



# **Austria's economy set to recover after period of stagflation**

***Vienna, June 16, 2023***

**Press conference presenting the OeNB's economic outlook for Austria  
for the period from 2023 to 2025 (June 2023)**

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## International environment and technical assumptions

### International environment

Change on previous year in %  
or level

	June 2023				Diff. to March 2023		
	2022	2023	2024	2025	2023	2024	2025
<b>Prices, exchange rates and interest rates</b>							
Oil price (USD/barrel brent)	103.7	78.0	72.6	70.4	-4.6	-5.2	-3.5
USD exchange rate (USD/EUR)	1.1	1.08	1.09	1.09	0.0	0.0	0.0
Short-term nominal interest rate	0.3	3.4	3.4	2.9	0.1	0.1	0.0
Long-term nominal interest rate (EA)	1.8	3.1	3.2	3.3	0.0	0.1	0.1
<b>GDP</b>							
World	3.3	2.9	2.9	3.1	0.1	-0.1	-0.0
USA	2.1	1.0	0.6	1.6	-0.1	-0.3	-0.1
China	3.0	6.0	4.7	4.5	0.9	-0.2	0.0
India	6.8	5.6	6.5	6.8	-0.2	0.0	-0.0
Japan	1.0	1.1	1.1	1.0	-0.1	-0.2	-0.2
CESEE (EU-6)	4.5	1.0	2.7	3.4	0.1	-0.4	0.0
<b>Trade</b>							
World trade, real	6.0	1.5	3.4	3.3	-1.1	0.1	-0.1
Export markets (EA)	6.3	0.5	3.1	3.1	-1.6	0.0	-0.1

Source: Eurosystem.

### Main technical assumptions

- No explicit assumptions regarding COVID-19 and war in Ukraine
- Supply chain disruptions have eased; order books remain robust
- Rising interest rates dampen economic activity

### External assumption changes since March 2023

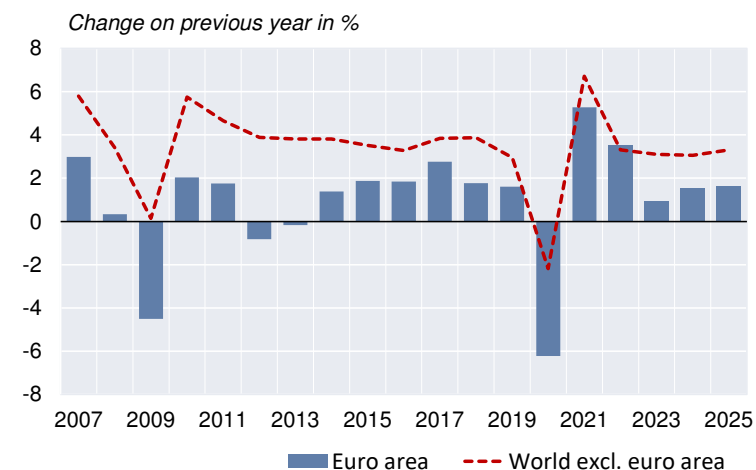
- Exchange rate and interest rate assumptions broadly unchanged; oil price assumptions lower
- Upward revision of China's growth rate after Q1 23; weak US growth in 2024

## Euro area GDP recovering after stagnation; core inflation rising in 2023

Euro area	June 2023 projections				Revisions since March 2023		
	Year-on-year change in %				Percentage points		
	2022	2023	2024	2025	2023	2024	2025
<b>Real GDP</b>	3.5	0.9	1.5	1.6	-0.1	-0.1	0.0
<b>HICP</b>	8.4	5.4	3.0	2.2	0.1	0.1	0.1
<b>Core inflation*</b>	3.9	5.1	3.0	2.3	0.5	0.5	0.1

Source: Eurosystem projections of June 2023. \* Core inflation = HICP inflation excl. energy and food.

### Real GDP: euro area and world excl. euro area



Source: Eurosystem.

- **GDP:** robust GDP growth in 2023 despite high inflation, interest rate hikes and tightening financing conditions
- **Inflation:** already going down visibly (May: 6.1%, April: 7.0%); set to shrink further until 2025
- **Core inflation:** rising further in 2023

## Recession in Germany in 2023; projections indicate different degrees of inflation persistence

### Real GDP growth

%	2023	2024
Germany	-0.3	1.2
France	0.7	1.4
Italy	1.2	1.1
Spain	1.9	2.0
Netherlands	1.8	1.2
Belgium	1.2	1.4
Ireland	5.5	5.0
Finland	0.2	1.4
Portugal	2.4	1.8

Source: European Commission (May 2023);  
Germany: Bundesbank.

### HICP inflation

%	2023	2024
Germany	6.0	3.1
France	5.5	2.5
Italy	6.1	2.9
Spain	4.0	2.7
Netherlands	4.9	3.3
Belgium	3.4	3.5
Ireland	4.6	2.6
Finland	4.8	2.1
Portugal	5.1	2.7

Source: European Commission (May 2023);  
Germany: Bundesbank.

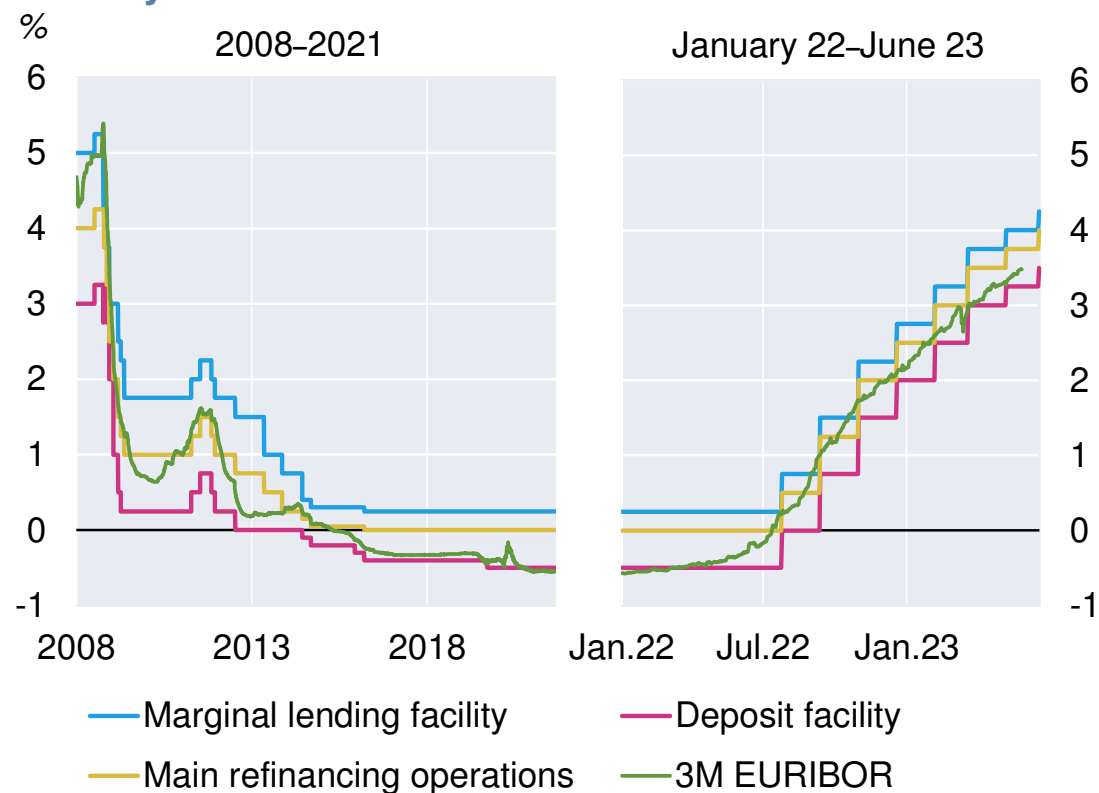
### Unemployment rate

%	2023	2024
Germany	2.9	2.8
France	7.4	7.5
Italy	7.8	7.7
Spain	12.7	12.4
Netherlands	3.8	3.9
Belgium	5.8	5.7
Ireland	4.3	4.3
Finland	7.1	6.8
Portugal	6.5	6.3

Source: European Commission (May 2023);  
Germany: Bundesbank.

## Monetary policy: policy rates up 400 basis points since mid-2022 ...

### ECB key interest rates and euro market interest rates

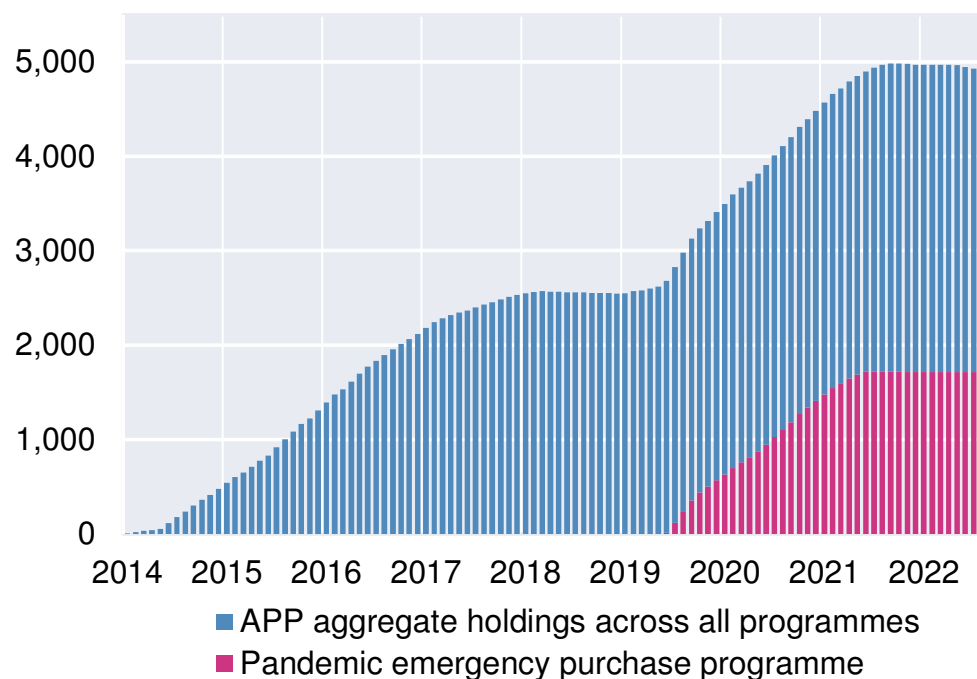


- **Inflation** has slowed, but is projected to remain **too high for too long**; the Governing Council of the ECB has thus raised key interest rates by a total of 400 basis points in 8 steps so far
- Monetary policy transmission to euro area **financing conditions** has been strong and is beginning to have an impact on the economy as a whole
- The Governing Council of the ECB will continue to rely on a **data-driven approach** to identifying the adequate size and duration of **restrictive policy rate levels**

## ... amid measures to shorten Eurosystem balance sheet

### Monetary policy asset purchase programmes

EUR billion



Source: ECB.

- **Reinvestment of maturing APP funds to end in July 2023**

Until end-June 2023, the level of APP holdings will decline by EUR 15 billion per month  
Full reinvestment of maturing funds is to be discontinued from July 2023 → portfolio run-off

- **PEPP portfolio to remain unchanged for time being**

In contrast, maturing PEPP holdings will continue to be reinvested in full at least until end-2024

# Austria: economic revival in second half of 2023 after one year of stagnation

## Main results of June 2023 outlook

	June 2023				Revisions since Dec.2022		
	2022	2023	2024	2025	2023	2024	2025
	<i>Change on previous year in %</i>				<i>Percentage points</i>		
<b>GDP</b>	+4,9	+0,5	+1,7	+1,6	-0,1	+0,0	+0,0
Private consumption	+4,9	-0,2	+2,3	+1,6	-0,3	+0,2	+0,2
Government consumption	+3,6	-0,3	+0,0	+0,7	+0,2	-0,4	+0,0
Total investment	+0,4	+0,4	+0,6	+1,4	+1,8	-1,1	-0,6
Exports	+13,0	+2,9	+2,7	+3,0	+1,2	-0,6	-0,7
Imports	+7,8	+2,7	+2,2	+2,6	+2,2	-0,9	-1,0
	%						
<b>HICP</b>	+8,6	+7,4	+4,1	+2,9	+0,9	+0,5	+0,0
<b>Unemployment ratio</b>	+4,8	+5,0	+4,8	+4,6	+0,1	+0,1	+0,0
<b>Savings ratio</b>	+8,4	+7,4	+8,2	+9,0	+2,2	+1,2	+1,5
	<i>Change on previous year in %</i>						
<b>Employees</b>	+2,9	+1,1	+1,1	+1,0	+0,6	+0,1	+0,0
	<i>% of nominal GDP</i>						
<b>Current account balance</b>	+0,7	+1,3	+1,9	+2,3	+0,4	+0,2	-0,3
<b>Government balance</b>	-3,2	-2,6	-1,9	-1,9	-0,6	+0,3	+0,3
<b>Public debt</b>	+78,4	+75,2	+72,7	+70,9	+0,8	+0,2	-0,2

Source: Statistics Austria, OeNB.

## GDP

### 2022/2023:

- Strong post-pandemic catch-up effects until H1 22
- Stagnation from mid-2022
- Recovery beginning in H2 23

### 2024–2025:

- Strong private consumption fueled by rise in real incomes
- Investment growth slowed down by interest rate increases
- Export growth remains below historical levels

## HICP inflation

- Inflation higher and more persistent than in euro area
- Core inflation significantly higher than historical average

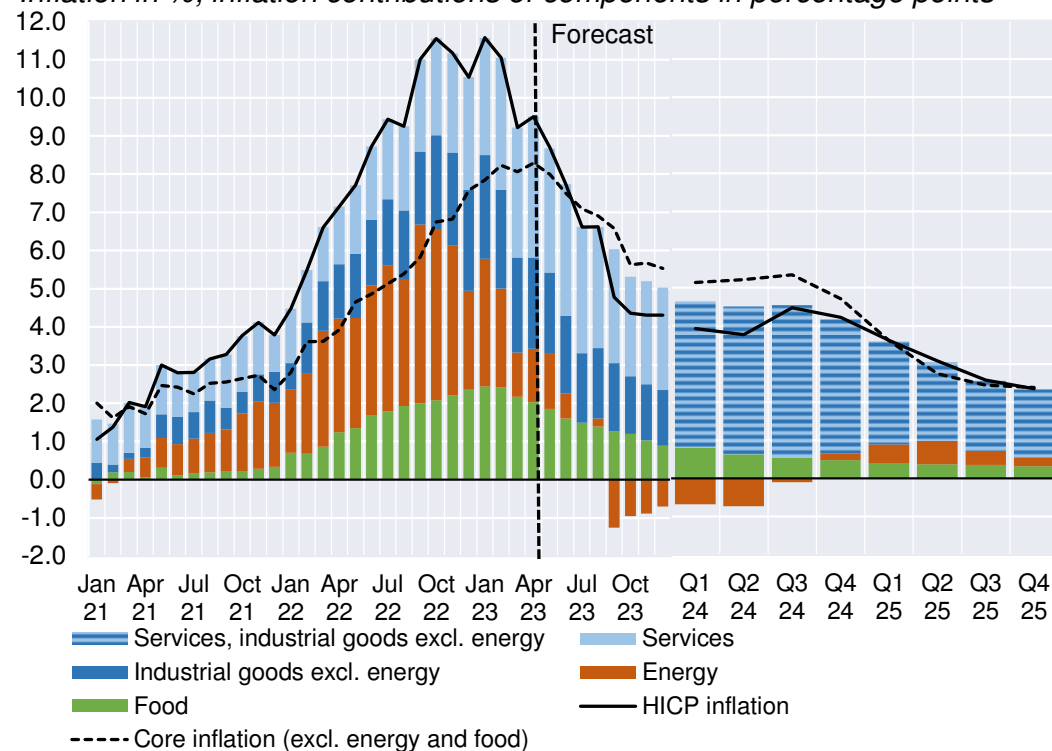
## Labor market

- Employment growth and labor shortages continue

# Inflation is receding in Austria – but more slowly than in many other countries

## Contributions of components to HICP inflation

Inflation in %; inflation contributions of components in percentage points



Source: OeNB, Statistics Austria.

OeNB projection

	2022	2023	2024	2025
%				
HICP inflation	8.6	7.4	4.1	2.9
Core inflation <sup>1)</sup>	5.1	7.1	5.1	2.8

HICP inflation

Core inflation<sup>1)</sup>

1) Excl. energy and food.

Source: OeNB, Statistics Austria.

- **HICP inflation at 7.4% in 2023;** inflation will continue to decline in 2024 and 2025, but remain above 2.0%
- **Core inflation** will keep rising in 2023, driven above all by
  - rising unit labor costs
  - rising producer prices

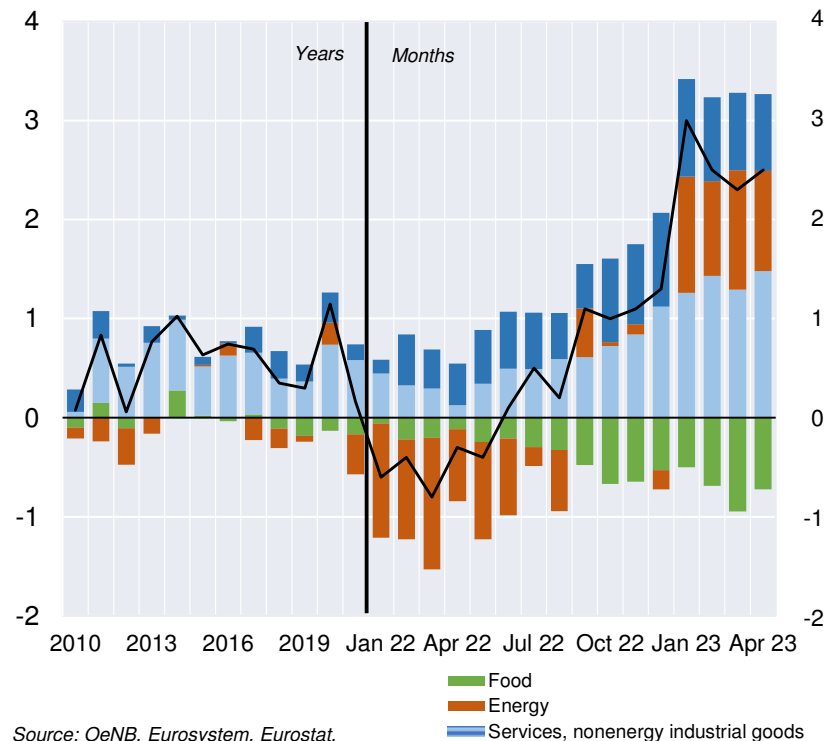


# Elevated inflation in Austria due to a range of factors

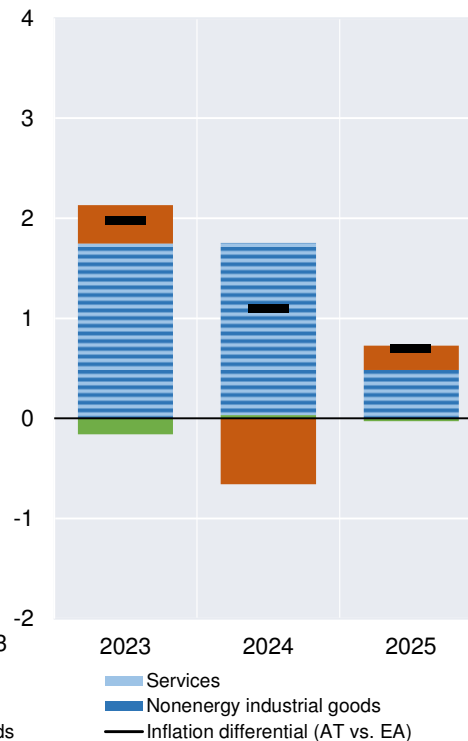
## Inflation differential: Austria vs. euro area

Contributions in percentage points

Latest observation: April 2023



## Forecast



Source: OeNB, Eurosystem, Eurostat.

### Persistent rise in gas and heating costs

- Lagged pass-through of energy prices to households

### Higher services inflation

- Rising unit labor costs
- Weighting differences (e.g. restaurants)

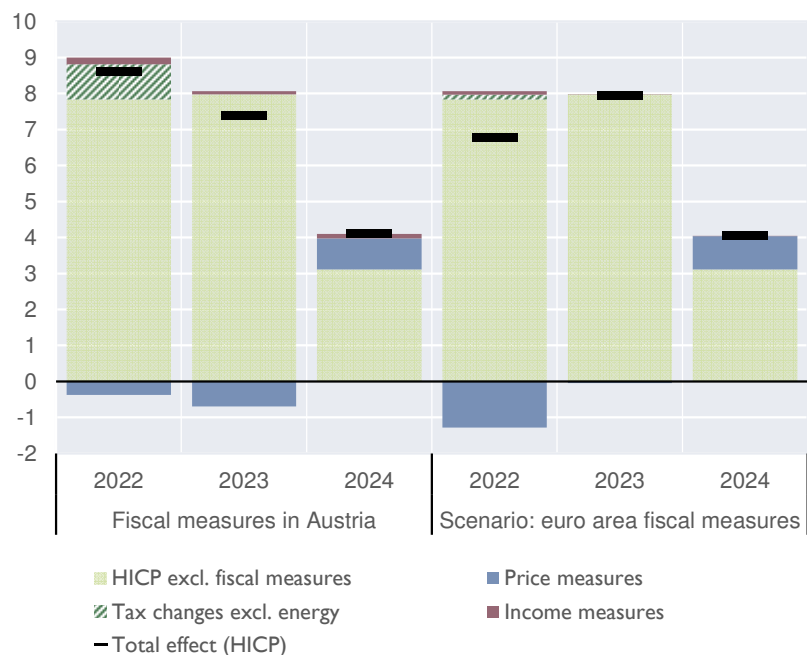
### Mix of fiscal measures

- Fewer direct price interventions, higher transfer payments

# Energy relief measures only support incomes with a lag, slightly cushioning inflation

## Inflation effects of fiscal policy measures (HICP)

HICP inflation (year-on-year change in percentage points)



Source: OeNB.

Price measures (reducing inflation) lag behind euro area action

Transfer payments (driving up inflation; one-off payments; elimination of bracket creep) higher than in euro area

Measures offset 90% (2022) and 70% (2023) of projected decline in household income ...

... but will lower inflation by “just” 0.2 (2022) and 0.6 (2023) percentage points

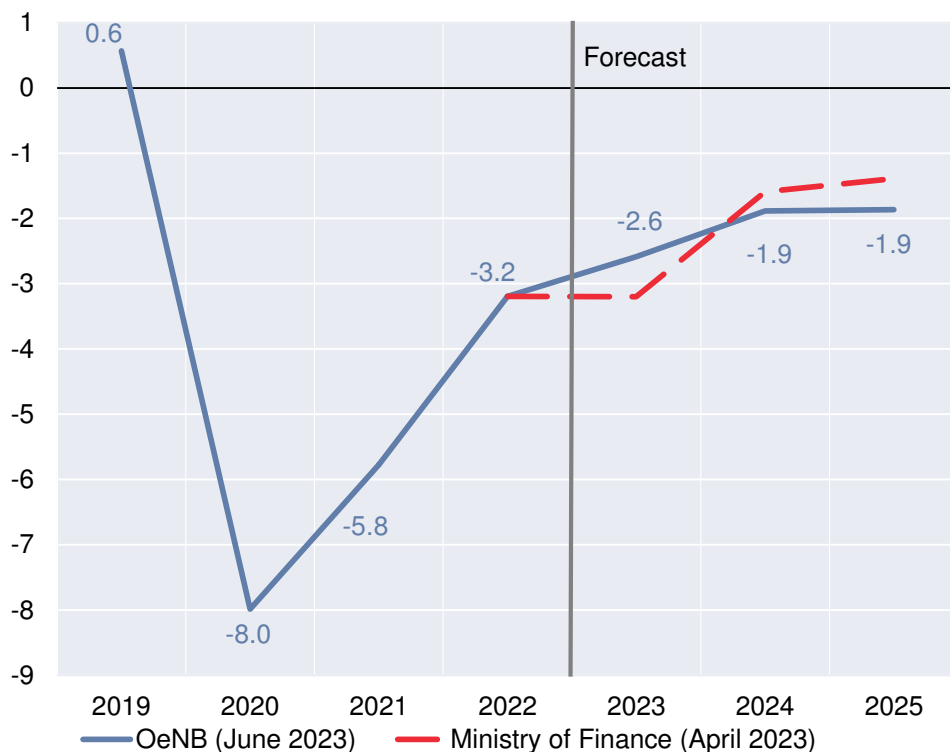
If Austria had applied the fiscal policy measures adopted in the euro area, inflation ...

- ... would have been 1 percentage point lower in 2022
- ... would be 0.5 percentage points higher in 2023

# Austria's budget balance to improve somewhat in 2023 and 2024

## Budget balance

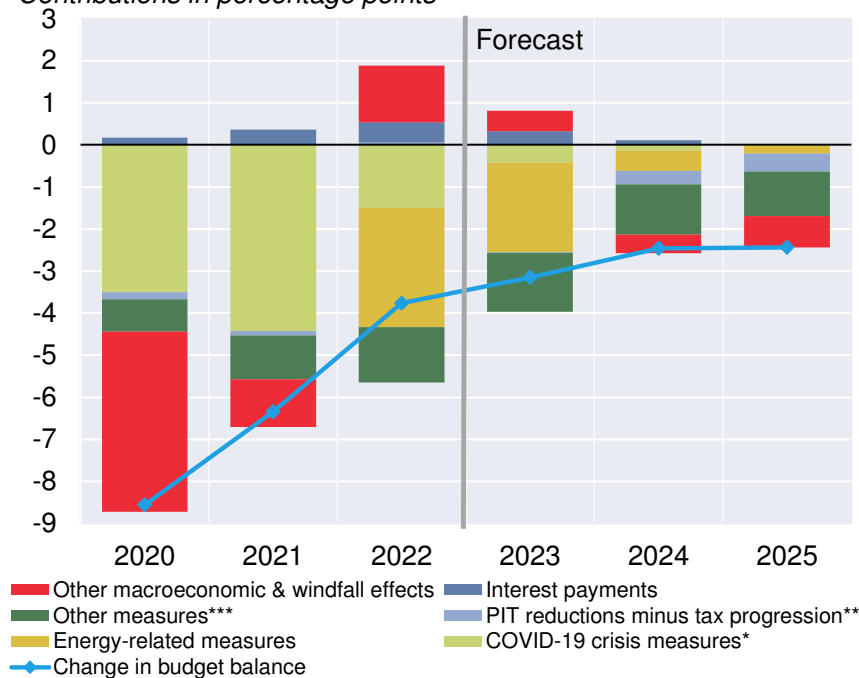
% of GDP



Source: OeNB, Statistics Austria, Ministry of Finance.

## Change in budget balance since 2019

Contributions in percentage points



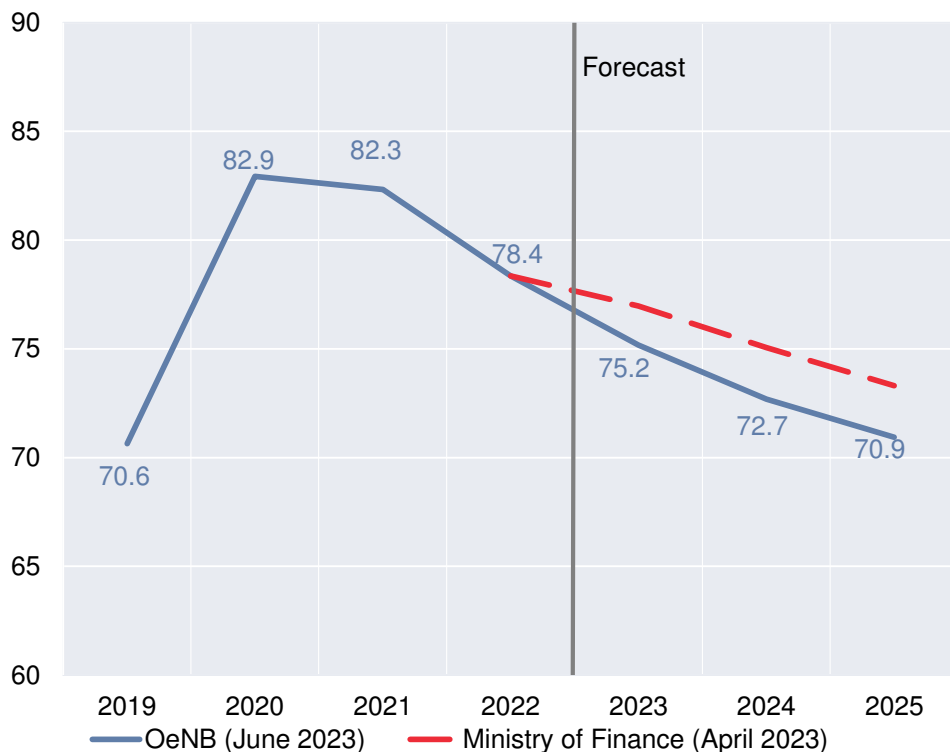
\* Subsidies, income support, COVID-19 testing, etc.  
 \*\* Personal income tax cuts minus tax progression due to income growth  
 \*\*\* COVID-19-related stimulus, eco-social tax reform, etc.

Source: OeNB, Statistics Austria.

# Public debt ratio going down, but debt-servicing costs to rise from 2023

## Public debt

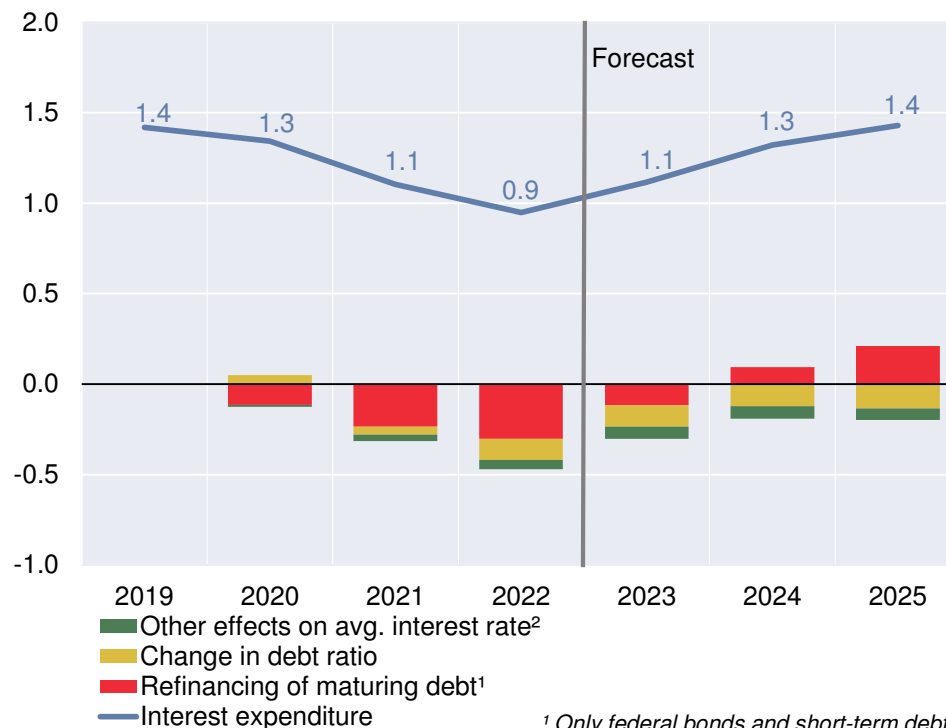
% of GDP



Source: OeNB, Statistics Austria, Ministry of Finance.

## Interest expenditure

% of GDP



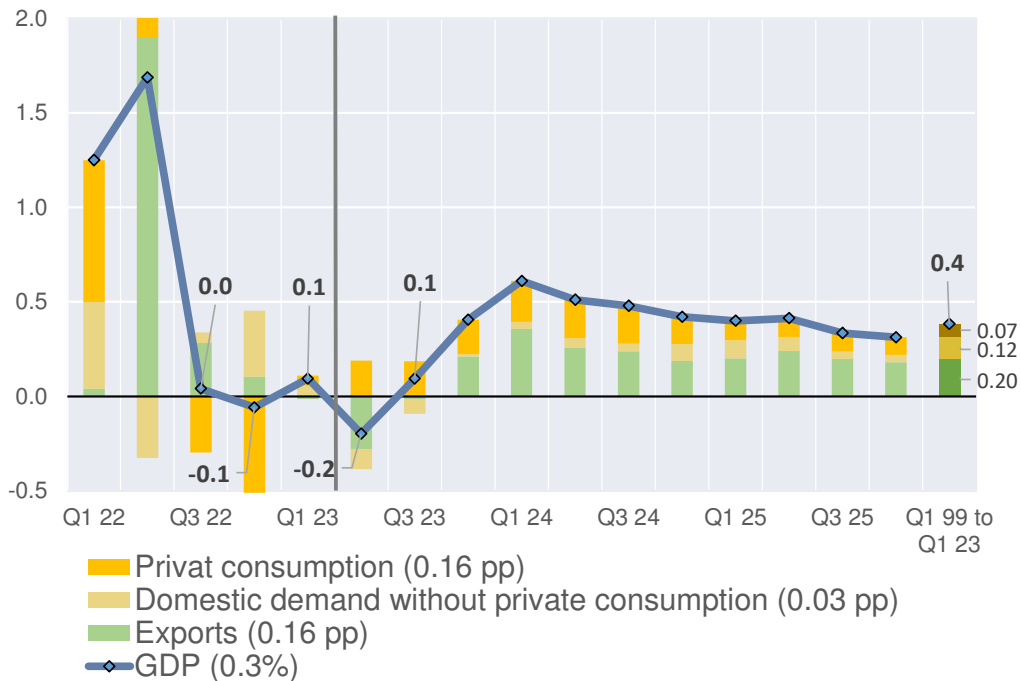
Source: Statistics Austria, OeNB, ÖBFA.

<sup>1</sup> Only federal bonds and short-term debt.  
<sup>2</sup> Including low interest rates for financing of deficits.

# Five quarters of stagflation in Austria

## Contributions of import-adjusted demand components to GDP growth

Change on previous quarter in %, growth contributions in percentage points



## Strong employment growth, but sharp decline in average working hours since COVID-19 crisis

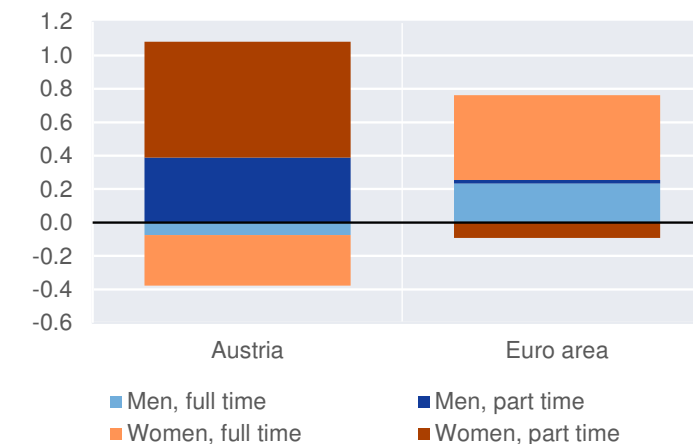
### Average annual change in total hours worked

	Austria	Euro area
<b>2020 to 2022</b>		
Change in total hours worked	-0.5	0.1
of which: change in average working hours	-1.5	-0.7
of which: change in number of employees	1.0	0.8
<b>1999 to 2019</b>		
Change in total hours worked	0.5	0.5
of which: change in average working hours	-0.5	-0.3
of which: change in number of employees	1.0	0.8
<b>2023 to 2025</b>		
Change in total hours worked	0.6	0.9
of which: change in average working hours	-0.3	0.2
of which: change in number of employees	0.9	0.6

Source: Eurostat (national accounts), OeNB.

### Average annual contribution to employment growth from 2020 to 2022

Percentage points

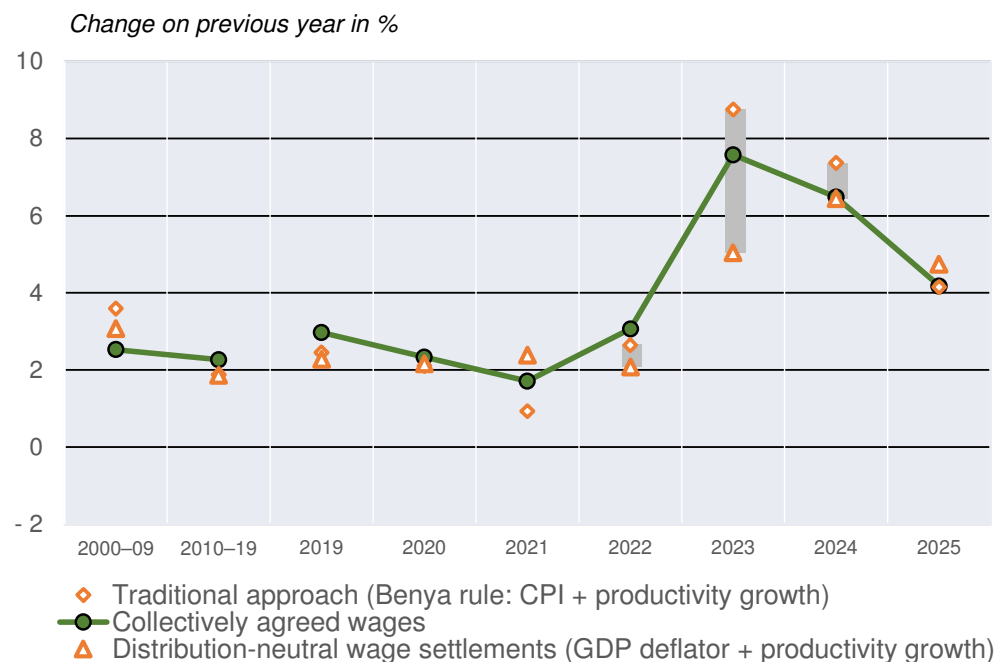


Source: Eurostat (Labour Force Survey).

- Part-time employment rate at historic peak, putting strong employment growth in perspective
- Rise in employment (among men and women) limited to part-time jobs since outbreak of pandemic
- Sharpest rise in part-time work among people aged 50–64 and academically trained women

# Outlook for wage moderation despite high wage settlements

## Determinants of wage setting in Austria



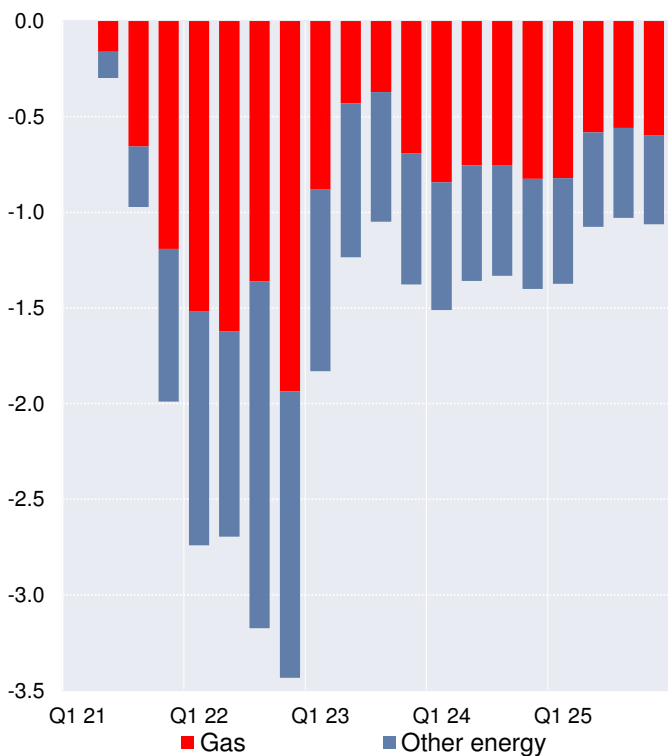
Source: OeNB, Statistics Austria.  
 Labor productivity (= GDP per employee), 5-year moving averages.

- OeNB forecasts collectively agreed wage settlements to come in at 7.6% in 2023, 6.5% in 2024 and 4.2% in 2025
- Traditional approach to wage settlements, i.e. aligning them with **previous year's inflation (CPI) + productivity growth**, would have produced significantly higher settlements for 2023 and 2024
- To achieve distribution-neutral wage growth amid an import price shock, our baseline should be the GDP deflator rather than CPI  
 → **traditional approach needs to be modified**

## Higher energy import prices create permanent income losses

Income terms-of-trade effect relative to Q1 21

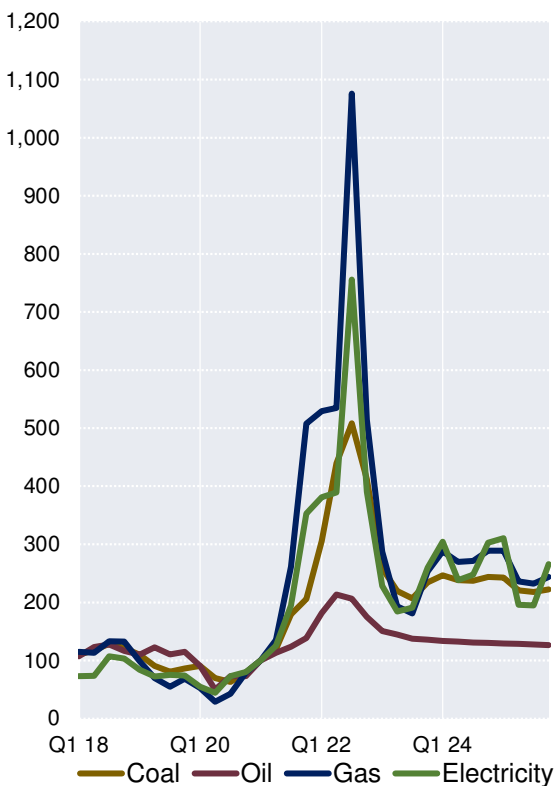
EUR billion



Source: OeNB, Eurosystem, Statistics Austria.

Global energy prices

Index: 2021Q1 = 100



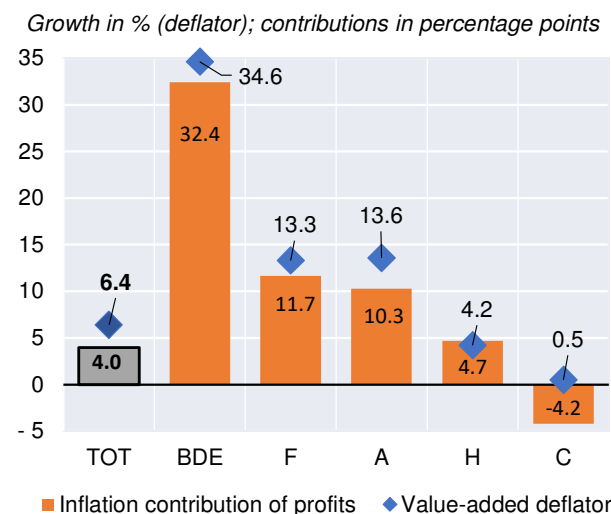
Source: Eurosystem.

- Austria is a net importer of energy
- When energy prices rise, a higher share of domestic income is exported (terms-of-trade effect)
- In 2022, these income outflows totaled about EUR 12 billion (OeNB estimates)
- Over the forecast horizon, these losses decline in line with decreasing energy prices, while prices are expected to remain above pre-crisis levels in the medium term
- For the period from 2023 to 2025, the OeNB expects losses to reach EUR 4½ to 5½ billion per year (0.8% to 1.1% of GDP)



# Domestic price pressures in 2022 heavily driven by profits

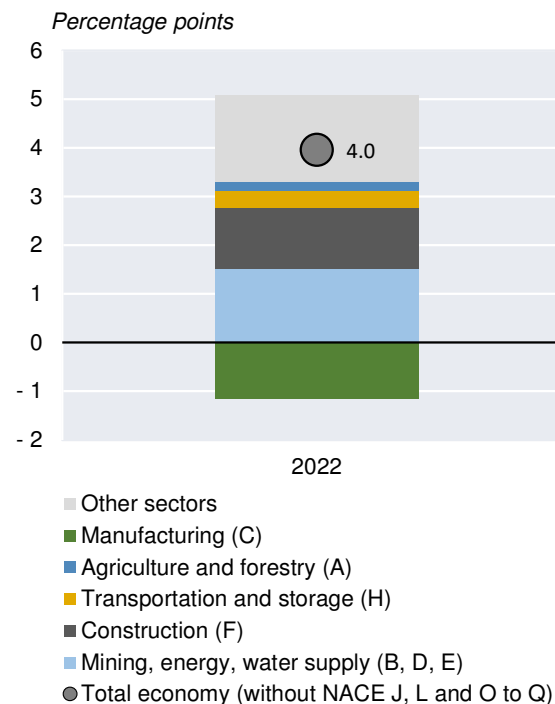
**Profit contributions to change in value-added deflator on a sectoral basis (2022)**



TOT: Total economy (without J, L and O to Q)  
 BDE: Mining, energy, water supply  
 F: Construction  
 A: Agriculture and forestry  
 H: Transportation and storage  
 C: Manufacturing

Source: Statistics Austria, OeNB calculations.

**Sectoral contributions to profits of total economy (2022)**

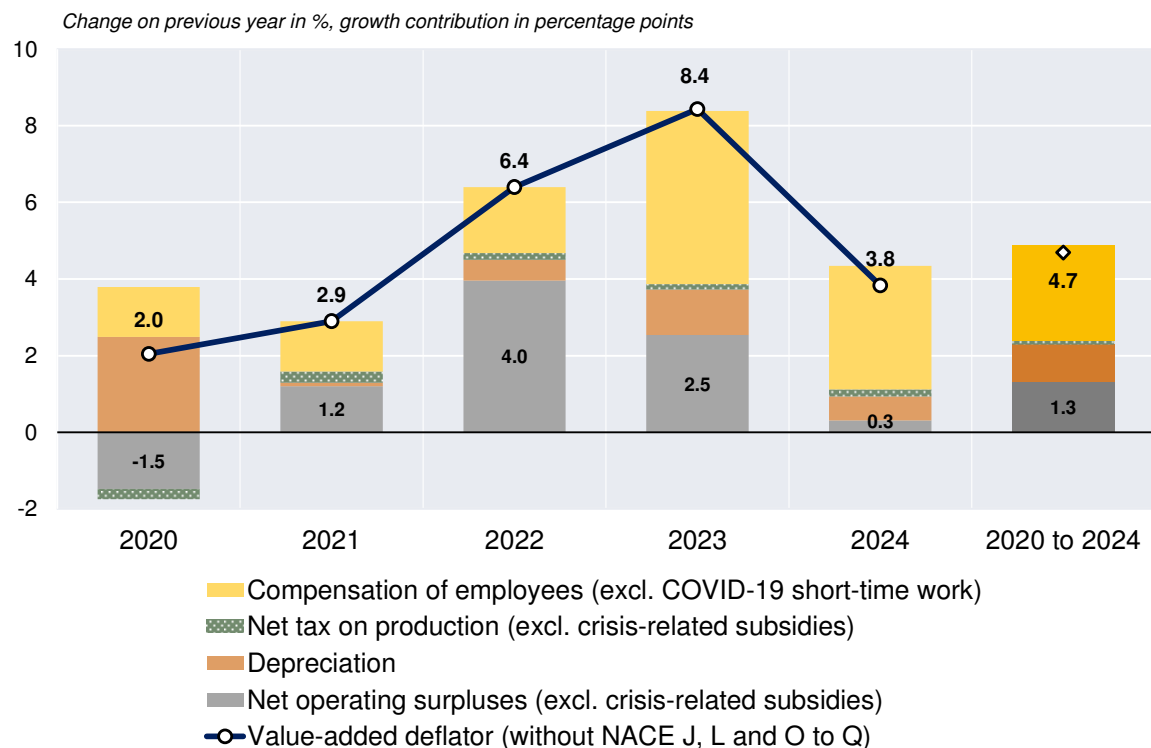


- Corporate profits accounted for more than half of the rise in inflation in Austria in 2022 (measured in terms of the value-added deflator)
- Profit shifts among sectors
  - High profit contributions in the energy, construction, agriculture and transport sectors
  - Manufacturing production absorbs part of cost increases through margins

Note: The value-added deflator measures how the price of domestic production rises or falls excluding the prices of (domestically purchased or imported) intermediate goods, thus reflecting domestic price pressures.

# One-quarter of inflation increases from 2020 to 2024 driven by profits

## Contribution to growth of value-added deflator



Source: Statistics Austria, OeNB calculations.

### Outlook for 2023/2024

- Profits under pressure in 2023/2024
  - Significant second-round effects due to lags in compensation for inflation in the wage-setting process
- Weak economy
- High levels of depreciation/amortization

### Period from 2020 to 2024

- 26% of price increases are attributable to profits, which is in line with the share of profit in value added

**Danke für Ihre Aufmerksamkeit**

**Thank you for your attention**

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