main upward forces in inflation for several months in the face of rising wage costs, will, on the other hand, ease only slowly, especially since demand is not expected to collapse as a result of imminent real wage increases.

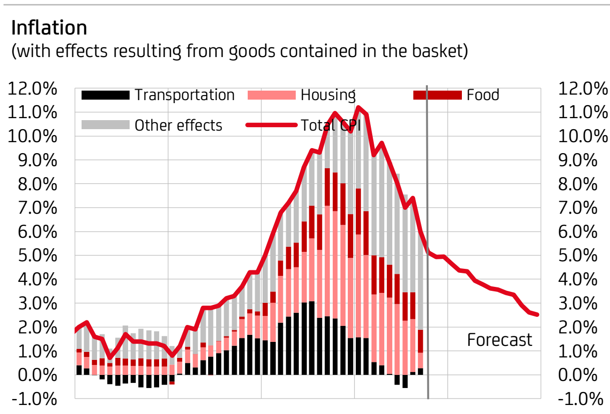
Headline inflation in Austria is expected to moderate to below 5 percent by the end of the year as the decline continues in the second half of the year. In 2023 as a whole, we expect average inflation of 7.8 percent after almost 10 percent in the first half of the year. In view of the loss of support from energy price developments and the high wage dynamics with real increases, the further decline in inflation will be noticeably slower in 2024. At an average of 3.6 percent, we expect inflation in Austria to remain clearly above the ECB's target.

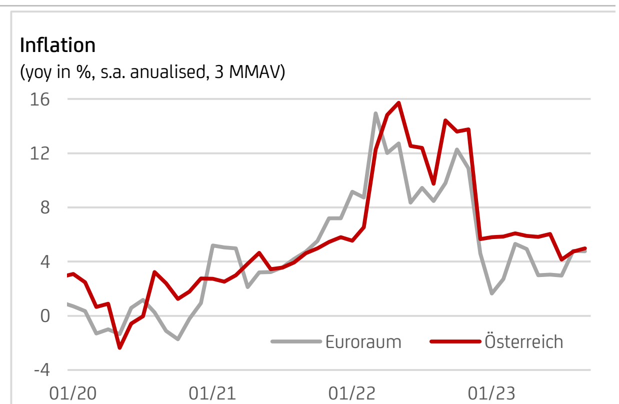
Interest rate peak should have been reached

As a result of rising inflation and higher inflation expectations, the ECB started an interest rate hike cycle in July 2022 and raised the refinancing rate to 4.50 percent and the deposit rate to 4.00 percent by the beginning of autumn 2023. We assume that the interest rate ceiling has thus been reached. The balance sheet reduction, the so-called quantitative tightening (QT), which is currently taking place at a pace of around 25 billion euros per month, should continue unchanged for the time being. Before making further monetary policy decisions, the ECB should closely monitor the incoming economic data and the pace of the decline in inflation in the coming months. Strong disinflation dynamics in the euro area, which could trigger a market reaction, especially if accompanied by continued subdued growth indicators, can be expected from autumn onwards.

With inflation easing further, especially core inflation, in 2024, a turnaround in monetary policy can be expected. For the second half of 2024, we expect the start of an interest rate reduction period in the euro area, which should lead to key interest rates that are 75 basis points lower than today by the end of 2024.

FURTHER DECLINE IN INFLATION IN AUTUMN 2023, BUT LIKELY TO BECOME MORE SLUGGISH AGAIN IN THE COURSE OF 2024





Source: ECB, Statistik Austria, Eurostat, UniCredit Research

Is there a chance of a faster decline in interest rates than generally expected?

Since the turn of the year 2022/23, inflation has been on the retreat in the euro area and also in Austria. A further slowdown in inflation in the coming months is to be expected, but concerns about stubbornly persistent inflation and prolonged high interest rates are widespread.

Slowdown of inflation in the euro area is already further advanced than at first sight

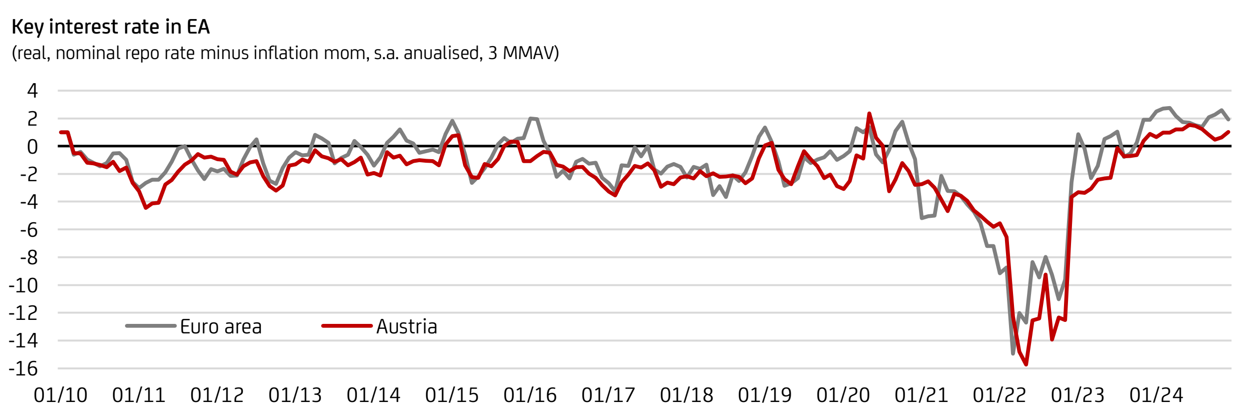
Since inflation is usually reported on a year-on-year basis, base effects can affect the actual picture. Therefore, we take a look at month-on-month inflation here. To avoid possible breaks due to seasonality, we use seasonally adjusted values and annualise the data to make them comparable with the previous year's figures. Finally, we rely on three-month moving averages to limit the volatility of the values. This provides us with a measure of inflation dynamics that we believe better reflects current price pressures, especially as it is not distorted by base effects. These inflation figures provide an insight into the level of inflation if the current dynamics continues over the next twelve months and show that the slowdown in inflation in the euro area is already well advanced. Although inflation dynamics have not quite reached the ECB's target of 2 percent, they are much more favourable than the year-on-year values suggest (see chart above).

Real key interest rates in positive territory - faster monetary easing than generally expected?

The calculated inflation dynamics not only give us a realistic picture of price pressures, but also enable us to better assess the level of real interest rates in the euro area. To do this, we subtract the calculated inflation dynamics from the ECB's key interest rate (repo rate) on the basis of the values compared to the previous month. In this case we see that the ECB has already raised the key interest rate significantly into positive real territory (see chart below). Admittedly, if the economy remains weak, low inflationary pressures and thus higher real interest rates are to be expected, even if the ECB does not implement any more interest rate hikes. But if the declining inflation momentum continues as expected, we believe that real policy rates in the euro area will appear too restrictive and rate cuts will likely follow.

Conclusion: The inflation figures in the euro area now provide a thoroughly encouraging picture. Inflation has already slowed down considerably, more than is obvious at first glance. Inflation may turn out to be much less persistent than is generally feared, leading to an earlier and more rapid easing of monetary policy. nt; and in other services, byargins to increase.

ECB HAS ALREADY RAISED THE KEY INTEREST RATE INTO POSITIVE REAL TERRITORY



Source: Statistik Austria, ECB, UniCredit Research

Budget policy remains expansionary, but less so than during the pandemic

- Reduction in pandemic-related spending significantly reduced budget deficit to 3.5 percent of GDP in 2022
- Economic slowdown slowed revenue growth in the first half of 2023, while interest rate rise and inflation compensation measures caused high disbursements
- New debt will decline only moderately to 2.8 percent of GDP in 2023, yet thanks to high nominal GDP growth, the debt-to-GDP ratio continues to decline to below 76 percent of GDP at the end of 2023.
- The end of pandemic and inflation compensation measures should significantly reduce the budget deficit in 2024 and enable a further decline in total debt.
- In focus: What will the abolition of cold progression bring in 2024?

Strong growth in revenues and disbursements in the first half of 2023

Strong economic growth was reflected in high revenue momentum in 2022, which, combined with lower pandemic spending, led to a sharp decline in new debt to 3.5 percent of GDP.

Strong growth and high inflation helped to reduce the 2022 budget balance to 3.5 percent of GDP.

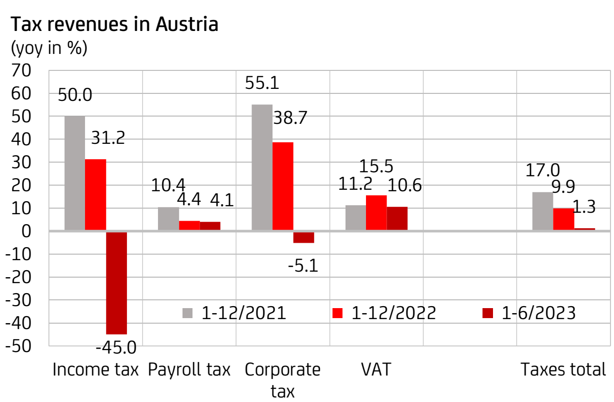
With the significant slowdown in economic activity, revenue growth began to gradually decline in the first half of 2023. In the first six months, tax revenue growth fell to 1.3 percent year-on-year, down from almost 10 percent in 2022 as a whole. While revenue from sales tax and payroll tax still grew strongly, there was a sharp decline in revenue from corporate income tax, partly due to increased payments of research bonuses, and in assessed income tax, partly due to lower revenue from the directly paid part of the real estate income tax. However, a higher income from dividends from federal assets of almost 1.3 billion euros (e.g. Verbund, ÖBAG) as well as first-time returns from the EU reconstruction and resilience plan ensured a good revenue development overall, which also benefited above all from high inflation.

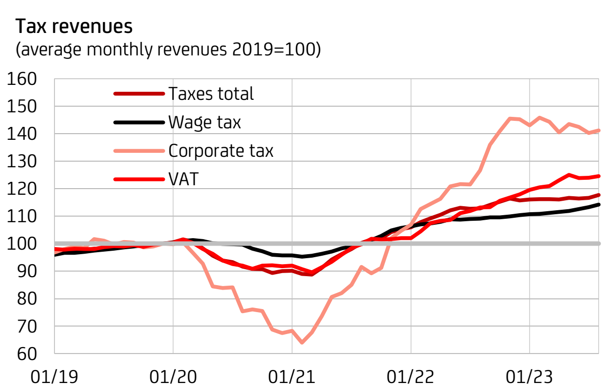
Despite weak economic activity, payments in the first half of 2023 rose by almost 10 percent year-on-year

Inflation compensation and higher interest rates caused a strong increase in disburse-ments of more than 7 percent compared to the previous year.

However, the good revenue development was offset by an unplanned strong increase in disbursements in the first half of 2023. On the one hand, the rise in interest rates led to higher refinancing costs. The various measures to cushion inflation also had an unfavourable effect, such as the payments of the energy cost subsidy and the investment premium as well as the electricity cost subsidy. In addition, there were also higher payments for pensions due to the pension adjustment including direct payments and higher transfers to the provinces, e.g. due to the decided valorisation of the nursing allowance. This was offset by significantly lower Covid 10 measures. In the first six months of 2023, the net financing balance of the federal government amounted to minus EUR 6.4 billion, which was EUR 0.4 billion lower than in the same period of the previous year.

ECONOMIC SLOWDOWN SLOWED TAX REVENUE GROWTH IN THE FIRST HALF OF 2023





Source: BMF, Statistik Austria, Eurostat, UniCredit Research

Budget balance should return to Maastricht target range in 2024

Decline in budget deficit in 2023 likely to accelerate somewhat in 2024

The relatively favourable budget development in the first half of the year in view of the economic framework conditions leads us to expect a renewed decline in the new debt of the general government in relation to GDP for 2023 as a whole compared to the previous year. However, we see relatively little potential for reduction and still expect a budget deficit of 2.8 percent of GDP for 2023.

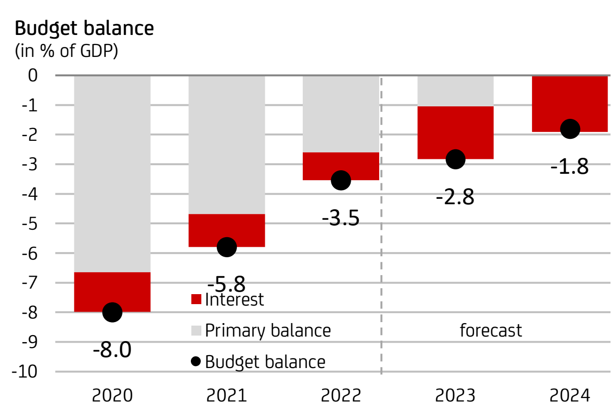
On the one hand, we expect a slowdown in revenue development in the coming months. Admittedly, additional revenues from the energy crisis contribution and the CO2 price are to be expected, and the still quite high inflation will provide positive effects via VAT, among other things. On the other hand, the persistently weak economy will have a dampening effect on revenue dynamics. In addition, the abolition of the cold progression at the beginning of the year caused a permanent reduction in the dynamics of wage and income tax and the corporate tax rate was reduced. On the other hand, a strong expenditure dynamic is still to be expected. Although the various Corona measures in the health sector and for business support have expired, the large number of measures to compensate for inflation will cause additional expenditure of almost a similar amount.

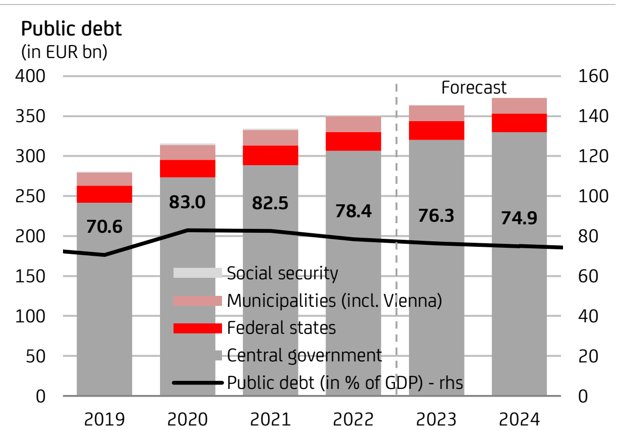
Total public debt will continue to decline in relation to GDP to just under 74 percent of GDP at the end of 2024

For 2024, we expect a further - somewhat stronger - decline in new public debt in Austria. This will be favoured by the expiry of many measures to cushion inflation, such as the electricity price brake or the energy cost subsidy in the middle of the year. In addition, we do not expect any new discretionary measures to compensate for inflation due to significantly lower inflation in 2024. Moreover, the decline in inflation, which will lead to real wage increases, in combination with the indexation of social benefits, the abolition of the cold progression and strong pension increases, should support the development of consumption and positively influence the development of VAT revenues in the course of the year. However, these factors will also lead to higher expenditure dynamics. Overall, we believe that a noticeable reduction in new debt to around 1.8 percent of GDP is likely in 2024, although debt service will also be a burden due to higher interest rates. We expect debt service of at least 10 billion euros.

he reduction in new debt will have a positive impact on the development of total debt. We expect the debt ratio to fall from 78.4 percent at the end of 2022 to below 76 percent of GDP at the end of 2023, despite the relatively moderate improvement in new debt in 2023, thanks to the relatively high nominal increase in GDP due to inflation. For 2024, we expect the debt ratio to decline further to around 74 percent of GDP. However, the debt of the general government will then already amount to almost 375 billion euros.

EXPIRY OF MEASURES TO COMPENSATE FOR INFLATION WILL REDUCE (NEW) DEBT DESPITE HIGHER INTEREST RATES





Source: Statistik Austria, Refinitiv Datastream, UniCredit Research

Relief in 2023 of 1.8 billion euros, of which 2/3 automatically through raising the tax thresholds by 3.46 percent.

The remaining third of 600 million euros will go to lower incomes through a stronger increase in the two lowest tax thresholds and a stronger increase in the deductible amounts.

Cold progression accounts for 3.65 billion euros in 2024. General increase of 6.6 percent in the pay scales.

The lowest four tax brackets will be raised more sharply on a staggered basis.

What will the abolition of cold progression mean in 2024?

In autumn 2022, the National Council decided to abolish the cold progression as of 2023 in order to counteract the creeping tax increase due to higher tax brackets when wages are increased. An annual automatic adjustment of income tax rates by two-thirds of the inflation rate was envisaged. The Minister of Finance can use the remaining third to implement further relief measures at his discretion.

For 2023, the inflation to be compensated was set at 5.2 percent. The difference between the tax liability before the inflation adjustment and the tax liability with the increase of the tax scale limits and various deductions by the inflation to be compensated for resulted in a total volume of cold progression of 1.8 billion euros for 2023. Two-thirds of this was used by adjusting for inflation by 3.46 percent, i.e. two-thirds of 5.2 percent, for all tariff brackets for wage and income tax (except the highest for incomes of 1 million euros or more per year). Lower incomes benefited from the remaining third of about 600 million euros by raising the marginal amounts of the lowest two tax brackets by an above-average 6.3 percent. As a result, the taxable income limits were raised from 11,000 euros to 11,693 euros and from 18,000 to 19,134 euros respectively. In addition, the deductions, including the corresponding phase-in limits and the reimbursement of social security contributions, were adjusted to the full amount of the inflation of 5.2 percent to be compensated.

The tax relief for the year 2024 can be seen in the progression report published in August, which was prepared by IHS and Wifo. The inflation to be compensated for in 2024 is stated to be 9.9 percent, corresponding to the average of the inflation values from July 2022 to June 2023. The cold progression amounts to a total of 3.65 billion euros or 0.7 percent of GDP. The two-thirds adjustment provided for by law will thus automatically compensate for almost 2.5 billion euros in 2024 by raising the pay scales by 6.6 percent (2/3 of the inflation rate of 9.9 percent). With the remaining third of almost 1.2 billion euros, the government has, unlike in the current year, provided for a higher, staggered adjustment of the lowest four pay scales (2023 only the lowest two) and thus a stronger favoring of middle incomes. The first tariff bracket will be increased by 9.6 percent, raising the threshold for taxable income to 12,816 euros. The second bracket will be increased by 8.8 percent, the third bracket by 7.6 percent and the fourth bracket still by 7.3 percent, which is 0.6 percentage points more than provided for by the automatic adjustment. About 800 million euros, or two-thirds of the total amount available, will be used for this purpose. The rest will be used for a 100 percent adjustment to inflation of the deductible amounts as well as social and family benefits.

ending and deposit business driven by interest rate turnaround and weak economy

- Loan growth in 2022 was higher than in 2021, averaging almost 7 percent despite rising interest rates, while deposit growth slowed to an average of 2 percent
- Subdued loan demand in the first half of 2023 from businesses and especially for housing finance. Despite rising interest rates, deposit growth fell to one percent year-on-year
- Deposit dynamics and especially loan demand will continue to be weighed down by the slowdown in economic activity and tighter financing conditions in 2023
- In focus: property prices are the problem, not interest rates

Weak economy and tightening of monetary policy slowed demand for loans

Despite the rise in interest rates, loan growth in 2022 increased to an annual average of almost 7 percent, while deposit growth fell to 3.2 percent

The economic slowdown in combination with rising interest rates led to a slowdown in credit growth in Austria in the course of 2022. On average, the increase in the credit volume was nevertheless significantly higher than in 2021 (+4.0 percent) at 6.8 percent after the high dynamics in the first half of the year. The increase in corporate loans was above average at 10 percent year-on-year, while loans to households were significantly lower at 5.5 percent, despite a slight increase in consumer loans, due to subdued momentum in housing loans. Despite rising interest rates, deposit growth slowed to 3.2 percent in 2022, mostly due to the performance of corporate deposits.

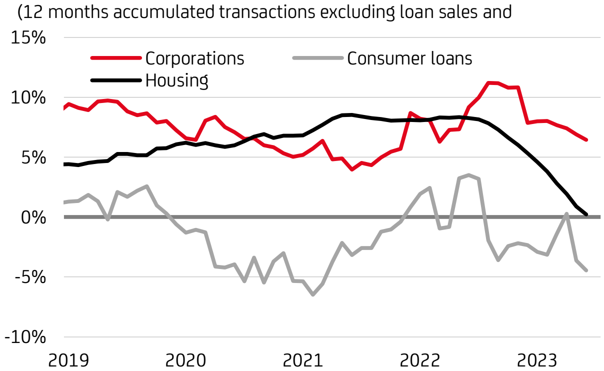
Strong decline in new business lowers loan portfolio growth to below 4 percent in the first half of 2023

Development of housing loans particularly unfavorable

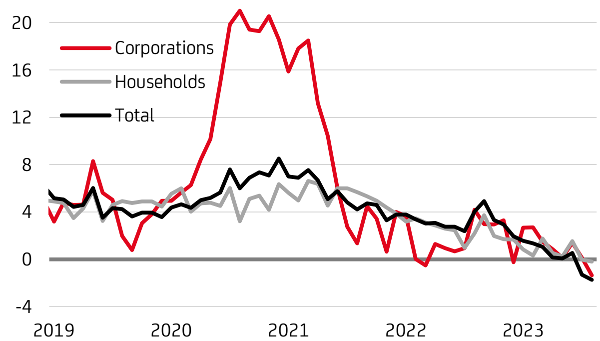
Credit demand was further dampened in the first half of 2023 by weak economic activity and tighter monetary policy. Average credit growth fell to below 4 percent year-on-year. The growth in the stock of corporate loans weakened significantly less than that of the stock of loans to private households. Behind the slowdown in loan portfolios is a noticeable decline in new business in both cases. New loans to companies decreased by more than 20 percent in the first six months of 2023 compared to the previous year. While the demand for short-term working capital loans to cover liquidity bottlenecks remained comparatively high, the demand for longer-term investment loans declined at an above-average rate in light of the worsened economic outlook. New business with private households developed particularly unfavourably in the first half of 2023. The lending volume was almost 50 percent lower than in the same period of the previous year. While new business with consumer loans declined relatively moderately, the massive drop in new business with residential construction financing by an average of more than 60 percent was primarily responsible for this. Instead of an average of almost 2.5 billion euros per month in the first half of 2022, only around 900 million euros per month in new housing loans were granted in Austria from January to June 2023.

WEAKENING DEMAND FOR LOANS AND DEPOSIT GROWTH CONTINUED TO LOSE PACE IN THE FIRST HALF OF 2023

Development of lending
(12 months accumulated transactions excluding loan sales and



Development of deposits
(change in %, yoy)



Source: ECB, UniCredit Research

In addition to the higher interest rates, which rose to almost 4 percent p.a. for housing loans by June 2023, after an average of 1.9 percent in 2022, the tightened lending regulations due to the so-called KIM regulation (Kreditinstitute-Immobilienfinanzierungsmaßnahmen-Verordnung - Credit Institutions Real Estate Financing Measures Regulation), and the sharp increase in construction and real estate prices, which had a negative impact on affordability, were the main reasons for the sharp decline in demand. Despite higher interest rates, deposit growth in the first half of 2023 fell to only one percent year-on-year. Corporate deposit growth was affected by the weak economic development and fell to 1.5 percent. Inflation-related losses in purchasing power and the depletion of pan-demic savings for consumption purposes, such as holidays in particular, reduced household deposit growth to less than one percent year-on-year.

Deposit growth fell to one percent year-on-year in first half of 2023

Financing headwinds persists

The persistently weak economy with only a late prospect of the start of a recovery as well as the unchanged restrictive monetary policy in the second half of the year will continue to shape the development of financing and deposits in Austria. With financing conditions remaining less favourable than in previous years, a slowdown in loan growth towards an average of around 2 percent year-on-year is to be expected for 2023 with declining new business.

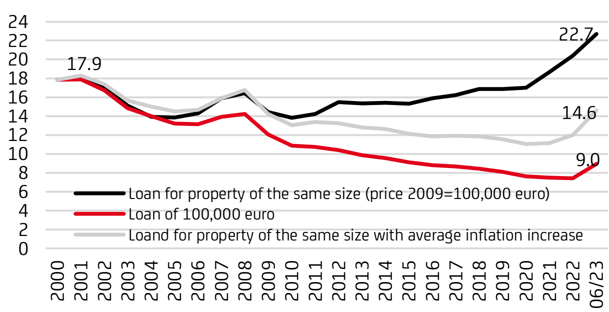
The growth of loans to households could even slide into negative territory in 2023 compared to the previous year, especially due to the persistently lower demand for housing loans, especially since the growth of consumer loans is also likely to be very low in view of the tense economic situation with slightly rising unemployment. The development of corporate loans will also be affected by the weak economic environment in the coming months. In particular, the demand for investment loans will continue to decline due to the economic headwind and the increase in prices caused by the ECB's restrictive monetary policy. However, there is still a high need for liquidity to cover the high costs of input materials and raw materials. This should slow down the dynamics of demand for working capital loans to a lesser extent. Overall, we expect corporate loan growth to decline to below 6 percent year-on-year.

Continued restrictive monetary policy and weak economy stand in the way of a turnaround in the banking market in the second half of 2023

Deposits are unlikely to grow in 2023 as a whole despite higher interest rates, which will be impaired by high inflation that will lead to real income losses for private households on average. In addition, the development of corporate deposits in particular will also be burdened by the weak economic development.

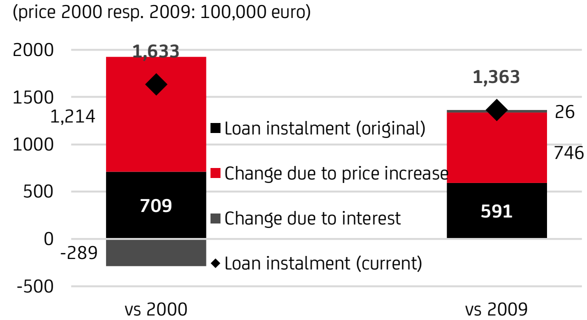
DRASTIC INCREASE IN PROPERTY PRICES REDUCED HOUSING AFFORDABILITY, HARDLY ANY INCREASE IN INTEREST RATES

Affordability of housing loans
(Cost of loan in % of net income*)



* Net annual earnings (couple with two children and earnings of 100% of the average wage))
Source: OeNB, UniCredit Research

Change of loan instalment for property of the same size by price and interest
(price 2000 resp. 2009: 100,000 euro)



Interest rate for new housing loans in 2000: 5.87%, 2009: 3.71, June 2023: 3.94%
Source: OeNB, UniCredit Research

Source: OeNB, UniCredit Research

Bank Austria
Member of UniCredit

Property prices are the problem, not interest rate

In the past few years, encouraged by the loose monetary policy of the European Central Bank, there has been a strong increase in property prices, which has made residential property much more expensive. Since 2000, residential property prices in Austria have risen to 2.7 times their original price. Since the financial crisis in 2009, they have increased 2.3 times.

Property prices increased stronger than incomes

The prices for residential real estate have risen significantly more than the general inflation. Real estate thus became more expensive in relation to other goods and services. Since the development of incomes has largely followed consumer prices, the affordability of residential real estate has also declined sharply. Average net earnings in relation to property prices fell annually and are now only 60 percent of 2000 and 62 percent of 2009.

Since mid-2022, the affordability of residential real estate has also been unfavourably affected by the tightening of monetary policy by the ECB and the subsequent increase in the cost of credit financing. In the development since the financial crisis or in relation to the even longer period since the introduction of the euro, however, it is clear that it is not the interest rate development but the price increase of real estate that is decisive for the reduction in affordability.

Households more financially burdened because of the higher borrowing volume needed to buy the same size property as in 2000 or 2009.

Due to the strong price increase, the loan amount required to purchase a property of the same size today is much higher than in 2000 or 2009. A residential property that could be purchased for 100,000 euros in 2000 had a monthly loan instalment of just over 700 euros at an interest rate of 5.87 percent p.a. for a fixed-interest loan over a term of 20 years. To purchase a property of the same size today, a loan volume of about 270,000 euros is necessary. This would make the monthly loan instalment over 1,600 euros, and only because the interest rate in mid-2023, at just under 4 percent, is noticeably lower than in 2000.

Compared to 2009, the current interest rate is slightly higher. Thus, the recent tightening of monetary policy also contributes to higher borrowing costs. However, the contribution of interest to the higher budgetary burden of about 770 euros per month (590 versus 1,360 euros) for a property of the same size, which cost 100,000 euros in 2009, is only about 5 percent. 95 percent are due to a higher lending volume as a result of the increased property prices.

Compared to both 2000 and 2009, it is clear that the problem regarding the affordability of housing in Austria is the above-average price increase for real estate and not the interest rates for loans, which are even lower compared to 2000 and only marginally higher compared to 2009.

More details can be found in our analysis: "The price is the problem - affordability of home ownership in Europe declined". (https://www.bankaustria.at/en/markets-research-analyses.jsp)

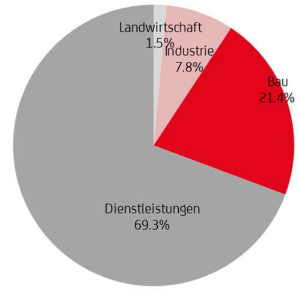
Austria at a glance

Strukturindikatoren	*2022*	
Fläche (in km²)	83,879	
Einwohner (in Mio.)	9.0	
Präsident	Dr. Alexander van der Bellen	
Bundeskanzler	Karl Nehammer	
Rating (Moody´s/S&P/Fitch)	Aa1/AA+/AA+	
Wirtschaftsleistung		
Bruttoinlandsprodukt (in Mrd. EUR)	447.2	
BIP pro Kopf (in EUR)	49,474	
BIP pro Erwerbstätigen (in EUR)	89,002	
BIP pro Kopf (in % des EU27-Durchschnitts, KKS)	128.0	
Bruttoinlandsprodukt (reale Vrdg. zum Vorjahr in %)	4.8	1.3 (Ø 2018-2022)
Arbeitskräftepotenzial (in 1000)	4,177	
Unselbständig Beschäftigte (in 1000)	3,914	3,795 (Ø 2018-2022)
Beschäftigtenquote (in %)	43.7	
Anzahl an Arbeitssuchenden (in 1000)	263	324 (Ø 2018-2022)
Vakanzquote (in %)	3.0	
Monatseinkommen pro Arbeitnehmer (brutto, in EUR)	4,038	

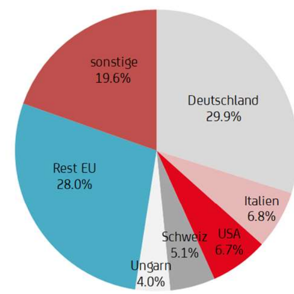
Internationale Wettbewerbsfähigkeit	*Ranking*	*Tendenz*
IMD-World Competitiveness Index	20	↘
IMD Wirtschaftliche Entwicklung	24	↘
IMD Effizienz der Regierung	34	↘
IMD Wirtschaftliche Effizienz der Unternehmen	18	↻
IMD Infrastrukturqualität	10	↗
Transparency International Korruptionswahrnehmungsindex	17	↘
Europäisches Innovationsscoreboard	8	↻

Forschungsquote (F&E-Ausgaben in % des BIP)	3.2		
Investitionsquote (Investitionen in % des BIP)	25.3		
Abgabenquote (Steuern und Abgaben in % des BIP)	42.9		
Warenexporte (in Mrd. EUR)	194.7	6.9	(Ø 2018-2022)
Exportquote (in % des BIP)	43.5	39.9	(Ø 2018-2022)
Warenimporte (in Mrd. EUR)	215.3	8.5	(Ø 2018-2022)
Importquote (in % des BIP)	48.1	42.1	(Ø 2018-2022)
Ausländische Direktinvestitionen (aktiv, in Mrd. EUR)	-3.8	9.0	(Ø 2018-2022)
Ausländische Direktinvestitionen (aktiv in % des BIP)	-0.8		
Ausländische Direktinvestitionen (passiv, in Mrd. EUR)	-1.8	4.3	(Ø 2018-2022)
Ausländische Direktinvestitionen (passiv, in % des BIP)	-0.4		

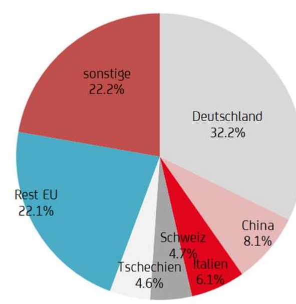
BIP nach Sektoren 2022



Wichtigste Exportmärkte 2022



Wichtigste Importmärkte 2022



Regionale Wirtschaft 2022	*Fläche (in km²)*	*BIP (reale Vrdg. zum VJ in %)*	*(Ø 2018-2022)*	*BIP/Kopf (in EUR)*	*BIP (in % von Österreich)*	*Arbeitslosenquote in %*
Burgenland	3,962	5.7	1.06	35,400	2.3	6.3
Kärnten	9,538	7.3	2.73	45,100	5.6	7.1
Niederösterreich	19,186	4.4	1.60	41,900	16.0	5.9
Oberösterreich	11,980	3.9	1.68	50,700	17.2	4.0
Salzburg	7,156	7.7	1.63	60,000	7.4	5.2
Steiermark	16,401	3.8	1.12	44,700	12.7	3.7
Tirol	12,640	8.1	0.58	51,300	8.5	4.0
Vorarlberg	2,601	5.3	1.39	57,000	5.1	4.9
Wien	415	4.3	1.22	57,800	25.1	10.5

Quellen: Statistik Austria, OeNB, IMD, TI, WEF, EU Kommission, UniCredit Research

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

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