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The economy is gaining strength, underpinned by private consumption and the recovery of investment and exports. Fiscal policy will remain slightly expansionary. Employment creation remains strong and unemployment is set to decline for the first time since 2011. Consumer price inflation remains higher than in other euro area countries.

Growth, incomes and well-being could be further enhanced by deeper structural reforms to simplify the administrative procedures to start a business, reduce entry barriers to retail and professional services, diversify financing options for start-ups, and reduce the costs of insolvency. Complex fiscal-federal relations and overlaps undermine the efficiency of public spending and limit the room for investment for the future.

The integration of Central and Eastern European countries into the European Union has benefited Austria more than other countries, but it also magnifies the challenges arising from globalisation. Early gains on the back of participation in global value chains and profitable banking sector expansion have reversed following the financial crisis. Implementing the government’s “Digital Roadmap” will help firms keep up with international best practices in the digital era.

**Domestic drivers are underpinning growth**

Supported by robust domestic demand, growth has gained momentum for the first time since 2011. Investment has begun to catch up after several years of stagnation. Private consumption has been boosted by the gains in disposable income stemming from the 2015/16 tax reform. Employment has expanded due to strong immigration and the employment of more women and seniors. In line with the pick-up in economic activity, unemployment has started to decline. Inflation was around 1 percentage point higher than in the rest of the euro area between 2011 and early 2016, and partly as a result export performance has deteriorated. Export activity has picked up markedly in early 2017 amid improving business confidence and strong external demand.
Raising medium-term growth

Recent pension reforms have raised employment of older people, albeit from very low levels in international comparison. Maintaining the relatively generous pension entitlements requires further progress in raising the effective retirement age. More women are also taking up paid work, although mainly in part-time jobs, reinforcing the traditional gender-unequal work arrangements. Reconciling full-time employment with child rearing responsibilities requires major improvements in the coverage of childcare centres and full-day schools. A legal entitlement for a place in these facilities should be introduced.

Labour productivity growth has slowed over the past decade, particularly in services. Stringent regulations in retail and professional services undermine competition and inhibit business dynamism. Recent efforts to encourage start-ups should be stepped up by alleviating bottlenecks to venture capital and developing alternative capital markets. Firm creation is essential to lift expenditures in non-R&D innovations, exports of knowledge-intensive services and the share of innovative products. Promoting more active use of digital technology would help spread innovative business models and work practices throughout Austria. Complex fiscal federal relationships obstruct reform and undermine public spending efficiency, notably in the areas of health care and education.
Growth is projected to edge down

Consumer and business confidence have improved and growth is projected to exceed 2% in 2017. However, growth will edge down somewhat in 2018, as the impact of the fiscal stimulus wears off. Export growth is projected to pick up in line with international trade and stabilising export performance, underpinning the recovery of investment. Unemployment peaked in 2016 and is expected to decline modestly in 2017 and 2018.

Uncertainty in the run-up to the announced snap elections in October 2017 could undermine consumer and business confidence and weigh on domestic demand. A rise in geo-political tensions may trigger a new wave of refugees and increase fiscal pressures. Export performance could continue to deteriorate if recent market share losses in global value chains prove to be structural rather than cyclical, or in the event of unforeseen protectionist measures. Conversely, if international trade picks up more than projected or if export market shares recover, exports would be more buoyant, supporting stronger investment and growth. Finally, any additional electoral commitments could spur growth in 2018 at the cost of a higher public deficit.