INTERNATIONAL MONETARY FUND

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AUSTRIA

September 2021

2021 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; STAFF SUPPLEMENTARY INFORMATION; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR AUSTRIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2021 Article IV consultation with Austria, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its August 30, 2021 consideration of the staff report that concluded the Article IV consultation with Austria.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on August 30, 2021, following discussions that ended on June 16, 2021, with the officials of Austria on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 3, 2021
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Supplementary Information** updating information on recent developments.
- A **Statement by the Executive Director** for Austria.

The documents listed below have been or will be separately released.

Selected Issues

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

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PRESS RELEASE

PR21/255

IMF Executive Board Concludes 2021 Article IV Consultation with Austria

FOR IMMEDIATE RELEASE

Washington, DC – September 8, 2021: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Austria.

Austria entered the COVID-19 pandemic from a robust economic position with significant policy space. Nonetheless, the pandemic significantly impaired the economy as several lockdowns were implemented to help contain the spread of the virus. Real GDP declined by 6.3 percent in 2020 and contracted further in early 2021, driven by a sharp deceleration of private investment and consumption as well as a muted winter tourism season. The swift and sizable policy response to the pandemic has been effective in saving lives, protecting vulnerable households, and supporting workers and firms.

The economy is set to recover at a moderate pace in 2021, with growth projected at 3.5 percent. Economic activity is expected to accelerate from 2021Q2 as lockdowns were progressively lifted alongside fast progress in vaccinations. Growth is expected to accelerate to 4.5 percent in 2022 before stabilizing at its potential of around 1¾ percent in the medium term. Nonetheless, medium-term output is expected to remain below the pre-crisis trend. The outlook is subject to unusually high uncertainty, with near-term risks stemming from the unpredictable development of the pandemic, particularly from the threat of the delta variant and efficacy and extent of vaccinations.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Austria's swift and effective policy response to the pandemic, but noted that the economic outlook appeared challenging, with the real GDP level likely to remain below its pre-COVID trend over the medium term.

Directors concurred that fiscal policy this year struck an appropriate balance between supporting hard-hit sectors and jump starting the economy. They agreed that fiscal policy should remain flexible given high uncertainty regarding pandemic developments. Directors commended Austria's post-crisis priorities on digital and green transformation, and most Directors suggested that, as fiscal space remains, the

[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] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

authorities could consider additional spending to secure a faster and more sustainable recovery. In particular, measures could include further facilitating labor reallocation, reducing Austria's high labor tax wedge, rehabilitating corporate balance sheets, and further fostering the green and digital transition, as well as mitigating economic scarring. A few Directors, however, considered that further stimulus to the recovering economy may not be warranted, particularly amid inflationary pressures driven by supply-side constraints.

Directors commended the resilience of the banking sector during the pandemic. Nonetheless, they stressed that emerging corporate vulnerabilities and housing market risks should be addressed to preserve financial sector stability. They recommended close monitoring of the impact of the pandemic on corporate and bank balance sheets, providing solvency support to viable firms, and imposing binding lending limits to contain housing market risks. Directors also encouraged swift implementation of the recommendations to strengthen supervision of less significant financial institutions and continued effort on improving effectiveness of the AML/CFT framework.

Directors noted the uneven impact of the pandemic across workers and regions notwithstanding effective utilization of the short-term work scheme. They recommended more targeted measures for those disproportionately affected by the crisis, and job creation measures to support the reallocation of workers and to address regional and skill mismatches such as language training, hiring subsidies, and relocation grants.

Directors welcomed the authorities' ambitious plans for a green transformation, and noted that additional measures are necessary to bring Austria closer to its climate goals. They recommended a phased introduction of carbon prices, using the revenue raised to compensate low-income and vulnerable households and to support other key reform priorities. Directors also encouraged adopting green budgeting practices to integrate climate considerations into the government's fiscal frameworks.

Austria: Selected Economic Indicators, 2018–22

	2018	2019	2020	2021 Proj.	2022 Proj.
Output					
Real GDP growth (%)	2.6	1.4	-6.3	3.5	4.5
Employment					
Unemployment (Harmonized) (%)	4.9	4.5	5.3	5.5	5.3
Prices					
Inflation (%)	2.1	1.5	1.4	2.1	1.8
General government finances					
Revenue (% of GDP)	48.9	49.2	49.0	48.6	48.2
Expenditure (% of GDP)	48.7	48.6	57.9	54.7	51.6
Fiscal balance (% of GDP)	0.2	0.6	-8.9	-6.2	-3.3
Public debt (% of GDP)	74.0	70.5	83.9	85.3	82.6
Money and credit					
Broad money (% change)	8.0	4.6	9.7	4.7	4.3
Credit to the private sector (% change) 1/	4.8	5.1	3.7	2.6	3.3
Balance of payments					
Current account (% of GDP)	1.3	2.8	2.5	2.0	2.3
FDI (% of GDP)	0.5	1.7	2.8	1.7	1.7
Reserves (months of imports)	1.2	1.2	1.6	2.0	1.8
External debt (% of GDP)	149.8	153.7	164.1	167.5	145.6
Exchange rates					
REER (% change)	0.8	-0.7	-10.4	...	...

Sources: Authorities; and staff estimates and projections.

1/ Households and non-financial corporations. Exchange rate adjusted.

AUSTRIA

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

August 3, 2021

KEY ISSUES

Context and outlook: Austria entered the crisis from a strong position. Prudent policies prior to the pandemic provided significant policy space. Several lockdowns helped contain the virus but significantly impaired the economy. Real GDP contracted by 6.3 percent in 2020 and declined further in early 2021. The 2021 recovery is expected to be modest; the tourism and hospitality sectors will continue to be affected. Over the medium term, growth will accelerate in 2022 and then stabilize at potential, but the output level will remain somewhat below the pre-COVID trend. Uncertainty remains high.

Policy recommendations: Targeted support measures to vulnerable households and the hardest-hit firms should continue while investing in accelerating the recovery. Measures should aim to limit economic scarring, and promote a green, digital, and inclusive recovery, while safeguarding financial stability.

Fiscal policy: Near-term targeted support should be extended as needed if the Pandemic lingers and be gradually withdrawn once the recovery takes hold. Low borrowing costs and a relatively low debt burden provide an opportunity to pursue a more ambitious "comeback" plan, including facilitating labor reallocation, reducing the labor tax wedge, stepping up digitalization, and greening the economy. Further pension system reforms to address the effects of population aging will also be needed in the coming years.

Financial policy: Careful monitoring of credit quality, NPLs, and corporate insolvency should continue. Broad-based corporate liquidity support should gradually be shifted toward solvency support for viable firms to ensure resilient recovery. In line with the FSAP recommendations, development of granular data for commercial real estate, developing tools allowing for borrowing-based limits, and making prudential guidelines for housing lending binding should help address vulnerabilities in the real estate market.

Structural policy: A gradual and phased introduction of carbon taxes, along with revenue compensation measures to vulnerable households would secure a green and inclusive recovery. Labor market policies should support reallocation of workers and reduce regional and skill mismatches. Ensuring universal access to broadband connections, providing digital skill training, and promoting wider use of ICT will help smoothen the digital transformation.

Approved by
Mahmood Pradhan (EUR) and Delia Velculescu (SPR)

The mission took place in a virtual format during May 26 to June 15, 2021. The team comprised Mr. Franks (head), Ms. Hassine, Ms. Patnam, and Ms. Suphaphiphat, with Ms. Sandhu, Ms. Baldev (all EUR), and Ms. Claver (LEG) joining a subset of meetings. The mission met Minister of Finance Blümel, Central Bank Governor Holzmann, and officials from the Chancellery, Ministries of Finance, Labor, Economy and Digitalization, and Climate Change, 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. Ms. Sandhu and Ms. Baldev (all EUR) assisted in preparing the report.

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CONTEXT

1. Austria entered the pandemic from a strong position. In 2019, GDP growth was above the euro area average, supported by robust investment and consumption. Inflation was low and the labor market performed well. Exports were well diversified with high valued added goods and services. The fiscal balance was in surplus and public debt (70.5 percent of GDP) was on a declining path. Household and corporate balance sheets were relatively healthy, and the banking sector was well capitalized. The government formed in early 2020, comprising the conservatives (ÖVP) and the Green party, set an ambitious reform agenda to boost productivity and green the economy.

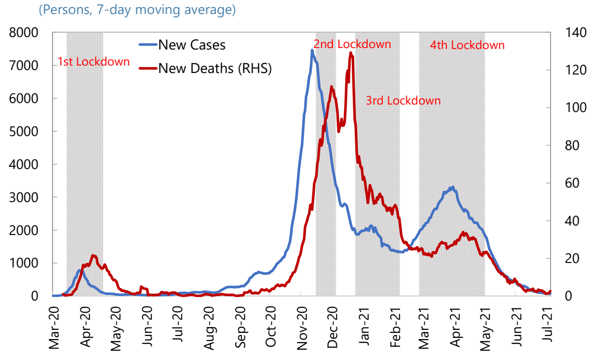
RECENT DEVELOPMENTS

2. Several lockdowns and the recent mass vaccinations have helped contain the repeated waves of the pandemic. Austria was among the first countries in Europe to introduce a strict lockdown during March–April last year. Restrictions were gradually relaxed before a larger wave of infections hit during the fall. Since then, partial lockdowns and stringent safeguard measures have been implemented periodically to contain the spread of the virus. In June 2021, the latest lockdown restrictions were progressively lifted. After a slow start, vaccine administration in Austria has progressed at a faster pace, outpacing many other European countries. The authorities prioritized their vaccine administration to seniors, healthcare and education workers, followed by general adult populations and pursued EU vaccination target of 70 percent of the adult population by July.[1] As of July 22, about 68.6 percent of adult population had received at least one dose, with 56.4 percent fully inoculated, while average daily new cases were under 500 people.

COVID–19 Developments

New COVID-19 Cases and Deaths

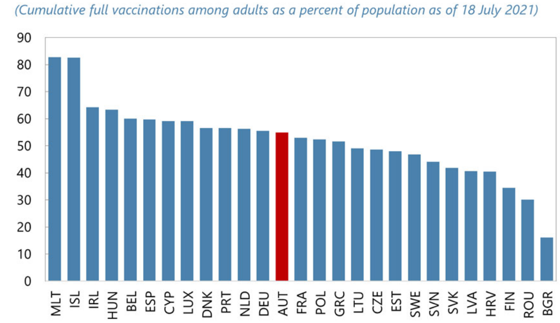
(Persons, 7-day moving average)



Source: Our World in Data

COVID-19 Administered Vaccines

(Cumulative full vaccinations among adults as a percent of population as of 18 July 2021)

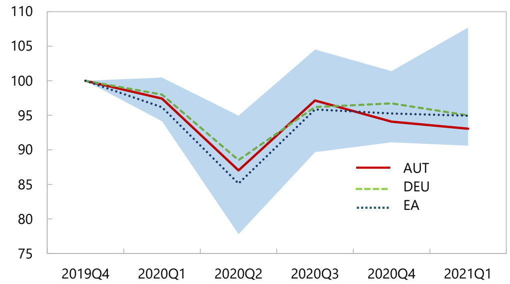


Source: European Centre for Disease Prevention and Control (ECDC)
Note: The sample includes the EU and advanced European economies.

[1]https://ec.europa.eu/commission/presscorner/detail/en/statement_21_3921

3. **Economic activity contracted significantly in 2020 and early 2021.** Real GDP fell 6.3 percent in 2020, reflecting sharp falls in private consumption and investment. The tourism and hospitality sectors faced an unprecedented downturn lasting into 2021, while industry was less affected and rebounded sharply, surpassing pre-pandemic levels in early 2021. Austria's contraction was particularly pronounced during 2020:Q4–2021:Q1, reflecting the large role of winter tourism, as well as virus dynamics, and continuing mobility restrictions (Figure 1).

Real GDP in Euro Area
(Index, 2019Q4=100)



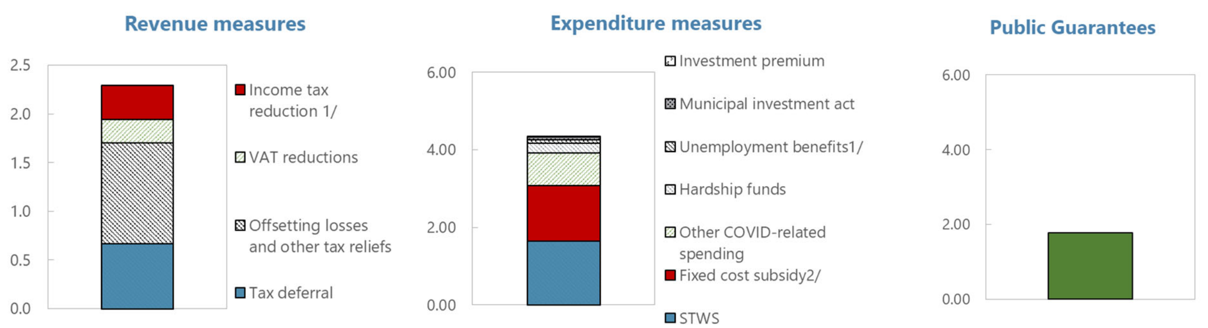
Note: Shaded area indicates max-min growth of AEs
Sources: WEO Live and staff calculation

4. **The authorities responded to the crisis with an unprecedented fiscal stimulus, resulting in a large deficit in 2020.** The government swiftly announced 13 percent of GDP in multi-year support measures to help save lives, protect workers, and support households and firms (Annex I). In addition to boosting health spending, the support measures included a short-term work scheme (STWS), grants to firms, expanded unemployment support, tax deferrals, and public loan guarantees. The uptake of the STWS and liquidity support for firms was large, while public loan guarantees were less utilized. The authorities also brought forward a previously planned cut in the personal income tax (PIT) rate for the lowest income bracket to help stimulate consumption. These measures, together with the decline in GDP, resulted in an overall fiscal deficit of 8.8 percent of GDP in 2020.

COVID Response: Discretionary Measures, 2020
(In percent of GDP)

Above-the-line Measures (6.6 percent of GDP)

Below-the-line Measure (1.8 percent of GDP)



1/ Permanent impact.

1/ Discretionary one-time payment to the unemployed.
2/ Includes lockdown revenue replacement.

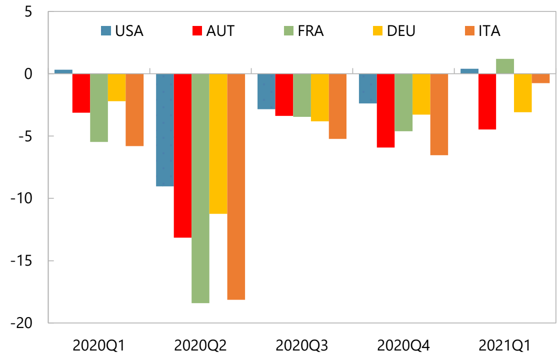
Source: Ministry of Finance.

Figure 1. Austria: Growth Decomposition

Austria's GDP growth fell more than peers during 2020:Q4-2021:Q1....

GDP growth

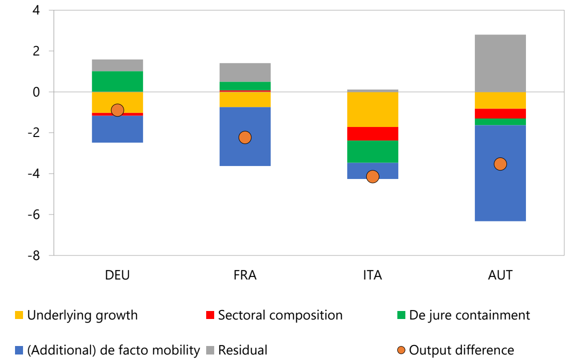
(Year-on-year percent change)



...mostly as a result of lower mobility...

GDP gap relative to the U.S., as of 2020Q4

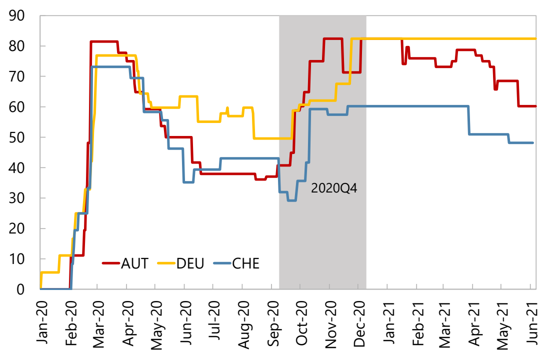
(Percent, relative to 2019:Q4)



...both from the government's lockdowns in 2020:Q4...

COVID-19 Government Response Stringency Index

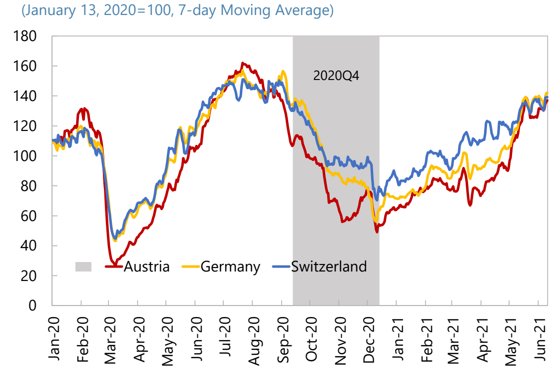
(Index: 100=most restrictive)



...and more importantly from voluntary social distancing.

Mobility Index

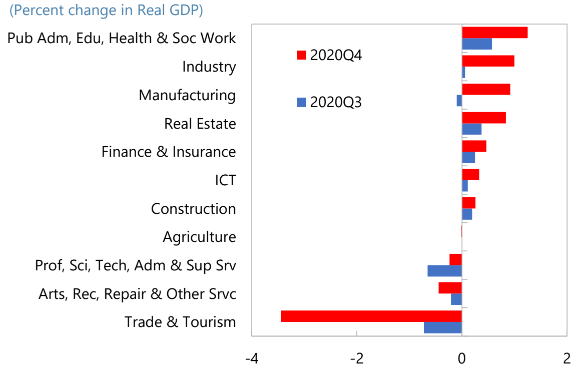
(January 13, 2020=100, 7-day Moving Average)



GDP losses were concentrated in the trade and tourism sector.

Austria: Change in Gross Value Added relative to 2019Q4

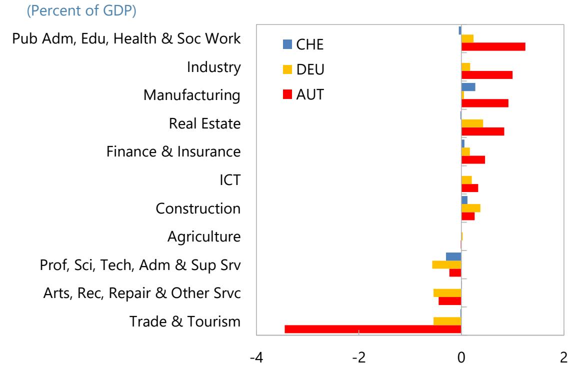
(Percent change in Real GDP)



Winter tourism took a much bigger hit in Austria than in neighboring countries.

Change in Gross Value Added, 2020Q4 over 2019Q4

(Percent of GDP)



Sources: Haver Analytics, Google Mobility data, Our World in Data, Apple Inc. and IMF staff calculations.

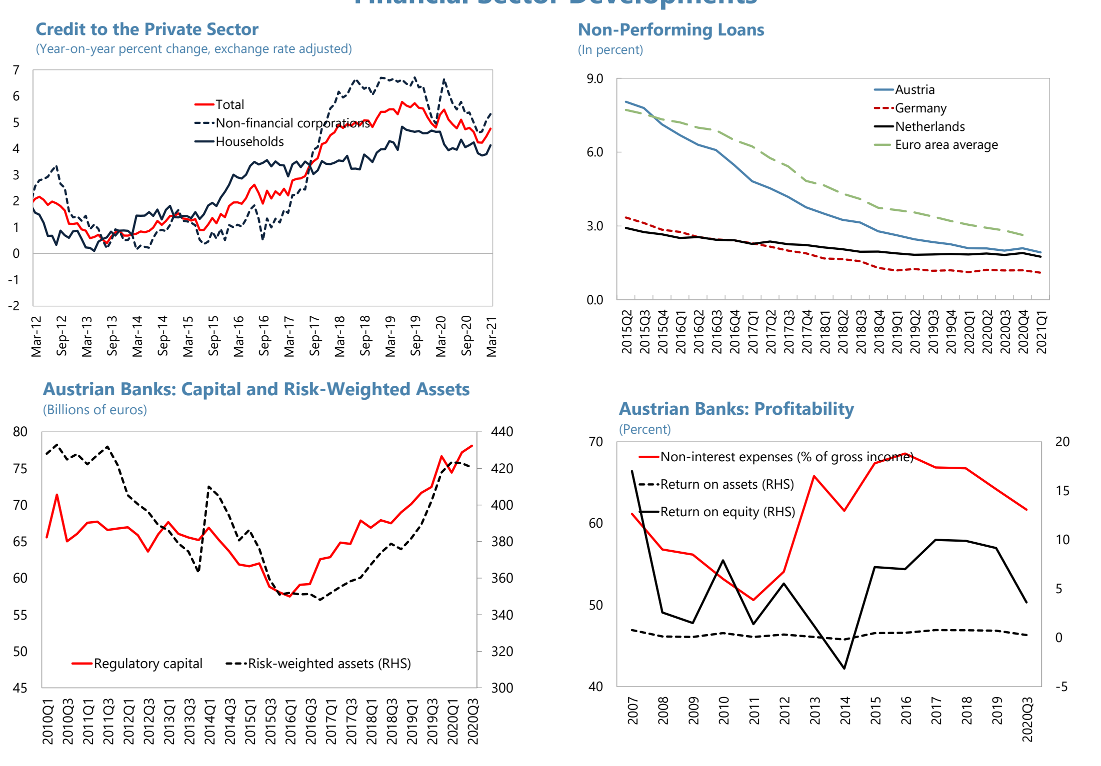
5. The policy response has been effective in supporting the labor market, the corporate sector, and the financial sector.

- **The STWS has played a critical role in limiting job losses and supporting household income.** The labor market has improved in recent months. As of June 2021, the registered unemployment rate stood at 7 percent, modestly above the 6.5 percent registered during the same month prior to the pandemic.

- **Overall corporate liquidity has been substantial, and bankruptcies were subdued in 2020**. Unwithdrawn credit lines increased markedly, and corporate insolvencies fell by 40 percent in 2020 compared to the previous year. While temporary relief measures amid an accommodative monetary policy stance provided bridging liquidity for needed firms, they delayed the full impact of the pandemic on the corporate insolvency.

- **The financial sector remained resilient throughout the pandemic.** Ample liquidity support from the ECB and regulatory capital relief provided breathing room for banks. In 2020:Q4, capital to risk-weighted assets rose to 16.8 percent (from 15.9 percent in 2019:Q4) and the return on assets declined but remained positive. Non-performing loans (NPLs) remained low, although loans whose credit risk increased significantly (IFRS Stage 2) rose sharply, suggesting higher NPLs in the near term. Credit continued to grow, albeit at a more moderate pace compared to 2019, as firms postponed investment and households accumulated precautionary savings. Mortgage loans moderated, but house prices continued to climb.

Financial Sector Developments



Source: European Central Bank, Financial Soundness Indicators (IMF), and IMF staff calculations

6. **The external position is assessed to be broadly in line with medium-term fundamentals and desirable policies** (Annex II). The current account balance eased by 0.3 percent of GDP to +2.5 percent of GDP in 2020. Exports of goods and services sharply declined due to a drop in tourism receipts, weak global demand, and the temporary disruption in production, but imports also fell significantly.

OUTLOOK AND RISKS

7. **A modest and uneven recovery is expected in 2021 with potential scarring in the medium term.**[2] Growth is expected to rebound to 3½ percent this year. Renewed lockdowns at the beginning of the year suppressed consumption and economic activity, particularly in the tourism and hospitality sectors but the recovery gained strength from Q2.[3] Growth is expected to rise to 4½ percent in 2022 and return to its potential of around 1¾ percent over the medium term, with the output gap gradually closing by 2025. Nonetheless, the real GDP level is projected to remain below its pre-COVID trend by about 1½ percent in 2026, mainly reflecting frictions in post-COVID sectoral shifts in labor utilization and skills mismatches. Inflation is expected to rise this year due to temporary factors, before easing to 2 percent in the medium term.

8. **Uncertainty around the outlook remains high and risks are slightly tilted to the downside (Annex III).** The baseline estimates, including the size of potential scarring, are subject to large uncertainties due to the development of the pandemic and to the extent of policy support. In the near term, risks stem from developments of the pandemic. On the upside, faster-than-expected vaccine distribution may reactivate economic activity, especially in contact-intensive sectors. Growth could rise if consumers draw down accumulated savings more quickly than forecast. Comprehensive recovery policies could also expedite economic recovery and boost potential growth through reforms. However, a resurgence of cases—due to the delta variant (which now represents 80 percent of new cases analyzed) or possible short-lived vaccine effectiveness—could delay the recovery and reduce policy space. A premature withdrawal of support measures could amplify insolvency risk and deteriorate financial sector health. Other adverse risks are related to disorderly structural transformation, a potential sharp rise in commodity prices, and climate change.

Authorities' Views

9. **The authorities broadly concurred with staff's assessment on the outlook and risks.** The authorities agreed that Austria's lagging growth performance during late 2020 and early 2021 was mainly due to loss of winter tourism and prolonged lockdowns. As containment measures are progressively lifted, they anticipate a strong economic recovery, driven by robust exports, strong investment, and rebounding consumption. Both WIFO and the OeNB have recently revised their growth forecasts sharply to 4 percent, higher than that of staff, driven by stronger consumption and exports. With regards to risks, they agreed that uncertainty around the baseline remains high with

[2] See SIP on Economic Scarring: Lessons from the Past.

[3] According to World Trade and Tourism Council, Austria's tourism and related sector contribution to GDP is estimated at 12 percent of GDP. The Austrian research institute (WIFO) showed that winter tourism receipts during the pandemic (November 2020 to February 2021) declined by almost 95 percent, compared to 2019 and estimated that output losses in the sector will be 50 percent in 2021 compared to the pre-pandemic level.

downside risks around the development of the pandemic and efficacy of vaccines. On the upside, the authorities considered that stronger pent-up demand in consumption and higher investment backed by policy support could secure a faster recovery. Although much of the recent increase in inflation is due to temporary factors, the Ministry of Finance and OeNB showed some concerns about its persistence and the impact on the recovery.

POLICY DISCUSSIONS

The overall policy mix should progressively shift toward mitigating scarring and securing a sustainable and stronger recovery, while continuing targeted support to the hard-hit sectors. Fiscal policy should remain flexible in the near term given uncertainties around the development of the pandemic. Fiscal space exists to pursue a more ambitious comeback plan, including reducing the labor tax wedge, facilitating labor reallocation, stepping up digitalization, and greening the economy. Financial policies should be focused on strengthening supervision, in line with the FSAP recommendations, as well as closely monitoring risks from the housing sector. Introduction of carbon pricing, coupled with compensation to vulnerable affected households, will narrow Austria's climate gap while preserving the country's low inequality. Labor market policies should support the reallocation of workers and reduce regional and skills mismatches. Digital infrastructure policies should be complemented with digital skills training and policies promoting wider adoption of Information and Communications Technology (ICT) across Austria.

A. Fiscal Policy

10. In 2021, fiscal policy strikes an appropriate balance between addressing the pandemic and jumpstarting the recovery (Table 1). In response to the renewed lockdowns and weak recovery prospects, the revised 2021 budget appropriately focuses on extending targeted lifeline support to hard-hit sectors and ramping up health spending, with discretionary measures totaling 4.5 percent of GDP. In tandem with emergency measures, 1.5 percent of GDP is also allocated to jumpstart the economy, mainly through private investment promotion, notably an investment premium, particularly for green investment (¶21).[4] The fiscal deficit is projected to reach 6.2 percent of GDP.

11. Fiscal policy should continue to be flexible in the near term while adhering to best practices of transparency and accountability. Given uncertainty around the pandemic and economic developments, lifeline support should be further extended if downside risks materialize. The measures should be temporary and targeted to limit post-pandemic distortions. Staff welcome the authorities' monthly reporting of COVID-19 spending implementation, but transparency and accountability should be further strengthened by granting public access to public procurement contracts and large-benefit recipients and publishing ex-post audit reports on COVID-19 spending.[5]

[4] The grant support is 7 percent of eligible investment and 14 percent for green, digital, health, and innovation projects.

[5] The Court of Audit had access to all procurement contracts and published the first report on financial aid measures at the onset of the pandemic at https://www.rechnungshof.gv.at/rh/home/news/COVID-19_Hilfsmassnahmen1.html.

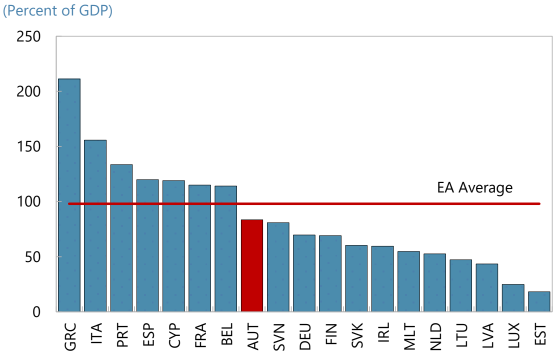
(continued)

12. Austria's post-crisis recovery plan rightly focuses on safeguarding a sustainable recovery. The authorities' Stability Programme (SP) envisages a shift from emergency to recovery measures over 2022–24, with estimated discretionary spending of 1.3 percent of GDP on climate, digitalization, and innovation (table 1).[6] In addition, Austria is expected to receive EUR 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.[7]

13. Austria's good pre-crisis fiscal situation and favorable market conditions provide space for additional recovery spending. Public debt is assessed as sustainable (Annex IV) and remains below the euro area average. Interest rates continue to be low, debt servicing costs have continued to decline, and the average maturity of public debt has risen. Staff project that once the pandemic emergency measures are unwound, the overall deficit should significantly improve from 6.2 percent of GDP in 2021 to below 1 percent of GDP in 2024 and the debt-to-GDP ratio will begin to fall steadily even without consolidation measures. In addition to the unwinding of COVID-related temporary measures, three main factors drive the deficit reduction: (i) Austria does not index income taxes for inflation, causing a rise in income tax revenue yearly of around 0.1–0.2 percent of GDP; (ii) interest payments on the debt are forecast to fall by 0.5 percent of GDP; and (iii) previous civil service reform contributes to a falling public sector wage bill over time. While some additional savings has been generated by past pension reform, in the longer run they will be offset by population aging pressures (¶15).

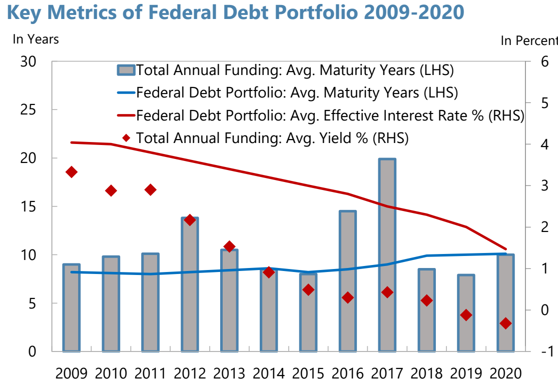
General Government Gross Debt, 2020

(Percent of GDP)



Source: WEO April 2021.

Key Metrics of Federal Debt Portfolio 2009-2020



Source: Austrian Treasury

Public access to the Austrian's Beneficial Ownership Register is provided at the Ministry of Finance (https://www.bmf.gv.at/en/topics/financial-sector/beneficial-owners-register-act/Public-access.html) but is limited to the mandatory minimum information as laid out by the 5th Money Laundering Directive. Finally, the ex-post evaluations related to COVID-19 spending will be published.

[6] Total discretionary measures, as specified in Table 19 of the Stability Plan, are estimated at over 6 percent of GDP, comprising both revenue and expenditure measures. These measures (except for the investment premium grant) are in addition to measures specified in the ARP.

[7] The ARP envisages a total value of EUR 4.5 million, exceeding EUR 3.46 billion of grant. Digital and green tagging include some overlapping measures and are assessed by the European Commission. See Annex for more details. https://ec.europa.eu/info/sites/default/files/com-2021-338_swd_en.pdf.

Table 1. Austria: Discretionary Measures for Emergency and Recovery Support

(In percent of GDP)[1/]

	2021	2022	2023	2024
COVID emergency response	**4.46**	**0.54**	**-0.15**	**-0.15**
Short-term work arrangement	**0.75**			
Income support	**0.08**			
Firm and municipality support	**2.03**	**0.21**	**0.08**	**0.07**
o.w. Fixed cost subsidy and guarantees	0.98	0.17	0.08	0.07
o.w. Hardship fund (self employed)	0.31			
o.w. Municipality investment act	0.15	0.03		
Health	**0.59**	**0.02**		
Other expenditure measures	**0.13**	**0.02**		
Revenue measures 2/	**0.89**	**0.29**	**-0.23**	**-0.21**
Stimulus and new priorities	**1.50**	**1.57**	**1.45**	**1.20**
Expenditure measures	**0.97**	**0.88**	**0.73**	**0.54**
Innovation and education	**0.04**	**0.13**	**0.12**	**0.12**
Schools	0.00	0.00	0.00	0.01
University and research	0.02	0.11	0.11	0.10
Vocational programs	0.01	0.01	0.01	0.01
Innovation investment premium grants 3/	0.01	0.00	0.00	0.00
Climate	**0.33**	**0.30**	**0.25**	**0.17**
Natural resources and renewable energy	0.07	0.04	0.02	0.01
Public transportation and renovation	0.07	0.11	0.11	0.10
Climate innovation	0.05	0.04	0.01	0.01
Green investment premium grants 3/	0.14	0.11	0.10	0.05
Investment premuim grant3/	**0.17**	**0.13**	**0.12**	**0.06**
Digitalization	**0.16**	**0.09**	**0.05**	**0.03**
o.w Digital investment premium grants	0.06	0.04	0.04	0.02
o.w broadband expansion	0.01	0.01	0.01	0.01
Labor reallocation 4/	**0.10**	**0.05**	**0.01**	**0.00**
Others	**0.17**	**0.19**	**0.17**	**0.15**
Revenue measures 5/	**0.53**	**0.69**	**0.73**	**0.67**
Income tax reduction	0.46	0.40	0.38	0.37
Declining depreciation rule	0.07	0.29	0.34	0.30

1/ Domestically-financed measures (except for investment premium, which includes grants from the ARF).

2/ Include loss carry back and temporary deduction of sales tax.

3/ Assuming 38 percent of total investment grants are allocated to green investment, 15 percent on digitalization, 1.5 percent on innovation, and remaining on regular projects. Grants are 14 percent of

4/ Corona labour foundation (Corona Arbeitsstiftung)

5/ Effective since 2020 with permanent budgetary impact thereafter.

Source: Ministry of Finance and Table 19 in the Austrian Stability Programme, 2021

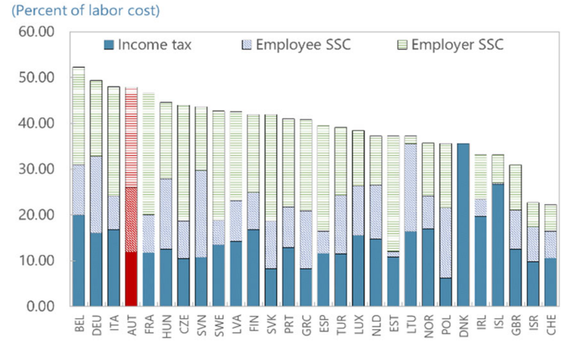
Austria's Recovery and Resilience Plan (ARP)

Total Value = EUR 4.5 billion
Estimated Grant = EUR 3.46 billion

Source: Analysis of the Recovery and Resilience Plan for Austria, European Commission.

14. Additional measures should aim at mitigating economic scarring and securing a faster recovery (Text Table 2). These include:

Tax Wedge, 2019
(Percent of labor cost)



Sources: OECD

- *More comprehensive efforts to improve corporate balance sheets via solvency support for viable firms, tackle climate change including introduction of carbon tax, address labor market issues, and promote digitalization* (¶18, ¶27, ¶29, and ¶30).
- *Further reducing the labor tax wedge:* Consistent with their pre-pandemic plans, the authorities should consider lowering PIT rates for the second and third lowest income brackets or lower social security contributions alongside pension reform (¶15). In order to ensure a permanent reduction, PIT brackets should be indexed to inflation to avoid bracket creep.

15. Measures are needed to lower long-term spending pressures from population aging. Austria's pension system is currently financially healthy, with past reforms helping to raise effective retirement ages, tighten early retirement schemes, and contain fiscal costs. However, Austria's effective retirement age and statutory retirement age are both still low by international standards, and labor force participation for those 55–64 is well below EU and OECD averages. In the future, further aging will generate increased pension and health care costs, while contributions will decline. Further actions to address this increasing liability, including by discouraging early retirement and strengthening labor force participation, will be necessary to ensure long-term sustainability of the pension system.

Text Table 2. Key Recommended Measures

Measures	Assumptions	Estimated Cost 1/ *(percent of GDP)*	Time Period
Employment Support Targeted and one-off hiring subsidies and job-search assistance.	One-off hiring subsidies (which can include re-employment bonuses) targeted at youth and low-wage workers and calibrated to bring the level of unemployment back to its pre-crisis trend value by 2022 assuming full take-up.2/	**0.1-0.2**	**2021**
Support for firms Solvency support through hybrid instruments.	Estimated equity gap of 1-2 percent of GDP concentrated around SMEs. This can be mobilized either by (i) incentivizing banks to provide quasi-equity financing through guarantees, or (ii) tax credit for equity investment to SMEs, or (iii) co-matching venture capital investment.	**0.1-0.5**	**2021**
Labor Tax Wedge	Assuming tax reduction to 30 and 40 percent for the second and third lowest income brackets (from 35 and 42 percent), respectively.	**0.40** *(annually)*	**2023**
Digitalization Infrastructure (broadband, 5G readiness, fiber optic cables), funding to firms for digitalization projects, ICT skills upgrade training.3/	According to the Broadband Strategy 2030, total financing requirement (private + public) of broadband expansion is estimated at EUR10-12 billion, where 40 percent is assumed to be financed by public resources.	**0.8**	**2022-2030**
Green Measures • Phased Carbon Tax (25 real EUR per ton of CO2 in 2023 increasing to 100 by 2030). • Transfers to compensate vulnerable households from the adverse impact of the carbon tax.4/	IMF Carbon Pricing Assessment Tool (CPAT) projections of fossil fuel CO2 emissions incorporating impacts of carbon pricing and other mitigation policies.	**Net -4.0** -6.1 2.1	**2022-2030**

1/ Negative value indicates revenue gain. The cost of multi-year measures is cumulative unless otherwise indicated.
2/ The OECD average for this measure (currently and during crisis times) is about 0.1 percent of GDP. Job-search assistance measures can be budget neutral if tied to reducing the unemployment duration (Meyer, 1995).
3/ See European Commission Report on Digitalization in Austria (2019).
4/ Optional revenue recycling measures include energy efficiency measures, green investment, and labor subsidies.

Authorities' Views

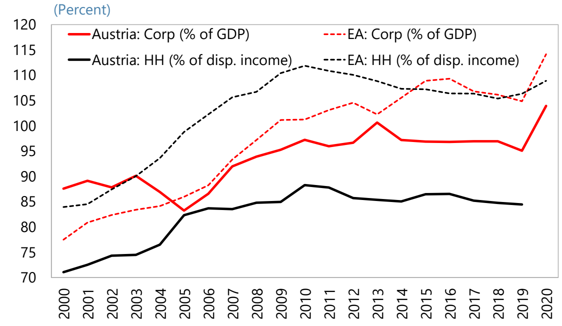
16. The authorities considered that the emergency support has been broadly effective in cushioning the economic impacts of the pandemic and viewed that the current recovery package is broadly adequate. In response to the renewed lockdowns, the authorities noted that the revised budget appropriately accommodated extended measures targeted to the hardest-hit sectors and vulnerable households. They also stand ready to provide additional resources if necessary. The authorities consider that the SP and the ARP incorporate appropriate levels and composition of spending to mitigate economic scarring by facilitating reallocation of resources and promoting digitalization, innovation, and green economy.

17. The authorities saw less fiscal space than staff for additional measures and reiterated their commitment to prudent fiscal policy in the medium term. While agreeing that active fiscal consolidation might not be necessary as a gradual withdrawal of fiscal support will put public debt on a downward path, the authorities noted that the public debt-to-GDP ratio will lie above the pre-pandemic level in the medium term. Therefore, they expressed the desire to quickly return to a sustainable budget policy—without additional discretionary spending to further boost the strongly recovering economy—and reaffirmed their commitment to preserve Austria's reputation for fiscal responsibility.

B. Financial Sector Policies: Addressing Growing Vulnerabilities

18. Emergency support mitigated crisis-related liquidity challenges for corporates and households, but corporate solvency risks have increased. The STWS and loan-guarantee support helped absorb household and firm income losses and prevented a disruption of credit. While corporates built up substantial liquidity buffers, their debt-to-income ratio surged by almost 15 percentage points in 2020, presenting potential solvency challenges going ahead. Staff analysis suggests that after policy support, Austria has an equity gap of around 1 percent of GDP compared to pre-crisis levels.[8] While temporary liquidity support to crisis-affected companies should continue, policies should gradually shift toward solvency support for viable firms—including private sector participation to leverage private expertise in the selection and monitoring of beneficiaries—while allowing nonviable firms to exit.[9] Enhancing debt restructuring mechanisms, including by providing tools and incentives for voluntary debt resolution, pre-emptively increasing court capacity and swiftly implementing the 2019 EU Restructuring Directive can also help contribute to efficient capital reallocation.

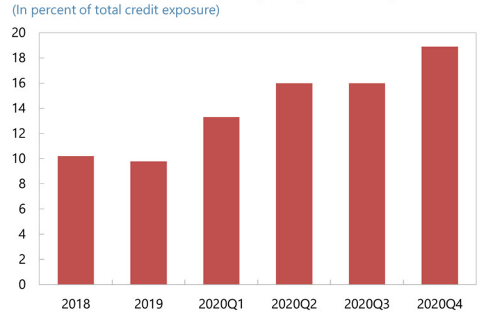
Corporate and Household Debt
(Percent)



Source: Haver Analytics.

19. The banking sector can comfortably absorb baseline losses in the absence of a cliff-edge effect, but continued vigilance is needed. Policies to support household income and corporate liquidity limited the shock on banks' balance sheets (Box 1). Nevertheless, as support policies are gradually unwound, a possible worsening of credit quality as seen by a rise in loans classified at IFRS Stage II, together with an increase in corporate insolvencies, can raise NPLs, especially in the tourism and hospitality sectors.[10] The stronger rules for risk-based monitoring for banks with a lower capital base and those exposed to COVID-sensitive sectors are welcome but banks should remain vigilant in credit

Possible worsening of credit quality: IFRS Stages II
(In percent of total credit exposure)



Source: OeNB

[8] See SIP Section on corporate sector analysis. An equity gap refers to the amount needed to resolve the financial difficulties of firms that were solvent before the crisis. More broadly, it could reflect the aggregate equity loss incurred by firms during 2020 (relative to 2019).

[9] Selection of viable firms can be conducted with the help of the private sector through scenario-based projections of key firm financials or firms' submission of investment/growth plans. To encourage take-up amongst SMEs, support could be in the form of hybrid instruments, such as subordinated loans that avoid ownership dilution. Private sector support can be mobilized through incentives such as equity tax credits, guarantees or offers to match financing. (See also SIP Section on the equity gap in the Austrian corporate sector).

[10] Staff estimates the expected insolvency rate will be 3.4 percent in 2021, compared to the authorities' estimates of 3.1 percent.

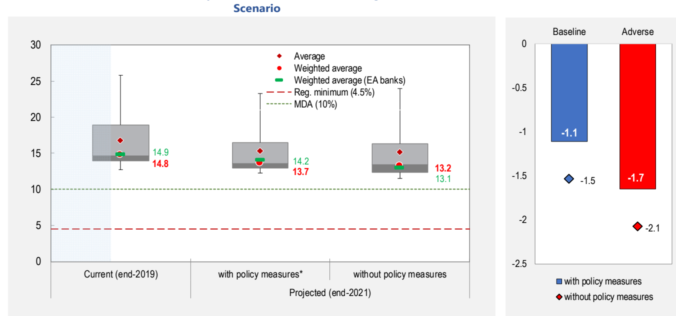
monitoring and prepare to take early action in reclassifying loans accordingly. Deeper integration of ICT could help reduce Austria's persistently high operating costs.

Box 1. Policy Measures and the Resilience of the Banking Sector During the COVID–19 Crisis

The Austrian banking sector entered the crisis with a strong capital position notwithstanding low profitability but had high exposure to affected sectors. CET1 was around 15 percent in 2020. However, profitability has been low, as were pre-crisis price-earnings ratios. The asset position deteriorated quickly from March 2020, as 60 percent of the loan portfolio was exposed to sectors heavily impacted by the crisis, including real estate, trade, logistics, and construction.

IMF European Department analysis suggests COVID-related policies helped mitigate the impact on Austrian banks' balance sheets and safeguard the resilience of the banking sector. The underpinning analytical approach relies on three channels through which banks were affected—deteriorated bank net operating income, depreciation of assets, and deteriorated risk on the existing loan portfolio. The analysis suggests that policy measures in Austria—including loan guarantees, debt moratoria, and short-term work arrangements—helped halve the average default rates in each sector and cushioned the impact of the crisis by limiting the contraction in core capital. In particular, the support measures would reduce the estimated decline in CET1 from 1.6 percent to 1.1 percent by end-2021[1]

Austrian Banks—Solvency Stress Test (Extended Coverage), Baseline Scenario



Sources: EBA; ECB; ESRB; FitchConnect; S&P Market Intelligence; and IMF staff estimates.
Note: CCB=capital conservation buffer, CET1=common equity Tier 1, MDA=maximum distributable amount (weighted average). The grey shaded area of the boxplots shows the inter-quartile range (25th to 75th percentile), with whiskers at the 5th and 95th percentile of the distribution. */ Debt repayment relief (moratoria) for businesses and households, public credit guarantees, deferred bankruptcy proceedings, and dividend restrictions (only in 2020); The analysis covers all three channels affecting the capital adequacy ratio under stress - profitability (net interest income and provisions), nominal assets (net lending and charge-offs after reserves), and risk exposure (changes in credit risk weights). The crisis-specific risk drivers of these channels are: (1) write-offs due to the projected insolvency of illiquid and insolvent firms (weighted by outstanding debt and mapped to the sector-by-sector corporate exposure of sample banks), (2) the profitability impact of policy measures (lower provisions for guaranteed loans to solvent corporates, loss forbearance on eligible loans under moratoria, and decline in interest income due to duration of debt moratoria), and (3) the increase in risk weights to the general increase of the default risk of mortgages and corporates. In addition, there is a general change in net operating income after general provisions and losses on other noninterest income due to lower GDP growth and higher unemployment rate, including impairment charges for non-corporate exposures.

[1] See *COVID-19: How Will European Banks Fare?*, Aiyer and others, March 2021, at https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2021/03/24/COVID-19-How-Will-European-Banks-Fare-50214. These estimates are in line with the stress test exercise conducted by the central bank (OeNB) which also indicate that Austrian banks can cope with the expected increase in corporate insolvencies

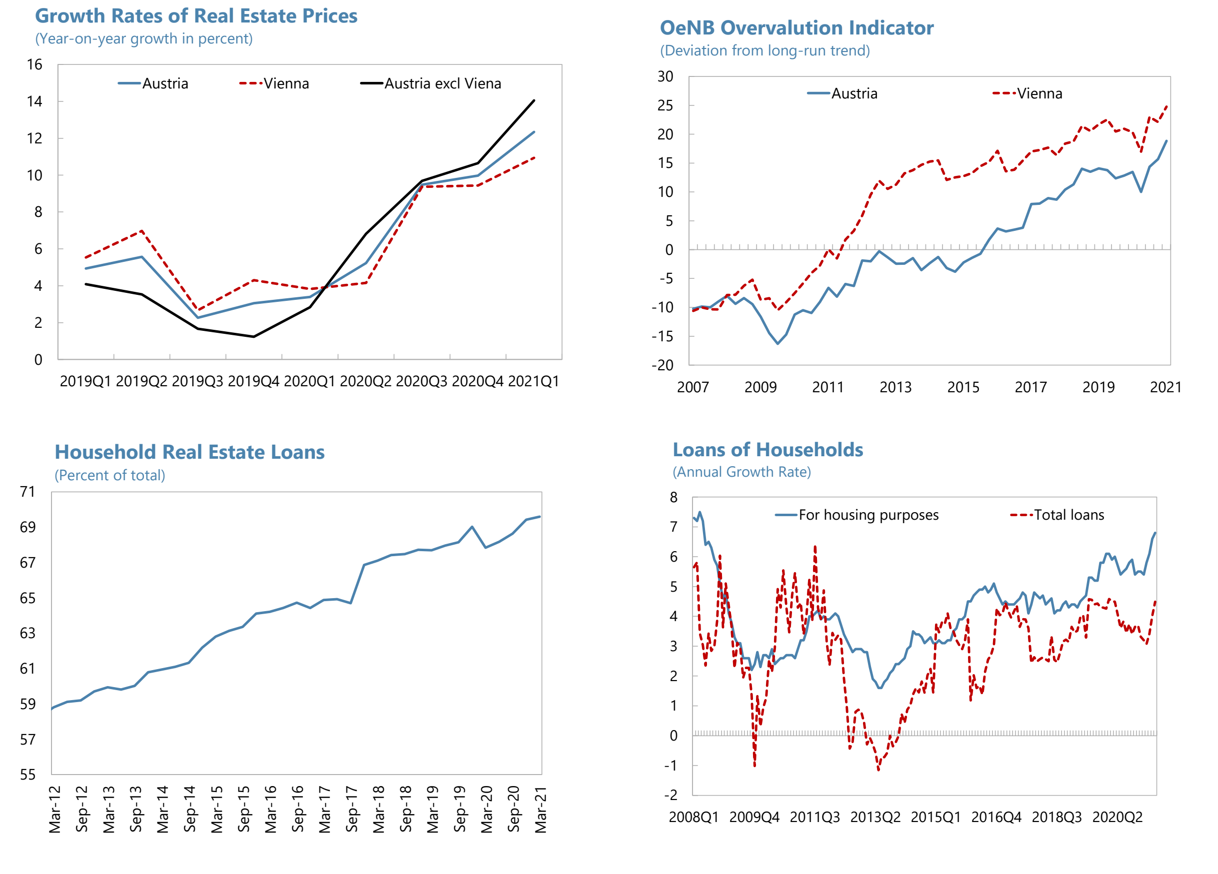
20. **Growing vulnerabilities in the housing sector call for a stricter enforcement of prudential guidelines.** According to the OeNB analysis, house prices continue to decouple from fundamentals and a share of new lending does not comply with the sustainability recommendations by the Financial Market Stability Board (FMSB).[11] Given the continued build-up of risks and to curtail further pressures on the housing market during the recovery phase, the authorities should make binding the existing prudential guidelines for lending.[12] In addition, as vacant inventories in office and retail stores have increased during the crisis with the shift to tele-working and online sales, the rising vulnerabilities in the commercial real estate sector warrant close monitoring of banks' real

[11] Detailed monitoring by the OeNB found that while loan maturity conforms to the 35-year cap, about half of the new loans at end-2020 do not comply with own-funds rules (resulting in an LTV at about 90 percent for newly originated mortgages), and 18 percent of new loans are extended above the 40 percent recommended boundary for debt-service to income.

[12] For more flexibility, the FSAP had recommended that the authorities could consider a combination of limits on maximum LTV and DSTI ratios, alongside speed limits.

estate exposures. To this end, the current development of granular data on the commercial real estate (CRE) is a good step to allow a close monitoring of risks.

Real Estate Sector Developments



Source: Haver Analytics, OeNB, and IMF staff calculations

21. The failure of two small banks points to the need to reinforce auditing and supervision and results in a more fragmented deposit guarantee scheme (DGS). In response to the failure of the Anglo Austrian AAB AG and Commerzialbank Mattersburg im Burgenland AG (CBM),[13] the authorities set up a working group to analyze key lessons and design policies to strengthen supervision. In addition, the bank failures activated payout of the DGS (EUR 550 million), and banks are expected to substantially increase their contributions to replenish losses and increase coverage by 2024 (See Box 2). To limit their exposures, the Raiffeisen group—the largest holder of all insured retail deposits in Austria—decided to pull out of the current fund to set up its own DGS. This fragmentation could undermine overall efficiency of the system.

22. Austria has adopted a comprehensive set of reforms to strengthen its anti-money laundering and combating the financing of terrorism framework (AML/CFT) in line with the Financial Action Task Force (FATF) standards, including in the areas of supervision, regulation

[13] Anglo-Austrian Bank (ex-Meinl Bank) failed over money laundering for financial entities in Latvia, Lithuania, and Ukraine. CBM had been running a Ponzi scheme with fake accounts and clients, and weak internal controls for decades before the scheme was exposed in early 2020.

of virtual assets and virtual asset service providers (VA/VASPs). The Financial Markets AML Act (FM AML Act) and other laws pertaining to designated financial businesses and professions (e.g., lawyers, accountants, real estate dealers) have been upgraded. The Act assigns the responsibility over the registration and control of VA/VASPs to the FMA and enhances monitoring of suspicious transactions through an artificial intelligence-based approach. Austria has transposed the 5th EU Anti-Money Laundering Directive into national law and amended the BORA Act accordingly. Austria also adopted an updated National AML/CFT Risk Assessment (May 2021), and bolstered AML/CFT supervision by enhancing domestic and international cooperation to mitigate cross-border ML/TF risks and the control over VASPs. Finally, the FMA increased its resources and intensified its onsite inspection plan, with more supervisory focus on the assessment of internationally operating banking groups' effective implementation of group-wide AML/CFT policies and procedures, and additional onsite inspections targeting subsidiaries/branches of Austrian banks operating abroad.

23. While notable progress has been achieved, efforts to enhance the effectiveness of the AML/CFT regime should continue. Ongoing reform should focus on enhancing further risk-based supervision by relying on cross-border risks and group-wide supervision and information sharing, in particular outside EU/EEA countries. The authorities are also encouraged to reconsider the recent amendments to the tipping-off and confidentiality provisions under the FM AML Act[14] as they are not fully consistent with the FATF requirements and might have negative implications for the AML/CFT regime.

24. Progress has been made in implementing the 2020 FSAP recommendations, but gaps remain (Annex V). There was significant progress in insurance supervision and strengthening the AML/CFT framework. Recommendations to strengthen financial stability analysis were matched with plans to roll out new tools, including datasets, analytical models, and policy tools for monitoring risks in CRE and RRE. The OeNB and FMA have improved financial crisis management through improved coordination between the main supervisory agencies, but gaps remain in clarifying the stabilization mechanisms and bankruptcy regimes.

[14] In particular, Art. 20 (3) and Art. 22 (2) of the FM AML Act when referring to "*customers **and** transactions*" and "*customers **or** transactions,*" respectively.

Box 2. The Austrian Deposit Guarantee Schemes

The Austrian DGS consists of two networks. Originated with six networks in 1979, the Austria DGS was consolidated in January 2019 (in line with EU rules) into two networks, comprising the *Sparkassehaftungs GmbH* (*S-Haftung*) (saving banks) and the *Einlagensicherung Austria GmbH* (ESA), with similar coverage and rules.[1] They are under the supervision of the Financial Market Authority (FMA) and reserves are collected based on a similar contribution rate—0.3 percent of outstanding retail deposits plus a small risk-based factor in 2020.

The main function of the schemes is to pay out the insured deposits in case of banking default and to liquidate bank assets under a court procedure. They provide a maximum deposit guarantee of EUR 100,000 per person and institution with a fast seven-day payout. The Deposit Guarantee Schemes Directive harmonized the EU DGS regime and set a national target of at least 0.8 percent of covered deposits by July 2024, with contributions based on risk. In case of bank insolvency, if any DGS has insufficient funds to pay out depositors, the Austrian Banking Act provides for sharing of resources from the other schemes.

The ESA was recently partially depleted by the bankruptcies of two small regional banks. The protection of depositors was triggered for the first time in 20 years in 2019 and 2020 for the bankruptcies of Anglo Austrian AA AG (90,000 depositors) and Commerzialbank Mattersburg (CBM, approximately 13,500 depositors)—for EUR 60 million and EUR 489 million, respectively. Contributions from the remaining banks will have to be increased to meet the 0.8 percent coverage target by 2024.

While the Austria DGS remains robust, its fragmentation introduces potential inefficiencies into the system. In the wake of the two bank failures, the Raiffeisen sector (40 percent of total deposits) decided to exercise its legal right to split off and form its own DGS. The withdrawal of the group will not have a significant impact on overall funding of the system as the group can only withdraw 12 months of contributions from the ESA and will have to fund their own scheme fully to the 0.8 percent level. Nonetheless, this fragmentation increases complexity and reduces the benefits associated with risk mutualization across various business models.

[1] The ESA merged five DGS networks, comprising (i) the Volksbanks (cooperative and joint stock banks), (ii) the Raiffeisen group, (iii) the mortgage banks (Landes-Hypothekenbanken or *Hypos*, owned by the Provinces and which were issuing covered bonds); (iv) the Bausparkasse (the joint bank belonging to the building and loan associations); and (v) the joint stocks banks.

Authorities' Views

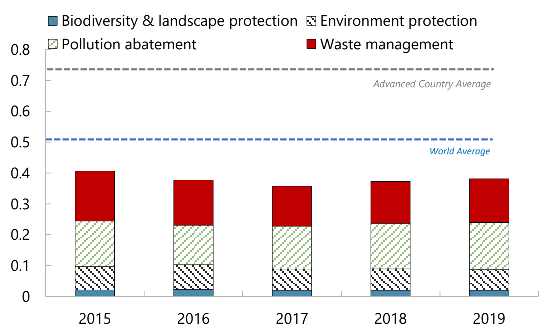
25. The authorities broadly agreed with staff's assessment of the banking sector and saw the need to strengthen corporate balance sheets. They noted that credit continued growing and the Austrian significant institutions performed above SSM averages despite reduced profitability. They shared staff's recommendations on remaining vigilant about banking sector risks in the recovery phase and noted that the monitoring of banking exposure to hard-hit sectors (hospitality and tourism) has intensified. The authorities agreed on the need to shift the priority to strengthen corporate balance sheets by actively seeking to build equity—especially in SMEs—and are considering various policy options. The authorities agreed on risks in the housing sector and identified a need to take broader actions to counter this development. The authorities indicated that deposit guarantee risks would increase somewhat due to higher complexity of the system and the smaller number of ESA members, but the aggregate pay-out capacity would not be affected by the new Institutional Protection Scheme, which also covers the function of a DGS, given buffers within and arrangements across the schemes. The authorities planned to fully implement the recommendations of the working group on the failure of the two small banks.

C. Structural Policies

Environmental Policy: Greening the Economy

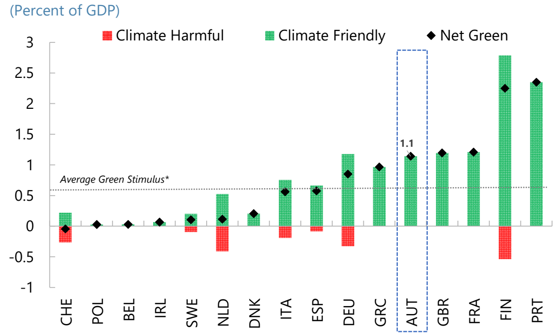
26. The crisis provides an opportunity for Austria to step up its environmental spending for achieving a green transformation. Austria's fiscal spending on green and environmental policies has been low, averaging around 0.4 percent of GDP annually, well below the world and advanced economy averages of 0.5 and 0.75 percent of GDP, respectively. A fifth of the announced recovery package consists of measures on climate change and environmental protection which include climate-friendly investments, decarbonizing the public transport system, forest conservation, scaling-up renewables and green renovation. To further prioritize investments for supporting a low-carbon recovery, staff recommended the authorities adopt green budgeting practices, which can help integrate climate considerations into fiscal frameworks and contribute towards achieving the government's environmental objectives.[15] The implementation of green budgeting as well as other climate policies should be coordinated across the federal, regional, and municipal governments to increase policy effectiveness.

Climate Expenditure: 2015-2019
(Percent of GDP)



Sources: IMF Climate Dashboard

Greeneness of Recovery Measures
(Percent of GDP)



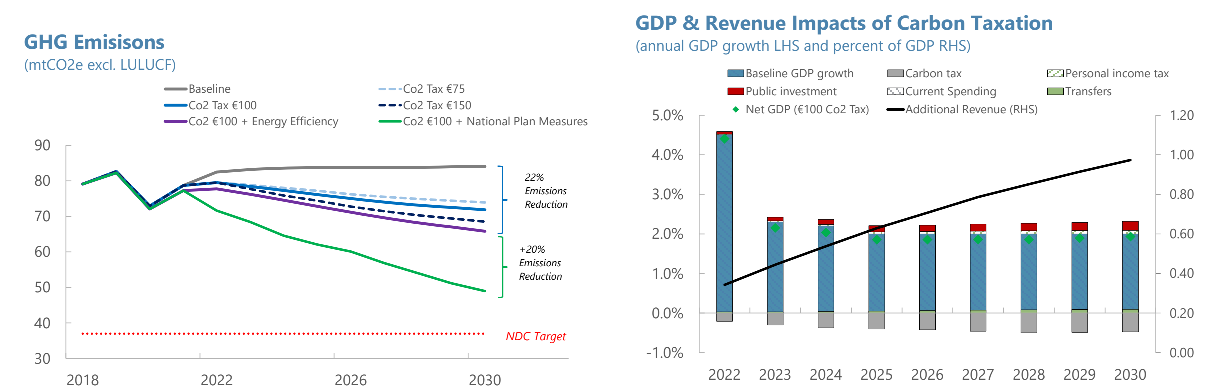
Sources: OECD Green Recovery Tracker, Austrian Budget; *average across depicted countries

27. On the revenue side, a gradual and phased introduction of CO_2 pricing will be needed to meet the national emissions reduction targets under the Paris Agreement. Staff simulations (*see Annex VI*) suggest that the introduction of a carbon price starting at €25 per metric ton of carbon emission in 2022 and reaching €100 per metric ton by 2030 would help close the 2030 emission target gap under the Paris Agreement.[16] While carbon taxes would push up the prices of some underpriced fuel products (mainly coal) substantially, they would yield additional revenues of

[15] Staff hosted a peer-learning seminar on green budgeting with selected experts (FAD and the French Treasury). A national strategy already exists in Austria that can guide the green budgeting exercise. Green budgeting tools include ex-ante/ex-post green budget tagging and environmental cost-benefit analysis relying on environmental impact assessments conducted by the regional authorities (OECD, 2019).

[16] Simulations are based on the Carbon Price Assessment Tool framework used in IMF (Fiscal Policies for Climate Strategies-From Principles to Practice, 2019). The analysis also shows that fuel is underpriced in Austria relative to externalities and a carbon tax would help attain the optimal price (inclusive of externalities).

nearly 6 percent of GDP over the next decade. Part of the additional revenue should be used to compensate low-income and vulnerable households from the adverse impact of the tax.[17] The remainder could be used for boosting spending on green investment and employment, which would generate a positive impact on GDP growth in the medium-term (text figure). The carbon tax, when combined with energy efficiency measures, could contribute to reducing emission by almost 22 percent relative to the baseline (no policy measures) emission path. Further supplementing this with measures recommended under Austria's national climate plan would further bring the country closer to its emissions reduction target.[18]



Sources: IMF Staff Estimates. NDC is nationally determined contribution for Austria's per EU's net reduction target of 55% in GHG emissions by 2030 vs. 1990. National Plan measures refer to the with addtional measures scenario of Austria's Integrated National Energy and Climate Plan. LULUCF is land use, land use change and forestry.

Sources: IMF Staff Estimates

Labor Market Policies: Toward Better Jobs

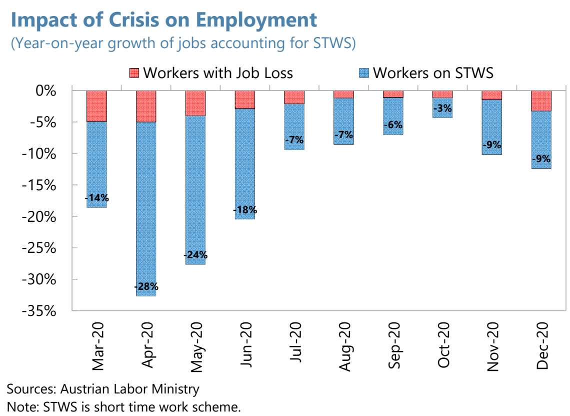
28. Lifeline policies aimed at minimizing job destruction should be gradually replaced with measures to foster job creation. Austria's short-term work scheme (STWS) provided crucial support during the acute phase of the crisis, absorbing a substantial fraction of the potential employment losses. During the recovery phase, such support should be flexibly maintained only for those sectors that continue to be affected by the pandemic and phased out or made significantly less generous for other sectors. The planned extension of the STWS which broadly maintains net replacement rates for all sectors up to mid-2022 may therefore impede a necessary reallocation of workers and incentivize firms to operate below capacity.[19] Despite the job retention support, overall employment losses mask substantial heterogeneity across occupations, with workers in the hospitality sector, women, foreign workers, and the youth being disproportionately impacted. Reviving employment prospects for these hardest-hit labor segments should be prioritized to prevent long-run employment and income scarring. To this end, additional stimulus of around 0.1–0.2 percent of GDP for targeted employment-

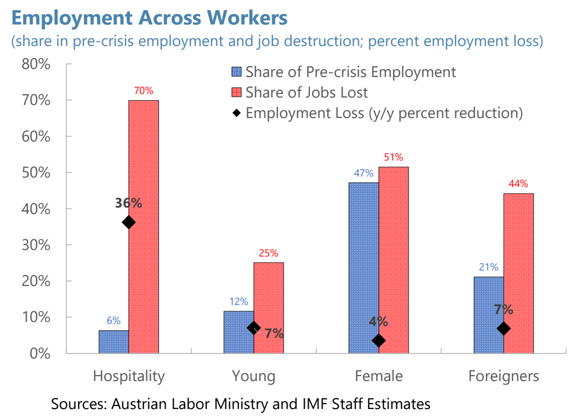
[17] An analysis by Wifo (2019) finds that carbon taxes are income regressive in Austria without tax recycling.

[18] Austria's Integrated National Energy and Climate Plan lists several additional measures that should be taken to achieve emissions reduction, including energy efficiency measures for all sectors and renewables expansion.

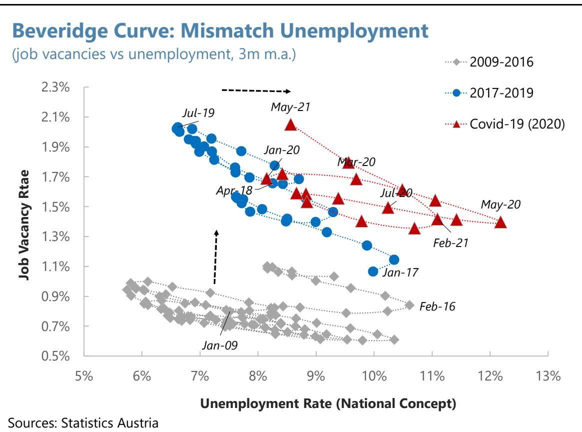
[19] Under the currently planned extension, firms may apply for the STWS until mid-2022. While the net replacement rates for employees will remain the same a 50 percent minimum working time is required and employers will be subject to a discount of 15 percent from the previous amount of aid.

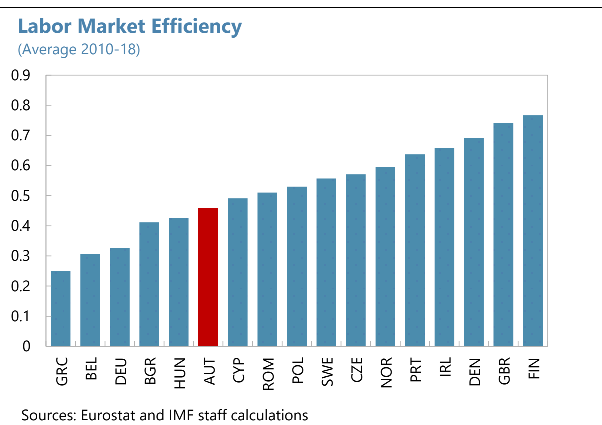
generating polices, such as hiring cost subsidies and job search assistance for low wage workers or youth would help reduce unemployment and diminish scarring.





29. Job-creation measures should be accompanied by policies supporting the reallocation of workers and reduce regional and skill mismatches. The crisis has increased the level of unemployment, more than that implied by past data for a given level of vacancies (as shown by the outward shift of the Beveridge curve, see chart) indicating labor mismatches. Outward shifts of the Austrian Beveridge curve have in the past been attributed to a decrease in regional and skill matching efficiency, placing it below the European average on labor efficiency.[20] These skills and regional mismatches could further increase during the recovery phase if the unemployed in sectors most affected by the crisis do not search for or are not hired in jobs in recovering sectors. To mitigate this, priority should be placed on policies to alleviate skills and regional mismatches, within the envelope dedicated for training (¶11), such as language training for migrant workers, re-skilling programs, or by providing relocation subsidies.[21]





[20] See Christl (2020).

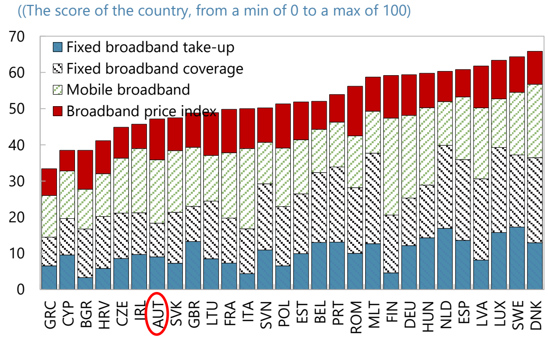
[21] Germany's reallocation assistance program offered financial support for the unemployed to move to a distant region and had positive effects on employment and earnings by improving the job match (Caliendo and others, 2017).

Digitalization: Lifting Potentials

30. Stepping up digitalization efforts can lift Austria's growth potential. Austria lags behind the EU average in digital connectivity, use of internet services, and integration of digital technology.[22] Planned spending on broadband access and digitalization of public enterprises are welcome, but additional spending, including on harnessing digital skills, will be necessary to achieve Austria's ambiguous goal of becoming a digital innovation hub in the region. Integration of ICT and big data analysis could also strengthen financial supervision and lower banks' operating costs.

Breakdown of Internet Connectivity

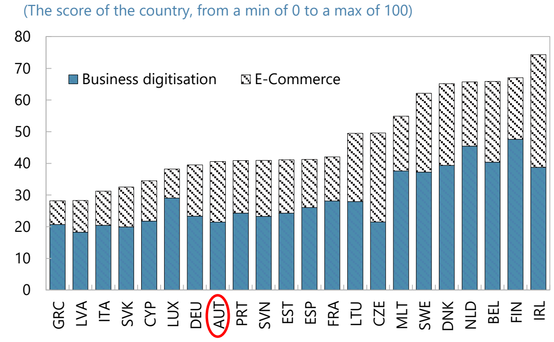
((The score of the country, from a min of 0 to a max of 100)



Sources: The Digital Economy and Society Index (DESI).

Intregration of Digital Technology

(The score of the country, from a min of 0 to a max of 100)



Sources: The Digital Economy and Society Index (DESI).

Governance: Fighting the Laundering of Foreign Proceeds of Corruption

31. According to the latest (2016) Financial Action Task Force (FATF) Mutual Evaluation Report (MER), Austria is substantially effective in the area of international cooperation. As an important regional and international financial center, as well as a gateway to Central, Eastern and Southeastern Europe, Austria is particularly vulnerable to proceeds from a variety of international crimes, including corruption. Corruption is also considered to be a medium to high risk according to the country's 2015 money laundering (ML) national risk assessment. The 2016 FATF report notes that Austria has an effective system for international cooperation and an open and constructive approach in providing mutual legal assistance which is critical to facilitate exchange of evidence and action against corrupt officials and their assets.

32. Nonetheless, fundamental improvements are needed to ensure that ML activities are detected and disrupted and that the proceeds of corruption are confiscated and offenders subject to dissuasive sanctions. Austria does not pursue ML as a priority in line with its profile as an international financial center. Sanctions applied by the courts for ML are not dissuasive, as the penalties applied are very low. Further efforts are needed to ensure that all private entities adequately report suspicious transactions related to proceeds of corruption and to enhance further the effectiveness of the AML/CFT framework.

[22] https://ec.europa.eu/digital-single-market/en/scoreboard/austria

33. Since 2016, Austria has continued enhancing the overall AML/CFT framework designed to prevent foreign officials from concealing the proceeds of corruption but further efforts are needed.[23] The government has also adopted the National Anti-Corruption Strategy in January 2018 which strives to further enhance the fight against ML/TF by committing to integrity, transparency and awareness-raising and further cooperation between all relevant domestic players and foreign counterparts. The Government Program 2020–2024 has also increased efforts in these areas. The Financial Markets AML Act and sectoral laws covering the designated non-financial businesses and professions were strengthened, including with respect to the preventive framework applicable to political exposed persons (PEPs) and entity transparency. Furthermore, a Register of Beneficial Owner of legal persons and arrangements was created in 2017 aimed at ensuring that beneficial ownership information is, available, accurate and easily accessible[24]. An account register became operational in October 2016 granting access inter alia to the prosecution authorities. which is a major step to facilitate tracing of assets. Most recently, the account register was extended to allow the FIU to access safe deposit boxes and grants. Finally, further changes were made to the Criminal Procedure Code to facilitate the seizure of assets. In June 2021 a draft bill passed the Justice Committee of the Austrian Parliament providing for improvements with respect to confiscation of proceeds of crime.

Authorities' Views

34. The authorities shared the priorities for the green, digital, and job-rich transformation of the economy but differed with staff on some modalities for addressing this challenge. The authorities welcomed staff's recommendation on adopting green budgeting practices to integrate climate considerations into their fiscal frameworks. The authorities agreed with staff that carbon pricing is necessary to achieve the much-needed emissions reduction and are currently negotiating such a policy among the coalition partners, with a view to introducing some form of carbon pricing by 2022:Q1. They stress that the measure should be implemented in a revenue-neutral way. On digitalization, the authorities noted limited capacity as one of the key considerations to accommodate additional spending. Regarding employment, the authorities agreed with staff's assessment on regional and skills mismatches but viewed that the training component of the recovery plan as adequate to address such challenges. While concurring with staff on the benefits of targeted hiring subsidies, they felt that they entailed relatively large deadweight losses. They also agreed that the short-time work scheme should become more targeted and less generous progressively but differed on the parametrization and duration of the phase-out.

[23] Progress was acknowledged by the FATF in its two follow-up reports (2017 and 2018). A follow-up assessment is yet to be conducted by the FATF to assess progress on the effectiveness front.

[24] The BO register is set up within the Federal Ministry of Finance and is fully operational. The authorities have taken a number of safeguards for the purpose of ensuring that the data stored in the register is adequate, accurate and up to date, including by closely monitoring the information submitted and conducting random-sample checks.

STAFF APPRAISAL

35. Austria entered the pandemic from a strong position but was hit hard by the crisis. Pre-crisis growth was above the euro area average and unemployment was falling, the banking sector was well capitalized, the fiscal position was strong, and public debt was declining. Once the pandemic hit, real GDP contracted by 6.3 percent in 2020, affected by waves of lockdowns which disrupted economic activities. Unemployment rose, but job losses were mitigated by strong support from the SWTS.

36. The recovery is progressing, but risks remain with potential scarring in the medium term. Weak winter tourism and renewed lockdowns early this year delayed the recovery, leaving Austria with a weaker initial rebound than its peers. Assuming no resurgence of the pandemic, growth is expected to accelerate in 2022 and surpass pre-pandemic levels. However, medium-term GDP level is expected to be below its pre-crisis trend notwithstanding large uncertainties around the baseline projection. Downside risks include a resurgence of the pandemic due to new variants and/or lower vaccine coverage or effectiveness.

37. The authorities' unprecedented response to the pandemic has mitigated the impact of the crisis. Emergency measures—including increased health spending, direct financial support and public loan guarantees to affected firms, short-term work scheme, expanded unemployment benefits, and loan moratoria—have effectively supported household income and consumption, alleviated unemployment, and provided firms with much-needed liquidity. The prolongation of the crisis prompted the authorities to extend key support measures into 2021. Together, these spending and revenue measures amounted to almost 13 percent of 2020 GDP, with an expected overall deficit of 6.2 percent of GDP in 2021.

38. The recovery package focuses on sustainable recovery and reducing economic scarring, but more should be done. The Stability Pact and the ARP lay out laudable measures to promote a greener economy, digitalization, and innovation. Nonetheless, Austria still has fiscal space—given favorable market conditions and savings from previous reforms—to implement additional measures to boost the recovery—such as by providing solvency support to viable firms, added investment in green initiatives and digitalization, further steps to lower labor tax wedge, and active labor market policies to address skills and regional mismatches in the labor market.

39. The financial system has remained resilient throughout the pandemic, but risks and pre-pandemic vulnerabilities need to be addressed. As emergency policies are unwound, close monitoring is needed on credit quality and NPL developments, especially in hard-hit sectors. Prudential guidelines for real estate lending should be made binding given the build-up of risks in the housing sector. The failures of two small banks prior to the pandemic calls for strengthening supervision in less significant institutions. Therefore, recommendations by the working group should be implemented as soon as possible. While the deposit guarantee system in Austria is healthy, its fragmentation could potentially undermine its efficiency. Finally, some progress toward the 2020 FSAP recommendations has been made—including on issues related to real estate and risk monitoring—but the authorities should commit to implementing the remaining recommendations.

40. **Solvency support to viable firms and efficient restructuring mechanism are crucial for resilient recovery.** During the pandemic, firms' debt-to-income ratio surged, and equity gap rose, pointing to growing solvency risks. The introduction of solvency support mechanisms to viable firms, consistent with EU state-aid rules, could help restore corporate balance sheets. Moreover, enhancing debt restructuring mechanisms including by swiftly transposing the EU Restructuring Directive could facilitate firms' exits and improve efficiency of capital reallocation.

41. **Measures to foster job creation and facilitate labor reallocation could mitigate labor market scarring and ensure a job-rich recovery.** Employment support policies, such as hiring cost subsidies and job search assistance—targeted at those disproportionately impacted by the pandemic—should be prioritized to prevent long-run unemployment and income scarring. Moreover, additional support such as German language training for migrant and refugee workers, re-skilling programs, and relocation assistance can reduce increasing regional and skill mismatches.

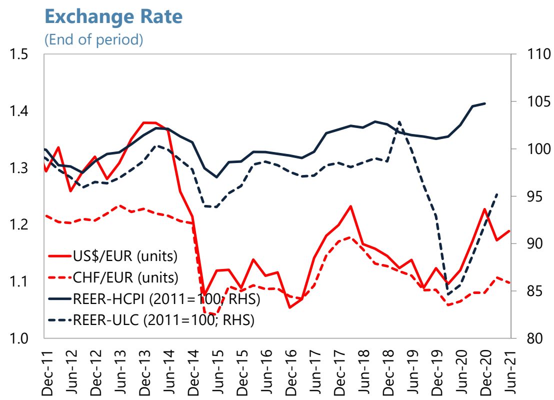
42. **The authorities' green initiatives are welcome but strong policy actions are necessary to achieve Austria's ambitious climate goals.** Despite green components in the recovery package, Austria risks missing its emission reduction target. Gradual and phased-in carbon prices, coupled with expanded energy efficiency measures, are necessary to bring Austria closer to its climate objective. Revenue raised from carbon pricing should be used to compensate vulnerable households, boost spending on climate-friendly investment, and finance additional labor tax cuts. In addition, adopting green budgeting practices would help integrate climate considerations into the government's fiscal frameworks.

43. **Boosting digitalization of the Austrian economy could lift Austria's growth potential.** According to the EU Digital Economy and the Society Index, Austria lags behind the EU average in digital connectivity, use of internet services, and integration of digital technology. It also underperforms in terms of take-up rates on broadband and other digital services. Additional spending on improving digital access and utilization to supplement the outlays currently envisaged could boost growth potential. Such spending could include productivity-enhancing support to high-technology start-ups and funding for firms' digitalization projects as well as ICT-skills training to close the labor skills gap.

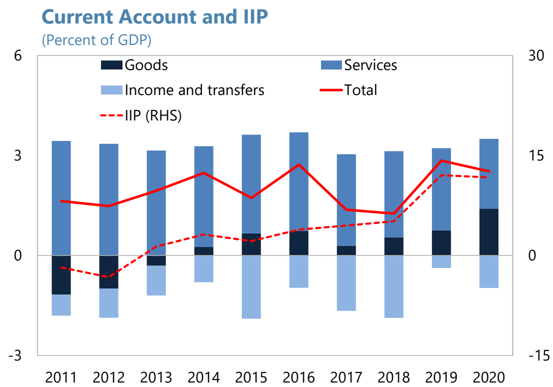
44. **It is recommended that the next Article IV consultation take place on the standard 12-month cycle.**

Figure 2. Austria: External and Fiscal Developments

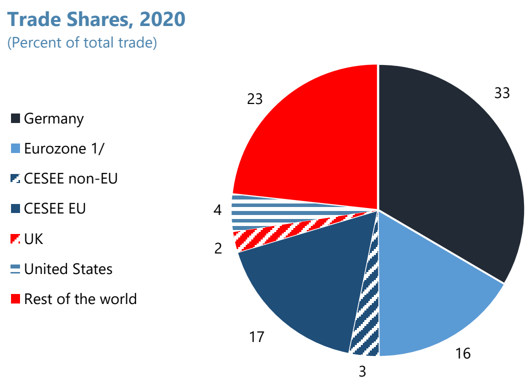
The real effective exchange rate depreciated since the pandemic.



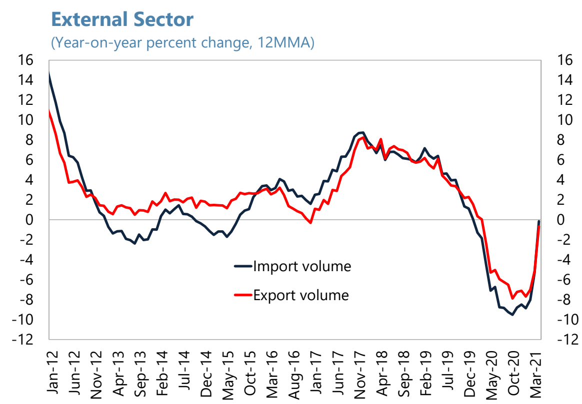
…while the current account remained in surplus.



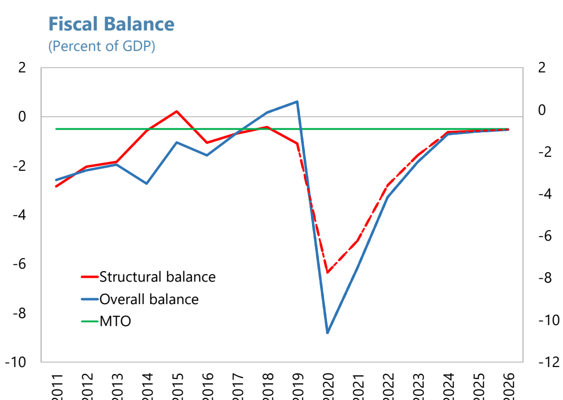
Majority of trade is within the region.



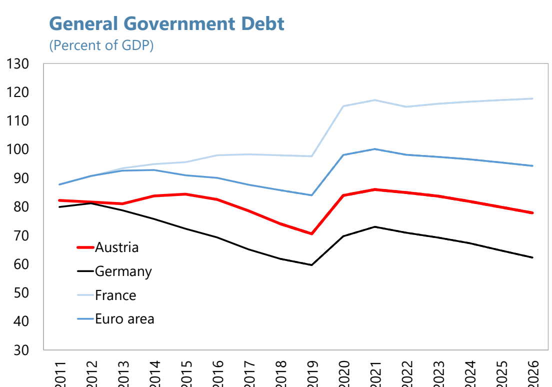
Exports and imports collapsed during the pandemic.



The fiscal balance deteriorated in 2020 but is projected to improve over the medium term…



Public debt is projected to rise temporarily and decline afterwards.



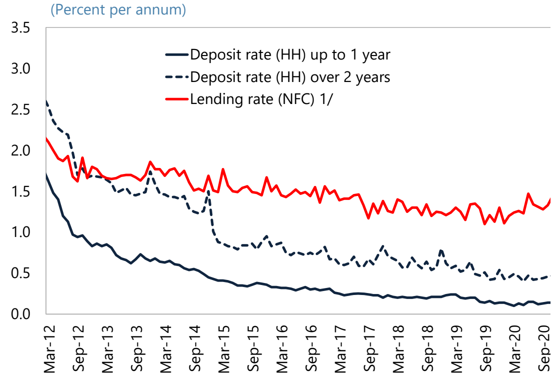
Sources: IMF. WEO; Haver; OeNB; IMF, Direction of Trade database; and IMF staff estimates.

1/ Excluding Germany and CESEE eurozone countries

Figure 3. Austria: Financial Sector Developments

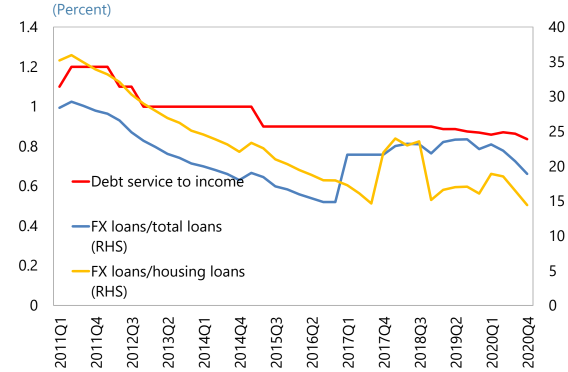
Interest rates remained low.

Interest Rates
(Percent per annum)



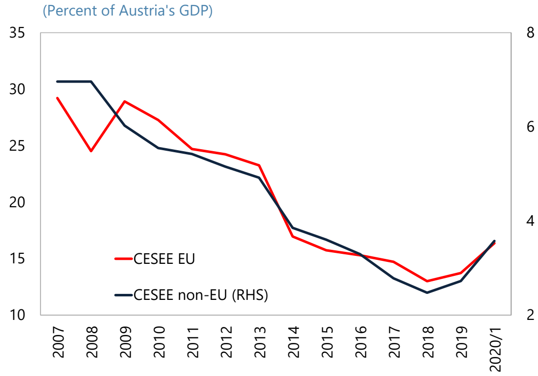
Debt-service-to-income ratio was stable while a share of FX loans declined steadily.

Households' Debt Service
(Percent)



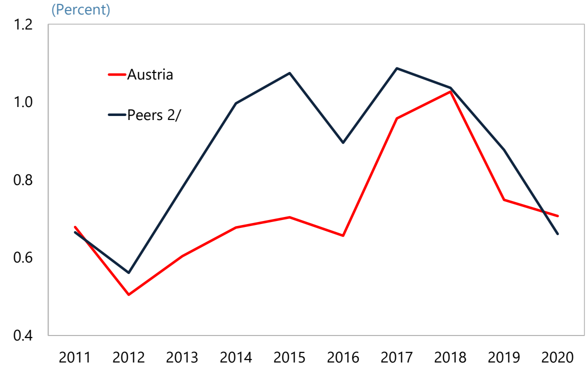
CESEE exposures started to rise in recent years but remained low compared to the previous decade.

CESEE Exposures
(Percent of Austria's GDP)



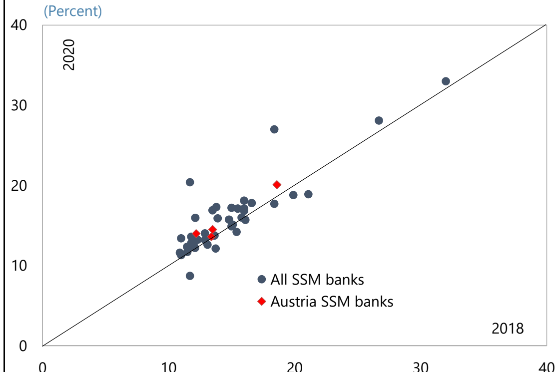
Austrian banks' valuations declined sharply in recent years.

Price to Book Ratio
(Percent)



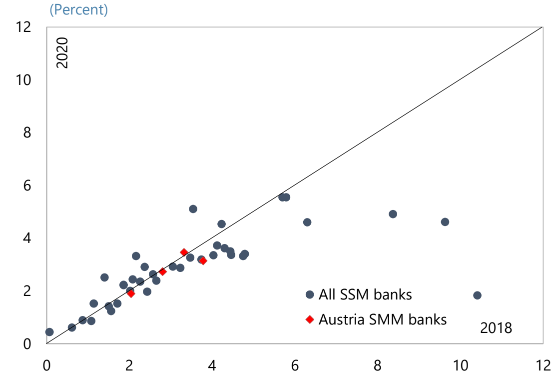
Capital has increased amid the pandemic...

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



...while NPL was kept low.

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



Sources: Haver; OeNB; and IMF staff estimates.
1/ Up to one-year fixed rate for new loans over 1 million euros to non-financial corporations.
2/ As of 2020:Q3

Table 2. Austria: Summary of Economic Indicators, 2018–26
(Annual percent change, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Projections			
NATIONAL ACCOUNTS									
Real GDP (expenditure)	2.6	1.4	-6.3	3.5	4.5	2.3	2.2	2.0	1.8
Domestic demand	2.2	1.0	-6.0	5.2	4.2	2.4	1.8	1.9	1.9
Consumption	1.1	1.0	-6.1	4.8	4.0	2.1	1.3	1.3	1.3
Private	1.1	0.8	-9.2	5.1	4.9	2.8	1.2	1.4	1.7
Public	1.2	1.5	2.3	4.4	1.7	0.4	1.4	1.1	0.3
Gross fixed capital formation	3.9	4.0	-5.7	6.8	4.9	3.4	3.4	3.6	3.4
Private	3.9	4.2	-6.8	7.3	5.0	4.0	4.0	3.5	3.5
Public	3.8	2.5	1.4	3.4	4.6	-0.7	-0.2	5.3	3.4
GNFS exports	5.5	2.9	-10.0	3.6	5.7	3.8	1.4	2.1	2.0
GNFS imports	5.0	2.4	-9.6	6.2	4.8	4.1	0.8	2.0	2.2
Contribution to GDP (percentage points)									
Final domestic demand	1.7	1.7	-5.7	5.1	4.1	2.3	1.8	1.9	1.8
Net exports	0.5	0.4	-0.6	-1.2	0.6	0.0	0.4	0.1	0.0
Inventories and statistical discrepancy	0.4	-0.6	0.1	-0.4	-0.2	0.0	0.0	0.0	0.0
Investment (% GDP)	25.5	25.5	25.2	25.9	25.9	26.2	26.3	26.3	26.3
Public	3.7	3.7	4.1	4.7	4.6	4.4	4.2	4.2	4.2
Private	21.8	21.7	21.1	21.2	21.3	21.8	22.1	22.2	22.2
Gross national savings (% GDP)	26.8	28.3	27.7	27.9	28.3	28.3	28.4	28.6	28.7
Public	3.9	4.3	-4.7	-1.5	1.3	2.5	3.4	3.5	3.6
Private	22.9	24.0	32.4	29.4	27.0	25.8	25.0	25.1	25.1
Potential output	1.6	1.7	-4.0	3.8	3.4	1.9	1.9	1.9	1.8
Output gap (% potential GDP)	1.1	0.8	-1.6	-1.9	-0.8	-0.5	-0.1	0.0	0.0
LABOR MARKET									
Labor force	0.7	0.4	-0.7	1.3	0.6	0.5	0.5	0.5	0.5
Employment	1.0	0.8	-1.5	1.1	0.8	0.8	0.8	0.5	0.5
Wages (hourly)	3.0	3.0	2.3	1.7	2.9	3.1	2.5	2.7	2.6
Unemployment rate (% labor force)									
EU harmonized rate	4.9	4.5	5.3	5.5	5.3	5.0	4.7	4.7	4.7
National definition	7.7	7.4	9.9	9.5	8.8	8.0	7.7	7.7	7.7
PRICES									
Consumer prices (avg)	2.1	1.5	1.4	2.1	1.8	2.0	2.0	2.0	2.0
Consumer prices (eop)	1.7	1.8	1.0	2.6	1.8	2.0	2.0	2.0	2.0
Core CPI (eop)	1.5	2.2	1.5	2.0	1.8	2.0	2.0	2.0	2.0
GDP deflator	1.7	1.7	1.2	2.2	2.0	2.0	2.2	1.9	2.0
MACRO-FINANCIAL									
Broad money	8.0	4.6	9.7	4.7	4.3	4.4	3.8	3.8	4.0
Credit to the private sector	4.8	5.1	3.7	2.6	3.3	3.9	3.8	3.5	3.5
Corporations	6.1	6.0	4.1	2.6	3.3	3.9	3.8	3.5	3.5
Households	3.6	4.2	3.4	2.6	3.3	3.9	3.8	3.5	3.5
GENERAL GOVERNMENT FINANCES (% GDP)									
Revenue	48.9	49.2	48.8	48.6	48.2	48.0	48.3	48.4	48.5
Expenditure	48.7	48.6	57.6	54.7	51.6	49.9	49.0	49.1	49.0
Net lending/borrowing	0.2	0.6	-8.8	-6.2	-3.3	-1.9	-0.8	-0.7	-0.5
Structural balance	-1.2	-1.2	-6.3	-5.1	-2.8	-1.6	-0.7	-0.7	-0.5
Structural primary balance	0.4	0.2	-5.4	-4.5	-2.2	-1.0	-0.1	-0.1	0.0
Gross debt	74.0	70.5	83.5	85.3	82.6	80.8	78.2	77.8	74.8
BALANCE OF PAYMENTS									
Current account (% GDP)	1.3	2.8	2.5	2.0	2.3	2.1	2.0	2.3	2.4
Export volume (goods and services)	5.5	2.9	-10.0	3.6	5.7	3.8	1.4	2.1	2.0
Import volume (goods and services)	5.0	2.4	-9.6	6.2	4.8	4.1	0.8	2.0	2.2
Int'l investment position, net (% GDP)	5.3	12.1	10.9	12.2	13.7	15.2	16.4	18.1	19.8
MEMORANDUM ITEMS									
Nominal GDP (billions of euro)	385	398	377	399	425	444	466	482	498
Population (millions of people)	8.9	8.9	8.9	8.9	9.0	9.0	9.1	9.1	9.2
GDP per capita (U.S. dollars)	51,246	50,247	48,377	54,251	58,837	61,922	65,269	67,674	69,914
U.S. dollar to euro (rate; annual avg)	1.18	1.12	1.14	…	…	…	…	…	…
Real effective exchange rate	0.8	-0.7	-10.4	10.6	0.8	0.0	0.0	0.0	0.0

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

Table 3. Austria: Fiscal Accounts, 2018–26 1/
(In percent of GDP, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026
			Est.			Projections			
GENERAL GOVERNMENT OPERATIONS									
Revenue	**48.9**	**49.2**	**48.8**	**48.6**	**48.2**	**48.0**	**48.3**	**48.4**	**48.5**
Tax revenue	27.5	27.7	26.6	26.9	26.7	27.0	27.2	27.4	27.5
Direct taxes	13.5	13.6	12.7	13.2	12.9	13.1	13.3	13.5	13.6
Of which: Personal income tax	9.6	9.8	9.4	9.5	9.4	9.5	9.6	9.7	9.8
Corporate income tax	2.8	2.8	2.7	2.6	2.4	2.5	2.6	2.7	2.7
Indirect taxes	14.0	14.1	13.9	13.7	13.8	13.9	13.9	13.9	13.9
Of which: VAT	7.6	7.8	7.6	7.5	7.7	7.7	7.7	7.7	7.7
Social contributions	15.2	15.4	16.2	15.7	15.4	15.4	15.2	15.3	15.3
Other current revenue	6.2	6.1	6.1	6.1	6.4	6.1	6.0	6.0	6.0
Expenditure	**48.7**	**48.6**	**57.6**	**54.7**	**51.6**	**49.9**	**49.0**	**49.1**	**49.0**
Expense	45.7	45.4	54.2	51.3	48.2	46.6	45.8	45.9	45.9
Compensation of employees	10.47	10.53	11.3	11.0	10.8	10.6	10.4	10.4	10.4
Goods and services	6.18	6.25	6.8	6.9	6.6	6.3	6.3	6.3	6.2
Social benefits	21.86	21.89	24.8	24.0	23.0	22.7	22.5	22.6	22.7
Other current transfers	2.91	2.77	3.4	3.3	3.0	2.9	2.8	2.8	2.8
Capital transfers	0.68	0.62	0.7	1.3	1.2	1.1	1.0	1.0	1.0
Interest	1.62	1.41	1.3	0.9	1.0	0.9	0.9	0.8	0.8
Subsidies	1.51	1.48	5.3	3.4	2.1	1.6	1.5	1.5	1.5
Other	0.45	0.46	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Acquisition of nonfinancial assets	3.1	3.2	3.4	3.4	3.4	3.3	3.2	3.2	3.2
Of which: Gross fixed capital formation	3.1	3.1	3.4	3.4	3.4	3.3	3.2	3.2	3.2
Operating balance	3.2	3.8	-5.4	-2.7	0.1	1.4	2.4	2.5	2.6
Primary balance	1.8	2.0	-7.5	-5.2	-2.3	-1.0	0.1	0.2	0.3
Net lending/borrowing	**0.2**	**0.6**	**-8.8**	**-6.2**	**-3.3**	**-1.9**	**-0.8**	**-0.7**	**-0.5**
GENERAL GOVERNMENT BALANCE SHEET									
Financial liabilities	97	93	108	110	106	103	100	99	96
Gross debt	83.87	79.88	94.62	96.58	93.57	91.49	88.55	88.08	84.75
Other	12.93	12.78	13.47	12.98	12.19	11.91	11.34	11.16	11.00
Financial assets	45.52	44.96	47.37	44.79	42.04	40.30	38.38	37.07	35.86
Net financial worth	-51	-48	-61	-65	-64	-63	-62	-62	-60
Net debt	64	61	75	78	76	75	73	73	70
Gross debt (Maastricht def.)	**74.0**	**70.5**	**83.5**	**85.3**	**82.6**	**80.8**	**78.2**	**77.8**	**74.8**
Guarantees	16.3	16.1	18.7	18.0	16.9	16.2	15.4	14.9	14.4
MEMORANDUM ITEMS									
Cyclically adjusted balance	-1.2	-1.2	-6.3	-5.1	-2.8	-1.6	-0.7	-0.7	-0.5
Structural balance 1/	-1.2	-1.2	-6.3	-5.1	-2.8	-1.6	-0.7	-0.7	-0.5
Structural primary balance 1/	0.4	0.2	-5.4	-4.5	-2.2	-1.0	-0.1	-0.1	0.0
Change in real revenue (percent)	3.1	2.2	-7.1	3.1	4.0	1.8	3.5	1.8	1.5
Change in real primary expenditure (percent)	1.8	1.7	11.7	-0.9	-1.7	-0.9	1.3	1.7	1.2
Nominal GDP (billions of euro)	385	398	377	399	425	444	466	482	498

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

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

Table 4. Austria: Balance of Payments, 2018–26
(In percent of GDP, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026
				Projections					
BALANCE OF PAYMENTS									
Current account	**1.3**	**2.8**	**2.5**	**2.0**	**2.3**	**2.1**	**2.0**	**2.3**	**2.4**
Balance on goods and services	3.1	3.2	3.5	2.9	3.3	3.0	3.0	3.3	3.4
Exports of goods and services	55.6	55.5	52.6	54.7	55.4	55.2	55.0	55.1	55.4
Exports of goods	39.0	38.4	37.5	39.2	38.4	38.3	38.1	38.2	38.4
Exports of services	16.6	17.2	15.1	15.5	17.1	17.0	16.8	16.9	17.0
Imports of goods and services	52.5	52.3	49.1	51.8	52.1	52.2	51.9	51.9	52.0
Imports of goods	38.5	37.6	36.2	38.7	38.0	37.7	37.5	37.5	37.7
Imports of services	14.1	14.7	13.0	13.0	14.2	14.5	14.4	14.4	14.4
Primary income, net	-0.9	0.5	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Secondary income, net	-1.0	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Capital account	**-0.6**	**-0.1**	**-0.2**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**
Financial account	**1.8**	**4.3**	**1.4**	**1.9**	**2.3**	**2.0**	**2.0**	**2.2**	**2.3**
Direct investment, net	0.5	1.7	2.8	1.7	1.7	1.7	1.7	1.7	1.7
Direct investment abroad, net	-6.1	-0.2	-3.4	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Direct investment in Austria, net	-6.6	-1.9	-6.2	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9
Portfolio investment, net	0.9	-1.3	-3.9	-3.8	-3.4	-3.6	-3.7	-3.4	-3.3
Financial derivatives, net	-0.2	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Other investment, net	0.0	3.6	1.8	3.6	3.6	3.6	3.6	3.6	3.6
Reserve assets	0.6	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions, net	1.1	1.5	-1.0	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET									
Int'l investment position, net	**5.3**	**12.1**	**10.9**	**12.2**	**13.7**	**15.2**	**16.4**	**18.1**	**19.8**
Assets	220	228	235	229	220	217	213	211	211
Liabilities	215	216	225	216	207	202	196	193	191
Direct investment	10	11	10	11	12	13	14	15	17
Assets	72	70	65	62	58	55	52	50	48
Liabilities	62	60	56	51	46	42	38	35	32
Portfolio investment	-17	-15	-19	-22	-24	-26	-29	-31	-33
Financial derivatives	0	0	0	0	1	1	1	2	2
Other investment	7	11	14	16	19	22	24	27	30
Reserve assets	5	5	7	6	6	6	5	5	5
MEMORANDUM ITEMS									
Export value (goods and services)	7.5	2.9	-10.1	10.0	8.0	4.0	4.5	3.9	3.8
Import value (goods and services)	7.5	2.8	-10.9	11.5	7.3	4.5	4.5	3.4	3.6
Nominal GDP (billions of euro)	385	398	377	399	425	444	466	482	498

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

Table 5. Austria: Financial Soundness Indicators, 2014–2020:Q3

(In percent)

	2014	2015	2016	2017	2018	2019	2020Q3
Capital adequacy							
Regulatory capital to risk-weighted assets 1/	16.3	16.5	18.0	18.8	18.4	18.3	18.6
Regulatory Tier I capital to risk-weighted assets 1/	12.3	13.2	14.5	15.6	15.6	15.9	16.1
Capital to assets (percent) 2/	6.8	7.4	7.3	7.5	7.7	7.9	7.6
Large exposures to capital 2/	70.5	59.2	60.7	51.2	55.6	53.4	49.7
Nonperforming loans net of loan-loss provisions to capital 2/ 4/	13.8	13.2	11.2	10.9	8.0	6.3	4.2
Asset quality							
Nonperforming loans to total gross loans 2/ 4/	3.5	3.4	2.7	2.4	1.9	1.6	1.5
Sectoral distribution of loans to total loans 3/							
Residents	70.0	73.5	74.7	76.3	75.9	75.6	77.4
Deposit-takers	20.2	19.8	19.0	18.0	17.8	17.4	16.3
Central bank	1.6	3.1	3.0	5.5	6.2	5.8	11.9
Other financial corporations	3.0	3.1	3.0	2.3	2.1	2.0	1.9
General government	4.3	4.5	4.5	3.9	3.8	3.5	3.2
Nonfinancial corporations	20.0	20.7	21.5	22.4	22.4	23.2	22.0
Other domestic sectors	20.8	22.4	23.7	24.1	23.6	23.8	22.1
Nonresidents	30.0	26.5	25.3	23.7	24.1	24.4	22.6
Geographical distribution of loans to total loans 2,3/							
Domestic economy	70.0	73.5	74.7	76.3	75.9	75.6	77.4
Advanced economies	16.4	14.5	15.1	13.5	14.0	15.3	15.0
Emerging market and developing countries	13.7	12.0	10.2	10.3	10.0	9.1	7.6
Of which: Central and Eastern Europe	10.7	9.6	8.2	8.5	8.4	7.4	6.2
Earnings and profitability 1/							
Return on assets	-0.2	0.5	0.5	0.8	0.8	0.7	0.3
Return on equity	-3.2	7.2	7.0	10.0	9.9	9.2	3.6
Net interest income to gross income	58.7	58.8	59.0	59.1	61.1	60.5	64.3
Noninterest expenses as a percentage of gross income	77.3	69.6	74.8	67.0	68.3	68.2	66.1
Liquidity 2/							
Liquid assets to total assets	22.8	24.8	25.4	23.7	24.4	23.0	27.5
Liquid assets to short-term liabilities	67.0	68.5	67.2	65.7	68.2	63.9	79.3
Net open position in foreign exchange to capital	0.7	0.2	1.0	0.1	0.7	0.6	0.5
Other FSIs 2/							
Trading income as a percentage of gross income	1.8	2.5	1.7	1.7	1.5	1.4	2.9
Personnel expenses as a percentage of noninterest expenses	53.1	50.2	49.9	46.9	48.1	47.5	45.3
Spread between reference lending and deposit rates (basis points)	196.0	193.0	190.0	179.0	177.0	176.0	169.0
Foreign currency-denominated loans to total loans	18.8	15.5	13.8	11.2	11.2	11.3	9.6
Foreign currency-denominated liabilities to total liabilities	9.9	7.5	6.6	6.5	6.8	6.6	5.2

Sources: IMF FSI.

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

2/ Domestic consolidation basis.

3/ Total loans include loans to financial institutions.

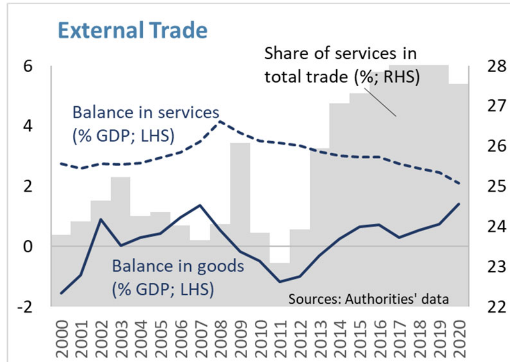
4/ Starting in 2014, NPLs are reported on a borrower rather than single loan basis, which results in a break in the series.

Annex I. Key Policy Measures in Response to the Pandemic

Measure	Short description	Target
	Revenue	
Tax deferral	Tax payment deferrals or payments installments. Suspended collection of interest for tax arrears. Reduced advance payments for corporate and income tax. VAT payment deferral	Firms/Self-Employed
VAT reduction	VAT reduction (5%) for hospitality, hotel, and cultural sectors (until December 2021) No VAT on supplies of protective masks (4/13/20-8/1/20).	Hospitality and healthcare sectors/ consumers
Income tax reduction	Reduction of personal income tax rate for income between EUR 11,000 and EUR 18,000 from 25% to 20%. The top income tax bracket rate of 55 percent for income increments of EUR 1 million and more will be extended beyond the year 2020 until 2025	Workers/Self-Employed
Loss carry back	Taxpayers can apply a one-time loss carry back capped at EUR 5 million from 2020 to 2019 and, to the extent an offset against 2019 profits is not possible, to 2018 subject to additional requirements.	Affected firms
Depreciation rule	For investments in fixed assets that are currently eligible for straight-line depreciation, taxpayers will be able to opt for a declining-balance depreciation at a maximum rate of 30 percent. Building acquired or constructed after 30 June 2020 will be eligible for accelerated straight-line depreciation.	Firms
	Expenditure	
Increase of the social security refund	Social security contribution refund rose from EUR 700 to EUR 800 for low-income earners with an annual income of less than EUR 11,000	Low-income earners
Short-term work arrangement	Temporary reduction of normal working hours between 10% and 90% and from April 2021 between 30% and 80%. The employee receives a net salary of 80%-90% based on the net salary before short-time work. The scheme has been extened to mid-2022.	Workers
Hardship fund	Direct grant for one-person companies, new self-employed person, freelancers and microentreprenuers. The amount of grant ranges between 80-90 percent of assessed loss of income. Maximum grant is EUR 30,000, including top-up bonusses 39,000.	Affected firms (unable to cover cost and at least 50 percent of revenue loss)
Investment premium act	Investment grants to companies with a seat or place of business in Austria and which carry out initial measures for new investments in depreciable fixed assets subject to capitalization between 01.08.2020 and 31.05.2021 and implement them by 28.02.2023. The general level of support is 7% of eligible investments and 14% for greening, digitization and health investments.	Firms
Fixed cost subsidy I	Subsidies are granted up to three consecutive months during 3/16/20 - 9/15/20. The amount is varied by the amount of lost revenue. Maximum subsidy is at EUR 90 million	Affected firms (revenue loss of at least 40 percent)
Fixed cost subsidy II	Fixed cost must have been incurred between 9/16/20-6/30/21. Maximum subsidy is at EUR 800,000 per company. Now raised to 1.8 million euros.	Affected firms (revenue loss of at least 30 percent)
Lockdown revenue replacement (Lockdown turnover substitute)	Compensation was at 80 and 50 percent of the turnovers in November and December 2020, respectively. For trading companies (November), the lockdown sales compensation is staggered at 20%, 40% or 60% (max. EUR 800,000). For trading companies (December), the lockdown sales replacement is paid at 12.5%, 25% or 37.5% (max. EUR 800,000).	*Directly* affected firms (e.g. hospitality industry, hairdressers etc) and *indirectly affected* firms (at least 50 percent of revenue coming from directly affected firms and revenue loss of at least 40 percent) during November and December
Loss replacement	Loss compensation between 70 - 90 percent based on size and annual sales/assets. Maximum amount is EUR 3 million now revised to 10 million.	Affected firms (turnover loss of at least 30 percent) during 9/16/20 and 12/31/21
Cancellation bonus (Loss bonus)	15 percent of lost revenue is granted with a maximum about of EUR 30,000. The bonus was raised to 30 percent in March and April (maximum EUR 50,000) in response to the renewed lockdown. This can be applied together with fixed cost subsidy II.	Affected firms with a loss of sale of at least 40 percent
Pension increase 2021	Increase small and medium-sized pensions beyond the statutory adjustment factor.	Low-income earners
	Below-the-line measures	
Guarantees	Support is provided for working capital financing (e.g. purchases of goods, personnel costs) as well as financing for the deferral of existing credit lines to companies that have no or insufficient liquidity to finance current operations due to the current "coronavirus crisis" or whose sales and earnings performance is impaired by order cancellations or market changes. Guarantees range from 80 -100 percent based on loan amount.	Firms/SMEs/and self employed

Annex II. External Sector Assessment

Austria's external position in 2020 remained broadly in line with fundamentals and desirable policy settings, after adjusting for transitory impacts from the tourism sector due to the COVID-19 crisis. The current account gap was close to zero, and policies are appropriate.



- **External position.** Austria's external position remained robust despite the impact of the COVID-19 pandemic. The net international investment position (IIP) declined slightly to 11 percent in 2020 (from 12 percent in 2019) largely from valuation effects and it is projected to increase further as the current account is expected to remain in surplus. The current account has experienced a shift from deficits to surpluses since 2002, reflecting improvements in trade balances as Austria became more closely integrated into European value chains. 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 loan-to-deposit ratio of Austrian banking subsidiaries from a peak of over 100 percent of GDP in 2008 to about 75 percent of GDP in 2020.

External Balance Assessment

Methodology	Total Gap (%)	Policy Gaps (%) Total	Fiscal balance	Health exp.	Reserves	Private credit	Capital controls	Real i-rate	Temporary COVID-related Adjustment (%)	Residual (%)
Current account	0.4	0.0	0.2	-0.3	0.0	0.3	-0.1	...	-0.3	0.7
REER (index) 1/	10.5	-0.6	...	1.1	-0.1	-0.4	0.0	-1.2	...	11.1
REER (level) 2/	13.3	1.0	...	2.2	-0.1	-0.1	0.0	-0.9	...	12.3

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.

- **Current account balance and real exchange rate.** The external balance is assessed to be broadly consistent with fundamentals and desirable policy settings. Based on the IMF's External Balance Assessment (EBA) estimates, the current account balance in 2020 —after adjusting for cyclical and temporary factors—stood at 2.5 percent of GDP, slightly higher than an estimated norm of 2.1 percent of GDP.[1] The policy gap is driven by a low but sizeable budget deficit

[1] The analysis is based on panel regressions of the current account balance and the real effective exchange rate (REER), which are simultaneously determined. The first stage is descriptive and focused on understanding current account and real exchange rate developments. The second stage is oriented toward a normative evaluation, drawing on the regression results to estimate equilibrium values for the current account balance and the REER, deviations

(continued)

relative to trading partners —partly offset by high health expenditure relative to trading partners—and relatively weak credit as a percentage of GDP. With a relatively small unexplained residual, an overall current account gap is estimated at 0.4 percent of GDP. Applying a semi-elasticity of 0.4, an indicative REER gap is estimated at 0.16 percent. For the REER approach, the EBA estimates suggest that the REER, which appreciated by 10 percent in 2020, was overvalued within a range of 10.5–13.3 percent. However, these estimates are mostly driven by unexplained residual. As a result, using the current account assessment as reference, the external position of Austria in 2020 was assessed as broadly consistent with fundamentals and desirable policy settings.

- **Capital and financial account.** The financial account posted net outflow of 1.4 percent of GDP in 2020, driven by FDI and reduction in other investment liabilities. Net portfolio investment inflows remained strong as foreign investors increased their holdings of Austrian debt securities during the pandemic, which has largely been mirrored by a reduction in liabilities of current/deposits in other investment.

- **Overall assessment.** Austria's external position is sustainable and broadly in line with fundamentals and desirable policy settings, after adjusting for transitory factors. Policies are broadly appropriate in near term although the authorities could step up structural reforms to reignite growth. In the long run, raising the efficiency of health expenditures and reforming pensions would open significant savings potential to help ensure fiscal sustainability.

("gaps") of actual current account balances and REER from these equilibrium values, as well as the contributions of "policy gaps" to the overall current account balance and REER gaps.

Annex III. Risk Assessment Matrix[1]

Risks	Relative Likelihood	Impact if Realized	Policy Response
External risks			
Global resurgence of the COVID-19 pandemic: Local outbreaks lead to a global resurgence of the pandemic, which requires costly containment efforts and prompts persistent behavioral changes rendering many activities unviable.	Medium	Medium • Domestic demand especially in contact-intensive sectors will weaken. • Larger economic scarring • Persistent increase in unemployment	▪ 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.
Disorderly transformations: COVID-19 triggers structural transformations, but the reallocation of resources is impeded by labor market rigidities, debt overhangs, and inadequate bankruptcy resolution frameworks. This, coupled with a withdrawal of COVID-19-related policy support, undermines growth prospects and increases unemployment, with adverse social/political consequences. Adjustments in global value chains and reshoring (partly driven by geostrategic and national security concerns) shift production activities across countries.	Medium	High • Larger economic scarring • Persistent increase in unemployment • High insolvency rate	▪ Providing training, hiring subsidies to address skill and regional mismatches. ▪ Providing solvency support policies for viable firms. ▪ Transposing the EU Directive on Restructuring and Insolvency
Widespread social discontent and political instability: Social tensions erupt as a withdrawal of pandemic-related policy support results in unemployment and, amid increasing prices of essentials, hurts vulnerable groups (often exacerbating pre-existing inequities).	Medium	Medium Increase in unemployment and inequality	▪ Sustain supports to vulnerable households.

[1]The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood 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 between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of 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.

Rising commodity prices amid bouts of volatility: Commodity prices increase by more than expected against a weaker U.S. dollar, post-pandemic pent-up demand and supply disruptions, and for some materials, accelerated plans for renewable energy adoption. Uncertainty surrounding each of these factors leads to bouts of volatility, especially in oil prices.	**Medium**	**Medium** Higher input cost for firms	▪ Implement reforms to boost productivity and potential growth.
Higher frequency and severity of natural disasters related to climate change cause severe economic damage to smaller economies susceptible to disruptions and accelerate emigration from these economies. A sequence of severe events in large economies reduces global GDP and prompts a recalculation of risk and growth prospects. Disasters hitting key infrastructure or disrupting trade raise commodity price levels and volatility.	**Medium**	**Medium** Weaker demand for winter tourism and lower growth.	▪ Support affected sectors and rebuild damaged infrastructure. ▪ Reallocate fiscal spending as needed. ▪ Diversifying tourism export base.
De-anchoring of inflation expectations in the U.S. leads to rising core yields and risk premia. A fast recovery in demand (supported by excess private savings and stimulus policies), combined with COVID-19-related supply constraints, leads to sustained above-target inflation readings and a de-anchoring of expectations. The Fed reacts by signaling a need to tighten earlier than expected. The resulting repositioning by market participants leads to a front-loaded tightening of financial conditions and higher risk premia, including for credit, equities, and emerging and frontier market currencies.	**Medium**	**Medium** Weaker confidence could reduce investment	▪ Implement reforms to boost productivity and potential growth.
Cyber-attacks on critical infrastructure, institutions, and financial systems trigger systemic financial instability or widespread disruptions in socio-economic activities and remote work arrangements.	**Medium**	**Medium** Loss of confidence in the financial market and the economy.	▪ Deploy measures to strengthen cyber security.

Domestic risks			
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 Reform setback could undermine confidence	▪ Outline reform details in a comprehensive package. ▪ Identify key measures on the expenditure side. ▪ Publish progress reports periodically.
Withdrawal of support. Prematurely withdrawal of support could heighten insolvency risk and weaken financial stability.	Medium	Medium Economic scarring from weak corporate balance sheet will suppress investment and capital accumulation.	▪ Careful monitoring of credit quality ▪ Provide solvency support

Annex IV. Public Sector Debt Sustainability Analysis

Prior to the pandemic, Austria's public debt declined rapidly to 70.5 percent of GDP in 2019. The unprecedented fiscal support to fight the pandemic and its ramification raised public debt to 83.5 percent of GDP in 2020. 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 deemed sustainable over the medium term.

Baseline

1. **Key baseline assumptions:** Under the baseline, growth is projected at 3.5 percent in 2021 and accelerate to 4 percent in 2022 before gradually decline to the potential level of 1.8 percent over the medium term. The baseline scenario incorporated fiscal support announced in the 2021 budget (first revision) and the announced recovery plan during 2021–24. The authorities are currently revising the budget, extending fiscal support due to renewed lockdown in April 2021. Sovereign ratings remained strong, and the Austria 10-year and Germany 10-year spread stabilized at around 20 basis points.

2. **Debt dynamics:** Due to unprecedented fiscal support to combat the pandemic, public debt rose sharply to 83.5 percent of GDP in 2020. In 2021, extended support will continue to push public debt up to 85.3 percent of GDP in 2021. As temporary support starts to wind down in line with economic recovery, public debt will start falling to 74.8 percent of GDP in 2026. Estimated gross financing needs will decline to about 10 percentage points during 2020–26.

3. **Realism of the baseline assumptions:** Austria's median forecast error for growth and during 2011–19 was at -0.37, 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 0.46, 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–2021 and GDP is expected to accelerate in 2022. Moreover, the current government has a track record of conducting prudent fiscal policy and indicates the plan to rebuild fiscal buffers as soon as the recovery takes hold.

Shocks and Stress Tests

5. **Public debt dynamics**: Stress test analysis shows that Austria's debt dynamics will worsen significantly. Nonetheless, in most cases, public debt is expected to fall below its peak in 2021. The largest shocks to public debt dynamics likely stem from growth shocks and contingent liability shock.

6. **GDP shock:** The GDP shock scenario assumes that growth is slower by one standard deviation of the historical outturn, implying a reduction by almost 4 percentage points in 2022–23. In this

scenario, public debt-to GDP ratio would increase significantly and is projected to lie at 85 percent of GDP in 2026—a 11 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.

Table 1. Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

(in percent GDP, unless otherwise indicated)

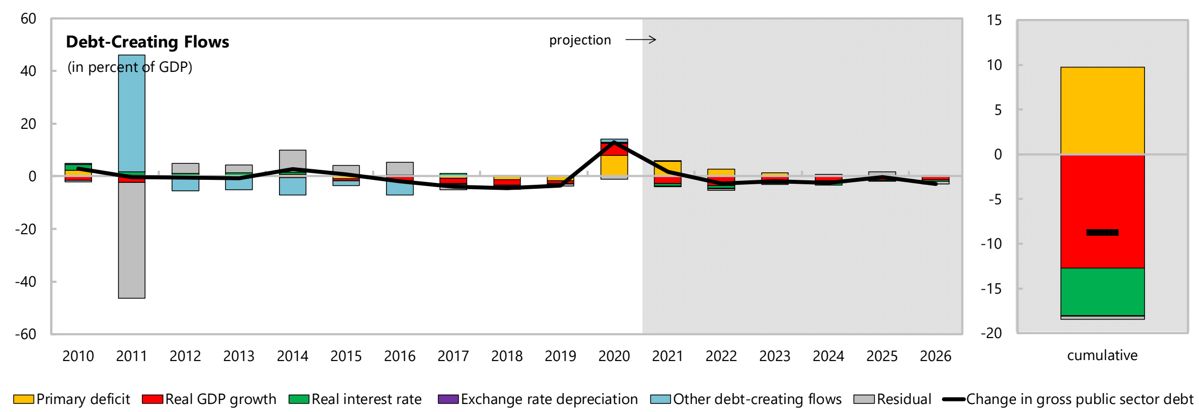
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2010-2018 [2/]	2019	2020	2021	2022	2023	2024	2025	2026
Nominal gross public debt	81.2	70.5	83.5	85.3	82.6	80.8	78.2	77.8	74.8
Public gross financing needs	10.6	10.3	18.5	15.6	14.4	12.5	9.9	9.2	8.6
Real GDP growth (in percent)	1.6	1.4	-6.3	3.5	4.5	2.3	2.2	2.0	1.8
Inflation (GDP deflator, in percent)	1.7	1.7	1.2	2.2	2.0	2.0	2.7	1.5	1.5
Nominal GDP growth (in percent)	3.3	3.2	-5.1	5.8	6.5	4.3	5.0	3.6	3.4
Effective interest rate (in percent) [4/]	3.0	2.0	1.8	1.1	0.9	0.8	0.8	0.9	0.9

As of April 19, 2021		
Sovereign Spreads [3/]		
5Y CDS (bp)		9
Ratings	Foreign	Local
Moody's	Aa1	Aa1
S&Ps	AA+	AA+
Fitch	AA+	AA+

Contribution to Changes in Public Debt

	Actual			Projections							
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-0.6	-3.5	13.0	1.7	-2.7	-1.8	-2.6	-0.4	-2.9	-8.7	
Identified debt-creating flows	2.0	-2.8	14.2	2.1	-2.1	-1.5	-3.1	-1.9	-1.9	-8.3	
Primary deficit	0.0	-1.6	7.9	5.6	2.6	1.3	0.2	0.1	0.0	9.8	-1.9
Primary (noninterest) revenue and grants	48.5	48.8	48.4	48.2	47.9	47.7	48.0	48.1	48.2	288.0	
Primary (noninterest) expenditure	48.5	47.1	56.3	53.8	50.5	48.9	48.1	48.2	48.2	297.8	
Automatic debt dynamics [5/]	-0.2	-0.9	5.1	-3.6	-4.5	-2.8	-3.2	-2.0	-1.9	-18.0	
Interest rate/growth differential [6/]	-0.2	-0.9	5.1	-3.6	-4.5	-2.8	-3.2	-2.0	-1.9	-18.0	
Of which: real interest rate	1.0	0.2	0.5	-0.9	-0.9	-0.9	-1.5	-0.5	-0.5	-5.3	
Of which: real GDP growth	-1.2	-1.0	4.7	-2.8	-3.6	-1.8	-1.7	-1.5	-1.4	-12.7	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	2.2	-0.3	1.2	0.1	-0.2	0.0	0.0	0.0	0.0	-0.1	
GG net privatization proceeds (-)	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	2.4	0.2	1.8	0.4	0.0	0.0	0.0	0.0	0.0	0.4	
Change in assets relating to banks	-0.1	-0.5	-0.6	-0.2	-0.2	0.0	0.0	0.0	0.0	-0.4	
Residual, including other asset changes [8/]	-2.7	-0.8	-1.2	-0.4	-0.6	-0.3	0.5	1.5	-1.1	-0.4	



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 - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) 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 - π (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+r).

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.

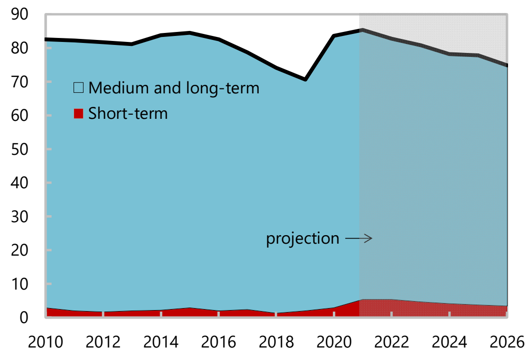
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 1. Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

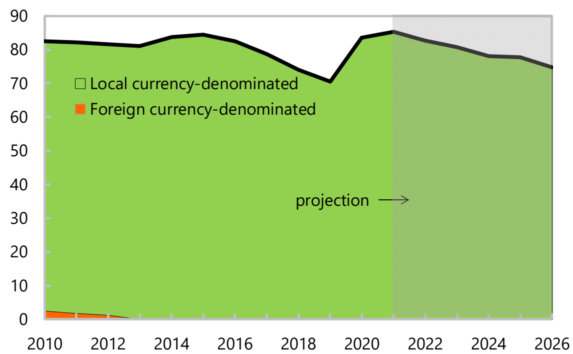
By Original Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

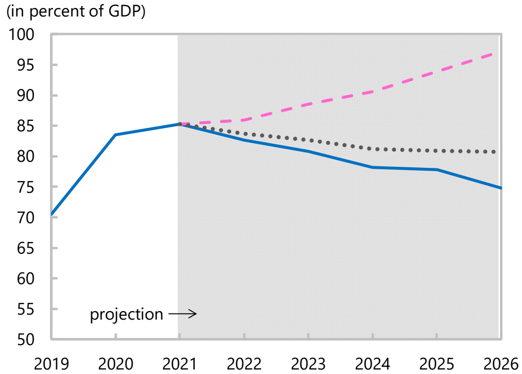


Alternative Scenarios

Baseline Historical Constant Primary Balance

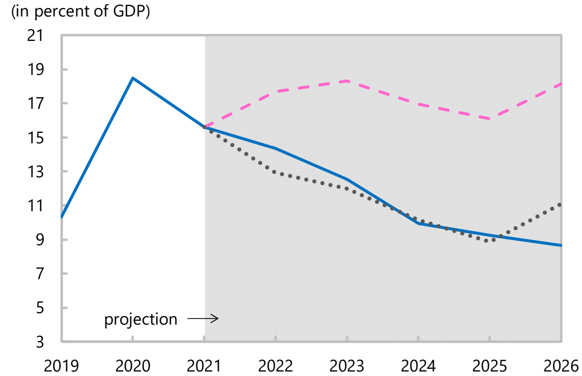
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

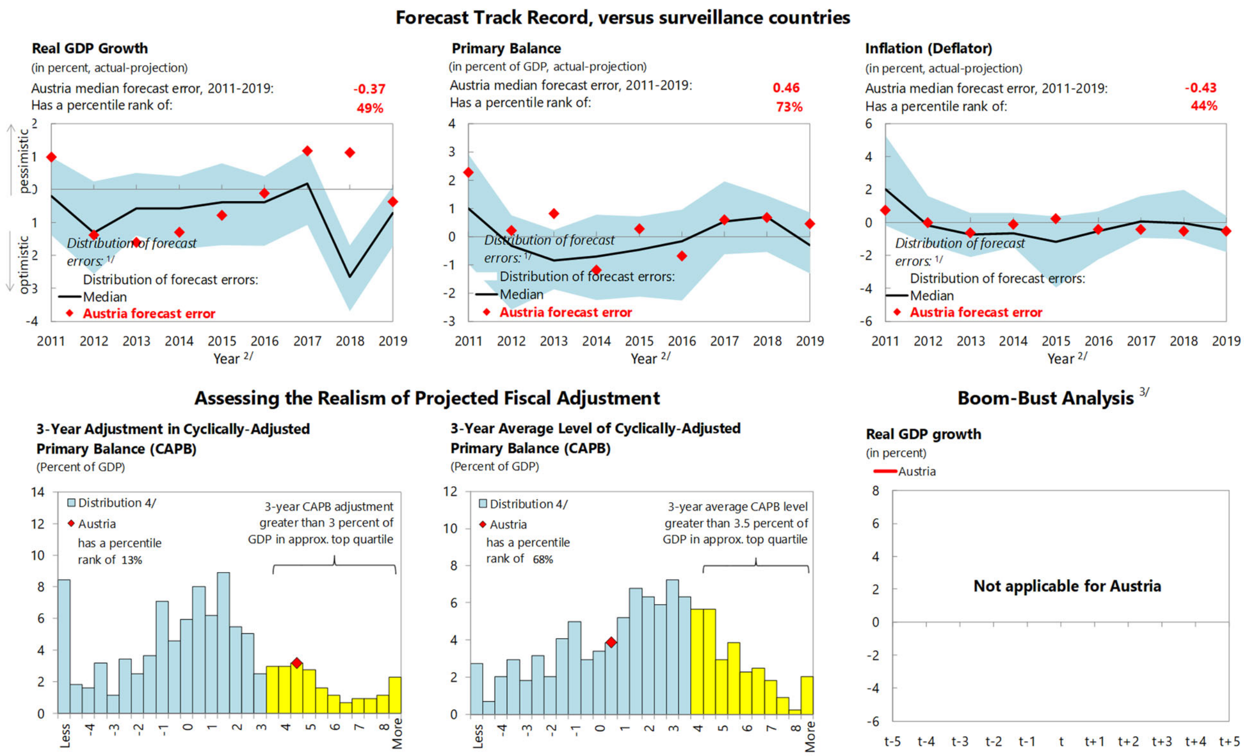
(in percent)

Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	3.5	4.5	2.3	2.2	2.0	1.8
Inflation	2.2	2.0	2.0	2.7	1.5	1.5
Primary Balance	-5.6	-2.6	-1.3	-0.2	-0.1	0.0
Effective interest rate	1.1	0.9	0.8	0.8	0.9	0.9
Constant Primary Balance Scenario						
Real GDP growth	3.5	4.5	2.3	2.2	2.0	1.8
Inflation	2.2	2.0	2.0	2.7	1.5	1.5
Primary Balance	-5.6	-5.6	-5.6	-5.6	-5.6	-5.6
Effective interest rate	1.1	1.1	1.1	1.1	1.2	1.2

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	3.5	0.7	0.7	0.7	0.7	0.7
Inflation	2.2	2.0	2.0	2.7	1.5	1.5
Primary Balance	-5.6	-0.4	-0.4	-0.4	-0.4	-0.4
Effective interest rate	1.1	1.1	1.4	1.6	1.8	2.0

Source: IMF staff.

Figure 2. Public DSA – Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes surveillance countries, percentile rank refers to all countries.

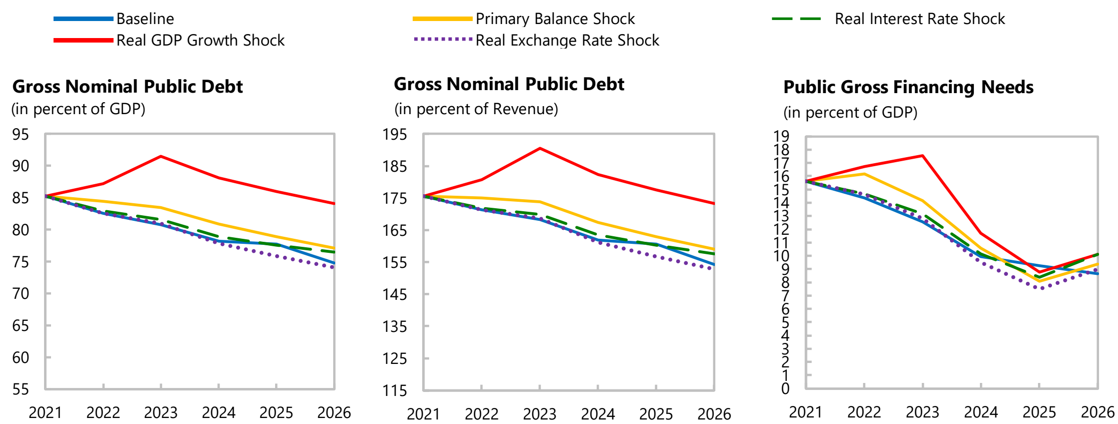
2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Austria, as it meets neither the positive output gap criterion nor the private credit growth criterion.

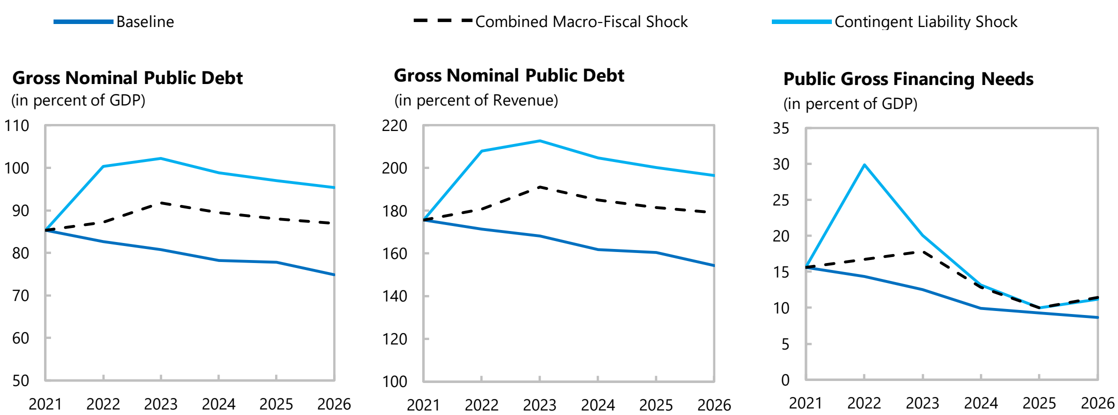
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 3. Public DSA- Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	3.5	4.5	2.3	2.2	2.0	1.8
Inflation	2.2	2.0	2.0	2.7	1.5	1.5
Primary balance	-5.6	-4.1	-1.9	-0.7	-0.1	0.0
Effective interest rate	1.1	1.1	1.1	1.2	1.3	1.3
Real Interest Rate Shock						
Real GDP growth	3.5	4.5	2.3	2.2	2.0	1.8
Inflation	2.2	2.0	2.0	2.7	1.5	1.5
Primary balance	-5.6	-2.6	-1.3	-0.2	-0.1	0.0
Effective interest rate	1.1	1.1	1.5	1.8	2.1	2.3
Combined Shock						
Real GDP growth	3.5	1.9	-0.3	2.2	2.0	1.8
Inflation	2.2	1.3	1.3	2.7	1.5	1.5
Primary balance	-5.6	-4.3	-4.5	-0.7	-0.1	0.0
Effective interest rate	1.1	1.1	1.5	1.9	2.2	2.3

Real GDP Growth Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	3.5	1.9	-0.3	2.2	2.0	1.8
Inflation	2.2	1.3	1.3	2.7	1.5	1.5
Primary balance	-5.6	-4.3	-4.5	-0.2	-0.1	0.0
Effective interest rate	1.1	1.1	1.2	1.3	1.4	1.4
Real Exchange Rate Shock						
Real GDP growth	3.5	4.5	2.3	2.2	2.0	1.8
Inflation	2.2	2.4	2.0	2.7	1.5	1.5
Primary balance	-5.6	-2.6	-1.3	-0.2	-0.1	0.0
Effective interest rate	1.1	1.1	1.1	1.1	1.3	1.3
Contingent Liability Shock						
Real GDP growth	3.5	1.9	-0.3	2.2	2.0	1.8
Inflation	2.2	1.3	1.3	2.7	1.5	1.5
Primary balance	-5.6	-17.4	-1.3	-0.2	-0.1	0.0
Effective interest rate	1.1	1.1	1.9	1.8	1.9	1.9

Source: IMF staff.

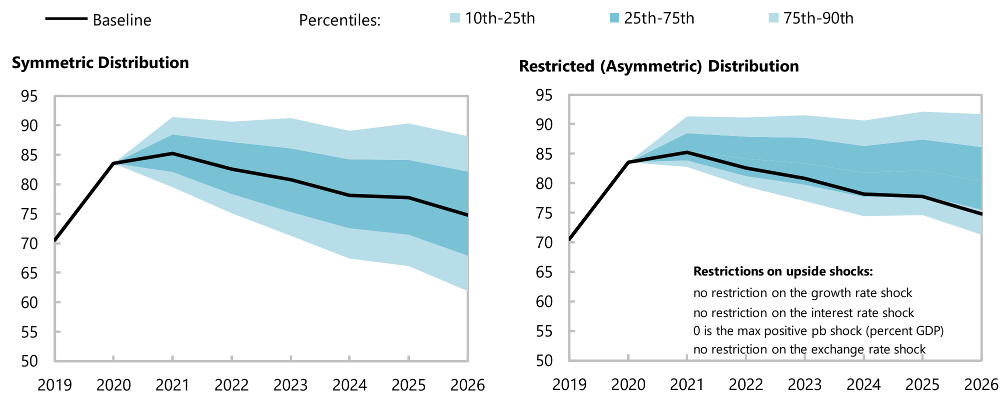
Figure 4. Public DSA Risk Assessment

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

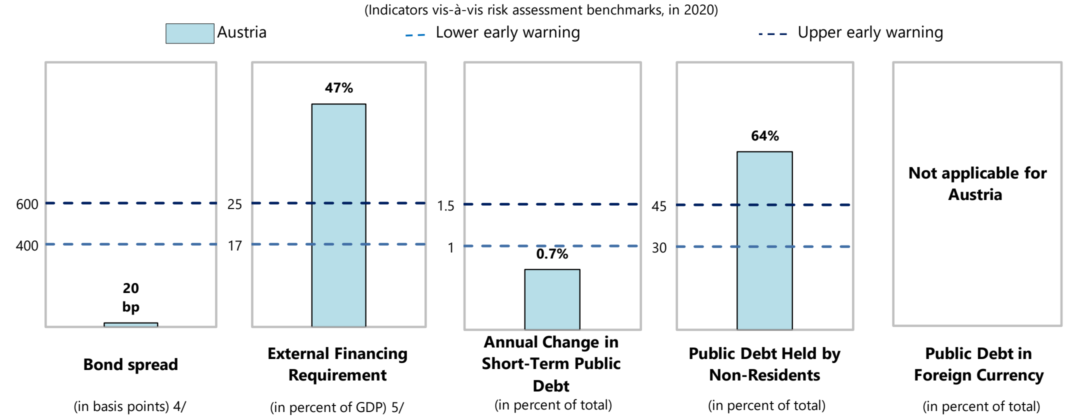
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2020)



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, 19-Jan-21 through 19-Apr-21.

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 V. Authorities' Responses to 2020 FSAP Recommendations

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	The Austrian authorities (FMA/OeNB) reiterate that a change in 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	FMA and OeNB: The authorities are continuously updating and refining the internal SREP manuals (the SSM SREP and the EBA SREP GL) to reflect EU regulatory developments. Training and Guidance to staff are provided on a regular basis.
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 they will continue in 2021. (3) Assessment of the exposure towards economic sectors which are potentially affected by COVID 19 pandemic; (4) an comprehensive impact assessment on the effects of interest risk module. 5) Complementary information to evaluate the impact associated with the new extrapolation method and the adjustment of the long term guarantee measures. In 2021 the scope of the stress test includes the largest group identified according to EIOPA criteria.
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	The FMA continuously reviews human resources and new needs identified. Recent responsibilities, VASPs experts assigned within AML receive regular on the job trainings to fulfill new responsibilities.

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	The FMA's risk scoring toolkit includes quantitative and qualitative data to properly capture 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,...). On cross border risk monitoring includes qualitative data and the count of branches and subsidiaries in every country, which is taken into account in each country's aggregate risk score. (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, asses 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. (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 of the measures implemented. Due to Covid19, some of the measures had to be modified. (iv) Non-EU/non-EA exchange of information: improvement of cross-border information exchange is part of the ongoing supervision. The FMA has the 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.
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.	NT	No change
Enhance oversight of inward spillover risks from the inverse ownership structure of the Raiffeisen sector.	NT	The FMA is constantly monitoring the specific risks of the Raiffeisen sector with a focus on the supervision of the Institutional Protection Scheme (IPS). 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 Austrian Deposit Guarantee Scheme (*Einlagensicherung Austria Ges.m.b.H.*). We plan to refine these supervisory activities as regards the specific risks of the Raiffeisen sector. Furthermore, the

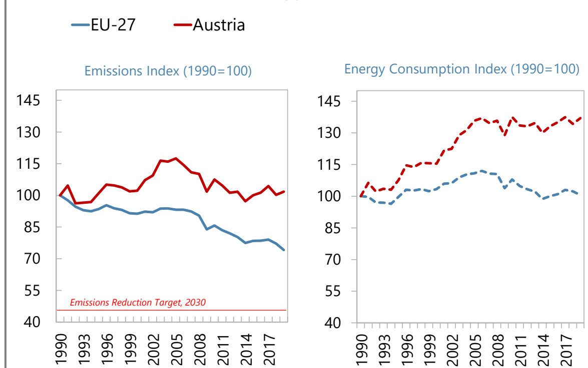
		spillover risks are also investigated during the resolution planning cycle that will be finished by Q4 2021.
Financial Stability Analysis		
Close data gaps, including in the real estate and NFC sectors, and improve coverage and granularity of CESEE data.	MT	The OeNB implemented the following: (i) Data gaps with regard to real estate and NFC sectors were implemented for residential real estate; the implementation is ongoing for commercial real estate. (ii) Data gaps with regard to CESEE: They are implemented using risk-based parameters. The AnaCredit data of other countries provide NFC risk parameters. The implementation is ongoing on country risk statistics for the use of the enhanced use of OeNB's "Financial Stability Cube".
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: One temporary position (duration 2 years) was created and another temporary position (duration 2 years) was redirected to support further development.
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 with in the established procedures of the Resolution Colleges.
Enhance insurance crisis preparedness, introducing pre-emptive recovery planning for eligible insurers.	NT	The FMA contacted the MoF in connection with the modernization of FMA's supervisory instruments. Discussions with the MoF have advanced and first legislative drafts are currently under discussion. Furthermore, FMA's positions were presented at EIOPA level to prepare the technical advice for the European Commission. FMA and BMF have 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.
NT * I-Immediate" is within one year; "NT-near-term" is 1–3 years; "MT-medium-term" is 3–5 years.		

Annex VI. Closing the Climate Gap: A Carbon Pricing Proposal for Austria[1]

Austria has set ambitious commitments to reduce carbon emissions and achieve climate neutrality by 2040. The Covid-19 crisis has catalyzed efforts to combat climate change, with a substantial fraction of the recovery package dedicated to environmental measures. Despite these efforts, Austria is at risk of falling short of the 2030 emissions targets under the Paris Climate Agreement. A comprehensive carbon pricing scheme, to be gradually introduced from 2022, could contribute significantly to narrowing the emissions gap and would efficiently price all fuels incorporating their environmental externalities. Additional measures for achieving economy-wide energy efficiency would further reduce emissions by reining in energy consumption.

1. Austria's greenhouse gas (GHG) emissions have been broadly stable since 1990 with energy consumption growth remaining relatively high. Total emissions at end-2019 were about 2 percent higher than in 1990 but have generally fluctuated around this level. In comparison, overall European Union (EU) emissions have been on a downward trajectory, falling by 30 percent between 1990 and 2019. Despite the considerable progress made by Austria in improving emissions efficiency through the expansion of renewables, energy consumption has continued to rise and exert pressure on emissions growth. While the share of renewables has increased, its growth has been less dynamic since 2012 and fossil fuels have been gaining in importance since 2014 (Köppl and Schleicher, 2021).

Index of Emissions and Energy Consumption



Sources: European Comission and UNFCC

2. The national climate policy is guided by the EU's climate policy framework, as well as the domestic Climate Change Act. As an EU member state, Austria is jointly committed to achieving a net domestic reduction of at least 55 percent in greenhouse gas emissions by 2030 compared to 1990.[2] There are specific other targets for sectors covered under the Emission Trading System (ETS)[3] and for non-ETS sectors. The non-ETS sectors, including the agriculture, transport,

[1] Prepared by Manasa Patnam (EUR). The author thanks Jeffrey Franks, Michelle Hassine, Angela Koeppl, Stefan Schleicher, Nujin Supaphiphat, Barbara Posch, for insightful discussions and suggestions. Special thanks to Simon Black and Victor Mylonas for help with the carbon tax analysis and to Jankeesh Sandhu for excellent research assistance.

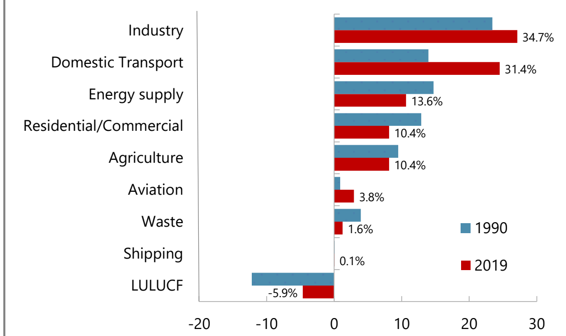
[2] See "Update of the NDC of the European Union and its Member States" (December, 2020). The previous target was emissions reduction of at least 40 percent by 2030 compared to 1990.

[3] The ETS is a cap-and-trade system for large power and heat plants and heavy industry mainly subject to the EU policy framework. ETS sectors must reduce emissions by 21 percent below the 2005 level by 2020 and by 43 percent from 2005 to 2030 (EC, 2018). This is an EU-wide target, without national sub-targets, as ETS allowances can be traded across the EU.

residential and commercial sectors, comprise 63 percent of Austria's total GHG emissions and 72 percent of its energy-related CO2 emissions (IEA, 2020). This underscores the need for domestic policy measures to mitigate emissions. In particular, the domestic transportation sector has effectively doubled its emissions since the 1990s and is the single largest emitter of non-ETS emissions. The Climate Change Act (2011) provides the legal basis for Austria's climate policy in the non-ETS sectors. The act sets annual targets for six sectors (so far up to 2020) as well as determines policies to meet the sectoral targets with rules on cost-sharing between the federal government and the provinces. In 2020, the Federal Government announced its commitment to achieving climate neutrality by 2040, ten years earlier than the goal set by the EU. It also adopted the Austrian Climate and Energy Strategy (#mission2030), mandating 2030 emissions targets for non-ETS sectors, for expanding renewable energy and improving energy efficiency.

Evolution of Sectoral Emissions

(mtCO2e with 2019 sectoral shares labelled)



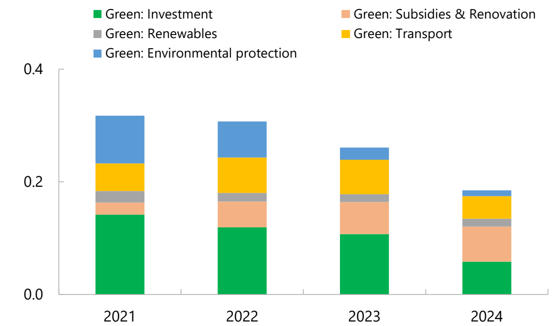
Sources: European Comission and UNFCC

3. **Existing policies prior to the pandemic would fall short of meeting the 2030 emissions target, with substantial additional efforts needed to close the gap.** At end-2019 Austria was already off-track to meet the 2020 targets (about 20 percent reduction relative to 1990) with non-ETS emissions only 10 percent below the 2005 level. However, the COVID-19 crisis and related reduction in economic activity are likely to reduce GHG emissions by over 10 percent relative to 2019. Nonetheless, this decline is expected to be temporary and reverse by 2021 leaving the emissions trajectory still far from what would be required to meet its 2030 target.[4] The national climate plan (NECP) envisages a `With Additional Measures' (WAM) scenario, comprising policies aimed at achieving substantial reductions in transport sector emissions to bring Austria closer to its 2030 target.

[4] A report by the Austrian court of auditors also found that Austria will significantly miss the EU's climate targets for 2030, partly as result of ineffective implementation of climate protections measure due to a lack of central coordination.

4. Austria's crisis recovery package includes additional expenditure-based measures that could help achieve the climate change targets. While fiscal spending on green and environmental policies has been historically low in Austria, averaging around 0.4 percent of GDP annually and well below the advanced economy average of 0.5 percent, the COVID-19 crisis has provided an opportunity to step up environmental efforts. A fifth of the announced recovery package consists of measures on climate change and environmental protection which include climate-friendly investments, decarbonizing the public transport system, forest conservation, scaling-up renewables, and green renovation. In line with the NECP's recommendations, some measures such as low-emission mobility, thermal renovation, and further scaling up of renewables will help increase energy efficiency. The measures to tackle transport sector emissions are ambitious but could end up delivering only a small fraction of the necessary savings by 2030 and would still further increase its share by 2030, as identified in the NECP.

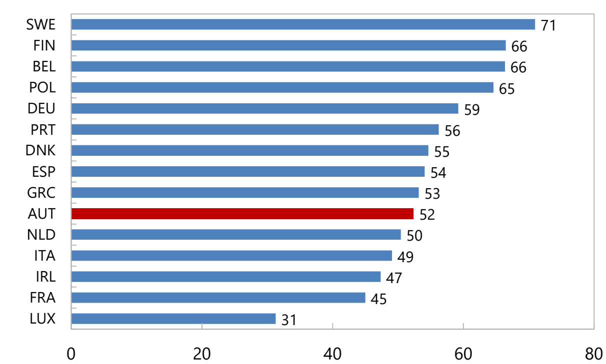
Climate Expenditure: Covid-19 Recovery Package
(percent of GDP)



Sources: Strategy Budget, IMF Staff Estimates. Excludes new priority measures.

5. Explicit revenue-based measures to mitigate climate change are not yet in place although an implicit tax for carbon already exists in various forms. Effective carbon rates in Austria consist of fuel and electricity excise taxes and to a smaller extent permit prices from the EU-ETS. About 68 percent of its carbon emissions are priced from energy use and only 48 percent are priced at a rate above EUR 60 per tonne of CO2, leaving a pricing gap of about 52 percent (OECD, 2021). The majority of unpriced emissions are from the industrial, residential, and commercial sectors. Austria's Tax Reform Act 2020 (*Steuerreformgesetz* 2020) further implements some ecological measures in the area of transport and introduces tax subsidies for sustainable fuels.[5] However, existing and planned measures may prove to be jointly insufficient to address the increasing energy consumption levels in the transportation sector, 95 percent of which are based on non-renewable sources and include heavy-duty freight vehicles engaging in fuel exports (IEA, 2020).[6]

Carbon Pricing Gap
(percent short of pricing carbon emissions at EUR 60 benchamark value)

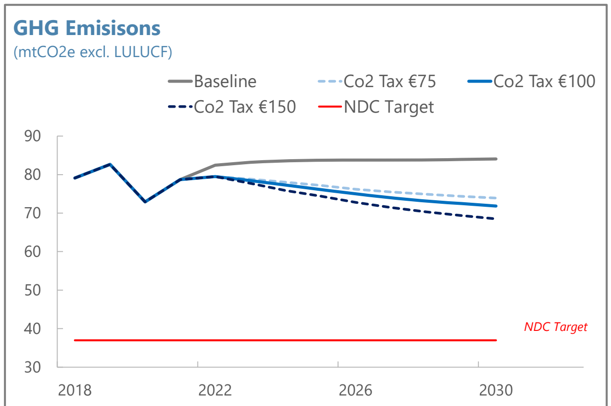


Sources: OECD

[5] For now, this includes a registration tax that is dependent on price and emissions and to add a CO2 component in the area of engine-related insurance tax. Tax exemptions and rebates are also offered for electric vehicles, biogas, sustainable hydrogen and liquefied natural gas.

[6] Fuel exports in vehicle tanks occurs when fuels are sold in Austria but used elsewhere. These fuel exports have increased substantially since 1990 and is estimated to account for approximately 23 percent of total diesel and petrol sold in Austria in 2016 (IEA, 2020).

6. An effective carbon pricing mechanism would serve as a comprehensive and broad-based instrument for meeting the ambitious national targets by 2030. A carbon pricing scheme can provide substantial incentives for emission reduction by increasing the cost of fossil fuel consumption commensurate with the level of environmental externalities. Operationally, this could be achieved by introducing carbon taxes which are charges on fossil fuels, with rates equal to the fuel's CO2 emissions factor multiplied by a CO2 emissions price (IMF, 2019). To estimate the desirable level of the carbon tax for Austria, staff project fuel use and emissions by sector with and without carbon tax so as to align carbon price trajectories with mitigation objectives. The model incorporates sectoral fuel use and projects this forward in a business-as-usual (BAU) scenario using assumptions about (i) future GDP growth; (ii) income elasticities for energy products; (iii) rates of technological change (e.g., that improve energy efficiency); (iv) future international energy prices and (v) existing ETS arrangements.[7] The impact of mitigation policies on fossil fuel use and CO2 emissions depends on: (i) their proportionate effect on fuel prices; and (ii) fuel price responsiveness.[8]



Sources: IMF Staff Estimates. NDC is nationally determined contribution for Austria's per EU's net reduction target of 55% in GHG emissions by 2030 vs. 1990. LULUCF is land use, land use change and forestry.

7. Staff analysis suggests that a carbon tax reaching €100 per metric ton by 2030 would contribute to narrowing the 2030 emission target gap. The carbon tax can be introduced gradually and phased in, starting at €25 per metric ton of carbon emission in 2022. In terms of its impact, a carbon tax of €100 and €150 per metric ton by 2030 would reduce emissions by 13 and 16 percent respectively relative to the baseline, BAU (no policy measure), emission path.[9] The sectors contributing majorly to the emission reduction under the carbon tax would be the power, industry, and transport sectors. This level of taxation balances the need to reduce any incentives for exporting fuel in vehicles but without substantially changing decisions on investment.

8. The proposed price of fuels under the carbon tax would be close to its efficient price which incorporates environmental externalities. The average increase in the price of fuels, excluding coal, under the €100 carbon tax scenario is around 35 percent. Carbon taxation would increase the price of coal by over 150 percent, but this would bring it closer to its socially efficient

[7] Simulations are based on the Carbon Price Assessment Tool framework used in IMF (2019). The analysis also shows that fuel is underpriced in Austria relative to externalities and a carbon tax would help attain the optimal price (inclusive of externalities). The model assumes a 5 percent growth in ETS permit price per annum.

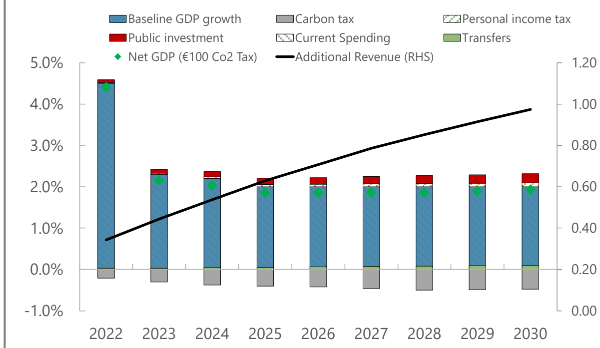
[8] Price elasticities for electricity and fuels are generally taken to be around -0.5 to -0.8, based on extensive cross-country evidence and results from much more detailed energy models.

[9] Note that the BAU scenario does not directly model the impact of existing policy measures (including those from the recovery package) on future emissions other than through their effect on GDP, technological change and energy prices. The possible impact of such measures can be inferred through the NECP's "with existing measures" (WEM) scenario, albeit with different modeling assumptions, which projects a 20 percent emissions reduction in 2030 relative to 2005.

level i.e., the `Pigouvian' price which internalizes all environmental externalities into unit costs. These environmental externalities range from costs related to global warming, local pollution, vehicle externalities (such as congestion costs, accident costs, and road damage).

9. The introduction of a carbon pricing scheme could also provide substantial revenue gains that can be used for compensating those adversely affected by the tax. The €100 carbon tax scenario would yield additional revenues of nearly 6 percent of GDP over the next decade which could finance tax reductions in other areas and provide resources for investment in climate-enhancing R&D as well as for supporting jobs growth. Part of the additional revenues should be used to adequately compensate low-income and vulnerable households from the adverse impact of the tax. This is because the share of energy expenditure amongst the poorest households (lowest quintile) is more than three times the expenditure shares of the richest (topmost quintile), which could render carbon taxes to be regressive without tax recycling (see Köppl and others, 2019).[10] The remaining part could be used for boosting spending on investment and employment, which would contribute to having a positive effect on GDP growth in the medium-term.

GDP & Revenue Impacts of Carbon Taxation
(annual GDP growth LHS and percent of GDP RHS)



Sources: IMF Staff Estimates

10. Carbon taxation is also viewed favorably by Austrian households who, despite the crisis, remain concerned about climate change. The successful introduction of carbon taxes hinges crucially on public acceptance and support for climate policies. Survey data from May 2020 (see Kittel and others, 2020) reveals that the median household in Austria is sufficiently concerned about climate change and believes that the government has a role in providing climate protection. When asked about policy preferences, the majority of households (almost 51 percent) were in favor of higher taxes to address climate change. However, they also identified several other policy measures that, in their view, could effectively mitigate climate concerns such as subsidized public transportation (*1-2-3 Climate Ticket*), lower VAT on renewables as well as higher tax for the aviation sector and companies.

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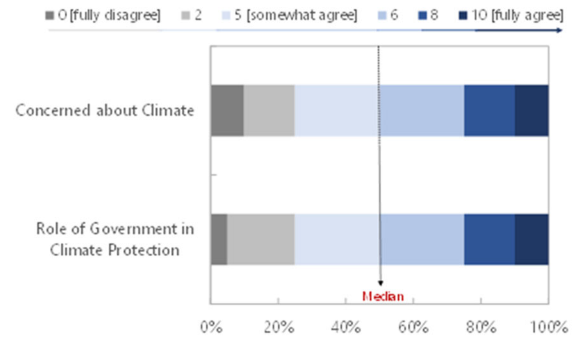
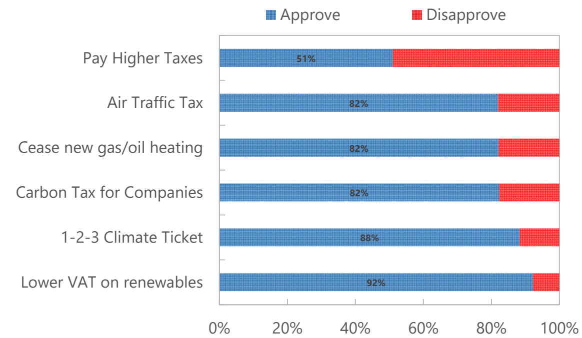
[10] The carbon tax is likely to affect 4.7 percent of the total consumer spending by households whose energy consumption corresponds to about 18 percent of the total CO2 emissions in Austria.

Household Attitudes on Climate
(percent responding on a scale of 1-10)



Sources: CoronaPanel Survey, IMF Staff Estimates

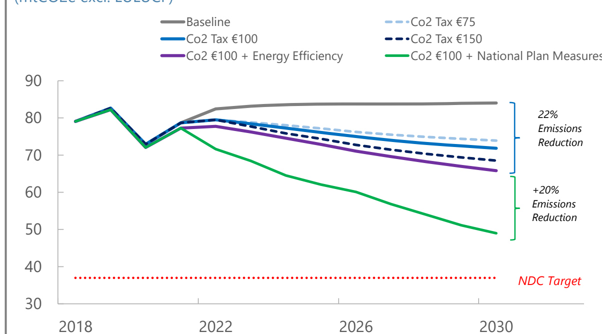
Household Preferences on Climate Policy Proposals
(percent of respondents)



Sources: CoronaPanel Survey, IMF Staff Estimates

11. Carbon pricing should be considered as a vital part of a multipronged reform strategy to meet environmental objectives. While surveyed households are generally supportive of carbon taxation, they also prefer several other policy options to tackle climate change. Given the heterogeneity of public preferences as well as distributive concerns, carbon taxation should therefore be viewed as part of a broader policy package comprising a combination of different types of climate policies (Stern and Stiglitz, 2017; Stiglitz, 2019). For instance, while Austria has successfully managed to reduce its emissions intensity through an expansion of renewables, it falls short of the EU-wide reduction level in energy consumption. This necessitates also prioritizing policies that aim to achieve economy-wide energy efficiency across all sectors. The introduction of a carbon tax could help in this respect, by nudging firms and households to more efficiently use their energy given the higher energy cost (see Wang and others, 2019). However, additional government-supported energy efficiency measures would further contribute to emissions reduction. For instance, combining the €100 carbon tax with all-sector energy efficiency policies would reduce baseline emission by almost 20 percent by 2030. Adding further granular measures to the package, for instance by adopting the sectoral recommendations proposed in the national climate plan could further propel Austria closer to its emissions target.

GHG Emissons
(mtCO2e excl. LULUCF)



Sources: IMF Staff Estimates. NDC is nationally determined contribution for Austria's per EU's net reduction target of 55% in GHG emissions by 2030 vs. 1990. National Plan measures refer to the with addtional measures scenario of Austria's Integrated National Energy and Climate Plan. LULUCF is land use, land use change and forestry.

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Annex VII. Previous Article IV Recommendations

2018 Article IV Recommendations	Policy Actions
Fiscal Policy	
Create fiscal space to accommodate the cost of ageing society Outline fiscal measures underpinning the fiscal consolidation effort. Further steps to lower the tax wedge on low incomes should follow, which could be financed by higher taxation of environmental pollution and wealth.	Significant savings potential exists but the implementation of the recommendations was delayed by the pandemic. The authorities advanced personal income tax (PIT) reform by lowering PIT rate of the lowest income bracket. Carbon taxation has been under discussion and will be announced by 2022: Q1. Nonetheless, outlays on pensions are set to increase reflecting latest reform during the pandemic.
Labor Market Policy	
Further reduce structural unemployment through reforms to education. Integrate foreigners including through support with acquiring recognized qualifications and language skills Engage in active labor market policies for elderly workers Boost labor demand by lowering barriers to entrepreneurship, increasing public investment	Some progress in improving labor market outcomes for women. The authorities launched several active labor market policies in light of the pandemic to ramp up trainings and measures addressing long-term unemployment.
Corruption	
Enhance effectiveness of the AML/CFT framework by improving investigation and prosecution of money laundering and the use of financial intelligence.	The national transposition and implementation of EU directives and regulations has helped address some of the recommendations of the previous cycles.
Financial Sector Policy (see Annex VI)	

INTERNATIONAL MONETARY FUND

AUSTRIA

August 3, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared by European Department

CONTENTS

FUND RELATIONS

(As of June 30, 2021)

Mission: May 26–June 15, 2021 by video conference. The concluding statement of the mission is available at:
https://www.imf.org/en/News/Articles/2020/03/03/msc030320-Austria-Staff-Concluding-Statement-of-the-2020-Article-IV-Mission

Staff team: Mr. Franks (head), Ms. Baldev, Ms. Hassine, Ms. Patnam, Ms. Sandhu, and Ms. Suphaphiphat (all EUR), and Ms. Claver (LEG). Mr. Just participated in the discussions.

Country interlocutors: Minister of Finance Blümel, Central Bank Governor Holzmann, and officials from the Chancellery, Ministries of Finance, Labor, Economy and Digitalization, and Climate Change, and with the Financial Market Authority, the banking Deposit Guarantee Fund, private sector representatives, major banks, and think tanks.

Fund relations: Austria is on a 12-month consultation cycle. The staff report is available at:
https://www.imf.org/en/Publications/CR/Issues/2018/09/12/Austria-2018-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-46221

Membership Status: Joined August 27, 1948; Article VIII, as of August 1, 1962.

General Resources Account:

	SDR Million	**Percent of Quota**
Quota	3,932.00	100
Fund holdings of currency	3,004.42	76.41
Reserve position	927.60	23.59
Lending to the Fund		
New Arrangements to Borrow	51.97	

SDR Department:

	SDR Million	**Percent of Allocation**
Net cumulative allocation	1,736,31	100.00
Holdings	1,695.86	97.67

Outstanding Purchases and Loans: None

Latest Financial Commitments: None

Projected Payments to Fund:
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2021	**2022**	**2023**	**2024**	**2025**
Principal					
Charges/Interest	0.01	0.05	0.05	0.05	0.05
Total	0.01	0.05	0.05	0.05	0.05

Implementation of HIPC Initiative: Not applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not applicable

Implementation of Catastrophe Containment and Relief (CCR): Not applicable

Exchange Rate Arrangement:

As of January 1, 1999, the currency of Austria is the euro, which floats freely and independently against other currencies. Austria's exchange system is free of restrictions on the making of payments and transfers for current international transactions, with the exception of restrictions notified to the Fund in accordance with decision No.144 (52/51) resulting from UN Security Council Resolutions and EU Council Regulations.

FSAP Participation and Reports on Standards and Codes (ROSCs):

An FSAP mission took place during May and September 2019. The FSSA report was available at: https://www.imf.org/en/Publications/CR/Issues/2020/01/31/Austria-Financial-Stability-Assessment-Press-Release-Staff-Report-and-Statement-by-the-49010

Technical Assistance: None.

Resident Representative Post: None.

STATISTICAL ISSUES

(As of July 20, 2021)

I. Assessment of Data Adequacy for Surveillance

General: Data provision is adequate for surveillance purposes.

Real Sector Statistics: Austria's national accounts framework is set up according to the European System of Accounts (ESA 2010) definitions which are consistent with System of National Accounts (SNA 2008) definitions. Quarterly data are broken down according to the stipulations of the European Union laid down by council regulation (EU) 549/2013 of May 21, 2013 (L174/1) and its amendments. Advance estimates of GDP done by WIFO are published within 30 days after the close of the reference quarter, while regular estimates done by Statistics Austria are published within 60 days after the close of the reference quarter. Data are published at current and chained 2015 (reference year) Euro as well as seasonally and working day adjusted series.

The Harmonized Index of Consumer Prices (HICP) is compiled for monitoring compliance with the Maastricht inflation criterion, in addition to the national consumer price index. The Austrian CPI (VPI) and the HICP are Laspeyres-type indices relating to household final monetary consumption expenditure in the economic territory. From 2021 on, the Austrian CPI is a chain-based index with 2020=100. The Austrian HICP is a chain index with weights relating to the previous year and index reference base 2020=100. It follows the HICP regulations published by the European Commission and is fully compliant with these standards. CPI and HICP cover all private household expenditures in the entire economic territory. Special estimates are done for non-residents' expenditure in the economic territory of the country (only in HICP) and for institutional households (HICP and CPI).

Government Finance Statistics: Austria follows the ESA 2010 guidelines in the compilation of data on the fiscal sector. Both nonfinancial and financial accounts of the general government are recorded according to ESA 2010 principles. General government operations data cover the four general government subsectors: central government, state government, local government, and social security funds. These subsectors consist of main units and extra-budgetary units. Fiscal statistics are timely and of high quality.

Monetary and Financial Statistics: The ECB reporting framework is used for monetary statistics, and data are reported to the IMF through a "gateway" arrangement with the ECB. The arrangement provides an efficient transmission of monetary statistics to the IMF and for publication in the IFS and IFS Supplement. Austria reports data on some key series and indicators to the Financial Access Survey, including two indicators of the United Nations Sustainable Development Goals.

Financial Sector Surveillance: The Oesterreichische Nationalbank (OeNB) compiles and reports to STA quarterly data on Financial Soundness Indicators, which include 12 core and 8 encouraged indicators for deposit takers.

Balance of Payments Statistics: Balance of payments (BOP) and international investment position (IIP) data are comprehensive and of high quality. They are compiled in accordance with the guidelines published by the sixth edition of the IMF's *Balance of Payments and International Investment Position Manual* (BPM6) and the ESA 2010). Data have been published in the *Balance of Payments Statistics Yearbook* since 1993 (with estimates of IIP published since 1994). Data are posted within three months after the end of the reference quarter.

External Debt Statistics: External debt statistics is in line with the guidelines of the BMP6 as well as with the *External Debt Statistics: Guide for Compilers and Users (2013)*. Compared to IIP, the quarterly external debt data do not include any financial assets and liabilities arising from participation rights. Not included are equity instruments like shares and mutual funds, direct investment equity capital, and reinvested earnings as well as real estate.

II. Data Standards and Quality

Austria subscribed to the Special Data Dissemination Standard (SDDS) in 1996 and adhered to the SDDS Plus in January 2017. Austria's latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board.

Austria: Table of Common Indicators Required for Surveillance
(As of July 22, 2021)

	Date of Latest Observation	Date Received	Frequency of Data	Frequency of Reporting	Frequency of Publication
Exchange Rates	7/22/2021	7/22/2021	Daily	Daily	Daily
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	June 2021	7/21/2021	Monthly	Monthly	Monthly
Reserve/Base Money	May 2021	6/21/2021	Monthly	Monthly	Monthly
Broad Money	May 2021	6/30/2021	Monthly	Monthly	Monthly
Central Bank Balance Sheet	May 2021	6/30/2021	Monthly	Monthly	Monthly
Consolidated Balance Sheet of the Banking System	May 2021	6/30/2021	Monthly	Monthly	Monthly
Interest Rates[2]	7/21/2021	7/21/2021	Daily	Daily	Daily
Consumer Price Index	June 2021	7/20/2021	Monthly	Monthly	Monthly
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	2021: Q1	6/30/2021	Quarterly	Quarterly	Quarterly
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	2021: Q1	6/30/2021	Quarterly	Quarterly	Quarterly
Stocks of Central Government and Central Government-Guaranteed Debt	June 2021	7/17/2021	Monthly	Monthly	Monthly
External Current Account Balance	2021: Q1	6/30/2021	Quarterly	Quarterly	Quarterly
Merchandise Trade	April 2021	7/6/2021	Monthly	Monthly	Monthly
GDP/GNP	2021: Q1	May 2021	Quarterly	Quarterly	Quarterly
Gross External Debt[5]	2021: Q1	6/30/2021	Quarterly	Quarterly	Quarterly
International Investment Position	2021: Q1	6/30/2021	Quarterly	Quarterly	Quarterly

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

INTERNATIONAL MONETARY FUND

AUSTRIA

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

August 24, 2021

Prepared By European Department

1. This statement reports on developments that occurred since the staff report was issued to the Executive Board. This supplementary information does not alter the thrust of the staff appraisal.

2. COVID infections have risen in recent weeks, reflecting the increased prevalence of the delta variant. From a low of only 476 new cases in the first week of July, weekly infections have risen to 5,650 by mid-August. This number is still well below the peak of nearly 51,000 new cases weekly in November 2020. COVID deaths have remained very low so far despite climbing cases. Vaccinations continue to rise but the pace has slowed sharply. As of August 23 2021, 71.6 percent of adults (18+) in Austria had at least one vaccine dose, falling below the EU average of 74.9 percent.

3. On July 30, 2021, the Financial Markets Authority suspended the operations of another small bank, AutoBank AG, after the bank's shareholders failed to produce a viable plan to wind down operations and subsequently filed for the initiation of insolvency proceedings on August 12, 2021. At the time of its closure, the bank held EUR 109 million in deposits, of which EUR 107 million are covered by the deposit guarantee. As of mid-August, some EUR 76 million have already been paid out by the deposit insurance scheme (Einlagensicherung). The failure of this non-systemic bank is unlikely to jeopardize Austria's financial stability.

4. Recently released economy activity indicators continued to show a mixed rebound in economic activity in 2021: Q2. The flash GDP estimate posted strong growth of 4.3 percent (q/q), but output remained below the pre-crisis level. Industrial production in June rose by 11.3 percent compared to last year, but slipped 1.8 percent compared to May and stands 1.7 percent above the pre-crisis levels. Tourism activity has also rebounded but remains well below its precrisis level. Overnight stays were up 42.5 percent (yoy) in June, but are still 40.8 percent below the precrisis figure.

5. Annual inflation edged up in July to 2.9 percent, from 2.8 percent in June. The price increase was driven by transportation costs (+8.0 percent) and household energy prices (+3.3 percent). Staff remains of the view that these price developments are largely temporary.

6. Gross international reserves in 2021 have increased with the SDR allocation of EUR 4.56 billion. The authorities intend to save the new SDR allocation as international reserves, and the macroframework has been updated accordingly (Table 4).

Update to Table 4. Austria: Balance of Payments, 2018–26
(In percent of GDP, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026
				Projections					
BALANCE OF PAYMENTS									
Current account	**1.3**	**2.8**	**2.5**	**2.0**	**2.3**	**2.1**	**2.0**	**2.3**	**2.4**
Balance on goods and services	3.1	3.2	3.5	2.9	3.3	3.0	3.0	3.3	3.4
Exports of goods and services	55.6	55.5	52.6	54.7	55.4	55.2	55.0	55.1	55.4
Exports of goods	39.0	38.4	37.5	39.2	38.4	38.3	38.1	38.2	38.4
Exports of services	16.6	17.2	15.1	15.5	17.1	17.0	16.8	16.9	17.0
Imports of goods and services	52.5	52.3	49.1	51.8	52.1	52.2	51.9	51.9	52.0
Imports of goods	38.5	37.6	36.2	38.7	38.0	37.7	37.5	37.5	37.7
Imports of services	14.1	14.7	13.0	13.0	14.2	14.5	14.4	14.4	14.4
Primary income, net	-0.9	0.5	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Secondary income, net	-1.0	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Capital account	**-0.6**	**-0.1**	**-0.2**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**
Financial account	**1.8**	**4.3**	**1.4**	**1.9**	**2.3**	**2.0**	**2.0**	**2.2**	**2.3**
Direct investment, net	0.5	1.7	2.8	1.7	1.7	1.7	1.7	1.7	1.7
Direct investment abroad, net	-6.1	-0.2	-3.4	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Direct investment in Austria, net	-6.6	-1.9	-6.2	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9
Portfolio investment, net	0.9	-1.3	-3.9	-3.8	-2.2	-2.5	-2.5	-2.3	-2.2
Financial derivatives, net	-0.2	0.4	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Other investment, net	0.0	3.6	1.8	2.5	2.5	2.5	2.5	2.5	2.5
Reserve assets	0.6	0.0	0.4	1.1	0.0	0.0	0.0	0.0	0.0
Errors and omissions, net	1.1	1.5	-1.0	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET									
Int'l investment position, net	**5.3**	**12.1**	**10.9**	**13.4**	**14.8**	**16.2**	**17.4**	**19.0**	**20.7**
Assets	220	228	235	231	223	219	215	213	212
Liabilities	215	216	225	218	208	203	197	194	192
Direct investment	10	11	10	11	12	13	14	15	17
Assets	72	70	65	62	58	55	52	50	48
Liabilities	62	60	56	51	46	42	38	35	32
Portfolio investment	-17	-15	-19	-22	-22	-24	-25	-27	-28
Financial derivatives	0	0	0	0	1	1	1	2	2
Other investment	7	11	14	15	17	19	20	22	24
Reserve assets	5	5	7	9	8	8	7	7	7
MEMORANDUM ITEMS									
Export value (goods and services)	7.5	2.9	-10.1	10.0	8.0	4.0	4.5	3.9	3.8
Import value (goods and services)	7.5	2.8	-10.9	11.5	7.3	4.5	4.5	3.4	3.6
Nominal GDP (billions of euro)	385	398	377	399	425	444	466	482	498

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

Statement by Mr. Just, Alternate Executive Director on Austria
2021 Article IV Consultation
August 30, 2021

The Austrian authorities would like to thank the IMF mission team for the fruitful discussions during the 2021Article IV consultations and broadly concur with the key issues raised as well as the policy recommendations.

Latest economic developments

The economic outlook could turn out to be more optimistic than forecast by the IMF. Latest data, which have become available since after the IMF mission, point towards a strong recovery of the Austrian economy. Q2 came in stronger than expected with a quarter-on-quarter growth rate of 4.3 percent. The weekly indicators of the Österreichische Nationalbank (OeNB) and the Austrian Economic Research Institute (WIFO) indicate that the pre-crisis output level might already be reached in Q3 2021 for the first time since the beginning of the crisis. This would imply another strong quarter-on-quarter growth rate of around 3 percent in Q3. Overall, GDP growth in 2021 could reach 4 to 4.5 percent in 2021, and the carry over for 2022 will be substantial. Thus, also the GDP level could be closer to the pre-COVID trend in the medium term than currently assumed by the IMF staff (-0.5 percent instead of -1.6 percent in 2026). Risks to growth are mainly on the upside in the short run, while downside risks around the pandemic still dominate in the medium term.

The latest data on inflation have also surprised on the upside. Cost pressures emanating from rising raw material prices and supply shortages seem to be somewhat more persistent than previously assumed. Surveys indicate that recently producers were able to pass on higher production costs to consumers. While the OeNB still expects that the increase is mainly due to temporary factors, some upside risks have materialized and inflation might reach 2 ½ percent in 2021 and could remain above 2 percent in 2022, almost 0.5 percentage points higher in both years than expected by IMF staff. The risks to the inflation forecast also remain on the upside, especially as higher inflation rates may lead to higher wage settlements.

Economic Policy

Austria's response to the economic fallout from the pandemic crisis was swift and comprehensive, with a package of income and liquidity support to households and firms in the amount of 13 percent of GDP. Fiscal support was among the most generous in the EU, taking account of the high sectoral exposure of the Austrian economy via the tourism, arts and entertainment sectors, and benefitting from responsible budgetary policies in the past.

Despite the massive fiscal support, containment measures, health-conscious consumption behaviour and high uncertainty resulted in a 6.3 percent drop in GDP in 2020 and still negative growth in Q1 2021. Economic activity has picked up in Q2 2021, as a significant drop in new COVID-19 cases allowed the reopening of the service sector, while the vaccination roll-out reduced individual and joint health risks, thus stimulating consumption.

The decisive factor for the recovery going forward will be the development of consumption/savings. Helped by automatic stabilizers, Austrian consumers proved to be relatively resilient to the economic cycle in the past, stabilizing aggregate demand during crises. However, the pandemic crisis is different, consumers became very cautious and the savings rate doubled. Investment held up relatively better, as government measures encouraged firms to bring forward capital formation. The main challenge for Austria is to turn around the pandemic's impact on consumption, while allowing the reallocation of resources from sectors that may no longer be viable. The overarching objective is to raise confidence, and next to effectively fighting the health crisis, a prudent fiscal policy strategy going forward appears a key component. This is all the more important as the budgetary impact of an ageing population will start to kick in from the mid-2020s. The authorities believe that further stimulus to the economy would not be very effective in raising GDP in the near term. The construction sector is already operating at potential, manufacturing production has surpassed the pre-crisis level, labor shortages are becoming a constraint in certain sectors, with just three unemployed per reported vacancy, and scarcity of certain raw materials has raised input prices.

With regard to the IMF's views that more is needed to support firm solvency, we would like to point out that the Austrian Recovery and Resilience Plan (ARP) includes measures to strengthen the equity position of Austrian companies, e.g. via converting government-guaranteed loans into equity or equity-like instruments and by anchoring collective investment schemes into the company law, along established models in other EU countries. In addition, the Green Finance Agenda aims at mobilising private investment for green projects by providing services to improve bankability. The ARP also includes measures to address skill mismatches in the labour market, focussing in particular on digital skills.

Fiscal Policy

In the last months the authorities were committed to address and mitigate the effects of the COVID-19 pandemic on the Austrian population, the labor market and the corporate sector. The crisis response and the pronounced economic downturn left deep scars in public finances. A swift economic recovery will help to stabilize public finances. Compared to 2020, the government balance will improve in 2021– while expenditure for crisis management and economic stimulus measures remains high, the first half of 2021 showed a strong rebound of tax revenue.

The authorities agree with staff that the policy mix should shift from targeted crisis management to support a sustainable economic recovery. The relief measures are phased out in line with the economic cycle, while continuing support to sectors that are still affected. Moreover, policies shift to support the green and digital transition. The ARP sets new priorities and complements already existing national budgetary programs. The government is now turning its efforts towards large reform projects such as the greening of the tax system, measures to reduce the labour tax wedge, strengthening equity capital and a reform of long-term care. The authorities are also firmly committed to return to a sustainable budget policy to have flexibility to respond to shocks and create fiscal space to meet long-term spending pressures from population aging.

Financial Sector

Despite the challenging environment in 2020, the Austrian banking sector kept supporting the real economy. The buildup of macroprudential capital buffers in recent years and regulatory guidance on retaining earnings caused banks' capital ratios to increase, which enables banks to assist the economy also in its upswing. In tandem with public support measures and supported by the Eurosystem's monetary policy measures, this strengthened the stability of the financial system and improved market participants' and rating agencies' confidence in the Austrian financial sector even during the pandemic. In 2020, banks increased risk provisioning early on to prepare for a pandemic-induced rise in credit risk. These precautionary measures, however, significantly weighed on the sector's profit last year.

Even though some support measures have already expired, credit quality at Austrian banks has not yet deteriorated. The historically low interest rates and pandemic-related changes in housing demand have buoyed both credit and price growth in the residential real estate segment, while variable interest rate loans still account for a significant share of new loans. The current lending standards for housing loans are increasingly exceeding the threshold criteria for sustainable residential real estate lending defined by the Austrian Financial Market Stability Board (FMSB).