

# AUSTRIA

## PROFIT OPPORTUNITY RECOMMENDATION

### 2C. MAINTAIN NEW BUSINESS ACTIVITY DESPITE RATINGS DOWNGRADE

**Most Probable Political Scenario:** Chancellor Karl Nehammer remains in a precarious position to maintain the balance between ÖVP and the Greens as economic conditions deteriorate and his popularity wanes. Greens have an incentive to maintain the current arrangement, but this does not translate into harmonious policymaking. The far-right Freedom Party (FPÖ) steadily increases popularity as elections approach. The party is more open with its right-wing tendencies and wins the next elections to form a coalition with the ÖVP. Austria enters a new era with significant changes in domestic and foreign policies jeopardizing its relations with the EU.

## AUSTRIA'S RATINGS

|          | Combined Score | Political Risk Index | Operations Risk Index | Remittance and Repatriation Factor |
|----------|----------------|----------------------|-----------------------|------------------------------------|
| 2018     | 61             | 58                   | 63                    | 63                                 |
| 2019     | 57             | 59                   | 56                    | 57                                 |
| 2020     | 55             | 61                   | 49                    | 54                                 |
| 2021     | 57             | 61                   | 51                    | 59                                 |
| 2022     | 56             | 56                   | 53                    | 59                                 |
| 2023     | 54             | 52                   | 46                    | 64                                 |
| Present  | 54             | 50                   | 48                    | 65                                 |
| +1 Year  | 55             | 52                   | 48                    | 65                                 |
| +5 Years | 61             | 60                   | 57                    | 65                                 |

## AUSTRIA'S OUTLOOK

Political ratings have weakened in the past four months. The Austrian People's Party (ÖVP) and the Greens have been leading a majority coalition (by five seats) with Karl Nehammer as the chancellor. Mr. Nehammer is expected to complete his term in office even though policy differences with the Greens will weaken effective governing at times. The far-right Freedom Party (FPÖ) has steadily increased popularity exploiting the frustration of the population and is currently ahead of both ÖVP and the Greens in the polls. General elections will take place by September 2024. BERI does not see FPÖ losing its popularity during this time. The party will play a role in the next coalition, most likely together with the ÖVP. Even though Mr. Nehammer stated multiple times that he would not seek a coalition with the FPÖ, he has not ruled it out. Furthermore, the ÖVP embraced some of that party's stance in immigration, in a way normalizing the far-right ideology in the country. Foreign policy will be significantly different under an FPÖ-led coalition. Chancellor Nehammer has already given warning signs regarding the war in Ukraine saying that the war was "spiraling out of control." This was a response to a statement by the French president that France has not ruled out deploying ground troops.

The budget deficit is expected to increase minimally in 2024 followed by modest contraction in the following year. The shortfall will grow this year reflecting difficult economic conditions as well as the cost of the newly established investment fund. General government debt will pursue a downward trajectory during the forecast period. The banking industry has been negatively affected by the exposure to Russia, which will continue to impact profitability in 2024. However, there are positive signs for the industry. Responsible lending behavior by the banks has resulted in a limited number of defaults, particularly in the mortgage market where housing prices have been on the decline. Most recent data showed that nonperforming loan ratio remained below 2% of all loans by the end of last year. In its latest meeting in March, the European Central Bank (ECB) did not change the benchmark interest rate nor the two other key ECB rates. The former remained at 4.50%, while the rates on marginal lending facility and deposit facility were kept at 4.75% and 4.00%, respectively. Monetary officials pointed to declining inflation as their rationale. Economic activity suffered last year. Real GDP did not grow in the final quarter of the year, compared to a 0.3% contraction in the preceding three-month period. The contraction in private consumption was the reason behind the lackluster economic performance. For the

year, the economy registered a 0.8% decline as a result of the weak showing in the manufacturing, trade as well as the transportation sector. Real GDP is forecast to grow by about 0.7% in 2024. Industrial production was 2.8% lower in January than in that month in 2023 following 0.1% growth in the previous month. The manufacturing PMI was at 43 in February, the 19<sup>th</sup> straight month the index was in the red. Output and new orders both declined at that time. Retail sales fell 2.5% year-on-year in January. Sales are expected to recover towards the end of the first half. Consumer confidence improved to -16.6 in February from -18.8 in the month prior. Business confidence did not follow suit with the index decreasing to -15.2 from -14.7 during the same period. The unemployment rate fell to 7.6% in February marking the lowest rate in three months. Average consumer decreased to 4.3% from 4.6% during the same period.

R Factor ratings remained stable during the past edition. The merchandise trade account is expected to have a healthy performance in 2024, thanks to anticipated growth in exports, including services. Growth in trade surplus will directly benefit the current account with the surplus rising to an estimated US\$11.350 billion this year. The current account will also be boosted by primary income contribution. Foreign investment will strengthen in 2024 as economic activity is gradually building momentum. Investment from the region will outpace foreign investments from the rest of the world. The *euro* depreciated against the US\$ on a steady basis, falling below parity for the first time in over two decades; however, the currency began to gain ground and finished last year with a strong performance against the US\$. BERI expects stability this year, but the *euro* will come under depreciative pressure in the second half of 2024 despite the region's better current account performance vis-à-vis the U.S.

## AUSTRIA'S ECONOMIC AND FINANCIAL INFORMATION

(US\$ Millions unless otherwise indicated)

|   | 2021   | 2022   | 2023   | 2024F  | 2025F  |
|---|--------|--------|--------|--------|--------|
| Population (millions)                   | 8.45   | 8.46   | 8.47   | 8.47   | 8.48   |
| Gross Fixed Capital Formation, % of GDP | 22.7   | 22.4   | 22.0   | 22.2   | 22.2   |
| Production-Industrial (% change)        | 9.6    | 7.1    | -1.3   | 2.0    | 2.5    |
| Economic Growth (% change)              | 4.7    | 4.9    | -0.8   | 0.7    | 2.0    |
| Consumer Price Index (% change)         | 2.8    | 8.8    | 7.4    | 3.3    | 2.7    |
| Budget Deficit (% of GDP)               | 5.8    | 3.4    | 2.3    | 2.4    | 2.2    |
| Foreign Exchange Earned                 | 294568 | 294933 | 298879 | 303450 | 304265 |
| Current Account Balance                 | -2658  | -4779  | 8150   | 11350  | 10000  |
| Foreign Exchange Reserves (year-end)    | 8515   | 6741   | 4415   | 4882   | 5125   |
| Average Exchange Rate: US\$1= €         | 0.8420 | 0.9524 | 0.9259 | 0.9475 | 0.9780 |

## AUSTRIA'S POLITICAL INFORMATION

**Governmental System:** Parliamentary federal democracy. The federal president is head of state with limited powers and serves a six-year term. The head of government is the federal chancellor, chosen by the *Nationalrat*, the lower, popularly elected house of the Federal Assembly (183 seats, 4-year terms). The *Bundesrat* (Federal Council) represents the federal provinces and has 62 seats divided according to party strength in the provincial assemblies.

**Changes in Government:** Snap elections were held on 29 September 2019. The Social Democratic Party (SPÖ) lost 12 seats accounting for 21.1% of the total votes. The Austrian People's Party (ÖVP) won 37.5% and 71 seats (+9). The Freedom Party (FPÖ) had a devastating performance obtaining 16.2% (51 seats, 20 less). The Greens had lost all their representation in 2017. However, the party came back obtaining 26 seats receiving 13.9% of the votes. The ÖVP and Greens formed the next coalition in early January. Presidential elections were held in early December after the decision by the highest court in the country. Alexander Van der Bellen of the Green party beat far-right candidate Norbert Hofer.