Focus Austria

Bank Austria
Member of UniCredit

OCTOBER 2022

Review and Outlook 2022/2023

Mild recession expected for Austria's economy

International environment

	Forecast			
	2020	2021	2022	2023
(GDP, change in %)				
Eurozone	-6.1	5.2	3.1	0.2
Germany	-3.7	2.6	1.4	-0.2
France	-7.8	6.8	2.5	0.4
Italy	-9.0	6.7	3.3	0.0
Spain	-11.3	5.5	4.5	1.9
UK	-11.0	8.4	3.3	-0.3
USA	-2.8	5.9	1.5	-0.1
Japan	-4.8	1.8	1.6	1.0

	2018	2019	2020	2021
(annual average)				
USD per euro	1.18	1.12	1.14	1.18
CHF per euro	1.15	1.11	1.07	1.08
GBP per euro	0.88	0.88	0.89	0.86
JPY per euro	130.4	122.1	121.8	129.7
Oil (USD/barrel)	72	64	43	71
10y Gov. bond (A)	0.69	0.05	-0.28	-0.27
3m Euribor	-0.32	-0.36	-0.42	-0.55

Source: UniCredit Research

	2020	2021	2022	Rev.[1]	2023	Rev.[1]
GDP (real, change in %)	-6.5	4.6	5.3	↗	0.4	↘
Inflation (CPI, in %)	1.4	2.8	8.3	↗	5.5	↗
Unemployment rate (in %)	9.9	8.0	6.3		6.3	↗

1) Revision since last report

- **Austria's economy with strong growth in first half of 2022 - but economic slowdown already setting in**

  Supported by a pandemic-related base effect, Austria's economic output grew by 7.5 percent year-on-year in the first half of 2022. However, after a very dynamic start to the year, economic development slowed due to the impact of the war in Ukraine on supply chains and inflation caused by higher energy prices.

- **Inflation reduces purchasing power and willingness to invest - recession likely in winter, hardly any growth in 2023 as a whole.**

  The economy in Austria will continue to cloud over in the coming months. Higher energy prices are triggering price increases in many other product groups and leading to real income losses despite the government's counter-measures through three inflation compensation packages by now. The weakening of private consumption and the high level of uncertainty, including with regard to energy supplies, are also reducing companies' willingness to invest, especially as export prospects are also deteriorating despite the weaker euro as a result of the cooling of the global economy.

  We expect a recession in Austria during the winter months due to the negative impact of high energy prices. A supply freeze of imported goods (gas) from Russia is not part of our forecast scenario, but the Austrian economy will nevertheless only slowly get back on track in the course of 2023. Following the increase in GDP of around 5 percent in 2022 due to the dynamic start to the year, we expect economic growth of only 0.4 percent in 2023.

- **Unemployment rate fell to 6.5 percent in the first half of 2022 - improvement to 6.3 percent for the year as a whole**

  Due to the strong recovery momentum in the first half of the year, the seasonally adjusted unemployment rate fell from almost 7 percent at the beginning of the year to 6.2 percent by June. Meanwhile, the economic slowdown has been reflected in an increase to 6.4 percent in September. In the coming months, the slowdown in the economy will continue to have a negative impact on developments in the labor market, but we nevertheless expect the unemployment rate to fall to 6.3 percent on average for 2022, down from 8.0 percent in 2021. For 2023, we expect it to stabilize at 6.3 percent.

- **Inflation acceleration in the first half of 2022 due to energy prices - over 8 percent inflation expected on average for the year**

  The sharp rise in commodity prices led to inflation doubling to 2.8 percent in 2021 compared with 2020. In the first half of 2022, the pace of inflation accelerated significantly as a result of sharp rises in energy prices in connection with the war in Ukraine. On average, we expect inflation in Austria to reach 8.3% in 2022. Inflation is not expected to slow down until after the winter. Nevertheless, inflation is expected to average around 5.5 percent in 2023.

Author: Walter Pudschedl

Imprint
Published by UniCredit Bank Austria AG
Economics & Market Analysis Austria
Rothschildplatz 1
1020 Vienna
Telephone +43 (0)50505-41957
Fax +43 (0)50505-41050
e-Mail: econresearch.austria@unicreditgroup.at

as of October 2022

- **Turnaround in monetary policy in the euro area - time window for interest rate hikes expected to be short**
  The European Central Bank has responded to the unabated rise in inflation across Europe by tightening monetary policy from July. After raising key interest rates by 50 basis points in July and 75 basis points in September, we expect the ECB to take further interest rate steps up to a level of 2.75 percent for the refinancing rate and 2.25 percent for the deposit rate in March 2023. As the economic window of opportunity for a normalization of monetary policy is likely to close more quickly than previously assumed, the ECB has accelerated the pace of interest rate hikes.

- **Budget deficit and total debt to fall in 2022/23 - economic slowdown and inflation compensation slow down decline**
  A Following the record deficit of 8.0 percent of GDP in the first pandemic year of 2020, the general government budget deficit narrowed to 5.9 percent of GDP in 2021. The positive trends of the previous year continued in the first half of 2022. We currently project a budget deficit of 2.9 percent of GDP and, despite the economic slowdown and inflation adjustments, a further decline to 2.5 percent of GDP in 2023.

Economic situation at a glance

								forecast UCBA	
	2015	2016	2017	2018	2019	2020	2021	2022	2023
Real change in %									
GDP	**1.0**	**2.0**	**2.3**	**2.4**	**1.5**	**-6.5**	**4.6**	**5.3**	**0.4**
Private consumption	0.5	1.5	2.0	1.1	0.5	-8.0	3.6	4.7	0.2
Public consumption	0.9	1.8	0.8	1.3	1.3	-0.5	7.8	2.7	1.0
Gross fixed capital formation*)	2.3	4.3	4.2	4.4	4.5	-5.3	8.7	-1.0	0.0
Investments in plant and machinery	3.9	9.5	7.4	1.2	1.6	-9.5	16.0	-2.8	-1.5
Investments in construction	0.1	0.3	2.7	5.6	3.6	-3.4	5.8	1.5	1.4
Exports	3.0	3.0	4.9	5.2	4.0	-10.7	9.6	16.2	5.3
Imports	3.6	3.7	5.3	5.3	2.1	-9.2	13.7	9.3	4.4
CPI (change in %)	**0.9**	**0.9**	**2.1**	**2.0**	**1.5**	**1.4**	**2.8**	**8.3**	**5.5**
HCPI (change in %)	0.8	1.0	2.2	2.1	1.5	1.4	2.8	8.2	5.5
Saving ratio (in %)		**7.8**	**7.5**	**7.7**	**8.6**	**13.3**	**12.0**	**5.4**	**4.4**
Current account (in euro bn)	5.9	9.7	5.1	3.5	8.3	7.2	-2.1	-6.0	-5.0
Current account (in % of GDP)	1.7	2.7	1.4	0.9	2.1	1.9	-0.5	-1.3	-1.1
Employment (in 1,000)**)	3,449	3,502	3,573	3,661	3,720	3,644	3,734	3,835	3,870
Employment (change in %) **)	1.0	1.6	2.0	2.5	1.6	-2.0	2.5	2.7	0.9
Unemployment rate (nat. def.)	**9.1**	**9.1**	**8.5**	**7.7**	**7.4**	**9.9**	**8.0**	**6.3**	**6.3**
Unemployment rate (EU def.)	6.2	6.5	5.9	5.2	4.8	6.0	6.2	4.5	4.5
Unemployed (annual average in 1,000)	354	357	340	312	301	410	332	265	264
General gov. balance (in % of GDP)	**-1.0**	**-1.5**	**-0.8**	**0.2**	**0.6**	**-8.0**	**-5.9**	**-2.9**	**-2.5**
Public-sector debt (in % of GDP)	84.9	82.8	78.5	74.1	70.6	82.9	82.3	76.9	76.2
Nominal GDP (in euro bn)	344	358	369	385	397	381	406.1	451.3	471.1

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

Source: Statistik Austria, OeNB, UniCredit Research

Expiring opening effects, supply chain disruptions and rise in inflation end economic upswing

- Strong recovery of the Austrian economy by 4.6 percent in 2021 continued at the beginning of 2022, but already lost pace
- Economic output increased by 7.5 percent year-on-year in the first half of 2022
- Consequences of the conflict in Ukraine impact investment activity and consumption
- High momentum in goods trade and, thanks to tourism, also in services trade
- Risk of recession from the second half of the year, but strong start to the year should still allow economic growth of 5.3 percent for 2022
- Economic growth will be noticeably lower in 2023. We expect GDP to rise by only 0.4 percent
- Focus: Austria's industry in record pace from boom to recession

Strong tailwind from the beginning of 2022 subsides

Recovery from the pandemic resulted in high economic growth of 4.6 percent in 2021

The Austrian economy emerged from the winter recession at the beginning of 2021 on a strong recovery path, supported by the improved global environment and the abatement of the pandemic. Although the recovery slowed sharply again toward the end of the year due to the need for renewed restrictions on economic activity, this did not prevent the economy from growing very strongly overall by 4.6 percent in 2021 as a whole.

GDP growth in first half of 2022 as high as 7.5 percent thanks to pandemic-related base effect, but growth dynamic wanes

Despite the slowdown in the global economy, the Austrian economy got off to a very dynamic start in 2022. Economic growth rose to 1.3 percent quarter-on-quarter in the first quarter. The main drivers of this positive development were industry and the construction sector. In both sectors, strong demand led to increasing capacity utilization and even double-digit production growth. The service sector, in particular trade, accommodation and food services and other body-related services, benefited from less restrictive measures to contain the pandemic thanks to a favorable course of the virus. However, after this acceleration of the economy, the general conditions changed abruptly with the beginning of the war in Ukraine. The supply problems, which worsened again, as well as the sharply rising prices, especially for energy, began to slow down the development in industry and construction. In the service sector, on the other hand, the opening of the economy, especially for the retail and hospitality sectors, had a positive impact, although high inflation began to dampen consumers' purchasing power. Economic growth rose to 1.9 percent quarter-on-quarter, a very respectable figure given the underlying conditions. In the first half of 2022, a statistical overhang resulted in a high year-on-year increase in GDP of 7.5 percent. As

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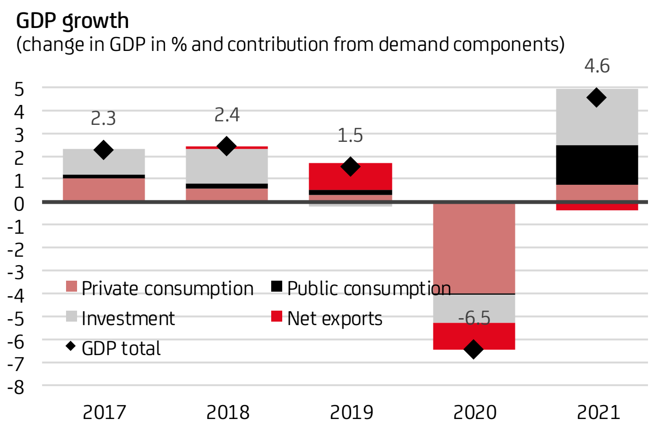
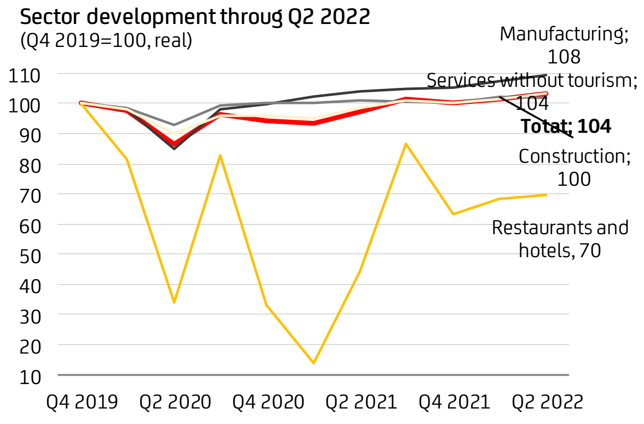
AUSTRIA´S ECONOMIC OUTPUT NOW EXCEEDS PRE-PANDEMIC LEVELS IN ALL MAIN SECTORS





Source: Statistik Austria, Refinitiv Datastream, UniCredit Research

Consumption comes under pressure from real income losses due to high inflation

Domestic demand was the mainstay of economic recovery in 2021

Domestic demand was the driving force behind the strong recovery of the Austrian economy in the second year of the pandemic. In this context, public consumption showed the highest growth in 2021, with an increase of almost 8 percent in real terms according to the latest data, due to the large number of health policy measures. Private consumption also achieved a strong overall increase of 3.7 percent, despite major fluctuations during the year due to temporary pandemic restrictions. Overall, therefore, consumption grew by almost 5 percent in the past year.

Elimination of pandemic measures gave private consumption a strong boost in the first half of 2022, but momentum slowed after the outbreak of war in Ukraine

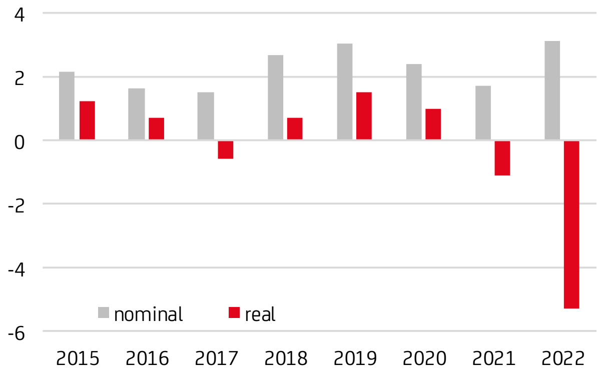
The end of 2021 was marked by renewed economic restrictions to stop the spread of the pandemic, but these were largely lifted at the beginning of 2022, allowing most service sectors, especially trade and tourism, to operate under more favorable conditions. The opening of contact-related services supported an increase in private consumption in the first quarter of 2022, which was particularly pronounced year-on-year due to the severe restrictions in the winter of 2020. However, consumer sentiment deteriorated abruptly following the outbreak of war in Ukraine. The second quarter saw a quarter-on-quarter decline in private consumption despite an improvement in the labor market with record employment and the lifting of all pandemic measures. While tourism benefited from the pent-up travel demand and existing financial reserves resulting from the lack of consumption opportunities during the pandemic, the retail sector already suffered losses as a result of rising inflation, which led to real income losses and thus began to dampen consumer demand in the spring. Compared with the previous year, private consumption continued to grow in the second quarter, but at a much slower pace. Nevertheless, private consumption grew by more than 9 percent in real terms, outpacing the economy as a whole in the first half of 2022. However, consumption as a whole only recorded an increase of less than 8 percent, as growth in public consumption declined to around 4 percent due to the gradual withdrawal of various healthcare spending measures.

Sharp drop in private consumption expected in second half of 2022 due to income losses following rise in inflation

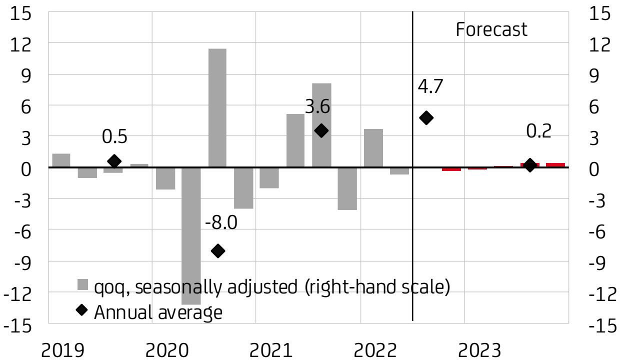
We expect private consumption to record noticeable losses in the second half of the year. While a still good tourism season should provide support in the third quarter, consumer demand will increasingly suffer from rising uncertainty due to the ongoing war in Ukraine and high inflation, which is leading to real income losses. Collectively agreed wages in Austria have risen by around 3 percent in nominal terms, while inflation has now reached double digits. However, the government's compensation packages should be able to offset the effects of the rise in inflation, at least in the area of energy prices, but the loss of purchasing power will be significantly higher. Following an increase in private consumption of over 4.5 percent in 2022, we expect private consumption to stagnate in the following year 2023.

WAGE GROWTH WILL NOT COMPENSATE FOR LOSS OF PURCHASING POWER DUE TO HIGH INFLATION

Collective wage
(yoy, nom. and real in %)



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



Source: OeNB, Statistik Austria, UniCredit Research

Uncertainty increasingly curbs willingness to invest

Investment supported the economic recovery in 2021 to roughly the same extent as consumption, with gross fixed capital formation increasing by 8.7 percent in real terms. A strong rebound after the slump in the first pandemic year was recorded in equipment investment, which increased by 16 percent. However, construction investment also rose strongly by 5.8 percent.

Increase in investment of almost 9 percent in real terms in 2021 following the sharp pandemic related decline

Following the recovery in investment in 2021, investment activity lost momentum in the first half of 2022, burdened by global supply bottlenecks and transport problems. Following a 1.4 percent quarter-on-quarter increase in the first quarter, gross fixed capital formation fell by 1.3 percent in the second quarter. Investments in housing, information and communications technology and vehicles had a strong impact on the negative development. Due to the high base in the first half of 2021 following the strong rebound in investment supported by catch-up effects, there was a clear year-on-year decline in gross fixed capital formation of 2.5 percent in the first half of 2022.

Weakening of investment in the first half of 2022

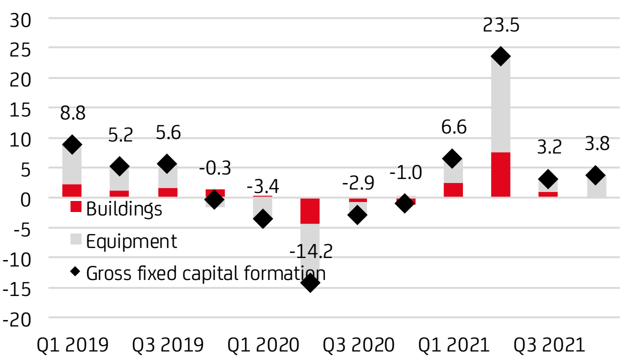
The cooling of the economy in the second half of 2022 will continue to have an unfavorable impact on the development of investment. Equipment investment in particular will suffer from the changed conditions since the outbreak of war in Ukraine. In the coming months, companies will shift their focus from demand-driven expansion investments to necessary replacement investments. The downward trend in orders, as indicated by the UniCredit Bank Austria Purchasing Manager Index for several months now, will result in the postponement of the implementation of planned investments, especially since the security of supply and the dynamic cost development of many raw materials and input materials must also be taken into account. The cost dynamics for input materials but also in the personnel area as well as the lack of availability of labor could increasingly prove to be an investment damper, especially in the construction sector. Added to this are the somewhat less favorable financing conditions as a result of the monetary policy turnaround.

Strong headwind from war in Ukraine

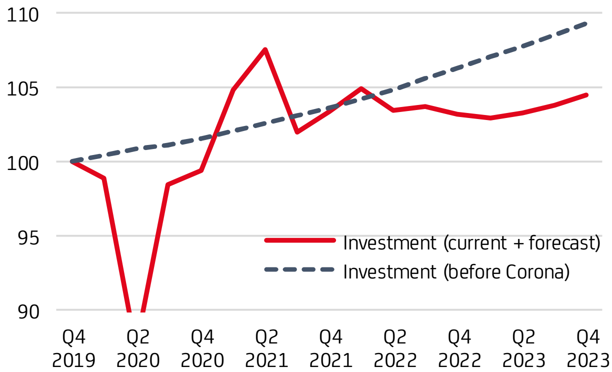
However, investment development will continue to be supported by government bonuses and subsidies, which should support new investments in the areas of greening or sustainability, digitization and innovation in particular. In addition, capacity utilization in domestic industry is well above the long-term average, which should make it necessary to increase investment. We expect a continued slowdown in investment activity in the second half of the year. Only later in 2023 should investment activity regain momentum as the economic outlook improves. On average, we expect gross fixed capital formation to stagnate in 2023, following a decline of 1 percent in 2022.

DETERIORATION IN GENERAL CONDITIONS SLOWS RECOVERY IN INVESTMENT IN 1H 2022

Gross fixed capital formation
(real change in %, yoy, with contributions from equipment and buildings)



Gross fixed capital formation in Austria
(real, Q4 2019=100)



Source: Statistik Austria, Refinitiv Datastream, UniCredit Research

Recovery in foreign trade should continue in 2022 despite burden from Ukraine crisis

Global economic recovery supported strong export growth in 2021

Following the pandemic-related slump in 2020, the economic recovery in 2021 also led to significant growth in foreign trade. Exports rose by over 9 percent year-on-year in real terms. Growth was supported by the rebound in export-oriented industry, which led to a large increase in goods exports of more than 12 percent. By contrast, service exports only grew by just under 4 percent despite lower restrictions, as tourism exports again fell sharply. Imports rose by almost 14 percent, a much stronger increase due to the high demand for imports for investment and production. While goods imports rose by just over 14 percent, roughly the same rate as goods exports, services imports showed a completely different trend to services exports. The withdrawal of pandemic restrictions in the summer led to a sharp rise in Austrian travel abroad, which triggered an increase in services imports of almost 14 percent. Overall, foreign trade again dampened economic growth in Austria, even slightly more than in 2020.

Merchandise trade slowing, but momentum in trade in services picking up in first half of 2022

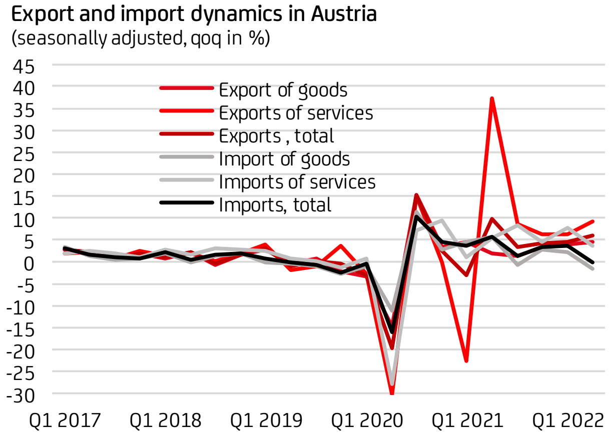
The first half of 2022 was marked, on the one hand, by the cooling of the global economy, which was reflected in the weaker growth momentum of merchandise trade, and, on the other hand, by the lifting of most pandemic-related restrictions, which had a positive impact on many services and enabled a strong comeback of tourism in particular. Exports rose 22 percent in real terms in the first half of 2022, driven by a 50 percent increase in services and a goods export increase of as much as 13 percent. Imports increased by just under 12 percent in real terms, also thanks to stronger stimulus from services.

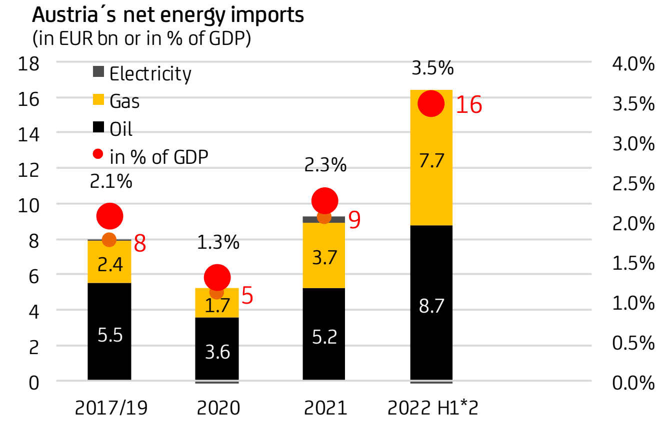
In the second half of 2022, we expect a clear slowdown in export growth, particularly goods exports, in step with the further cooling of the economy as a result of the conflict in Ukraine. Imports will also grow more slowly in real terms in the coming months as a result of falling investment requirements. Overall, we expect foreign trade to make a positive contribution to overall economic growth in real terms in 2022.

High energy imports due to price increases weigh on trade balance and push current account strongly into negative territory in 2022

Due to the sharp rise in energy prices, Austrian imports will increase strongly in nominal terms in 2022. We expect net imports for energy alone to double from around EUR 9 billion in 2021 to at least EUR 18 billion. This will cause the trade balance, which had already slipped into the red in the previous year, to massively widen its deficit. Despite a significant improvement in the services balance thanks to developments in tourism, the current account will deteriorate noticeably in 2022. We expect the deficit to increase from 0.5 percent of GDP in 2021 to 1.3 percent of GDP in 2022.

ECONOMIC SLOWDOWN AND ENERGY PRICE DYNAMICS DETERMINE EXTERNAL TRADE TREND IN THE COMING MONTHS





Source: Statistik Austria, Refinitv Datastream, UniCredit Research

Economic slowdown likely to lead to winter recession

Economic sentiment on a downward trend

The cooling of economic sentiment in Austria has accelerated. The roughly two-year recovery of the Austrian economy is rapidly coming to an end. The main reasons for this are the distortions in the supply chains, where relief is only slowly becoming apparent, and above all the development of energy prices as a result of the war in Ukraine. The economic climate in Austria was dampened at the beginning of the second half of the year, above all by the noticeable deterioration in sentiment in industry and construction. Optimism in the service sector is now also declining sharply, especially as consumer sentiment has fallen to an all-time low

Production sectors in downturn, services still benefiting from pent-up demand

The index for global industry sentiment, calculated on the basis of Austria's foreign trade shares, has reached its lowest level since the end of 2020. In step with the deterioration in the export environment, sentiment in domestic industry fell sharply at the end of the summer. The business outlook is suffering from the now sluggish new business, the only slowly improving delivery delays of suppliers and the persistently high costs for input materials and energy. In the construction industry, too, optimism has now diminished in view of the emerging decline in demand. However, the strongest setback for economic sentiment in Austria is the sharp drop in the mood of domestic consumers. Due to the relaxed pandemic measures and the large pent-up demand in some sectors, the tailwind for the service sectors has so far only diminished somewhat, but the service sector will probably soon join the downturn in industry and construction. Rising cost of living will noticeably dampen consumer demand among Austrians

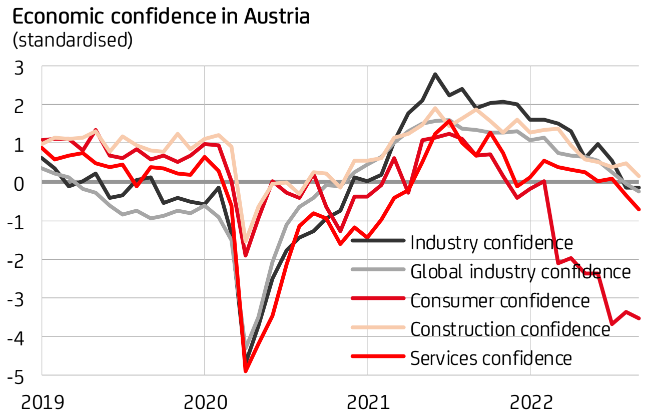
Stagnation in 3Q22, recession in winter

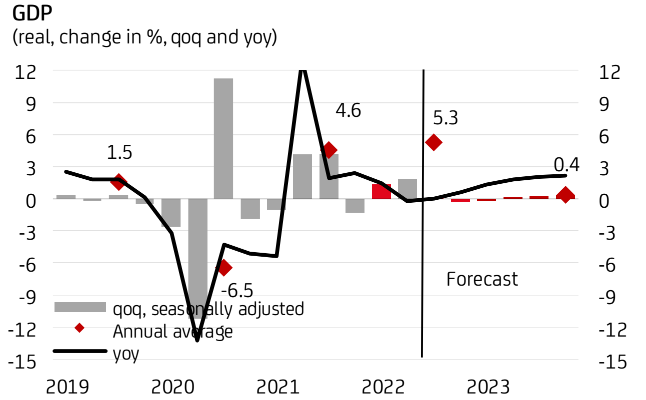
Following strong growth, the Austrian economy is likely to be on the verge of stagnation in the coming months. While construction and, above all, industry are no longer likely to be a pillar of growth, the service sector will be less and less able to hold out. The negative effects should intensify further over the winter, so we have to assume a decline in GDP in Q4 2022. Despite the weak second half of the year, economic growth in 2022 will be very high overall at 5.3 percent, supported by a pandemic-related base effect.

Economic growth of only 0.4 percent expected in 2023, down from 5.3 percent in 2022

The high cost increases will have a major impact on investment activity in the coming year, especially as consumer demand will be impacted by a loss of purchasing power due to high inflation. Both factors will have a noticeable negative impact on economic development, although their influence is expected to diminish over the course of the year. However, a sustained decline in economic output is expected at the beginning of the year, which means that the Austrian economy is likely to enter a technical recession over the winter. Due to the weak start to the year, we expect only minimal economic growth of 0.4 percent for 2023 as a whole.

ECONOMIC SENTIMENT HAS COOLED SINCE THE START OF THE WAR IN UKRAINE, SEVERELY DAMPENING THE GROWTH OUTLOOK





Source: Statistik Austria, UniCredit Research

High production growth in manufacturing averaging 7.7 percent in real terms in first half of 2022

Uncertainty over energy supply, high energy costs and labor shortages weigh on outlook

Austrian industry from boom to recession at record pace?

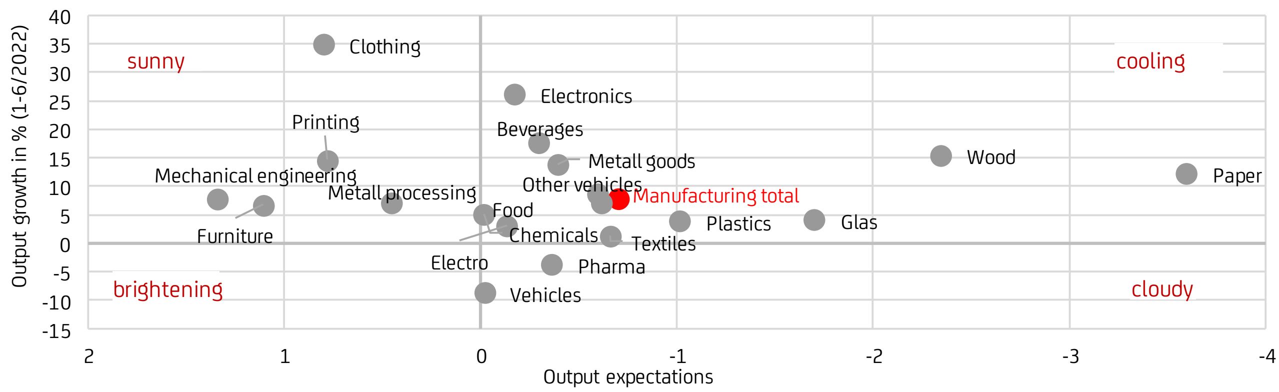
After the pandemic-related slump in the spring of 2020, Austrian industry quickly returned to the growth track and played a key role in shaping the recovery of the overall economy. Despite supply chain problems and cost increases, manufacturing output at the beginning of the second half of 2022 exceeded pre-pandemic levels by more than 8 percent in real terms. In contrast, overall economic output in Austria was only slightly more than 3 percent above the level before the outbreak of the Corona crisis. Despite the worsening of procurement difficulties and price increases for input materials and raw materials, especially energy, domestic manufacturing posted real output growth of 7.7 percent in the first half of the year, although the bar was set very high following the nearly 11 percent increase in the 2021 annual average. As expected, with the beverage industry, paper production or the textile and clothing industry, those sectors that had suffered heavily during the pandemic were able to record high growth rates in the first half of the year. In addition, strong (international) demand ensured high production growth in metal production, metal goods manufacturing, mechanical engineering and, above all, the electronics industry.

With the outbreak of the war in Ukraine, the mood in industry has gradually started to deteriorate and industrial activity has slowed down. The UniCredit Bank Austria Purchasing Managers' Index reached 48.8 points in August and September, falling below the growth threshold of 50 points for the first time since spring 2020. Domestic industry thus appears to be at the beginning of a recession, especially as current business expectations in many sectors have turned negative. The industry climate has cooled in particular in the paper, wood, glass and plastics industries. Uncertainty about future energy supplies and above all the high price of energy, especially gas, are weighing heavily on the outlook in these sectors.

Due to strong growth in the first half of 2022, domestic industry will still achieve strong production growth of up to 4 percent in real terms on average over the coming months, despite the relapse into recession. The outlook for 2023 is much more cautious due to weakening demand and high energy costs, as well as uncertainty regarding the supply of energy and other input materials and an increasing shortage of skilled labor.

HIGH GROWTH IN 1H22, BUT PROGRESSIVE CLOUDING OF PRODUCTION EXPECTATIONS IN INDUSTRY

Industrial output and expectations
(Change against previous year in % or standardized valuese)



Source: Statistik Austria, EU Commission, UniCredit Research

Pause in the recovery of the labor market

- Strong economic recovery supported a sharp decline in the annual average unemployment rate to 8.0 percent in 2021 (national method).
- Strong economic growth enabled a decline in the unemployment rate through the summer of 2022, with a record employment rate of nearly 4 million.
- Interruption in declining trend as economy cools in second half: unemployment rate expected to average 6.3 percent in 2022 and 2023.
- Focus: No time for work?

From demand to supply market at high speed

Sharp drop in unemployment in 2021

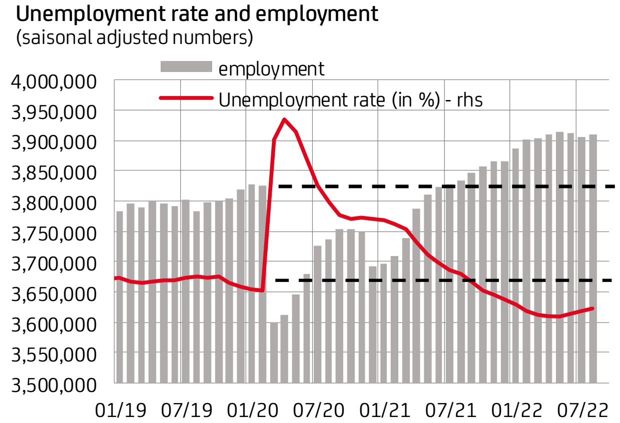
Supported by the economic recovery, there was a noticeable improvement in the situation on the labor market in 2021, which began in particular after the easing of pandemic-related restrictions in the spring. Employment increased by more than 90,000 persons, or 2.5 percent, to a record high of over 3.7 million. The number of jobseekers decreased by an average of 19 percent, lowering the unemployment rate to an annual average of 8.0 percent. According to Eurostat calculations, the unemployment rate was 6.2 percent.

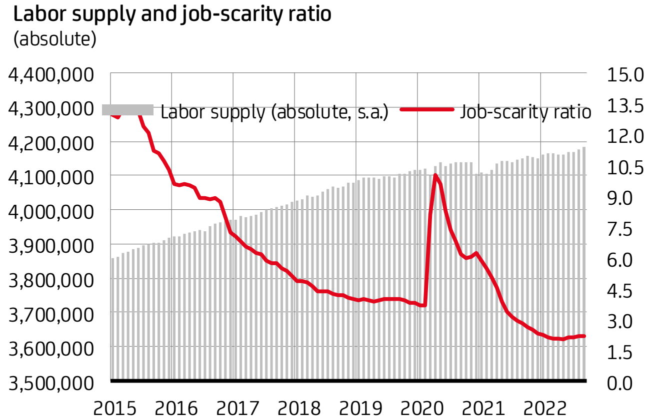
Continuation of declining unemployment trend triggers employment record and record number of vacancies

The improvement trend of the previous year continued in the first half of 2022, albeit at a much slower pace. The average unemployment rate for the first six months was only 6.5 percent. The seasonally adjusted unemployment rate even decreased to 6.2 percent at mid-year, reaching its lowest level since the fall of 2008, just before the consequences of the financial crisis hit the labor market. The number of people in employment at mid-year was almost 50,000 higher than at the beginning of the year, reaching a new record level of more than 3.9 million. The employment dynamic could have been much stronger in view of the peak in unfilled vacancies, as around 125,000 vacancies were registered with the AMS at mid-year.

At mid-year, these vacancies were offset by around 250,000 job seekers. This results in a job scarcity ratio of 2.0, i.e. 2 job seekers are currently available for every job vacancy in Austria. In many sectors that benefited from a good economic development in the first half of the year with an above-average reduction in the unemployment rate, the number of vacancies is still significantly lower, indicating a shortage of labor. This applies, for example, to the manufacturing industry with a job creation rate of only 1.4. However, it is also becoming increasingly difficult to meet demand from the existing labor supply in the retail and accommodation and food service sectors.

UNEMPLOYMENT FALLS TO LOWEST LEVEL IN 14 YEARS IN MID-2022, LABOR SUPPLY BECOMES TIGHTER





Source: AMS, Statistik Austria, UniCredit Research

Improvement trend takes a break

Economic slowdown puts brakes on labor market

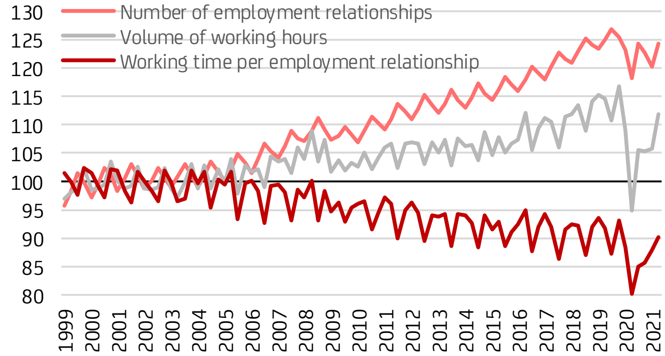
Due to the expiry of post-pandemic catch-up effects and the economic slowdown in recent months as a result of the strains caused by ongoing supply disruptions and the war in Ukraine, the improvement trend in the labor market has clearly slowed since the beginning of the year and has been interrupted since the middle of the year. Since June, the seasonally adjusted month-on-month unemployment rate has been rising for the first time since peaking during the first Corona lockdown in April 2020 and stood at 6.4 percent in September.

As a result of the intensifying economic slowdown, we expect the unemployment rate in Austria to rise in the coming months, but this should be manageable, also due to the still high number of registered vacancies in many sectors. For the annual average of 2022, we expect an unemployment rate of 6.3 percent, the lowest level since 2007. The unemployment rate according to the EU method is expected to fall to an average of 4.5 percent.

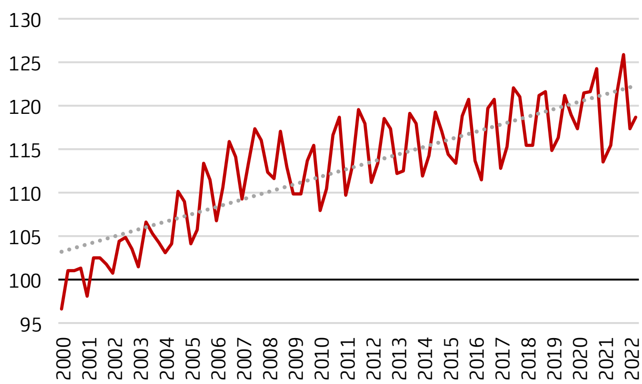
Despite the cooling of growth momentum in the coming year, employment is expected to continue to rise, largely offsetting the slight increase in labor supply, so that the unemployment rate is expected to stabilize at 6.3 percent on average for the year.

MORE EMPLOYEES ARE WORKING FEWER AND FEWER HOURS, BUT ARE BECOMING STEADILY MORE PRODUCTIVE

Number of employment relationships and volume of working hours (2000=100)



Gross value added per employee hour (real, 2000=100)



Source: AMS, Statistik Austria, Bali web, UniCredit Research

No time for work?

Good economy brings employment to new record level

In mid-2022, employment in Austria reached a new record high. Including the approximately 3.9 million employed persons and the roughly 300,000 marginally employed persons, there were a total of around 4.2 million employment relationships. This represents an increase of almost one million since 2000. Despite record employment as a result of the good economic development in recent months, companies are complaining more loudly about a tightening supply on the labor market. The number of job seekers, including training participants, has fallen to around 250,000 by mid-2022, and well over 100,000 vacancies cannot currently be filled. At 2.0, the job vacancy rate is by far the lowest in the past three decades.

In view of the record level of employment relationships, the volume of working hours in Austria is also at an all-time high of over 1.55 billion hours in the second quarter of 2022. However, the volume of working hours has "only" increased by around 15 percent since 2000, while the number of employment relationships has risen by almost 30 percent.

This means that domestic companies are not actually facing a shortage of workers, but rather a shortage of available working hours in the labor supply. This is a long-standing trend that is currently exacerbated by a smaller increase in labor supply than before the Corona pandemic. At around 370 hours per employment relationship, the volume of working hours in the second quarter of 2022 is around 40 hours lower than the volume of working hours per employment relationship on average in 2000. There has been an above-average drop in working hours per employee in agriculture, construction and the trade, transport, accommodation and food service sectors.

Lack of available working time of the labor supply

However, the declining volume of working hours per employment relationship is offset by a significant increase in productivity. Real gross value added per hour worked in Austria has risen by almost a quarter since 2000. As expected, above-average productivity improvements were achieved in industry, but also in agriculture and financial services, for example. While some productivity progress has been made in accommodation and food services, other service sectors, such as business services and public services, have seen hardly any improvements in recent years, and productivity in other services has even declined.

Significant increase in productivity compensates

The downward trend in available working time per employment relationship due to legal and socio-political changes (keyword: female employment, work-life balance) is expected to continue in the coming years. In addition, Austria is facing demographic developments that indicate at least a slowdown in the growth of the labor supply. In order to meet these challenges to Austria's prosperity, it will be necessary to step up efforts to increase productivity through innovation and the use of more efficient production methods. However, in many contact-oriented service sectors, such as accommodation and catering, this will be difficult to achieve without compromising quality.

Upward trend in inflation to continue into winter

- Rise in oil prices led to inflation doubling to 2.8 percent year-on-year on average in 2021
- Accelerated rise in inflation via energy prices as a result of the Ukraine crisis in the first half of 2022 to an annual average of 6.9 percent.
- Price surges in the energy sector and cost pass-through to other goods and services leads us to expect further increases in inflation through the winter. Inflation expected to rise to an annual average of 8.3 percent in 2022. Decline in inflation from winter should reduce inflation to 5.5 percent in 2023.
- ECB prefers interest rate hikes: Key interest rate expected to rise to 2.75 percent by March 2023
- Focus: those in the shadows can't be seen?

Inflation accelerated significantly since the beginning of 2022

Inflation rose to 2.8 percent on average in 2021, up from just 1.4 percent in 2020

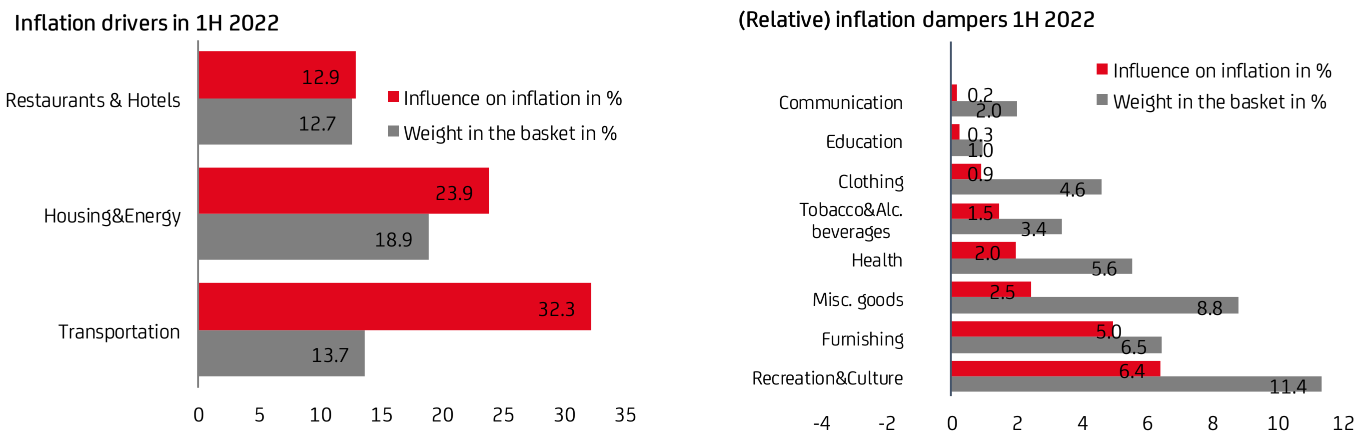
The sharp rise in commodity prices due to the onset of economic recovery amid persistent supply and transport problems led to a noticeable acceleration in inflation in 2021 to over 4 percent by the end of the year. On average for the year, inflation doubled to 2.8 percent compared with 2020.

In the first half of 2022, inflation picked up even more speed. By mid-2022, inflation in Austria was already 8.7 percent year-on-year. Behind the strong upward movement in consumer prices was, above all, the strong increase in energy prices. The impetus initially came from the price of crude oil, which rose from around USD 80 per barrel at the beginning of the year to over USD 120 in June as the Ukraine crisis flared up. The simultaneous weakening of the euro against the U.S. dollar by more than 7 percent reinforced the oil price-related upward pressure on prices. Uncertainty about the supply situation for natural gas from Russia triggered a multiplication of the price of gas, which impacted on the price of electricity, leading to a strengthening of inflationary dynamics as the year progressed.

Energy prices accelerated inflation to almost 9 percent by mid-2022

The sharp rise in energy prices had an increasing impact on consumer prices, especially in the transport sector via fuel prices, and in the housing and energy sector mainly via housing energy. The rise in energy prices alone was responsible for more than half of the inflation of 6.9 percent on average in the first half of 2022. In addition, the upward trend in food prices as a result of higher energy and fertilizer prices also increasingly drove consumer price inflation. Due to high demand, many service sectors, including accommodation and hospitality services, also experienced rising price inflation following the easing of pandemic restrictions.

ENERGY PRICES DIRECTLY RESPONSIBLE FOR OVER 50 PERCENT OF INFLATION IN 1ST HALF 2022



Source: Statistik Austria, UniCredit Research

Further price spikes still ahead

Inflation expected to rise to an average of 8.4 percent in 2022, the highest level since 1975

Following the rise in inflation in Austria in the first half of 2022 to an average of 6.9 percent, the upward trend in inflation will continue into the winter. While the price momentum for energy commodities, which has been the determining factor for the rise in inflation in recent months, is weakening, the passing on of higher costs to consumers in the coming months in the form of food prices and electricity and gas prices will provide a further boost.

In addition, strong demand following the easing of pandemic measures in the accommodation and catering sectors, among others, is also fueling inflation, which is also being fueled somewhat by government compensation payments, mainly to lower-income households with a high propensity to consume. This means that double-digit inflation in Austria can no longer be ruled out in the coming months. However, in view of the volatile influences and planned government price controls in areas such as electricity supply, the inflation forecast is characterized by a high degree of uncertainty.

We expect inflation in Austria to average 8.3 percent in 2022. Inflation is only expected to slow down over the winter. However, due to automatic index adjustments, inflation will initially decline only slowly in 2023, despite the likely dampening effect of (energy) commodity prices. We expect inflation to return to around 3 percent in the final third of 2023, dampened by the noticeable weakening of the economy. On average, we expect inflation to reach 5.5 percent in 2023.

Key interest rates in the euro zone expected to rise to up to 2.75 percent by March 2023

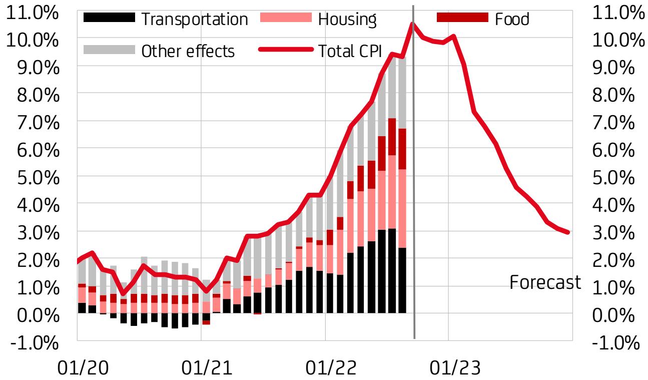
Further upward interest rate steps by the ECB to follow after the summer

The European Central Bank has responded to the unabated rise in inflation across Europe by beginning to tighten monetary policy from July. We expect the ECB to follow up the 50 basis point hike in key interest rates in July with 75 basis point hikes until the refinancing rate reaches 2.75 percent in March 2023. We see the deposit rate peaking at 2.25 percent in March 2023. As the economic window of opportunity for a normalization of monetary policy could close more quickly than previously assumed, the ECB has accelerated the pace of interest rate hikes.

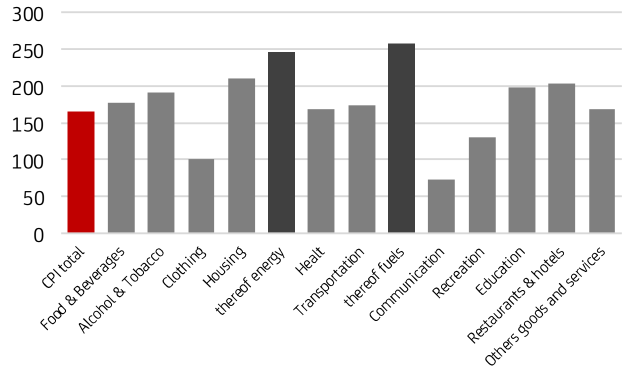
In order to ensure an effective transmission of monetary policy to all euro area countries, the Transmission Protection Instrument (TPI) was adopted in July 2022. The purchase of securities on the secondary market is intended to prevent a divergence of financing conditions in the euro area if necessary.

THE INFLATION PEAK IN WINTER 2022 SHOULD BE FOLLOWED BY A GRADUAL SLOWDOWN IN INFLATION OVER THE COURSE OF 2023

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



Long-term price developments
(August 2022, 1999=100)



Source: ECB, Statistik Austria, Eurostat, UniCredit Research

You can't see the ones in the shadows?

Energy and fuel prices also on strongest long-term upward trend, but only since fall....

I Since the introduction of the euro in 1999, the general price level in Austria has risen by 65 percent by August 2022. Among the 12 main groups, the increase was unsurprisingly strongest in the main group housing, water and energy, where it more than doubled compared with 1999 due to current developments. In addition to the sharp rise in rents, the price dynamics in this group were most strongly influenced by household energy for gas, electricity and district heating, as the special aggregate energy shows a price increase of 2.5 times since 1999. Also in this order of magnitude was a price increase for fuels, which are included in the main group transport. Although this group has seen an above-average price increase of more than 70 percent since 1999, the particularly strong fuel price momentum has been dampened, among other things, by the development of the acquisition costs of passenger cars and the prices of public transportation.

Until the energy shock, accommodation and catering services were the strongest price drivers in Austria.

However, the main group housing, water and energy considered as a whole has become the main group with the highest price increase in the long-term comparison only since the spring, since the outbreak of the war in Ukraine, due to the increase in energy prices. Before that, the highest price dynamics was seen in hospitality services. By the fall of 2021, the price increase in restaurants and hotels was even stronger than the long-term price increase in the energy and fuel sub-aggregates, respectively.

Accommodation and catering services to continue to show above-average price increases in the course of 2022

Prices rose slightly more for hospitality services than for lodging. The strong price increase in the restaurants and hotels category compared with, for example, post and telecommunications, the only main group in which prices are currently well below the 1999 level, can be explained, among other things, by the high labor intensity of these services, which makes productivity advances difficult. In addition, the high level of demand in recent years - apart from the temporary sharp falls during the Corona crisis - has made it easier to pass on rising costs and high investments in the quality of the services offered, for example for wellness facilities. This also made it possible to pass on the temporary reduction in VAT on these services as a relief during the pandemic, which ended at the beginning of the year, directly to prices as a rule, which again triggered an above-average price surge in the year to date in 2022. In the first eight months, prices in the sector rose by an average of 7.8 percent. General inflation rose by 7.4 percent in the same period.

Pandemic subsides, bringing new debt below Maastricht limit

- Economic recovery and scaling back of pandemic aid programs reduce budget deficit to 5.9 percent of GDP in 2021 and total public debt slightly to 83 percent of GDP
- High economic growth supports positive budget performance in first half of 2022: Despite tax changes and inflation packages, further reduction in general government budget deficit to 2.9 percent of GDP expected in 2022.
- Economic slowdown curbs further improvement in budget balance: Deficit expected at 2.5 percent of GDP in 2023
- Lower new borrowing enables further decline in public debt to below 76 percent of GDP by the end of 2023
- Focus: Can we afford rising interest rates?

Strong increase in revenues, significant reduction in expenditures

Economic recovery supported reduction in new debt to 5.9 percent of GDP in 2021

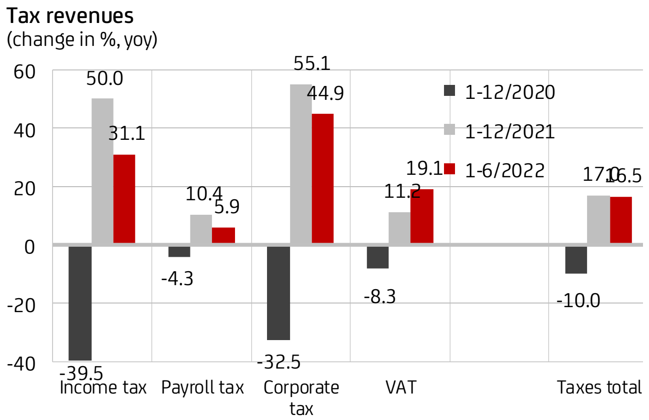
After a record deficit of 8.0 percent of GDP in the first pandemic year of 2020, the general government budget deficit narrowed to 5.9 percent of GDP in 2021. The upturn in the economy, with GDP rising by 4.8 percent, provided a very positive revenue performance, with a year-on-year increase of almost 9 percent, and the reduction in support measures, combined with the further decline in the interest burden, resulted in a weaker increase in spending than in year 1 of the pandemic, by almost 4 percent.

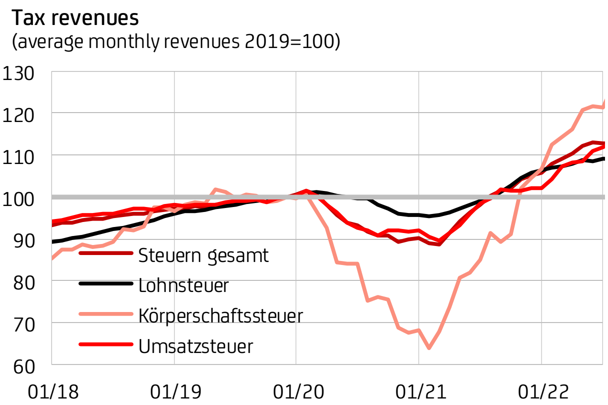
Revenue up 12 percent and spending down about 3.5 percent in federal budget in first half of 2022

The positive trends of the previous year actually continued at a stronger pace in the first half of 2022. Available federal budget data show strong positive effects from strong economic growth averaging 8 percent year-over-year. Receipts are almost 12% higher than in the previous year. This is mainly a result of strong year-on-year tax revenue growth of 16.5 percent. Revenues from all major taxes have increased significantly, especially from corporate and income taxes as a result of the improved economic situation of companies. Wage tax receipts also rose by around 6 percent due to the increase in employment, and VAT receipts increased by almost 20 percent. Overall, collections at the end of June had already reached almost 50 percent of the budget plan for the full year 2022 (2021: 45 percent).

In addition to the strong revenue growth, a decline in expenditures also eased the budget situation, but this was entirely due to a reduction in COVID-19 crisis management measures, in particular the cost of short-time work. On the other hand, disbursements not directly related to COVID 19 crisis management increased compared with the prior-year period. This was due, among other things, to higher investment subsidies and slightly higher interest payments.

ECONOMIC RECOVERY LED TO AN INCREASE IN BUDGET REVENUES ABOVE PRE-CRISIS LEVELS IN 2021





Source: BMF, Statistik Austria, Eurostat, UniCredit Research

Significant decline in budget deficit expected in 2022 rend reversal in the development of public debt

We expect a budget deficit of 2.9% of GDP in 2022

The favorable budget development in the first half of the year underscores that a significant year-on-year decline in the ratio of new debt to GDP can be expected in 2022 as a whole. However, the original budget plan adopted by parliament in the fall of 2021, which envisaged a deficit of 2.3 percent of GDP, is no longer achievable. We are currently assuming a budget deficit of 2.9 percent of GDP. Although the phasing out of various pandemic-related support measures, such as short-time work or the reduction in the range of health policy measures (e.g. Covid test), will ensure the expected noticeable reduction in budget spending, the changed economic conditions as a result of the war in Ukraine will lead to additional spending.

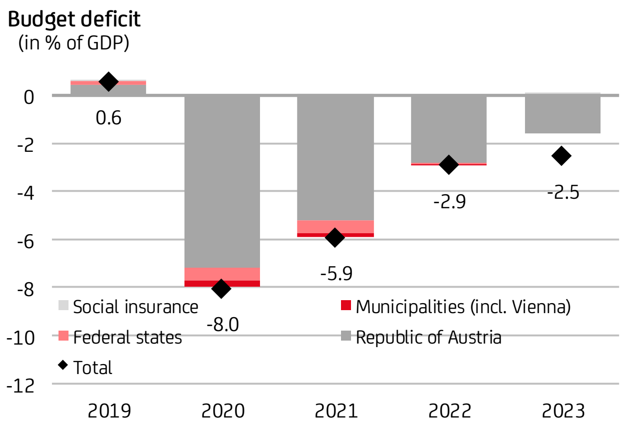
Only slight improvement in budget balance expected in 2023

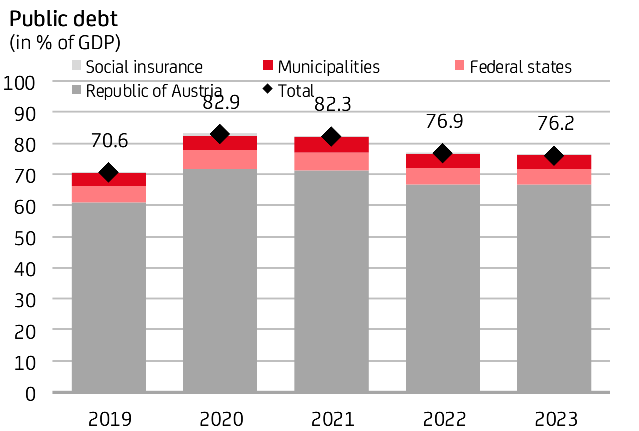
A number of measures, which also cause revenue shortfalls, are intended to mitigate the effects of the energy-price-induced rise in inflation and thus the reduction in the purchasing power of broad segments of the population. The government has so far adopted three so-called anti-inflation packages containing different measures that will affect spending and revenue development beyond 2022. Following the waiver of the eco-electricity subsidy and the eco-electricity subsidy flat rate, a cost-of-living adjustment for those particularly affected and energy cost vouchers in the first package, the second package includes a reduction in the natural gas and electricity levy, the introduction of an investment subsidy to strengthen energy independence and, above all, an increase in the commuter tax. The third package includes, among other things, the abolition of the cold progression, the introduction of the valorization of social benefits, as well as further one-off payments and increases in family benefits. Additional spending will also result from the build-up of natural gas reserves and higher expenses for refugees. In view of expenditure developments and the cyclically induced weakening of revenue momentum, we expect the budget deficit to improve only slightly to 2.5 percent of GDP in 2023.

Trend reversal in the development of public debt

Due to the more favorable development of new borrowing, total debt will fall noticeably in relation to economic output in 2022. After the pandemic high of almost 83% of GDP in 2020, we expect it to fall to 77% of GDP by the end of 2022. By the end of 2023, public debt is expected to fall to 76% of GDP.

DECLINE IN NEW DEBT CAUSES PUBLIC DEBT TO FALL IN RELATION TO GDP FROM 2022 ONWARD





Source: Statistik Austria, Refinitiv Datastream, UniCredit Research

Can we afford rising interest rates?

Absolute amount of Austrian public debt continues to rise

The measures taken to combat the Covid 19 health crisis or to cushion the economic consequences have increased public debt in Austria to well over 80 percent of GDP in 2020 and 2021. With the expiration of most support measures as the pandemic subsided, new public debt, which peaked at more than EUR 30 billion or 8 percent of GDP in 2020, has now been significantly reduced and is expected to be within Maastricht targets in 2022 and 2023, despite various measures to compensate for the rise in inflation. Total public debt in absolute terms, which stood at just over EUR 334 billion at the end of 2021, is thus still rising, albeit at a reduced pace. At the end of 2022, we expect debt to be close to EUR 350 billion, rising to almost EUR 360 billion by the end of 2023.

Interest rate turnaround has a delayed effect

Despite the rising absolute amount of debt, the cost of financing Austrian government debt has declined steadily in recent years due to the fall in interest rates in the euro area. Expenditures for servicing the debt, which still amounted to more than EUR 9 billion in 2009, fell to just EUR 4.5 billion in 2021. The average interest rate on government debt fell from almost 4 percent to just 1.35 percent over this period.

Interest burden will actually decline in relation to budget revenues in 2022

However, with the turnaround in interest rates in the euro area this summer and further interest rate hikes by the ECB in the pipeline, the question arises as to the sustainability of the financing of Austrian government debt. However, the yield on the Austrian ten-year government bond, which was actually negative in both 2020 and 2021 at an average of around 0.3 percent, is currently over 2 percent. The cost of new debt is thus currently significantly higher than in previous years. However, only part of total debt will be affected. According to the Austrian Federal Financing Agency, the total financing volume will amount to around EUR 60 billion in 2022. In addition to the additional new borrowing of around EUR 13 billion, this relates to debt rescheduling, although some of this was taken out at higher interest rates than are currently payable for Austrian bonds. In addition, a high proportion of the financing volume for 2022 was still taken out at more favorable conditions in the first half of the year. This means that the interest burden on Austrian government debt only reacts to rising market interest rates with a time lag. For this reason, we only expect the interest burden on the public budget in 2022 to be at the level of the previous year. Only in 2023 do we expect a noticeable increase in the absolute interest amount for servicing government debt for 10 years to around EUR 8 billion. For the time being, however, thanks to prudent debt management, debt servicing will be only slightly hampered despite the rise in interest rates. The good revenue performance in the budget, partly caused by high inflation, will increase spending on interest from below 2 percent of revenues from taxes and levies in 2021 to around 3 percent in 2023.

Economic challenges and interest rate turnaround shape lending and deposit business

- Increase in loans was only slightly lower in 2021 than in 2020, averaging 4 percent, and deposit growth was also strong at over 5 percent despite low interest rates
- Acceleration in loan growth in the first half of 2022 thanks to strong corporate demand and demand for housing finance. Deposit growth, on the other hand, declined significantly.
- Cooling economy weighs on loan demand and deposit momentum in 2022.
- Focus: headwinds for real estate financing?

Strong economy in first half of 2022 boosts credit demand and lowers deposit momentum

Strong loan and deposit growth in Austria in 2021 as well.

Given the strong economic recovery, however, 2021 brought another strong year-on-year loan growth of 4 percent in the Austrian banking market under the conditions of the ongoing pandemic. Corporate loans grew at an above-average rate of 4.8 percent year-on-year, and growth in housing loans even accelerated to almost 6 percent. Despite persistently low interest rates, deposits also rose strongly again in 2021. However, growth slowed to less than 5 percent year-on-year, mainly due to slower corporate deposit growth.

Acceleration of loan growth in the first half of 2022

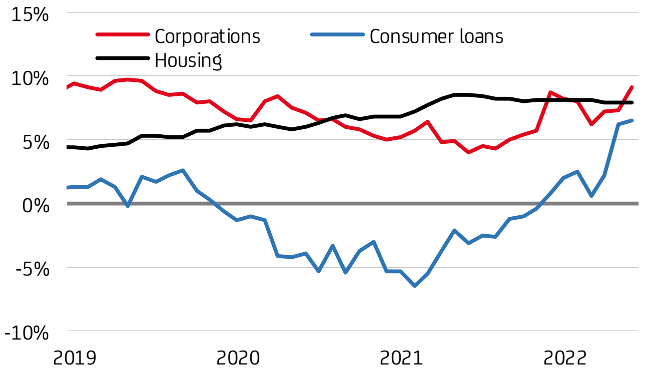
In the first half of 2022, loan volumes actually grew by an average of 6.6 percent year-on-year. Demand for corporate loans increased particularly strongly. The outstanding volume in mid-2022 was even 10 percent higher than a year earlier. Behind this is the sharp rise in demand for funding to secure liquidity during the economic upswing. The significant increase in demand for short-term financing shows that higher working capital loans were used to cover inventory purchases in the face of a sharp rise in raw material and input material purchases. Demand for financing from households also accelerated in the first half of 2022. Lending to households increased by an average of almost 6 percent. The good employment situation triggered an increase in consumer loans for the first time in many years, albeit only by a relatively modest 1.2 percent year-on-year. Housing loans for households picked up momentum again. Strong demand for residential real estate again triggered double-digit price increases for residential real estate in Austria. As a result, demand for financing increased to over 7 percent year-on-year.

...but slowdown in deposit growth

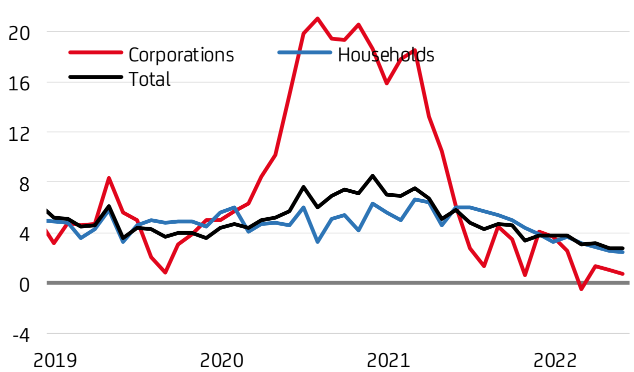
Deposit growth declined significantly to an average of 2.6 percent in the first half of 2022. While household deposit growth slowed to 2.9 percent year-on-year, corporate deposits remained largely unchanged.

LOAN DEMAND GAINED MOMENTUM THROUGH MID-2022, DEPOSIT GROWTH CONTINUED TO LOSE PACE

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



Development of deposits
(change in %, yoy)



Source: ECB, UniCredit Research

Interest rate turnaround and economic slowdown curb financing

Slight slowdown in credit demand expected in 2022

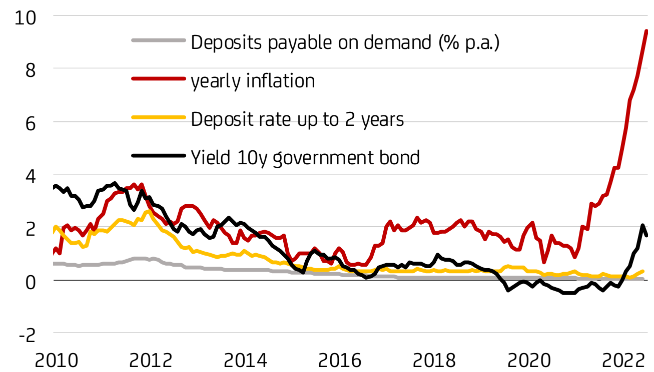
Deposit momentum to slow further

The ECB has already started tightening monetary policy and implemented an initial increase in key interest rates in July. In view of the expected short timeframe for further interest rate hikes due to economic developments, we expect a relatively brisk cycle of hikes, which will lead to a deterioration in financing conditions in Austria in the coming months. As a result of the rise in the cost of financing, we expect credit growth to slow toward 5 percent year-on-year by the end of 2022, with the interest rate turnaround and, above all, the imminent economic slowdown putting the brakes on development. For the coming months, we expect the hitherto very high momentum of lending to companies to slow down. Due to the economic headwinds, investment growth will continue to lose momentum. However, in view of inflation, there is still a high need for liquidity to cover the rising costs of starting materials and raw materials, especially as many companies are significantly increasing inventories to counter supply chain problems and increase security of supply. This should continue to have a positive impact on demand for working capital loans. Overall credit growth to companies will therefore decline only slowly in the further course of the year. However, on average for the year, the increase will be significantly higher than in 2021, at almost 9 percent, due to the dynamic development in recent months. We expect a stronger slowdown in demand for financing from private households. The positive trend in consumer loans is likely to slow in the coming months, but for the first time in many years, the annual average for 2022 is likely to show a slight year-on-year increase. Above all, however, we expect a weaker development in housing loans after the acceleration up to mid-year. In addition to the slight increase in the cost of financing due to the turnaround in interest rates and the high price momentum in the real estate sector, the new lending guidelines for loans under the 20/40/35 rule, which came into force on August 1, 2022, could also prove to be a burden (see info box). On average for 2022, housing loans are nevertheless expected to grow more strongly than in the previous year, at almost 7 percent, following the acceleration in the first half of the year.

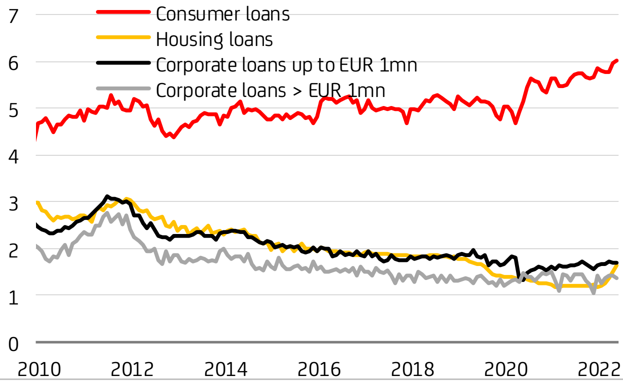
Despite the turnaround in interest rates, we expect deposit growth to decline in the coming months, especially as real interest rates remain strongly negative due to high inflation. High inflation is weakening consumers' purchasing power and thus reducing the savings rate of many households, which is likely to be reflected in a halving of year-on-year growth in household deposits to around 2.5 percent on average in 2022. The development of corporate deposits is likely to be even slower in the coming months due to increased financing requirements for working capital.

INTEREST RATES ON THE RISE

Interest rate and inflation
(in %, p.a.)



Interest rate for loans
(new business in %, monthly average)



Source: OeNB, UniCredit Research

Headwind for residential real estate financing?

The real estate boom in Austria reached a new peak in the first half of 2022. The continued strong demand for residential real estate for personal use and as investment property, driven by the uncertainty caused by increased inflation and geopolitical turmoil, again triggered a double-digit increase in real estate prices in Austria. In connection with this, the growth of real estate loans to private households accelerated to an average of 7 percent in nominal terms in the first six months. In our view, however, this means that the peak has passed and growth in residential real estate financing will slow noticeably in the coming months, as the particularly favorable conditions of recent years are beginning to change.

With the imminent economic slowdown, which also carries the risk of a brief recession, the improvement in the situation on the Austrian labor market will be interrupted for the time being and will make it impossible for many households to improve their housing situation. This hits Austrian households at a time when, notwithstanding the economic headwinds, a number of factors already point to increasingly limited affordability of residential real estate.

Since 2000, residential real estate prices in Austria have risen by a factor of 2.5. In Vienna, prices even increased threefold during the same period. However, the rise in prices has been far outstripped by the rise in incomes. Average incomes in Austria have risen by just over 50 percent since 2000. This means, for example, that an average annual net income is only enough to buy around 6.5m² of a apartment, just under half as much as in 2000. In addition, construction costs have risen at an above-average rate in the wake of the sharp rise in energy prices, as well as due to delivery problems and staff shortages, which leads us to expect that prices will continue to rise. This will tend to further reduce affordability. Moreover, not only the development of real estate prices, but also general inflation in the first half of 2022 is significantly higher than the development of incomes. As a result, Austrian households will experience real income losses and will have to incur higher household expenses, especially for energy, which will reduce discretionary spending and the savings ratio.

This not only makes it more difficult to save equity capital, but also reduces the share of household income that can be used to finance borrowing. In the previous year, for example, Austrian households spent around 9 percent on energy, but at today's energy prices the share is already around 15 percent. In addition, the conditions for loans have started to become more expensive in the first half of 2022, and the turnaround in the ECB's monetary policy will further increase the cost of real estate financing. The average interest rate for real estate loans rose from 1.2 percent in the previous year to over 1.6 percent at mid-year 2022. The new lending guidelines for real estate financing, which have been in force since August 1, 2022, will also make it more difficult to raise debt capital for the acquisition of residential property or will lead to lower financing volumes due to the acquisition of smaller, just affordable properties. In line with the 20/40/35 rule, a real estate loan can generally only be granted if the buyer's own funds account for 20 percent of the purchase price, the loan installment does not exceed 40 percent of the net disposable monthly income and the loan has a maximum term of 35 years.

Demand for housing loans will also lose momentum as a result of demographic developments. The need for new housing is declining after the high number of completions in recent years. Nevertheless, at least in most segments, the real estate market will continue to be a market in which demand is greater than supply. As a result, no abrupt end to the real estate boom in Austria is to be expected. Although demand for real estate financing will weaken in line with the development of demand for real estate in the coming months, residential construction loans are expected to continue to grow in the coming years. However, the growth rate will fall into the low single digits next year at the latest. Although the wind is not necessarily blowing in the direction of real estate financing, the tailwind of recent years is in any case beginning to subside.

Austria at a glance

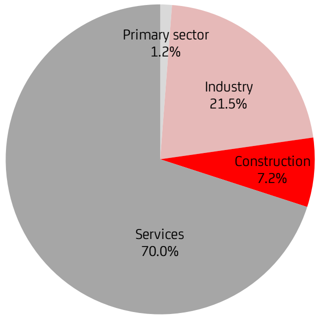
Structural indicators	*2021*	
Area (in km²)	83,879	
Population (in mn)	8.961	
President	Dr. Alexander van der Bellen	
Chancellor	Karl Nehammer	
Rating (Moody´s/S&P/Fitch)	Aa1/AA+/AA+	

Economic performance		
Gross domestic product (in EUR bn)	406.1	
GDP per capita (in EUR)	45325	
GDP per employee (in EUR)	89244	
GDP per capita (in % of EU27 average, PPS)	128.0	
Gross domestic product (real change against previous year in %)	4.6	0.8 (Ø 2017-2021)
Workforce (in 1,000)	4136.7	
Employed (in 1,000)	3804.9	3743 (Ø 2017-2021)
Employment rate (in %)	42.5	
Number of unemployed (in 1,000)	331.7	339 (Ø 2017-2021)
Vacancy rate (in %)	2.3	
Monthly average income (gross, in EUR)	3767.9	

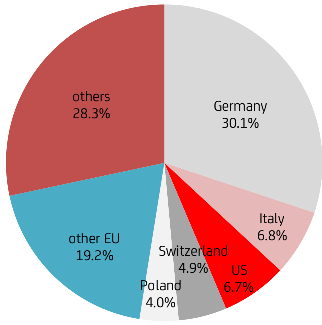
International competitiveness	*Ranking*	*Trend*
IMD-World Competitiveness Index	19	
IMD Economic Performance	20	
IMD Government Efficiency	29	
IMD Business Efficiency	18	
IMD Infrastructure	12	
WEF Global Competitiveness Index	21	
WEF Inclusive Development Index	10	
Transparency International Corruption Perceptions Index	15	
European Innovation Scoreboard	8	

Research&Development Ratio (R&D-expenses in % of GDP)	3.2		
Investment ratio (Investments in % of GDP)	25.0		
Tax and levies ratio (Tax and levies in % of GDP)	42.9		
Merchandise exports (in EUR bn)	165.6	5.1	(Ø 2017-2021)
Export ratio (in % of GDP)	40.8	38.9	(Ø 2017-2021)
Merchandise imports (in EUR bn)	178.4	6.9	(Ø 2017-2021)
Import ratio (in % of GDP)	43.9	40.5	(Ø 2017-2021)
Foreign direct investment (outward, in EUR bn)	11.4	9.1	(Ø 2017-2021)
Foreign dircet investment (outward, in % of GDP)	2.8		
Foreign direct investment (inward, in EUR bn)	3.8	4.1	(Ø 2017-2021)
Foreign direct investment (inward, in % of GDP)	0.9		

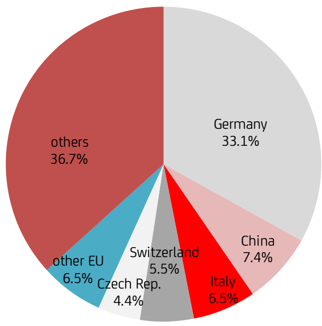
GDP by sectors 2021



Export markets 2021



Import markets 2021



Federal states 2021	*Area (in km²)*	*GDP (real, yoy in %)*	*(Ø 2017-2021)*	*GDP/capita (in EUR)*	*GDP (in % of Austria)*	*Unemployment rate in %*
Burgenland	3,962	3.7	0.5	32,000	2.3	7.7
Carinthia	9,538	5.7	1.6	39,400	5.5	8.8
Lower Austria	19,186	5.1	1.1	37,800	15.8	7.5
Upper Austria	11,980	6.2	1.4	47,200	17.5	5.0
Salzburg	7,156	3.5	0.3	53,000	7.3	6.5
Styria	16,401	5.1	0.9	41,700	12.9	5.6
Tyrol	12,640	1.6	-0.5	45,900	8.6	6.5
Vorarlberg	2,601	4.3	0.9	48,500	4.8	6.5
Vienna	415	4.5	0.7	53,800	25.4	12.7

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

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