

## Subdued domestic demand weighs on growth

### General Information



|                           |                                                 |
|---------------------------|-------------------------------------------------|
| <b>GDP</b>                | USD399.6 bn (World ranking 27, World Bank 2012) |
| <b>Population</b>         | 8.46 mn (World ranking 93, World Bank 2012)     |
| <b>Form of state</b>      | Federal Republic                                |
| <b>Head of government</b> | Werner FAYMANN (SPÖ)                            |
| <b>Next elections</b>     | 2016, presidential                              |



### Strengths

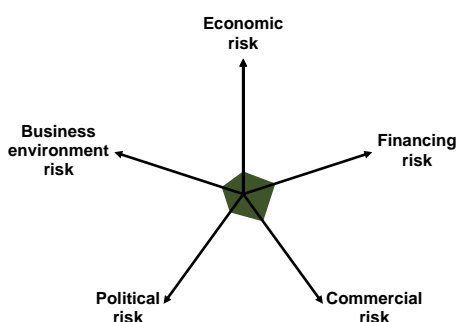
- Low systemic political risk
- Good regional and international relations, EU membership
- Eurozone membership provides for low transfer and convertibility risk
- Low inflation but no deflation risk
- Fiscal prudence
- Current account surpluses since 2002
- Strong business environment

### Weaknesses

- Muted domestic demand since 2012
- Banking sector is somewhat exposed to Central and Eastern Europe, including Russia
- High export dependency on Germany

### Country Rating

**AA1**



Source: Euler Hermes

### Trade Structure

By destination/origin (% of total)

| Exports       | Rank  | Imports           |
|---------------|-------|-------------------|
| Germany       | 29% 1 | 42% Germany       |
| Italy         | 6% 2  | 6% Italy          |
| United States | 6% 3  | 4% Switzerland    |
| Switzerland   | 5% 4  | 4% China          |
| France        | 4% 5  | 3% Czech Republic |

By product (% of total)

| Exports                | Rank | Imports                       |
|------------------------|------|-------------------------------|
| Engines                | 7% 1 | 5% Cars And Cycles            |
| Pharmaceuticals        | 6% 2 | 5% Miscellaneous Hardware     |
| Miscellaneous Hardware | 6% 3 | 5% Pharmaceuticals            |
| Electrical Apparatus   | 5% 4 | 4% Refined Petroleum Products |
| Iron Steel             | 5% 5 | 4% Plastic Articles           |

Source: Unctadstat, Chelem (2012)

### Growth disappointed in H1 2014

Real GDP growth decelerated to +0.4% in 2013 as a result of very weak domestic demand. Public consumption grew by a robust +1.4% but private consumption edged up by just +0.1% and fixed investment contracted by -0.8%. Moreover, inventories subtracted -0.9ppps from annual growth. External trade activity was solid, with exports expanding by +2.5%, outpacing imports at +0.5%, such that net exports contributed +1.2ppps to annual growth in 2013. However, quarterly data showed a continuous upwards trend in 2013, with y/y GDP growth of -0.5% in Q1, -0.1% in Q2, +0.4% in Q3 and +1.3% in Q4.

In contrast to expectations, that uptrend did not continue in the first half of 2014 as real GDP growth disappointed at just +0.1% y/y in Q1 and +0.6% y/y in Q2. In q/q terms, GDP increased by +0.1% in Q1 and +0.2% in Q2, after having gradually accelerated from 0% in Q1 2013 to +0.4% in Q4 2013. Still, Euler Hermes expects economic growth to reach about +1% in full-year 2014, thanks to some base effect and a modest recovery in H2. In 2015, GDP growth is forecast at +1.6%.

### Domestic demand remains subdued

Private consumption remained muted in the first half of 2014, expanding by just +0.1% q/q in both Q1 and Q2, repeating the performance of the previous three quarters. As employment growth is expected to strengthen in the second half of 2014 and in 2015, Euler Hermes forecasts private consumption to gather some momentum, reaching full-year expansion of +0.4% in 2014 and +0.8% in 2015.

Public consumption has supported the economy in the first half of 2014, increasing by +0.4% q/q in both Q1 and Q2, and is expected to continue to do so. Euler Hermes forecasts full-year expansion of +1.3% in 2014 and +0.8% in 2015.

The performance of fixed investment was mixed in the first half of 2014, with growth of +0.6% q/q in Q1 and a decline of -0.3% q/q in Q2. But thanks to some base effects, fixed investment should gradually recover in the second half and in 2015, reaching full-year growth of about +1.3% in 2014 and +2.7% in 2015. However, inventories are expected to remain a drag on growth in 2014, forecast to subtract -0.6ppps or so from growth.

### External demand remains growth driver

Exports increased by +0.3% q/q in Q1 and +0.5% q/q in Q2 2014, somewhat below the average +0.7% q/q reached in 2013. Imports expanded by +0.6% q/q in Q1 and +0.5% q/q in Q2 2014, similar to the average +0.6% q/q reached in 2013. Since the level of exports is higher than that of imports, the contribution of net trade to growth has remained positive in 2014 so far. For the year as a whole, Euler Hermes forecasts exports to grow by +3.8% and imports by +2.6%, such that net exports will be almost the sole driver of growth in 2014. Going forward, economic growth is projected to be more balanced between domestic and external demand in 2015.

Austria's annual current account balance has been in surplus since 2002 and is expected to remain so in the next two years though the excess is forecast to narrow from +2.7% of GDP in 2013 to +1.5% in 2014 and +0.7% in 2015. Regarding the trade balance, which has been in deficit since 2008, Euler Hermes forecasts the annual shortfall to narrow from -1.2% of GDP in 2013 to around -0.4% in 2014-2015.

### Key economic forecasts

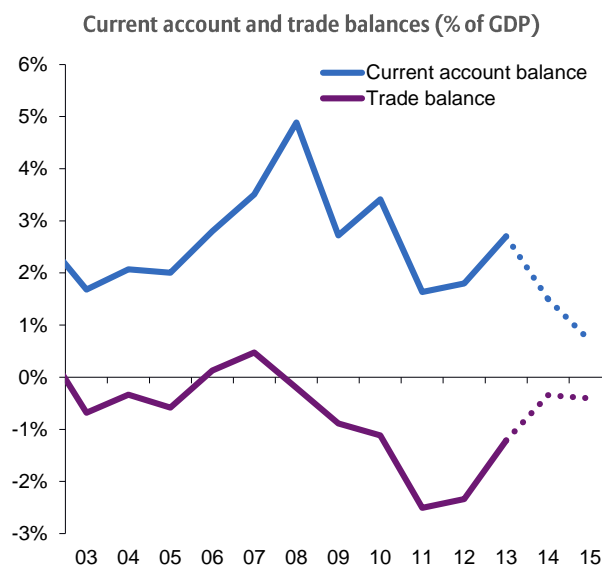
| Austria                                      | 2012 | 2013 | 2014 | 2015 |
|----------------------------------------------|------|------|------|------|
| <b>GDP</b>                                   | 0.7  | 0.4  | 1.0  | 1.6  |
| <b>Consumer Spending</b>                     | 0.4  | 0.1  | 0.4  | 0.8  |
| <b>Public Spending</b>                       | 0.1  | 1.4  | 1.3  | 0.8  |
| <b>Investment</b>                            | 1.9  | -0.8 | 1.3  | 2.7  |
| <b>Stocks</b> *                              | -0.9 | -0.9 | -0.6 | 0.1  |
| <b>Exports</b>                               | 1.7  | 2.5  | 3.8  | 3.0  |
| <b>Imports</b>                               | 0.0  | 0.5  | 2.6  | 2.7  |
| <b>Net exports</b> *                         | 1.0  | 1.2  | 0.9  | 0.4  |
| <b>Current account</b> **                    | 6    | 8    | 5    | 2    |
| <i>Current account (% of GDP)</i>            | 1.8  | 2.7  | 1.5  | 0.7  |
| <b>Employment</b>                            | 1.5  | 0.6  | 1.4  | 1.2  |
| <b>Unemployment rate</b>                     | 4.4  | 4.9  | 4.7  | 4.4  |
| <b>Wages</b>                                 | 3.3  | 2.6  | 2.3  | 2.1  |
| <b>Inflation</b>                             | 2.5  | 2.0  | 1.6  | 1.6  |
| <b>General government balance</b> **         | -8   | -5   | -9   | -5   |
| <i>General government balance (% of GDP)</i> | -2.6 | -1.5 | -2.9 | -1.5 |
| <b>Public debt (% of GDP)</b>                | 74.5 | 74.6 | 79.1 | 78.7 |
| <b>Nominal GDP</b>                           | 307  | 313  | 320  | 331  |

Change over the period, unless otherwise indicated:

\* contribution to GDP growth

\*\* EUR bn

Sources: National sources, IHS, Euler Hermes



Sources: National sources, IHS, Euler Hermes

## No near-term deflation risk

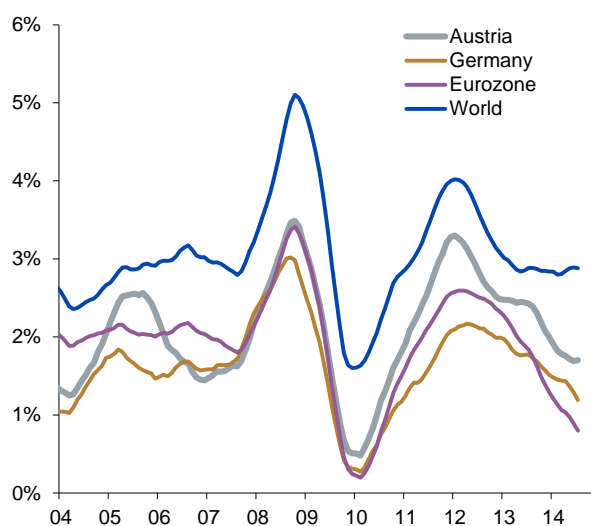
Inflation – as measured by the EU's Harmonised Index of Consumer Prices (HICP) – has slightly picked up from 1.5% y/y in January to 1.7% y/y in July, reaching an average 1.6% over the past 12 months. Inflation in Austria has thus remained well above the average of the Eurozone which saw HICP inflation falling from 0.8% in January to 0.4% in July and an average 0.7% over the past 12 months. In contrast to the Eurozone as a whole, the risk of deflation is currently seen as limited in Austria.

## Public finances are adequate

Austria's fiscal deficit has been below the -3% of GDP Maastricht threshold since 2011 and fell to -1.5% of GDP in 2013. In 2014, the deficit is projected to widen markedly to almost -3% of GDP, mostly as a result of a decision made on the resolution of Hypo Alpe Adria, the failed bank that was nationalised in 2009, which will require further capital injections. Following the one-off support to Hypo Alpe Adria, the fiscal deficit is forecast to narrow again to about -1.5% of GDP in 2015.

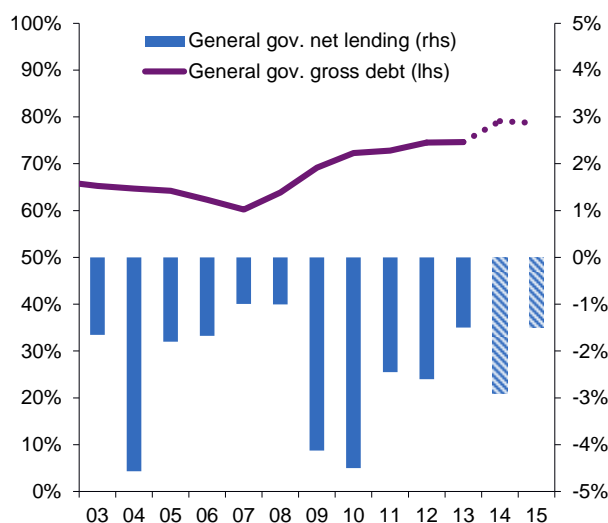
Total public debt stabilised at around 75% of GDP in 2013. The one-off support to Hypo Alpe Adria is likely to boost the debt ratio close to 80% of GDP in 2014-2015. A significant reduction of the ratio would require a sustained period of stronger growth and/or significant cuts on the public expenditure side.

Inflation rate (12-month moving average, %)



Sources: National sources, IHS, Euler Hermes

Public finances (% of GDP)



Sources: National sources, IHS, Euler Hermes

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