



OESTERREICHISCHE NATIONALBANK

EUROSYSTEM

# Austria is facing unprecedented peacetime contraction amid COVID-19 pandemic

Economic outlook for Austria  
from 2020 to 2022 (June 2020)

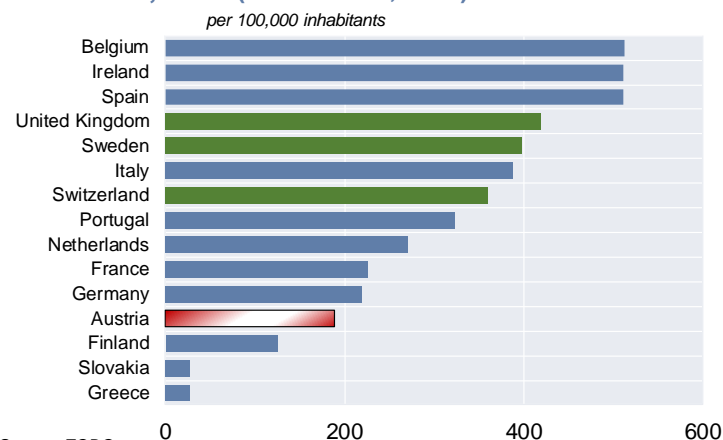
Robert Holzmann, Governor of the Oesterreichische Nationalbank  
Doris Ritzberger-Grünwald, Director of the Economic Analysis and Research Department

June 5, 2020

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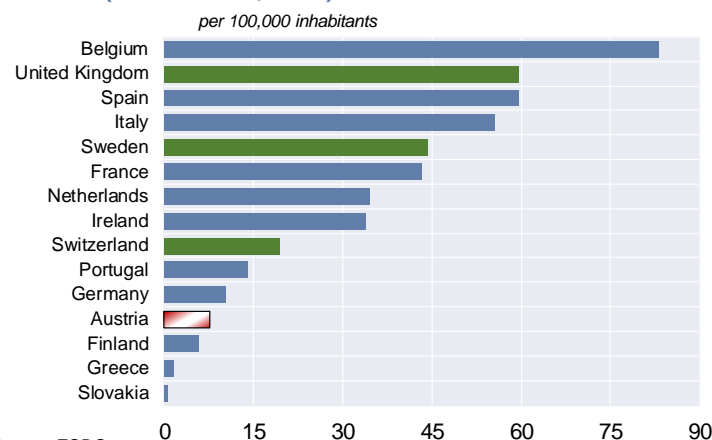
# COVID-19 in Europe: heterogeneous outbreak and development

**Infections, total (as at June 4, 2020)**



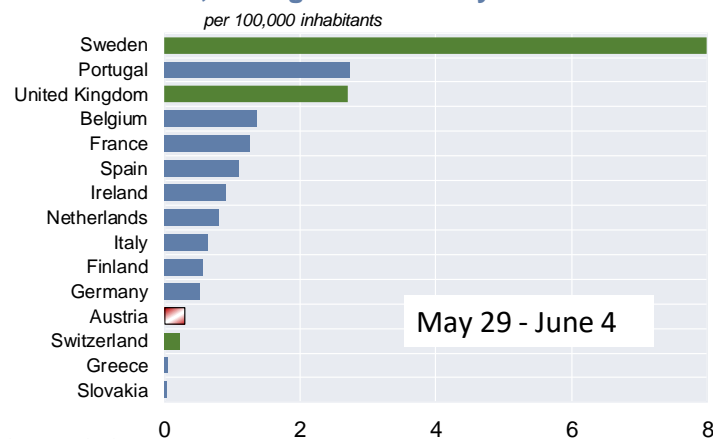
Source: ECDC.

**Deaths (as at June 4, 2020)**



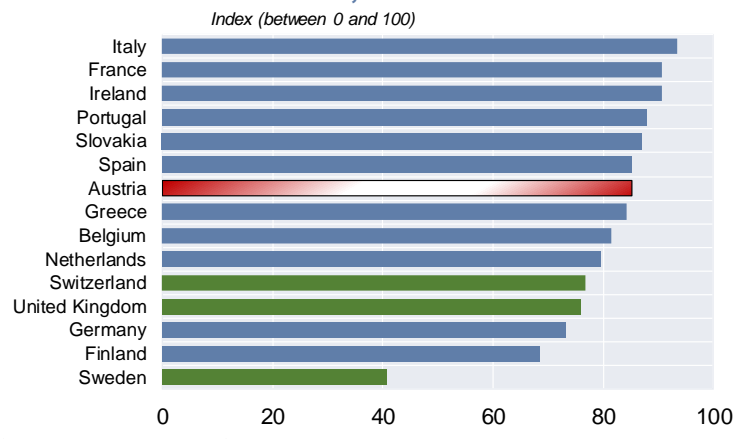
Source: ECDC.

**New infections, average of last 7 days**



Source: ECDC.

**Containment measures, maximum**

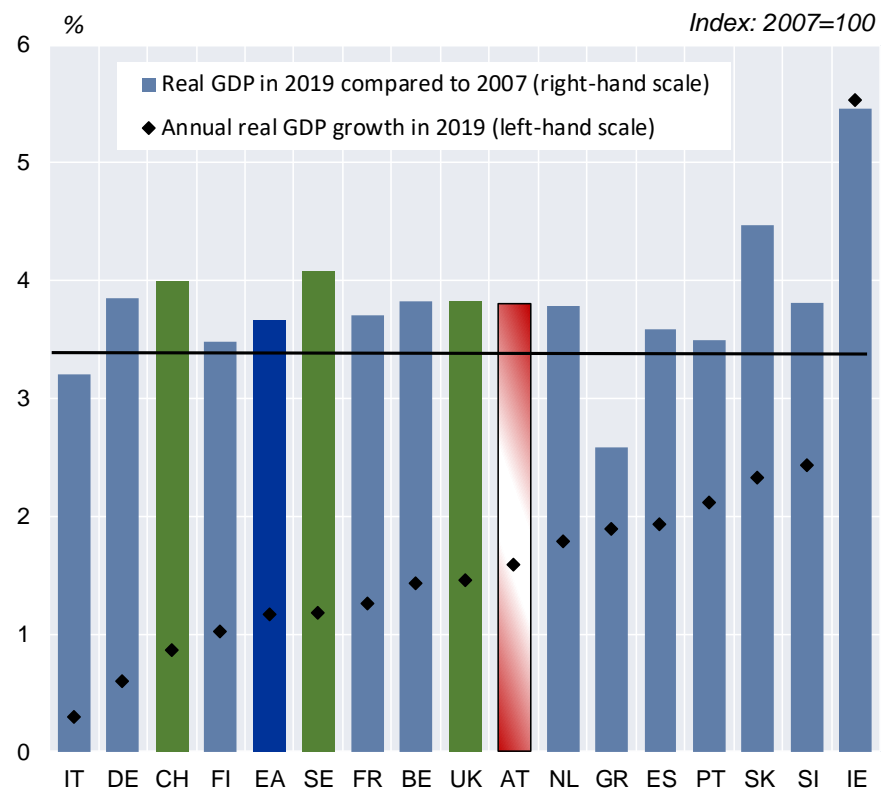


Source: University of Oxford, Stringency Index.

- COVID-19 swept through Europe at differing speeds and intensity
- Hardest hit were Spain, Belgium and the United Kingdom as well as Italy (as measured in deaths per 100,000 inhabitants)
- Country-specific containment measures differed in strictness and duration → different economic impact on GDP and (un)employment
- Containment measures in Austria highly effective → number of new infections recently amounted to less than 0.4 persons per 100,000 inhabitants

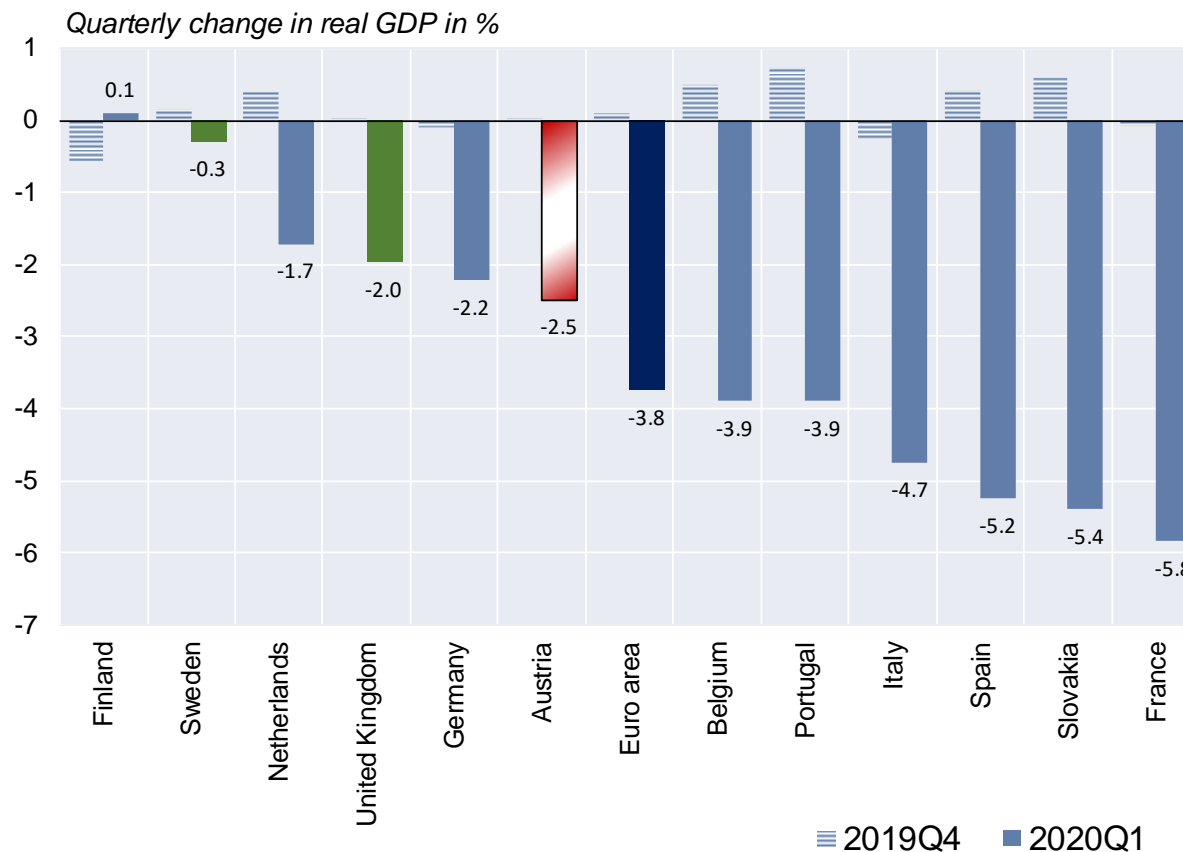
# Heterogeneity of economic output across Europe at COVID-19 outbreak

## Growth since recession 2008



Source: Eurostat.

## Different developments in 2020Q1



Source: Eurostat.

# COVID-19 containment measures cause global recession

## International environment for the forecast on the Austrian economy

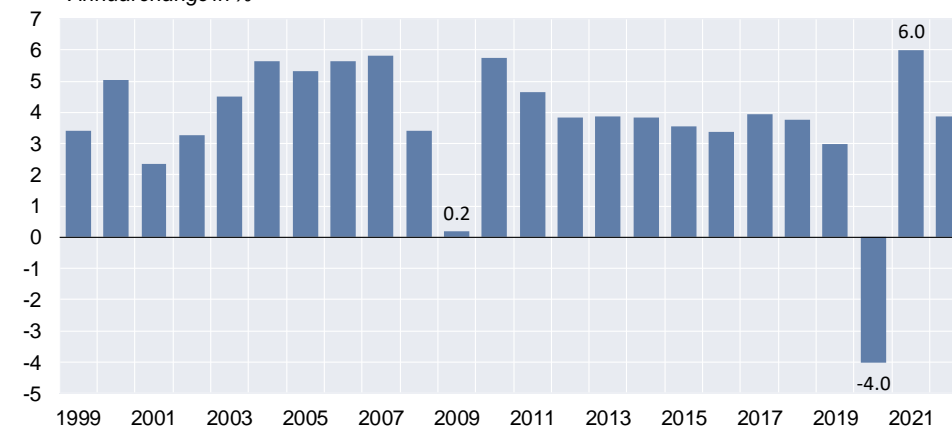
Annual change in % and levels

	June 2020				Change from Dec. 2019		
	2019	2020	2021	2022	2020	2021	2022
					<i>Change in %</i>		
Oil price (USD/barrel Brent)	64.0	36.0	37.2	40.7	-23.6	-20.3	-16.1
Nominal effective exchange rate	0.96	0.96	0.95	0.95	-0.01	-0.01	-0.01
USD exchange rate (USD/EUR)	1.12	1.09	1.08	1.08	-0.02	-0.02	-0.02
					<i>Change in percentage points</i>		
Short-term nominal interest rate	-0.4	-0.4	-0.4	-0.4	0.1	-0.0	-0.1
Long-term nominal interest rate	0.1	-0.1	0.1	0.2	-0.1	-0.1	-0.1
Lending rate for Austrian companies	1.5	1.6	1.7	1.5	0.1	0.2	-0.0
GDP - world less euro area	3.0	-4.0	6.0	3.9	-7.1	2.7	0.5
GDP - industrialized countries	1.8	-7.0	4.2	2.4	-8.5	2.6	0.9
GDP - U.S.A.	2.3	-6.4	3.6	2.1	-8.4	1.8	0.5
GDP - Japan	0.7	-5.5	2.5	1.1	-5.8	1.9	0.6
GDP - U.K.	1.4	-8.5	4.3	1.8	-9.5	3.4	0.7
GDP - CESEE	3.8	-5.2	4.5	3.4	-8.5	1.2	0.2
GDP - emerging economies	3.5	-3.0	7.0	4.7	-6.8	2.9	0.5
GDP - China	6.1	-0.2	9.0	5.3	-5.7	3.3	-0.4

Source: Eurosystem.

## World real GDP excluding the euro area

Annual change in %



Source: Eurosystem.

## Fallout of the COVID-19 pandemic

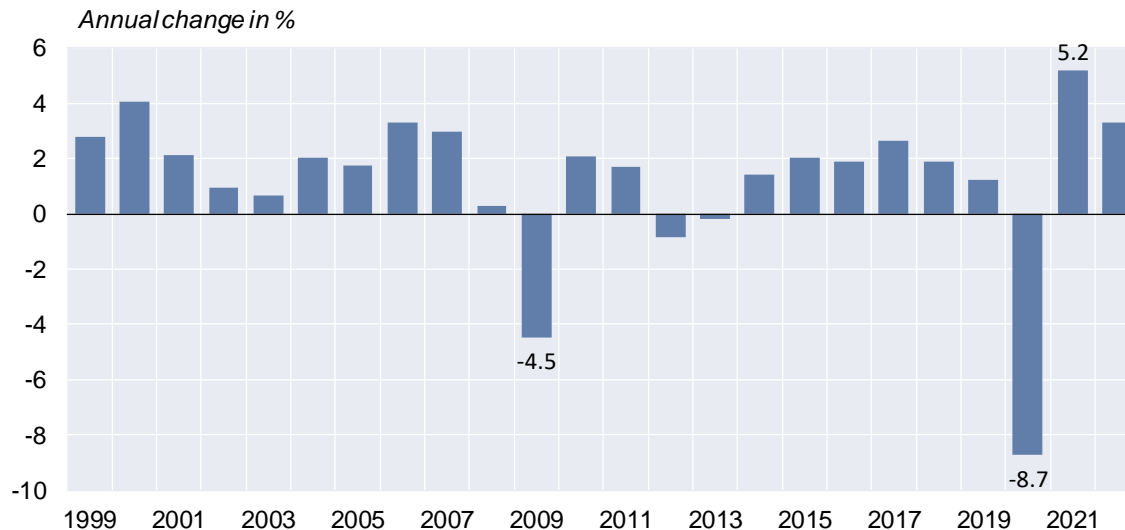
- Simultaneous supply and demand shock
- Concomitant economic slump in industrialized and emerging countries
- Global recession: world GDP excluding euro area: -4%
- Plummeting oil prices

# Deep recession in the euro area in 2020 – strong decline in inflation

		June 2020 forecast Annual change in %			March 2020 forecast Annual change in %			Difference in forecasts in percentage points		
	2019	2020	2021	2022	2020	2021	2022	2020	2021	2022
<b>Real GDP</b>	1.2	<b>-8.7</b>	<b>5.2</b>	<b>3.3</b>	0.8	1.3	1.4	-9.5	3.9	1.9
<b>HICP</b>	1.2	<b>0.3</b>	<b>0.8</b>	<b>1.3</b>	1.1	1.4	1.6	-0.8	-0.6	-0.3
<b>Core inflation*</b>	1.0	<b>0.8</b>	<b>0.7</b>	<b>0.9</b>	1.2	1.4	1.5	-0.4	-0.7	-0.6

Source: June 2020 Eurosystem staff macroeconomic projections for the euro area. \*Core inflation refers to HICP inflation excluding energy and food.

## Euro area real GDP



Source: Eurosystem.

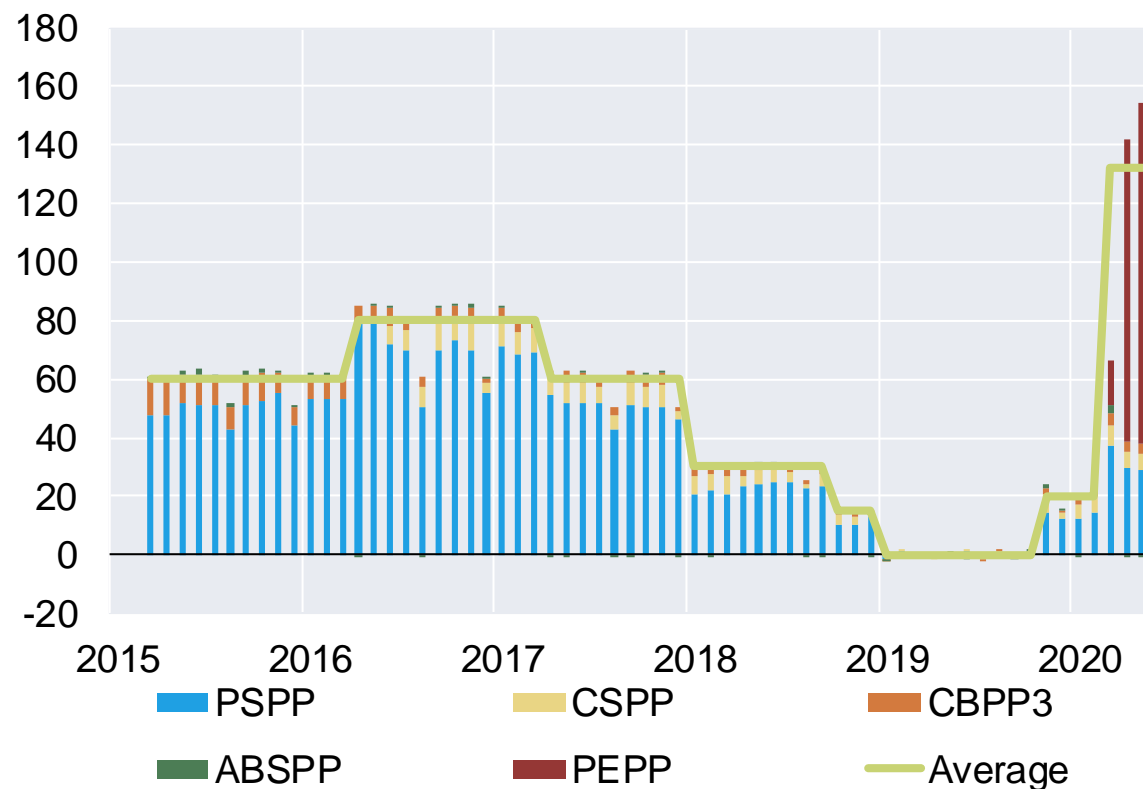
## Key assumptions underlying the forecast:

- Country-specific differences in the implementation of containment measures and in the duration of the lockdown period
- Selective extension of containment measures prevents new flare-ups
- Availability of a drug/vaccine by mid-2021:  
Key common assumption for the forecast for all euro area countries and the external environment

## Part I of ECB COVID-19 package: scaling-up of asset purchases

### APP - monthly net purchases

EUR billion (at book value)



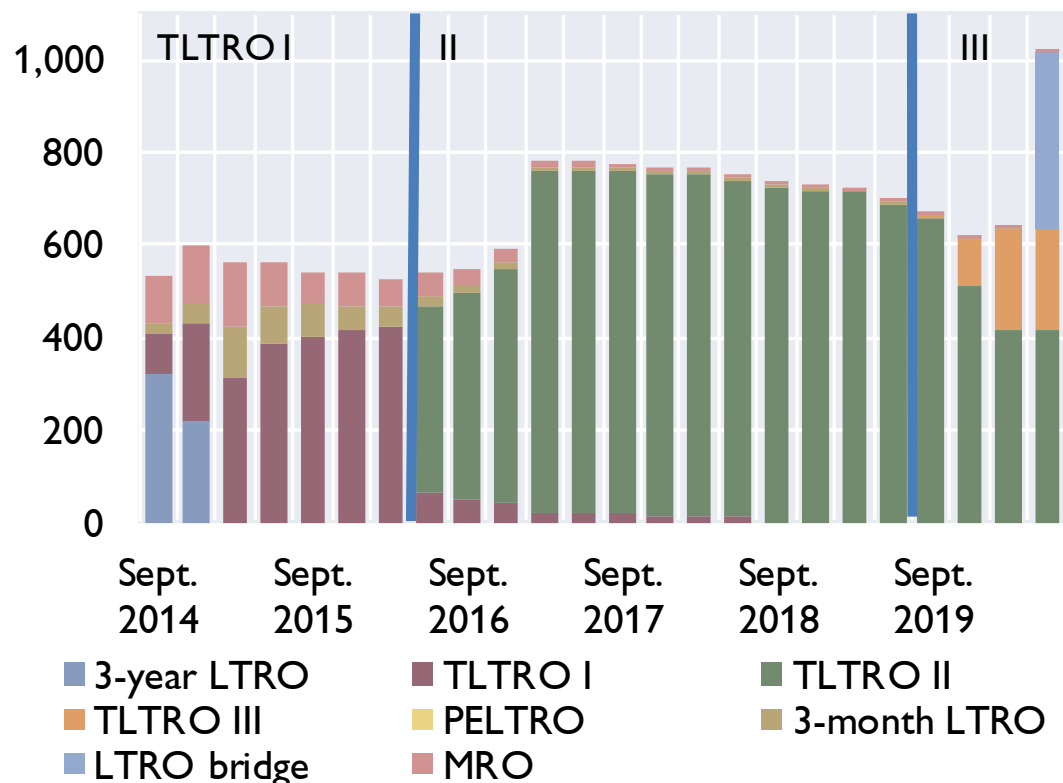
Source: ECB.

- **Asset purchase programme (APP)** continues unchanged with a monthly purchase pace of EUR 20 billion net
- In response to the coronavirus crisis, an **additional APP envelope of EUR 120 billion** was agreed until end-2020
- On March 26, 2020, the Eurosystem started buying assets under the temporary **pandemic emergency purchase programme (PEPP)**, which has an overall envelope of **EUR 1,350 billion** until June 2021
- PEPP purchases are conducted in a flexible manner as to the time, asset classes and jurisdictions. This allows the Governing Council of the ECB to effectively fend off risks to the smooth transmission of monetary policy.

## Part II of ECB COVID-19 package: new, more favorable tender operations

### Demand for Eurosystem refinancing

EUR billion



Source: ECB.

Given that SMEs often do not have access to the capital market, they depend on bank credit, just as households do.

The Eurosystem has eased banks' refinancing conditions:

- **More favorable TLTRO III operations:**  
Interest rate from June 2020 to June 2021:  $-0.5\%$   
If banks grant enough loans, the interest rate applicable during this period may fall to  $-1\%$ .
- New offer of **bridge LTROs** until the settlement of the next TLTRO III. Interest rate:  $-0.5\%$
- In addition, a new series of monthly **pandemic emergency longer-term refinancing operations (PELTROs)** are conducted until December 2020. Interest rate:  $-0.25\%$

# Austria is facing unprecedented peacetime contraction

## Main results

	2019	June 2020			Revisions against Dec.		
		2020	2021	2022	2020	2021	2022
	Annual change in %				Percentage points		
<b>GDP</b>	1.5	-7.2	4.9	2.7	-8.7	3.8	1.2
Private consumption	1.3	-5.8	6.1	2.6	-7.0	4.8	1.3
Government consumption	0.7	1.2	1.6	0.8	0.3	0.1	-0.2
Total investment	2.8	-6.7	4.7	3.1	-9.5	3.6	1.8
Exports	2.7	-11.6	6.9	4.7	-14.2	5.6	1.9
Imports	2.7	-8.9	5.7	3.7	-11.7	4.3	1.3
<b>HICP</b>	1.5	0.8	0.8	1.5	-0.7	-0.6	0.0
<b>Unemployment rate (in %)</b>	4.5	6.8	5.8	5.3	2.2	1.1	0.5
<b>Savings rate</b>	8.3	13.4	7.7	7.4	5.9	-0.1	-0.4
	Annual change in %						
<b>Employees</b>	1.4	-2.2	2.2	1.5	-3.7	1.3	0.6
	% of GDP						
<b>Current account balance</b>	2.6	1.5	2.2	2.3	-0.7	-0.2	-0.2
<b>Government balance</b>	0.7	-8.9	-3.9	-1.5	-9.4	-4.1	-1.7
<b>Public debt</b>	70.4	84.4	83.7	81.4	14.0	15.5	15.4

Source: Statistics Austria, OeNB.

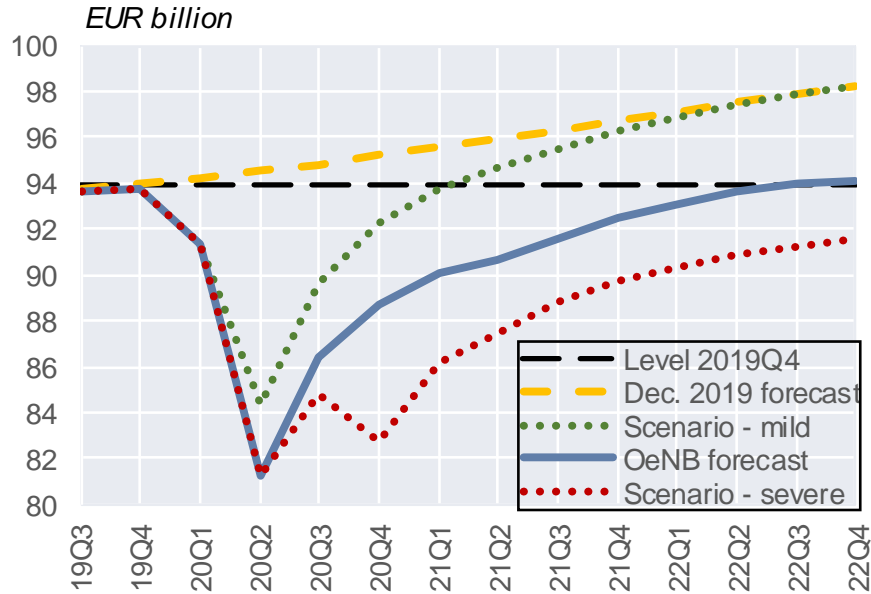
- Simultaneous demand and supply shock at home and abroad triggered biggest economic slump in the post-war era
  - Massive downturn of consumption, investment and export activity
- Marked GDP contraction limited to a few weeks as comprehensive economic stabilizing measures were enacted swiftly to prevent enduring negative effects
  - Unemployment hits highest level in decades; short-time working arrangements cushion income losses
- Austria's deficit and debt levels increase substantially
- Overshooting growth from Q3/2020 onward and normalization from mid-2021; yet permanent loss of GDP and income expected
  - Inflation declines at a relatively modest pace
  - Public finances are set to improve at a quick pace – without a need for consolidation measures



# Results of the scenarios for Austria

→ Compliance with physical-distancing measures is key in the coming weeks

## Austria



### Common assumptions for the forecast:

- There will not be a second wave of infections; a drug or vaccine will be available mid-2021

### Mild scenario: relatively lower GDP contraction

- Coronavirus spread is contained more swiftly and effectively (worldwide)

### Severe scenario: relatively stronger GDP contraction

- There will be a second (albeit less pronounced) wave in Austria in fall 2020
- Negative effects on potential output

	Mild scenario Annual change in %				OeNB forecast Annual change in %			Severe scenario Annual change in %		
	2019	2020	2021	2022	2020	2021	2022	2020	2021	2022
<b>Real GDP</b>	1.5	-4.6	6.4	2.7	-7.2	4.9	2.7	-9.2	3.5	3.4
<b>HICP</b>	1.5	1.1	1.2	1.7	0.8	0.8	1.5	0.7	0.2	1.3

## Zoom in on the OeNB's forecast

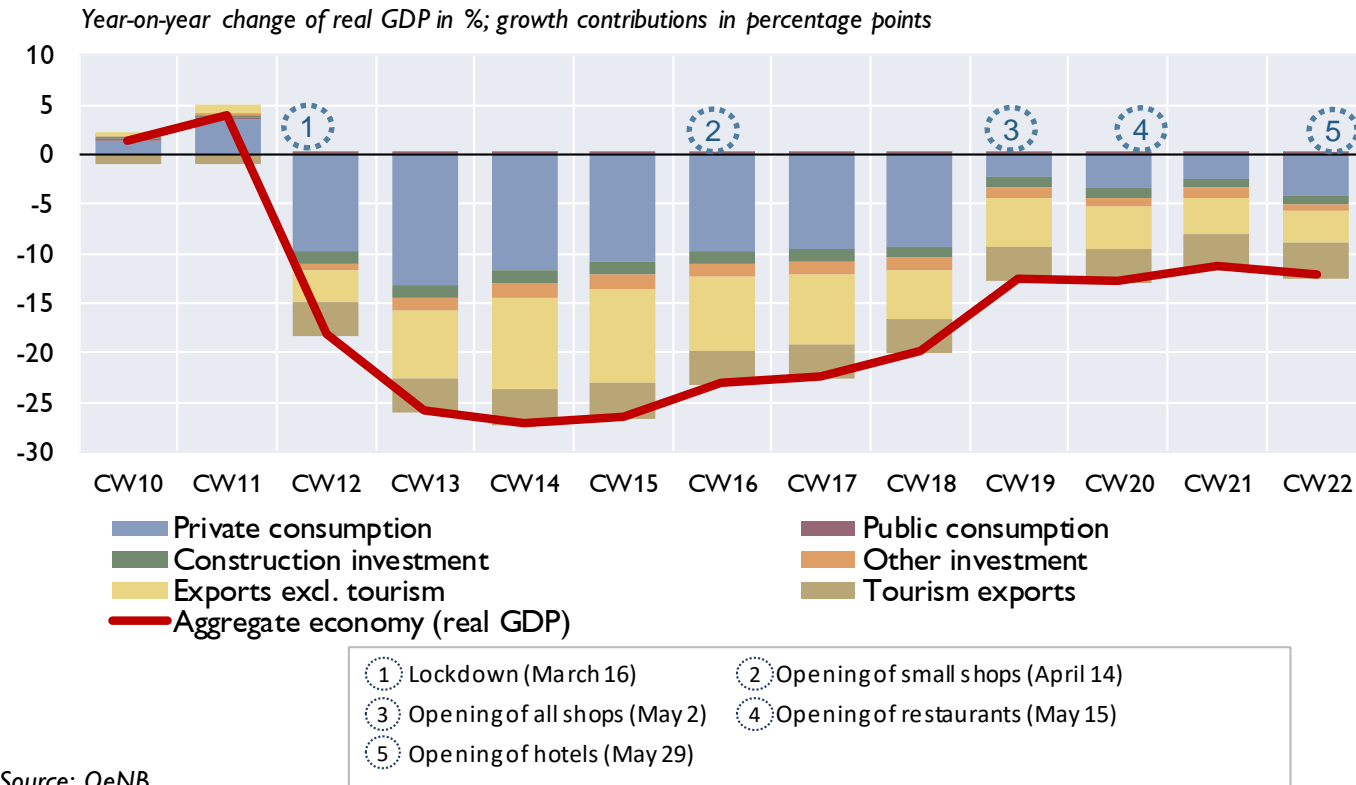
Doris Ritzberger-Grünwald

Director of the Economic Analysis and Research Department

Oesterreichische Nationalbank

# New OeNB weekly GDP indicator: GDP gap fell by roughly 10% year on year in mid-May

## Weekly GDP indicator for Austria



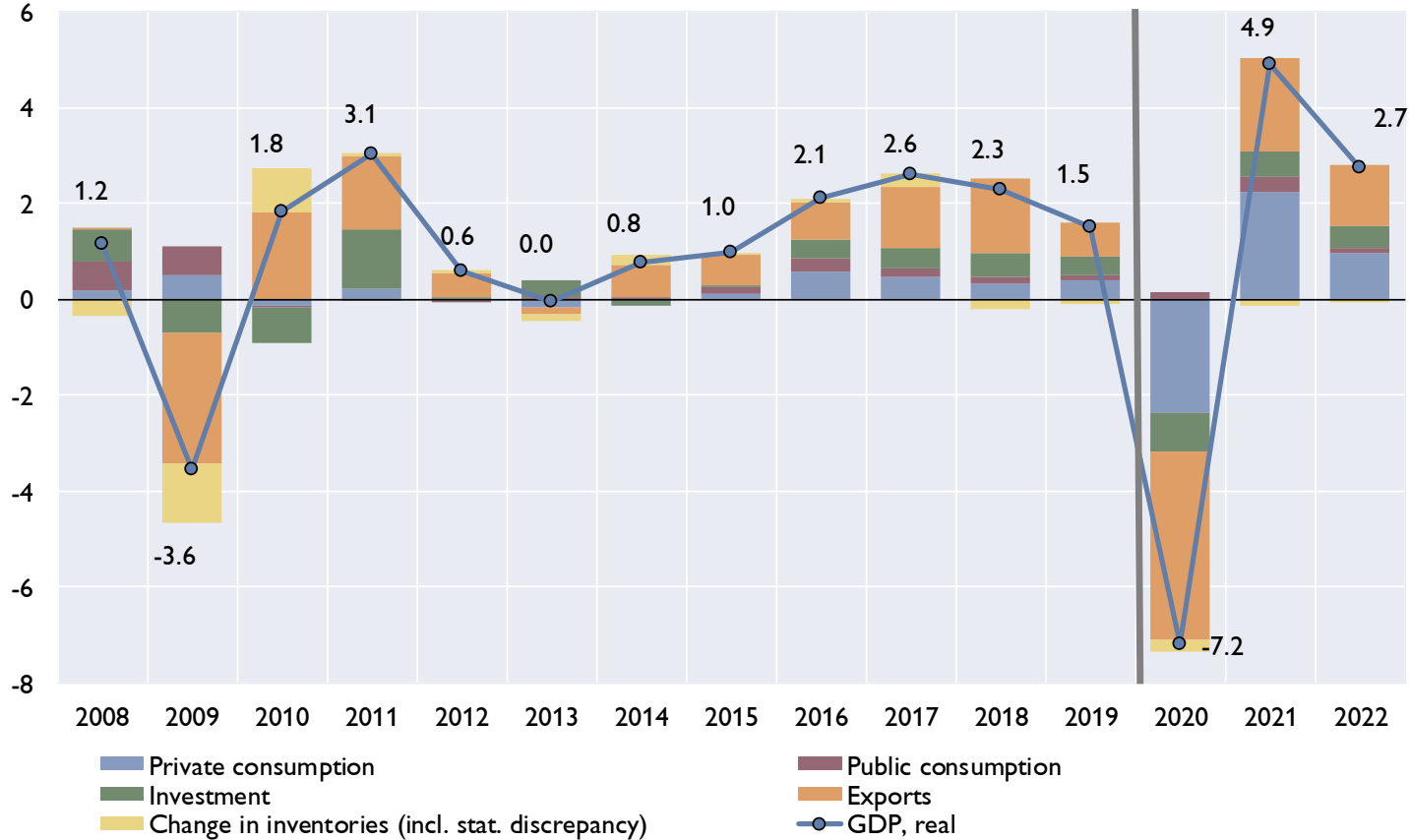
Source: OeNB.

- “Flash recession” in the second half of March: in just two weeks, economic activity declined by 27%
- April: gradual recovery, small and medium-sized retail businesses reopened on April 14 (CW16), which had modest cyclical effects
- May: all other stores reopened on May 2 (CW19), which provided a strong stimulus – since then recovery has been taking hold
- In the last week of May (CW22), economic activity still fell short of last year’s level by 11%, however  
→ a sustainable recovery is still some way off
- From March 16 to May 31, 2020, aggregate GDP losses came to EUR 14.5 billion (4% of GDP)

# 2020 recession twice as deep as 2009 recession

## Import-adjusted growth contributions to real GDP growth

Annual change in %; contributions to GDP growth in percentage points

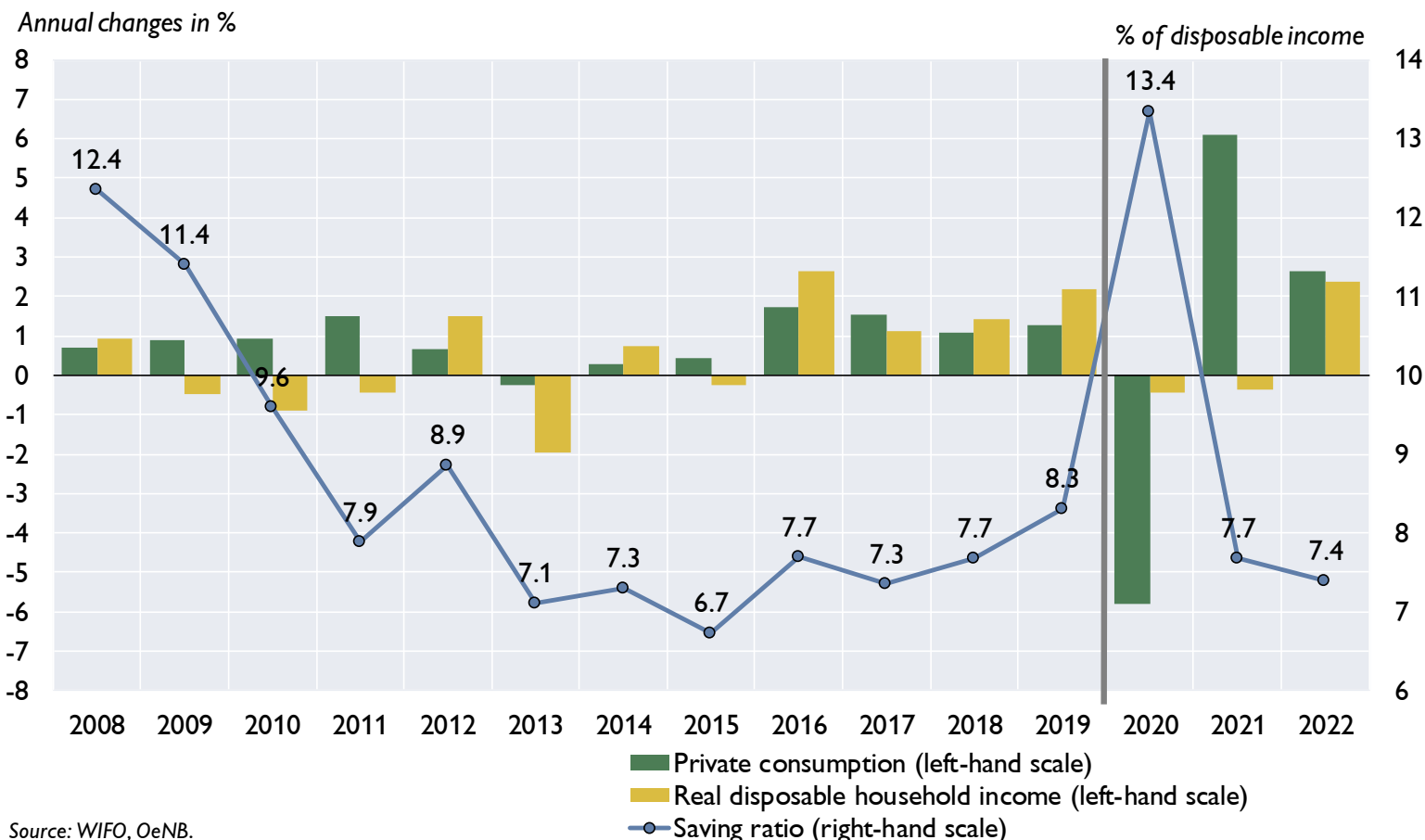


Source: OeNB, Eurostat.

- Both the contraction in 2009 and the catching-up effect in 2010 were markedly weaker than what is forecast for 2020/2021
- Adjusted for imports, the contribution to real GDP growth of investment is very similar in both crises
- Note the markedly negative contribution of private consumption caused by the lockdown in 2020, which is in stark contrast to 2009, when the contribution of consumption was positive!

# Lockdown results in “forced saving” and slump in consumption

## Real disposable household income, private consumption and saving ratio

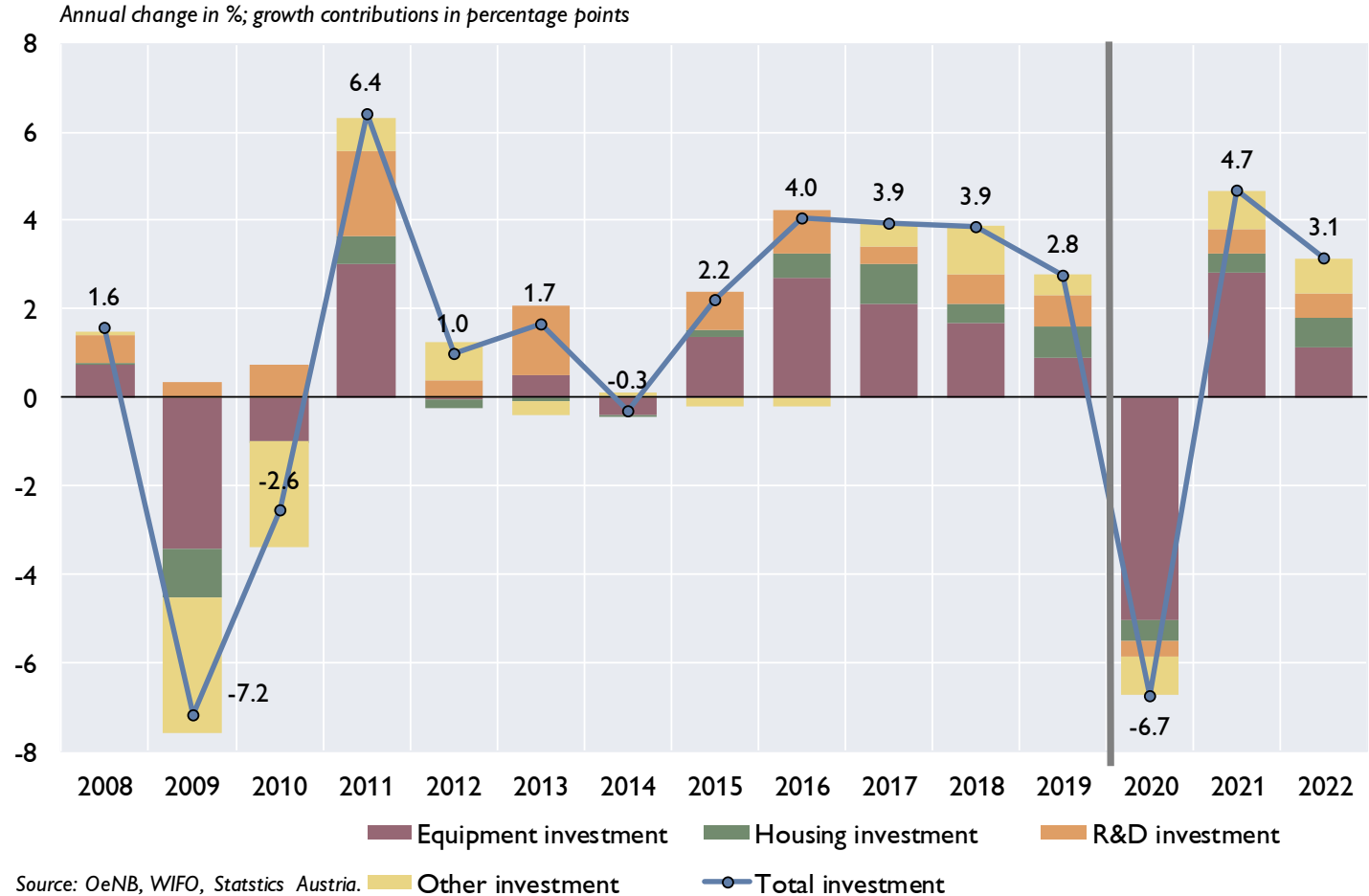


Source: WIFO, OeNB.

- Private consumption tends to stabilize the business cycle in Austria
- 2009: in hindsight, drops in income were partly offset by less saving
- 2020: consumption ground to a halt and unemployment rose, leading to “forced saving” and “precautionary saving”
- 2021: “Catching-up” and normalization; economic sentiment will improve and consumption will increase as savings are used

# Decline in investment about “just” as strong as in 2009

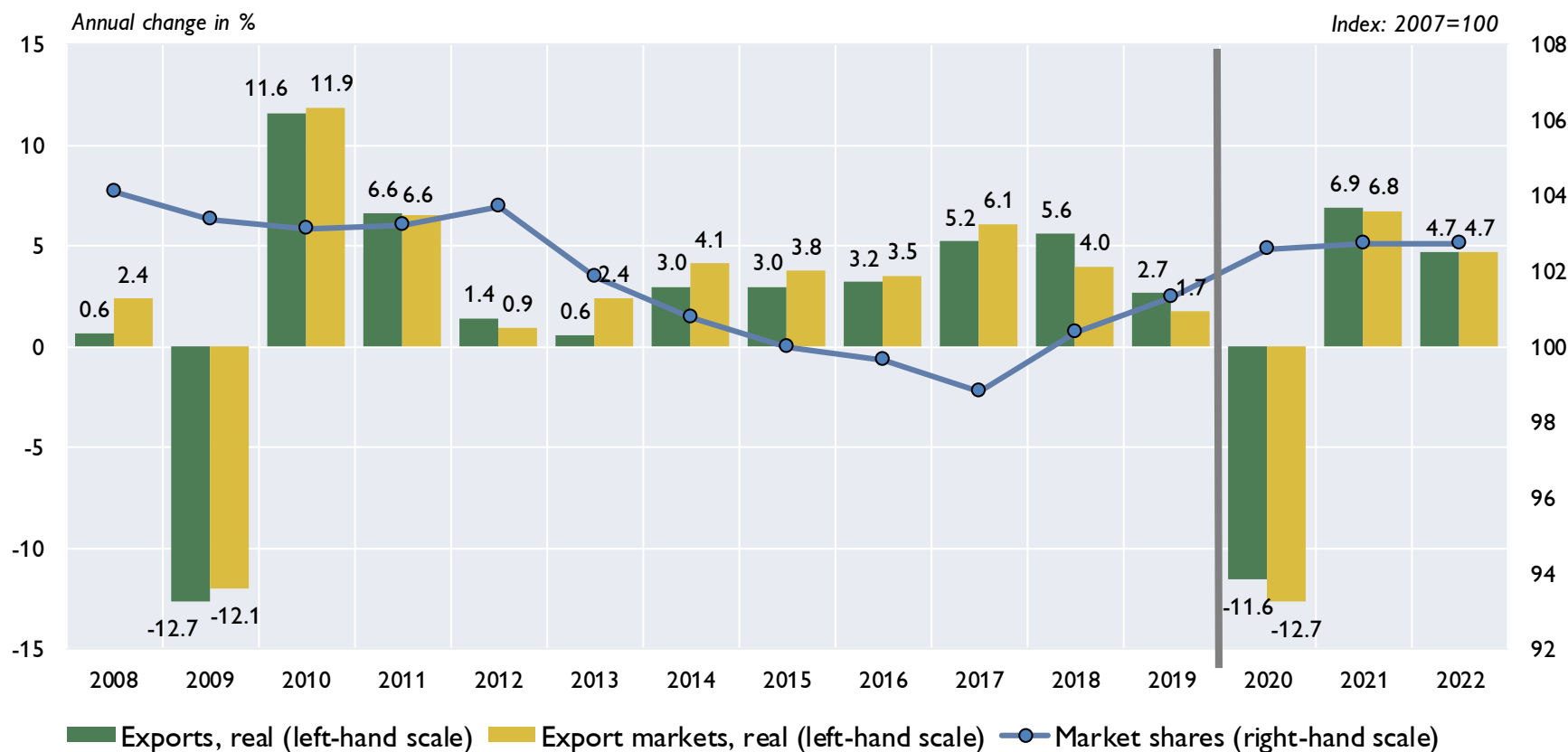
## Investment growth and growth contributions



- Decline in investment demand about as strong as in 2009
- Construction activity slows the contraction
- Initial conditions somewhat better than in 2009
- Investment in equipment is particularly sensitive to the business cycle
- Strong rebound expected for 2021:
  - Catching-up effect
  - Financing conditions still very favorable
  - Construction continues to drive growth

# Plunge in exports comparable to 2009

## Exports, export markets and market shares



Source: OeNB, WIFO, Eurosystem.

- 2020: overall contraction of demand for Austrian exports
- High import share of exports (global value chains): decline in imports slows the negative contribution to growth
- Catching-up in 2021 will be weaker than in 2010
- Market shares remain relatively unchanged

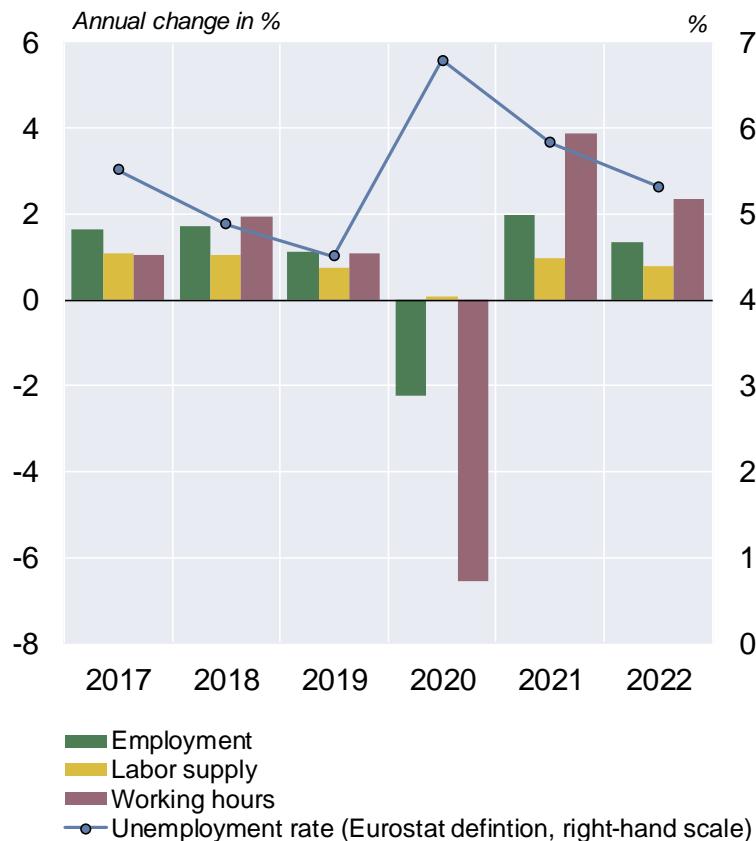
# Unemployment increases strongly, employment declines in 2020

## Strong rise in unemployment



Source: AMS, DSV.

## Labor supply, employment and unemployment rate

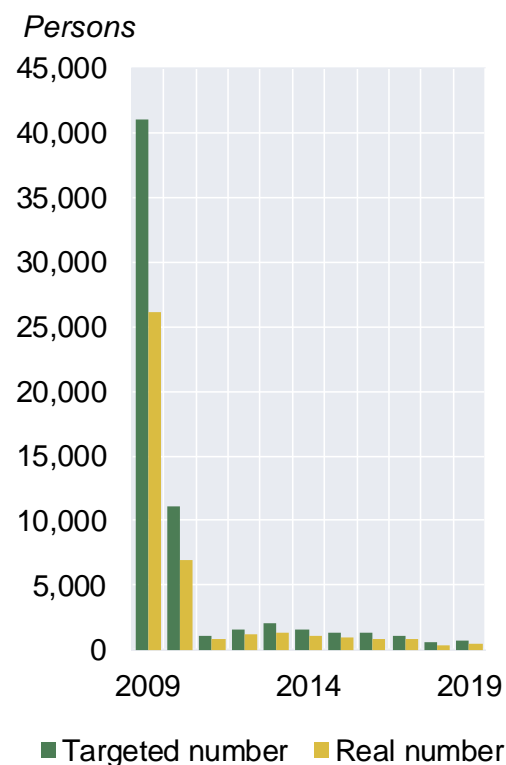


- Unemployment increased from mid-March 2020, and started decreasing in mid-April
- 2020 unemployment ratio up markedly (6.8%, Eurostat definition)
- Headcount employment (-2.2%) decreases less strongly than hours worked (-6.5%)
- Newly agreed short-time working arrangements prevent both a stronger decline in employment and a stronger rise in unemployment



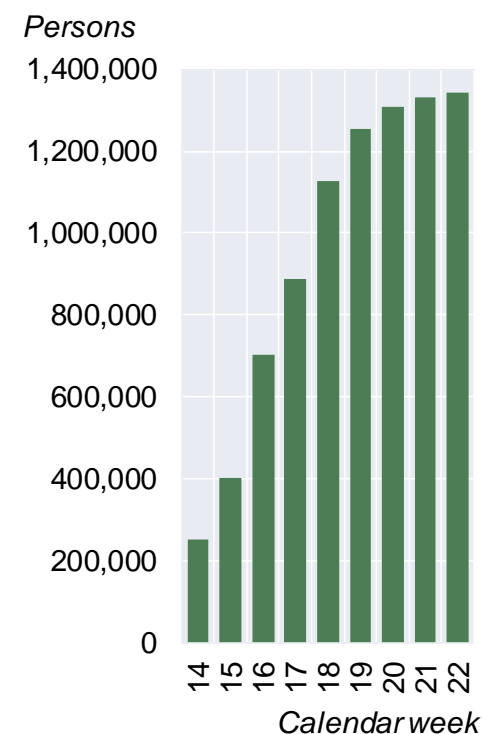
# Short-time work supports employment and incomes

**Short-time work scheme "old":  
2009 - 2019**



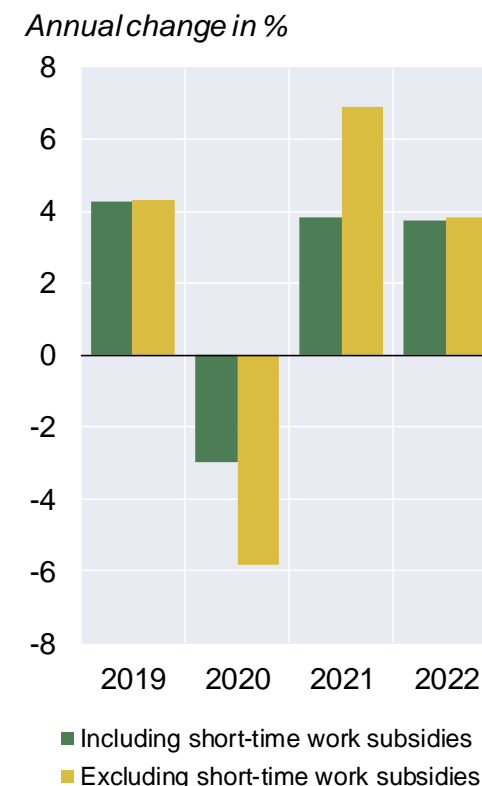
Source: AMS.

**Short-time work scheme "new":  
March 31 - May 25, 2020**



Source: Federal Ministry of Labour, Family and Youth.

**Compensation of employees**



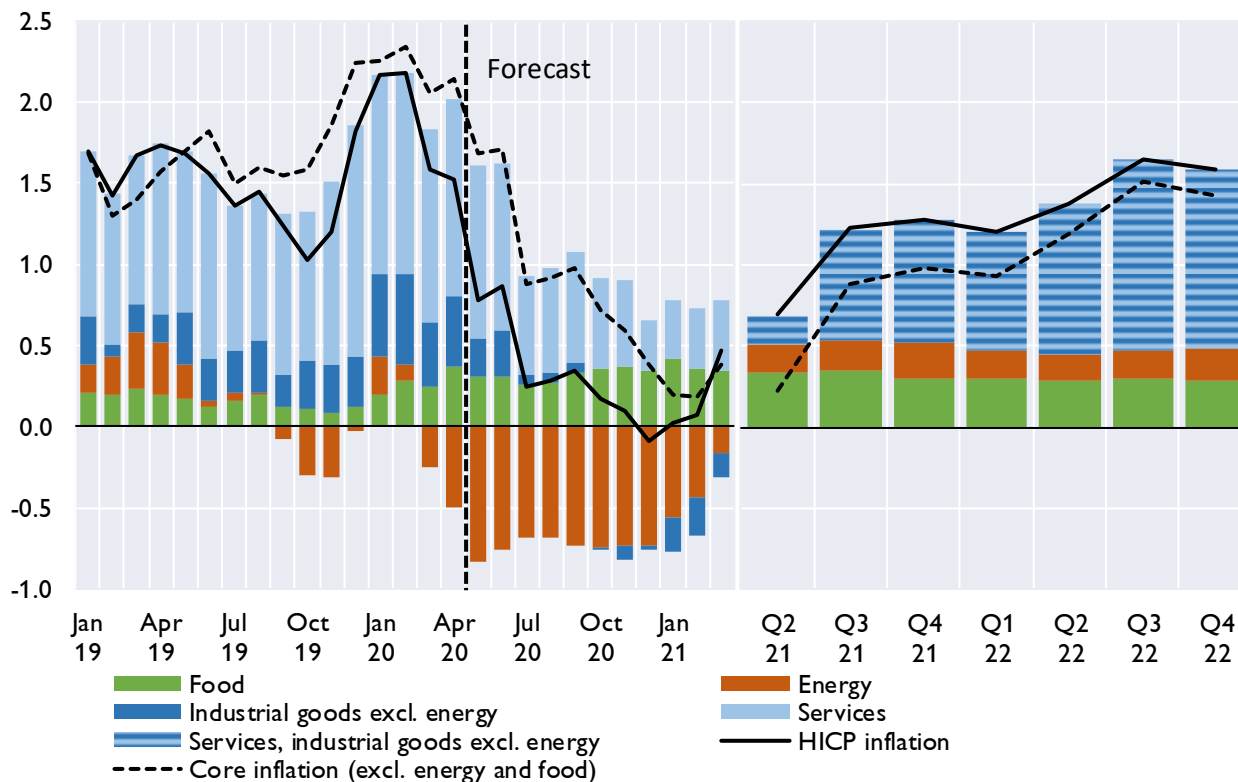
Source: OeNB.

- Short-time work effective in supporting employment in 2009 (with an average 26,000 furloughed workers throughout the year)
- COVID-19 short-time work scheme provides for easier access and higher net income replacement
- Applications filed for more than 1.3 million employees; actual uptake is little known
- Assumptions:
  - Uptake 35% below applications (2009 evidence)
  - Clear decrease until September 2020
  - Work time cut by 50% on average
  - Scheme expires after 6 months
- Short-time work benefits support compensation of employees and incomes

# HICP inflation to sink in 2020 due to COVID-19 pandemic and energy prices

## Contributions of components to Austrian HICP inflation and core inflation

Inflation in %; inflation contributions in percentage points



Source: OeNB, Statistics Austria.

OeNB forecast

	2020	2021	2022
HICP inflation	0.8	0.8	1.5
Core inflation <sup>1)</sup>	1.4	0.6	1.3

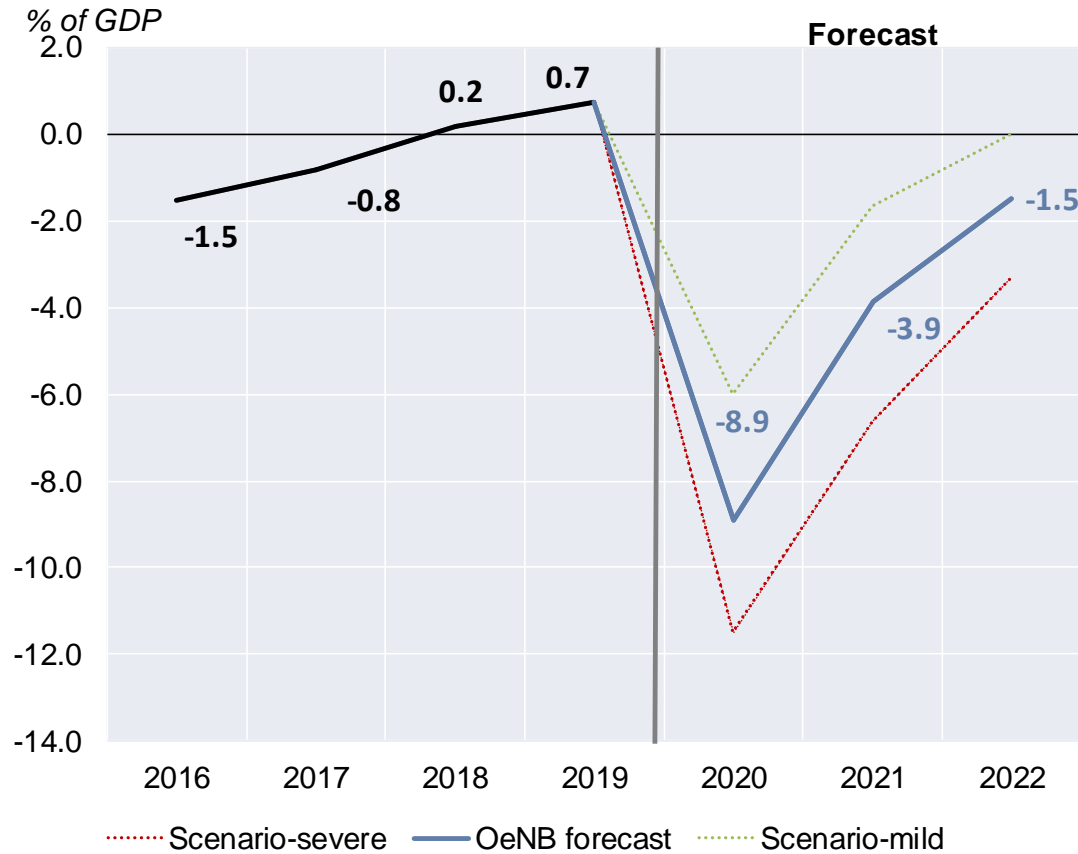
1) Without energy and food.

Source: OeNB, Statistics Austria.

- NIPE horizon: May 2020 to March 2021
- HICP inflation will go down in 2020 in view of plunging crude oil prices and lockdown measures
- Core inflation will trail HICP inflation in 2021/2022
- Drag of crude oil prices on HICP inflation will fade
- Measures to contain the pandemic will affect above all services and industrial goods ex energy

# Government budget balances to worsen significantly in 2020-2022 because of COVID-19 crisis

## Budget balance (Maastricht definition)



Source: OeNB, Statistics Austria.

## ESCB forecasting requirements

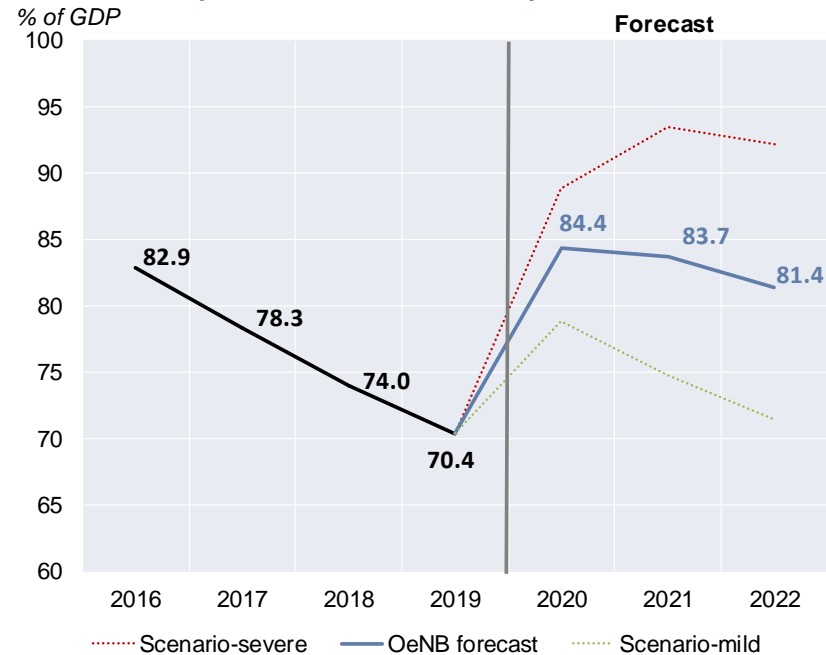
- Include only measures that have been sufficiently specified or have been enacted → EUR 38 billion support package and EUR 12 billion short-time working scheme subject to cyclical developments
- No other stimulus packages considered

## Budget deficit over the forecasting horizon

- 2020: discretionary measures as specified (5.3% of GDP) and automatic stabilizers
  - Short-time work scheme: 1.5% of GDP
  - Fixed cost subsidies: 1.4% of GDP
  - Tax measures: 1.2% of GDP
  - Hardship fund: 0.5% of GDP
- 2021/2022: effect from discretionary measures expected to be low (2021: 1.4% of GDP), economic recovery

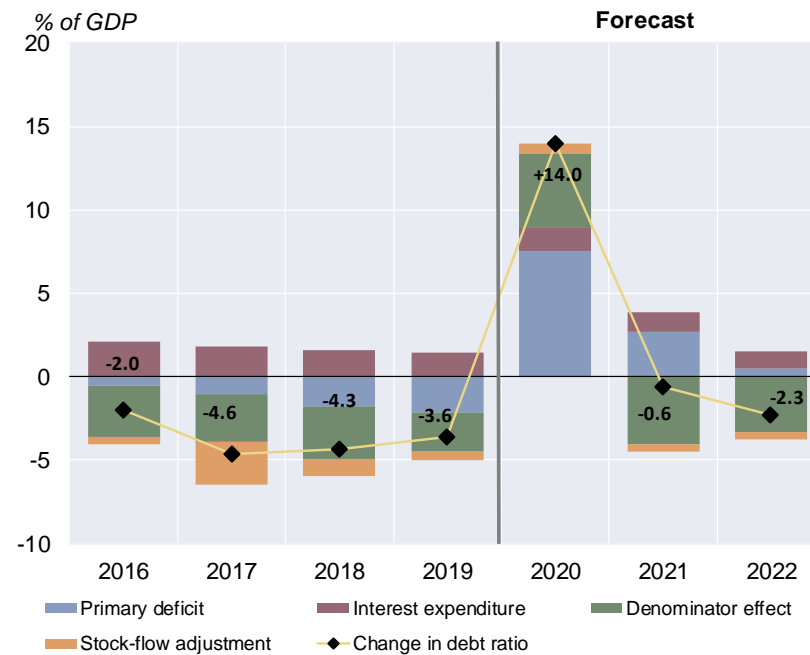
# Public debt ratio to increase markedly in 2020 because of COVID-19 crisis €NB

**Public debt (Maastricht definition)**



Source: OeNB, Statistics Austria.

**Decomposition of change in the debt ratio**



Source: OeNB, Statistics Austria.

Marked increase in 2020 mainly driven by

- High primary deficit
- GDP decline

Decrease from 2021 onward driven by

- Lower primary deficits
- GDP increase

Highest debt ratio ever for Austria

- 84.9% of GDP (2015)

**Danke für Ihre Aufmerksamkeit**

**Thank you for your attention**

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