

Growth is gradually gathering momentum

General Information



GDP	USD374bn (World ranking 29, World Bank 2015)
Population	8.6mn (World ranking 93, World Bank 2015)
Form of state	Federal Republic
Head of government	Christian KERN (Chancellor)
Next elections	Dec 2016 presidential (re-vote); 2018 legislative



Strengths

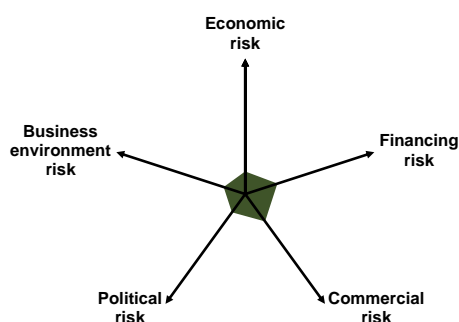
- Low systemic political risk
- Good regional and international relations, EU membership
- Eurozone membership provides low transfer and convertibility risk
- Low inflation but no deflation risk anticipated
- Consistent current account surpluses since 2002
- Strong business environment

Weaknesses

- High trade dependency on Germany
- Relatively high public debt
- Banking sector vulnerabilities due to large exposure to Central and Eastern Europe, including Russia

Country Rating

AA1



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
Germany	29% 1	41% Germany
Italy	6% 2	6% Italy
United States	6% 3	5% Switzerland
Switzerland	6% 4	5% China
France	5% 5	4% Czech Republic

By product (% of total)

Exports	Rank	Imports
Pharmaceuticals	7% 1	5% Pharmaceuticals
Engines	7% 2	5% Cars And Cycles
Miscellaneous Hardware	6% 3	5% Miscellaneous Hardware
Electrical Apparatus	5% 4	4% Electrical Apparatus
Plastic Articles	4% 5	4% Engines

Source: Chelem (2014)

Shift from external to domestic demand-driven growth

Real GDP growth accelerated from +0.7% in 2014 and +0.9% in 2015 to an average +1.4% y/y in H1 2016 (+1.6% in Q1; +1.2% in Q2). The improvement in H1 came mainly from consumer spending, which eventually returned to growth of +1.3% y/y after two full years of decline, and fixed investment which picked up to an increase of +2.7% y/y on the back of a recovery in construction investment (+2.1% y/y). Public spending expansion moderated slightly to +1.1% y/y in H1. Export growth slowed down to an average +3.1% y/y and was outpaced by imports which were up by +3.6% y/y, so that net exports made a small negative contribution to H1 GDP growth, after being the key growth driver in 2014-2015 (see Figure 1).

Improving economic sentiment points to continued gradual recovery

Advanced indicators suggest that the gradual economic recovery will be sustained. Growth of industrial production turned positive in mid-2015 and the upward trend in the Purchasing Managers Index (PMI) for the manufacturing sector indicates that this will continue (see Figure 2).

Likewise, real retail sales growth turned positive in mid-2015 and the upward trend in Eurostat's Consumer Confidence Indicator since end-2015 signals that private consumption should continue to increase in the next quarters (see Figure 3).

As a result, Euler Hermes expects full-year real GDP to expand by +1.4% in 2016, driven by well-diversified domestic demand. The contribution of net exports will likely be neutral or slightly negative as real imports will grow faster than exports. Growth in 2017 is forecast at +1.5%, with the pattern of growth being more balanced between domestic and external demand (see Figure 1).

Inflation to remain subdued

Consumer price inflation remained at 0.6% y/y in August 2016 for the fourth consecutive month and down from a 14-month peak of 1.2% in January 2016. The downward price trend for fuels continued in August, though the annual rate of decline of fuel prices was less pronounced than in July. Euler Hermes forecasts average annual inflation to edge down from 0.9% in 2015 to 0.8% in 2016 before picking up to 1% in 2017 (see Figure 1).

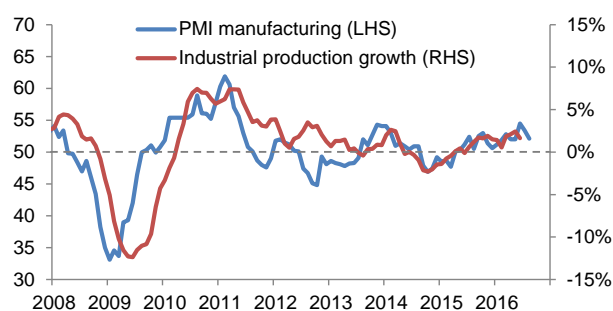
Figure 1: Key economic forecasts

Austria	2014	2015	2016	2017
GDP	0.7	0.9	1.4	1.5
Consumer Spending	-0.2	-0.1	1.0	1.0
Public Spending	1.0	1.8	1.3	1.4
Investment	-0.4	0.5	2.7	1.2
Stocks *	0.2	0.0	0.3	0.0
Exports	2.4	3.5	2.7	3.3
Imports	1.4	3.0	3.4	2.7
Net exports *	0.6	0.4	-0.2	0.5
Current account (% of GDP)	1.9	2.0	0.9	0.8
Unemployment rate	5.6	5.7	5.9	5.8
Wages	2.4	2.2	1.7	2.3
Inflation	1.6	0.9	0.8	1.0
General government balance (% of GDP)	-2.7	-1.2	-1.7	-1.5
Public debt (% of GDP)	84.3	86.6	85.7	84.3

Change over the period, unless otherwise indicated: * contribution to GDP growth

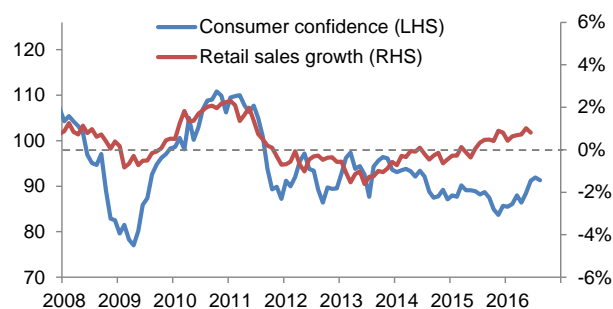
Sources: National statistics, IHS, Euler Hermes

Figure 2: PMI manufacturing and industrial production growth (3-month moving average)



Sources: IHS Markit, Euler Hermes

Figure 3: Consumer confidence and retail sales growth (12-month moving average)



Sources: Eurostat, IHS, Euler Hermes

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