IMF Country Report No. 22/284

AUSTRIA

2022 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT

September 2022

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2022 Article IV consultation with Austria, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on lapse-of-time basis, following discussions that ended on June 13, 2022, with the officials of Austria on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 23, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Supplementary Information** updating information on recent developments.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR22/296

IMF Executive Board Concludes 2022 Article IV Consultation with Austria

FOR IMMEDIATE RELEASE

Washington, DC – **September 2, 2022:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Austria.

The Austrian economy recovered robustly from the pandemic. Swift and effective policy measures and a strong public health system helped cushion the impact of the pandemic, allowing real GDP to recover by 4.8 percent in 2021. However, the recovery lags somewhat compared to peers, partially due to the strong concentration of the winter tourism and hospitality sectors in Austrian GDP.

Austria is highly vulnerable to the fallout of Russia's war in Ukraine given its high dependence on energy imports from Russia, deep integration into global value chains, and large banking exposures. Growth is projected to decline significantly during 2022:H2 and 2023 due to impacts of the war and the related energy crisis. Over the medium term, annual growth is projected to recover to around 1¾ percent. However, output will remain below the pre-crisis trend. Uncertainty is extraordinarily high with significant downside risks.

Executive Board Assessment[2]

The war in Ukraine constitutes another shock to the economy and has caused downside risks to rise considerably. Economic policies should aim at cushioning the impact of war, building resilience, and boosting growth.

The measures taken to address inflation concerns are temporary, but many are broad-based while some actions could undermine green transition efforts. Any additional support should allow full pass-through of international prices to consumers while providing more targeted and temporary transfers.

Austria's contingency planning for a gas supply disruption is welcome but more is needed to safeguard medium-to-long-term energy security. This includes providing incentives for conservation and fuel switching, developing strategies to diversify gas supplies in coordination with EU partners, and accelerating domestic green energy production.

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[1] 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.

[2] Management has determined it meets the established criteria as set out in Board Decision No. 15207 (12/74); (i) there are no acute or significant risks, or general policy issues requiring a Board discussion; (ii) policies or circumstances are unlikely to have significant regional or global impact in the near term; and (iii) the use of Fund resources is not under discussion or anticipated.

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The eco-social reform is an important step in the green transition. Protection of vulnerable households is critical, but we advise against increasing broad-based compensation above the medium-term neutrality objective.

Personal income tax indexation will keep the labor tax wedge down and avoid an additional contractionary effect from higher inflation. However, together with the indexation of social benefits, the authorities now face significant rigidities in fiscal consolidation. Therefore, increased discretionary expenditure control will be required to achieve Austria's deficit objectives. Additional spending should be targeted on increasing potential growth and promoting economic resilience, while safeguarding debt sustainability. Population aging will increase pension and health care costs while reducing contributions, reforms to address this increasing liability would be appropriate over the medium term.

The banking sector has weathered the pandemic well, but risks related to the Ukraine war warrant cautious monitoring of asset quality and enhanced supervision. To address financial sector risks from residential real estate prices, we welcome the plan to make binding the borrower-based measures, but more should be done if the overvaluation pressures persist. Additional capital-based macroprudential measures, such as a sectoral systemic risk buffer calibrated to real-estate exposure, should be considered if vulnerabilities persist.

Measures to reduce labor market mismatch and promote employment, such as re-skilling programs, language training and relocation assistance, as well as policies to boost old-age labor force participation, can alleviate Austria's labor shortages. Measures to rapidly integrate refugees from Ukraine are welcome from both a humanitarian and economic perspective.

Accelerating the digital transition will help boost productivity and raise Austria's growth potential. Such spending could also contribute to the green transition, as greater digital access can increase work-from-home options and online banking and commerce, which could lower transport needs, lowering fossil fuel consumption and greenhouse gas emissions.

Table 1. Austria: Selected Economic Indicators, 2019–23

Population (million):	8.9	Per capita GDP:	$53,285
Quota (current; millions SDRs/% of total):	3,932 (0.8%)	Literacy 1/:	100%
Main products and exports:	Diversified	Poverty rate 2/:	13.9%
Key exports markets	Germany, CESEE		

	2019	2020	2021	2022	2023
				Proj.	
Output					
Real GDP growth (%)	1.5	-6.7	4.8	3.9	1.5
Employment					
Unemployment (Harmonized) (%)	4.8	5.4	6.2	4.5	4.6
Prices					
Inflation (%)	1.5	1.4	2.8	7.1	3.7
General Government Finances					
Revenue (% of GDP)	49.2	49.0	50.1	49.5	49.3
Expenditure (% of GDP)	48.6	57.0	56.0	52.7	51.0
Fiscal balance (% of GDP)	0.6	-8.0	-5.9	-3.2	-1.7
Public debt (% of GDP)	70.6	83.9	83.0	79.4	77.5
Money and Credit					
Broad money (% change)	4.5	9.5	4.9	8.9	4.8
Credit to the private sector (% change) 3/	5.1	3.7	7.0	6.4	3.3
Balance of Payments					
Current account (% of GDP)	2.1	2.5	-0.5	-0.8	-1.0
FDI (% of GDP)	1.4	2.3	1.5	1.4	1.4
Reserves (months of imports)	1.2	1.6	1.6	1.4	1.4
External debt (% of GDP)	154.4	164.9	161.7	…	…
Exchange Rates					
REER (% change)	-1.1	-8.3	8.4	…	…

Sources: Authorities; and staff estimates and projections.
1/ Percent of population aged 15–74 with education attainment between pre-primary and tertiary education.
2/ 2020, at risk of poverty rate after social transfers.
3/ Households and non-financial corporations. Exchange rate adjusted.

INTERNATIONAL MONETARY FUND

AUSTRIA

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

August 23, 2022

KEY ISSUES

Context and Outlook: Austria is highly vulnerable to spillovers from the war in Ukraine given its high dependence on energy imports from Russia, deep integration into global value chains, and large banking exposures. After high growth in the first half of 2022, growth is projected to fall sharply through 2023 due to impact of the war and the related energy crisis. Over the medium term, annual growth is projected to stabilize around 1¾ percent. However, output will remain below the pre-crisis trend. Uncertainty is extraordinarily high with significant downside risks.

Policy recommendations: The priority is to alleviate economic spillovers from the war, build energy resilience, and assist refugees, while preserving financial stability. The authorities' ambitious reform agenda to boost green and digital transitions and facilitate labor reallocation should not be delayed.

Fiscal policy: Near-term fiscal policy should remain flexible given extraordinary uncertainties. Policies mitigating surging energy prices and inflation should be more targeted and less distortionary. Additional spending should be targeted to boost potential growth and foster resilience. Over the coming years, fiscal reforms, including pension reform, should be considered to address long-term fiscal pressures.

Financial policy: Careful monitoring of asset quality and war-related risks is crucial to preserve financial stability. Stricter enforcement of macroprudential policies should help mitigate risks in the residential real estate sector but additional measures should be considered if these risks persist.

Structural policy: The war in Ukraine makes imperative a renewed emphasis on the social and economic integration of refugees, acceleration of green initiatives, and strengthening long-term energy security. These include combined language and work-oriented activity assistance and targeted wage subsidies for refugees, higher spending on climate mitigation measures, and diversifying energy supply sources. Concurrently, more investment in digitalization and addressing skills mismatches in the labor market should remain a priority.

Approved By	
Mahmood Pradhan (EUR) and Andrea Schaechter (SPR)	The mission took place Vienna, Austria during May 30 to June 13, 2022. The team comprised Mr. Franks (head), Ms. Hassine, Ms. Patnam, and Ms. Suphaphiphat (all EUR) with contribution from Ms. Claver (LEG). The mission met Minister of Finance Brunner, Central Bank Governor Holzmann, Minister of Labor Kocher, and officials from the Chancellery, Ministries of Finance, Labor, Economy and Digitalization, and Climate Change, E-Control, and with the Financial Market Authority, the banking Deposit Guarantee Fund, private sector representatives, major banks, and think tanks. Mr. Just (OED) joined the meetings. Mr. Borraccia, Ms. Dumo, Ms. Jarin, and Ms. Maneely (all EUR) assisted in preparing the report.

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