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## **IMF Executive Board Concludes 2011 Article IV Consultation with Austria**

On September 2, 2011 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Austria.<sup>1</sup>

### **Background**

With a rebound in external demand and sound fundamentals, the Austrian economy recovered rapidly from the 2009 recession. Private consumption and employment held up well during the downturn and, when external demand (especially from Germany) picked up, the stage was set for a swift recovery. GDP growth reached 2.1 percent in 2010, with a marked acceleration in the second half of the year. Strong growth performance is projected to continue in 2011, but decelerate after a strong first half as the cyclical recovery runs its course and external demand loses strength. At only slightly over 4 percent, unemployment is among the lowest in Europe.

Following food and energy price shocks, inflation has increased sharply in the first half of 2011, exceeding the euro area average by about one percentage point, in part owing to indirect tax increases at the beginning of the year. The current account registered a surplus of 2.7 percent of GDP in 2010, reflecting the competitiveness of the economy especially in the services sector. Outward FDI recovered somewhat but remains well below pre-crisis levels.

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<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

The fiscal deficit widened from 0.9 percent in 2007 to 4.6 percent of GDP in 2010, but the cyclical recovery and consolidation measures—a combination of tax increases and expenditure cuts—are projected to bring the deficit down to some 3½ percent of GDP in 2011 and to around 2 percent in the medium term. However, with the government's current measures, and taking into account implementation risks, debt will likely remain above 70 percent of GDP even in the medium run.

In the banking system, the negative effects of the crisis on credit quality are still in evidence in Central, Eastern, and Southeastern European (CESEE) subsidiaries, where the nonperforming loans ratio continued to grow in 2010. As provisioning costs have fallen, however, profitability has recovered, and improved macroeconomic prospects in the CESE region should ease the situation further going forward, while direct exposures to Greece, Ireland, and Portugal are small. Banks have improved liquidity and capitalization, but have not exited government support yet, and conditions in the medium-sized bank segment remain challenging, with one bank in the segment failing the recent EU-wide stress tests.

### **Executive Board Assessment**

Executive Directors commended the authorities for policies that have supported a swift recovery and laid the foundations for a sustained expansion. Nonetheless, in view of the still fragile global outlook and heightened vulnerabilities in the euro area, Directors agreed that important challenges remain. Reducing the debt burden, bolstering financial stability, and enacting structural reforms to boost long-term growth should top the policy agenda for the period ahead.

Directors welcomed the recent fiscal consolidation package and noted that Austria's fiscal position compares favorably with that of other euro area countries. However, they considered that current plans may not be sufficient to put the debt ratio on a firm downward path and that a more ambitious fiscal adjustment is needed to cope with longer-term spending pressures and the cross-border exposure of the banking system.

Directors recommended that expenditure measures be the main element of the consolidation strategy, given an already high tax burden compared to peers. In this regard, they noted that savings could be achieved through further reforms in the pension system, health care, and government subsidies. A careful rationalization of the fiscal relations among different levels of government could also facilitate the necessary budgetary adjustment.

Directors considered that Austria's financial sector has on the whole recovered from the global crisis but that remaining risks call for further strengthening the framework for financial stability. They noted that improved bank profitability should set the stage for upgrading their capital base and exiting government support, while the restructuring of some financial institutions provides an opportunity to address overcapacity in the sector. Directors also encouraged the authorities to monitor closely risks related to foreign-currency lending, including mortgages.

Directors welcomed the role Austrian banks have played in regional emerging markets.

Noting the need to limit the domestic risks posed by this engagement, they recommended reinforcing macro-prudential measures that address cross-border credit exposure. Directors also supported ongoing steps to improve international coordination among supervisors, as well as plans to strengthen the bank resolution framework.

Directors stressed the importance of persevering with structural policies to boost Austria's long-term growth prospects. In this regard, they encouraged the authorities to step up reforms of the labor market and the education system, with a view to increasing labor market participation and boosting skills, including of the immigrant population.

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## Austria: Selected Economic Indicators, 2007–12

	2007	2008	2009	2010	2011	2012
					Projections	
	<i>(change in percent unless indicated otherwise)</i>					
Demand and supply						
GDP	3.7	2.2	-3.9	2.1	3.3	2.0
Total domestic demand	2.5	1.3	-2.3	1.3	2.0	1.4
Consumption	1.1	1.4	1.1	0.7	0.7	1.1
Gross fixed capital formation	3.9	4.1	-8.8	-1.0	3.7	2.5
Net exports (growth contribution in pp)	1.3	1.1	-2.0	1.1	1.4	0.7
Exports of goods and nonfactor services	8.6	1.0	-16.1	10.6	8.8	4.9
Imports of goods and nonfactor services	7.0	-0.9	-14.4	9.4	7.0	4.2
Employment and unemployment						
Employment	1.9	1.3	-1.5	0.6	1.5	0.8
Unemployment rate (in percent)						
Registered (national definition)	6.2	5.8	7.2	6.9	6.6	6.6
Standardized (Eurostat)	4.4	3.8	4.8	4.4	4.1	4.1
Prices						
Consumer price index (period average)	2.2	3.2	0.4	1.7	3.2	2.2
General government finances (percent of GDP)						
Revenue	48.0	48.3	48.8	48.3	48.3	48.3
Expenditure	49.0	49.3	53.0	52.9	51.7	51.3
Balance	-1.0	-1.0	-4.1	-4.6	-3.4	-3.0
Gross debt (end of period)	60.7	63.8	69.6	72.2	72.3	73.4
Balance of payments						
Trade balance (goods) (in billion euro)	1.3	-0.6	-2.3	-3.2	-2.8	-3.1
Current account (in billion euro)	9.6	13.8	8.5	7.8	8.8	9.3
(In percent of GDP)	3.5	4.9	3.1	2.7	2.9	3.0
Interest rates						
Three-month interbank rate	4.3	4.6	1.2	0.8	...	...
10-year government bond	4.3	4.4	3.9	3.2	...	...
Exchange rates						
Euro per US\$	0.73	0.68	0.72	0.75	...	...
Nominal effective exchange rate (2000=100)	101.3	102.4	103.3	100.6	...	...
Real effective exchange rate (1990=100)						
ULC based	97.6	95.9	96.5	97.0	...	...
CPI based	100.1	100.9	101.5	98.8	...	...

Sources: Austrian authorities; Datastream; and IMF staff estimates and projections.