INTERNATIONAL MONETARY FUND

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AUSTRIA

May 2024

2024 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; 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 2024 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 May 3, 2024, 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 May 3, 2024, following discussions that ended on March 1, 2024, 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 April 19, 2024.
- An **Informational Annex** prepared by the IMF staff.
- 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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International Monetary Fund
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PRESS RELEASE

PR24/155

IMF Executive Board Concludes 2024 Article IV Consultation with Austria

FOR IMMEDIATE RELEASE

Washington, DC – May 13, 2024: On May 3, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Austria.

Economic policy support, including the use of available fiscal space, helped the Austrian economy recover rapidly from the pandemic and cushion the adverse impact of the energy-price shock following Russia's invasion of Ukraine. Nevertheless, higher energy prices and the increase in interest rates required to contain subsequent inflation have weighed on growth, with the economy contracting last year. Inflation peaked in early 2023 and is now declining, but it remains above the euro-area average, with services sector inflation being relatively high and sticky.

Looking forward, a modest recovery is expected in 2024 as higher real wages support consumption. Growth is expected to gather pace during 2025–26 on stronger investment demand, supported by some expected monetary policy easing during 2024–25. In the medium term, growth is projected to be around 1 percent amid downward pressures from population aging. Inflation is expected to decline gradually to the target by the second half of 2025.

However, this baseline outlook is subject to sizeable risks. Key risks include uncertainties around external demand, energy market developments, inflation persistence, and the depth and speed of real estate market corrections.

Executive Board Assessment[1]

The Executive Directors welcomed Austria's strong policy responses which have helped mitigate severe economic shocks in recent years. Directors noted that the economy nonetheless contracted in 2023 amidst high energy prices, elevated inflation, and higher interest rates. Economic activity is however expected to stage a modest recovery in 2024 as solid real wage growth boosts consumption. Directors pointed to risks in both directions stemming from uncertainties around external demand and energy market developments, inflation persistence, and price adjustments in real-estate markets.

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[1] 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.

Directors concurred that fiscal policy should aim to support disinflation and rebuild buffers. In the near term, they urged the authorities to save any revenue overperformance and avoid new deficit-creating measures, while remaining flexible as conditions evolve. Directors noted that while Austria retains some fiscal space, fiscal adjustment measures were needed over the medium term to offset rising spending pressures from aging, bolster investment in the green transition, strengthen buffers against adverse shocks, and to put the public-debt ratio on a clear downward path. Directors urged the authorities to consider options to generate fiscal room, including reducing environmentally harmful subsidies and tax expenditures, updating property taxes, increasing healthcare spending efficiency, and further reforming pensions.

Directors welcomed the financial system's resilience through recent shocks. They nonetheless urged the authorities to remain vigilant on key risks to financial stability, especially those related to commercial and residential real estate. Directors urged the authorities to close supervisory data gaps in the commercial real estate sector expeditiously and to retain the mandatory borrower-based limits on mortgage lending as a permanent, structural measure to help mitigate macro-financial risks. They also emphasized that banks should conserve recent high profits to strengthen buffers against risks, including by bolstering investment in cybersecurity technology. Directors encouraged the swift implementation of key recommendations to improve financial crisis management and continued strengthening of Austria's AML/CFT framework.

Directors underscored the need for further progress on structural reforms. Noting the drag on medium-term growth from demographic headwinds, Directors commended the authorities' efforts to boost labor-force participation by expanding childcare resources and raising women's standard pension age. They urged additional efforts to boost labor supply, including by further expanding childcare, closing gender wage gaps, enhancing migrant integration, and exploring the scope for further pension reforms.

Directors welcomed progress on the green transition and urged the authorities to take additional measures, including by removing regulatory bottlenecks, ensuring adequate resources for green investment, and addressing skill shortages. They emphasized that progress in this area would also enhance energy security, which is important in the context of widening geoeconomic fragmentation pressures.

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

Table 1. Austria: Selected Economic Indicators, 2021–25

Population (million):	9.1	Per capita GDP:	$56,726
Quota (SDR million, current):	3932.0	Literacy rate 1/:	100%
Main products and exports:	Diversified	Poverty rate 2/:	14.8%
Key exports markets:	Germany, CESEE		

	2021	2022	2023	2024	2025
				Proj.	
Output					
Real GDP growth (%)	4.2	4.8	-0.8	0.3	1.6
Employment					
Unemployment (Harmonized) (%)	6.2	4.7	5.1	5.4	5.2
Prices					
Inflation (%)	2.8	8.6	7.7	4.0	2.8
General government finances					
Revenue (% of GDP)	50.4	49.7	49.4	49.6	49.4
Expenditure (% of GDP)	56.2	52.9	52.1	52.4	51.6
Fiscal balance (% of GDP)	-5.8	-3.2	-2.7	-2.8	-2.2
Public debt (% of GDP)	82.5	78.4	77.7	77.2	76.5
Money and credit					
Broad money (% change)	3.8	4.2	-1.2	0.7	4.3
Credit to the private sector (% change) 3/	6.9	6.2	-2.5	0.8	4.2
Balance of payments					
Current account (% of GDP)	1.6	-0.3	2.7	2.0	2.2
FDI (% of GDP)	2.3	-0.4	1.1	1.1	1.1
Reserves (months of imports)	1.6	1.4	1.3	1.2	1.2
External debt (% of GDP)	146.9	131.7	130.5	129.6	128.5
Exchange rates					
REER (% change)	12.2	1.5	3.9	…	…

Sources: Authorities; and IMF staff estimates and projections.
1/ Percent of population aged 15-74 with education attainment between pre-primary and tertiary education.
2/ 2022, at risk of poverty rate after social transfers.
3/ Households and non-financial corporations. Exchange rate adjusted.

INTERNATIONAL MONETARY FUND

AUSTRIA

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

April 19, 2024

KEY ISSUES

Context. Strong policy responses have helped to mitigate the impact of the recent shocks. Output recovered rapidly from the pandemic and, in response to the energy price shock, the authorities made use of available fiscal room to mitigate its impact while preserving price signals to encourage lower gas consumption and taking steps to secure access to additional gas supplies. Despite these efforts, the economy slipped into recession over the last few quarters, with high energy prices, elevated inflation, and higher interest rates weighing on output and demand. Inflation still persists above the euro-area average even as it has steadily declined since January 2023, in particular as services inflation has proved to be sticky amid high wage growth. Over the medium term, demographic headwinds pose significant fiscal and growth challenges.

Outlook

- *Growth* is expected to return to positive territory in 2024, led by the recovery in real wages and private consumption. Further out, growth momentum is expected to strengthen as expected ECB monetary easing during 2024–25 supports recovery in investment. Over the medium term, growth is projected to decline to below one percent as demographic headwinds from population aging weigh on labor supply and potential growth.

- *Inflation* is expected to decline gradually during 2024–25 as wage growth moderates and the drop in international energy prices passes through to retail prices, but it will likely be some time before inflation returns to two percent, given its current elevated level and sticky services inflation.

- *Risks* are broadly balanced but sizeable and include uncertainties around external demand, energy market developments, inflation persistence, and the depth and speed of real estate market corrections.

Policies. Key policy recommendations include the following:

- *Near-term*. Near-term fiscal policy recommendations are anchored in sustainably reducing inflation and rebuilding fiscal buffers. To support these objectives, the authorities should seek opportunities to overperform on the fiscal deficit target for 2024, including by saving any revenue overperformance and avoiding new deficit-creating measures. Moreover, remaining energy-price relief measures should be allowed to lapse as early as possible, as wholesale gas prices have fallen well below their peaks to more normal levels. Financial stability risks related to higher interest rates and exposures to commercial real estate (CRE) and the Central, Eastern, and Southeastern European (CESEE) region should be carefully monitored. Ongoing efforts to plug CRE data gaps should be advanced. To build resilience and mitigate risks, supervisors should also encourage banks to be conservative in capital distributions and instead use recent high profits to further strengthen buffers against adverse shocks, including by insuring against cybersecurity threats through increased investment in security technology. Pressure to undo borrower-based measures in the residential real estate market should be resisted, with these prudential limits instead retained as permanent, structural measures to guard against macro-financial risks associated with excessive mortgage debt.

- *Medium-term*. To address medium-term challenges, Austria needs to implement further reforms, including to (i) rebuild fiscal room by undertaking expenditure and tax reforms; (ii) boost labor supply among female and elderly workers, including by enhancing provision of childcare facilities, closing gender wage gaps, and reforming pensions to incentivize more elderly participation in the labor force; (iii) accelerate the green transition, in particular by ensuring adequate public investment in green infrastructure, easing regulatory/permitting bottlenecks that can delay green project implementation, and addressing skill shortages in occupations that are critical for the green transition; and (iv) enhance the supply of affordable housing, including by easing regulatory constraints and strengthening incentives for new housing construction. To address risks related to geoeconomic fragmentation, Austria should continue internationally to support outcomes that preserve gains from multilateral cooperation, while taking steps domestically to protect against shocks in global value chains (e.g., through stress tests and identification of vulnerable goods and services).

Approved By
Oya Celasun (EUR) and Peter Dohlman (SPR)

The mission took place in Vienna and Salzburg, Austria, during February 15–March 1, 2024. The team comprised Mr. Fletcher (head), Mr. Mohommad, Ms. Pinat, and Ms. Wang (all EUR) with contributions from Mr. Sykes (LEG). The mission met Minister of Finance Brunner; Central Bank Governor Holzmann; Minister of Climate Gewessler; Members of Parliament; officials from the Ministry of Finance, Ministry of Labor, Ministry of Climate, Financial Market Authority, and energy regulator; major banks; trade unions; think tanks; and other private-sector representatives. Mr. Just (OED) joined the meetings. Ms. Chen, Ms. Kumar, Ms. Plein, and Ms. Timonova (all EUR) assisted in preparing the report.

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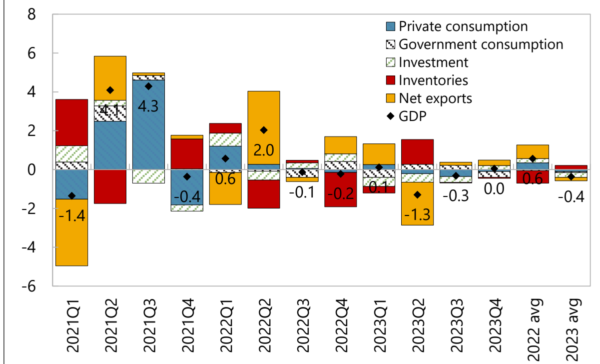
MACROECONOMIC CONTEXT

A. Recent Developments

1. The economy contracted in 2023 following a swift post-pandemic recovery. By early-2022, output exceeded its pre-pandemic level, following robust growth over the previous two years. Growth subsequently weakened from mid-2022 as spillovers from Russia's invasion of Ukraine contributed to higher energy prices, inflation, and interest rates, which in turn weighed on private consumption and investment, especially construction activity. Energy-intensive manufacturing also declined sharply (Figure 4), and public investment fell back to more normal levels, following unusually high spending in 2022 on the strategic gas reserve and rail infrastructure. In all, output is estimated to have contracted by 0.8 percent in 2023.

Contributions to GDP Growth
(Quarter-on-quarter percent change; SWDA)

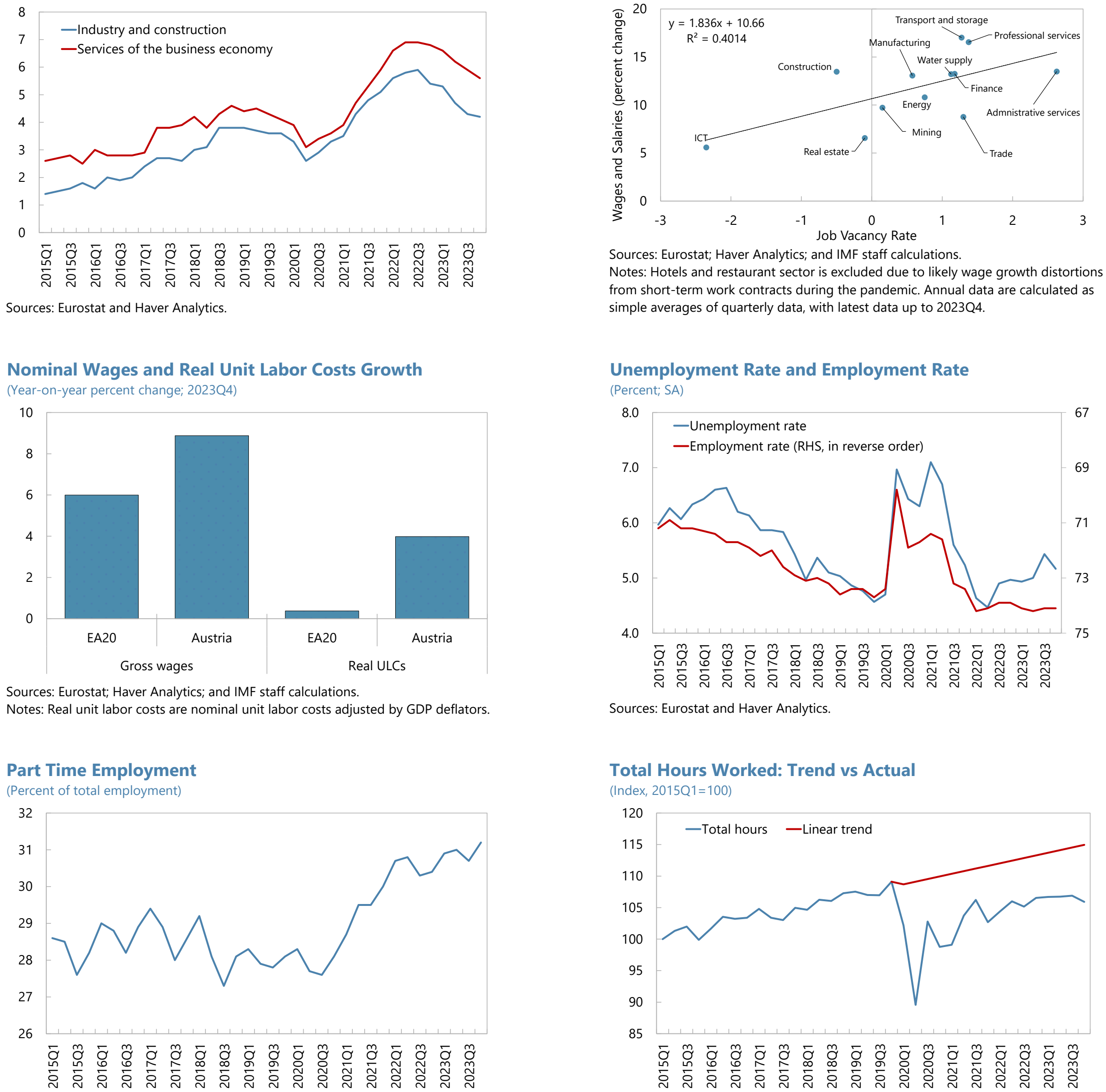


Sources: Eurostat and Haver Analytics.

2. Labor markets have remained tight despite the contraction in output. Wage growth exceeded the euro-area average in 2023, and the employment rate hit a record high (Figure 1). However, weak economic activity did prod a modest increase in the unemployment rate and some decline in vacancy rates during the year. The share of part-time employment has increased in the last few years, possibly reflecting a structural shift in preferences rather than cyclical factors. In part due to this shift, total hours worked have also shifted down, below the pre-COVID trend. Against this backdrop, the economy is assessed to have little slack (Annex I)

3. Inflation is declining but prevails above the euro-area average. Inflation peaked in January 2023 at nearly 12 percent year-on-year. Austrian headline inflation lagged euro-area inflation past the peak, likely in part due to less reliance on price controls, a high share of fixed-price electricity contracts for consumers (90 percent) that reset at lower frequency than variable-price contracts, and sticky services inflation reflecting rapid nominal wage growth and the post-pandemic rebound in the global demand for services, especially tourism. Declining energy prices have since helped lower headline inflation to 4.1 percent (y/y) in March this year, with core inflation somewhat higher (4.8 percent), in part due to high hotel and restaurant inflation (Figure 2).

Figure 1. Austria: Labor Market Developments



Job Vacancy Rate By Industry
(Percent; SA)

Sources: Eurostat and Haver Analytics.

Sectoral Vacancy Rates and Wages Growth
(Change in 2023 relative to 2021)

Sources: Eurostat; Haver Analytics; and IMF staff calculations.
Notes: Hotels and restaurant sector is excluded due to likely wage growth distortions from short-term work contracts during the pandemic. Annual data are calculated as simple averages of quarterly data, with latest data up to 2023Q4.

Nominal Wages and Real Unit Labor Costs Growth
(Year-on-year percent change; 2023Q4)

Sources: Eurostat; Haver Analytics; and IMF staff calculations.
Notes: Real unit labor costs are nominal unit labor costs adjusted by GDP deflators.

Unemployment Rate and Employment Rate
(Percent; SA)

Sources: Eurostat and Haver Analytics.

Part Time Employment
(Percent of total employment)

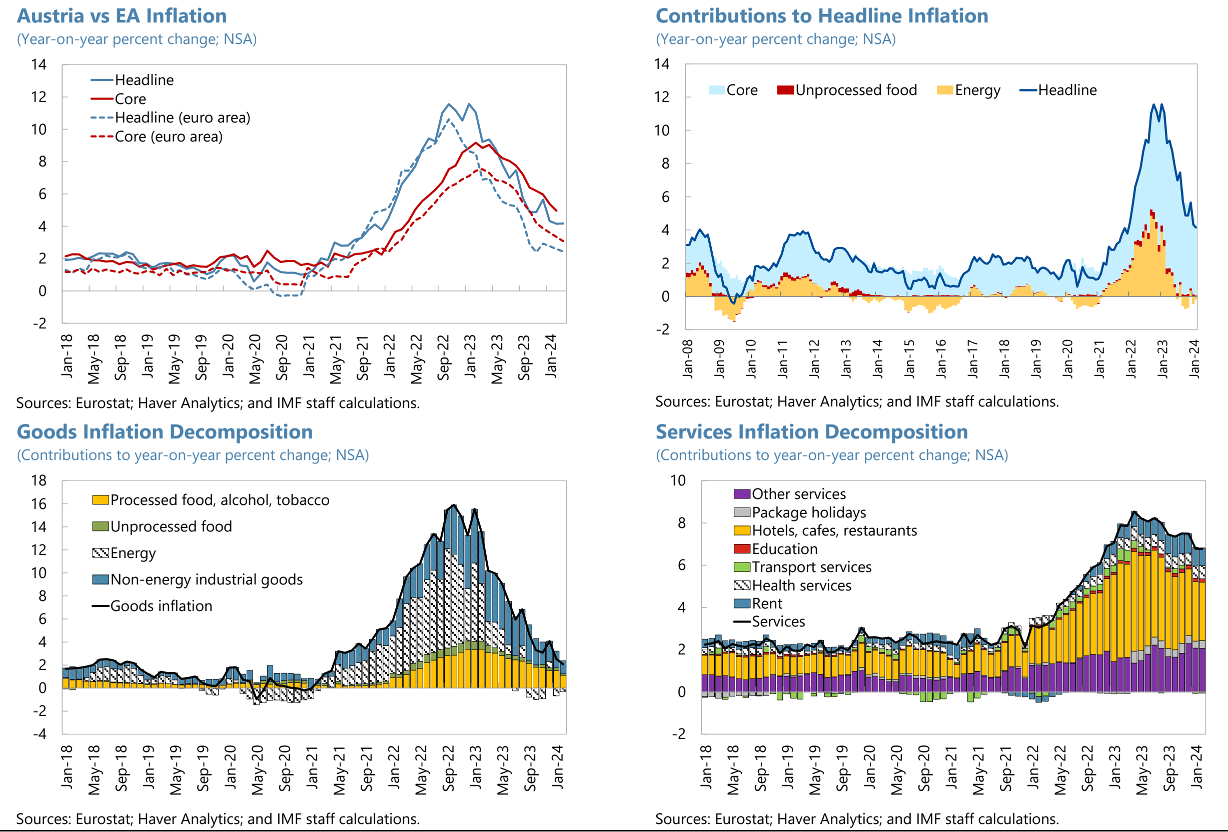
Sources: Eurostat and Haver Analytics.

Total Hours Worked: Trend vs Actual
(Index, 2015Q1=100)

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

4. **The fiscal deficit fell in 2023 as spending on pandemic and energy-support measures declined.** The overall fiscal deficit is estimated to have decreased by 0.5 percentage points of GDP to 2.7 percent of GDP. With the output gap widening and interest payments rising, this implied a substantial negative fiscal impulse (measured by the change in the structural primary balance) of 1.5 percent of GDP. The contraction was driven mainly by reduced spending on pandemic and energy-support measures. This in turn was driven in part by falling market energy prices, implying a somewhat smaller net contractionary effect on private-sector income than indicated by standard measures of the fiscal impulse. Deficit reduction and high inflation have reduced the debt-to-GDP ratio to below 78 percent in 2023.

Figure 2. Austria: Inflation Developments



5. **Financial sector profitability improved on higher interest rates.** Rising net interest margins[1] and valuation gains in banks' equity participations helped push profits to a record high, with a return on assets of 1.6 percent for 2023Q3, well above the historical average of 0.6 percent (Figure 8). Subsidiaries in CESEE remained highly profitable, accounting for 37 percent of Austrian banks' 2023 profits. Credit quality has remained good so far, with the NPL ratio at 2 percent in 2023Q3, and interest-rate losses on securities appear manageable.[2] Liquidity remains ample and deposits stable, even as customer deposits have shifted to a somewhat higher share of time deposits.[3] Overall, banks' CET1 capital ratio in 2023Q3 stood at 16.4 percent of assets, comparable to the EU median. However, the CET1 ratio for significant institutions (SIs) remained lower (14.9 percent) and below the average for European SIs (15.6 percent). Insurance companies' solvency coverage ratios have been rising steadily, with the median reaching 266 percent at end-Q3 2023, up from 200 percent in mid-2020. Pensions companies' performance also improved in 2023. In capital markets, real estate investment companies recorded net outflows, and one fund suspended redemptions.

[1] Banks' net interest margins are estimated to be over 2 percent in 2023 Q3, while the historical average is closer to 1.7 (Figure 8).

[2] OeNB Financial Stability Report 45 notes that Austrian banks have relatively low exposure to debt securities and that hedging mitigates interest-rate risks.

[3] The median liquidity-coverage ratio and net-stable-funding ratio are 164.8 percent and 127 percent, respectively.

6. The external position in 2023 is assessed to be broadly in line with medium-term fundamentals and desired policies (Annex II). After recording a deficit of 0.3 percent of GDP in 2022 (the first since 2001) on the sharp rise in imported energy prices, the current account returned to a surplus in 2023 as energy prices fell and weak growth weighed on imports, resulting in a current account surplus of 2.7 percent of GDP (Figure 5).

7. Parliamentary elections are required by Fall 2024. The People's Party and the Green Party have been in a governing coalition since January 2020. The Freedom Party is leading the polls, but no single party has a majority at the moment. Consequently, the composition of the next government may again depend on which parties are able to form a governing coalition.

B. Outlook and Risks

8. A modest recovery is expected in 2024. Private consumption is expected to strengthen as real wages rise (reaching pre-COVID levels), bringing about positive GDP growth in 2024. Investment will likely continue to face headwinds from high interest rates and as credit growth, particularly mortgage lending, continues to decline sharply (Figure 7). The output gap is projected to widen as growth falls short of potential and then close gradually over the medium term as growth gradually rises on stronger investment demand, assisted by expected ECB monetary easing in 2024–25. Growth is projected to fall back to just under 1 percent by 2028–29 as demographic aging weighs on labor force growth.[4]

9. Inflation is expected to decline gradually, reaching 2½ percent in the latter half of 2025. Core inflation is expected to decline further as lower energy prices pass through gradually and wage growth moderates. Staff analysis suggests that euro-area core inflation is a key driver of domestic core inflation,[5] and the former is expected to continue falling toward the target. Recent and projected nominal wage increases (up 7 percent y/y as of 2023Q3) are broadly consistent with the projected decline in inflation. However, it will likely be some time before inflation reaches the 2 percent target, given inflation's current high level and sticky services inflation.

10. Risks to the outlook are broadly balanced but sizeable (Annex III). Upside risks include a stronger-than-anticipated boost from external demand or a faster-than-expected recovery in private consumption in response to higher real wage growth. Downside risks include intensified Red Sea trade disruptions and further shocks to global commodity markets (particularly gas). While Austria

[4] Potential growth is calculated to be 0.9 percent in 2029, in a Cobb-Douglas production function framework with a capital share of 0.4. The capital stock is assumed to grow at 1.4 percent over the medium term, in line with staff's investment growth forecasts, and TFP growth is assumed to equal 0.2 percent (its average over 1992–2019). The labor force is assumed to grow at 0.2 percent, reflecting (i) continued trend increases in participation rates within age-sex cohorts and (ii) increased participation of elderly female workers due to the increase in the pension retirement age. These forces help offset demographic aging, which would otherwise reduce the labor force by 0.4 percent in the medium term.

[5] See accompanying *Selected Issues* chapter on "Drivers of Inflation in Austria".

currently maintains high levels of gas storage, continued dependence on Russian gas also exposes industries and consumers to renewed supply disruptions.[6] Domestically, an abrupt correction in residential and commercial real estate markets would disrupt growth and financial sector stability. However, overall financial-sector systemic risk is broadly unchanged from the last Article IV consultation, as risks from the energy-price shock have faded along with falling gas import prices and the financial system as a whole has sizeable buffers.[7]

Authorities' Views

11. The authorities broadly shared staff's views on the outlook and risks. They concurred that growth in 2024 is likely to be led by private consumption but will remain modest, with both the OeNB and WIFO expecting to revise down their December 2023 forecasts for 2024. Like staff, they projected the recovery to gain pace in subsequent years on stronger investment demand, as euro-area inflation declines, and interest rates fall. However, the authorities expected that Austrian inflation would decline only gradually toward the target, hitting 2.5 percent after 2025 in the OeNB's forecasts. The authorities also saw sizable risks around the baseline. In particular, the pace of recovery will depend heavily on global business cycle conditions. A shut-off of Russian gas also remains a risk, though it is buffered by high gas storage levels and the ability to import gas from elsewhere in Europe if needed. On housing market risks, the authorities noted that consumption demand in Austria is not highly sensitive to house prices, limiting the impact in the event of an abrupt correction in housing markets.

Text Table 1. Austria: Macroeconomic Projections, 2024–25

	GDP growth		Inflation	
	2024	2025	2024	2025
Staff projections	0.3	1.6	4.0	2.8
OeNB (Mar 2024)	0.5	1.8	3.6	2.7
WIFO (Mar 2024) 1/	0.2	1.8	3.8	2.7
European Commission (Feb 2024)	0.6	1.4	4.0	3.0
Consensus forecasts (Mar 2024) 1/ 2/	0.3	1.7	3.1	2.3

Sources: Consensus forecasts; European Commission; OeNB; WIFO; and IMF staff projections.
1/ Inflation is based on the national CPI.
2/ Continuous Consensus Forecasts: moving average of latest changed forecasts.

POLICY DISCUSSIONS

Fiscal policy should aim to support disinflation and rebuild buffers in the near term while undertaking spending and tax reforms over the medium term to offset rising spending pressures, fully fund key priorities, and further bolster fiscal resilience. In the financial sector, the authorities should remain vigilant on risks stemming from corrections in real estate market, lagged effects of higher interest rates on NPLs, and likely declines in net interest margins. Toward this end, supervisors should encourage banks to retain current high profits to build buffers against risks, and CRE data gaps should be closed. Prudent mortgage lending limits should be maintained, with housing affordability concerns addressed instead with measures to ease housing supply. To offset growth headwinds from population aging,

[6] The share of gas imports from Russia rose above 90 percent in January 2024.

[7] The authorities' stress tests find that banking system capital remains well above the Basel III minimum in an EBA/ECB-consistent adverse scenario, though the impact is more severe for banks exposed to the CESEE region. Staff view these stress-test scenarios as reasonable, though of course they do not cover all possible shock scenarios.

further efforts should be taken to close gender and elderly labor supply gaps. Accelerating the green transition is necessary to meet Austria's climate targets and durably bolster energy security.

A. Fiscal Policies

12. The 2024 budget plans a moderate consolidation. Despite the phasing out of most energy compensation measures[8] and robust revenue, the budget projects the overall deficit to remain at 2.7 percent of GDP, 3.2 percentage points above the pre-pandemic level. Spending is expected to rise as a share of GDP, reflecting lagged inflation adjustments in public wages and social benefits, higher defense spending, higher pension costs, and other spending pressures.[9] Revenue is also projected to rise as a share of GDP, with higher real wages boosting social contributions and despite reduced revenue from the abolition of bracket creep. With the output gap widening and interest expenses rising, staff projects the budget to yield a moderate tightening impulse (as measured by the change in the structural primary balance) of 0.4 percent of GDP.

Text Table 2. Austria: Authorities Draft Budget and Staff Fiscal Projection

(Percent of GDP)

		October 2024 Draft budget		Staff projection	
	2019	2023	2024	2023 1/	2024
Expenditure	**48.7**	**51.8**	**52.0**	**52.1**	**52.4**
Compensation of employees	10.5	10.5	10.9	10.6	10.9
Social benefits and current transfers	21.9	22.5	23.3	22.5	23.5
Interest payment	1.4	1.2	1.4	1.2	1.3
Other expenditure	14.8	17.7	16.4	17.8	16.6
Revenue	**49.2**	**49.1**	**49.3**	**49.4**	**49.6**
Direct taxes	13.7	13.6	13.6	13.9	13.5
Social contribution	15.4	15.3	15.6	15.2	15.6
Other revenue	20.1	20.2	20.1	20.3	20.4
Balances					
Overall balance	0.5	-2.7	-2.7	-2.7	-2.8
Primary balance	1.6	-1.8	-1.6	-2.0	-1.9
Structural primary balance (% potential GDP)	1.3	-1.6	-1.5	-1.8	-1.4
Memorendum item:					
Nominal GDP (in b. of euros)	397.1	479.1	505.3	477.5	499.1

1/ The figures for the year 2023 under staff projection correspond to actual fiscal outcomes.
Sources: Austrian authorities and IMF staff calculations and projections.

Text Table 3. Austria: Policy Support for High Energy Prices

(Share of GDP)

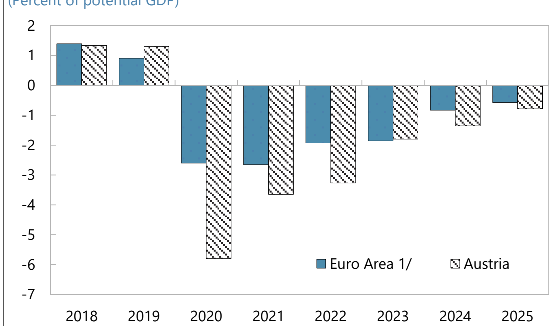
Revenue	2023	2024
Energy Crisis Contribution	-0.1	0.0
Reduction of energy tax	0.2	0.2
Expenditure		
Energy subsidy (for households)	0.3	0.2
Energy subsidies (for companies)	0.4	0.0
Grid loss costs	0.1	0.0
Total	**0.9**	**0.4**

Sources: Austrian authorities.

13. More near-term fiscal adjustment would ideally be desirable. The degree of structural adjustment, despite the phasing-out of pandemic and energy-price support, appears less-than-optimal in view of persistent inflationary pressures, limited economic slack, and the need to rebuild buffers (¶14). The authorities have also extended the household electricity cost subsidy and reduced energy tax to end-2024, even though energy prices have fallen substantially. While significant adjustments outside the budget cycle are challenging, the authorities should seek opportunities to save any revenue overperformance and avoid new

Structural Primary Balance

(Percent of potential GDP)



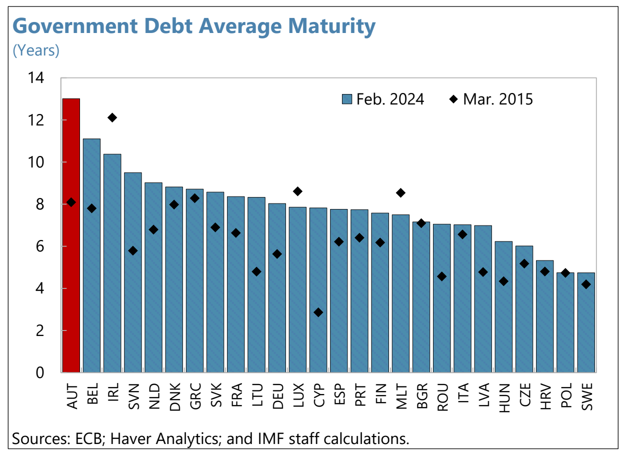
1/ Euro area excludes Austria.
Sources: IMF 2024 April WEO and Austria 2024 Draft Budgetary Plan.

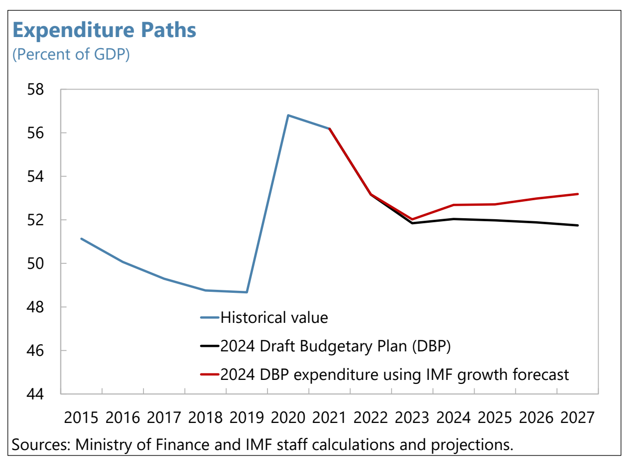
[8] The electricity cost subsidy for households and reduced energy taxes were extended until end-2024.

[9] Resources were also allocated to enhance long-term care, the healthcare system, childcare, and climate investment through "fiscal equalization." This process involves the distribution of financial resources among the different levels of government: the federal government, the Länder (states), and the local governments. By decision of the council of ministers 72/12 of October 4, 2023, the fiscal equalization will amount to EUR 1.3 bn (0.3 percent of GDP) per year over the period 2024–2028.

deficit-creating measures during the year. However, fiscal policy should also remain agile and adjust as conditions warrant, including by easing (accelerating) adjustment if growth and inflation surprise sharply on the downside (upside).

14. Spending restraint and structural fiscal measures are needed to rebuild buffers and offset rising medium-term spending pressures. Austria retains some fiscal space to respond to shocks, in part due to effective debt management, with average maturities lengthening in recent years and the overall risk of sovereign stress still assessed as low (Annex IV). Nonetheless, the pandemic and energy-price shock have diminished fiscal buffers, with debt now above 77 percent of GDP and the structural primary balance below the level that stabilizes debt in the medium term. Steady fiscal consolidation is thus necessary to keep the public-debt ratio on a downward path and to rebuild buffers against future shocks. In addition, fiscal pressures are projected to increase over the medium and long term due to rising aging-related costs (pensions, long-term care, and healthcare), interest expense, and defense spending (Figure 6).[10] Staff's baseline assumes that in the medium term these costs are mostly offset by substantial spending restraint in other areas including by bringing key current spending items (excluding aging-related costs) back near pre-pandemic levels as a percent of GDP in line with the authorities' medium term spending plans. This would lead to a fiscal deficit close to 2 percent of GDP over the forecast horizon, and the structural primary deficit would equal -0.8 percent of GDP, roughly the debt-stabilizing level. Staff recommend aiming instead for a structural primary balance close to zero by 2028, requiring structural adjustment of about 0.3 percent of GDP per year during 2025–28 (initial indications suggest this path would be broadly in line with the new EU fiscal rules). In the longer run, such a balance would stabilize debt below the 60 percent of GDP European target while also providing a modest cushion against adverse shocks. Within this deficit target, further deficit-reducing measures will also likely be needed to make room for sufficient investment to meet green transition goals, absent further major increases in carbon prices.





[10] See accompanying *Selected Issues* chapter on "Building Fiscal Room in Austria".

15. Spending and tax reforms should be considered to support deficit reduction and increase funding for investment priorities. Cutting environmentally harmful subsidies and tax expenditures, adopting further pension reforms, and improving healthcare spending efficiency, including by increasing use of outpatient care, could yield substantial benefits.[11] Options for tax reform include updating property tax valuations (the last comprehensive update of property values based on actual market prices was in 1973) and evaluating the scope for introducing inheritance and gift taxes. Strengthening subnational fiscal constraints could help avoid common-pool problems. In all, staff estimates that such measures could create more than 3 percent of GDP in additional fiscal room by 2030 (Text Table 4).[12] Proceeds from such measures could be used not only to relieve spending pressures, but also to fund well-targeted, pro-growth tax reforms. Austria should also ensure that it effectively utilizes its full allocation from the EU Recovery and Resilience Facility.

Text Table 4. Austria: Options for Increasing Fiscal Room
(Net fiscal savings by 2030 in percentage points of GDP)

	per year
Reducing energy-intensive subsidies	0.8
Achieving efficiencies in healthcare spending	1.0
Pension reform	0.4
Increase property tax	0.8
Inheritance and gift tax	0.2
Enhancing government finance	n.c.
Total	**3.2**

Source: IMF staff calulcations based on Selected Issues chapter, "Building Fiscal Room in Austria".
Notes: n.c. indicates non-costed.

Authorities' Views

16. The authorities agreed with the need to exercise fiscal prudence and rebuild buffers over the medium term. They emphasized that they are actively working to reduce medium-term spending pressures. Of note, the gradual alignment of women's retirement age with that of men to 65 years is anticipated to reduce pension spending. The authorities also plan to reduce environmentally harmful subsidies to align with the European average, which is political challenging, albeit a key component of green budgeting efforts. Regular spending reviews are being conducted under the umbrella of the EU, focusing primarily on environmental and structural issues. The authorities also expect that recent measures to enhance outpatient care and strengthen the primary healthcare system would help lower health spending over the medium term. In addition, the authorities emphasized proactive debt management as a key strategy for maintaining fiscal space, noting also Austria's pioneering efforts in issuing bonds earmarked for green infrastructure projects.

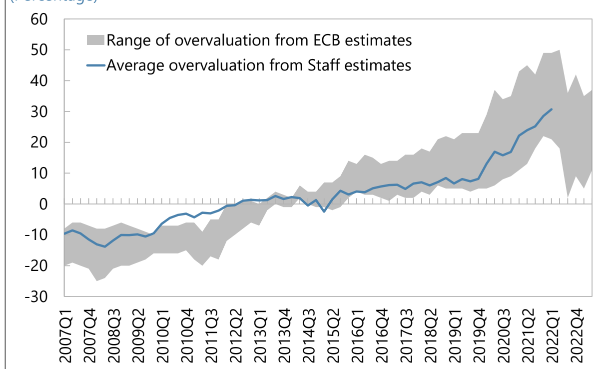
[11] The authorities estimate that increasing the retirement age in line with ¾ of the change in life expectancy at current retirement ages would lower pension expenditure by 1.5 pp of GDP in 2070.

[12] See Selected Issues chapter, "Building Fiscal Room in Austria".

B. Financial Sector Policies

17. Risks to the financial sector stem from property market corrections and expected declines in net interest margins.

Housing Price Overvaluation
(Percentage)



Sources: ECB and IMF staff calculations.

- NPLs may rise somewhat due to lagged effects from the substantial rise in interest rates over the last two years. In this regard, the high share of variable-rate mortgages (around 45 percent) amidst a housing market correction poses repayment risks to borrowers and credit risks to banks. House prices have fallen by about 4 percent (11 percent in real terms) over the year since the peak in 2022Q3 and are assessed to be overvalued by 30 percent by staff estimates in 2022, in the range of OENB and ECB estimates.[13] Headwinds are also visible in parts of the heterogenous commercial real estate (CRE) sector. While vacancy rates of 4 percent in the office sector compare favorably with other European and US markets, other parts of the CRE sector, such as those linked to the purchase and construction of multi-unit housing, exhibit more weakness, as indicated by increased loan-loss provisions and ratings migrations. Austrian banks' CRE lending has grown rapidly over the years to 20 percent of total bank loans, and the exposure of insurance and pension companies also appears sizable.[14] Banks' high exposure to CESEE countries poses additional risks amid heightened geopolitical tensions.

- Lending rates have responded more quickly to higher policy rates than have deposit rates. As deposit rates catch up and as depositors shift to higher-yielding term deposits, net interest margins are expected to decline somewhat.

18. Banks should use recent strong profits to build buffers. The increase in banks' profitability is likely to have a temporary component, given that, going forward, higher deposit rates are expected to weigh on net interest margins and as credit losses on CRE and other vulnerable sectors materialize. Supervisors should thus encourage banks to be conservative in capital distributions and instead use the current high profits to build up protection against risks, including by insuring against cybersecurity threats (a key systemic risk) through adequate investment in security technology. To help support capital buffers, the authorities appropriately increased bank-specific capital buffer requirements (O-SII and SyRB) in January 2023 by up to 50 basis points, phased in over 2023–24 at 25 basis points each year (to be re-evaluated in 2024). The countercyclical

[13] See accompanying Selected Issues chapter, "Housing Market Developments and Related Policies". According to ECB and OENB estimates, house prices are overvalued by 20–40 percent in 2022, broadly in line with staff estimates, albeit with some decrease in overvaluation in 2023.

[14] The total volume of CRE bank loans is €190 billion, of which exposure toward foreign borrowers is about one–fifth.

capital buffer (CCyB) is appropriately set at zero given the large negative credit-to-GDP gap (-16.4 percent in 2023Q3; ECB estimate). However, this buffer could be increased in upside scenarios in which credit growth rebounds and the credit cycle shifts into expansionary territory.

19. The prudent limits imposed on RRE loans are welcome and should be maintained. The authorities implemented mandatory borrower-based measures in mid-2022, in line with previous staff advice.[15] These measures will remain in place through June 2025 and may be extended for two years with legislative approval if systemic risks in the RRE market are still heightened. Mortgage loan quality has notably improved since the imposition of these limits. In particular, the share of new loans with LTVs in excess of 90 percent fell from 59 percent in 2022Q3 to 17 percent in 2023Q2. These measures should be maintained despite the recent interest-rate-driven downturn in housing markets, as prudential limits are needed as a permanent, structural measure. Moreover, the settings of the limits are not especially tight in international comparison given the substantial exemptions. In contrast, attempts to improve housing affordability by loosening credit standards could be counterproductive as it may increase house prices. Efforts to improve affordability should focus instead on boosting housing supply by easing disincentives and regulatory constraints on new construction (¶24).

20. CRE risks require careful monitoring and continued work to close data gaps. The authorities have improved monitoring of CRE exposures, and continued efforts are needed to address macroprudential data gaps, including by producing and publishing data on CRE prices, rental returns, and debt-service-coverage ratios. Meanwhile, the authorities should continue to encourage banks to remain proactive in provisioning CRE loans and apply conservative valuations to CRE assets.

21. Authorities have made useful progress on some of the 2019 FSAP recommendations, but key actions remain outstanding. Key areas of progress include making mandatory the guidance limits on real estate lending (¶19) and stress testing in 2023 of insurance firms against material risks (Annex VI). Important outstanding measures relate to adopting legislation to strengthen the resolution and bankruptcy regimes and statutory independence of financial-sector supervision and regulation.

Authorities' Views

22. The authorities underscored the need to continue prudent financial sector policies. They agreed that banks' net interest margins are expected to decrease and that risks are elevated in the CRE sector. Consequently, supervisors are encouraging banks to strengthen their capital base by exercising restraint on profit distributions and, in the CRE sector, to be especially proactive in

[15] These limits, including a loan-to-value (LTV) cap of 90 percent, a debt-service-to-income cap of 40 percent, maturity limits set at 35 years, and a limit of 20 percent on exemptions, were introduced in August 2022. Subsequent adjustments in April 2023 relaxed the scope of the regulation by (i) excluding bridging loans and non-repayable government grants (ii) increasing *de minimis* limits for couples as joint borrowers (to €100,000) and (iii) introducing a minimum exemption volume of €1 million. The real estate value used in LTV calculations is calculated as the market value minus the value of any prior charges, but this amount cannot exceed the value of the lien entered into the land register. Consequently, the value used in LTV calculations may be below the actual market value.

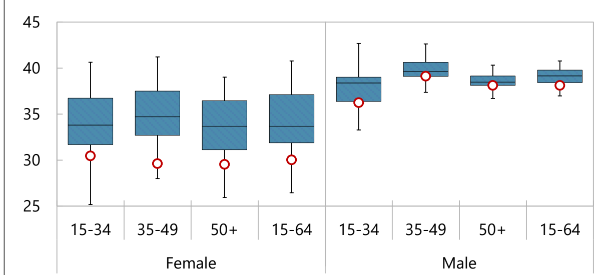
provisioning and adjusting collateral valuations. On data gaps, the authorities agreed with the need for CRE market indices on prices, rents, and yields but noted that these may only be available by 2025, as banks need to adhere to strict data quality requirements. On the mandatory borrower-based measures for mortgage lending, the OeNB and FMA stressed the importance of resisting pressures to weaken these measures, which they viewed as having improved loan quality while not being a major constraint on credit growth. On the CCyB, the authorities considered its current setting as appropriate in view of the negative credit gap. Going forward, they noted that a positive-neutral CCyB is not permitted under the current legal framework, but that it would be possible to adjust the existing CCyB if needed, based on an assessment of a larger set of cyclical risk indicators other than just the credit gap.

C. Structural Policies

23. Policies to boost labor supply, especially among women and the elderly, are needed in view of demographic headwinds to growth.

- *Female participation*. Female workers work substantially fewer hours than in the average European country, in large part due to higher prevalence of part-time work (text chart; Figure 9). This gap becomes especially large during child-rearing years, reflecting insufficient childcare availability (especially outside major cities) and societal norms that predominantly assign women the primary responsibility of caregiving. Gender pay gaps also disincentivize female labor supply.

Average Weekly Hours Per Employed Person by Age Group and Sex
(Hours, 2018-2022)



Sources: Eurostat; Statistik Austria; and IMF staff calculations.
Notes: In this figure, the top and bottom of the blue boxes correspond to the 75th and 25th percentiles, respectively; the top and bottom spikes correspond to the maximum and minimum (excluding outliers) respectively; and the red circle corresponds to the value for Austria.

- *Elderly participation*. Austria also has relatively low labor-force participation rates among elderly workers compared to other European countries, which can be attributed in part to its comparatively generous pension system and the greater prevalence of health concerns within the population aged 55 and older.

- *Policy options*.[16] Closing gender and elderly labor supply gaps relative to the EU average would offset more than 20 years of demographic aging in terms of the effect on GDP. The authorities have taken welcome steps in this regard, including by expanding funding for childcare facilities,[17] combatting gender pay gaps by increasing wage transparency, and gradually raising the retirement age for women to match that of men at 65 years of age, but additional efforts are needed. Staff analysis suggests that further expanding childcare facilities, eliminating the gender wage gap, and mitigating the impact of societal norms around childcare could boost labor

[16] See accompanying *Selected Issues* chapter, "Enhancing Labor Supply to Boost Medium Term Growth".

[17] A significant share of the Future Fund recently agreed during the equalization process for 2024–26 is aimed at supporting the construction of new childcare facilities, extending opening hours, and hiring childcare staff.

supply by up to 20 percent and increase real GDP by up to 15 percent over time. And, while expanding childcare will entail initial fiscal costs, much of this is likely to be offset by higher fiscal revenue due to an expanded workforce. Lowering pension replacement rates to the EU average could boost labor supply by 0.5 percent and result in a 0.4 percent expansion of real GDP and a large net revenue increase of 2 pp of GDP. Labor supply would also benefit from continuing ongoing efforts to better integrate migrants by providing language and literacy courses and improving mechanisms for recognizing immigrants' professional credentials.

24. Reducing the supply gap in key housing markets would assist affordability. The supply of new housing has fallen short of the rate of household formation over the last decade, especially in Vienna, contributing to a 74 percent increase in real house prices from 2010 to end-2021. House price-to-rent ratios and house price-to-income ratios have increased more than regional peers, indicating affordability problems amid sizable house price overvaluation. Austria has relatively strict rent controls and land-use regulations and slow permitting procedures, which may have contributed to inelastic housing supply, particularly in Vienna. Easing such restrictions may help relieve supply bottlenecks, improve affordability, and reduce financial-sector risks related to mortgage lending, without loosening credit standards. Increasing taxes on vacant land zoned for residential housing could also be explored as a way to further increase incentives to build.

25. Accelerating the green transition will ensure lasting energy security. Several key mechanisms to promote the green transition are already in place, including the EU Emissions Trading System (ETS) and domestic carbon pricing (NEHG) introduced in 2022. The EU ETS 2 is scheduled to launch in 2027 and integrate the current NEHG, covering some sectors not covered by ETS. Nonetheless, Austria's current trajectory for reductions in non-ETS emissions still falls significantly short of its 2030 target of a 48 percent reduction compared to 2005.[18] Regulatory delays in permitting of green projects are a key bottleneck. The authorities amended the environmental impact assessment law in 2023 to streamline the process and have initiated a legislative process to identify further roadblocks, which is welcome.[19] Additional efforts are required, however, including to achieve the target of increasing the share of renewables in energy, boosting green infrastructure, and enhancing transportation and space heating efficiency. Additional public investment in the green transition (¶14–15) and continued efforts to address skill shortages in key occupations would also assist these goals.

26. Austria should prepare for geo-economic fragmentation (GEF)-related risks and undertake structural reforms to bolster competitiveness. Austria is an open economy with sizable international linkages, including through participation in GVCs (Figure 3) and significant international financial links. To mitigate risks, Austria can, at the EU level, support solutions that address GEF-related risks while preserving the benefits of global integration and multilateralism. Domestically, Austria can bolster resilience against fragmentation by identifying specific products exposed to fragmentation risk, stress-testing GVCs, and developing strategies to cope with potential disruptions.

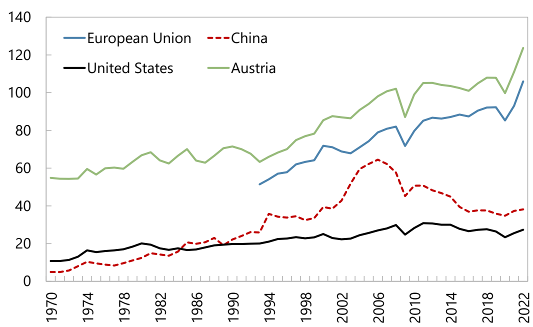
[18] See accompanying *Selected Issues* chapter, "Accelerating the Green Transition".

[19] See *Austria passes EIA reform to speed up renewables rollout.*

In the financial sector, sanction-related risks should be carefully monitored and mitigated.[20] Structural reforms would help bolster productivity and competitiveness, including swift implementation of the 2023 National Strategic Roadmap for the Digital Decade of Austria to help reduce barriers to digitalization identified in the Platform for Infrastructure Development (PIA 2030), in particular improving the connectivity of rural areas. Remaining reforms to fulfill RRF milestones should be implemented without delay to receive the second and third payments.

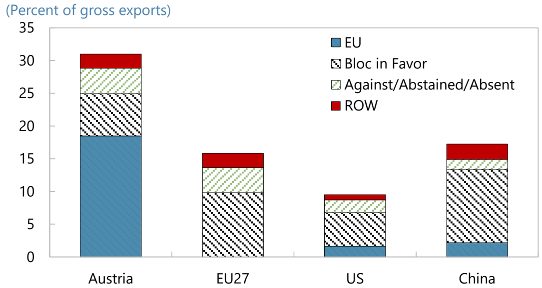
Figure 3. Austria: Exposure to Geoeconomic Fragmentation

Trade Openness
(Percent of GDP)



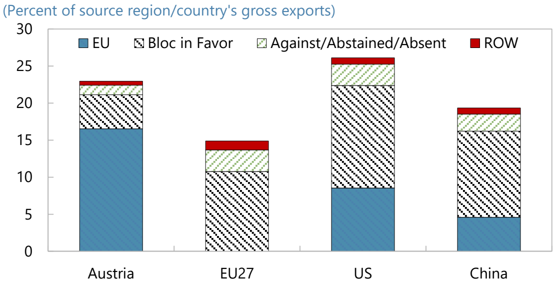
Source: World Development Indicators.

GVC Backward Participation 1/
(Percent of gross exports)



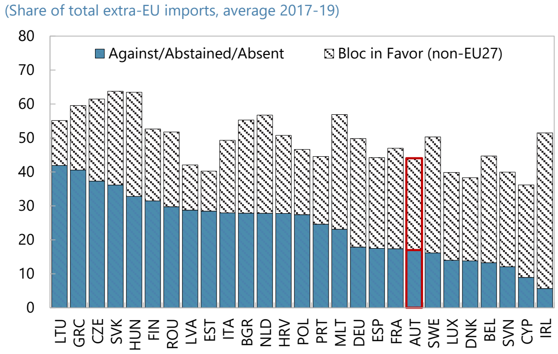
Sources: OECD TiVA and IMF staff calculations.
1/ Backward participation is foreign value added embedded in gross exports. Data is as of 2018. Countries that the OECD TiVA database reports on only an aggregate basis as "rest of the world" are shown as "ROW".

GVC Forward Participation 1/
(Percent of source region/country's gross exports)



Sources: OECD TiVA and IMF staff calculations.
1/ Forward participation is defined as domestic value-added embedded in trading partners' gross exports. Data is as of 2018. "Source region/country" refers to the source region/country of domestic value-added. Countries that the OECD TiVA database reports on only an aggregate basis as "rest of the world" are shown as "ROW".

EU27: Import of Intermediary Goods classified as Fragile
(Share of total extra-EU imports, average 2017-19)



Sources: CEPII-BACI bilateral trade data and IMF staff calculations.

Source: Baba, Lan, Mineshima, Misch, Pinat, Shahmoradi, Yao, van Elkan (2023) "Geoeconomic Fragmentation: What's at Stake for the EU", IMF Working Paper No. 2023/245.
Notes: Non-EU countries are grouped into the "in favor" bloc and the "against/abstained/absent"bloc: the former supported the UN Resolution ES-11/1 deploring Russia's invasion of Ukraine while the latter was against, abstained, or was absent at the vote.

Authorities' Views

27. The authorities broadly shared staff's views on structural policy priorities. They agreed on the importance of enhancing labor force participation to counteract the drag on growth from

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

demographic aging—an issue widely shared across EU countries. In this regard, the authorities noted their stepped-up efforts to increase full-time employment, including through securing additional funding to expand childcare availability, increasing incentives to work beyond the age of 65, and rolling out language and literacy programs for migrants. They anticipated that higher educational achievements would also help mitigate the impact of aging on growth through increased productivity. Regarding the green transition, the authorities agreed that further measures are necessary to fulfill their 2030 emissions goal**,** notwithstanding the progress made thus far in reducing emissions and promoting renewable energy usage. In particular, they agreed that reducing the long lead time for obtaining permits for relevant projects would help foster more private investment in the green transition and that it is important also to overcome state-level planning restrictions. A legislative review to streamline permitting processes is underway. On housing, the authorities saw supply shortages as mainly a problem in Vienna, whereas other regions are likely to be somewhat oversupplied following the pickup in housing completions over the past decade.

D. AML/CFT Issues and Addressing Transnational Aspects of Corruption

28. The 2021 domestic national money laundering and terrorism financing (ML/TF) risk assessment (NRA) identified elevated risks facing the Austrian banking sector. These include relationships with non-resident customers and politically exposed persons, as well as growing correspondent banking relationships. The FMA's risk assessment tool utilizes an extensive AML dataset that allows the FMA to perform a well-informed risk classification. Sustained supervisory action has seen a recent decline in business relationships with offshore links. Additionally, the FMA's stringent focus on strong AML/CFT measures for entry to the Virtual Asset Service Provider (VASP) industry has seen a more than 50 percent reduction of registered/active VASPs, largely due to lack of AML capacity. Going forward, Austria's monitoring of ML/TF cross-border risks could further be enhanced by utilizing cross-border payments data and application of analytical methods to enhance understanding of risks of cross-border flows linked to higher risk jurisdictions exposed to ML and other crimes.

29. Austria has agreed that its national framework to address transnational aspects of corruption should form a part of its Fund surveillance.[21] The assessment of Austria's frameworks for combatting foreign bribery and the concealment of the foreign proceeds of corruption is reflected in Box 1.

Authorities' Views

30. The authorities concurred with staff's assessment of AML/CFT challenges and developments as well those relating to transnational aspects of corruption. The authorities will continue to tighten focus on risks arising from international business in certain regions (including

[21] Austria volunteered to have its legal and institutional frameworks assessed in the context of bilateral surveillance for purposes of determining whether it: (a) criminalizes and prosecutes the bribery of foreign public officials and (b) has an effective AML/CFT system that is designed to prevent foreign officials from concealing the proceeds of corruption. All G7 countries as well as other countries have volunteered for this assessment (see https://www.imf.org/en/Topics/governance-and-anti-corruption).

further developing financial flows analysis) and VASP operations as well as prepare for impending changes to the EU AML/CFT supervisory framework and the FATF mutual evaluation.

Box 1. Austria: Frameworks for Combatting Transnational Corruption [1/]

Foreign bribery risks are moderate, but further efforts are called for. None of the 500 largest multinational enterprises (MNEs) is headquartered in Austria, and the scale of foreign direct investment is not large in a global context.[2] However, since the OECD Phase 3 evaluation of Austria, there have been instances of foreign bribery cases involving Austrian companies in Central and Eastern Europe. In the 2015 follow-up to the Phase 3 evaluation of Austria, the OECD Working Group on Bribery acknowledged that Austria had taken measures to pursue legal persons for foreign bribery and promote prosecution of foreign bribery offences. However, more efforts are needed, such as removing impediments to effective investigations and prosecutions, enhancing measures to prevent and detect foreign bribery, and increasing the maximum fines available for companies. In this regard, the authorities reported recent legislative progress, such as the amendment of the Austrian Federal Statute on Responsibility of Entities for Criminal Offences and the adoption of the Whistleblower Protection Act in 2023. The Phase 4 evaluation of Austria to monitor the country's implementation of the OECD Anti-Bribery Convention and related instruments has been initiated, and the on-site visit was conducted from January 29–February 2, 2024. More updates are expected with the finalization of the Phase 4 evaluation report.

While anti-money laundering mitigating measures are being strengthening, professional enablers continue to be exposed to risk of laundering of foreign proceeds of corruption, and beneficial ownership of legal entities continues to pose challenges. The supervisors of the lawyers and the notaries have developed on and off-site supervisory procedures; however, there is the need to improve the collection of statistics to properly assess risks. Amendments for this as well as to establish the umbrella supervisory jurisdiction of the Austrian Chamber of Notaries are being discussed. The Bar Associations highlighted difficulties with establishing beneficial ownership of overseas clients. The Austrian Register of Beneficial Owners provides guidance in this regard, and the Beneficial Ownership Registers Interconnection System (BORIS) will provide access to this information across the EU. However, there are still issues to be resolved to deal with the decision by the European Court of Justice to remove public access to the registers. Also, access beyond the EU is subject to data protection equivalence standards, which continues to present challenges.

[1/] Information relating to supply-side corruption in this section of the report is based on information and data provided by Austria. IMF staff has provided additional views and information. The information in this report has not been verified by the WGB or the OECD Secretariat and does not prejudice the WGB's monitoring of the implementation of the OECD Anti-Bribery Convention.

[2/] See OECD- UNSD Multinational Enterprise Information Platform, and International Financial Statistics International Investment Position, Assets, Direct investment.

STAFF APPRAISAL

31. Strong policy responses have helped mitigate severe economic shocks in recent years. Growth rebounded strongly from the pandemic thanks in large part to strong policy support, with output quickly rising back above pre-pandemic levels. In response to the energy price shock, the authorities made use of available fiscal room to cushion the impact of higher energy prices while maintaining price signals that incentivized households and firms to conserve energy. Nevertheless, the economy contracted in 2023 as high energy prices, elevated inflation, and rising interest rates weighed on output. Growth is expected to recover modestly in 2024 on rising real wages and build momentum in subsequent years as investment demand recovers. Inflation is expected to decline gradually to target as lower energy prices pass through and wage growth moderates, but it will be some time before inflation reaches two percent given its current elevated level and sticky services inflation. Notable risks exist in both directions and relate to uncertainties around external demand and energy market developments, inflation persistence, and the depth and speed of real estate market corrections.

32. Fiscal policy should seek opportunities to overperform the deficit target in 2024 to support disinflation and rebuild buffers. Remaining energy-price relief measures should be phased out as early possible, now that wholesale gas prices have normalized. In addition, the authorities should save any revenue overperformance and avoid adopting new deficit-creating measures during the year. Fiscal policy should also remain agile, including by easing (accelerating) adjustment if growth and inflation surprise sharply on the downside (upside).

33. Steady fiscal consolidation remains important over the medium term. Austria maintains some fiscal space to counter economic shocks, thanks to effective debt management and the low overall risk of sovereign stress. Nonetheless, the pandemic and energy shock have diminished fiscal buffers, and structural spending pressures are set to increase due to rising aging-related costs, interest payments, and green transition investment needs, among other factors. Expenditure and tax reform measures are needed to offset these pressures and put the public-debt ratio on a clear downward path. In particular, eliminating environmentally harmful subsidies would not only create fiscal room, but also help accelerate the green transition and strengthen energy security. Other options for generating fiscal room include updating outdated property tax valuations, undertaking further pension reforms, improving healthcare spending efficiency, and restricting low-priority spending, among other measures.

34. The financial system remains stable, liquid, and profitable; but continued close monitoring of risks is warranted. In particular, data gaps in the CRE sector complicate a full assessment of broader risks from CRE exposures from a macroprudential perspective. The authorities should thus continue to closely monitor CRE risks and advance ongoing efforts to close data gaps, including by producing and publishing data on CRE prices, rental returns, and debt-service coverage ratios.

35. Banks should conserve likely temporary high profits to strengthen capital buffers and improve protection against risks. Supervisors should continue to encourage banks to be conservative in capital distributions and use the current high profits to build buffers, including against cybersecurity risks. In this regard, the implementation of higher O-SII and systemic risk buffers in 2022 for individual banks is welcome. The CCyB could be increased above zero once the credit cycle turns and shifts into expansionary territory.

36. Pressures to weaken prudential lending standards for mortgages should be resisted. The settings of the limits are not especially tight in international comparison given substantial exemptions. The mandatory limits should be retained as a permanent, structural measure to guard against macro-financial risks associated with excessive mortgage debt. Efforts to improve housing affordability should aim not at increasing household leverage but instead focus on boosting housing supply, including by easing regulatory constraints on new housing construction (e.g., slow permitting procedures) and reviewing land-use and rental regulation.

37. Implementing key outstanding recommendations from the 2020 Financial System Stability Assessment would further reduce risks. The authorities are encouraged to make further progress to strengthen the statutory independence of financial supervision and regulation and to revise bankruptcy and resolution legislation to facilitate quick and efficient resolution of troubled financial firms and the broader management of financial crises.

38. Reducing constraints to greater labor force participation, especially among women and the elderly, will help address growth challenges from demographic headwinds. The authorities have taken important and welcome steps to reduce gaps in labor force participation for female and elderly workers, including by allocating more resources for childcare services and by increasing the retirement age for women to over time equal that of men. These measures could be further enhanced with more ambitious targets for childcare services across Austria and continued efforts to close the wage gap for female workers, along with additional pension reforms to boost elderly labor force participation. In this context, ongoing efforts to enhance the integration of immigrants into the labor force are also welcome and should be further deepened.

39. Additional measures are needed to secure the green transition. Austria has made significant strides in its green transition agenda, including with the implementation of a national carbon price and expansion of renewable energy generation. However, the current trajectory of emission reductions falls short of its emission reduction commitments. The authorities should thus ensure that necessary resources are deployed to meet green transition investment needs, reduce delays in permitting to speed up green infrastructure investment, and address skill shortages in occupations that are critical for the green transition.

40. Austria should prepare for risks from geoeconomic fragmentation and undertake further structural reforms to bolster productivity and maintain competitiveness. Austria's external position is assessed to be broadly consistent with the level implied by medium-term fundamentals and desirable policies. Austria is encouraged to support solutions that preserve the benefits of global integration and multilateralism, while domestically also taking steps to secure supply chains, and in particular, accelerating the green transition to strengthen energy security.

Continued efforts to expand digitalization, including by implementing Austria's 2030 Broadband Strategy, will also support competitiveness and medium-term growth.

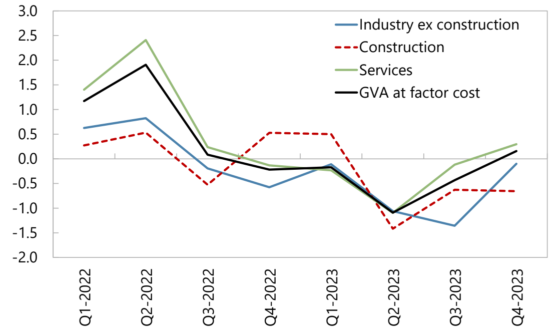
41. It is proposed that the next Article IV consultation with Austria take place on the standard 12-month cycle.

Figure 4. Austria: Real Sector

Economic weakness has been broad-based.

Gross Value Added and Components

(Quarter-on-quarter percent change; SWDA)

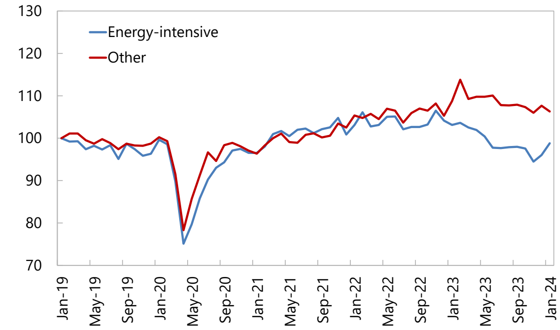


Sources: Eurostat; Haver Analytics; and IMF staff calculations.

Output in energy-intensive sectors has declined.

Industrial Production

(Index, 2019M1=100; SA)

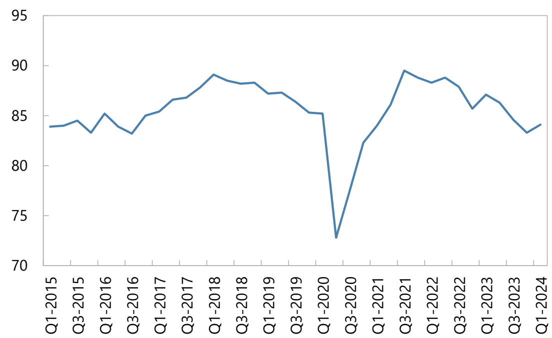


Sources: Statistik Austria; Haver Analytics; and IMF staff calculations.

Capacity utilization has declined since the recovery.

Industry Capacity Utilization

(Percentage; SA)

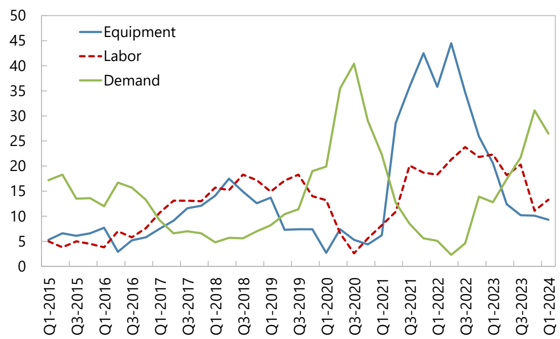


Sources: European Commission and Haver Analytics.

Weak demand is an increasingly important factor.

Factors Limiting Production

(Percentage; SA)

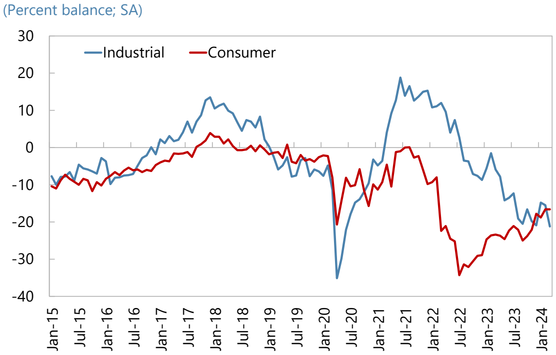


Sources: European Commission and Haver Analytics.

Sentiment is weak among producers and consumers.

Business and Consumer Sentiment

(Percent balance; SA)

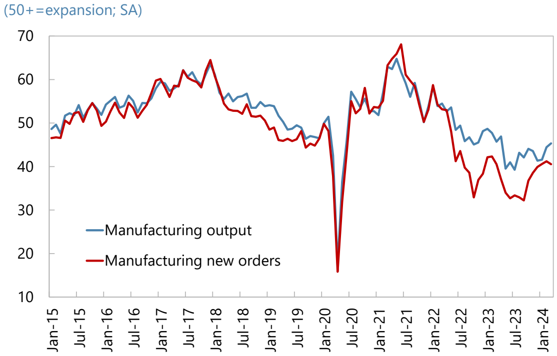


Sources: European Commission and Haver Analytics.

Manufacturing PMIs remain in the contraction zone.

Manufacturing PMI

(50+=expansion; SA)

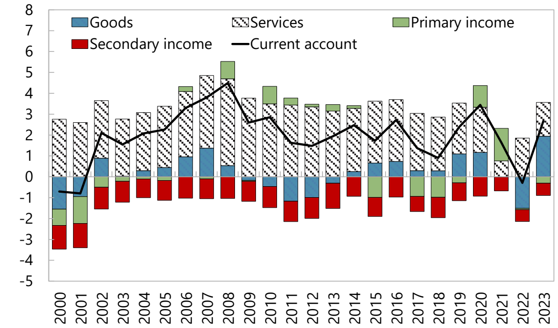


Sources: S&P Global and Haver Analytics.

Figure 5. Austria: External Developments

The current account shrank in 2022 but rebounded in 2023.

Current Account Balance Breakdown
(Percent of GDP)



Sources: Statistik Austria; Haver Analytics; and IMF staff calculations.

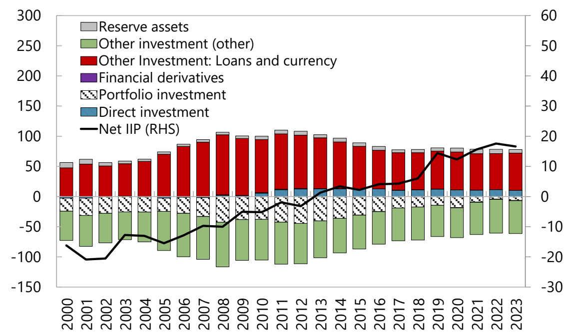
Import growth has declined on weak domestic demand.

Exports and Imports of Goods and Services
(Year-on-year percent change; SWDA)

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

The net NIIP remains modest.

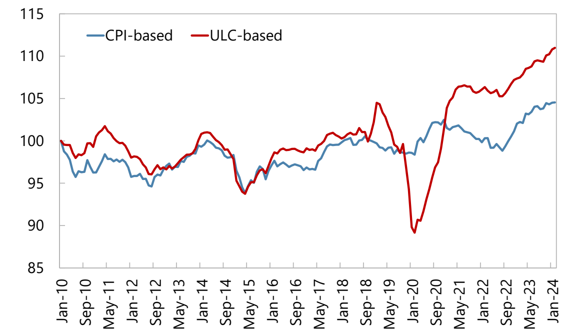
Net International Investment Position by Instrument
(Percent of GDP)



Sources: Statistik Austria; Haver Analytics; and IMF staff calculations.

The REER appreciated in 2023.

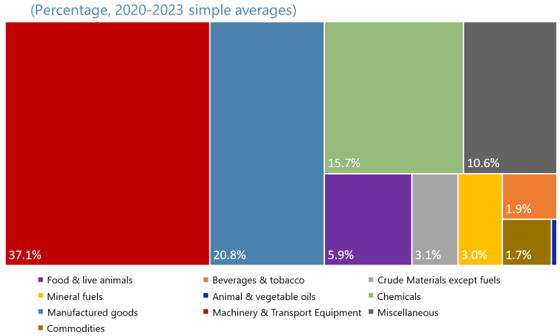
Real Effective Exchange Rate
(Index, 2010M1=100)



Source: IMF staff calculations.

Austria has diversified goods exports.

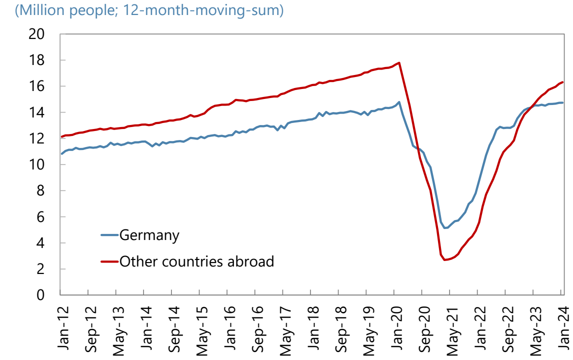
Share in Total Goods Exports
(Percentage, 2020-2023 simple averages)



Sources: Statistik Austria; Haver Analytics; and IMF staff calculations.

Tourism exports rebounded after the pandemic.

Tourist Arrivals
(Million people; 12-month-moving-sum)



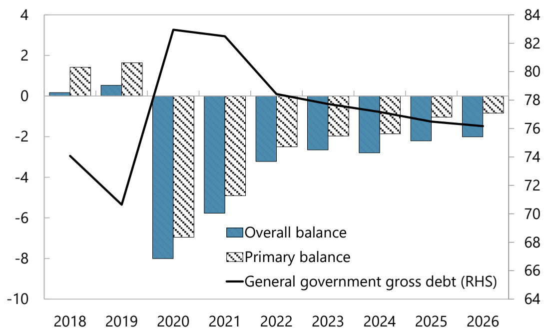
Sources: Statistik Austria; Haver Analytics; and IMF staff calculations.

Figure 6. Austria: Fiscal Developments

Public debt remains somewhat elevated over the forecast horizon.

Fiscal Balance and Debt

(Percent of GDP)

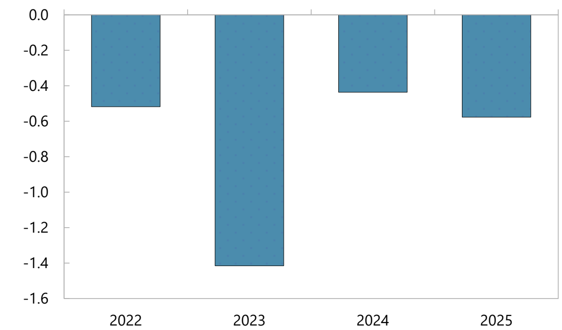


Sources: Ministry of Finance and IMF staff calculations and projections.

Fiscal support is being withdrawn as crises recede.

Fiscal Impulse

(Percentage point; Change in cyclically adjusted primary fiscal deficit as percent of GDP)

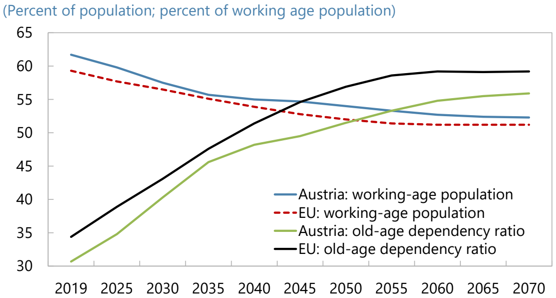


Sources: Ministry of Finance and IMF staff calculations and projections.

As in most other European countries, Austria's population is aging…

Population Projection

(Percent of population; percent of working age population)

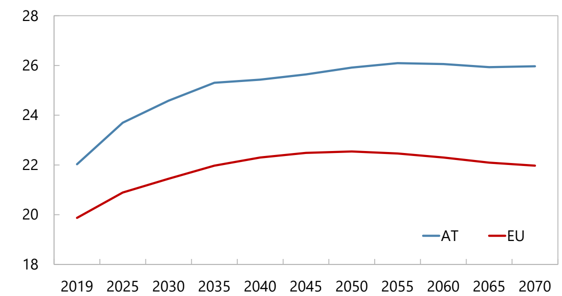


Source: European Commission 2021 Ageing Report.
Notes: Working age population is correspond to the share of population between 20 and 64 years old. Old-age dependency ratio is defined as the ratio of 65+ years old to the working age population.

…and aging costs are high.

Projected Ageing Cost

(Percent of GDP)

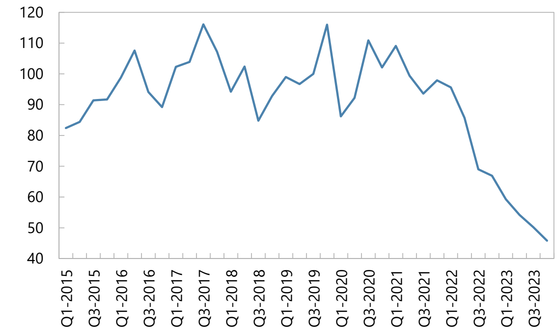


Sources: European Commission 2021 Ageing Report and IMF staff calculations.
Notes: The ageing cost consists of the combined spending of pension, health, and long-term care, with education cost excluded.

Figure 7. Austria: Housing Sector Developments

Construction sector faces headwinds.

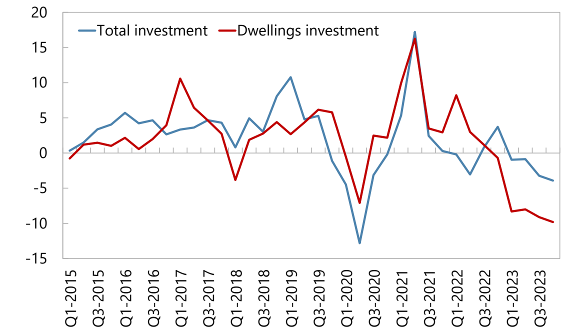
Residential Building Permits in Square Meters
(Index, 2021=100; SWDA)



Sources: Eurostat and Haver Analytics.

Falling dwelling investment is dragging down capital formation.

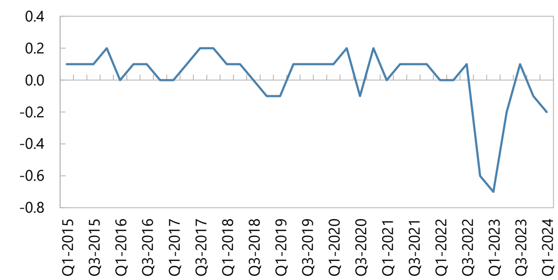
Real Total Investment and Dwellings Investment
(Year-on-year percent change; SWDA)



Sources: Eurostat and Haver Analytics.

Demand for housing loans remains weak.

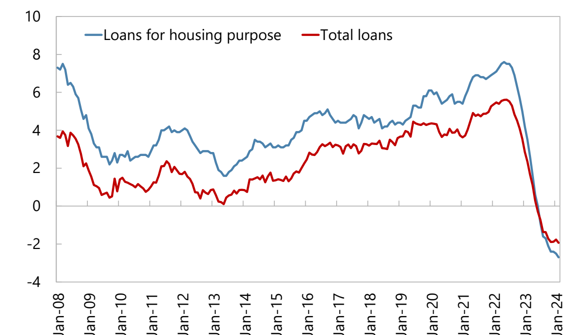
Credit Demand for Mortgage Loans over Past 3 Months
(Diffusion index: negative=decreased 1/)



1/ Diffusion index = (mean - 3)/2, where "mean" is the average of survey responses on changes in credit demand over the past 3 months rated on a scale from 1 (decreased considerably) to 5 (increased considerably).
Source: OeNB and Haver Analytics.

Household credit growth has weakened considerably.

Loans to Households
(Percent; Annual growth rate)



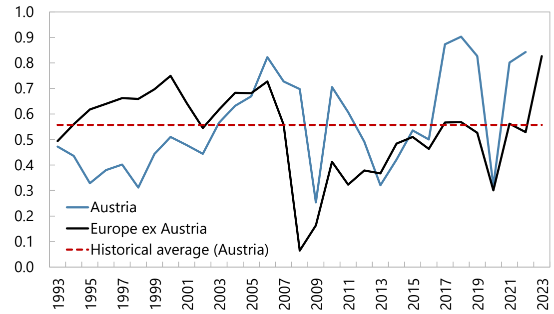
Sources: ECB; OeNB; and IMF staff calculations.

Figure 8. Austria: Financial Sector Developments

Austrian banks' ROA has rebounded.

Mean Return on Assets

(Percent; Asset weighted average ratios)

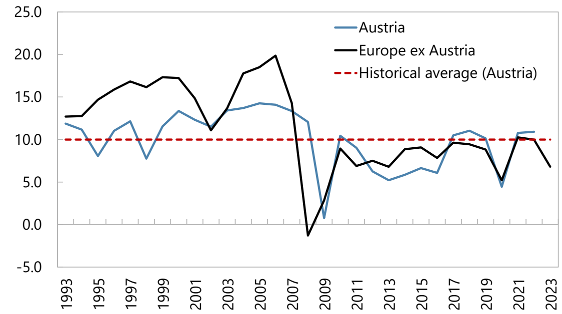


Sources: Fitch Connect Data and IMF staff calculations.
Note: Consolidated results.

ROE has improved as well.

Mean Return on Equity

(Percent; Asset weighted average ratios)

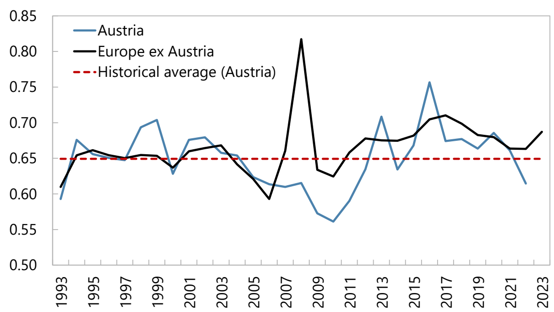


Sources: Fitch Connect Data and IMF staff calculations.
Note: Consolidated results.

Cost to income has declined.

Cost to Income Ratio

(Percent)

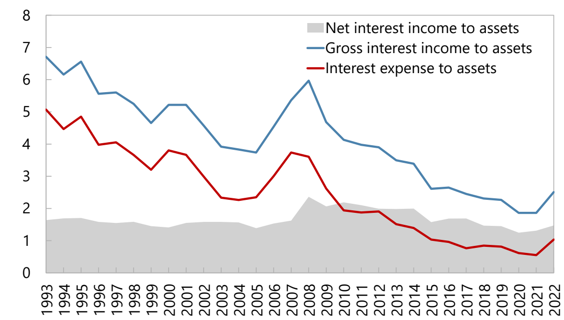


Sources: Fitch Connect Data and IMF staff calculations.
Note: Consolidated results.

Interest income started to rise in 2022.

Interest Income and Expenses

(Percent)

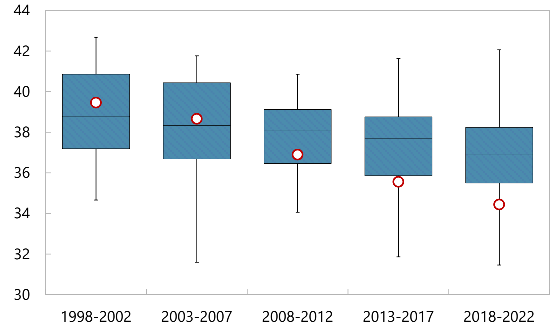


Sources: Fitch Connect Data and IMF staff calculations.
Note: Consolidated results.

Figure 9. Austria: Structural Labor Market Developments

Average weekly hours are below other European countries…

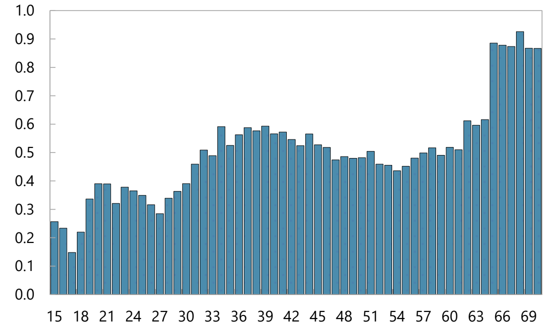
Average Weekly Hours 1/
(Hours)



Sources: Eurostat; Statistik Austria; and IMF staff calculations.

…due to the prevalence of part-time jobs among women…

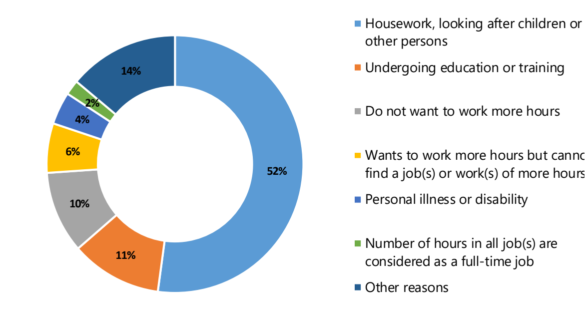
Female Part-time Work by Age, 2019
(Percent of total female worker)



Source: Austria LFS survey.

…reflecting constraints due to child and elderly care…

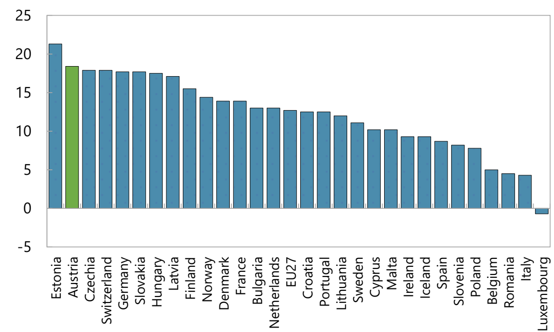
Reason for Female Working Less than 30 Hours
(Percent of female respondant, 2019)



Source: Austria Statistics on Income and Living Conditions Survey.

…and a large gender wage gap.

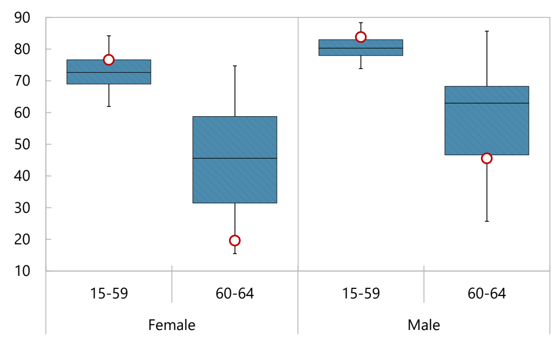
Gender Hour Pay Gap, 2022
(Percent; unadjusted)



Source: Eurostat.

Elderly participation is also subdued for both genders…

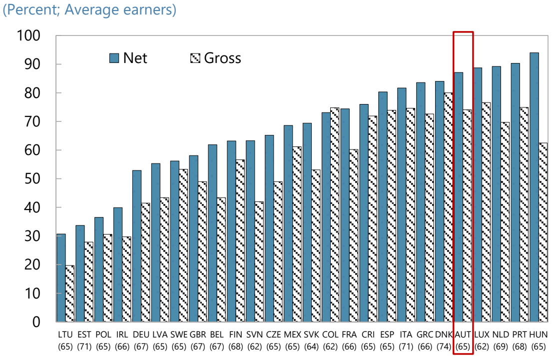
Labor Force Participation Rate by Age Group and Sex 1/
(Percent; 2018–2022)



Sources: Eurostat; Statistik Austria; and IMF staff calculations.

…which may partly reflect relatively high pensions.

Pension Replacement Rates
(Percent; Average earners)



Source: OECD.

1/ In these figures, the top and bottom of the blue boxes correspond to the 75th and 25th percentiles, respectively; the top and bottom spikes correspond to the maximum and minimum (excluding outliers) respectively; and the red circle corresponds to the value for Austria.

Table 1. Austria: Main Economic Indicators, 2019–29
(Annual percent change, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
						Projections					
NATIONAL ACCOUNTS											
Real GDP (expenditure)	1.5	-6.6	4.2	4.8	-0.8	0.3	1.6	1.4	1.0	0.9	0.9
Domestic demand	0.4	-6.1	6.7	2.7	-1.7	-0.1	1.4	1.0	0.9	1.0	1.0
Consumption	0.8	-6.3	5.2	4.0	-0.3	1.4	1.7	1.0	0.9	1.0	1.0
Private	0.5	-8.5	4.2	5.7	-0.3	0.9	1.6	1.2	1.0	1.0	1.1
Public	1.3	-0.4	7.5	0.0	-0.4	2.8	1.7	0.7	0.7	0.9	0.7
Gross fixed capital formation	4.5	-5.5	6.1	0.1	-2.4	-4.4	0.6	0.8	0.9	0.9	0.9
Private	4.6	-6.3	5.8	-3.2	0.1	-3.0	1.0	1.0	0.9	0.9	0.9
Public	4.4	0.2	7.8	20.7	-14.7	-2.2	-1.6	-0.6	1.1	0.9	0.9
GNFS exports	4.1	-10.6	9.1	11.2	-0.2	2.4	3.0	2.7	2.3	2.2	2.0
GNFS imports	2.2	-10.0	14.3	7.9	-1.8	2.0	2.9	2.2	2.3	2.4	2.2
Contribution to GDP (percentage points)											
Final domestic demand	1.6	-5.8	5.2	2.8	-0.8	0.6	1.3	0.9	0.9	0.9	0.9
Net exports	1.1	-0.8	-2.3	2.0	0.9	0.4	0.3	0.4	0.1	0.0	0.0
Inventories and statistical discrepancy 1/	-1.3	-0.1	1.4	-0.1	-1.0	-0.8	0.0	0.0	0.0	0.0	0.0
Investment (% GDP)	25.3	25.6	27.7	27.6	25.3	24.3	24.0	23.8	23.8	23.8	23.8
Public	3.8	4.1	4.3	5.0	4.8	4.6	4.4	4.2	4.1	4.1	4.1
Private	21.5	21.5	23.4	22.5	20.5	19.6	19.6	19.6	19.7	19.7	19.8
Gross national savings (% GDP)	27.7	29.1	29.3	27.3	28.0	26.3	26.2	26.3	26.1	26.1	26.1
Public	4.4	-3.9	-1.5	1.8	2.1	1.8	2.2	2.2	2.0	2.0	2.0
Private	23.4	33.0	30.8	25.4	25.9	24.4	24.0	24.1	24.1	24.1	24.2
Potential output	1.7	-4.0	4.5	0.9	1.0	1.2	1.1	1.0	0.9	0.9	0.9
Output gap (% potential GDP)	0.7	-2.1	-2.3	1.5	-0.3	-1.0	-0.5	-0.1	0.0	0.0	0.0
LABOR MARKET											
Labor force	0.4	-0.4	1.2	1.6	0.5	0.4	0.3	0.2	0.1	0.1	0.1
Employment	0.8	-1.3	0.2	3.2	-0.1	0.1	0.5	0.2	0.1	0.1	0.1
Wages (hourly)	3.3	6.0	0.8	5.1	7.3	8.6	4.5	3.4	2.8	2.5	2.6
Unemployment rate (% labor force)											
EU harmonized rate	4.8	5.5	6.2	4.7	5.1	5.4	5.2	5.1	5.1	5.0	5.1
National definition	7.3	10.0	8.0	6.3	6.4	6.6	6.4	6.4	6.4	6.4	6.4
PRICES											
Consumer prices (avg)	1.5	1.4	2.8	8.6	7.7	4.0	2.8	2.3	2.0	2.1	2.1
Consumer prices (eop)	1.8	1.0	3.8	10.5	5.7	3.2	2.4	2.0	2.1	2.1	2.1
Core CPI (eop)	2.1	1.6	2.2	8.8	6.0	3.5	2.3	2.1	2.1	2.1	2.1
GDP deflator	1.6	2.7	2.1	5.3	7.7	4.0	2.7	2.2	2.1	2.0	2.0
MACRO-FINANCIAL											
Broad money	4.5	10.1	3.8	4.2	-1.2	0.7	4.3	3.5	2.9	2.7	2.8
Credit to the private sector	5.1	3.7	6.9	6.2	-2.5	0.8	4.2	3.4	3.0	3.0	3.0
Corporations	6.0	4.1	8.3	8.6	-3.2	0.8	4.3	3.3	3.0	3.0	3.0
Households	4.2	3.4	5.5	3.6	-1.7	0.7	4.2	3.5	2.9	2.9	2.9
GENERAL GOVERNMENT FINANCES (% GDP)											
Revenue	49.2	48.8	50.4	49.7	49.4	49.6	49.4	49.2	49.2	49.2	49.2
Expenditure	48.7	56.8	56.2	52.9	52.1	52.4	51.6	51.3	51.2	51.3	51.3
Net lending/borrowing	0.5	-8.0	-5.8	-3.2	-2.7	-2.8	-2.2	-2.0	-2.1	-2.1	-2.1
Structural balance (% potential GDP)	0.2	-6.8	-4.5	-4.0	-2.5	-2.3	-1.9	-1.9	-2.1	-2.1	-2.1
Structural primary balance (% potential GDP)	1.3	-5.8	-3.7	-3.3	-1.8	-1.4	-0.8	-0.8	-0.8	-0.8	-0.8
Gross debt	70.6	82.9	82.5	78.4	77.7	77.2	76.5	76.2	76.3	76.4	76.3
BALANCE OF PAYMENTS											
Current account (% GDP)	2.4	3.4	1.6	-0.3	2.7	2.0	2.2	2.4	2.3	2.3	2.3
Export volume (goods and services)	4.1	-10.6	9.1	11.2	-0.2	3.0	3.0	2.7	2.3	2.2	2.0
Import volume (goods and services)	2.2	-10.0	14.3	7.9	-1.8	2.4	2.9	2.2	2.3	2.4	2.2
Int'l investment position, net (% GDP)	14.4	12.3	15.6	17.6	16.6	20.5	22.0	23.8	25.5	27.2	28.8
MEMORANDUM ITEMS											
Nominal GDP (billions of euro)	397.1	380.9	405.2	447.2	477.5	499.1	520.9	539.7	556.6	572.8	589.6
Population (millions of people)	8.9	8.9	8.9	9.0	9.1	9.1	9.2	9.2	9.2	9.2	9.3
GDP per capita (U.S. dollars)	50,192.5	48,837.3	53,696.2	52,489.0	56,726.0	58,933.8	61,075.7	63,049.7	64,758.0	66,389.4	67,997.7
U.S. dollar to euro (rate; annual avg)	1.1	1.1	1.2	1.1	1.1	…	…	…	…	…	…
Real effective exchange rate	-0.4	-6.3	12.2	1.5	3.9	…	…	…	…	…	…

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

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

Table 2. Austria: Fiscal Accounts, 2019–29
(Percent of GDP, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
								Projections			
GENERAL GOVERNMENT OPERATIONS											
Revenue	**49.2**	**48.8**	**50.4**	**49.7**	**49.4**	**49.6**	**49.4**	**49.2**	**49.2**	**49.2**	**49.2**
Tax revenue	27.7	26.6	28.0	28.4	27.8	27.7	27.5	27.4	27.4	27.5	27.5
Direct taxes	13.6	12.8	13.9	14.4	13.9	13.5	13.4	13.4	13.5	13.5	13.5
Of which: Personal income tax	9.8	9.4	9.9	10.6	10.2	9.9	9.9	9.9	9.9	9.9	9.9
Corporate income tax	2.8	2.2	2.4	2.5	2.4	2.3	2.3	2.3	2.3	2.3	2.3
Indirect taxes	14.1	13.8	14.1	14.0	13.9	14.2	14.0	14.0	14.0	14.0	14.0
Of which: VAT	7.7	7.4	7.3	7.3	7.2	7.3	7.3	7.2	7.2	7.2	7.2
Social contributions	15.4	16.0	15.9	15.2	15.2	15.6	15.7	15.8	15.8	15.8	15.8
Other current revenue	6.1	6.2	6.5	6.1	6.4	6.3	6.2	6.0	6.0	6.0	6.0
Expenditure	**48.7**	**56.8**	**56.2**	**52.9**	**52.1**	**52.4**	**51.6**	**51.3**	**51.2**	**51.3**	**51.3**
Expense	45.5	53.4	52.6	48.8	48.6	48.8	48.1	47.9	47.9	47.9	47.9
Compensation of employees	10.5	11.3	11.1	10.4	10.6	10.9	10.9	10.9	10.9	10.9	10.8
Goods and services	6.3	6.8	7.5	7.2	6.9	6.5	6.4	6.4	6.4	6.4	6.4
Social benefits	21.9	24.5	24.0	22.5	22.5	23.5	23.5	23.5	23.6	23.7	23.7
Other current transfers	2.8	3.2	3.1	3.8	3.4	3.2	3.2	3.1	3.1	3.1	3.1
Capital transfers	0.7	0.7	0.7	0.9	1.2	1.1	1.0	0.8	0.7	0.7	0.7
Interest	1.4	1.3	1.1	0.9	1.2	1.3	1.5	1.6	1.7	1.7	1.7
Subsidies	1.5	5.0	4.6	2.6	2.3	1.8	1.4	1.4	1.4	1.4	1.4
Other	0.5	0.5	0.5	0.4	0.4	0.4	0.2	0.2	0.1	0.1	0.1
Acquisition of nonfinancial assets 1/	3.2	3.4	3.5	4.1	3.5	3.5	3.4	3.4	3.4	3.4	3.4
Of which: Gross fixed capital formation	3.2	3.4	3.5	4.2	3.5	3.5	3.4	3.4	3.4	3.4	3.4
Operating balance	3.7	-4.6	-2.2	0.9	0.9	0.7	1.2	1.3	1.3	1.3	1.3
Primary balance	1.6	-7.0	-4.9	-2.5	-2.0	-1.9	-1.0	-0.8	-0.8	-0.8	-0.8
Net Lending/Borrowing	**0.5**	**-8.0**	**-5.8**	**-3.2**	**-2.7**	**-2.8**	**-2.2**	**-2.0**	**-2.1**	**-2.1**	**-2.1**
GENERAL GOVERNMENT BALANCE SHEET											
Financial liabilities	93.8	111.5	105.4	84.0	82.8	81.8	80.7	80.0	79.8	79.8	79.6
Other	11.3	13.4	13.2	12.1	11.6	11.1	10.6	10.2	9.9	9.8	9.7
Financial assets	45.4	51.1	51.8	40.2	37.7	36.1	34.5	33.3	32.3	31.4	30.5
Net financial worth	-48.4	-60.4	-53.6	-43.7	-45.1	-45.7	-46.1	-46.7	-47.4	-48.4	-49.1
Net debt	63.6	76.4	72.6	55.5	55.8	56.0	56.0	56.2	56.7	57.2	57.5
Gross Debt (Maastricht def.)	**70.6**	**82.9**	**82.5**	**78.4**	**77.7**	**77.2**	**76.5**	**76.2**	**76.3**	**76.4**	**76.3**
Guarantees	16.1	19.0	18.2	16.8	16.0	15.3	14.7	14.2	13.7	13.4	13.0
MEMORANDUM ITEMS											
Cyclically adjusted balance	0.2	-7.0	-4.6	-3.9	-2.5	-2.3	-2.0	-1.9	-2.1	-2.1	-2.1
Structural balance (% potential GDP) 2/	0.2	-6.8	-4.5	-4.0	-2.5	-2.3	-1.9	-1.9	-2.1	-2.1	-2.1
Structural primary balance (% potential GDP) 2/	1.3	-5.8	-3.7	-3.3	-1.8	-1.4	-0.8	-0.8	-0.8	-0.8	-0.8
Change in real revenue (percent)	2.2	-6.2	6.9	0.2	-1.4	0.8	1.1	1.0	0.9	0.9	0.9
Change in real primary expenditure (percent)	1.9	10.9	2.8	-4.1	-2.9	0.8	-0.4	0.5	0.8	0.9	0.8
Nominal GDP (billions of euro)	397.1	380.9	405.2	447.2	477.5	499.1	520.9	539.7	556.6	572.8	589.6

Sources: Authorities' data and IMF staff estimates and projections.
1/ Includes strategic gas reserve
2/ Excludes one-off measures as defined in the Austrian Stability Program.

Table 3. Austria: Balance of Payments, 2019–29
(Percent of GDP, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
						Projections					
BALANCE OF PAYMENTS											
Current Account	**2.4**	**3.4**	**1.6**	**-0.3**	**2.7**	**2.0**	**2.2**	**2.4**	**2.3**	**2.3**	**2.3**
Balance on goods and services	3.5	3.3	0.7	0.3	3.6	3.4	3.3	3.6	3.5	3.4	3.5
Exports of goods and services	55.7	51.5	55.9	62.1	59.4	60.2	59.3	59.5	59.3	59.3	59.2
Exports of goods	38.5	36.6	41.2	44.4	42.0	41.5	41.6	41.5	41.3	41.0	41.1
Exports of services	17.2	15.0	14.7	17.7	17.4	18.7	17.7	18.0	17.9	18.2	18.1
Imports of goods and services	52.2	48.2	55.2	61.7	55.8	56.8	56.0	55.9	55.8	55.8	55.7
Imports of goods	37.4	35.4	41.2	45.9	40.0	40.6	39.5	39.3	39.2	39.3	39.2
Imports of services	14.8	12.8	14.0	15.8	15.8	16.2	16.5	16.6	16.5	16.5	16.5
Primary income, net	-0.3	1.0	1.6	-0.1	-0.3	-0.8	-0.6	-0.6	-0.6	-0.6	-0.6
Secondary income, net	-0.9	-0.9	-0.7	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
Capital Account	**0.0**	**-0.1**	**0.0**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
Financial Account	**3.7**	**1.7**	**0.9**	**-2.1**	**1.2**	**2.1**	**2.3**	**2.6**	**2.4**	**2.4**	**2.4**
Direct investment, net	1.2	3.1	2.3	-0.4	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Direct investment abroad, net	-1.7	0.4	6.1	1.7	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Direct investment in Austria, net	-2.9	-2.7	3.8	2.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Portfolio investment, net	-0.9	-3.4	2.8	0.1	-3.4	-3.3	-3.1	-2.9	-3.0	-3.0	-3.0
Financial derivatives, net	0.4	0.3	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other investment, net	3.1	1.4	-5.4	-2.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Reserve assets	0.0	0.4	1.0	0.1	-0.8	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions, net	1.3	-1.6	-0.7	-1.8	-1.6	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET											
Int'l Investment Position, net	**14.4**	**12.3**	**15.6**	**17.6**	**16.6**	**20.5**	**22.0**	**23.8**	**25.5**	**27.2**	**28.8**
Assets	229.0	239.1	244.2	228.9	226.4	227.7	228.5	230.8	234.0	237.6	241.1
Liabilities	214.6	226.8	228.6	211.4	209.8	207.2	206.5	207.0	208.5	210.4	212.3
Direct investment	12.3	11.0	10.7	11.5	10.3	13.5	14.0	14.7	15.3	16.0	16.6
Assets	70.4	69.8	71.3	68.7	66.3	64.4	62.7	61.5	60.6	59.8	59.1
Liabilities	58.1	58.9	60.6	57.2	53.3	50.9	48.7	46.8	45.3	43.9	42.5
Portfolio investment	-14.6	-18.5	-9.4	-4.4	-6.4	-9.4	-12.2	-14.6	-17.1	-19.7	-22.1
Financial derivatives	0.1	-0.1	-0.1	-0.4	-0.4	-0.3	-0.1	0.0	0.2	0.3	0.4
Other investment	11.3	13.5	7.0	3.9	7.2	11.1	14.8	18.5	22.1	25.6	29.1
Reserve assets	5.3	6.5	7.4	7.0	5.9	5.7	5.4	5.2	5.1	4.9	4.8
MEMORANDUM ITEMS											
Export value (goods and services)	3.6	-11.3	15.5	22.5	2.1	6.0	2.8	4.0	2.7	2.9	2.8
Import value (goods and services)	2.3	-11.4	21.8	23.4	-3.5	6.4	2.8	3.5	2.9	3.0	2.8
Nominal GDP (billions of euro)	397.1	380.9	405.2	447.2	477.5	499.1	520.9	539.7	556.6	572.8	589.6

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

Table 4. Austria: Financial Soundness Indicators, 2015–2023Q3
(Percent, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022	2023Q3
Core FSIs									
Regulatory capital to risk-weighted assets	16.5	18.0	18.8	18.8	18.9	19.7	19.2	19.3	19.4
Tier 1 capital to risk-weighted assets	13.2	14.5	15.6	16.3	16.5	17.4	17.1	17.4	17.4
Nonperforming loans net of provisions to capital	10.1	8.8	8.7	7.7	6.0	4.0	3.1	2.7	3.2
Capital to assets (leverage ratio)	7.4	7.3	7.5	7.5	7.6	7.4	7.7	7.9	7.8
Nonperforming loans to total gross loans	3.4	2.7	2.4	2.9	2.4	2.4	2.1	2.0	2.0
Return on assets	0.6	0.6	0.9	0.9	0.8	0.4	0.7	1.1	1.6
Return on equity	7.2	7.0	10.0	8.5	7.5	3.7	6.5	10.2	14.7
Interest margin to gross income	58.8	59.0	59.1	51.0	49.9	51.9	49.2	48.9	56.2
Noninterest expenses to gross income	69.6	74.8	67.0	67.9	66.5	67.8	67.2	55.3	51.1
Liquid assets to total assets	24.8	25.4	23.7	24.4	23.0	28.3	29.7	45.9	46.6
Liquid assets to short-term liabilities	68.5	67.2	65.7	68.2	63.9	78.0	78.4	70.1	73.2
Net open position in foreign exchange to capital	0.2	1.0	0.1	2.0	2.2	2.0	4.0	24.4	18.0
Additional FSIs									
Large exposures to capital	...	...	...	334.1	313.3	405.0	462.2	420.2	429.3
Trading income to total income	2.5	1.7	1.7	2.3	3.5	1.2	1.8	1.8	1.4
Personnel expenses to noninterest expenses	50.2	49.9	46.9	42.0	42.3	41.7	41.4	40.6	42.3
Spread between reference lending and deposit rates (base points)	193.0	190.0	179.0	177.0	176.0	169.0	160.0	219.3	286.4
Customer deposits to total (noninterbank) loans	85.3	89.5	86.9	85.9	86.0	79.0	76.3	88.6	86.3
FX loans to total loans	15.5	13.8	11.2	11.2	11.3	7.9	7.8	12.0	11.1
FX liabilities to total liabilities	7.5	6.6	6.5	6.8	6.6	5.1	5.1	8.1	...
Residential real estate loans to total gross loans	19.5	20.6	20.4	17.2	17.2	19.3	18.9	19.4	19.4
Commercial real estate loans to total gross loans	...	...	...	10.2	10.4	11.3	10.6	10.5	11.0

Sources: IMF Financial Soundness Indicators.

Table 5. Austria: Depository Corporations Survey, 2018–23

	2018	2019	2020	2021	2022	2023
	(In billions of euros, end of period)					
Net Foreign Assets	110.3	121.6	140.6	113.2	87.2	95.3
Claims on nonresidents	248.7	263.6	266.1	266.3	272.6	285.3
Central bank	37.6	39.0	40.1	44.3	46.5	50.1
Other depository corporations	211.0	224.6	226.0	222.0	226.1	235.2
Liabilities to nonresidents	-138.4	-142.1	-125.5	-153.1	-185.5	-190.0
Central bank	-49.9	-50.2	-41.0	-68.4	-89.3	-90.6
Other depository corporations	-88.5	-91.9	-84.5	-84.8	-96.2	-99.4
Net Domestic Assets	405.8	422.1	443.0	481.1	565.6	564.2
Net claims on central government	65.5	62.8	76.6	95.2	85.6	88.7
Claims on state and local government	25.5	24.5	25.5	26.2	23.0	23.6
Claims on NBFIs	62.5	67.2	69.6	63.9	85.5	75.2
Claims on private sector	325.2	341.5	353.9	378.1	400.8	401.9
Corporates	163.2	172.7	179.4	193.9	209.9	214.6
Households	162.0	168.9	174.5	184.2	190.9	187.3
Capital and reserves (-)	85.7	91.0	93.8	102.7	90.3	109.0
Other items, net (-, including discrepancy)	-12.7	-17.2	-11.2	-20.4	-61.0	-83.8
Broad Money	361.0	377.1	415.4	431.0	449.2	450.5
Currency in circulation	28.8	30.9	32.1	31.2	40.4	40.8
Transferable deposits	243.9	259.1	293.9	318.7	318.2	283.6
Other deposits	87.6	85.9	85.3	77.2	89.3	121.8
Securities	0.7	1.2	4.1	4.0	1.2	4.3
Other Liabilities	155.0	166.5	168.3	163.2	203.6	209.0
	(Annual percentage change)					
Net Foreign Assets	3.7	10.2	15.7	-19.5	-23.0	9.4
Net Domestic Assets	4.8	4.0	4.9	8.6	17.6	-0.2
Claims on private sector	4.5	5.0	3.6	6.8	6.0	0.3
Corporates	5.4	5.8	3.9	8.1	8.2	2.3
Households	3.6	4.2	3.4	5.5	3.6	-1.9
Broad Money	6.6	4.5	10.1	3.8	4.2	0.3
	(In billions of U.S. dollars, end of period)					
Net Foreign Assets	125.5	135.1	171.1	127.9	92.3	104.2
Net Domestic Assets	462.0	469.1	539.1	543.8	598.9	616.8
Claims on private sector	370.2	379.5	430.7	427.4	424.4	439.3
Corporates	185.8	191.9	218.3	219.2	222.2	234.6
Households	184.4	187.7	212.4	208.2	202.1	204.7
Memorandum items:						
Velocity (GDP/Broad money)	1.1	1.1	0.9	0.9	1.0	1.1
Euro per U.S. dollar (end of period)	0.9	0.9	0.8	0.9	0.9	0.9

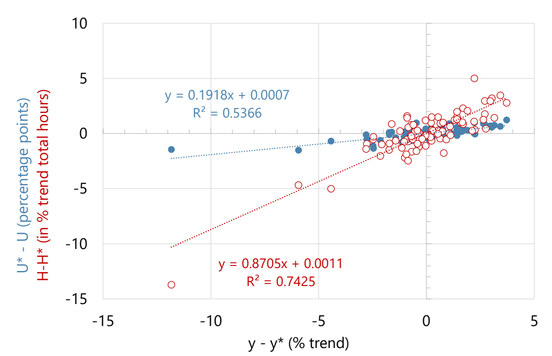
Sources: International Financial Statistics and IMF staff calculations.

Annex I. Labor Market Slack and the Output Gap

1. The link between unemployment and the output gap is relatively weak in Austria. In most countries, assessing the output gap using the degree of labor market slack typically relies on estimates of the Okun coefficient. This coefficient relates the output gap to the unemployment gap (deviation of unemployment from the natural rate of unemployment). Cross-country studies have found that the median value of the Okun coefficient for advanced economies is around -0.4. However, typical estimates for Austria are much smaller. For example, Ball, Leigh, and Loungani (IMF 2013) estimate Austria's Okun coefficient at -0.14, suggesting that the link between the unemployment gap and the output gap in Austria is relatively weak.

2. A closer relationship is observed in Austria between labor market slack and the output gap if slack is measured in hours worked instead. Using a quarterly sample from 2000Q1 to 2023Q2, a regression of (HP-filtered) detrended seasonally adjusted hours worked (H-H*) on de-trended seasonally adjusted real GDP (y-y*) is compared to the standard Okun coefficient estimated in terms of the unemployment gap (U*-U), obtained by de-trending the harmonized seasonally adjusted unemployment rate. The coefficient in terms of (U* - U) yields a similar absolute value as IMF (2013), about 0.19. In contrast, the coefficient in terms of (H* - H) is much larger (nearly 0.9), with a higher R^2.

Okun Coefficient Estimates



Source: IMF staff calculations.

3. This suggests that the output gap in Austria may work mostly through adjustments in hours worked rather than the unemployment rate. This may relate to the success of employment-preserving short-term work schemes (Kurzarbeit) that enable employers to retain workers while being able to adjust hours worked. The Kurzarbeit scheme saw a sharp increase in uptake during the COVID-19 pandemic to more than 1 million workers on short-term work by mid-2020, from just hundreds of workers in prior periods, thereby dampening the increase in the unemployment rate in this period.

4. The small positive hours worked gap in 2023 suggests that the output gap in Austria was negligible. In 2023Q3, the gap in terms of total hours worked is measured to be +1.4 percent, suggesting no slack in labor markets. However, the capacity utilization rate was a bit below its historical average (84.1 percent in 2024Q1 (79.1 percent in EU) vs. the historical average of 85.3 percent (80.8 percent in EU)). This mainly reflects weak global demand for manufacturing output, reflecting a post-pandemic rebalancing of demand from goods back to services. On balance, staff estimate the output gap to be broadly closed in 2023.

Annex II. External Sector Assessment

Overall Assessment: *The external position of Austria in 2023 is assessed to be broadly in line with the level implied by medium-term fundamentals and desirable policies.*

Potential Policy Responses: *Gradual fiscal consolidation will help support disinflation and avoid a persistent inflation differential with the euro area, which over time could undermine competitiveness and external balance.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The net international investment position (NIIP) rose from 15.6 percent of GDP in 2021 to 17.6 percent of GDP in 2022. Both assets and liabilities declined as a share of GDP on strong nominal GDP growth. The increase in the NIIP in 2022 owes to the sharp increase in the (negative) net portfolio investment position driven by a decline in the value of government long-term debt liabilities (Austrian long-term government debt yields rose sharply in 2022), while changes in the net direct investment position and net other investment position were broadly offsetting.

Assessment. In 2023 the NIIP remained broadly unchanged in levels with offsetting changes in assets and liabilities. Although the current account returned to surplus, the value of portfolio debt liabilities increased through 2023. Over the medium term, the NIIP is projected to increase on projected current account surpluses.

2023 (% GDP)	NIIP: 16.6	Gross Assets: 1081	Debt Assets: 203	Gross Liab.: 1002	Debt Liab.: 355

Current Account

Background. Austria's current account position weakened in 2022 to a deficit of 0.3 percent of GDP due to sharp increase in energy import prices and a deterioration in Austria's terms of trade. In 2023, both import and export volume growth weakened as global growth slowed. Import values were reduced by a significant drop in energy import prices, and terms-of-trade rebounded. As a result, the current account recorded a surplus in 2023 of 2.7 percent of GDP.

Assessment. Based on the IMF's EBA estimates, the estimated current account balance in 2023—adjusting for cyclical factors—stood at 2.8 percent of GDP, slightly higher than the estimated current account norm of 2.2 percent of GDP. The policy gap of 0.8 percent of GDP is driven mainly by a lower fiscal policy gap relative to the rest of the world. With the residual, the overall current account gap is estimated at 0.5 percent of GDP. With an estimated semi-elasticity of 0.45, the REER gap is assessed at -1.0 percent.

Austria: Model Estimates for 2023

(Percent of GDP)

	CA Model	REER (index)1/	REER (level)2/
Actual CA	**2.7**		
Cyclical contributions	-0.1		
Additional statistical/temporary facto	0.0		
Adjusted CA	**2.8**		
CA Norm (from model)	**2.2**		
CA gap	**0.5**		
o.w. relative policy gap	0.8		
Elasticity	0.5		
REER Gap (in percent)	**-1.0**	**17.0**	**22.4**

Source: Authorities' data.

1/ Considers the REER CPI index in each country, and thus does not explain inter-country variations.

2/ Takes into account differences in real PPP exchange rates across countries.

Real Exchange Rate
Background. The REER appreciated by 1.5 percent in 2022 and a further 3.9 percent in 2023. **Assessment.** The REER index and REER level model estimates suggest that the REER was overvalued within a range of 17.0–22.4 percent. However, these estimates are driven mainly by sizable residuals.
Capital and Financial Accounts: Flows and Policy Measures
Background. The financial account posted net inflows of 2.1 percent of GDP in 2022, although these are ascribed mainly to sizable errors and omissions. In 2023, the financial account recorded outflows of 1.2 percent of GDP, in line with the estimated current account surplus. **Assessment.** Risks are limited, given the strength of Austria's external position.
FX Intervention and Reserves Level
Background. The euro has the status of a global reserve currency. **Assessment.** Reserves held by euro-area countries are typically low relative to standard metrics. The currency floats freely.

Annex III. Risk Assessment Matrix

Risks	Likelihood	Impact if Realized	Policy Responses
External Risks			
Intensification of regional conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	High	**High** * Lower consumption and production, especially in energy-intensive industries if natural gas prices rise * Increased systemic risks in the financial system * Red Sea trade disruptions could increase inflation and disrupt production and trade * Weaker investment under greater uncertainty	* Accelerate green transition * Diversify energy sources * Provide targeted fiscal support to vulnerable households * Careful monitoring of financial sector developments and increase buffers * Allow automatic stabilizers to operate
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability.	High	**Medium** * Lower growth due to weak consumption and investment * Persistently high inflation and pressure from likely second-round effects * Rising social tensions from rising cost of living	* Targeted fiscal support for vulnerable households * Accelerate green transition to reduce dependence on imported energy
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	High	**High** * Increased trade barriers would reduce growth * Fracturing of financial systems may pose risks for Austrian banks that have a substantial presence in other countries	* Participate in global initiatives to support multilateralism * Monitor cross-border financial sector risks * Further de-risk financial sector, including by building banks capital buffers
Monetary policy miscalibration. Amid high economic uncertainty, major central banks loosen policy stance prematurely, hindering disinflation, or keep it tight for longer than warranted, causing abrupt adjustments in financial markets and weakening the credibility of central banks.	Medium	**Medium** * Lower growth due to weak investment under increased uncertainty or too tight policy * Persistently high inflation and pressure from likely second-round effects if loosened too early * Increased systemic risks in financial system	* Allow fiscal automatic stabilizers to operate and adjust discretionary policy as needed if growth and inflation deviate substantially from the baseline. * Provide targeted fiscal support to vulnerable households. * Carefully monitor financial sector developments and increase buffers
Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	Medium	**Medium** * Lower growth due to weaker winter tourism exports	* Diversify tourism export base * Support affected sectors and rebuild damaged infrastructure * Reallocate fiscal spending as needed

Risks	Likelihood	Impact if Realized	Policy Responses
Domestic Risks			
Hard landing in real estate sector. Activity in the real estate sector collapses as mortgage lending dries up and house prices fall rapidly. Distress among CRE companies widens amid post-pandemic weakness in CRE demand, leading to firesales and disorderly adjustment of CRE prices.	**High**	**High** * Lower real estate investment activity; lower consumption on negative housing wealth effects * Risks to banks' profits and capital as real estate loans go bad and value of banks real estate collateral diminishes	* Continue to enhance monitoring of CRE risks, including by building up adequate data on CRE prices and measures of loan quality. * Maintain prudent lending standards for mortgage lending * Encourage banks to build capital buffers * Allow automatic stabilizers to operate
Faltering domestic reforms. The economy faces demographic headwinds and fiscal pressures related to dealing with an aging society and the need to advance the green transition.	**Medium**	**Medium** * Slowing reforms would set back confidence and weaken prospects for medium-term growth	* Implement reforms to boost labor supply * Identify key fiscal measures to rebuild fiscal room and to fund priority spending
Contagion from CESEE countries. Austrian banks hold a quarter of their total assets in CESEE countries and earn a third of their profits from these assets, including from Russia.	**Medium**	**High** * Disruptions in CESEE countries could negatively impact Austrian banks' profitability and increase NPLs * Austrian banks' operations in countries facing significant sanctions could encounter sanctions-related risks	* Continue to make progress on boosting banks' structural profitability by reducing cost-to-income ratios * Carefully monitor and mitigate sanctions-related risks

Annex IV. Public Sector Debt Sustainability Analysis

Figure 1. Austria: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	The overall risk of sovereign stress is assessed as low. This reflects the individual mechanical ratings, the long maturity of debt, and the lack of foreign currency debt.
Near term 1/	...	...	
Medium term	Low	Low	Medium-term risks are assessed as low reflecting the stabilization of overall deficit to a level close to 2 percent and the GFN mechanical signal. Risks are limited by Austria's stable and diversified investor base, relatively long average debt maturity, strong institutions, and euro-denominated debt.
Fanchart	Moderate	...	
GFN	Low	...	
Stress test		...	
Long term	...	Moderate	Long-term risks are assessed as moderate as aging-related expenditures on health and social security are expected to increase and feed into debt dynamics. The European Commission estimate the total cost of ageing for Austria to reach 30.5 percent of GDP in 2070, 3.8pp higher than in 2019. 3/
Sustainability assessment 2/	Not required for surveillance countries	Sustainable	Not required for surveillance countries.
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: Austria's risk of debt distress is assessed as low, and debt is viewed as sustainable with high probability. Following an increase of about 10 percent of GDP during the COVID-19 pandemic, Austria's public debt-to-GDP ratio declined to 77.7 percent of GDP in 2023, as exceptional fiscal policy measures are being phased-out, and inflation picked up. The forecasted overall deficit of 2 percent stabillizes the debt in the baseline in 2029, reflected in a low medium-term risk score. Over the longer term, increases in Austria's aging-related spending and investment needs to facilitate the green and digital transition will require additional deficit-reducing measures to stabilize the debt.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

3/ European Commission (2021). "The Ageing Report: Economic & Budgetary Projections for the EU Member States (2019-2070)." Institutional Paper 148.

Figure 2. Austria: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	
2. Subsectors included in the chosen coverage in (1) above:						

Sector		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	No	Not applicable
CPS / NFPS / GG: expected / CG	3	Social security funds (SSFs)	Yes	
CPS / NFPS / GG: expected	4	State governments	Yes	
CPS / NFPS / GG: expected	5	Local governments	Yes	
CPS / NFPS	6	Public nonfinancial corporations	No	
CPS	7	Central bank	No	
CPS	8	Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-Government Debt Holdings

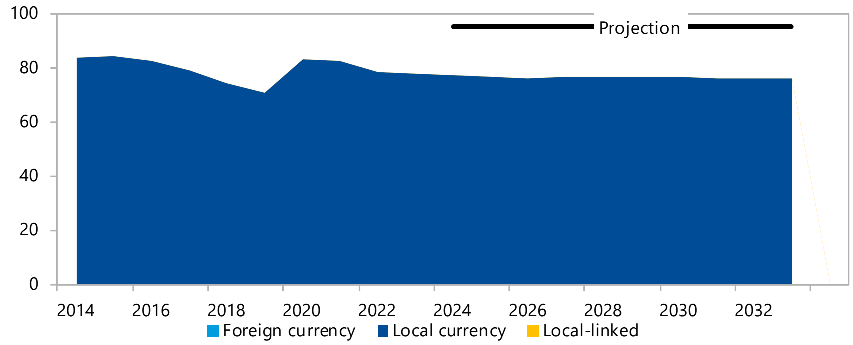
Sector		Issuer \ Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS / NFPS / GG: expected / CG	1	Budget. central govt									0
CPS / NFPS / GG: expected / CG	2	Extra-budget. funds									0
CPS / NFPS / GG: expected / CG	3	Social security funds									0
CPS / NFPS / GG: expected	4	State govt.									0
CPS / NFPS / GG: expected	5	Local govt.									0
CPS / NFPS	6	Nonfin pub. corp.									0
CPS	7	Central bank									0
CPS	8	Oth. pub. fin. corp									0
		Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The debt coverage remains unchanged from the last Article IV. Austria's debt coverage and disclosure are consistent with standard recommendations.

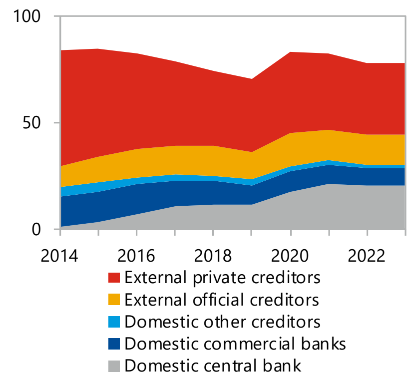
Figure 3. Austria: Public Debt Structure

Debt by Currency (Percent of GDP)



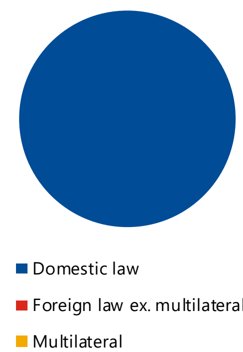
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



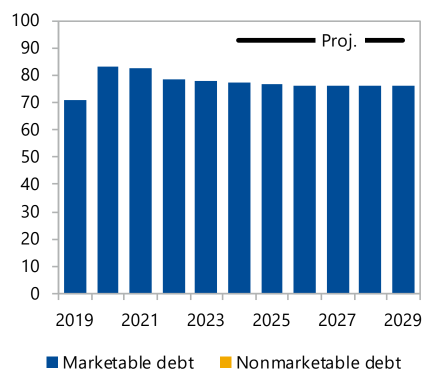
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2023 (Percent)



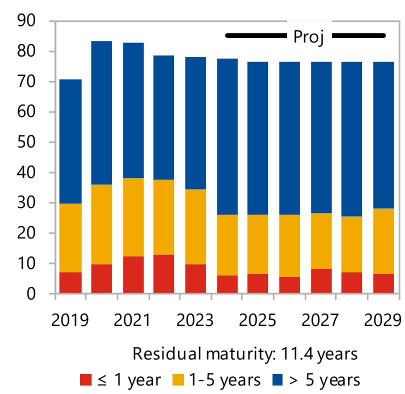
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

Commentary: Public debt is in local currency and marketable. The share held by the central bank has risen from zero in 2014 to 20 percent in 2022 while the share of external private creditors declined from 54 percent in 2014 to 32 percent in 2022. Over 46 percent of the central government debt has residual maturity of more than 5 years, over 90 percent is at fixed interest rates, and below 20 percent is short-term.

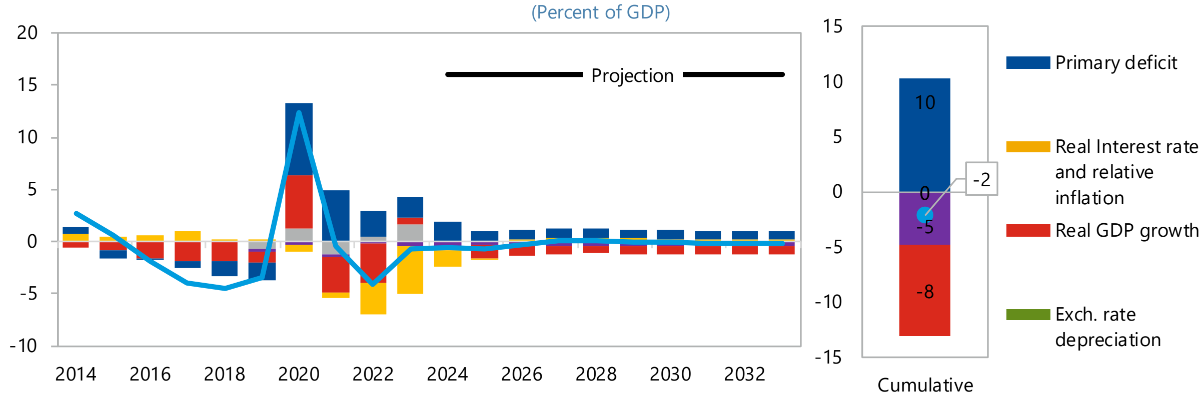
Figure 4. Austria: Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	77.7	77.2	76.5	76.2	76.3	76.4	76.3	76.2	76.1	75.9	75.8
Change in public debt	-0.7	-0.6	-0.7	-0.3	0.1	0.1	0.0	-0.1	-0.1	-0.2	-0.2
Contribution of identified flows	-2.3	-0.6	-0.7	-0.3	0.1	0.1	0.0	-0.1	-0.1	-0.2	-0.2
Primary deficit	2.0	1.9	1.0	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Noninterest revenues	49.0	49.2	49.0	48.9	48.8	48.8	48.8	48.8	48.8	48.8	48.8
Noninterest expenditures	50.9	51.0	50.1	49.7	49.7	49.6	49.6	49.6	49.6	49.6	49.6
Automatic debt dynamics	-3.8	-2.0	-1.4	-0.8	-0.4	-0.3	-0.4	-0.4	-0.5	-0.5	-0.5
Real interest rate and relative inflation	-4.5	-1.6	-0.2	0.3	0.4	0.4	0.3	0.3	0.2	0.2	0.2
Real interest rate	-4.5	-1.6	-0.2	0.3	0.4	0.4	0.3	0.3	0.2	0.2	0.2
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	0.7	-0.4	-1.2	-1.0	-0.8	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Real exchange rate	0.0	…	…	…	…	…	…	…	…	…	…
Other identified flows	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-0.5	-0.4	-0.4	-0.4	-0.4	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5
Other transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	10.0	9.8	8.1	8.6	7.5	10.1	9.1	8.5	8.4	9.1	8.4
of which: debt service	8.5	8.3	7.4	8.2	7.0	9.7	8.7	8.2	8.1	8.8	8.1
Local currency	8.5	8.3	7.4	8.2	7.0	9.7	8.7	8.2	8.1	8.8	8.1
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	-0.8	0.5	1.6	1.4	1.0	0.9	0.9	0.9	0.9	0.9	0.9
Inflation (GDP deflator; percent)	7.7	4.0	2.7	2.2	2.1	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	6.8	4.5	4.4	3.6	3.1	2.9	2.9	2.9	2.9	2.9	2.9
Effective interest rate (percent)	1.6	1.8	2.5	2.6	2.6	2.5	2.4	2.4	2.3	2.3	2.3

Contribution to Change in Public Debt

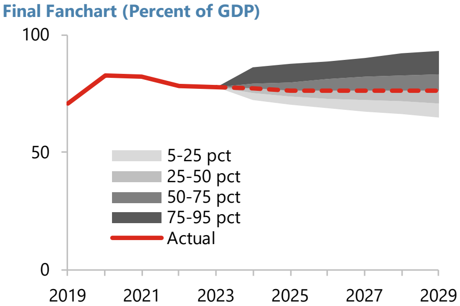
(Percent of GDP)



Commentary: Public debt declined to 77.7 percent of GDP in 2023, remaining at a similar level over the medium-term as overall balance stabilizes to around 2 percent.

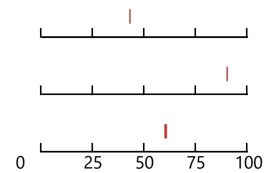
Figure 5. Austria: Medium-Term Risk Assessment

Final Fanchart (Percent of GDP)

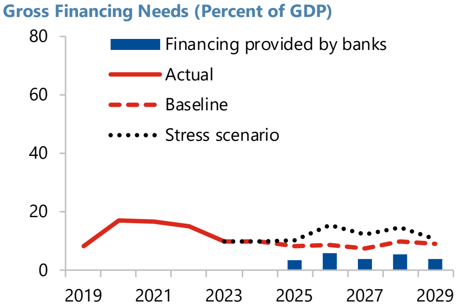


Debt fanchart module

	Value	Contrib 1/	Percentile in peer group 2/
Fanchart width *(percent of GDP)*	28.1	0.4	
Probability of debt non-stabilizaiton *(percent)*	73.8	0.6	
Terminal debt-to-GDP x institutions index	15.9	0.3	
Debt fanchart index (DFI)		1.4	
Risk signal: 3/		Moderate	

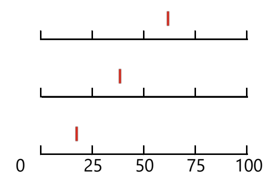


Gross Financing Needs (Percent of GDP)



Gross financing needs (GFN) module

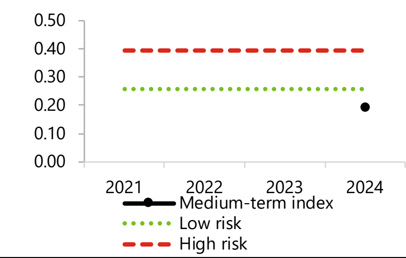
	Value	Contrib 1/	Percentile in peer group 2/
Average baseline GFN *(percent of GDP)*	8.9	3.0	
Initial Banks' claims on the gen. govt *(pct bank assets)*	3.7	1.2	
Chg. In banks' claims in stress *(pct banks' assets)*	1.0	0.3	
GFN financeability index (GFI)		4.5	
Risk signal: 4/		Low	



Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	1.4	0.3	0.5	0.2
GFN finaceability index	4.5	0.1	0.5	0.0
Medium-term index		0.2		
Risk signal: 5/		Low		
Final assessment:		Low		

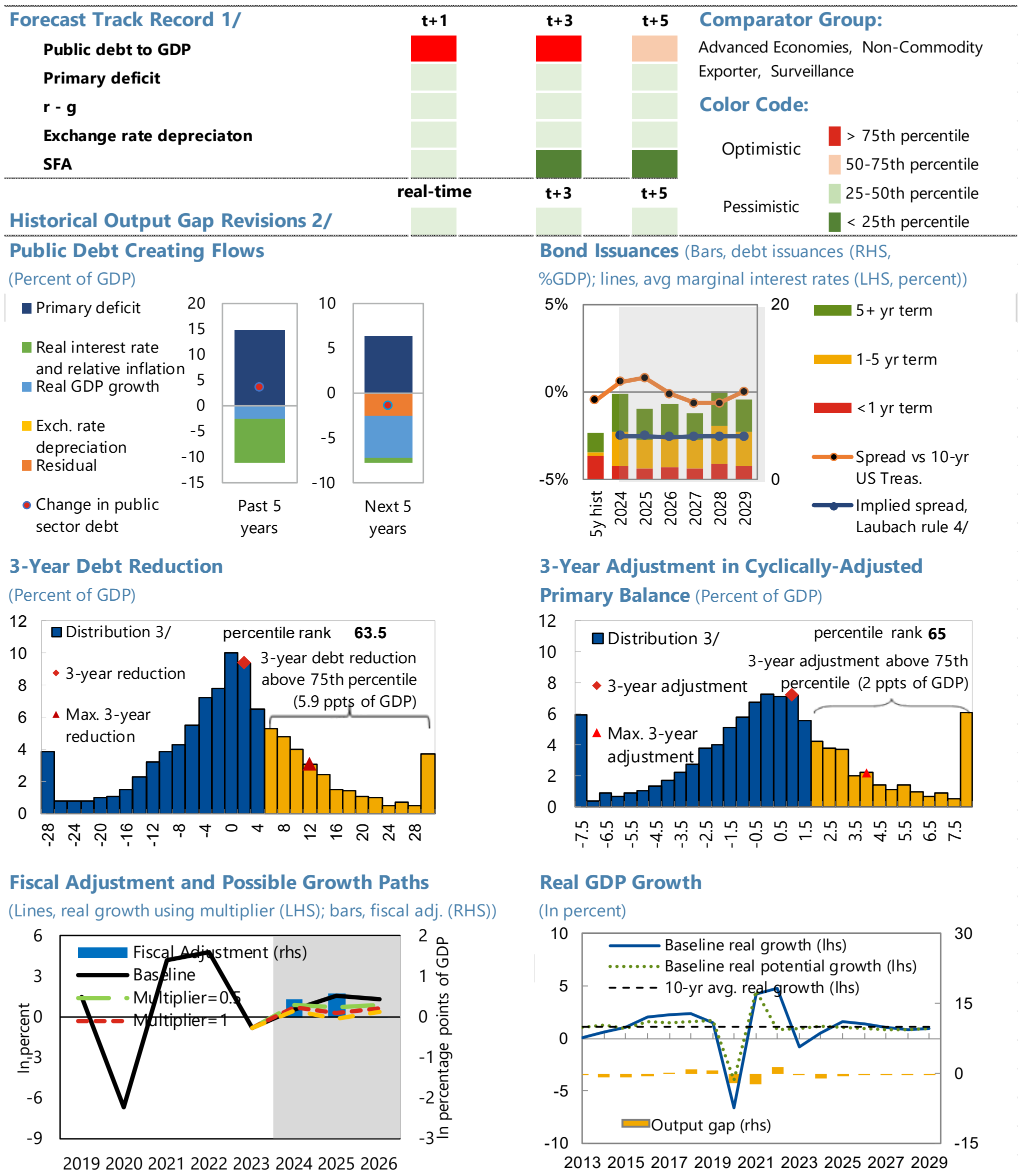
Prob. of missed crisis, 2024-2029, if stress not predicted: 9.1 pct.
Prob. of false alarms, 2024-2029, if stress predicted: 56.8 pct.

Commentary: Of the two medium-term tools, the Debt Fanchart Module is pointing to a moderate level of risk, while the GFN Financeability Module suggests a low level of risk.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is advanced economies, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Figure 6. Austria: Realism of Baseline Assumptions



Commentary: The forecast track record figure does not present major realism issues. The projected change in public debt is similar to the past 5 years, and the pattern of contributions is broadly similar between the baseline and the recent past. There is a stable pattern in the implied spreads and the maturity structure stays similar. Realism analysis point to large projected 3-year reduction in the debt-to-GDP ratio in comparison to other countries (in the yellow region) but modest compared to its own history (left of the red triangle).The baseline fiscal consolidation (red diamond) is at the frontier and appear ambitious compared to other countries experience and own history (75th percentile of the distribution). Nevertheless, both excercise reflects the withdrawal of the exceptional fiscal measure implemented during COVID and the increase in price of energy. Growth and fiscal adjustment paths are consistent with reasonable multiplier estimates.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Annex V. Authorities' Response to Past Article IV Policy Recommendations

Past Article IV Recommendations	Policy Actions
Fiscal Policy	
Implement targeted, non-distortionary measures to support households during the energy-price shock.	The authorities made use of available fiscal room to cushion the impact of higher energy prices while maintaining price signals that incentivized households and firms to conserve energy. However, half of the measures over 2022–2023 were broad-based.
Implement reforms to address rising expenditure burden related to aging.	The gradual alignment of women's standard pension age with men's to 65 years starts in 2024. The 2021 pension reform reintroduced penalties for early retirement. A significant part of the 2024 fiscal equalization package is allocated to enhancing outpatient care and strengthening the primary health care system.
Financial Sector Policy	
Enhance monitoring and supervision of financial sector risks in the wake of Russia's war in Ukraine.	The authorities are monitoring financial sector developments in the CESEE region closely, including reporting of bank balance sheets with and without operations in Russia taken into account.
Calibrate systemic risk buffers to guard against geopolitical risks. Activate CCyB if cyclical conditions warrants.	The authorities implemented a phased-in increase of bank-specific O-SII and Systemic Risk buffers over 2023–24. The authorities and staff concur that a CCyB set at zero is appropriate under current cyclical conditions. The authorities are willing to consider activation of the CCyB if conditions change, including by considering a larger set of indicators than just the credit gap.
Consider additional real-estate-related macroprudential measures if vulnerabilities persist.	The authorities are enhancing the monitoring of CRE risks, including by developing CRE market indicators on prices, rents, and yields. A CRE risk assessment is being undertaken in 2024 to inform any CRE-related policy measures.
Labor Market Policy	
Take steps to boost labor force participation, address labor market mismatch, and improve integration of refugees in the economy.	Funding for childcare facilities has been increased to enhance participation of women in the labor force. The government increased the bonus for those working beyond the standard pension age, with an individual's pension credited with a bonus of 5.1 percent (up from 4.2 percent) for each year the pension is deferred (up to a maximum of 3 years) starting in January 2024. The government also temporarily covered pension contributions for workers over 65 for the years 2024–25 up to a certain threshold. A new online wage comparison tool, launched in March 2024, enables region- and occupation-specific wage comparisons, complementing the existing requirement for companies with over 150 employees to report on wage transparency biannually. The authorities have rolled out language and literacy programs, particularly targeting asylum seekers. Additionally, a one-stop shop has been established to facilitate migrant access to information.

Past Article IV Recommendations	Policy Actions
Climate Policy	
Take further steps to enhance energy security.	Austria maintains high levels of gas storage at present, equivalent to meeting the demand in 3–4 months of winter.
Accelerate the transition away from fossil fuels.	A legislative process aimed at reducing long lead times in green projects has been initiated. Specific funds have been designated for heating transition, e-mobility, and other infrastructure financing.
Digital Transition	
Accelerate the digital transition to boost productivity and growth.	The authorities are implementing the 2023 National Strategic Roadmap for the Digital Decade of Austria, in particular to extend internet connections to rural areas and to improve digital services for citizens.

Annex VI. 2019 FSAP Key Recommendations—Implementation Status

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 the 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	The FMA and OeNB note that there are no plans to substitute the state commissioner. The FMA revised its internal processes to intensify the interactions with the supervisory boards of the credit institutions under its supervision.
Enhance internal guidelines for supervisory action based on qualitative factors.	I	The FMA internal SREP manual is being continuously updated. For 2024, the methodology has been fundamentally revised taking SSM developments into account and will consist of a core assessment with additional modules to be developed (also with regard to supervisory actions based on qualitative factors). Currently the new templates for the SREP assessment 2024 are being finalized. Further training and guidance are being provided.
Stress-test insurance segments / business lines with material future profitability and follow-up with appropriate actions, such as capital add-on.	NT	The 2023 stress test included the following topics: • Largest relevant risks: The explanation of risks that are currently considered to be the most significant for non-fulfillment of business objectives at the overall company level. • Inflation risk: The extent to which inflation assumptions are taken into account in the technical provisions and premium calculation. Furthermore, any effects of the current high inflation on insurance benefits are assessed. • Lapse risk: The possible effects of the lapse risk scenarios defined in the standard formula. • Real estate risk: A forecast of the market values of real estate classes in the portfolio was requested. Stress Test 2023 results at a glance: Market developments have been qualified as the biggest risks, with macroeconomic aspects such as inflation and the high interest-rate environment cited as relevant influencing factors. This is closely linked to cost risks and the development of future business models. Climate change is also seen as a major

Recommendations	Time Frame*	Status
		influencing factor. Attacks on corporate IT are occurring much more frequently today, and it is more complex to ward them off and protect increasingly digitalized business processes. Almost all insurance companies use inflation assumptions in the life and health division to calculate the best estimate. Health insurance: If an increase in all inflation rates of one percentage point p.a. is assumed, this leads to materially lower best estimate provisions in the model calculation for almost all health insurance companies. The reasons for the sharp decline in provisions will be analyzed and discussed in detail with the individual companies. For most life and health insurers, the risk of a mass lapse event is currently the determining factor for the lapse risk when calculating the SCR using the standard formula. However, according to the feedback, no acute high liquidity risk is generally seen. The short-term yield expectations for real estate surveyed provided a heterogeneous picture from which no clear view of the market's performance can be derived. In addition to national stress tests, the FMA participates in the European insurance stress test 2024 which comprises a bottom-up capital and liquidity exercise. Selected undertakings will analyze the combined impact of market risk and insurance-specific shocks. In close cooperation with the FMA, the participating undertakings will share insights on their models and liability structures as regards to lines of business, duration, and lapse features, among others. In addition, the FMA is evaluating a national roll-out of stress tests for financial conglomerates.
Review resources for the maintenance of Solvency II, insurance market conduct supervision and potential recovery and resolution framework, and AML supervision for all entities, including VASPs.	NT	In 2022, the FMA hired 4 additional full-time employees. The FMA regularly reviews human resources and emerging needs. VASP experts assigned within AML receive regular on-the-job training to fulfill new responsibilities. There are experts on VASPs within the AML division who keep themselves up-to-date as well as publish articles and give seminars.

Recommendations	Time Frame*	Status
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). Cross border risk monitoring includes qualitative data and the number of branches and subsidiaries in every country, which serves for in the risk score in each country. (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. At the start of the Covid-19 crisis risk-based onsite inspections extended also to insurance companies, where AML/CFT risk is deemed minor. Routine inspections are set to resume, albeit staffed with remote and/or hybrid teams. (iv) Non-EU/non-EA exchange of information: improvement of cross-border information exchange is part of the ongoing supervision. The FMA has 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 has updated its MoU for insurance supervision with Montenegro in 2022; 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. For some non-EEA countries (majority of our bank’s subsidiaries) an AML-related EBA equivalence assessment has not been conducted yet. FMA has therefore started an initiative with EBA to prioritize non-EEA countries’ equivalence assessments.

Recommendations	Time Frame*	Status
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	Binding measures to contain systemic risks from residential real estate funding (limits on DSTI, LTV and maturities) were introduced in 2022: https://www.fmsg.at/en/publications/warnings-and-recommendations/2022/recommendation-fmsb-2-2022.html At the beginning of 2023 these measures have been adapted (exemptions of bridge funding, absolute minimum exemption buckets): https://fmsg.at/en/publications/warnings-and-recommendations/2023/recommendation-fmsb-1-2023.html Following the introduction of these legally binding measures, lending standards have markedly improved.
Enhance oversight of inward spillover risks from the inverse ownership structure of the Raiffeisen sector.	NT	An Austrian sector-wide Raiffeisen-IPS-System was established by end of May 2021. Almost the entire Raiffeisen sector joined this new IPS (only 2 small Raiffeisen primary banks are not part of the IPS). Consequently, the previous Bundes-IPS and the previous six Landes-IPSes were dissolved. The reason for changing the system in favor of one overarching IPS was the possibility to establish an own deposit guarantee and investor compensation scheme (DGS) like the one the Savings banks already have. Since this new Raiffeisen-IPS consists of significant institutions (SI) and less significant institutions (LSI), ECB and FMA were responsible for the approvals according to Art. 113 para 7 and Art. 49 para 3 CRR. IPS-based DGS (ÖRS): This new according to Art. 113 para 7 CRR approved Raiffeisen-IPS was then recognized as DGS by FMA. The *Österreichische Raiffeisen-Sicherungseinrichtung* (ÖRS) is the responsible entity of the Raiffeisen-IPS for operating the DGS. Supervisory activities: FMA (and ECB regarding SIs) is (are) constantly monitoring the specific risks of the Raiffeisen sector with a specific focus on the supervision of the IPS. Since the sector has now established this overarching IPS with nearly all Raiffeisen institutions being its members, FMA/OeNB and the ECB are in the position to receive a more comprehensive sector wide view; an enhanced monitoring of the specific risks within the Raiffeisen sector is therefore possible. There are regular meetings between FMA/OeNB staff with the auditors, the management bodies of the credit institutions within the Raiffeisen sectors, and

Recommendations	Time Frame*	Status
		the Raiffeisen Deposit Guarantee Scheme (ÖRS). A number of conditions were imposed as part of the approval process, including in particular many reporting obligations such as the regular submission of risk reports and documents from risk council meetings or ad hoc reporting obligations, e.g., in the event of material financial deterioration of IPS members. The authorities also regularly refine these supervisory activities as regards the specific risks of the Raiffeisen sector. Furthermore, the spillover risks are also investigated regularly during the resolution planning cycle. Additionally, a Raiffeisen IPS simulation tool has been activated. It allows to simulate the failing of individual Raiffeisen banks and to assess the Raiffeisen IPS capacity to recover such fallouts. In 2024, OeNB is undertaking a systemic risk analysis of the Austrian IPSs (Raiffeisen IPS and Sparkassen IPS) to assess the systemic impact of a potential mitigating IPS measure to address the failure of one or more member bank(s) on all other participating banks. This systemic risk analysis allows a consistent treatment of Raiffeisen IPS within OeNB’s systemic risk assessments (e.g., for the purpose of calibrating macroprudential buffers). In 2023, the FMA has developed a comprehensive mitigation framework which aims to safeguard any future FOLF and resolution of a LSI RLB from any potential follow-up failures of Raiffeisen primary institutions due to the existing financial contagion channels from the RLBs to the primary institutions. The framework consists of a three-level approach where, under ongoing monitoring and in step with a potential future reduction in overall IPS financial capacity, additional mitigation measures are developed, operationalized, and implemented, in time before a potential resolution without sufficient IPS capacity. The FMA is currently in the final rounds of negotiations with the LSI RLBs with the objective to coordinate the framework conclusively with the SRB and then reach a first implementation of this framework for the 2024 resolution planning cycle.
Financial Stability Analysis		
Close data gaps, including in the real estate and NFC sectors, and improve coverage and granularity of CESEE data.	MT	The OeNB implemented the following: (i) Data gaps in the real estate and NFC sectors were tackled for residential real estate; the implementation is ongoing for commercial real estate. (ii) Data gaps with regard to CESEE are addressed by using risk-based parameters. The OeNB's “Financial

Recommendations	Time Frame*	Status
		Stability Cube" has been refined to include more granular risk parameter data. The first data submission is scheduled for reference date September 30, 2024.
Enhance stress testing framework to consider second round effects, dynamic balance sheets, and contagion/spillover effects.	MT	(OeNB) Implementation is ongoing with a focus on incorporating a dynamic balance sheet perspective. In a first step, a framework for projecting Austrian aggregate and bank-specific credit growth, subject to bank-specific growth and deleveraging constraints, was established and implemented in the OeNB's stress test tool ARNIE. The model will be refined going forward.
Ensure resources and organizational structure are adequate to meet stress testing framework objectives.	NT	Implemented. One new 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 and updated in 2023. 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 (Ministry of Finance) in connection with the modernization of FMA's supervisory instruments. Discussions with the MoF have advanced at the expert level and resulted in legislative drafts. This draft includes the establishment of an Insurance Guarantee Scheme with the capacity to take over insurance contracts to ensure the continuation of insurance contracts, funding, and pre-emptive recovery planning. Further work by MoF was postponed due to the IRRD proposal and negotiations at the EU level. The authorities expect the formal adoption of the IRRD at the EU level within 2024, which has to be implemented within 24 months (according to the current draft). A fully fledged recovery and resolution regime will be implemented by transposing the IRRD.

* I-Immediate" is within one year; "NT-near-term" is 1–3 years; "MT-medium-term" is 3–5 years.
FMA is the Financial Market Authority; the OeNB is the National Bank of Austria; the BMF is the Ministry of Finance

Annex VII. Data Issues Annex

Figure 1. Austria: Assessment of Data Adequacy for Surveillance

Data Adequacy Assessment Rating 1/							
A							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	A	A	A	A	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	A	A	A	A		
Granularity 3/	A		A	A	A		
			A		A		
Consistency			A	A		A	
Frequency and Timeliness	A	A	A	A	A		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund is adequate for surveillance.
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data provision is adequate for surveillance purposes.

Changes since the last Article IV consultation. No data weaknesses were identified in the 2022 Article IV Staff Report.

Corrective actions and capacity development priorities. Not applicable.

Use of data and/or estimates different from official statistics in the Article IV consultation. Not applicable.

Other data gaps. Development of statistics on the commercial real estate (CRE) sector, including price and rent indices, and indicators useful for surveillance of risks to the financial sector from CRE (including debt-service coverage ratio) would be useful.

Figure 2. Austria: Data Standards Initiatives

Austria adheres to the Special Data Dissemination Standard (SDDS) Plus since January 2017 and publishes the data on its National Summary Data Page. The latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

Figure 3. Austria: Table of Common Indicators Required for Surveillance

(As of March 13, 2024)

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Austria	Expected Timeliness[6,7]	Austria
Exchange Rates	13-Mar-24	13-Mar-24	D	D	D	D	NA	1D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Feb-24	Mar-24	M	M	M	M	1W	1M
Reserve/Base Money	Jan-24	Feb-24	M	M	M	Q	2W	1Q
Broad Money	Jan-24	Feb-24	M	M	M	Q	1M	1Q
Central Bank Balance Sheet	Feb-24	Mar-24	M	M	M	Q	2W	1Q
Consolidated Balance Sheet of the Banking System	Jan-24	Feb-24	M	M	M	Q	1M	1Q
Interest Rates[2]	13-Mar-24	13-Mar-24	D	D	D	D	NA	1D
Consumer Price Index	Dec-23	Jan-24	M	M	M	M	1M	1M
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Sep-23	Jan-24	Q	Q	A/Q	Q	2Q/12M	1M
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Sep-23	Jan-24	Q	Q	M	Q	1M	1M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Sep-23	Jan-24	Q	Q	Q	Q	1Q	1M
External Current Account Balance	Dec-23	Mar-24	Q	Q	Q	Q	1Q	1Q
Exports and Imports of Goods and Services	Dec-23	Mar-23	Q	Q	M	Q	8W	1Q
GDP/GNP	Dec-23	Mar-24	Q	Q	Q	Q	1Q	2Q
Gross External Debt	Sep-23	Dec-23	Q	Q	Q	Q	1Q	1Q
International Investment Position	Dec-23	Mar-24	Q	Q	Q	Q	1Q	1Q

[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.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("I") irregular; and ("NA") not available.

[7] Recommended frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected.

INTERNATIONAL MONETARY FUND

AUSTRIA

April 19, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By	European Department (In Consultation with Other Departments)

CONTENTS

FUND RELATIONS

(As of March 25, 2024)

Mission: February 16–March 1, 2024. The concluding statement of the mission is available at https://www.imf.org/en/News/Articles/2024/02/29/mcs030124-austria-concluding-statement-of-the-2024-article-iv-mission.

Staff team: Mr. Fletcher (head), Mr. Mohommad, Ms. Pinat, and Ms. Wang (all EUR).

Country interlocutors: Minister of Finance Brunner; Central Bank Governor Holzmann; Minister of Climate Gewessler; Members of Parliament; officials from the Ministry of Finance, Ministry of Labor, Ministry of Climate, Financial Market Authority, and energy regulator; major banks; trade unions; think tanks; and other private-sector representatives.

Fund relations: Austria is on a 12-month consultation cycle. The previous Article IV consultation discussions took place during May 30–June 13, 2022. The Executive Board's assessment and staff report are available at https://www.imf.org/en/Publications/CR/Issues/2022/08/31/Austria-2022-Article-IV-Consultation-Press-Release-Staff-Report-522764.

Membership Status: Joined August 27, 1948; Article VIII.

General Resources Account:

	SDR Million	Percent of Quota
Quota	3,932.00	100.00
Fund holdings of currency	2,863.78	72.83
Reserve position	1068.24	27.17
Lending to the Fund		
New Arrangements to Borrow	3.67	

SDR Department:

	SDR Million	Percent of Allocation
Net cumulative allocation	5,504.96	100.00
Holdings	5,746.45	104.39

Outstanding Purchases and Loans: None

Latest Financial Commitments: None

Overdue Obligations and Projected Payments to Fund:[1/]
(SDR Million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2024	**2025**	**2026**	**2027**	**2028**
Principal					
Charges/Interest	0.07	0.07	0.07	0.07	0.07
Total	0.07	0.07	0.07	0.07	0.07

[1/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative: Not applicable

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

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

As of February 4, 2015, the Post-Catastrophe Debt Relief Trust has been transformed to the Catastrophe Containment and Relief (CCR) Trust.

Exchange Rate Arrangements:

The currency of Austria is the euro. The exchange rate arrangement of the euro area is free floating. Austria participates in a currency union (EMU) with 19 other members of the EU and has no separate legal tender. The euro, the common currency, floats freely and independently against other currencies.

Austria has accepted the obligations under Article VIII, Section 2(a), 3, and 4 of the IMF's Articles of Agreement and maintains an exchange system free of multiple currency practices and 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 is 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.

Statement by Christian Just, Alternate Executive Director for Austria
May 3, 2024

The Austrian authorities thank Kevin Fletcher and his team for the fruitful discussions during the 2024 Article IV consultations and broadly concur with the key issues raised as well as the policy recommendations.

Economic developments

Economic developments in Austria are still driven by the shock waves of the pandemic and Russia's war of aggression against Ukraine. While the recovery was relatively strong until Q1 2023, sectoral downswings have become broad based since then. 2024 started on a weak footing, but the conditions for a gradual economic recovery are in place, including a still resilient labor market. In March, dependent employment dropped slightly compared to 12 months ago and unemployment continued to be on the rise, though still below the pre-pandemic level. As company profitability is low, this could be the reaction to a strong wage round, which however did not yet result in stronger private consumption. However, the moderate pass-through of relatively high domestic inflation to goods export prices contributed to a fairly strong performance of goods exports in 2023. Meanwhile, inflation is going down, helped by a restrictive monetary stance and weak domestic demand. Despite improving sentiment indicators, the expected economic upswing could take place later than expected by staff.

While the staff report mentions the dependence on Russian gas as a risk, the Austrian authorities point out that natural gas consumption has come down from 89 TWH in 2020 to 75 TWH in 2023, mostly due to letting the price signals work out fully. In the first months of 2024, gas consumption declined further, also on the back of mild weather conditions. Moreover, gas storage capacities are way higher than annual demand, and alternative routes of gas have already been contracted for the coming years. Also, the share of electricity produced from renewables is approaching 90 percent, making electricity generation less dependent on gas.

Inflation developments

Harmonized Index Consumer Price (HICP) inflation fell sharply over 2023, from 11.6 percent in January to 5.7 percent in December. This downward trend continued into the beginning of 2024, and while at 4.2 percent in March, the lowest level since the beginning of 2022, it was still the second highest in the euro area. According to the current inflation forecast, the HICP inflation rate will fall to an annual average of slightly more than 3 ½ in 2024, more than halve compared to the previous year and somewhat lower than staff's projections. However, the inflation rate in 2024 will continue to be more than 1 pp higher than the euro area average due to strong nominal wage increases. The inflation differential represents a major challenge for the price competitiveness of domestic companies.

Economic Policy

In response to having slipped into a recession, the authorities are phasing out energy subsidies later than planned, and recently adopted a housing package to foster the construction sector, which faces high insolvencies and shrinking employment, albeit from a high level. Also, measures to advance the green transition were stepped up. Whilst private consumption is bolstered by substantial increases of real incomes, weak investment reflects subdued international demand which limits the possibilities for the public sector to stabilize the economy.

Fiscal Policy

In 2023, the public sector recorded a deficit of -2.7 percent of GDP and public debt declined to 77.8 percent. Weak growth and lagged inflation effects are expected to drive the public deficit slightly up to 2.9 percent in 2024while the debt ratio is estimated to decline to 77.5 percent. The authorities concur with staff that going forward, building up fiscal buffers and lowering the debt ratio will be essential to prepare for future challenges. The authorities note that the tax burden is high and thus the focus should be on the expenditure side, rather than on property taxes, which raise administrative issues and political concerns about homeownership.

Financial Sector

The authorities agree with staff that 2023 was a very profitable year for the financial sector. The authorities concur that parts of the profits should be used to increase capital buffers.