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August 26, 2021

**Joint Statement by Mr. Alhomaly, Mr. Alhosani, Ms. Abdelati, and Mr. Saeed on Austria  
(Preliminary)  
Executive Board Meeting  
August 30, 2021**

We thank staff for the comprehensive reports and Mr. Just for his concise and informative statement. We broadly agree with the thrust of the staff recommendations with some qualifiers and would emphasize the following points.

**Although Austria's GDP declined by 6.3 percent in 2020 and declined further in early 2021, we are pleased to learn from the Buff that recent data shows a strong pick up and likely more favorable growth for 2021 than forecasted in the staff report.** Indeed, the very strong package of liquidity and income support of 13 percent of GDP, which is among the most generous in the EU, appears to have been effective in limiting the economic fallout.

**We agree with staff and the authorities that fiscal policy should continue to be flexible, but note that the authorities see less fiscal space and no need for additional fiscal support at this time.** We welcome the authorities' Stability Plan which aims to shift from emergency measures to recovery measures over 2022-2024. We also welcome the plan to allocate over half of resources from the EU under Austria's Recovery and Resilience Plan to green and digital transitions. While staff calls for additional spending, the authorities consider that further stimulus to the economy would not be very effective in raising GDP in the near term. In view of the more favorable growth outcomes for 2021Q2 and 2022Q3, *would staff now agree that the SP and ARP incorporate appropriate levels and composition of spending to mitigate economic scarring by facilitating reallocation of resources and promoting digitalization, innovation, and a green economy without the need for additional discretionary spending to further boost the strongly recovering economy.*

**We concur with the need to continue careful monitoring of credit quality and corporate insolvency.** Fortunately, the banking sector was well placed to meet the challenging environment of 2020, and credit quality at Austrian banks has not yet deteriorated. Staff warns of growing vulnerabilities in the housing sector that call for a stricter enforcement of prudential regulations. In this regard, it is useful to know that the current lending standards

are increasingly exceeding the threshold criteria for sustainability defined by the Market Stability Board.

**We welcome staff's coverage of the environmental, labor, and digitalization policies and the advice to seize the opportunity of accelerating economic transformation.** The section on Greening the Economy and Annex VI on closing the climate gap usefully highlighted challenges and priorities in this area. We trust that the authorities will undertake a thorough impact assessment before adopting any specific policies. We particularly acknowledge staff's hosting of a peer learning event on green budgeting to facilitate its adoption and to integrate climate considerations in the fiscal framework. *Are similar events organized for other members?*

**On efforts to stepping up digitalization, we note the authorities plans to increase digital connectivity and its considerable share of ARP funding.** However, the report refers to limited capacity constraints as a key consideration to accommodate additional spending. *We would welcome staff clarification on these capacity constraints and whether they can be addressed in time to make full use of the allocated funding.*

**We support ongoing efforts to foster job creation, support reallocation of workers, and reduce regional and skill mismatches.** Austria's short-term work scheme (STWS) has proved critical during the acute phase of the crisis, and we note the agreement on shifting to more targeted and less generous use as the recovery takes hold. The training component of the recovery plan will hopefully address skill shortages to reduce regional and skill mismatches. *While we note the remaining differences in view on the use of targeted hiring subsidies, we would be interested to know whether staff was able to offer the authorities alternative measures to foster job creation.*