

**LAPSE OF
TIME**

SM/22/215

August 23, 2022

To: Members of the Executive Board
From: The Secretary
Subject: **Austria—Staff Report for the 2022 Article IV Consultation**

Board Action: Executive Directors' **consideration** on a lapse of time basis as management has determined it meets the established criteria, including (i) there are no acute risks that single out Austria from the rest of the membership, or general policy issues requiring a Board discussion; (ii) policies and 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.

Additional Information: The attached report on Austria—Staff Report for the 2022 Article IV Consultation, is being reissued to replace SM/22/209 (8/4/22), in which the correct version of Figure 3 was inadvertently omitted owing to an Administrative Error.

Deadline to Request Board meeting: **Friday, August 26, 2022
12:00 (noon)**

Proposed Decision Deemed Approved: Tuesday, August 30, 2022

Provisional Board Meeting Date: (if requested) Wednesday, August 31, 2022

Proposed Decision: Page 24

***Unless an objection from the authorities is received prior to the conclusion of the Board's consideration, the document will be published.**

Publication:	Yes* Press Release will be based on the staff appraisal if there is no request for a Board discussion, as attached.
Questions:	Mr. Franks, EUR (ext. 36347) Ms. Suphaphiphat, EUR (ext. 38773) Ms. Patnam, EUR (ext. 30485) Ms. Hassine, EUR (ext. 39603)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	Forthwith—European Central Bank, European Commission After Board Consideration—Food and Agriculture Organization, Organisation for Economic Cooperation and Development, World Trade Organization



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.

CONTENTS

CONTEXT AND RECENT DEVELOPMENTS	4
OUTLOOK AND RISKS	8
POLICY DISCUSSIONS	9
A. Fiscal Policy: Navigating the Recovery Amid Uncertainty	9
B. Financial Sector Policies	13
C. Structural Policy	16
STAFF APPRAISAL	21
BOXES	
1. Indexation of Personal Income Tax Brackets	11
2. The Austrian Carbon Price Instrument	20
FIGURES	
1. Exposure to the War in Ukraine	4
2. COVID-19 Developments and Economic Activity	5
3. Labor Market Developments	6
4. Financial Sector Development	7
5. Public Debt	12
6. Energy Sector	17
7. Selected Indicators of Digitalization	21
8. External and Fiscal Developments	25
9. Credit	26
10. Housing Sector	27
11. Banking Sector	28
12. Financial Markets	29

TABLES

1. Summary of Economic Indicators, 2018–27	30
2. Fiscal Accounts, 2018–27	31
3. Balance of Payments, 2018–27	32
4. Financial Soundness Indicators, 2014–2021:Q3	33

ANNEXES

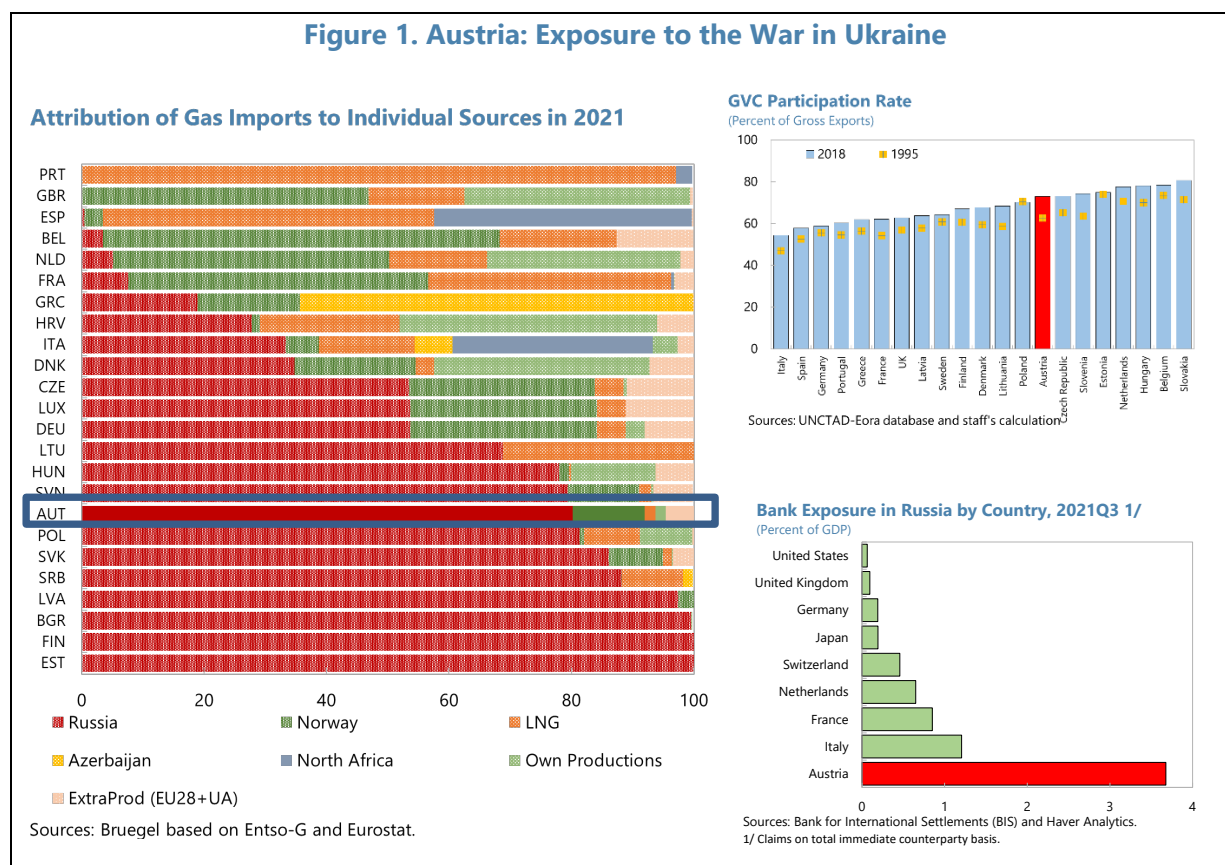
I. Exposures to the War in Ukraine	34
II. Inflation in Austria	42
III. External Sector Assessment	43
IV. Risk Assessment Matrix	45
V. Public Sector Debt Sustainability Analysis	47
VI. Previous Article IV Recommendations	53
VII. FSAP Update	54

APPENDIX

I. Draft Press Release	59
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CONTEXT AND RECENT DEVELOPMENTS

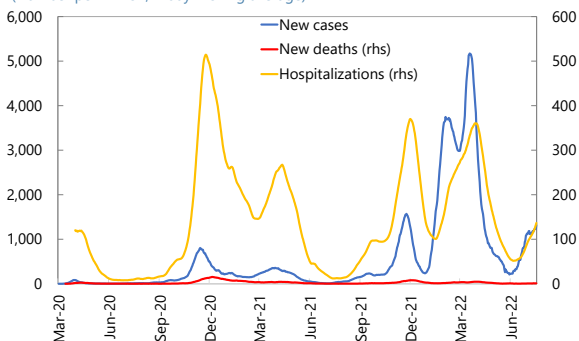
1. Austria is highly vulnerable to the economic impact of Russia’s invasion of Ukraine (Annex I). Although trade with Russia declined significantly after the 2014 sanctions, Austria remains dependent on Russia for some 80 percent of its gas, with limited access to alternative sources. Austrian banks are among the most exposed to Russia and Ukraine through subsidiaries. The country may also be affected indirectly through its high integration into global value chains.



2. Prior to the war in Ukraine, the recovery was robust notwithstanding multiple waves of the pandemic. The infection rate surged during the Omicron and its subvariant outbreaks. But with a relatively high vaccination rate—around 78 percent of the population has received at least two doses—hospitalization, ICU admission, and mortality rates have been relatively low. After a partial lockdown in December, the authorities gradually eased restrictions and economic activity has been less constrained by the virus. Real output surpassed the 2019:Q4 level in 2021:Q4. Nevertheless, Austria’s annual growth—at 4.8 percent in 2021—was still relatively low compared to peers, partially due to the strong concentration of the winter tourism and hospitality sectors. Manufacturing production surpassed its pre-crisis level, while economic activity in the hospitality sector was still 13 percent below. Strong growth in 2022:Q1 narrowed the GDP gap with peers, but Austria’s greater vulnerability to the Ukraine war shock will depress growth in the second half of the year.

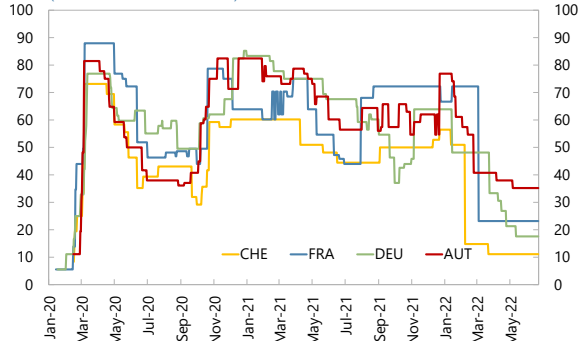
Figure 2. Austria: COVID-19 Developments and Economic Activity

New COVID-19 Cases and Deaths
(Number per million, 7-day moving average)



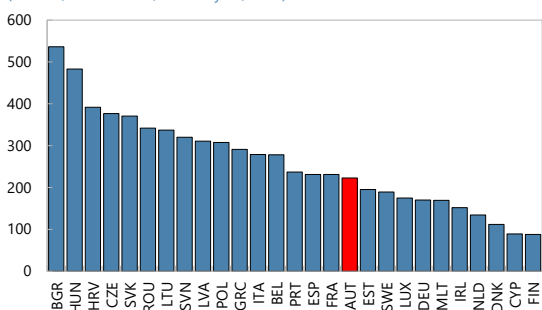
Source: Our World in Data.

COVID-19 Government Response Stringency Index
(Index: 100=most restrictive)



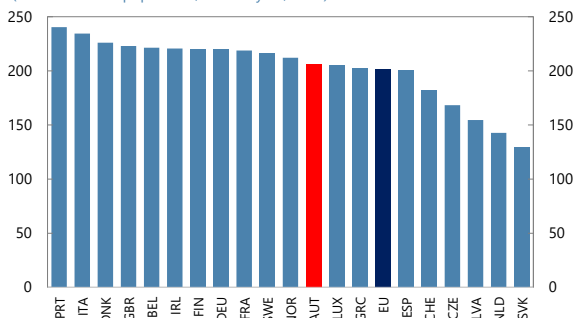
Source: Our World in Data.

EU Countries: COVID-19 Deaths
(Per 100,000 residents, as of July 20, 2022)



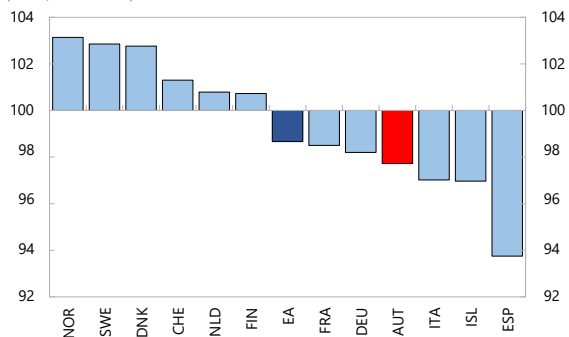
Source: Our World in Data

COVID-19 Administered Vaccines, Selected Countries
(Percent of total population, as of July 20, 2022)



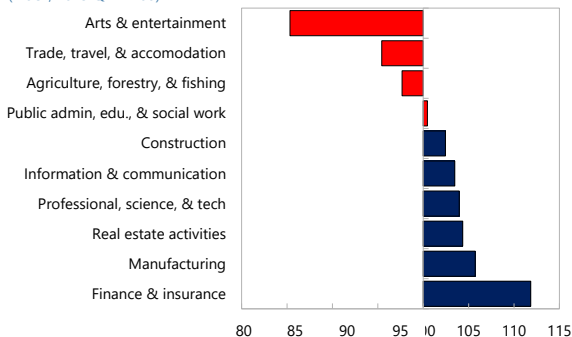
Source: Our World in Data; and IMF staff calculations.
Note: The sample includes the EU and advanced European economies.

Real GDP in 2021
(Index, 2019 = 100)



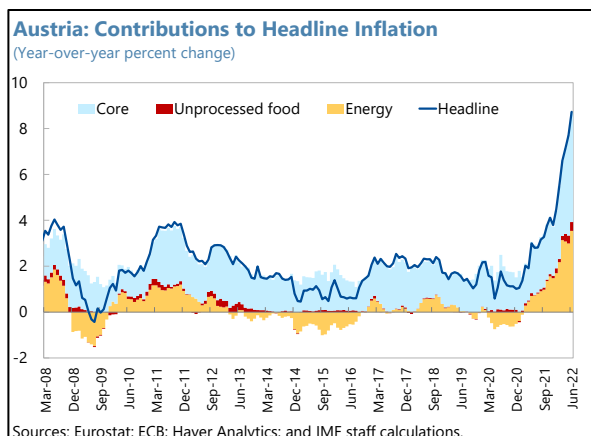
Sources: Haver Analytics; National Statistics Offices; and IMF staff calculations.

Gross Value Added, 2022 Q1
(Index, 2019 Q4 = 100)

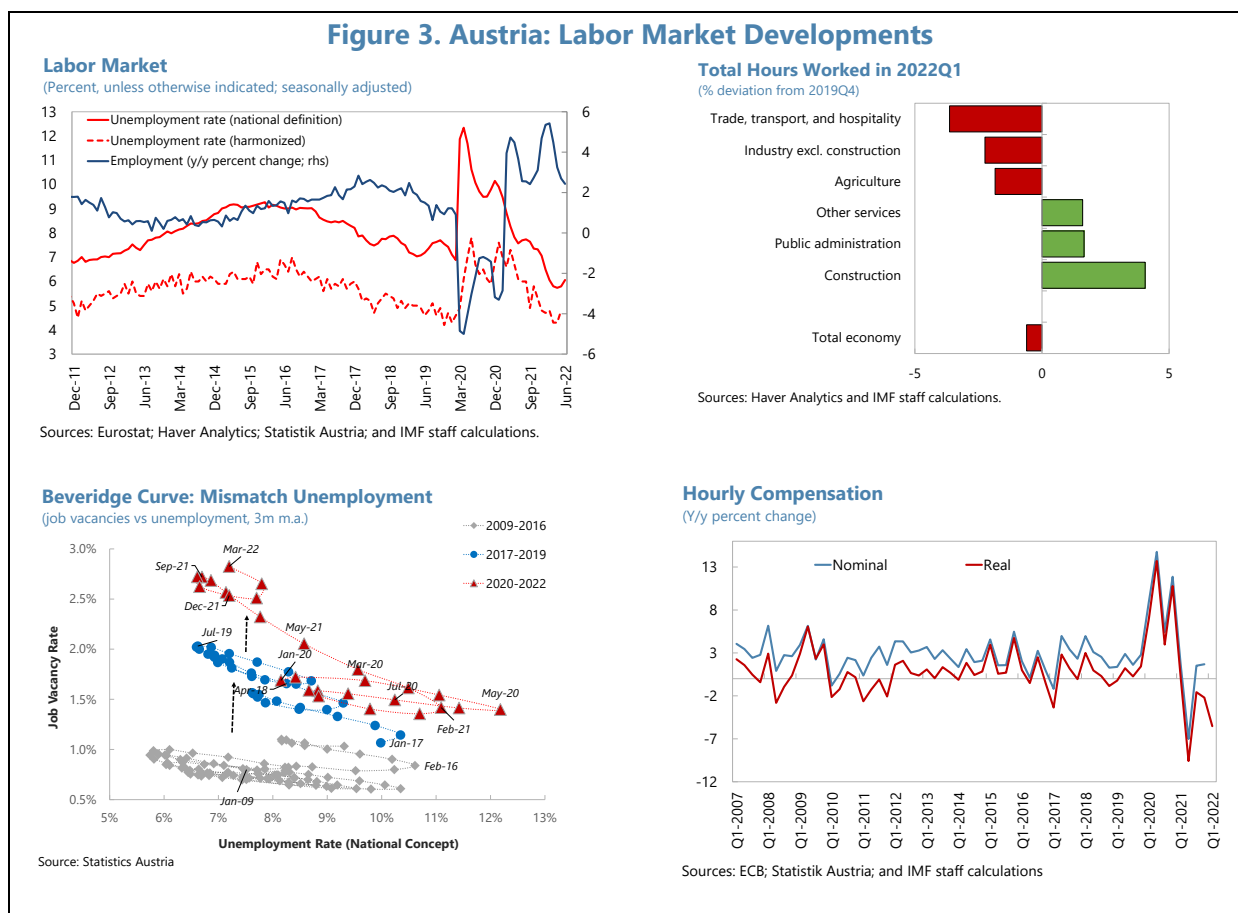


Sources: Eurostat; Haver Analytics; and IMF staff calculations.

3. Inflation has surged, driven by elevated energy and commodity prices and by supply constraints (Annex II). Headline inflation reached 8.7 percent in June, with core inflation accelerating to 5.5 percent. Evidence of second round inflationary effects is limited so far, as initial wage negotiations showed only moderate wage growth.



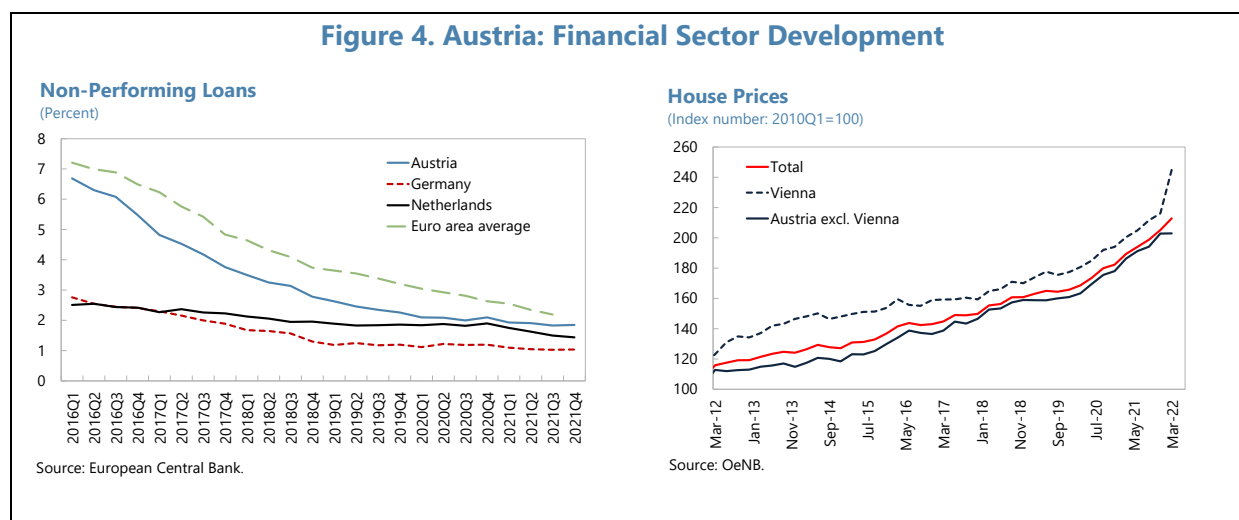
4. Employment recovered quickly, but hours worked have lagged. The unemployment rate (SA) stood at 4.8 percent in May, below the pre-pandemic level. Employment growth was robust with signs of labor shortages. Nonetheless, total working hours remained below pre-pandemic levels in 2022:Q1, due to the partial recovery in the hospitality sector and the continuation of the short-time work scheme.



5. The fiscal deficit improved to 5.9 percent of GDP in 2021, notwithstanding elevated emergency and recovery spending. Several emergency measures—including a revenue turnover replacement measure, hardship funds, and fixed cost subsidies—were extended in 2021 to cope with

repeated waves of the pandemic, while recovery measures such as an investment premium¹ and climate investment were initiated. Total pandemic-related spending (about 6 percent of GDP in 2021) was effective at cushioning the economic ramifications of the pandemic.

6. The financial sector proved resilient during the pandemic but war- and housing-related risks have increased. Austrian banks had ample liquidity and capital buffers and rising profitability. Aggregate profits reached a historical record (€7.2 billion) and consolidated non-performing loans (NPLs) declined to 1.8 percent at end-2021 (from 2.3 percent pre-COVID), while corporate defaults decreased, thanks to public support measures. Early effects from the war in Ukraine and ensuing sanctions have been contained, with no signs of deposit outflows and profitability remaining strong. Nonetheless, Austria's high financial exposures to Russia, Ukraine, and Central Eastern Southeastern European countries (CESEE) make its banking sector vulnerable to spillovers. Sberbank Europe was liquidated effectively in early March, ensuring that financial stability and confidence were maintained (€119). On the domestic front, house prices rose sharply and further deviated from fundamentals.² Mortgage lending has risen considerably, much of which did not comply with Financial Market Stability Board (FMSB) recommendations on borrower-based limits.



7. The external position is assessed to be broadly in line with medium-term fundamentals and desirable policies (Annex III). The current account balance registered a deficit for the first time in twenty years at 0.5 percent of GDP in 2021, due to a sharp deterioration in the merchandise trade and services balance. Both export and import volumes rebounded in 2021, but imports grew faster and this—combined with a sharp increase in energy import prices—drove the deficit. Furthermore, the surge of the Delta and Omicron variants and associated lockdowns during the winter season resulted in weak exports of services.

¹ The Investment premium is a subsidy for all companies undertaking new investments. The subsidy is 14 percent of investment costs in areas of digitalization, green, health, and R&D, and 7 percent in other areas.

² The ESRB, the OeNB, and IMF staff calculations suggested house price overvaluation in 2021 in the range of 10–40 percent.

OUTLOOK AND RISKS

8. The recovery is stronger than originally envisaged, but the war in Ukraine will weigh on growth in 2022:H2 with elevated near-term inflation and potential scarring in the medium term. A large upward revision in 2021:Q4, stronger-than-anticipated growth in 2022:Q1, and robust economic activity in Q2 provided strong momentum for the recovery in 2022, with growth now forecast at 3.9 percent.³ The impact of the war will likely intensify in 2022:H2 and carry over into 2023. Growth in 2023 is projected at 1.5 percent, reflecting continued supply disruptions, weakened external demand, surging commodity prices, and heightened uncertainty. Over the medium term, growth is expected to converge towards the pre-pandemic potential growth rate of 1¾ percent, as all emergency measures are expected to be fully withdrawn. The output gap is projected to close by 2027. Staff foresees the medium-term output path settling at 1½ percentage points below the pre-pandemic trend, due to lasting effects from the pandemic and the war in Ukraine. Average inflation is expected to rise to 7.1 percent in 2022, driven by energy and commodity prices, and will fall to around 3¾ percent in 2023 before gradually easing to around 2 percent in the medium term.

9. Uncertainty around the outlook is extraordinary and risks are tilted to the downside (Annex IV). The war in Ukraine has amplified the already-high uncertainty from the pandemic. Main downside risks stem from a prolonged war and an escalation of sanctions.⁴ An abrupt stoppage in Russia gas supplies could have adverse effects on households and on manufacturing production. Under the downside scenario, staff projects that growth will be lowered by ½ to 3 percentage points per year, depending on the length of the gas shutoff, existing gas storage, and the degree of energy substitutability (Annex I).⁵ As Austria is highly integrated into the global supply chain, particularly with Germany and CESEE, continued supply chain disruptions and further increases in energy and commodity prices could adversely affect manufacturing activities, weighing on growth and leading to higher and more persistent inflation. If these risks materialize, temporary and targeted emergency support might be needed. Concurrently, the authorities should prioritize energy conservation and protecting households and highest value-added productive sectors to minimize the short-term impact from gas restrictions. Inflationary pressures could become more entrenched, due to substantial non-targeted energy- or inflation-relief packages or to second-round effects from wage bargaining. A resurgence of the pandemic (possibly involving new variants) could renew containment measures and hinder the recovery. A house price correction could adversely affect the balance sheets of households and the financial sector. On the upside, a quick solution to the war

³ Growth in 2021:Q4 was revised to -0.8 percent (q/q) (from -1.5 percent), while the 2022: Q1 outturn was at 1.5 percent (q/q), significantly stronger than originally envisaged. As of Q1 the carryover is now 3.7 percent for 2022.

⁴ In line with the EU-wide agreement, Austria has imposed sanctions on Russia, including on Russia's central bank and selected banks, and restricted imports of Russian coal and oil. and The list of EU sanctions adopted following Russia's invasion of Ukraine is available [here](#). An analysis of the global spillovers of sanctions can be found in the [April 2022 World Economic Outlook](#). In line with the recently revised Institutional View on the liberalization and management of capital flows, some of the sanctions imposed on Russia can be capital flow management measures (CFMs) imposed for national and international security reasons.

⁵ Various studies estimate the output loss of a Russia gas shutoff for Austria in an extraordinarily wide range—from 0.1 percent of GDP to 15 percent points of GDP—spread over one to two years.

would boost growth while swift adjustment to phase out of energy imports from Russia could accelerate the green transition and strengthen economic resilience.

Authorities' Views

10. The authorities broadly agreed with staff's assessment on outlook and risks. They concurred that the strong pickup in economic activity in 2022:Q1 will carry over into higher annual growth in 2022, while noting that the impact of the war will significantly slow growth in 2023. Both the OeNB and WIFO revised 2022 growth upward, where staff's projection settles between the two. They agreed that pent-up demand from excess savings during the pandemic can fuel growth through consumption, particularly in the service sector which is still recovering from the pandemic. The authorities noted that supply chain disruptions have not yet severely affected manufacturing activities, as firms are able to access their inventories built up in the previous year, but it will be an important risk if the issue persists. They agreed that uncertainty around the baseline remains high with downside risks around the spillover impacts of the war and the development of pandemic. The downside scenario from a Russia gas shutoff, estimated by the OeNB, showed a significant adverse impact on growth (-4.4 percentage points for 2022 and -3.4 percentage points for 2023 from the respective baseline growth rate, assuming gas supply stops for one year starting in the summer 2022).

POLICY DISCUSSIONS

Policy discussions centered on the economic impact of the war in Ukraine. Policies should aim to cushion the impact of war, build resilience, and boost sustainable growth. Fiscal space is narrowing due to structural tax measures. Therefore, any additional spending should be focused on sustainable and inclusive growth and promoting economic resilience. While the financial system remains resilient to risks stemming from the war in Ukraine and the residential real estate sector, financial policies should carefully monitor asset quality and calibrate the macroprudential stance. Structural policies should focus on strengthening energy security, achieving climate targets, enhancing digitalization, and addressing labor market issues, including refugee integration.

A. Fiscal Policy: Navigating the Recovery Amid Uncertainty

11. Fiscal policy in 2022 prioritizes cushioning the impacts of the war, safeguarding energy security, and supporting sustainable recovery. With revisions, the 2022 budget saw a shift from pandemic-emergency support to measures in response to the impacts of the war and structural measures to raise potential growth. Policies to cope with the spillovers from the war total 2 percent of GDP in 2022 and include subsidies to firms and households (energy/inflation compensation measures), a temporary rollback in energy and natural gas taxes, spending on strategic gas reserves, and on refugees (Text Table 2). Growth-enhancing measures included lowering personal income taxes and investment premium. Notwithstanding these sizable packages, the overall deficit in 2022 is expected to fall to 3.1 percent of GDP (from 5.9 percent of GDP in 2021),

largely due to the unwinding of the pandemic emergency support and robust nominal GDP growth.⁶ In addition, some reform measures, including the investment premium and broadband expansion, are expected to be financed by the Recovery and Resilience Fund (RRF).⁷ To ensure transparency in the use of public resources, staff welcomes the authorities' publication of ex-post audit reports on COVID-19 spending, in addition to the publication of the monthly spending report of COVID-19 implementation.⁸

	2021	2022	2023	2024
Overall fiscal balance	-5.9	-3.1	-1.6	-1.3
Cyclically adjusted balance	-4.6	-2.7	-1.2	-1.1
o.w. COVID-19 emergency response 1/	-4.7	-1.6	-0.2	-0.2
o.w. Excluding energy relief/refugee measures		-2.0	-0.7	0.0
Underlying fiscal balance	0.1	0.9	-0.3	-0.9

Source: IMF staff calculations
1/ Excluding guarantees and structural recovery and reallocation measures.

12. Energy and inflation compensation measures were initially reasonably well-targeted and temporary, but have become less focused and more distortionary in recent iterations. The authorities substantially increased relief support measures in June to over 2 percent of GDP, during 2022–23.⁹ While most of these measures are timebound, some actions, e.g. a temporary energy tax cut, are costly, less targeted, and could undermine green transition efforts. In addition, various income support, particularly additional climate and anti-inflation bonuses are generous, untargeted, and might contribute to higher inflationary pressure.¹⁰ Going forward, relief measures should be means tested in order to promote efficient use of public funds.

13. Additional spending to accelerate the green and digital transitions, boost employment, and fight poverty is welcome. In addition to strategic reform priorities and the RRF, which focus on green and digital transitions, the authorities approved a comprehensive eco-social tax reform to green the economy and boost employment (Text table 3). The reform includes the introduction of a carbon tax and associated compensatory measures to households and firms,

⁶ The pandemic-related spending is expected to decline from 6 percent of GDP in 2021 to 2.3 percent of GDP in 2022, of which 0.8 percentage points of GDP reflects emergency support (health-related, short-term work scheme, and other measures).

⁷ Austria is expected to receive €3.5 billion grants under the EU Recovery and Resilience Facility, where 59 and 53 percent of total grants specified in the Austria's Resilience and Recovery Plan (ARP) have been tagged as green and digital transitions, respectively.

⁸ See examples. Court of audit-COVID measures, COVID-19 crisis management, COVID-19-Kurzarbeit, and <https://www.bmf.gv.at/themen/budget/das-budget/budget-2021.html>

⁹ Excluding structural measures (indexation of PIT and social benefits to inflation and reduction of non-wage cost)

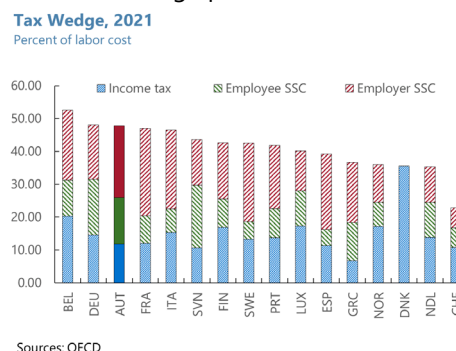
¹⁰ Every adult residing in Austria is expected to receive €500 for anti-inflation bonus and €250 for climate bonus

further reductions of labor income taxes for the second and third brackets, and a reduction in corporate income tax.¹¹ However, in the wake of the high energy price increases in late 2021/early 2022, the authorities opted to postpone implementation of the ecosocial tax from July to October. In light of the sharp rise in inflation, the authorities also announced the indexation of personal income tax brackets and social benefits to inflation, and a reduction in non-wage labor costs (e.g. employer contributions) (Box 1). These measures, together with personal income tax (PIT) reductions, will permanently lower Austria's high labor tax wedge, help preserve the country's low poverty rate, and alleviate costs for firms.

Box 1. Indexation of Personal Income Tax Brackets

In light of a surge in inflation, the authorities announced, in June, the indexation of PIT brackets to inflation from 2023, with the exemption of the top income tax bracket. The bracket adjustment, effective on January 1 of year t will be guided by an average inflation during July of year $t-2$ to June of year $t-1$. The adjustment will be divided into two parts: automatic and discretionary components. The automatic adjustment of brackets and certain tax reductions amounts to 2/3 of the average inflation of the reference period. The remaining 1/3 will be decided by the Parliament. Inflation adjustment will also apply to a wide range of social benefits, e.g., child and family allowances.

The indexation will permanently lower Austria's high labor tax wedge but entails significant fiscal cost. Prior to the indexation of the PIT brackets, Austria's PIT revenue automatically improved due to bracket creep (also known as "cold progression"). As wage and income tax rates are progressive, when wages increase every year, but the income tax brackets remain constant, the average personal income tax rate will automatically increase over time. While the income tax adjustment was done unregularly so far, the elimination of the cold progression will reduce the tax burden for workers, particularly under a high-inflation environment and permanently lower Austria's high labor tax wedge. However, it will also reduce PIT revenue and therefore will worsen Austria's fiscal balance. It is estimated that under the current inflation projection, the net fiscal cost of the indexation is in a range of 1 to 1½ percent of GDP by 2026, compared to the no-policy change scenario.

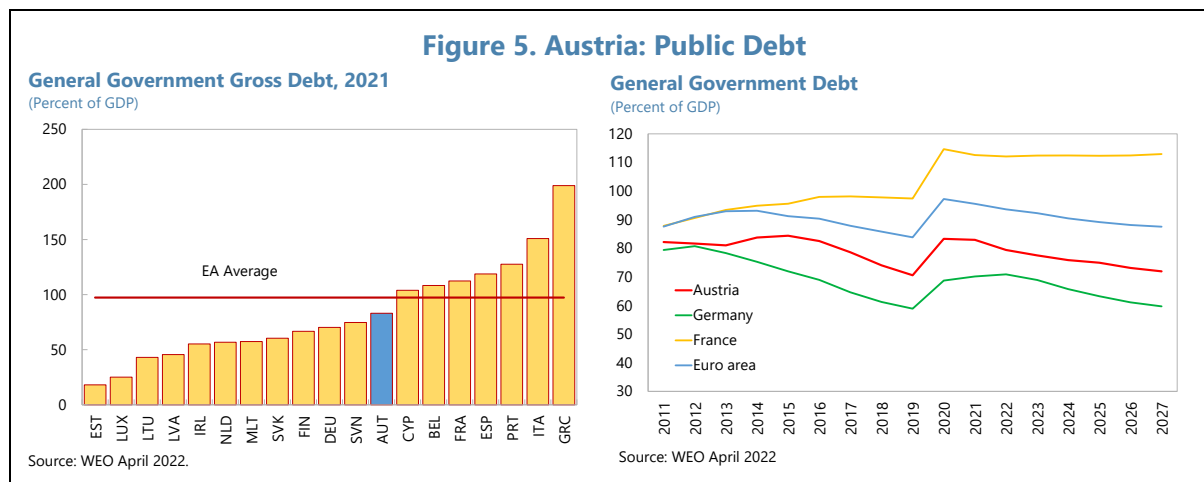


14. In the medium term, staff projects that the fiscal deficit will decline to around 1– 1½ percent of GDP, higher than previously envisaged due to the indexation of income taxes and other reform measures. The previous fiscal framework, which already reflected eco-social tax reforms, foresaw a sharp consolidation largely due to the unwinding of the pandemic and energy relief support, lower interest payments, savings from previous structural reforms, and PIT bracket creep.¹² Staff now estimate that the fiscal deficit in 2027 will be over 1¼ percent of GDP.

¹¹ Carbon taxation is expected to be implemented in October 2022 (delayed from July). Income tax reduction for the lowest income bracket was implemented in 2020.

¹² (i) Austria has not previously indexed income taxes for inflation, causing a rise in income tax revenue yearly of around 0.1–0.2 percent of GDP, and (ii) previous civil service reform contributes to a falling public sector wage bill over time.

The deficit level is adequate to place debt on a firmly declining path, falling below 72 percent of GDP by 2027. This level of debt is assessed as sustainable (Annex V).



15. Fiscal policy in 2023 and beyond should focus on promoting the resilience of the economy and stimulating sustainable growth, while safeguarding debt sustainability. Priorities include: i) building resilience to energy shocks through investment in energy storage and securing alternative sources of gas (¶25, ¶26); ii) accelerating the green transition through implementation of the authorities' eco-social tax reform and additional climate-friendly measures (27); iii) addressing labor market mismatches (¶28); and iv) integrating refugees quickly into the Austrian labor market (¶29). Over time, Austria's long-term structural issues such as demographic headwinds and slowing potential growth should be addressed through reforms in the pension and education and training systems (¶28).¹³

Authorities' Views

16. The authorities agreed that fiscal policy should aim at cushioning the economic effects of the war, safeguarding energy security, and facilitating the green and digital transitions.

They agreed that near-term fiscal policy should adapt to developments in the war in Ukraine. They concurred that energy inflation compensation measures should be targeted, timebound, and maintain price signals. However, they noted that given Austria's lack of joint income tax filings, it is administratively burdensome to implement application-free targeted support based on household incomes. On the green transition, the authorities noted that the delay of CO₂ taxation is strictly technical and reaffirmed their commitment. They viewed that the indexation of PIT brackets is sensible under the high-inflation environment, while acknowledging that Austria's fiscal balance will no longer automatically improve over time. Finally, they concurred that any additional spending

¹³ Austria's pension system is currently financially healthy, with past reforms helping to raise effective retirement ages and contain fiscal costs. However, Austria's effective retirement age and statutory retirement age are both still low by international standards. In the longer term, further aging will generate increased pension and health care costs, while contributions will decline. Reforms to address this increasing liability would be appropriate in the coming years.

should be targeted and geared toward inclusive growth-stimulating reforms such as green investment and digitalization.

Text Table 2. Austria: Measures Cushioning the Impact of War in Ukraine
(In percent of GDP, Deviation from No-Policy Scenario)

Measures	2022	2023	2024	2025	2026
Strategic gas reserve	0.36				
Ukrainian refugees	0.13	0.12			
Foreign disaster fund	0.01				
Energy and inflation relief	1.49	0.60	0.02	0.05	0.00
<i>Broad-based compensation measures</i>	<i>1.08</i>	<i>0.44</i>	<i>-0.05</i>		
Energy cost compensation for households	0.14				
Energy price compensation for firms	0.00	0.05			
Reduction of energy tax	0.14	0.11	-0.05		
Cost-of-living tax credit	0.00	0.22			
Climate and anti-inflation bonus	0.64				
Energy price subsidy for firms	0.10				
Tax-and-duty-free cost of living premium	0.07	0.07			
<i>Targeted to specific groups</i>	<i>0.38</i>	<i>0.13</i>	<i>0.05</i>	<i>0.03</i>	
To vulnerable groups	0.09				
To family and children	0.10	0.04			
To pensioners	0.10				
To agriculture sector	0.03	0.00	0.00		
To commuters	0.06	0.08	0.05	0.03	
<i>Green transition</i>	<i>0.02</i>	<i>0.02</i>	<i>0.01</i>	<i>0.01</i>	
Incentives for green vehicles	0.01	0.01			
Energy independence investment	0.01	0.01	0.01	0.01	
<i>Others</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>	<i>0.00</i>
Total	1.99	0.72	0.02	0.05	0.00

Source: The Austrian authorities.

B. Financial Sector Policies

17. Despite the strong buffers of Austrian banks, the effects of the war in Ukraine warrant careful monitoring of asset quality and war-related risks, and enhanced supervision. The impact from the war has been manageable so far, partly due to limited cross-border exposures, strong local liquidity management in CESEE subsidiaries, and Austria's robust regulatory framework (Annex I). Nonetheless, a prolonged war and spillovers to the CESEE countries could deteriorate credit quality, create pressures on lending, while dimming profitability perspectives, thereby warranting close monitoring of asset quality and bank exposures to vulnerable sectors and CESEE countries.¹⁴ Accordingly, the authorities should calibrate the parameters of existing systemic risk buffers (SyRB and O-SII) for banks with pronounced exposures in Russia and CESEE countries.

¹⁴ Subsidiaries in Russia, Belarus, and Ukraine account for 2 percent of Austria's banking sector assets. At end-2021, about 40 percent of banking profits (€3 billion out of €7.2 billion) came from subsidiaries in CESEEs.

Text Table 3. Eco-Social Tax Reform 1/

(In percent of GDP, Deviation from No-Policy Scenario)

	2022	2023	2024	2025
Environmental Measures				
Carbon tax 2/	0.1	0.2	0.3	0.3
Compensatory measures	-0.3	-0.4	-0.4	-0.5
Climate subsidy to household	-0.3	-0.3	-0.3	-0.3
Green tax allowance and climate subsidy to firm	0.0	-0.1	-0.1	-0.1
Agriculture	0.0	0.0	0.0	0.0
Climate investment on green renovation	0.0	0.0	0.0	0.0
Social Inclusive Measures				
Reduction of health insurance contributions	-0.1	-0.1	-0.1	-0.1
Tax on cryptocurrencies		0.0	0.0	0.0
Personal income tax reductions	-0.2	-0.4	-0.5	-0.6
2nd bracket	-0.2	-0.4	-0.4	-0.4
3rd bracket		0.0	-0.1	-0.1
Corporate income tax reduction 3/			-0.1	-0.1
Other relief measures	0.0	-0.1	-0.2	-0.2
Household	0.0	-0.1	-0.1	-0.2
Firms		0.0	0.0	0.0
Total eco-social tax reform	-0.67	-0.87	-1.08	-1.13

Source: The Austrian authorities.

1/ Negative numbers indicate deficit-enhancing measures

2/ Effective in October-2022

3/ 24 and 23 percent, respectively

18. Stricter enforcement of prudential guidelines is welcome, but a further tightening of borrower-based tools may be needed if housing-related systemic risks escalate. In response to risks from the residential real estate sector (RRE), the authorities—in line with staff recommendations—issued regulations to make binding upper limits for loan-to-value ratios (LTV), debt-service-to-income ratios (DSTI), and loan maturities, effective summer 2022.¹⁵ The existing guidance has also been adjusted to include a tighter upper DSTI limit for loans with variable rates.¹⁶ The authorities should carefully monitor the effectiveness of these measures and if vulnerabilities

¹⁵ These measures are subject to an exemption bucket of 20 percent that would give credit institutions adequate operational flexibility.

¹⁶ It applies to loans with a maturity of more than five years if the period for which interest rates have been locked in is less than half of the maturity period.

persist, additional macroprudential measures (such as a sectoral systemic risk buffer calibrated to RRE exposure) should be implemented.¹⁷ Depending on the evolution of the macroeconomic outlook and credit growth (currently slightly beyond prudential thresholds), the authorities could consider activating the counter-cyclical capital buffer (CCyB), which has thus far been kept at zero.¹⁸

19. The failure of Sberbank Europa in early March 2022 successfully tested Austria’s deposit guarantee arrangements between the three different deposit guarantee schemes (DGSs). The bank—headquartered in Vienna—faced cash outflows before being prohibited from continuing operations in early March 2022. This triggered a €947 million payout from the main banking DGS (ESA), involving support by the other Austrian DGSs.¹⁹ The outlay has already been fully recovered from the prompt sale of Sberbank Europa’s assets, which were easily absorbed by the market. The schemes are on track to achieve the requirement of 0.8 percent of covered deposits by mid-2024. Nevertheless, the fragmentation of the DGS still raises issues of fragmented resources and complex mobilization.

20. The authorities are making progress on the 2020 FSAP recommendations, including those related to the supervision of the less significant institutions (LSIs). Staff welcome the establishment of a working group to strengthen the supervision of LSIs and recommend that the authorities implement its proposals. Headcount increases for LSI supervision are already underway. The authorities have also strengthened onsite supervision for insurance, low risk institutions, and cross-border exposures involving exchange of information with non-EA non-European authorities. The toolkit in the oversight of the Raiffeisen group now includes its new deposit guarantee scheme and enhanced monitoring. Progress was made on monitoring exposures to NFCs in CESEE countries using the ECB’s AnaCredit dataset and to retail and commercial real estate sectors—which have become more vulnerable from the shift to teleworking and e-commerce. However, there is no change to the financial sector oversight framework and commercial real estate data remains sparse. (see Annex VII).

21. Austria has made progress in aligning its AML/CFT framework with the Financial Action Task Force international standard. The authorities have recently introduced a biometric procedure for remote customer identification, strengthened the regulatory framework related to customer due diligence, reporting obligations, and risk analysis requirements. The authorities also broadened the scope of the money laundering offense to criminalize the self-laundering, bolster the sanctions, and cover all types of assets. Progress was also made in providing the Financial Intelligence Unit with direct access to financial and bank account information which should facilitate financial intelligence and support financial investigations and prosecutions of money laundering and

¹⁷ The Capital Requirements Directive (CRD) V, which has been implemented into Austrian Law since June 2021, introduces a sectoral systemic risk buffer (SyRB) to address structural risks related to specific sectors (e.g., residential mortgages versus investment loans to nonfinancial corporates).

¹⁸ The FMSB maintained the CCyB at zero percent at its May 2022 meeting, citing heightened risks and assumed dampening effects from the tighter borrower-based measures.

¹⁹ The magnitude of the payout triggered the conjoint mobilization of the resources available to all DGSs. They include ESA, savings banks, and the newly created Raiffeisen group DGS.

confiscating ill-gotten proceeds. The FMA strengthened its AML/CFT supervision, intensified the monitoring of cross-border risks, including those stemming from Russia, as well as adopted enhanced steps on the registration of virtual assets service providers (VASPs). The Registry authority continues to improve the accuracy of beneficial ownership information in the Beneficial Ownership Register²⁰ and has adopted a multi-pronged approach to ensure data quality.

22. Efforts should continue to enhance the effectiveness of the AML/CFT regime. In particular, the authorities should continue bolstering AML/CFT supervision by enhancing domestic and international cooperation to mitigate cross-border ML/TF risks including those associated with crypto assets and strengthen supervision of VASPs. Considering Austrian banks' exposure to Russia and Ukraine, the authorities are encouraged to ensure that financial integrity risks are properly managed, including those related to sanctions evasion. A close monitoring of financial flows with Russia is needed to mitigate financial integrity risks. To further ensure entity transparency and prevent their misuse for criminal purposes, efforts should be sustained to ensure timely access to accurate beneficial ownership information. Fighting the laundering of foreign proceeds of corruption is key and efforts should continue in enforcing the framework.

Authorities' Views

23. The authorities concurred with staff views on the more challenging environment for banks and the need to monitor the ramifications of CESEE exposures and conditions in the housing sector. They noted that the initial impact of the war has been contained due to high liquidity and funding in CESEE subsidiaries and robust safeguards in Austria's regulatory system. However, the authorities are closely monitoring second-round effects, reflecting reduced business activity and an expected deterioration in credit quality. They also plan to conclude the periodic review of systemic risk buffers (SyRB and O-SII) in the coming weeks. In the housing sector, the authorities plan to assess the effectiveness of the newly introduced legally binding borrower-based measures and stand ready to tighten further as needed. If the high credit growth does not fall to sustainable levels in the next 6-12 months, the authorities will have to consider activating the CCyB. The authorities stressed that retail deposits are adequately protected in the current DGSs. They deem that the mechanisms underpinning the conjoint solidarity and based on the principle of the DGS's super seniority served financial stability appropriately in the liquidation of Sberbank Europe and recouping fully the outlays.

C. Structural Policy

24. Immediate planning for a sustainable energy transition, centered around energy conservation and investments in green energy, is crucial to address Austria's vulnerability to gas supply disruptions. Despite having a high share of renewable electricity, about 20 percent of Austria's final energy consumption is from natural gas of which about 80 percent is Russian. A Europe-wide gas shutoff could inflict material output losses—in the range of about 1–6 percent of GDP over one to two years—depending on the degree of gas substitutability and the extent of the

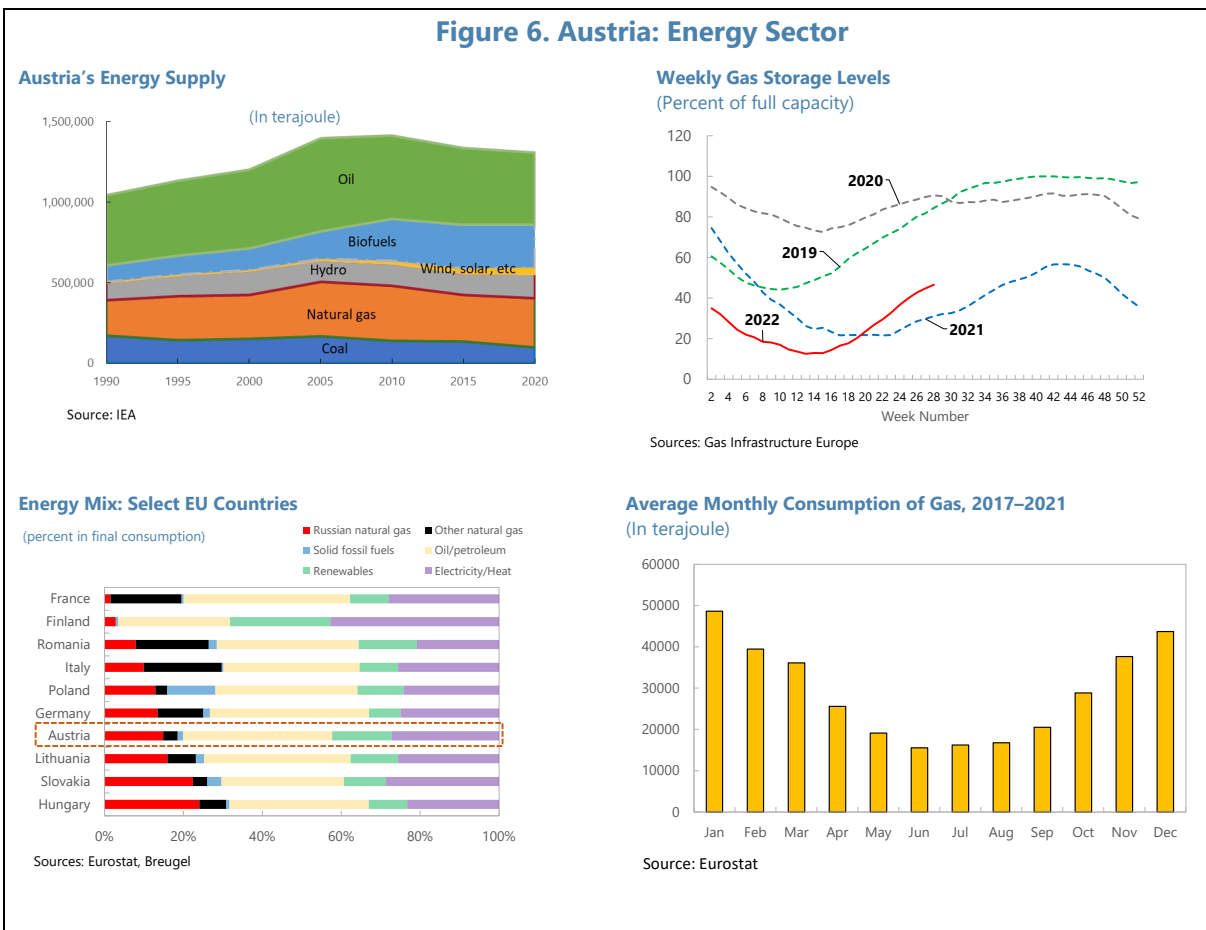
²⁰ The BO Register is maintained by the Registry Authority established by the Federal Ministry of Finance.

shortfall (see Annex I). These losses could be larger if there are bottlenecks to fuel switching within key gas-dependent sectors that are also critically integrated into supply-chains (e.g., the steel and chemical industries) A further spike in energy prices could depress demand further and exacerbate output loss. Staff welcome the government’s contingency planning, focused on securing alternative gas suppliers and building gas reserves in the short-term through the establishment of a strategic gas reserve. Austria has high gas storage capacity relative to annual consumption (over 100 percent), which could provide a significant short-term buffer against shocks if full. These efforts by the authorities have contributed to a faster accumulation of gas reserves in early 2022 compared to 2021 (reaching 49 percent by mid-July), but that pace hinges on continued supply.

25. While boosting gas storage will help withstand a near-term shock, the authorities should simultaneously start actions for more sustainable medium-term energy solutions.

These would ideally combine steps to encourage conservation (including financial incentives, such as a bonus-malus system), incentives to prepare for fuel switching in electricity production, and strategies to diversify gas supplies in coordination with EU partners. Concurrently, the government should accelerate measures to increase green energy production and speed the transition from fossil fuels in both production and consumption via public investments and cooperation with—and incentives for—the private sector.

Figure 6. Austria: Energy Sector



26. The planned introduction of the carbon tax is a critical step to aid the energy transition and should be implemented soon, without distorting the envisaged revenue-neutrality plan. The new mechanism (Box 2) includes emissions in the transportation and building sectors, currently outside of the current EU-ETS scheme (about 40 percent of nation-wide emissions). Carbon prices will be initially fixed and then transition to market-based at the end of 2025. While it will not be sufficient to fully achieve the emissions target by itself, staff welcome and support this initiative as an important step.²¹ The scheme was designed to be revenue neutral in the medium-term and provides for transfers to households to compensate for higher energy prices. It also includes a price stability mechanism to help shield consumers from excessive energy inflation in any given year. In the future, when the fixed price scheme is phased out to a market-based one, staff encourage the authorities to plan against an abrupt transition and ensure that the market price does not fall below the terminal fixed price of €55 per ton.²² This can be done by combining the ETS with price stability mechanisms, such as introducing a reserve price for the NEHG auctions set at the needed carbon price, adjusting allowance availability or setting the allowance cap to achieve an expected emissions price.²³

27. The labor market has performed better than expected in the recovery from the pandemic but some vulnerabilities remain. Employment is now above pre-COVID levels, and both the overall unemployment rate and the long-term unemployment rate are below their previous levels, reflecting the effectiveness of pandemic policies (such as the short time work scheme) and the strong recovery. However, given the incomplete recovery of working hours (¶4), the authorities should phase out the job-retention scheme that may disincentivize labor supply. Skills and regional mismatches are increasing, as evidenced by unusually high vacancies and widespread labor shortages. Policies to support the reallocation of workers and reduce these mismatches, such as re-skilling programs and relocation assistance, will ensure that labor supply problems do not further constrain production. Long-term measures to increase labor force participation of older citizens and lower long-term spending pressures from population aging would also be advisable.

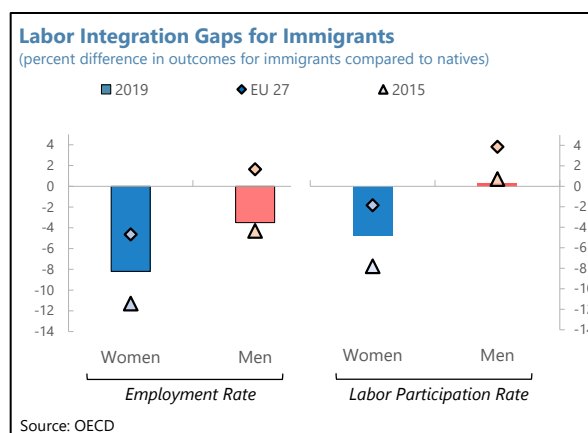
28. The influx of refugees from Ukraine calls for a renewed emphasis on labor market integration of immigrants. The war triggered a surge in refugee flows with more than 200,000 Ukrainians crossing into Austria. Ukrainians have been granted temporary status in Austria, allowing

²¹ Staff's analyzed previously that a carbon tax in the range of €100–€150 per metric ton by 2030 could reduce emissions by about 20 percent relative to the baseline (no policy measure) emission path, taking Austria half-way down to the target.

²² Effective carbon rates in ETS schemes currently range from about €50/ ton (EU-ETS) to €30 per ton (German national ETS).

²³ A reserve auction price has been featured in several ETS schemes, notably the US Regional Greenhouse Gas Initiative and the California ETS; this mechanism puts a lower limit on permissible bids, injecting a horizontal segment into the auction supply curve, so that quantity adjustments are used when demand is low. An alternative mechanism could be to implement changes in auction quantities that are triggered by tightness or looseness in allowance market. Other design options introducing a carbon price support, as in the UK, which scales with ETS prices to ensure that a specific minimum carbon price is always achieved. See Flachsland et al. (2018), Holt and Shobe (2015), Parry et al. (2021).

stays of up to 90 days without a visa and immediate access to the labor market.²⁴ Some 70,000 Ukrainian refugees have registered to remain in Austria, of which 70 percent are women. This adds to the already large immigrant population in Austria (about 17 percent of the population). While labor market outcomes of immigrants in Austria have improved over time, they still lag EU peers, with employment and labor participation gaps especially pronounced for women. Initiatives to issue temporary resident permits to Ukrainian refugees and assist their job search are welcome from both a humanitarian and economic perspective and can contribute to



resolving labor shortages. However, efforts should be made to improve the labor market outcomes for all immigrants, by pursuing policies such as combined language and work-oriented activity assistance, and targeted wage subsidies to incentivize hiring.²⁵ Policies to provide additional child-care capacity could help the participation of women. Expanding labor market access to all asylum seekers (currently restricted to seasonal work in certain industries, non-profit work and certain types of self-employment) should also be prioritized. A national recognition or accreditation scheme for humanitarian migrants with little or no documentary proof of their credentials would further allow for the speedy integration of current refugees.²⁶

29. Accelerating the digital transition in areas where Austria lags EU peers, including in digital connectivity and integration of digital technology, will boost productivity and raise Austria's growth potential. While Austria is among the frontrunners in the digitalization of public services and in human capital, it performed significantly below the EU average—albeit improving—for overall fixed broadband takeup. Moreover, a small fraction of enterprises use big data and cloud computing services.²⁷ Promoting digitalization in these areas could also contribute to the green transition, as greater digital access can increase work-from-home options and online banking and e-commerce, which could lower transport needs, thereby curbing fossil fuel consumption.

²⁴ In contrast with 2015 refugees from the Middle East, Ukrainian refugees are covered by the EU Directive on Displaced Persons, adopted in 2002 and implemented in mid-March 2022.

²⁵ The Swedish and Danish labor market schemes promoted the integration of newly arrived immigrants by combining language training with part time employment, with employers also receiving temporary wage subsidies. Nearly half of Swedish cases were found to have resulted in regular employment. Wage subsidy schemes for immigrants in these countries were also evaluated as effective (Clausen et al., 2009).

²⁶ In Germany and Norway, asylum seekers and humanitarian migrants are provided with the opportunity to have their professional competences appraised.

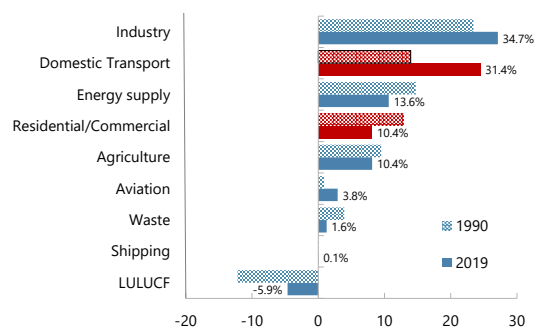
²⁷ DESI database. <https://digital-strategy.ec.europa.eu/en/policies/desi>

Box 2. The Austrian Carbon Price Instrument

The National Emissions Certificate Trading Act 2022 (NEHG) introduces a carbon pricing instrument to cost-effectively reduce greenhouse gas emissions. Carbon pricing under the NEHG is designed as an emission trading scheme, whereby energy sources may only be placed on the market if emission allowances have been acquired. Currently the NEHG aims to cover emissions outside the European Emission Trading Scheme (EU ETS) and will mainly affect emissions in the building and transport sectors (comprising 40 percent of total CO₂-emissions), with energy sources comprising gasoline, gas oil, heating oil, natural gas, liquefied gas, coal and kerosene. Each energy source is assigned a GHG emission factor, and the list of sources can be expanded by regulation.

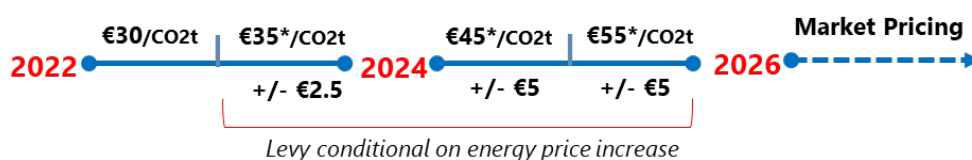
Sectoral Emissions in Austria

(mtCO₂e with 2019 sectoral shares labelled; red indicates coverage under NEHG)



Sources: European Commission and UNFCC

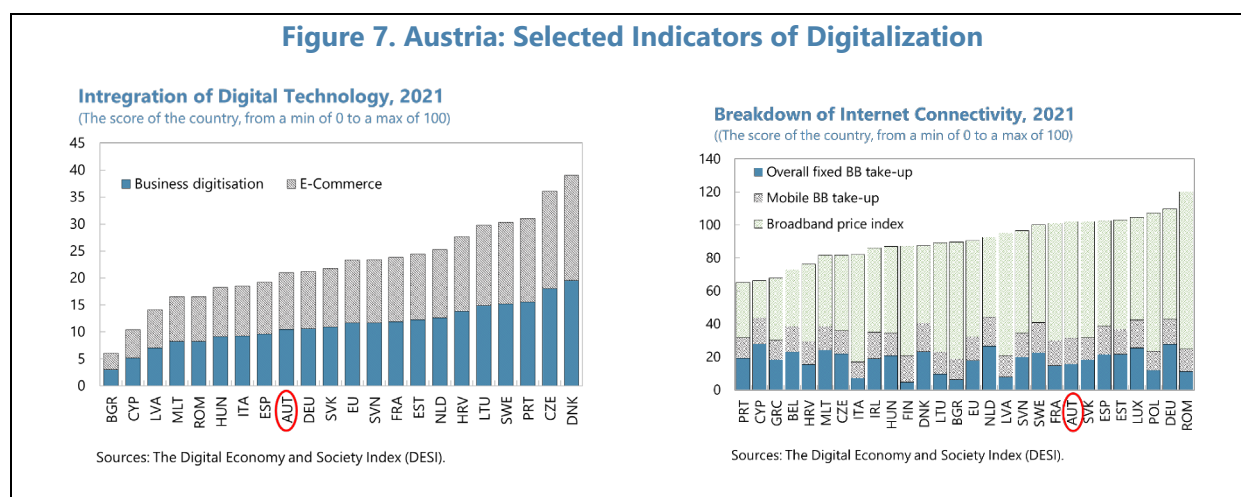
The NEHG will be initially implemented with a fixed price phase, conditional on energy price increases until 2025. From October 2022 until 31 December 2025 emission allowances have a fixed issue value starting at €30 and rising to €55 per ton in 2025. If energy prices rise (fall) by more than 12.5 percent during the first nine months of a given year compared to the previous calendar year, the increment for the following year will be reduced (increased) by 50 percent. From 2026, the price formation will be market-determined.



While it does not directly establish a carbon tax, the NEHG implementation is based on the Energy Taxation Directive such that if a certain event is taxable under the existing energy taxes, an obligation to buy allowances arises under the NEHG. This means that the (upstream) distributors of energy products are subject to the NEHG, which differs from the EU ETS where the emitters are subject to the instrument. Companies that are subject to EU emission allowances are eligible for exemption from the NEHG scheme to avoid a double burden as are those distributing energy sources equivalent to less than one ton of GHGs.

The NEHG is designed to be revenue neutral in the medium-term. To compensate for the carbon price burden on resident households, the draft legislation provides for a regional climate bonus entailing a direct (tax-exempt) payment of €100 per person (this has been increased to €250 temporarily for 2022 and complemented by a one-off lump-sum anti-inflation bonus of €250). Residents of regions with fewer public transportation options are eligible for additional top-ups as of 2023. To maintain cross-border competitiveness, selected companies may receive a (proportionate) relief from the costs they incur as a result of national emission allowances. Such refunds are conditional on green investments and renewable energy installations.

Figure 7. Austria: Selected Indicators of Digitalization



Authorities' Views

30. The authorities agreed on the need for contingency planning to ensure energy security and are confident that the ramping up of gas storage will be sufficient to meet near-term shortfalls. Despite the ongoing interruptions of gas supply, the authorities noted that the build-up of additional gas storage is progressing well. They are putting in place conservation measures and developing plans to bolster green energy infrastructure in the medium-term. While the authorities are committed to medium-term revenue neutrality under the carbon tax plan, they believe that some additional compensation may be necessary to shield households from the exceptional energy price spike this year. The authorities recognize that the eco-social CO₂ pricing may not be sufficient to achieve reduced green house gases emissions by 2040. They concurred with staff's assessment on deploying additional policies for resolving labor shortages, especially those related to incentivizing older workers to work longer. They took note of staff's recommendation for refugee integration, especially women, but felt that some disparities are regional rather than national (such as childcare support).

STAFF APPRAISAL

31. The war in Ukraine constitutes another shock to the economy and has caused downside risks to rise considerably. Strong growth in the services sector and buoyant private consumption in 2022:Q1 gave Austria's recovery a boost for 2022. However, the war and associated sanctions have dampened the outlook for European trading partners and Austria's high dependence on Russian gas leaves it vulnerable to the fallout from the war. Growth is projected to slow significantly in 2023, while inflation is expected to remain elevated due to high energy and commodity prices. Main downside risks are the escalation of the war in Ukraine, including an abrupt stoppage of gas from Russia, and new highly contagious/lethal COVID variants.

32. Economic policies should aim at cushioning the impact of war, building resilience, and boosting growth. Key policy priorities include providing targeted, temporary, and non-distortive relief measures to vulnerable households and affected firms; building resilience to energy shocks through investment in energy storage and transport facilities from alternative sources; accelerating the green transition through timely implementation of the eco-social tax reform and additional climate-friendly measures; and assisting refugees and helping them integrate quickly into the Austrian labor market.

33. The measures taken to address the impact of inflation should be more targeted and should not undermine price signals. While the relief measures are temporary, many measures are broad-based and generous to all income groups. Moreover, some actions, such as a temporary cut in the tax rate on energy, could undermine green transition efforts by distorting price signals. Any additional support should allow full pass-through of international prices to consumers while providing more targeted and temporary transfers.

34. Austria's contingency planning for a gas supply disruption is welcome but more is needed to safeguard medium-to-long-term energy security. The buildup of a strategic gas reserve can alleviate short-term disruptions. To pursue sustainable energy security, other measures such as incentives for conservation and fuel switching as well as strategies to diversify gas supplies in coordination with EU partners should simultaneously be undertaken. Concurrently, the government should accelerate measures to increase domestic green energy production and speed the transition away from fossil fuels in both production and consumption. Moreover, implementing the reform program should help keep the external position broadly in line with the level implied by medium-term fundamentals and desirable policies.

35. The eco-social reform is an important step in the green transition. While the CO₂ tax alone will not be sufficient to reach Austria's long-term goal of carbon neutrality, it constitutes an important step and should be implemented as quickly as possible. Staff support the protection of vulnerable households who may be adversely affected by the tax, but advise against increasing broad-based compensation above the medium-term neutrality objective, which would be poorly targeted, distortive, and erode fiscal space.

36. 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. Revenues will no longer automatically grow over time and social expenditures will be more sticky, so 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. Debt is assessed as sustainable with main risks associated with strong GDP growth underperformance. Over the medium-term, Austria faces demographic headwinds and population aging will generate increased pension and health care costs, while contributions will decline. Reforms to address this increasing liability would be appropriate in the coming years.

37. The banking sector has weathered the pandemic well, but risks related to the Ukraine war warrant cautious monitoring of asset quality and enhanced supervision. Banks have adequate capital and liquidity buffers. However, to guard against geopolitical risks, the parameters of existing systemic risk buffers for banks with pronounced exposures in Russia and CESEE countries should be recalibrated. The activation of the counter-cyclical capital buffer could be considered, dependent on the evolution of the macroeconomic outlook and credit growth. To strengthen the supervision of less significant institutions, the recommendations proposed by the working group should be implemented promptly.

38. Borrower-based macroprudential measures should help address financial sector risks from residential real estate prices, but the authorities should do more if the overvaluation pressures persist. The plan to make binding the upper limits for LTV, DSTI, and loan maturities is welcome. Additional capital-based macroprudential measures, such as a sectoral systemic risk buffer calibrated to real-estate exposure, should be considered if vulnerabilities persist.

39. Measures to reduce labor market mismatch and promote employment can alleviate Austria's labor shortages. Policies to support the reallocation of workers and reduce skill and regional mismatches, such as re-skilling programs, language training and relocation assistance should be undertaken. Measures to rapidly integrate refugees from Ukraine are welcome from both a humanitarian and economic perspective. The PIT reductions as part of the eco-social reform and indexation of PIT brackets to inflation should reduce Austria's high labor tax wedge. Finally, measures to boost old-age labor force participation should help address labor and skills shortages.

40. 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.

41. It is proposed that the next Article IV consultation with Austria take place on the standard 12-month cycle.

Proposed Decision

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

The Executive Board endorses the thrust of the staff appraisal in the report for the 2022 Article IV consultation with Austria (SM/22/215).

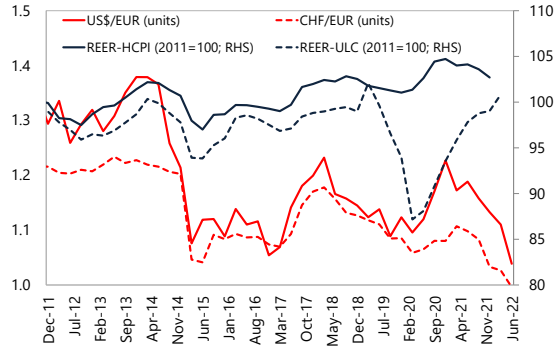
It is expected that the next Article IV consultation with Austria will take place on the standard 12-month consultation cycle.

Figure 8. Austria: External and Fiscal Developments

The real effective exchange rate, on average, depreciated since the pandemic.

Exchange Rate

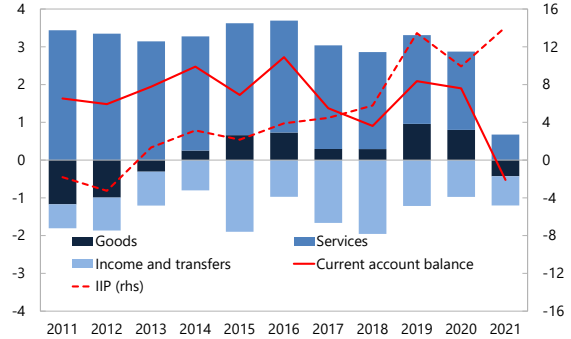
(End of period)



...while the current account surplus turned into a deficit for the first time in 10 years.

Current Account and IIP

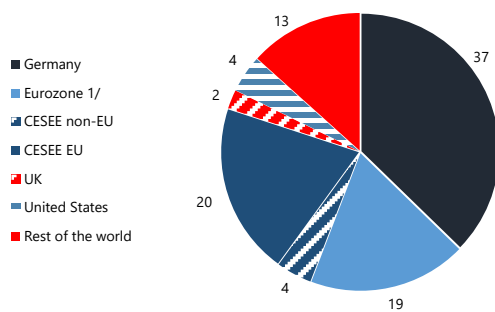
(Percent of GDP)



The majority of trade is within the region.

Trade Shares, 2021

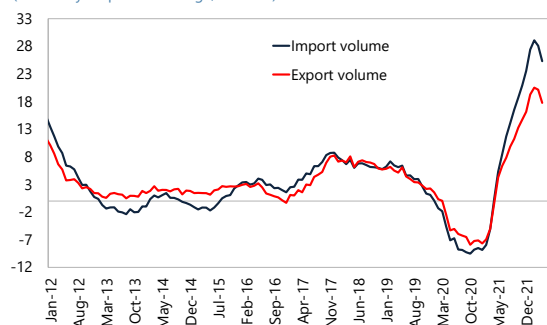
(Percent of total trade)



Exports and imports significantly rebounded in 2021.

External Sector

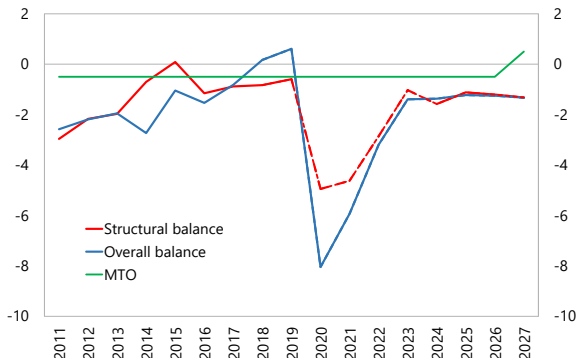
(Year-on-year percent change, 12MMA)



The fiscal deficit remained elevated but is projected to improve over the medium term...

Fiscal Balance

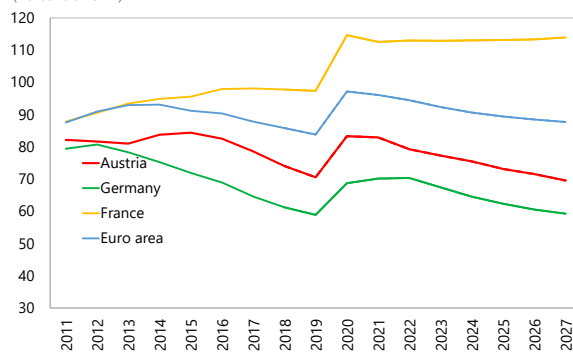
(Percent of GDP)



Public debt rose temporarily due to the pandemic but is projected to decline sustainably.

General Government Debt

(Percent of GDP)



Sources: IMF, WEO; Haver Analytics; OeNB; Statistik Austria; IMF, Direction of Trade database; and IMF staff estimates.

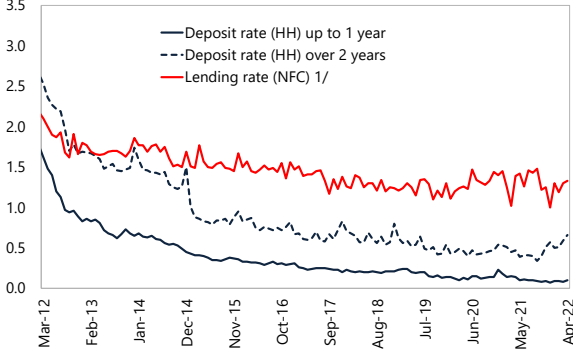
1/ Excluding Germany and CESEE eurozone countries.

Figure 9. Austria: Credit

Interest rates remained low throughout 2021...

Interest Rates

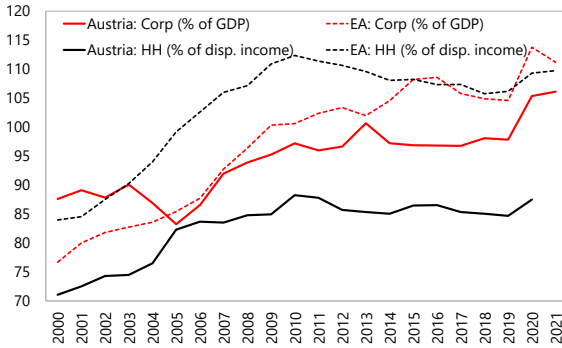
(Percent per annum)



Corporate and household debt somewhat stabilized in 2021.

Corporate and Household Debt

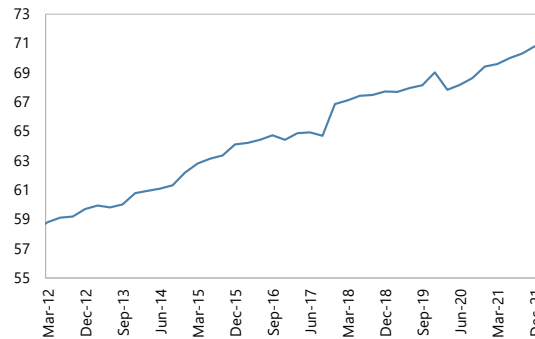
(Percent)



Household real estate loans continued to rise...

Household Real Estate Loans

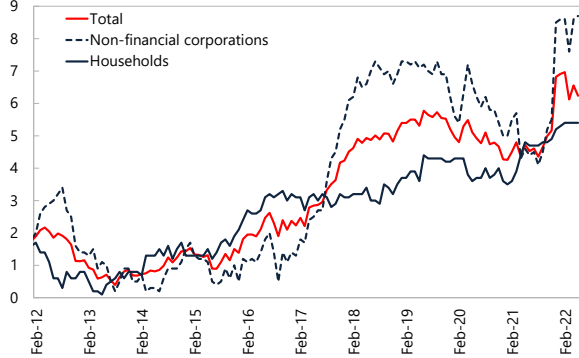
(Percent of total)



...while credit growth surged.

Credit to the Private Sector

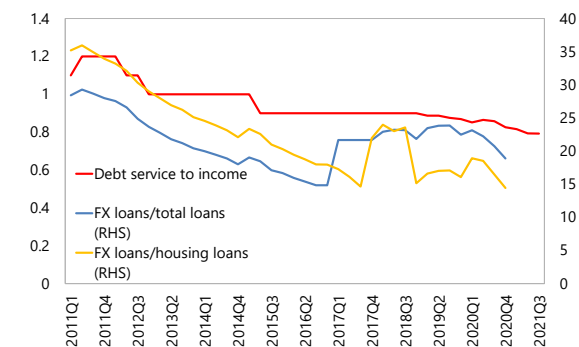
(Year-on-year percent change, exchange rate adjusted)



Debt-service-to-income ratio and the share of FX loans declined steadily.

Households' Debt Service

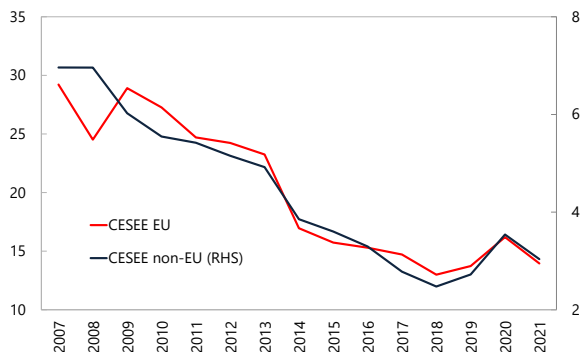
(Percent)



...while Austrian's bank exposures to CESEE have declined rapidly since the Global Financial Crisis.

Austrian Banks: CESEE Exposures

(Percent of Austria's GDP)



Sources: Haver Analytics; OeNB; Bank for International Settlements; European Central Bank; and IMF staff estimates.

1/ Up to one-year fixed rate for new loans over €1 million to non-financial corporations.

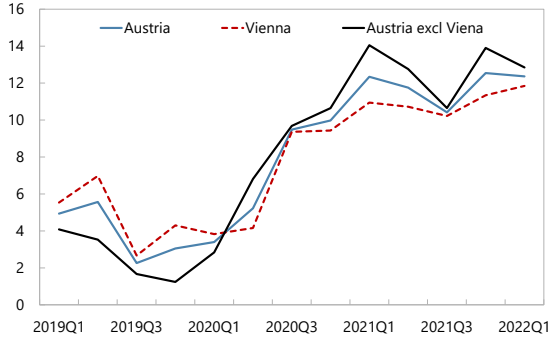
Figure 10. Austria: Housing Sector

House prices continued to rise rapidly after a short-lived pandemic-related dip.

...in line with mortgage loans.

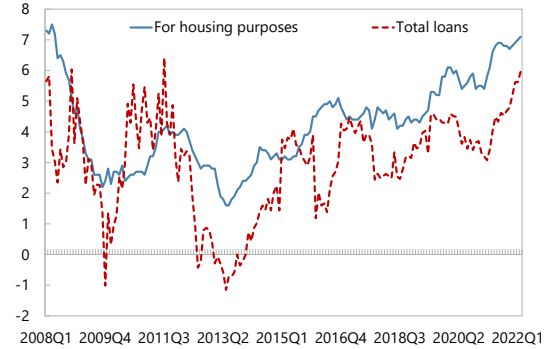
Growth Rates of Real Estate Prices

(Year-on-year growth in percent)



Loans of Households

(Annual Growth Rate)

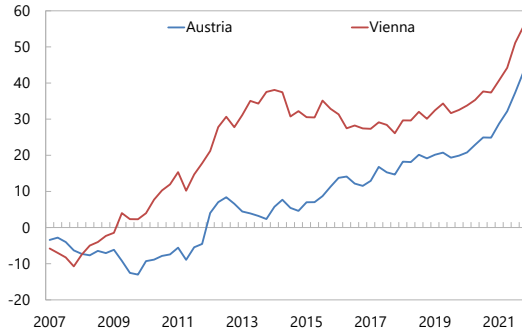


The price-to-rent ratio is steeply rising...

...so does the price-to-build ratio.

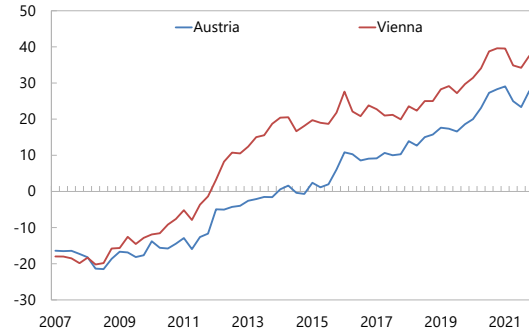
Price-to-Rent Ratio

(Deviation from trend in %)



Price-to-Build Ratio

(Deviation from trend in %)

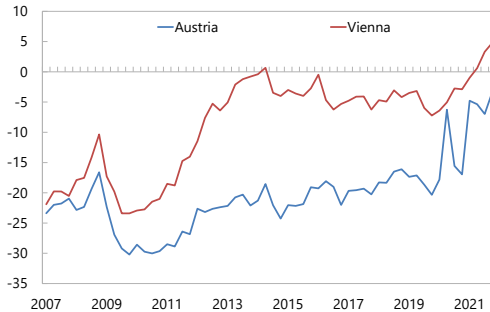


Housing affordability is worsening...

...so does a degree of deviation from fundamentals.

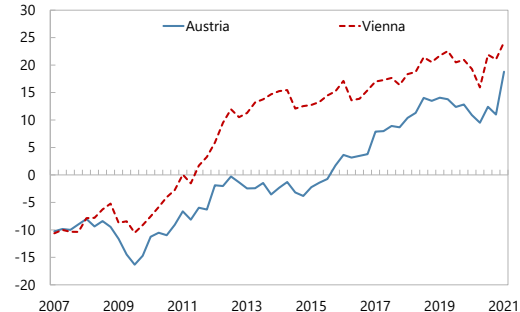
Housing Affordability 1/

(Deviation from trend in %, Higher means less affordable)



OeNB Overvaluation Indicator 2/

(Percent deviation from long-run trend)



Sources: Haver Analytics; OeNB; and IMF staff estimates.

1/ Housing affordability reflects the ability of housing repayment given households' disposable income and interest rate levels.

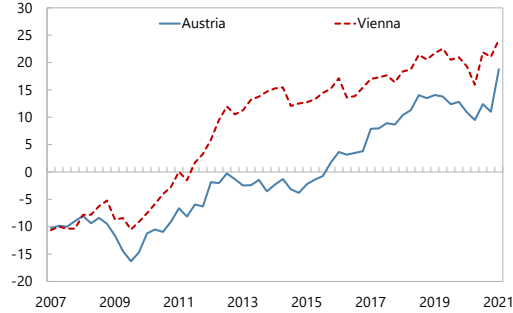
2/ The OeNB's overvaluation indicator is an aggregate index of seven sub-indicators related to households, investors, and systemic factors. They comprise real residential property prices, affordability, price-to-rent ratio, price-to-build ratio, ability to repay loans, housing investment-to-GDP ratio, interest rate risk. The fundamental residential property price indicator is based on OeNB and Schneider, M. (2013): Are Recent Increases of Residential Property Prices in Vienna and Austria Justified by Fundamentals? Monetary Policy and the Economy Q4/13, 29-46.

Figure 11. Austria: Banking Sector

Capital has improved steadily.

OeNB Overvaluation Indicator

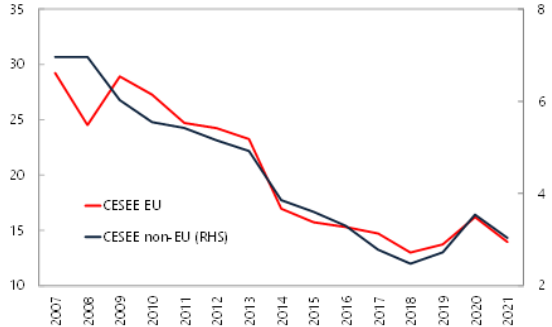
(Percent deviation from long-run trend)



The CESEE exposure is on a long term decline despite a recent uptick...

Austrian Banks: CESEE Exposures

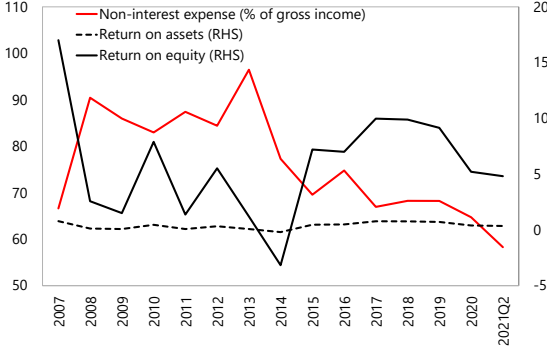
(Percent of Austria's GDP)



Profitability remained stable while non-interest expenses have been steadily declining.

Austrian Banks: Profitability

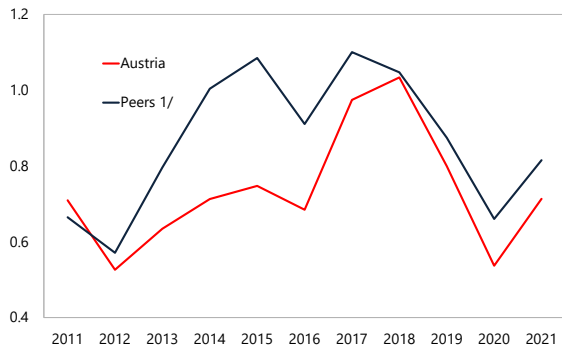
(Percent)



Austrian banks' valuations rebounded in 2021 given high profits and dividend payouts.

Price to Book Ratio

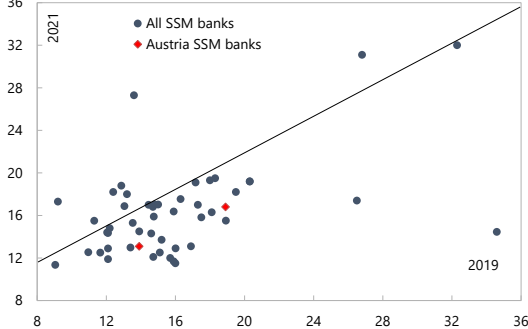
(Percent)



The banking sector capitalization remained at a high level...

Euro Area SSM Banks: Tier 1 Capital Ratio (Top 50)

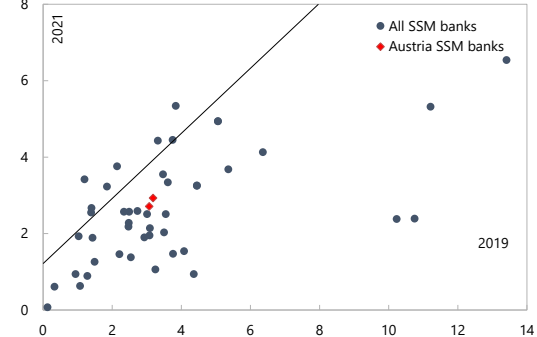
(Percent)



...while NPLS remained subdued.

Euro Area SSM Banks: NPLs to Gross Loans (Top 50)

(Percent)

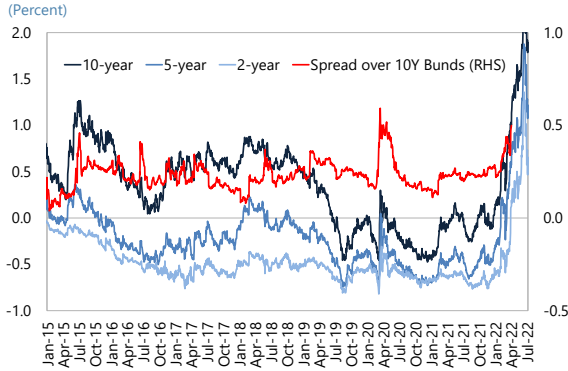


Sources: Bloomberg; SNL; Haver; IMF, Fitch Connect, Financial soundness Indicators; and IMF staff estimates.
1/ Top 50 banks based on 2021 assets; 2020 assets if 2021 is not available.

Figure 12. Austria: Financial Markets

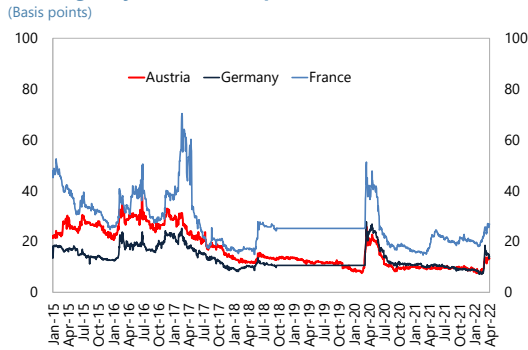
Borrowing costs surged after the Russia's invasion of Ukraine.

Sovereign Bond Yields



The long-term borrowing costs have remained relatively subdued.

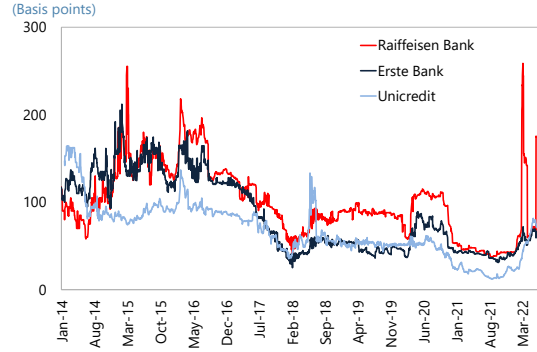
Sovereign 5-year EUR CDS Spreads



Sources: Bloomberg; and IMF Staff calculations

...so do banks CDS spreads, penalizing institutions with high-CESSE exposure.

Austria: Bank CDS Spreads



Stock market declined significantly after Russia invaded Ukraine.

Stock Markets

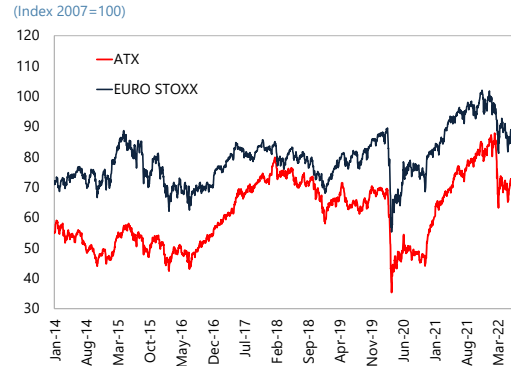


Table 1. Austria: Summary of Economic Indicators, 2018–27
(Annual percentage change, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Projections									
NATIONAL ACCOUNTS										
Real GDP (expenditure)	2.5	1.5	-6.7	4.8	3.9	1.5	1.9	1.8	1.7	1.7
Domestic demand	2.4	0.6	-5.8	5.5	2.1	1.6	1.8	0.9	1.4	1.2
Consumption	1.1	0.9	-6.3	4.9	3.7	1.8	1.3	0.2	0.9	0.6
Private	1.1	0.7	-8.5	3.5	5.5	2.6	1.4	0.3	1.1	0.6
Public	1.2	1.5	-0.5	8.2	-0.5	-0.3	1.1	0.1	0.3	0.6
Gross fixed capital formation	4.4	4.8	-5.2	4.3	2.2	2.0	3.1	3.0	2.8	2.8
Private	4.9	5.1	-6.2	4.1	2.4	2.0	3.2	3.0	3.0	3.0
Public	0.8	2.7	1.6	5.5	0.4	1.6	2.5	3.0	1.7	1.7
GNFS exports	5.1	3.4	-10.8	13.9	7.3	2.2	2.1	3.6	2.4	2.5
GNFS imports	5.3	2.0	-9.4	16.7	5.0	2.7	1.9	2.3	1.9	1.7
Contribution to GDP (percentage points)										
Final domestic demand	1.8	1.8	-5.7	4.5	2.0	1.5	1.7	0.9	1.3	1.1
Net exports	0.1	0.9	-1.2	-1.0	1.5	-0.2	0.2	0.9	0.4	0.6
Inventories and statistical discrepancy ^{1/}	0.6	-1.2	0.2	1.3	0.1	0.2	0.0	0.0	0.0	0.0
Investment (% GDP)	25.7	25.4	25.9	27.6	26.1	25.6	25.4	25.5	25.8	26.0
Public	3.7	3.7	4.2	4.2	4.3	4.3	4.1	4.1	4.0	4.0
Private	22.0	21.7	21.7	23.4	21.9	21.3	21.4	21.4	21.8	22.0
Gross national savings (% GDP)	26.6	27.5	27.8	27.1	25.3	24.6	25.9	26.5	27.4	28.3
Public	3.9	4.3	-3.9	-1.7	1.1	2.6	2.7	2.8	2.7	2.6
Private	22.7	23.2	31.7	28.8	24.2	22.0	23.2	23.7	24.7	25.7
Potential output	1.6	1.7	-4.0	4.5	2.7	1.4	1.6	1.6	1.7	1.6
Output gap (% potential GDP)	1.0	0.8	-2.1	-1.8	-0.7	-0.6	-0.3	-0.1	-0.1	0.0
LABOR MARKET										
Labor force	0.7	0.4	-0.4	1.7	0.6	0.5	0.5	0.5	0.5	0.5
Employment	0.6	0.9	-1.0	0.9	2.4	0.4	0.6	0.7	0.5	0.5
Wages (hourly)	3.0	3.0	2.3	3.8	4.1	5.5	4.5	3.0	3.0	2.9
Unemployment rate (% labor force)										
EU harmonized rate	5.2	4.8	5.4	6.2 #	4.5	4.6	4.5	4.3	4.3	4.3
National definition	7.7	7.4	10.0	8.0	6.3	6.4	6.3	6.1	6.1	6.1
PRICES										
Consumer prices (avg)	2.1	1.5	1.4	2.8	7.1	3.7	2.5	2.2	2.0	2.0
Consumer prices (eop)	1.7	1.8	1.0	3.8	6.8	3.0	2.5	2.2	2.0	2.0
Core CPI (eop)	1.5	2.2	1.6	2.4	3.7	3.0	2.3	2.2	2.0	2.0
GDP deflator	1.8	1.6	2.3	1.3	4.7	3.4	2.3	2.2	2.0	2.0
MACRO-FINANCIAL										
Broad money	7.9	4.5	9.5	4.9	8.9	4.8	4.2	4.0	3.7	3.8
Credit to the private sector	4.8	5.1	3.7	7.0	6.4	3.3	3.4	3.5	3.1	3.2
Corporations	6.1	6.0	4.1	8.4	6.9	4.1	4.0	3.9	3.4	3.7
Households	3.6	4.2	3.4	5.6	5.9	2.6	2.9	3.0	2.7	2.8
GENERAL GOVERNMENT FINANCES (% GDP)										
Revenue	48.9	49.2	49.0	50.1	49.5	49.3	48.7	48.8	48.8	48.8
Expenditure	48.7	48.6	57.0	56.0	52.7	51.0	50.1	50.1	50.1	50.2
Net lending/borrowing	0.2	0.6	-8.0	-5.9	-3.2	-1.7	-1.4	-1.3	-1.3	-1.4
Structural balance	-0.8	-0.6	-4.9	-4.6	-2.8	-1.4	-1.2	-1.2	-1.3	-1.4
Structural primary balance	0.8	0.8	-4.0	-3.9	-2.2	-0.6	-0.3	-0.3	-0.3	-0.4
Gross debt	74.0	70.6	83.3	83.0	79.4	77.5	75.9	74.9	73.1	71.9
BALANCE OF PAYMENTS										
Current account (% GDP)	0.9	2.1	1.9	-0.5	-0.8	-1.0	0.5	1.0	1.6	2.2
Export volume (goods and services)	5.1	3.4	-10.8	13.9	7.3	2.2	2.1	3.6	2.4	2.5
Import volume (goods and services)	5.3	2.0	-9.4	16.7	5.0	2.7	1.9	2.3	1.9	1.7
Int'l investment position, net (% GDP)	6.0	13.5	9.3	14.8	12.5	10.7	10.5	10.8	11.8	13.3
MEMORANDUM ITEMS										
Nominal GDP (billions of euro)	385	398	379	403	438	459	479	498	517	537
Population (millions of people)	8.9	8.9	8.9	8.9	9.0	9.0	9.1	9.1	9.2	9.2
GDP per capita (U.S. dollars)	51,254	50,239	48,636	53,280	52,498	54,436	56,717	59,064	61,382	63,843
U.S. dollar to euro (rate; annual avg)	1.18	1.12	1.14 #	1.18	...	...	...	...	...	...
Real effective exchange rate	1.4	-1.1	-8.3	8.4	3.7	0.1	0.0	0.0	0.0	0.0

Sources: Authorities' data and IMF staff estimates and projections.

^{1/} Inventory in 2022 includes a build up of strategic gas reserve.

Table 2. Austria: Fiscal Accounts, 2018–27 ^{1/}
(In percent of GDP, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Projections									
GENERAL GOVERNMENT OPERATIONS										
Revenue	48.9	49.2	49.0	50.1	49.5	49.3	48.7	48.8	48.8	48.8
Tax revenue	27.5	27.7	26.7	28.1	28.0	27.7	27.2	27.2	27.2	27.2
Direct taxes	13.5	13.6	12.9	13.9	13.9	13.8	13.3	13.3	13.3	13.3
Of which: Personal income tax	9.6	9.8	9.4	10.0	9.9	9.7	9.2	9.2	9.2	9.2
Corporate income tax	2.8	2.8	2.1	2.3	2.3	2.4	2.4	2.4	2.4	2.4
Indirect taxes	14.0	14.1	13.9	14.2	14.1	13.9	13.9	13.9	13.9	13.9
Of which: VAT	7.6	7.7	7.4	7.2	7.4	7.3	7.3	7.3	7.3	7.3
Social contributions	15.2	15.4	16.1	15.9	15.5	15.6	15.6	15.7	15.7	15.7
Other current revenue	6.2	6.1	6.2	6.1	6.0	6.0	5.9	5.9	5.9	5.9
Expenditure	48.7	48.6	57.0	56.0	52.7	51.0	50.1	50.1	50.1	50.2
Expense	45.7	45.4	53.6	52.6	49.0	47.7	46.9	46.8	46.9	47.0
Compensation of employees	10.47	10.53	11.4	11.0	10.7	10.7	10.7	10.7	10.7	10.7
Goods and services	6.18	6.26	6.8	7.5	6.9	6.5	6.4	6.4	6.4	6.4
Social benefits	21.9	21.9	24.6	24.1	22.8	22.6	22.7	22.8	22.9	23.0
Other current transfers	2.91	2.77	3.2	3.2	3.2	3.1	3.2	3.0	3.0	3.0
Capital transfers	0.68	0.62	0.8	0.7	0.9	1.0	0.8	0.8	0.8	0.8
Interest	1.62	1.41	1.3	1.1	0.9	1.1	1.2	1.2	1.3	1.3
Subsidies	1.51	1.48	5.0	4.5	3.2	2.2	1.6	1.6	1.6	1.6
Other	0.45	0.46	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Acquisition of nonfinancial assets ^{1/}	3.1	3.2	3.4	3.5	3.7	3.3	3.2	3.2	3.2	3.2
Of which: Gross fixed capital formation	3.1	3.1	3.4	3.5	3.3	3.3	3.2	3.2	3.2	3.2
Operating balance	3.2	3.8	-4.7	-2.5	0.5	1.6	1.9	2.0	1.9	1.8
Primary balance	1.8	2.0	-6.7	-4.8	-2.3	-0.6	-0.2	0.0	0.0	-0.1
Net Lending/Borrowing	0.2	0.6	-8.0	-5.9	-3.2	-1.7	-1.4	-1.3	-1.3	-1.4
GENERAL GOVERNMENT BALANCE SHEET										
Financial liabilities	97	94	113	106	101	99	97	95	93	91
Gross debt	83.86	82.47	98.66	92.77	88.81	86.71	84.84	83.81	81.78	80.45
Other	12.92	12.03	14.23	13.70	12.60	12.23	11.73	11.47	11.25	11.03
Financial assets	46.63	45.21	51.03	49.77	45.77	43.62	41.83	40.22	38.77	37.36
Net financial worth	-50	-49	-62	-57	-56	-55	-55	-55	-54	-54
Net debt	64	64	77	73	71	69	68	68	66	66
Gross Debt (Maastricht def.)	74.0	70.6	83.3	83.0	79.4	77.5	75.9	74.9	73.1	71.9
Guarantees	16.3	16.1	19.1	18.3	16.8	16.0	15.4	14.8	14.3	13.7
MEMORANDUM ITEMS										
Cyclically adjusted balance	-0.8	-0.6	-4.9	-4.6	-2.8	-1.4	-1.2	-1.2	-1.3	-1.4
Structural balance ^{2/}	-0.8	-0.6	-4.9	-4.6	-2.8	-1.4	-1.2	-1.2	-1.3	-1.4
Structural primary balance ^{2/}	0.8	0.8	-4.0	-3.9	-2.2	-0.6	-0.3	-0.3	-0.3	-0.4
Change in real revenue (percent)	3.1	2.2	-6.3	5.7	0.3	0.7	0.6	1.9	1.7	1.7
Change in real primary expenditure (percent)	1.4	1.7	11.1	1.9	-4.2	-2.5	-0.3	1.5	1.7	2.0
Nominal GDP (billions of euro)	385	398	379	403	438	459	479	498	517	537

Sources: Authorities' data and IMF staff estimates and projections.

1/ Includes strategic gas reserve

2/ Excludes one-off measures as defined in the Austrian Stability Program.

Table 3. Austria: Balance of Payments, 2018–27
(In percent of GDP, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Projections					
BALANCE OF PAYMENTS										
Current Account	0.9	2.1	1.9	-0.5	-0.8	-1.0	0.5	1.0	1.6	2.2
Balance on goods and services	2.9	3.3	2.9	0.2	0.1	0.0	1.4	1.9	2.6	3.1
Exports of goods and services	55.4	55.4	51.4	56.6	59.2	57.9	58.6	58.4	59.2	59.2
Exports of goods	38.7	38.2	36.5	41.8	43.2	42.2	42.6	42.5	42.9	42.7
Exports of services	16.7	17.2	15.0	14.7	16.0	15.7	16.0	15.9	16.3	16.5
Imports of goods and services	52.5	52.1	48.6	56.3	59.1	57.9	57.2	56.5	56.6	56.1
Imports of goods	38.4	37.2	35.7	42.3	45.1	44.1	43.4	42.8	42.9	42.4
Imports of services	14.1	14.8	12.9	14.1	14.0	13.8	13.8	13.7	13.7	13.7
Primary income, net	-1.0	-0.4	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Secondary income, net	-1.0	-0.9	-0.9	-0.7	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Capital Account	-0.6	0.0	-0.1	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Financial Account	1.2	4.3	0.6	-1.1	-1.1	-1.2	0.2	0.7	1.4	2.0
Direct investment, net	0.4	1.4	2.3	1.5	1.4	1.4	1.4	1.4	1.4	1.4
Direct investment abroad, net	-6.2	-1.6	-1.8	3.1	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6
Direct investment in Austria, net	-6.6	-3.0	-4.1	1.6	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0
Portfolio investment, net	0.9	-0.9	-3.6	2.6	-6.3	-6.5	-5.0	-4.5	-3.9	-3.3
Financial derivatives, net	-0.2	0.4	0.3	0.1	0.4	0.4	0.4	0.4	0.4	0.4
Other investment, net	-0.5	3.4	1.3	-6.3	3.4	3.4	3.4	3.4	3.4	3.4
Reserve assets	0.6	0.0	0.4	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions, net	0.9	2.3	-1.2	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET										
Int'l Investment Position, net	6.0	13.5	9.3	14.8	12.5	10.7	10.5	10.8	11.8	13.3
Assets	221	228	236	241	226	221	217	213	210	208
Liabilities	215	215	226	226	214	210	206	202	199	194
Direct investment	11	12	9	12	12	13	14	15	16	17
Assets	73	70	67	70	63	58	54	50	47	44
Liabilities	61	58	57	58	50	45	40	35	31	27
Portfolio investment	-17	-15	-19	-10	-16	-22	-26	-29	-32	-34
Financial derivatives	0	0	0	0	0	1	1	1	2	2
Other investment	7	10	12	6	9	12	15	18	20	23
Reserve assets	5	5	7	7	7	7	6	6	6	6
MEMORANDUM ITEMS										
Export value (goods and services)	7.0	3.1	-11.4	16.8	13.8	2.5	5.6	3.7	5.1	3.9
Import value (goods and services)	7.6	2.3	-11.0	23.2	14.1	2.8	3.0	2.7	3.9	2.8
Nominal GDP (billions of euro)	385	398	379	403	438	459	479	498	517	537

Sources: Authorities' data and IMF staff estimates and projections.

Table 4. Austria: Financial Soundness Indicators, 2014–2021:Q3

(In percent)

	2014	2015	2016	2017	2018	2019	2020	2021Q3
FINANCIAL SOUNDNESS INDICATORS								
Capital Adequacy								
Regulatory capital/risk-weighted assets 1/	16.3	16.5	18.0	18.8	18.4	18.3	19.2	18.5
Regulatory Tier 1 capital/risk-weighted assets 1/	12.3	13.2	14.5	15.6	15.6	15.9	16.8	16.3
Capital/assets 2/	6.8	7.4	7.3	7.5	7.7	7.9	7.6	8.5
Large exposures/capital 2/	70.5	59.2	60.7	51.2	55.6	53.4	46.5	63.0
Nonperforming loans net of provisions/capital 2/ 3/	13.8	13.2	11.2	10.9	8.0	6.3	4.6	3.8
Liquidity and Debt 2/								
Liquid assets/ST liabilities	67	68	67	66	68	64	78	82.5
Liquid assets/total assets	23	25	25	24	24	23	28	30.6
Debt/equity	112	108	106	102	96	93	98	98.8
Asset Quality								
Loans to residents/gross loans	70	74	75	76	76	76	79	79
Loans to nonfinancial corporations	20	21	21	22	22	23	22	22
Loans to deposit takers	20	20	19	18	18	17	16	15
Loans to other domestic sectors	21	22	24	24	24	24	22	22
Other	9	11	11	12	12	11	19	20
Loans to nonresidents/gross loans	30	26	25	24	24	24	21	21
NPLs/gross loans 2/ 3/	3.5	3.4	2.7	2.4	1.9	1.6	1.6	1.5
FX loans/total loans	19	15	14	11	11	11	8	9
Geographic Distribution 2/ 4/								
Domestic economy/gross loans	70	74	75	76	76	76	79	79
Advanced economies/gross loans	16	14	15	13	14	15	15	14
Emerging markets/gross loans	14	12	10	10	10	9	7	7
Of which:								
CEE	10.7	9.6	8.2	8.5	8.4	7.4	5.4	5.8
CIS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5
Earnings, Expenses, and Profitability								
Spread (reference lending rate to deposit rate; bps) 2/	196	193	190	179	177	176	169	161
Net interest income/gross income 1/	59	59	59	59	61	60	62	60
Trading income/total income 2/	1.8	2.5	1.7	1.7	1.5	1.4	2.6	1.6
Non-interest expenses/gross income 1/	77.3	69.6	74.8	67.0	68.3	68.2	64.7	58.8
Personnel expenses/non-interest expenses 2/	53.1	50.2	49.9	46.9	48.1	47.5	44.3	42.8
Return on assets 1/	-0.2	0.5	0.5	0.8	0.8	0.7	0.4	0.9
Return on equity 1/	-3.2	7.2	7.0	10.0	9.9	9.2	5.2	10.4
Earnings/equity 1/	11.0	11.1	10.6	12.1	11.6	11.1	9.9	10.3
Households 2/								
Household debt/GDP	52	53	53	51	50	50	55	53
Residential real estate loans/total loans	17.4	19.5	20.6	20.4	20.5	20.8	16.7	16.9
Residential real estate prices (% change)	2.4	7.6	4.6	4.7	7.4	3.0	10.0	
Structural Indicators 2/								
Assets/GDP	90	90	89	93	86	90	99	43
Assets/total financial system assets	25	26	28	30	28	29	28	15
MEMORANDUM ITEMS								
	(In units indicated)							
Total assets/liabilities (% GDP) 1/	263	248	234	219	218	219	254	248
Credit to domestic non-bank private sector (% GDP)	85	84	82	82	82.6	84.2	91.5	92.1
Percent change (y/y)	-2.0	1.8	1.3	3.9	4.8	5.1	3.7	7.0
Corporations	-5.0	-0.2	-1.5	5.3	6.1	6.0	4.1	8.4
Households 5/	1.4	3.9	4.1	2.5	3.6	4.2	3.4	5.6
Nominal GDP (bn €)	333	344	358	369	385	398	379	403

Sources: Authorities, and IMF staff estimates and projections.

1/ Domestically controlled, cross-border and cross sector consolidation basis.

2/ Domestic consolidation basis.

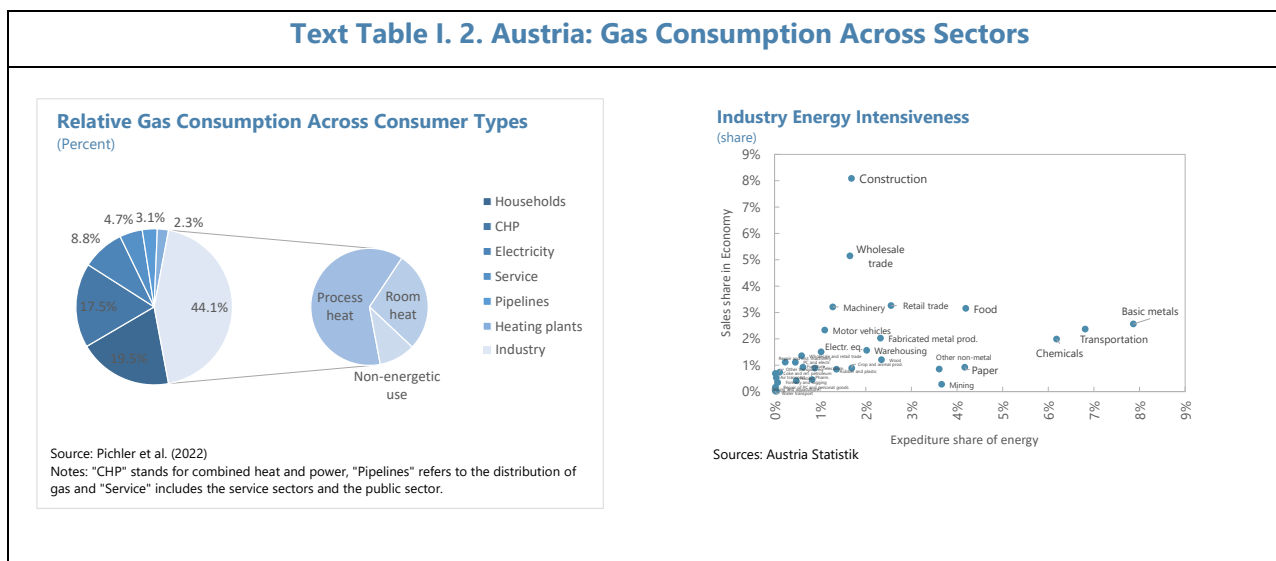
3/ From 2014, NPLs are reported on a borrower instead of single loan basis.

4/ Includes loans to financial institutions.

5/ Excludes shares and other equity.

3. Industry and power plants consume the bulk of natural gas. The Austrian industry uses about 42 percent of the natural gas produced, mainly for process and room heating. Among sectors, the paper, iron and steel, and chemical production industries are major consumers of energy and have a relatively high value-added share in the economy. About 8 percent of the gas [consumed] is used for domestic electricity generation and 18 percent for combined heat and power (CHP). Households consume a little over 18 percent of the gas mainly for heating.

Text Table I. 2. Austria: Gas Consumption Across Sectors



4. Despite being a landlocked country, Austria has large storage capacities for gas. The storage capacity in Austria, of about 95 TWh, is the sixth largest domestic storage capacity in Europe. This amount corresponds to about 100 percent of total gas demand (approx. 99 TWh) and about 150 percent of the power demand (approx. 63 TWh).² Austria is a major transit route for European gas supply based on the large gas storage facilities at Baumgarten.³ Gas is transported through two major pipelines into Austria, mainly through the Ukraine pipeline: (i) the Trans Austria Gas (TAG) pipeline system connecting Baumgarten at the border with the Slovak Republic to southern Austria, close to the Italian border, and, (ii) the West Austria Gas pipeline (WAG) which runs from Baumgarten through Lower Austria and Upper Austria to Oberkappel at the border with Germany and supplies France, Germany and Central Europe. Both pipeline systems are bidirectional and can be operated both in direct and reverse flow.

5. Several contingency measures can be deployed in the event of a Europe-wide gas cutoff by Russia. A Europe-wide gas shutoff by Russia, including via supply related disruptions to the network of gas pipelines, would put at risk 80 percent of Austria's gas consumption. The extent of shortfall would however depend on different contingency measures deployed by the government and the ability of consumers to conserve energy:

- *Supply side measures* aimed at bolstering the supply of gas could cover up-to 70 percent of the shortfall through actions such as:

² 2021 Coordinated Network Development Plan, Gas Connect Austria.

³ Annual gas transit is almost five times Austria's domestic consumption. In 2017 and 2018, over 80 percent of all physical gas imports were re-exported (IEA, 2020).

Ramping up public storage: The government's initiative to create a public strategic reserve aims to store about 20 TWh of gas by end-October. Withdrawals from the reserve will be triggered by the government should there be an emergency shortfall. Mandating operators to fill all storage spaces in Austria to a certain minimum level will also ensure that storage capacities are optimized fully.

Incentivizing increase in private storage: Some increase in private storage could also be expected from the government's recent initiatives to encourage high-gas consuming firms to raise their storage volumes. Under this initiative, firms which use gas intensively are guaranteed that they will not be subject to any quantity rationing if 50 percent of their consumption is privately stored beforehand.

Additional Imports: Recent proposals by the European Commission (*REPower EU*) aim to replace EU-wide Russian gas by increased LNG imports (covering 32 percent of the EU-wide shortfall) and additional imports from Norway, Azerbaijan and Algeria (covering about 6 percent of the EU-wide shortfall). Under the assumption that these additional gas imports will be allocated proportionally to EU countries based on their individual shortfalls, Austria would be able to cover about 30 percent of its own shortfall through EU gas procurement initiatives. However, as pointed out by [Pichler et al., \(2022\)](#), the loss mitigation would be lower in an uncoordinated scenario where Austria utilizes most of its storage capacity for its own consumption without sharing with other countries; in this scenario the EU could deliver less additional gas to Austria as it would have less needs to fulfill the shortfall. Domestic initiatives to diversify and increase gas import capacity, including by building additional infrastructure to procure LNG from Germany or repurposing bi-directional pipelines to procure gas from Italy, Spain and Algeria could increase capacities in the medium-term.

- *Demand side actions* aimed at encouraging energy conservation could cover an additional 16 percent of the Russian gas shortfall:

Fuel switching: Aiding power plants or firms to switch from gas to alternative fuels over the summer could provide substantial short-term gas saving. Pichler et al., (2022) estimate that Austria can reduce gas used for generating electricity by around 40 percent by substituting gas with oil and other fuels. However, these measures should be considered strictly temporary, given their negative environmental impact, and all cost-savings from these measures should ideally be directed to future investments in green energy.

Savings from voluntary reduction of heating: Sustainable reductions in gas dependence could be achieved by incentivizing end-users to reduce winter heating. This can be done through measures such as subsidies for heat pump installations and thermostat or penalizing heavy gas usage.

Other savings: Shortfalls in gas supply would result in less gas usage by pipelines for transportation and maintenance needs and provides an additional minor savings potential.

Box 1. Government's Energy Contingency Measures

Early Warning Triggers in Preparation for Possible Gas Interruptions:

In March 2022, following the Russian announcement to switch gas payments to Russian rubles, the Austrian authorities issued an early warning under the EU regulations on security of gas supply. The warning serves as a signal that an event which is likely to result in significant deterioration of the gas supply situation may occur and is likely to lead to the alert or the emergency level being triggered.

Subsequently, in June 2022, the authorities issued an amendment to the Energy Steering Act 2012 (Energielenkungsgesetz 2012, EnLG 2012) and an amendment to the Natural Gas Sector Act 2011 (Gaswirtschaftsgesetz 2011, GWG 2011) to safeguard the security of the gas supply in Austria.

- The amendment of the Energy Steering Act 2012 incentivizes large commercial gas consumers, among others, to place gas in storage by exempting 50 percent of their annual consumption from steering measures.
- The Natural Gas Sector Act 2011 amendment authorizes the government to instruct energy providers to store natural gas. The total storage amount will be specified in the request of the Austrian Federal Ministry of Climate Action and Energy, which must take into account the current as well as projected storage levels and impending or actual impairments or disruptions of the security of supply. These gas quantities must be stored as backup physical balancing energy. Storage costs will be paid from federal funds.

Emergency Response in the Event of Major Gas Supply Cut:

In the event of major disruptions in gas supply, the Austrian government can sequentially deploy emergency measures through the Energy Control Act to allocate energy.

- In the first step the government can issue requests to households and firms for saving energy and replacing natural gas.
- A second step would be to establish a marketlike mechanism for balancing energy – whereby large consumers of gas can put excess gas on the market that can be subsequently auctioned.
- Third step would be to commence a stepwise release of strategic reserve.
- A last resort measure would be to undertake quantity-rationing to industrial consumers, determined by E-control, the agency in charge of regulating natural gas. An amendment of the Natural Gas Intervention Data Order 2006 stipulates that in the event of an import cutback of over 40 percent, E-Control can impose extended reporting duties on transmission companies, large consumers, operators of gas-fired power stations and balancing group representatives. A gas industry emergency response manual has also been prepared which outlines the principles and organizational procedures to be observed by the government authorities and market participants for the implementation of intervention measures under the Energy Intervention Powers Act. The procedures for curtailing gas use by large consumers (power stations and industrial consumers) in the event of an outright gas crisis were discussed with the companies concerned. E-control also carries out emergency response exercises focused on simulating reductions in gas use by large consumers (two industrial companies and three power station operators) in a crisis scenario.

Short-term Stress Test Experience from the 2009 Russia-Ukraine Gas Crisis:

Between 6 and 20 January 2009, imports of Russian gas arriving in Baumgarten were completely halted. This affected supplies to the Eastern control area and all downstream transit systems running through Austria. Throughout this critical period the supply of Austrian consumers was not cut off at any time. All demand in the Eastern control area was met by E-control using the following *supply-side market-based measures*:

- Imports of gas from the Haidach storage facility: Unused storage capacity by Gazprom Export at the Haidach gas storage facility – which is located near Salzburg, Austria but is not connected to the domestic gas grid – was made available at short notice to supply the Eastern control area, and

Government's Energy Contingency Measures (concluded)

supplies were imported via the German grid. The storage capacity was provided as a replacement for the deliveries from Gazprom Export that were held up by the supply disruption.

- Increased imports from Germany via Oberkappel: All the suppliers imported increased quantities of gas via the Oberkappel interconnection point. These supplies were procured on the German gas markets.

The following *demand-side measures* also helped manage the supply outage:

- Switching to substitute fuels by gas-fired power stations: Power station operators made preparations to enable them to switch gas-fired generating units to substitute fuels (oil and coal) wherever possible.
- District heating fuel substitution: The Vienna district heating system took broad-based voluntary action to substitute gas by other fuels.
- Coordination of domestic gas flows by the control area manager: The control area manager of the Eastern control area, AGGM, played a key role in coordinating domestic gas flows, and in maintaining network stability by calling off balancing energy. The Austrian balancing group system and balancing energy market remained fully operational throughout the crisis. Some balancing groups faced difficulties in procuring gas supplies as a result of the import constraints, but these were solved by mobilizing additional balancing energy.

Medium-term Energy Transition Measures:

Finally, the authorities are also preparing several medium-term measures for demand switching. These include the renewable heating law which establishes an end-date for fossil fuels in heating (oil by 2035 and natural gas by 2040) and stipulates a restriction to deploy natural gas heating in new buildings and switching to natural climate-friendly heating for renovations. The law also encourages centralized heating in buildings. The government will also allocate additional funds for investment in hydrogen and biomethane starting in 2023.

6. Overall about 30 (if no measures) to 95 (if all measures) percent of the Russian gas shortfall can be covered depending on the extent and efficacy of measures utilized. This would imply an aggregate consumption shortfall of about 56 (no measures) to 4 (all measures) percent. Assuming households and a few critical industries would be protected this could translate into an industry-wide shortfall of about 80 (no measures) to 8 (all measures) percent. In the absence of any energy conservation – at least in the short-terms - staff estimate that the extent of aggregate (industry) gas shortfall could be around 12 (25) percent by relying mainly on the ramp-up of storage, fuel switching measures (including through reopening of coal plants that is already taking place) and some additional imports (either through EU or domestic initiatives).

7. Assuming that the household and the services sectors are fully protected from quantity rationing, the overall economic effect would depend on industry's ability to substitute gas as a production input. Depending on the production technology a range of scenarios could be considered:

- *Leontief production function: Here, it is assumed that any reduction in the quantity of gas directly translates into a proportional amount of output loss for any affected firm. In such a linear production technology, for instance, a 10 percent reduction in gas would lead to a 10 percent fall in a firm's output. As in Pichler et. al., (2022), the extent of losses can however vary across sectors based*

on the share of firms within each sector that are highly dependent on gas.⁴ The aggregate loss to the economy would subsequently reflect the weighted cumulative loss across industrial sectors, where the weights are equal to the sector's sales share in the economy.

- *Hybrid production function with demand amplification:* To incorporate additional indirect effects from upstream and downstream propagation of the industry-specific demand and supply shocks, Pichler et al., (2022) use a dynamic out-of-equilibrium input-output model. In this model the economy initially rests in a steady state until it experiences exogenous shocks due to shortages in gas inputs. The model incorporates industry-specific production functions based on a survey of industry analysts, and incorporates inventory dynamics, consumption, and labor market effects (see Pichler et al., 2021 for details on the model). Those industries where gas is an essential input are unable to substitute its shortfall (operating with a pure Leontief production function) and incur a large production shock. These shocks are less severe in other industries where gas is not an essential input.
- *Cobb-Douglas production function with full substitution:* In this scenario, it is assumed that firms operate with a Cobb-Douglas production technology, where each output is produced using several inputs, each with varying degrees of importance. Under the assumption that inputs are fully substitutable, a supply shock to gas will reduce output by a factor equivalent to its input share in production. For instance, if gas represented 4 percent of total production inputs, then a 10 percent gas shortfall would reduce output by 0.4 percent. An approximation for the aggregate economic loss can be derived by calculating each sector's output loss, based on their input share of electricity and gas from the input-output tables and then taking the weighted sum of losses across sectors based on their sales share.
- *Hybrid production function with low substitution:* As the assumption of full gas substitutability is unlikely to hold in practice, the production function can be modified to reflect low substitution possibilities. Baqaee and Farhi (2018) derive a second order approximation taking into account network effects and production non-linearities. In their model, price acts as an equilibrium clearing mechanism such that the change in the energy expenditure share is informative about the elasticity of substitution and hence the output losses from a negative gas shock. The second-order effects increase (decrease) monotonically with the size of the shock (elasticity of substitution). It should be noted that in this general equilibrium approach prices and wages are assumed to adjust with no rigidity and the only friction is the degree of substitutability between intermediate goods. However, a sufficiently strong supply shock (whose timing is unanticipated) could lead to an imperfect adjustment of prices with some firms/sectors facing larger production cuts than implied by the price clearing mechanism.

⁴ The estimated gas dependency is constructed by Pichler et. al. (2022) using data on gas consumption for industrial firms from Statistik Austria (accounting for about 80 percent of total industry gas consumption). The share of gas-dependent firms in each sector is derived by dividing the number of firms per sector that report the use of gas by the total number of firms in the same sector. Sectors such as "Manufacturing basic metals" and "Manufacturing paper and furniture" (with more than 70 percent of its firms using gas) exhibit the largest gas exposure. The analysis is roughly similar when ranking sectors using their expenditure shares of electricity and gas from input-output tables.

Text Table I. 3. Austria: Potential Output Losses From a Gas Shut-off Scenario

	No measures ¹	Only supply- side ²	All measures ³
Aggregate Shortfall	56.0%	12.0%	4.0%
Industry Shortfall	80.0%	26.7%	8.9%
<i><u>Output Loss</u></i>			
Cobb Douglas with full substitution	1.0%	0.3%	0.1%
Hybrid with low substitution	5.5%	1.8%	0.6%
Leontief with no substitution	10.0%	3.0%	1.0%
Hybrid with no substitution + Demand amplification	15.0%	5.5%	1.8%

Source: IMF staff calculations

1 No measures includes use of storage, including from the strategic reserve, up-to historical minimum levels.

2 Supply-side measures includes storage and additional imports and diversification.

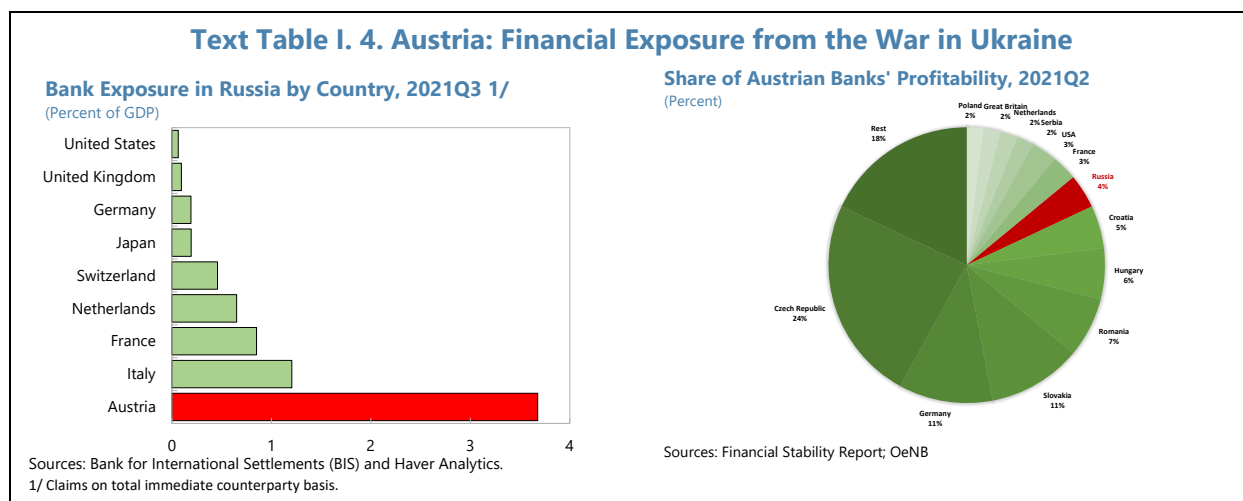
3 All measures include all supply and demand measures.

8. A gas supply shock could also raise inflation and further negatively affect growth. Even if households and essential sectors are protected against large gas price increases, they could still be affected indirectly through an overall increase in inflation as the gas price increase reverberates through supply chains. This could occur when affected firms pass-on the input price shock through to the sales price; their ability to do so will depend on various factors such as their reliance on gas as an input, profit margins and degree of industrial competition. Firms with high reliance on gas with lower profit margins are more likely to increase their sales prices in response to the negative gas supply shock as they would be unable to absorb the price increase in the profit buffer. This effect could be large in industries which are more competitive and where the demand for their products is high. Back of the envelope calculations suggest that in the intermediate scenario with only supply measures and low gas substitution possibility (with aggregate output loss of about 2 percent), the corresponding gas price increase of about 600 percent could raise inflation by 10 percent.

Financial Exposure

9. Austria has one of the most exposed foreign banks in Russia. Based on the BIS data, as of 2021:Q3, Austrian banks' have an exposure to Russia of €20 billion (4.6 percent of GDP). Out of the €20 billion, €3.2 billion are cross-border (loans and equity claims in Russia), €12.6 billion are domestic loans in Russia (i.e., loans granted by local subsidiaries in Russia), and the remaining are derivatives, commitment, and guarantees. As the majority of exposure in Russia are in local currency and claims are mainly to non-financial private sector (less likely to default), credit risk will likely be manageable.

10. Nonetheless, spillover impacts from CESEE could be significant. Austrian banking subsidiaries' profits in CESEE came to €1.4 billion in the first half of 2021, while total assets amounted to €258 billion. Czechia is the most important CESEE host market for Austrian banking subsidiaries, accounting for more than one-third of total assets and close to one-quarter of profits. Economic slowdowns in CESEE could weigh down on bank profitability and affect capital build-up by the parent bank.



Refugees

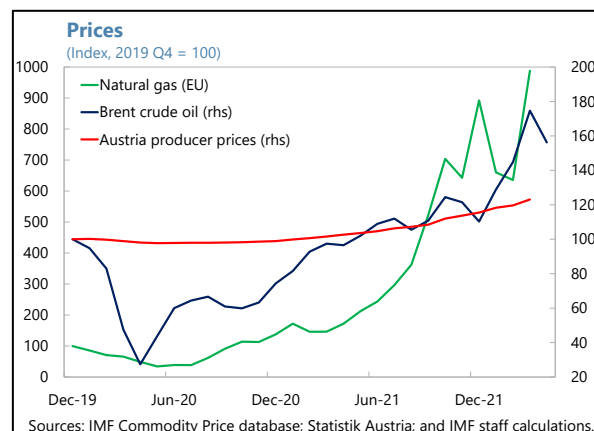
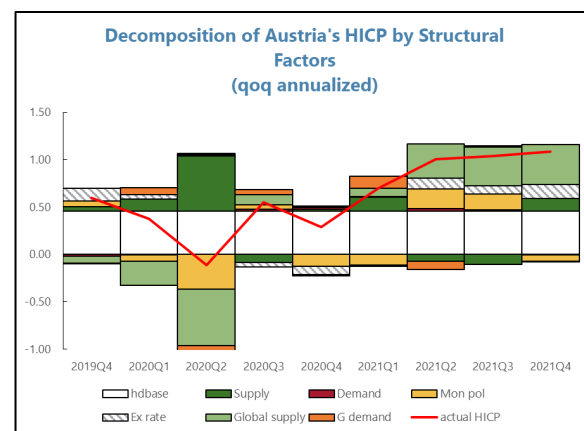
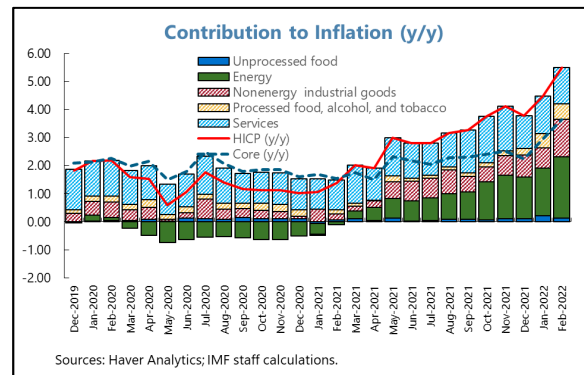
11. The influx of refugees from Ukraine could temporarily put pressure on fiscal cost but could raise labor supply and ease demographic pressures in Austria. The war triggered a surge in refugee flows with over 200,000 Ukrainians arriving in Austria by end-March. The influx will likely increase as the war prolongs. In the short term, assistance such as healthcare, accommodation, education, and language training may strain local services. Nonetheless, once integrated into labor force, refugees can increase labor supply and alleviate demographic challenges.

Annex II. Inflation in Austria

1. Headline and core inflation in Austria picked up strongly in recent months. Since the second half of 2021, inflation in Austria has rapidly accelerated. It remains lower than the euro area average, partly reflecting Austria's lower growth in energy prices and weight in the HICP basket. Core inflation also rose sharply since 2022, contributed by increases in prices of non-energy industrial goods and processed food, alcohol, and tobacco.

2. Supply bottlenecks and energy prices are the main contributors to accelerating inflation. Since the reopening of the economy in mid-2021, household spending on goods has rebounded while supply has not kept up with demand due to higher delivery times and costly international shipping, resulting in shortages of intermediate inputs, especially in the auto sector. These drove up the Producer Price Index and prices of non-energy industrial goods. During May 2021–Feb 2022, average inflation of non-energy industrial goods was more than double that before and during the pandemic. A sharp increase in prices is particularly notable in vehicles and furniture. Similarly, energy prices rose around the same time, reflecting both rebounding demand and supply cuts that started in late 2020. In the second half of 2021, global oil and gas prices rose over 80 and 560 percent (y-o-y), respectively, contributing significantly to headline inflation. Staff analysis suggests that the supply shock, both domestic and global, is a key contributor to inflation. The preliminary discussion of the wage negotiation among social partners suggested limited second-round effects, but this could change if pressures persist.

3. The war in Ukraine will likely exacerbate inflation. Soaring energy costs sparked by the war in Ukraine have caused a surge in inflation in Austria to 8.7 percent in June, from 5.5 percent in February. Going forward, energy prices—in particular gas prices—will likely be volatile given the uncertainty of supply from Russia. In addition, as Ukraine and Russia are major producers of global commodities (such as wheat and fertilizers) and major exporters of iron ore to Austria, an increase in commodity prices will also put pressure on Austria's inflation. The prolonged war could further intensify inflationary pressure and entrenched into expectations and long-term contracts in the near future.



Annex III. External Sector Assessment

Overall Assessment: *The external position of Austria in 2021 was broadly in line with the level implied by fundamentals and desirable policies after adjusting for transitory impacts from the tourism sector due to the COVID-19 crisis.*

Potential Policy Responses: *Policies are broadly appropriate in near term although the authorities could step up structural reforms to reignite growth and foster resilience. Fiscal policy should continue to play a key role in responding to the pandemic and cushioning the adverse spillover impacts from the war in Ukraine. Close monitoring of war-related risks is warranted to preserve financial stability. Macroprudential policies should aim at mitigating residential real estate risks. Finally, structural priority should be set on accelerating green transition and digitalization, strengthening energy security, and integrating refugees into the labor market. In the long run, further reform in the pension system would open significant savings potential to help ensure fiscal sustainability.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The net international investment position (NIIP) rose sharply to 14.7 percent of GDP in 2021 (from 9.3 percent in 2020) due to strong valuation effects, particularly in the portfolio investment and direct investment accounts. Regarding financial flows, Austrian banks sharply reduced their reliance on foreign wholesale financing (and exposure to CESEEs), with the decline in foreign liabilities exceeding the decline in assets as deposits rebounded both at home and in CESEEs. This has led to a decline in banks' gross external assets from a peak of over 100 percent of GDP in 2008 to about 60 percent of GDP in 2020.

Assessment. The NIIP is projected to decline in 2022 given a projected current account deficit and potential negative valuation effects from the imminent risks. In the medium term, the NIIP is projected to recover as the CA balance is expected to improve over time.

2021 (% GDP)	NIIP: 14.7	Gross Assets: 240	Debt Assets: 86	Gross Liab.: 226	Debt Liab.: 107
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Current Account

Background. Austria's external position weakened due to the impact of the COVID-19 pandemic. The current account in 2021 turned deficit—at 0.5 percent of GDP—for the first time since 2001 as a result of deteriorating balance of goods and services. Household savings declined by 0.6 pp to 18.9 percent of disposable income in Q3 2021 but remained well above pre-pandemic levels, while public and private investment picked up.

Assessment. Based on the IMF's External Balance Assessment (EBA) estimates, the current account balance in 2021—after adjusting for cyclical and COVID-related factors—stood at 1.5 percent of GDP, slightly lower than an estimated norm of 2.2 percent of GDP. In particular, an Austria-specific COVID-19 adjustor of 1.9 percent of GDP is applied to account for a temporary decline in travel (1.6), medical trade (0.2) and the household shift in consumption (0.1) caused by the pandemic. The policy gap is driven by a low but still elevated budget deficit relative to trading partners—partly offset by high health expenditure and robust credit-to-GDP relative to trading partners. With a relatively small unexplained residual, an overall current account gap is estimated at -0.7 percent of GDP. Applying a semi-elasticity of 0.42, an indicative REER gap is estimated at -1.8 percent.

Austria: Model Estimates for 2021 (in percent of GDP)			
	CA Model	REER (index)1/	REER (level)2/
Actual CA	-0.5		
Cyclical contributions	0.1		
Covid adjustment	1.9		
Travel	1.6		
Medical	0.2		
Household consumption	0.1		
Adjusted CA	1.5		
CA Norm (from model)	2.2		
CA gap	-0.7		
o.w. relative policy gap	-1.0		
Elasticity	0.4		
REER Gap (in percent)	-1.8	12.7	20.2
Sources: Authorities' data			
1/ Considers the REER CPI index in each country, and thus does not explain inter-country variations.			
2/ Takes into account differences in real PPP exchange rates across countries.			
Real Exchange Rate			
Background. The REER depreciated about 10 percent in 2021, driven by real depreciations against major currencies.			
Assessment. The model estimates suggest that the REER was overvalued within a range of 12.7–20.2 percent. However, these estimates are mostly driven by unexplained residual.			
Capital and Financial Accounts: Flows and Policy Measures			
Background. The financial account posted net inflow of 1.1 percent of GDP in 2021, driven by a substantial increase in non-resident deposit (an increase in liabilities of current/deposits in other investment), mirrored by a reduction of foreign investors' holdings of Austrian short-term debt securities.			
Assessment. Risks are limited, given the strength of Austria's external position.			
FX Intervention and Reserves Level			
Background. The euro has the status of a global reserve currency.			
Assessment. Reserves held by euro area countries are typically low relative to standard metrics. The currency floats freely.			

Annex IV. Risk Assessment Matrix¹

Risks	Relative Likelihood	Impact if Realized	Policy Response
External Risks			
Russia's invasion of Ukraine leads to escalation of sanctions and other disruptions. Russia is disconnected almost completely from the global financial system and large parts of the trading system. This, combined with Russian countersanctions and secondary sanctions on countries and companies that continue business with Russia, leads to even higher commodity prices, refugee migration, tighter financial conditions.	High	High <ul style="list-style-type: none"> • Lower consumption and production, particular manufacturing industry due to gas supply disruption. • Lower exports due to weakened external demand. • Lower investment due to heightened uncertainty and tightening of financial conditions. • Increase systemic risks in the financial sector. 	Accelerate green transitions Diversify energy sources Provide targeted fiscal support to vulnerable households. Careful monitoring of financial sector developments and increase buffers. Allow automatic stabilizer fully to operate.
Rising and volatile food and energy prices. Commodity prices are volatile and trend up amid pent-up demand and supply disruptions, conflicts, or a bumpy transition to renewable energy sources. This leads to bouts of price and real sector volatility, including acute energy crises in some countries.	High	Medium <ul style="list-style-type: none"> • Lower growth due to weak consumption and investment • Persistently high inflation and pressure for the second-round effect • Rising social tension especially if linked to uncompensated carbon pricing 	Provide targeted fiscal support to vulnerable households or heavily affected companies. Ensure adequate compensation to carbon-tax affected households and firms
Outbreaks of lethal and highly contagious COVID-19 variants: Rapidly increasing hospitalizations and deaths, due to low vaccination rates or caused by vaccine-resistant variants, force lockdowns and increased uncertainty about the course of the pandemic.	High	Medium <ul style="list-style-type: none"> • Tourist arrivals remain low, lowering the current account. • Domestic demand especially in contact-intensive sectors will weaken. • Larger economic scarring 	Targeted support to direct-affected businesses and households. Maintain public health safeguard measures, including contact tracing and widespread testing. Use available fiscal space to support households and firms and encourage reallocation of resources.

¹ Shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of the IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability of 10–30 percent, and "high" a probability of over 30 percent). Reflects the staff's views on the source of risks and overall level of concern at the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Risks	Relative Likelihood	Impact if Realized	Policy Response
De-anchoring of inflation expectations in the U.S. and/or advanced European economies. A fast recovery in demand amid a lagging supply-side response leads to a rapid de-anchoring of inflation expectations, which prompts central banks to tighten policies abruptly.	Medium for the US and Medium-low for the Euro Area	Medium <ul style="list-style-type: none"> Weaker confidence could reduce investment. Persistently high inflation and lower purchasing power. 	<ul style="list-style-type: none"> Implement reforms to boost productivity and potential growth.
Geopolitical tensions and de-globalization. Intensified geopolitical tensions, security risks, and conflicts cause economic and political disruptions, disorderly migration, production reshoring, a decline in global trade, and lower investor confidence. Associated supply chain disruptions and commodity price shocks give rise to inflationary pressures.	High	High <ul style="list-style-type: none"> Tariff and non-tariff restrictions further dampen Austria's export and growth prospects 	<ul style="list-style-type: none"> Allow automatic stabilizer fully to operate. Participate in global initiatives supporting multilateralism
Higher frequency and severity of natural disasters related to climate change cause severe economic damage and prompt a recalculation of risk and growth prospects.	Medium	Medium <ul style="list-style-type: none"> Weaker demand for winter tourism and lower growth. 	<ul style="list-style-type: none"> Support affected sectors and rebuild damaged infrastructure. Reallocate fiscal spending as needed. Diversifying tourism export base.
Domestic Risks			
Extended global supply chain disruptions. Persistent disruptions in the production and shipment of components caused by lockdowns and logistical bottlenecks continue until 2023.	High	Medium/ High <ul style="list-style-type: none"> Persistently high inflation Lower purchasing power Weaker investment 	<p>Provide targeted fiscal support to vulnerable households or heavily affected companies.</p> <p>In the event of a permanent shock affecting potential growth, allow smooth reallocation of resources through restructuring and insolvency procedures, and ALMPs.</p>
Weakness in coordinating and implementing domestic reforms. The government has an ambitious reform agenda that includes large-scale investment, institutional cost-efficiency savings, and green reform.	Medium	Medium <ul style="list-style-type: none"> Reform setback could undermine confidence 	<p>Outline reform details in a comprehensive package.</p> <p>Identify key measures on the expenditure side.</p> <p>Publish progress reports periodically.</p>
Contagion from CESEE. The stock of foreign currency loans in CESEE is still high and Austrian banks are susceptible to host currency depreciation.	High	Medium <ul style="list-style-type: none"> Depreciation in host country could raise debt burdens of borrowers and increase NPLs of Austrian banks. 	<p>Boost structural profitability through reducing operating cost.</p>

Annex V. Public Sector Debt Sustainability Analysis

Austria achieved sustainable public finance prior to pandemic. The unprecedented fiscal support to fight the pandemic and its ramification during the past two years raised public debt to 82.8 percent of GDP in 2021. As the gradual unwind of fiscal support takes place in line with economic recovery, public debt is expected to decline gradually. Under the baseline, public debt is sustainable.

Baseline

1. Key baseline assumptions: Under the baseline, the war in Ukraine is expected to slow down growth in 2022 to 2.6 percent and accelerate to 3 percent in 2023 before gradually decline to the potential level of 1.8 percent over the medium term. The baseline scenario built on fiscal support announced in the 2022 budget, including the eco-social tax reform, as well as the medium-term fiscal framework during 2022–25. The authorities are currently revising the budget, potentially extending fiscal support in response to rising energy prices and the impact of war in Ukraine.

2. Debt dynamics: As the economy rebounded, public debt started to decline from its peak to 83 percent of GDP in 2021 although it remained elevated compared to the historical average. As the economy continues to recover and the fiscal support measures are unwound, public debt is projected to decline further to about 80 percent of GDP in 2022 and continue to decline thereafter to below the pre-pandemic level at 71.7 percent of GDP in 2027. Estimated gross financing needs will decline by almost 10 percentage points during 2021–27.

3. Realism of the baseline assumptions: Austria's median forecast error for growth during 2012–20 was at -0.78, reflecting an upward bias toward growth projection. While the median forecast error for inflation was at -0.43, suggesting overestimation of inflation. Finally, the median forecast error for primary balance is 0.28, indicating more conservative projection of primary balance during those periods.

4. Projected fiscal adjustment: While the three-year adjustment of the cyclically adjusted primary balance (CAPB) put Austria in the top quartile, the projected fiscal adjustment remains feasible as emergency responses are expected to unwind by end 2023 with continued recovery. Moreover, the current government has a track record of conducting prudent fiscal policy and will rebuild fiscal buffers as soon as the recovery takes hold.

Shocks and Stress Tests

5. Public debt dynamics: The DSA suggests that medium-term debt dynamics are moderately sensitive to the macroeconomic shocks simulated by the DSA template. The largest shocks to public debt dynamics stem from contingent liability, growth, and primary balance shocks.

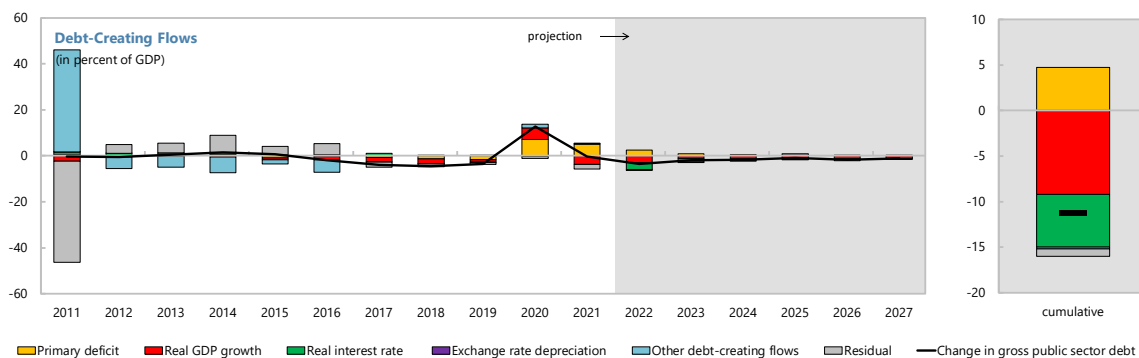
6. GDP shock: The GDP shock scenario assumes that growth is slower by one standard deviation of the historical outturn, implying a reduction by over 3 percentage points in 2023–24. In this scenario, public debt-to GDP ratio would increase significantly and is projected to lie over 80 percent of GDP in 2027—10 ppt increase compared to the baseline.

7. The other standardized macro shocks—the primary balance shock, the real exchange rate shock, and the real interest rate shock—will not lead to significant deviations from the baseline debt path. A combined shock for all variables is driven by assumed lower growth and leads to a similar debt path as in the low-growth scenario.

Figure V. 1. Austria: Public Sector Debt Sustainability Analysis—Baseline Scenario
(In percent of GDP unless otherwise indicated)

	Debt, Economic and Market Indicators ^{1/}										As of July 09, 2022		
	Actual			Projections									
	2011-2019 ^{2/}	2020	2021	2022	2023	2024	2025	2026	2027				
Nominal gross public debt	80.0	83.3	83.0	79.4	77.4	75.6	74.7	72.9	71.7	Sovereign Spreads			
Of which: guarantees	0.0	0.0	0.0	0.3	0.3	0.3	0.3	0.3	0.3	EMBIG (bp) ^{3/}		57	
Public gross financing needs	10.5	18.1	18.7	13.3	11.9	10.2	10.0	10.3	10.6	5Y CDS (bp)		13	
Real GDP growth (in percent)	1.5	-6.7	4.8	3.9	1.5	1.9	1.8	1.7	1.7	Ratings	Foreign	Local	
Inflation (GDP deflator, in percent)	1.8	2.3	1.3	4.8	3.5	2.2	2.2	2.0	2.0	Moody's	Aa1	Aa1	
Nominal GDP growth (in percent)	3.3	-4.6	6.2	8.9	5.1	4.2	4.0	3.7	3.8	S&Ps	AA+	AA+	
Effective interest rate (in percent) ^{4/}	2.8	1.8	1.4	1.2	1.4	1.5	1.7	1.8	1.8	Fitch	AA+	AA+	

	Contribution to Changes in Public Debt										cumulative	debt-stabilizing primary balance ^{9/}
	Actual			Projections								
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027			
Change in gross public sector debt	-1.3	12.7	-0.3	-3.6	-2.0	-1.8	-0.9	-1.8	-1.2	-11.2		
Identified debt-creating flows	1.4	13.5	1.6	-3.5	-1.9	-1.5	-1.4	-1.1	-1.0	-10.4		
Primary deficit	-0.4	7.1	5.2	2.6	0.8	0.5	0.3	0.3	0.3	4.8		-1.4
Primary (noninterest) revenue and grants	48.6	48.6	49.7	49.2	48.9	48.4	48.5	48.5	48.5	291.9		
Primary (noninterest) expenditure	48.2	55.7	54.9	51.7	49.8	48.9	48.7	48.7	48.8	296.7		
Automatic debt dynamics ^{5/}	-0.4	4.7	-3.7	-5.8	-2.7	-1.9	-1.7	-1.4	-1.4	-15.0		
Interest rate/growth differential ^{6/}	-0.4	4.7	-3.7	-5.8	-2.7	-1.9	-1.7	-1.4	-1.4	-15.0		
Of which: real interest rate	0.8	-0.3	0.0	-2.9	-1.6	-0.5	-0.4	-0.2	-0.2	-5.8		
Of which: real GDP growth	-1.2	5.0	-3.8	-2.9	-1.1	-1.4	-1.3	-1.2	-1.2	-9.2		
Exchange rate depreciation ^{7/}	0.0	0.0	0.0	...	...	...	...	...	...	...
Other identified debt-creating flows	2.2	1.7	0.1	-0.2	0.0	0.0	0.0	0.0	0.0	-0.2		
General government net privatization proceeds (negative)	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Contingent liabilities	2.5	2.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Change in assets relating to banks	-0.2	-0.6	-0.2	-0.2	0.0	0.0	0.0	0.0	0.0	-0.2		
Residual, including other asset changes ^{8/}	-2.7	-0.8	-1.9	-0.1	-0.1	-0.3	0.5	-0.7	-0.2	-0.8		



Source: IMF staff.

^{1/} Public sector is defined as general government and includes public guarantees, defined as Credit guarantees.

^{2/} Based on available data.

^{3/} Long-term bond spread over German bonds.

^{4/} Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

^{5/} Derived as $[(r - \pi(1+g) - g + ae(1+i)] / (1+g+\pi+g\pi)$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate;

a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

^{6/} The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

^{7/} The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+i)$.

^{8/} Includes changes in the stock of guarantees, asset changes, and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

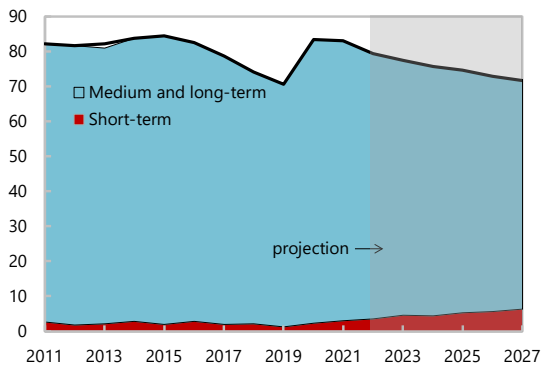
^{9/} Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure V. 2. Austria: Public Debt Sustainability Analysis—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

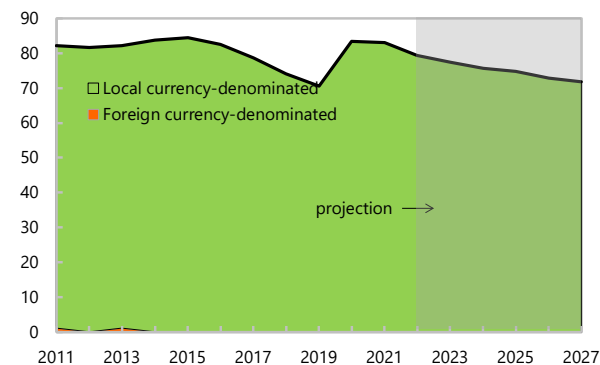
By Original Maturity

(in percent of GDP)



By Currency

(in percent of GDP)



Alternative Scenarios

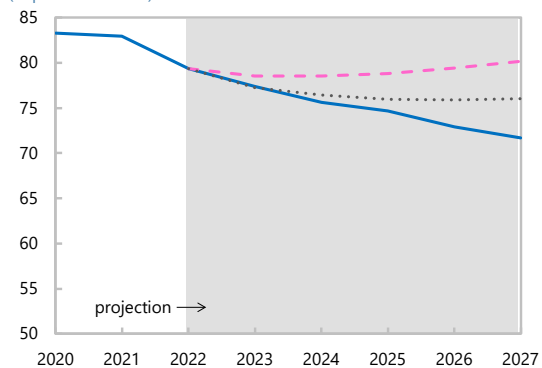
— Baseline

..... Historical

- - - Constant Primary Balance

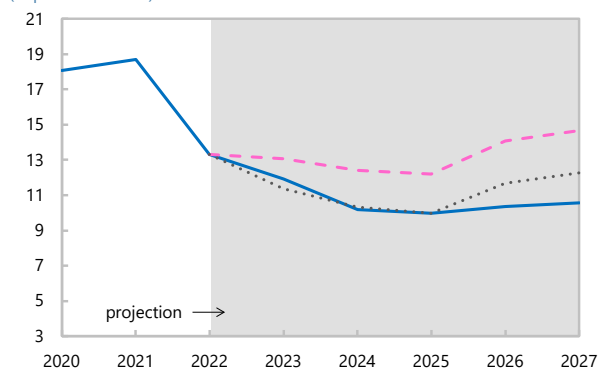
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario

	2022	2023	2024	2025	2026	2027
Real GDP growth	3.9	1.5	1.9	1.8	1.7	1.7
Inflation	4.8	3.5	2.2	2.2	2.0	2.0
Primary Balance	-2.6	-0.8	-0.5	-0.3	-0.3	-0.3
Effective interest rate	1.2	1.4	1.5	1.7	1.8	1.8

Historical Scenario

	2022	2023	2024	2025	2026	2027
Real GDP growth	3.9	0.9	0.9	0.9	0.9	0.9
Inflation	4.8	3.5	2.2	2.2	2.0	2.0
Primary Balance	-2.6	-0.8	-0.8	-0.8	-0.8	-0.8
Effective interest rate	1.2	1.0	1.4	1.8	2.0	2.4

Constant Primary Balance Scenario

	2022	2023	2024	2025	2026	2027
Real GDP growth	3.9	1.5	1.9	1.8	1.7	1.7
Inflation	4.8	3.5	2.2	2.2	2.0	2.0
Primary Balance	-2.6	-2.6	-2.6	-2.6	-2.6	-2.6
Effective interest rate	1.2	1.0	1.2	1.4	1.5	1.7

Source: IMF staff.

Figure V. 3. Austria: Public Debt Sustainability Analysis—Realism of Baseline Assumptions

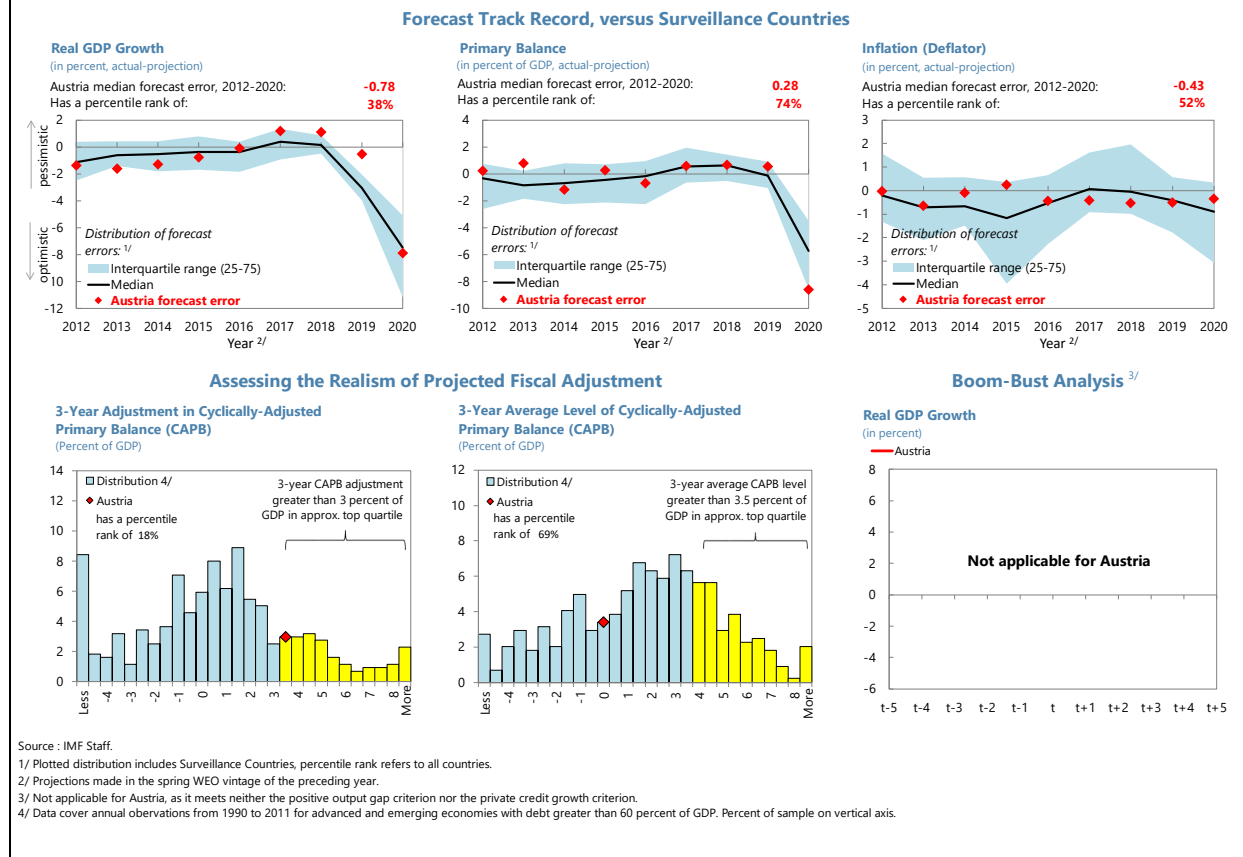
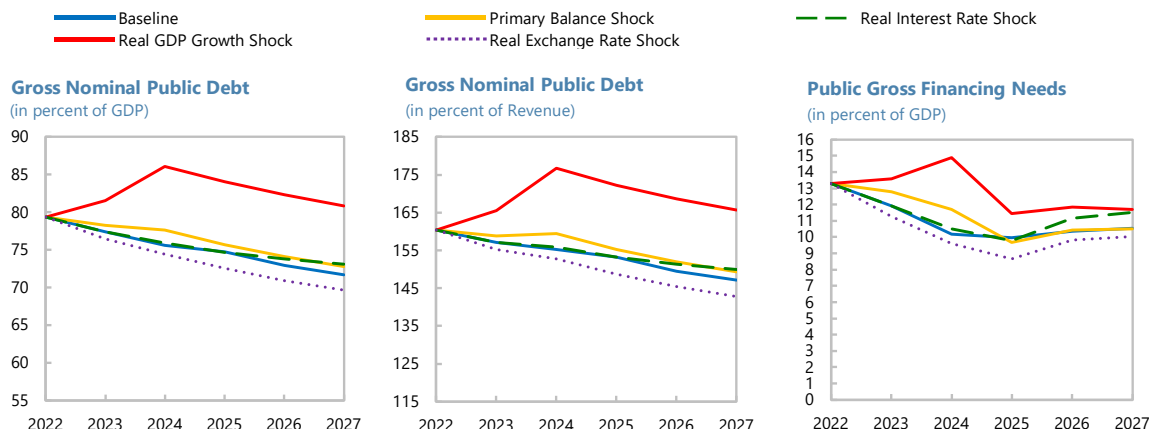
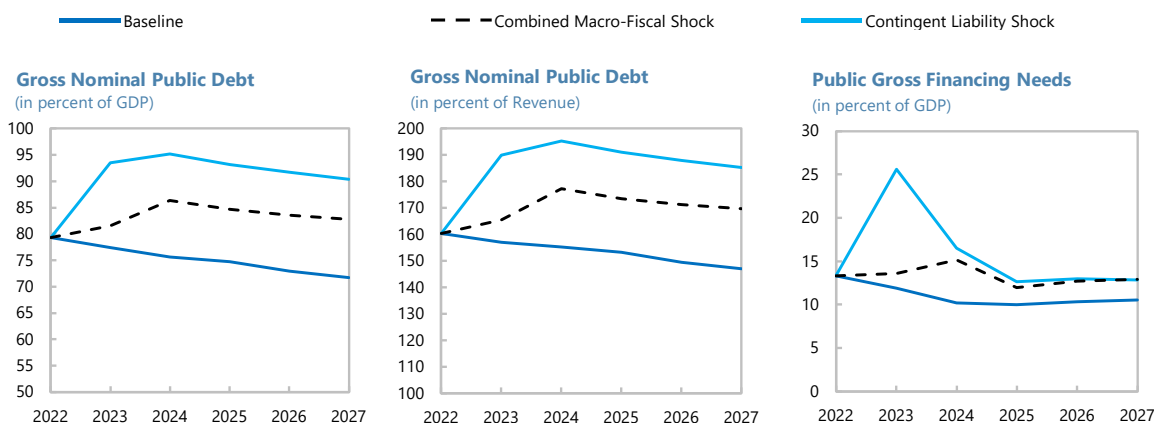


Figure V. 4. Austria: Public Debt Sustainability Analysis—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

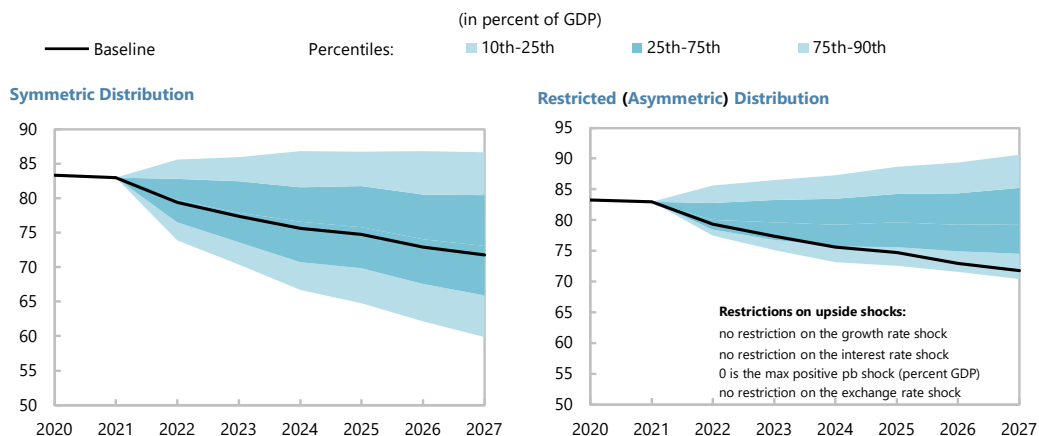
	2022	2023	2024	2025	2026	2027
Primary Balance Shock						
Real GDP growth	3.9	1.5	1.9	1.8	1.7	1.7
Inflation	4.8	3.5	2.2	2.2	2.0	2.0
Primary balance	-2.6	-2.3	-1.9	-0.3	-0.3	-0.3
Effective interest rate	1.2	1.0	1.2	1.5	1.6	1.8
Real Interest Rate Shock						
Real GDP growth	3.9	1.5	1.9	1.8	1.7	1.7
Inflation	4.8	3.5	2.2	2.2	2.0	2.0
Primary balance	-2.6	-0.8	-0.5	-0.3	-0.3	-0.3
Effective interest rate	1.2	1.8	2.0	2.3	2.5	2.7
Combined Shock						
Real GDP growth	3.9	-1.5	-1.1	1.8	1.7	1.7
Inflation	4.8	2.8	1.5	2.2	2.0	2.0
Primary balance	-2.6	-2.7	-4.2	-0.3	-0.3	-0.3
Effective interest rate	1.2	1.0	1.5	2.1	2.4	2.8
Real GDP Growth Shock						
Real GDP growth	3.9	-1.5	-1.1	1.8	1.7	1.7
Inflation	4.8	2.8	1.5	2.2	2.0	2.0
Primary balance	-2.6	-2.7	-4.2	-0.3	-0.3	-0.3
Effective interest rate	1.2	1.0	1.2	1.6	1.7	1.9
Real Exchange Rate Shock						
Real GDP growth	3.9	1.5	1.9	1.8	1.7	1.7
Inflation	4.8	3.9	2.2	2.2	2.0	2.0
Primary balance	-2.6	-0.8	-0.5	-0.3	-0.3	-0.3
Effective interest rate	1.2	1.0	1.2	1.4	1.5	1.7
Contingent Liability Shock						
Real GDP growth	3.9	-1.5	-1.1	1.8	1.7	1.7
Inflation	4.8	2.8	1.5	2.2	2.0	2.0
Primary balance	-2.6	-14.7	-0.5	-0.3	-0.3	-0.3
Effective interest rate	1.2	1.1	1.9	2.0	2.1	2.3

Source: IMF staff.

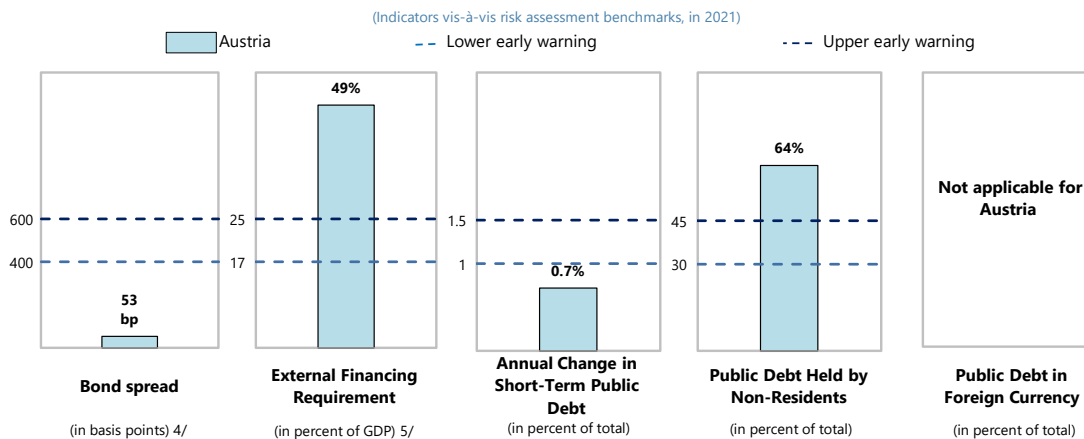
Figure V. 5. Austria: Public Debt Sustainability Analysis—Risk Assessment
Heat Map

Debt level ^{1/}	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs ^{2/}	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile ^{3/}	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

Evolution of Predictive Densities of Gross Nominal Public Debt



Debt Profile Vulnerabilities



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 85% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 20% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

400 and 600 basis points for bond spreads; 17 and 25 percent of GDP for external financing requirement; 1 and 1.5 percent for change in the share of short-term debt; 30 and 45 percent for the public debt held by non-residents.

4/ Long-term bond spread over German bonds, an average over the last 3 months, 10-Apr-22 through 09-Jul-22.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Annex VI. Previous Article IV Recommendations

Article IV Recommendations	Policy Actions
Fiscal Policy	
<p>Fiscal policy should remain flexible.</p> <p>Additional spending should aim at mitigating economic scarring and securing a faster recovery.</p> <p>Lowering labor income tax wedge</p>	<p>The authorities raised spending to cushion the impacts of the COVID lockdowns in 2021 and the impacts of the war in Ukraine.</p> <p>The authorities moved forward with ambitious structural reforms, including eco-social tax reform, PIT bracket indexation, in addition to strategic priorities set during the pandemic which focused on green and digital transitions.</p> <p>The authorities will lower PIT rates for the 2nd and 3rd income tiers and will index PIT brackets to inflation.</p>
Climate Policy	
<p>A gradual and phased introduction of CO2 pricing and part of the CO2 tax revenue should be used to compensate vulnerable households from the adverse impact of the tax.</p> <p>Green budgeting should be adopted to integrate climate considerations into their fiscal frameworks.</p>	<p>The authorities will implement CO2 taxation this year. It will gradually increase from €30 in 2022 to €55 by 2025 with an adjustment mechanism to reflect energy price fluctuations. The revenue will be used to compensate both households and firms under the revenue-neutrality framework envisaged in the medium term.</p> <p>The authorities started a green budgeting pilot and plan to mainstream the practice in the coming years.</p>
Labor Market Policy	
<p>Integrate foreigners into labor force</p> <p>Engage in active labor market policies to facilitate labor reallocation.</p>	<p>The authorities announced policies to ease labor market access for foreigners including relaxing rules on language skills. In addition, regular seasonal workers are to be granted permanent access to the labor market in the future. The authorities also assisted Ukrainian refugees.</p> <p>The authorities implemented several active labor market policies to ramp up trainings and measures addressing long-term unemployment.</p>
Corruption	
<p>Enhance effectiveness of the AML/CFT framework by improving investigation and prosecution of money laundering and the use of financial intelligence.</p>	<p>The national transposition and implementation of EU directives and regulations has helped address some of the recommendations of the previous cycles.</p>
Financial Sector Policy (see Annex VII)	

Annex VII. FSAP Update

Recommendations	Time Frame*	Status
Financial Sector Oversight		
Review legislation to clarify and narrow the BMF's role in oversight of the FMA and remove industry participation in its Supervisory Board.	MT	No change
Make the OeNB the chair of FMSB and increase its voting representation.	NT	No change
Strengthen related party risk framework and establish ex-ante approval for LSI significant investments in non-financial undertakings.	NT	FMA/OeNB: No change. EU legislation is a prerequisite for legislation change in Austria.
Phase-out the role of state commissioners in supervisory boards.	MT	FMA and OeNB: There are no plans to substitute the state commissioner; the FMA revised its internal processes to intensify the interactions with the supervisory boards of the credit institutions under its supervision.
Enhance internal guidelines for supervisory action based on qualitative factors.	I	The FMA internal SREP manual is being continuously updated, currently the new templates for the SREP assessment 2022 are being finalized. Further training and guidance are being provided.
Stress-test insurance segments / business lines with material future profitability and follow-up with appropriate actions, such as capital add-on.	NT	The 2020 stress test for insurance companies was replaced with (1) Multiple ad-hoc surveys and analyses on the implication of COVID-19 pandemic on insurance obligations and provision of insurance services, (2) an EIOPA-coordinated monthly liquidity assessment related to the COVID-19 crisis on risks to short-term liquidity from the three participating insurance companies; this assessment did not identify liquidity issues; and continued in 2021. (3) An assessment of the exposure towards economic sectors which are potentially affected by COVID-19 pandemic. (4) A comprehensive impact assessment on the effects of interest risk module; and 5) Complementary information to evaluate the impact associated with the new extrapolation method and the adjustment of long-term guarantee measures. In 2021, the scope of the stress test included the largest group identified according to EIOPA criteria. In 2022, due to the COVID-19 pandemic and the Russia-Ukraine war,

Recommendations	Time Frame*	Status
Financial Sector Oversight		
		stress tests will be temporarily replaced by an impact assessment. In addition, in March 2022 the FMA run a first data survey on the ramifications of the Russia-Ukraine war on assets and liabilities and risks, which covered insurance companies. It finds that despite a more challenging environment, the insurance market remains under unchanged higher profit expectations for 2022.
Review resources for the maintenance of Solvency II, insurance market conduct supervision and potential recovery and resolution framework, and AML supervision for all entities, including VASPs.	NT	In 2022, the FMA will hire 4 additional full-time employees. The FMA continuously reviews human resources and emerging needs. Recent responsibilities, VASPs experts assigned within AML receive regular on the job training to fulfill new responsibilities. There are experts on VASPs within the AML division who keep themselves up to date as well as publish articles and give seminars themselves.
Revise AML/CFT risk scoring reflecting cross-border risks, increase onsite inspections of low risk banks, branches and subsidiaries and improve non-EU/EEA information exchange.	NT	<p>The FMA's risk scoring toolkit includes qualitative and quantitative data to assess risks: (i) Qualitative data include audit reports, results from previous on-site inspections and off-site measures as well as other perceptions (e.g., media reports, information provided by the prudential team). Cross border risk monitoring includes qualitative data and the number of branches and subsidiaries in every country, which serves for in the risk score in each country.</p> <p>(ii) The FMA has increased the frequency of its onsite supervision for low risk institutions (considering overall risks) by Q4/2020 in order to raise awareness of the entities under supervision on AML, assess the implemented AML/CFT frameworks, and check the data submitted for the FMA's AML/CFT's risk-assessment tool. The evaluation concentrated on transactions carried out by the customers of typically small and regional banks.</p> <p>(iii) The FMA seeks to ensure the effective implementation of sound risk management practices and high quality of group-wide policies. In particular, the FMA has increased OSIs dealing with group-wide policies both within the parent institution and in foreign branches and subsidiaries to the effectiveness</p>

Recommendations	Time Frame*	Status
Financial Sector Oversight		
		<p>of the measures implemented. Due to COVID-19, some of the measures had to be modified. At the start of the COVID-19 crisis risk-based onsite inspections extended also to insurance companies, where AML/CFT risk is deemed minor. Routine inspections are set to resume, albeit staffed with remote and/or hybrid teams. (iv) Non-EU/non-EA exchange of information: improvement of cross-border information exchange is part of the ongoing supervision. The FMA has an explicit legal basis to share information. MoUs help practical modalities. FMA is also conducting routine reviews of group-wide strategies during its on-site inspections. The FMA is currently updating its MoU for insurance supervision with Montenegro; the UA Emirates is seeking to engage the FMA on a MoU, where a symmetrical involvement for EBA will be needed for an equivalence assessment. Furthermore, the FMA hosts and takes part in so-called AML/CFT colleges in which authorities of third countries are also involved.</p>
<p>Monitor the effectiveness of the FMSB's sustainable lending guidance and prepare regulatory actions, such as binding macroprudential limits, if the risk profile does not improve.</p>	<p>NT</p>	<p>Despite various actions by macroprudential authorities the buildup of systemic risks accelerated in 2020 and 2021. Therefore, Austria's Financial Stability Board (FMSB) adopted new recommendations for action by the Austrian Financial Market Authority (FMA) to contain systemic risks arising from housing mortgages in its March 2022 meeting (for details please refer to the recommendation at: https://www.fmsg.at/en/publications/warnings-and-recommendations/2022/recommendation-fmsb-2-2022.html), which carries the activation of binding borrower-based measures and associated monitoring. The FMA has finalized its work on a regulation implementing the FMSB's recommendation, which will enter into force in August.</p>

Recommendations	Time Frame*	Status
Financial Sector Oversight		
<p>Enhance oversight of inward spillover risks from the inverse ownership structure of the Raiffeisen sector.</p>	<p>NT</p>	<p>A new RBI-based DGS (<i>Österreichische Raiffeisen-Sicherungseinrichtung</i>, ÖRS) was established in May 2021 for the Raiffeisen sector—except 4 small banks, terminating the earlier IPS arrangements (a federal-IPS and six Provincial IPSs). The new group including both significant institutions (SIs) and Less Significant institutions (LSIs) involved the ECB's and FMA's responsibilities (CRR's Art. 113.7 and Art. 49.3).</p> <p>RBI risks: The FMA for LSIs and ECB for SIs are continuously monitoring and focusing on the specific risks of the Raiffeisen sector. Since the sector has now established this overarching IPS with nearly all Raiffeisen institutions being its members, FMA and ECB are in the position to receive a more comprehensive sector wide view; an enhanced monitoring of the specific risks within the Raiffeisen sector is therefore possible.</p> <p>There are regular meetings between FMA/OeNB staff with the auditors, the management bodies of the credit institutions within the Raiffeisen sectors and with the newly established ÖRS. A number of conditions were imposed as part of the approval process including in particular many reporting obligations such as the regular submission of risk reports and documents from risk council meetings or ad hoc reporting obligations, e.g., in the event of material financial deterioration of IPS members. The FMA constantly refine these supervisory activities as regards the specific risks of the Raiffeisen sector. Furthermore, the spillover risks are also investigated regularly during the resolution planning cycle.</p> <p>Additionally, a Raiffeisen IPS simulation tool has been activated to simulate the failing of individual Raiffeisen banks and to assess the Raiffeisen IPS capacity to recover such fallouts.</p>

Recommendations	Time Frame*	Status
Financial Stability Analysis		
Close data gaps, including in the real estate and NFC sectors, and improve coverage and granularity of CESEE data.	MT	The OeNB implemented the following: (i) Data gaps in the real estate and NFC sectors were tackled for residential real estate; (ii) Data gaps about CESEE are closed by using risk-based parameters. The implementation is ongoing for commercial real estate. The AnaCredit data of other countries provide NFC risk parameters. The implementation is ongoing on country risk statistics using OeNB's "Financial Stability Cube", which will require a new reporting regulation by end-2023.
Enhance stress testing framework to consider second round effects, dynamic balance sheets, and contagion/spillover effects.	MT	(OeNB) Implementation ongoing with a focus on incorporating a dynamic balance sheet perspective.
Ensure resources and organizational structure are adequate to meet stress testing framework objectives.	NT	Implemented: Two new 2-year tenure FTEs created at the OeNB: one new and one reassignment.
Financial Crisis Management and Safety Nets		
Explicitly provide for purchase and assumption transactions in the bankruptcy regime.	NT	No change
Seek legislation for standing authority to implement stabilization measures, support funding in resolution, and explore mechanisms for prepositioning BMF to support borrowing by DGSs.	I	No change
Consider cross-border spillovers in national crisis contingency plans.	NT	A crisis cooperation manual between OeNB and FMA was concluded in Q2 2020. Cross-border spillovers are dealt within the established procedures of the Resolution Colleges.
Enhance insurance crisis preparedness, introducing pre-emptive recovery planning for eligible insurers.	NT	Discussions between the FMA and BMF have advanced on the modernization of FMA's supervisory instruments and first legislative drafts are currently under discussion. Furthermore, FMA's positions were presented at EIOPA to prepare the technical advice for the European Commission. FMA BMF share similar positions on the preparation of draft legislation and the FMA supports BMF's EU negotiation position on the implementation of a harmonized resolution regime.
* I-Immediate" is within one year; "NT-near-term" is 1–3 years; "MT-medium-term" is 3–5 years. FMA: Financial Market Authority; the OeNB: National Bank of Austria; the BMF is the ministry of finance		



Appendix I. Draft Press Release

IMF Executive Board Concludes 2022 Article IV Consultation with Austria

FOR IMMEDIATE RELEASE

Washington, DC – [Month dd, YYYY]: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ 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 and employment 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 the 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 Assessment²

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

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.

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.

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.					