

# WIFO ■ REPORTS ON AUSTRIA 16/2022

## **Stagflation in Austria.** Economic Outlook for 2022 and 2023

Christian Glocker, Stefan Ederer

# Stagflation in Austria

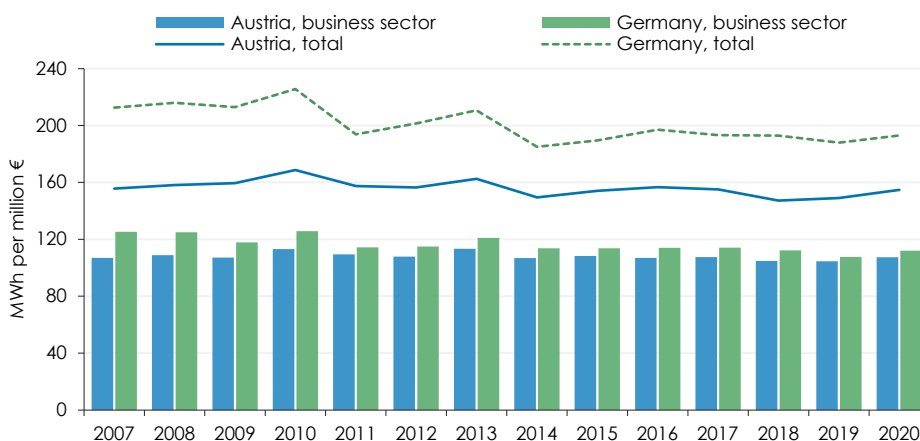
## Economic Outlook for 2022 and 2023

Christian Glocker, Stefan Ederer

- The Austrian economy is currently in a downturn phase.
- After the recovery in the previous year (+4.6 percent), GDP is expected to grow by 4.8 percent in 2022 and roughly stagnate in 2023 (+0.2 percent).
- Growth in 2022 will be driven by the strong upswing in tourism, while industrial production is already weakening. In 2023, industry is likely to experience a recession.
- Fiscal policy remains expansionary in both forecast years.
- As labour supply continues to grow but employment growth slows, the unemployment rate is expected to rise in 2023.
- After 2.8 percent in 2021, inflation will be high in both forecast years (2022: 8.3 percent, 2023: 6.5 percent, according to CPI).
- Downside risks to the forecast arise primarily from the international environment.

### Natural gas intensity of the Austrian and German economy

Final energy use of natural gas in relation to real GDP



**"Due to its higher natural gas intensity, rationing as a result of possible supply shortages is likely to hit the German economy harder than the Austrian economy."**

In 2020, the natural gas intensity of the Austrian economy was almost 25 percent lower than that of the German economy. In the corporate sector, the gap is somewhat smaller (source: Eurostat, Energy Balances; WIFO calculations. Business sector: industry, transport, trade, public services, agriculture and forestry excluding private households).

# Stagflation in Austria

## Economic Outlook for 2022 and 2023

Christian Glocker, Stefan Ederer

October 2022

### Stagflation in Austria. Economic Outlook for 2022 and 2023

After the strong expansion in the first half of 2022, the Austrian economy is now in a downturn phase. The economic slow-down is spreading to all value adding sectors; the manufacturing sector is even likely to slip into recession. Real GDP is expected to grow by 4.8 percent in 2022 and roughly stagnate in the following year (2023 +0.2 percent). With inflation remaining high in 2023, Austria's economy is heading for stagflation for the first time since the 1970s.

**JEL-Codes:** E32, E66 • **Keywords:** Business cycle, economic outlook, forecast

All staff members of the Austrian Institute of Economic Research contribute to the Economic Outlook. For definitions used see "Methodological Notes and Short Glossary", <https://www.wifo.ac.at/wwadocs/form/WIFO-BusinessCycleInformation-Glossary.pdf>

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## 1. Introduction

In the first half of 2022, the Austrian economy was still in a phase of boom, which had already begun in autumn 2020. However, a downturn is now setting in, which will be strong according to leading indicators. This is likely to bring the economic upswing of the last two years to an abrupt end.

The widespread lifting of the COVID-19 measures by the authorities has temporarily given a strong boost to the services sector and to private consumption in particular. This effect is now expiring. Now the dampening forces from the international environment will have a stronger impact on the overall economy. On the one hand, the weakening of the global economy is clouding the outlook for domestic goods exports and thus for industry and investment. On the other hand, the marked increase in world market prices for raw materials, energy and intermediate goods represents a negative terms-of-trade shock. It keeps domestic price inflation high and causes real income losses that dampen private consumption.

However, government spending to support consumption counteracts this.

Under these conditions, Austria's economy will still expand by 4.8 percent in 2022 and thus grow more strongly than in the previous year (2021 +4.6 percent). In addition to moderate industrial activity, services in particular will contribute to overall economic growth in 2022. In the following year, however, the momentum is likely to slow down considerably (2023 +0.2 percent).

In 2022, economic activity still leads to a favourable development on the labour market. In addition to a significant increase in employment (+2.7 percent), unemployment is expected to fall despite an expansion in labour supply (–19.6 percent compared to the previous year). For 2023, by contrast, only weak employment growth (+0.5 percent) and an increase in the unemployment rate to 6.7 percent are expected (2022: 6.4 percent).

The forecast flattening of economic momentum will only have a delayed impact on prices. The inflation rate according to the Harmonised Index of Consumer Prices (HICP) will rise to 8.4 percent in 2022 (2021: 2.8 percent). In 2023, inflation will weaken slightly to

6.6 percent, but remain elevated compared to the long-term average. Consequently, high inflation and at the same time stagnation of the real economy are expected for 2023. Austria is thus heading for stagflation for the first time since the 1970s.

Table 1: **Main results**

	2018	2019	2020	2021	2022	2023	
	Percentage changes from previous year						
Gross domestic product, volume	+ 2.4	+ 1.5	- 6.5	+ 4.6	+ 4.8	+ 0.2	
Manufacturing	+ 4.5	+ 1.0	- 5.8	+ 9.5	+ 3.3	- 2.0	
Wholesale and retail trade	+ 4.0	+ 3.0	- 5.9	+ 3.7	+ 3.5	+ 2.4	
Private consumption expenditure <sup>1</sup> , volume	+ 1.1	+ 0.5	- 8.0	+ 3.6	+ 3.8	+ 1.0	
Consumer durables	+ 1.0	+ 0.2	- 2.2	+ 4.4	- 4.0	+ 3.5	
Gross fixed capital formation, volume	+ 4.4	+ 4.5	- 5.3	+ 8.7	- 0.5	+ 0.8	
Machinery and equipment <sup>2</sup>	+ 3.4	+ 5.3	- 7.0	+ 11.3	- 1.1	+ 0.7	
Construction	+ 5.6	+ 3.6	- 3.4	+ 5.8	+ 0.2	+ 1.0	
Exports, volume	+ 5.2	+ 4.0	- 10.7	+ 9.6	+ 9.4	+ 0.9	
Exports of goods, fob	+ 4.8	+ 3.5	- 7.3	+ 12.9	+ 8.0	+ 0.1	
Imports, volume	+ 5.3	+ 2.1	- 9.2	+ 13.7	+ 6.0	+ 0.9	
Imports of goods, fob	+ 4.2	+ 0.3	- 6.2	+ 14.2	+ 5.2	+ 0.1	
Gross domestic product, value	+ 4.3	+ 3.1	- 4.1	+ 6.6	+ 11.1	+ 6.0	
	billion €	385.27	397.17	381.04	406.15	451.27	478.25
Current account balance							
as a percentage of GDP	0.9	2.4	3.0	0.4	0.8	- 0.1	
Consumer prices	+ 2.0	+ 1.5	+ 1.4	+ 2.8	+ 8.3	+ 6.5	
GDP deflator <sup>3</sup>	+ 1.8	+ 1.5	+ 2.6	+ 1.9	+ 6.0	+ 5.7	
Three-month interest rate	percent - 0.3	- 0.4	- 0.4	- 0.5	0.3	3.9	
Long-term interest rate <sup>4</sup>	percent 0.7	0.1	- 0.2	- 0.1	1.7	4.1	
General government financial balance, Maastricht definition							
as a percentage of GDP	0.2	0.6	- 8.0	- 5.9	- 3.5	- 1.7	
Persons in active dependent employment <sup>5</sup>	+ 2.5	+ 1.6	- 2.0	+ 2.5	+ 2.7	+ 0.5	
Unemployment rate							
Eurostat definition <sup>6</sup>	5.2	4.8	6.0	6.2	4.6	4.7	
National definition <sup>7</sup>	7.7	7.4	9.9	8.0	6.4	6.7	
Greenhouse gas emissions <sup>8</sup>	- 4.0	+ 1.5	- 7.7	+ 4.6	- 2.2	- 2.0	
	million t CO <sub>2</sub> equivalent	78.56	79.74	73.59	77.00	75.30	73.83

Source: WIFO, ECB, Environmental Agency Austria, Federation of Social Insurances, OeNB, Public Employment Service Austria, Statistics Austria. 2022 and 2023: forecast. – <sup>1</sup> Including non-profit institutions serving households. – <sup>2</sup> Including weapons systems. – <sup>3</sup> Measures purely domestic inflation. – <sup>4</sup> 10-year central government bonds (benchmark). – <sup>5</sup> Excluding persons in valid employment contract receiving child care benefit or being in military service. – <sup>6</sup> As a percentage of total labour force, Labour Force Survey. Due to a revision of the Labour Force Survey methodology planned for the end of June, a forecast of this indicator is currently waived. – <sup>7</sup> As a percentage of dependent labour force. – <sup>8</sup> From 2021: forecast.

## 2. The starting position

In the first half of 2022, the Austrian economy was in a boom phase that began in autumn 2020 and has continued since then, despite repeated interruptions. The domestic economy thus defied the numerous obstacles, namely strong inflation, shortages of labour force, supply shortages and high uncertainty.

On the supply side, manufacturing and tourism (accommodation and food services) in particular contributed to the expansion of the overall economy in the first half of 2022. In manufacturing, value added increased by 5.6 percent compared to the corresponding period of the previous year, and in accommodation and food services by a strong 143 percent. Transport and other

(business) services also recorded significant increases in value added.

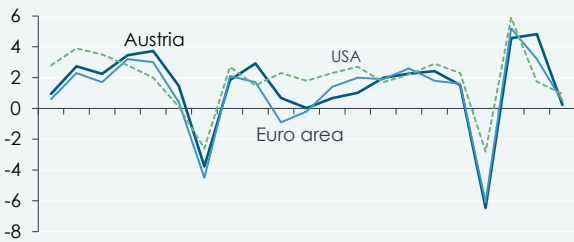
On the demand side, private and public consumer spending in particular stimulated expansion, while gross fixed capital formation fell. As exports increased significantly more than imports, foreign trade made a positive contribution to GDP growth in purely arithmetical terms.

On the distribution side, both wage income (compensation of employees) and capital income (gross operating surpluses and mixed income) increased. Capital income rose strongly in the first half of 2022 due to cyclical factors (+2.9 percent compared to the same period of the previous year).

Figure 1: Indicators of economic performance

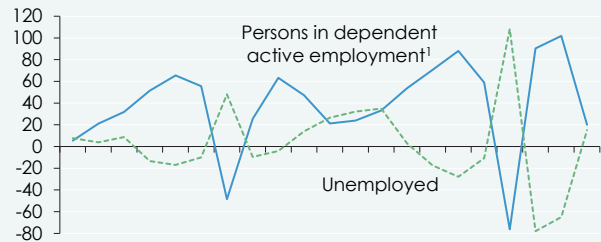
**Growth of real GDP**

Percent



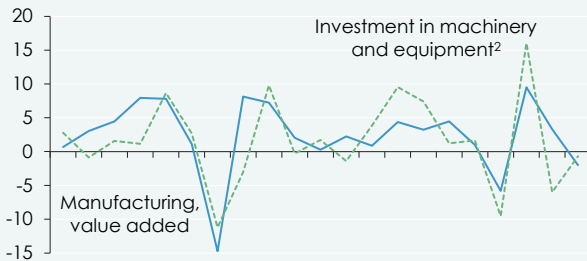
**Employment and unemployment**

Change from previous year in 1,000



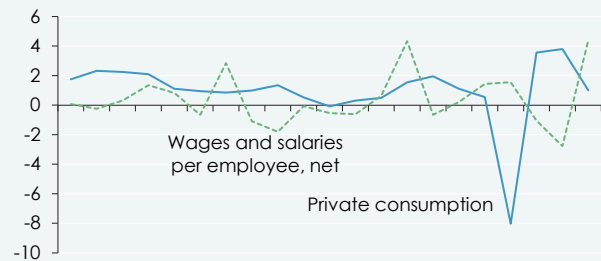
**Manufacturing and investment**

Percentage changes from previous year, volume



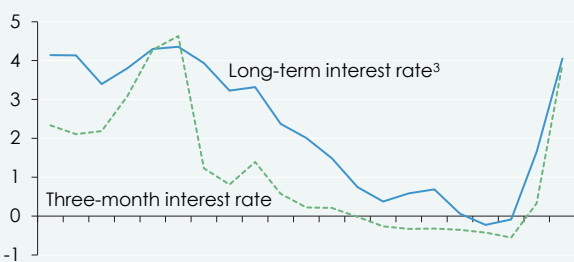
**Consumption and income**

Percentage changes from previous year, volume



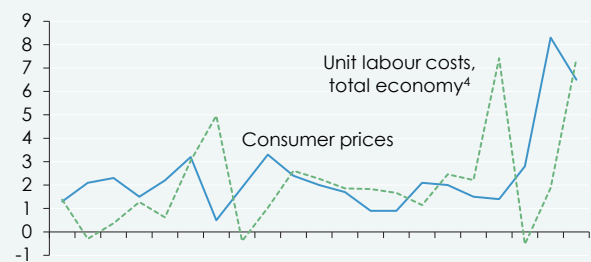
**Short-term and long-term interest rates**

Percent



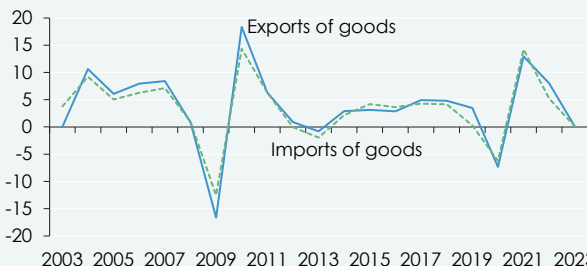
**Inflation and unit labour costs**

Percentage changes from previous year



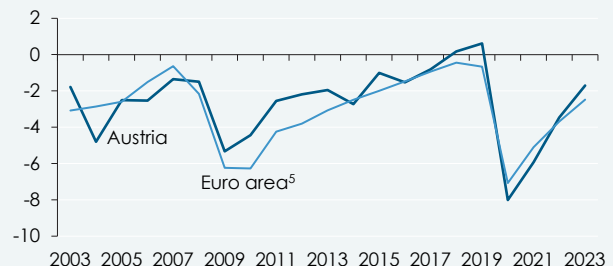
**Trade (according to National Accounts)**

Percentage changes from previous year, volume



**General government financial balance**

As a percentage of GDP



Source: WIFO. 2022 and 2023: forecast. – <sup>1</sup> Excluding persons in valid employment contract receiving child care benefit or being in military service, and unemployed persons in training; break in 2007-08 due to changes in the employment statistics. – <sup>2</sup> Including weapons systems. – <sup>3</sup> 10-year central government bonds (benchmark). – <sup>4</sup> Including short-time work grants. – <sup>5</sup> Source: European Commission.

At the same time, employment expanded (+4.4 percent compared to the first half of 2021, according to national accounts), especially in numerous service sectors, while unemployment was still largely on the

decline and only rose slightly in June (seasonally adjusted). Given the still high number of job vacancies, the labour market has eased only slightly so far.

Consumer price inflation was already strong in the first half of 2022 (+6.9 percent year-on-year, according to the CPI), accelerating gradually and thus following producer price inflation with a lag. Consumer price inflation in the first half of the year was mainly due to

price increases for energy (commodities) and (durable) consumer goods. Mineral oil products, as well as food and catering services, had already become significantly more expensive from spring, natural gas and electricity only from summer.

### 3. The framework conditions

This forecast is based on the information available as of mid-September 2022 with regard to assumptions about the direction of economic policy and the development of the global economy, exchange rates, commodity prices and interest rates. The forecast period extends from the third quarter of 2022 to the fourth quarter of 2023.

With regard to the COVID-19 pandemic, it is assumed that there will be no official business closures in Austria during the forecast period. In addition, it is assumed that the Ukraine war will continue and the sanctions against Russia will remain in place. Although natural gas deliveries from Russia to Europe are not expected to stop completely, there are still uncertainties regarding future price developments, which means that natural gas prices on the spot and futures markets remain high. Assumptions about the flight movement from Ukraine concern the net inflow, the integration of refugees into the labour market and the fiscal costs. Net immigration from Ukraine is expected to amount to 150,000 persons by the end of 2023, 60 percent of whom are of working age. This increases the labour supply by about 30,000 – spread over both forecast years – with 50 percent assumed to be employed and 50 percent unemployed. The annual fiscal costs are estimated at 0.45 billion € in 2022 and 0.9 billion € in the following year and take into account increasing labour market integration.

#### 3.1 International economic environment

According to the global Purchasing Managers' Index (J. P. Morgan Global Composite PMI), growth in the global economy has slowed since the beginning of 2022. This affects both industry and services. As a result, the global economy expanded only weakly in the first half of 2022. Renewed pandemic-related constraints (especially in China), together with supply-side production constraints and the resulting price increases, led to an economic slowdown that affected both developed and emerging economies.

In the USA, GDP shrank in the first and second quarters, although industrial production and employment continued to expand. The decline in GDP resulted primarily from the weakening of domestic economic activity. As a result of high inflation, private households continued to cut back on their spending. Investments also weakened significantly.

Business sentiment and especially consumer confidence have been trending downward since mid-2021. Due to the high price increases, households' willingness to spend and thus private consumption is likely to decline further. As the Federal Reserve is likely to maintain its tightening course, growth in the USA is expected to weaken further (to +1.7 percent in 2022 and +0.9 percent in 2023).

In China, economic output declined in the second quarter as a result of the strict COVID-19 measures imposed by the authorities. In addition, China's real estate sector has been struggling with price declines and high debt since 2021. This is dampening construction investment in particular. However, government spending, especially on infrastructure projects, should support economic activity. In addition, monetary policy is again providing expansionary impulses after it was tightened in 2021 as a result of the real estate boom. Overall, China's economy is expected to grow by 3.2 percent in 2022 and 4.9 percent in 2023. It will thus continue to expand at a much slower pace than in the years immediately before the outbreak of the COVID-19 pandemic.

The lifting of the COVID-19 regulatory measures stimulated economic activity in many EU countries in spring 2022. In the meantime, however, the catch-up potential has probably been largely exhausted; economic output in many EU countries has returned to pre-crisis levels or has already exceeded them. Leading indicators paint a rather pessimistic picture: consumer confidence has declined in the EU since the outbreak of war in Ukraine and is now at an all-time low. Business surveys point to declining production expectations for the coming months. Assessments of the current business situation, which have been deteriorating since May, recently worsened markedly. Both indicators point to a weakening of industrial activity. Overall, GDP in the EU is expected to grow by 3.3 percent in 2022 and by 0.5 percent in 2023. Economic momentum is expected to remain largely stagnant until mid-2023. Inflation (according to HICP) will remain above average in 2023, both in the EU and in the euro area, and will dampen household consumption significantly. This effect will be amplified by the loss of income due to the deterioration of current account balances.

**The global economy is currently losing momentum; world trade and global industrial production have so far been little affected.**

**High and, in some cases, still rising commodity prices are driving consumer price inflation. Especially in the EU countries, the upward momentum is unbroken so far.**

Table 2: **International economy**

	Percentage shares 2021		2018	2019	2020	2021	2022	2023
	Austria's exports of goods	World GDP <sup>1</sup>	GDP volume, percentage changes from previous year					
EU 27	67.6	14.9	+ 2.0	+ 1.8	- 5.7	+ 5.3	+ 3.3	+ 0.5
Euro area	51.8	12.0	+ 1.8	+ 1.6	- 6.1	+ 5.2	+ 3.2	+ 0.5
Germany	30.1	3.3	+ 1.0	+ 1.1	- 3.7	+ 2.6	+ 1.6	- 0.3
Italy	6.8	1.9	+ 0.9	+ 0.5	- 9.0	+ 6.6	+ 3.2	- 0.4
France	3.8	2.3	+ 1.9	+ 1.8	- 7.8	+ 6.8	+ 2.6	+ 0.6
CEEC 5 <sup>2</sup>	15.4	1.7	+ 4.7	+ 4.1	- 3.4	+ 5.5	+ 3.4	- 0.9
Hungary	3.7	0.2	+ 5.4	+ 4.6	- 4.5	+ 7.1	+ 5.5	- 0.4
Czech Republic	3.6	0.3	+ 3.2	+ 3.0	- 5.5	+ 3.5	+ 2.2	- 1.1
Poland	4.0	1.0	+ 5.4	+ 4.7	- 2.2	+ 5.9	+ 3.2	- 1.4
USA	6.7	15.7	+ 2.9	+ 2.3	- 2.8	+ 5.9	+ 1.7	+ 0.9
Switzerland	5.2	0.5	+ 2.9	+ 1.2	- 2.4	+ 3.7	+ 2.1	+ 0.4
UK	2.7	2.3	+ 1.7	+ 1.7	- 9.3	+ 7.4	+ 3.3	- 1.3
China	2.9	18.6	+ 6.7	+ 6.0	+ 2.2	+ 8.1	+ 3.2	+ 4.9
Total <sup>3</sup>								
PPP-weighted <sup>4</sup>		52	+ 4.0	+ 3.4	- 2.3	+ 6.5	+ 2.8	+ 2.1
Export weighted <sup>5</sup>	86		+ 2.3	+ 1.9	- 5.1	+ 5.4	+ 3.1	+ 0.6
Market growth <sup>6</sup>			+ 4.0	+ 1.7	- 6.1	+ 11.1	+ 4.0	+ 0.4
<b>Forecast assumptions</b>								
Crude oil prices								
Brent, \$ per barrel			71.0	64.3	41.7	70.7	99	83
Natural gas price								
Dutch TTF, € per MWh			22.9	13.6	9.5	45.9	163	210
Electricity price Austria								
Base, € per MWh			.	40.1	33.2	107.0	361	565
Peak, € per MWh			.	43.1	35.9	116.6	405	790
Exchange rate								
\$ per €			1.181	1.120	1.141	1.184	1.05	1.04
Key interest rate								
ECB main refinancing rate <sup>7</sup> , percent			0.0	0.0	0.0	0.0	0.6	3.7
10-year government bonds yields Germany, percent			0.4	- 0.3	- 0.5	- 0.4	1.1	3.6

Source: WIFO, Bureau of Economic Analysis, European Energy Exchange, Eurostat, EIA, ECB, IMF, Intercontinental Exchange, OECD, Statistics Austria. 2022 and 2023: forecast. – <sup>1</sup> PPP-weighted. – <sup>2</sup> Czech Republic, Hungary, Poland, Slovenia, Slovakia. – <sup>3</sup> EU 27, UK, USA, Switzerland, China. – <sup>4</sup> Weighted by GDP at purchasing power parities in 2021. – <sup>5</sup> Weighted by shares of Austrian goods exports in 2021. – <sup>6</sup> Real import growth of trading partners, weighted by shares of Austrian goods exports. – <sup>7</sup> Minimum bid rate.

Commodity and energy prices continue to soar compared to the previous year. The most recent increase is exclusively due to natural gas prices, which rose sharply again in the summer. The curtailment of supply volumes and the uncertainty about a continuation of Russian natural gas exports to Europe have driven prices up further both on the spot markets and on the futures markets. Although many EU countries increased their natural gas reserves over the summer, a complete supply freeze from Russia would still require rationing in 2023. The cooling of the global economy, on the other hand, should dampen commodity prices. The price of natural gas will still be very volatile in 2023; a moderate decline is expected from April onwards, while the price should rise again towards the end of the year for seasonal reasons. WIFO expects a natural gas price (Title Transfer Facility – TTF) of around 163 € per MWh in 2022 (2023: 210 €, after 45.9 € in 2021) and a crude oil price (Brent)

of around 99 \$ per barrel (2023: 83 \$, after 70.7 \$ in 2021).

### 3.2 The economic policy framework

This forecast takes into account all economic policy measures that have already been adopted or sufficiently specified and whose implementation is thus considered likely.

#### 3.2.1 Monetary policy

Inflation is currently higher than at any time in the euro area's history. Economic growth is already weakening, which should reduce inflationary pressures as a result of market endogenous effects. However, the ever greater deviation of HICP inflation rates from the ECB's monetary policy target (around 2 percent) poses the risk of de-anchoring inflation expectations and thus entrenching elevated inflation rates in the long run.

The first increase in the key interest rate in July 2022 (by 50 basis points) was followed by another one in September (by 75 basis points). Thus, the increase in the key interest rate is not keeping pace with the upward trend in prices; the real (ex post) interest rate will therefore continue to fall significantly in the course of 2022. Against this background, WIFO expects further interest rate steps; the main refinancing rate is assumed to be 0.6 percent in 2022 and 3.7 percent in 2023.

The ECB's interest rate steps are accompanied by the Transmission Protection Instrument (TPI), which is to be used in the event of "unjustified" interest rate rises and undesirable developments on the bond market. Although its use is linked to further conditions, the assessment of an "unjustified" rise in interest rates is arbitrary. This gives monetary policy great room for manoeuvre.

### 3.2.2 Macprudential policy

Since the last WIFO forecast in June 2022, macroprudential policy in Austria has tended to be tightened. On the one hand, this is due to the finding of the Financial Market Stability Board (FMSB) that the capitalisation of Austrian banks is below average in a European comparison. On the other hand, the risk environment has not improved. Although the risks for domestic banks associated with the COVID-19 pandemic have decreased, companies are exposed to high

cost pressure due to the increase in the price of energy, raw materials and intermediate goods. This poses the risk of loan defaults due to immediate liquidity shortages.

At its last meeting, the FMSB recommended raising the buffer requirements for the systemic risk buffer and the systemically important institutions buffer by an additional (maximum) 0.5 percentage points of risk-weighted assets. The counter-cyclical capital buffer (CCyB), on the other hand, will remain unchanged at 0 percent, especially since the relevant indicator, the credit-to-GDP gap, does not suggest an increase at present.

### 3.2.3 Fiscal policy

The abolition of COVID-19 support payments, especially aid to enterprises, does relieve the public budgets; however, this is compensated by a multitude of new measures. Three anti-inflation packages have already been adopted in response to high inflation. Moreover, public spending is increasing significantly as a result of the energy price turbulence. Although public consumption is generally less energy-intensive than private consumption, the government also incurs inflation-related additional expenditure due to intermediate consumption purchases and the financing of social benefits in kind, as well as through higher personnel expenses.

**The credit-to-GDP gap – the key indicator for the level of the counter-cyclical capital buffer – does not currently suggest an increase in the capital buffer.**

Table 3: Fiscal and monetary policy – key figures

	2018	2019	2020	2021	2022	2023
	As a percentage of GDP					
<b>Fiscal policy</b>						
General government financial balance <sup>1</sup>	0.2	0.6	– 8.0	– 5.9	– 3.5	– 1.7
General government primary balance	1.8	2.0	– 6.7	– 4.8	– 2.5	– 0.6
General government total revenue	48.9	49.2	48.7	50.0	48.7	48.1
General government total expenditure	48.8	48.6	56.7	56.0	52.1	49.8
	Percent					
<b>Monetary policy</b>						
Three-month interest rate	– 0.3	– 0.4	– 0.4	– 0.5	0.3	3.9
Long-term interest rate <sup>2</sup>	0.7	0.1	– 0.2	– 0.1	1.7	4.1

Source: WIFO, ECB, OeNB, Statistics Austria. 2022 and 2023: forecast. – <sup>1</sup> According to Maastricht definition. – <sup>2</sup> 10-year central government bonds (benchmark).

Domestic fiscal policy is expected to remain expansionary in 2023. While some of the measures to compensate for inflation will be discontinued, especially one-off payments, further expenditures will be incurred in 2023, for example in the context of the electricity price brake, through the valorisation of a number of social benefits and a generous adjustment of pensions, while, among other things, the abolition of the cold progression will dampen tax revenues.

The general government balance is expected to improve from –5.9 percent of GDP in the previous year to –3.5 percent (2022) and –1.7 percent (2023). The structural budget balance will continue to be clearly negative in both forecast years. This reflects the expansionary orientation of domestic fiscal policy.

**Although the pandemic-related measures are due to expire, consumption support packages to cushion the impact of high inflation will burden public budgets. Domestic fiscal policy remains expansionary in both forecast years.**



An advantageous sectoral structure on the supply side enabled the Austrian economy to recover strongly from the COVID-19 crisis. However, increasing headwinds from the cooling of the global economy and high energy prices will lead to a slowdown in economic growth already in the second half of 2022.

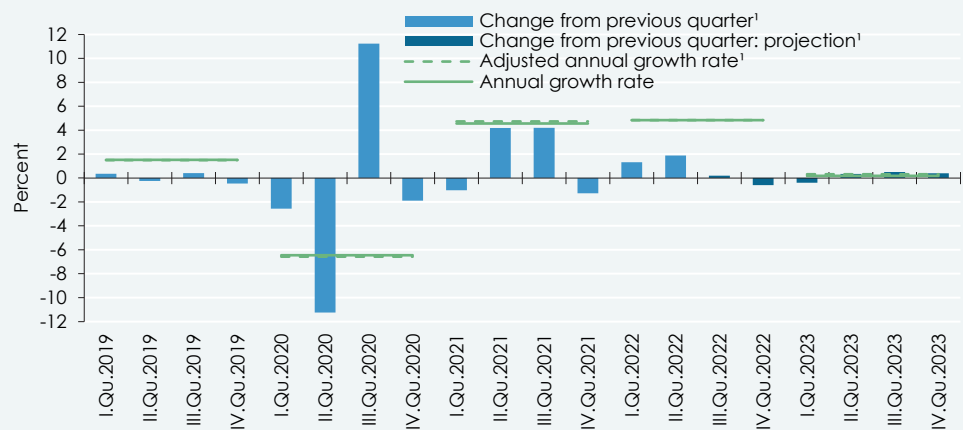
## 4. Prospects for the Austrian economy

Due to its sectoral structure, Austria's economy suffered comparatively strongly from the COVID-19 pandemic in 2020. At the same time, however, this same structure favoured the post-crisis upswing, which was largely driven by high foreign demand. Austria benefitted from this in 2021 in the form of a strong expansion of goods exports. This stimulated industrial activity and subsequently equipment and construction investments. In 2022, then, the resurgence of tourism, especially foreign tourism, will make a significant contribution to growth. The expected strong increase in service exports goes hand in hand with increases in value

added in market-related services. These positive developments are now contrasted on the one hand by the weakening of the global economy, which is dampening the dynamics of domestic goods exports in particular. On the other hand, the marked increase in world market prices for raw materials, energy and intermediate goods represents a negative terms-of-trade shock for the domestic economy. It keeps domestic price inflation high and thus weighs on real household incomes.

Figure 2: Cyclical profile of Austria

GDP volume



Source: WIFO. – <sup>1</sup> Seasonally and calendar adjusted according to Eurostat.

The leading indicators, which were at extremely high levels until the end of the second quarter, now point to a sharp economic slowdown. The WIFO Business Climate Index declined further in September compared to the previous month, but is still in positive territory. While the index of assessments of the current situation continues to indicate an average economic environment despite a decline, the index of business expectations recently fell close to the zero line that separates optimistic from pessimistic assessments; moreover, business uncertainty is also high. In addition to the WIFO Business Climate Index, the UniCredit Bank Austria Purchasing Managers' Index also deteriorated again in August compared to the previous month and remained below the growth threshold in September. Order backlogs, which in August had declined as sharply as last seen at the height of the COVID-19 crisis in the face of weak new business, fell to their lowest level in more than two years in September. In addition, order declines accelerated compared to previous months.

Furthermore, consumer surveys also paint a negative picture. The sub-indicator on

expected unemployment (over the next 12 months), which is meaningful for consumption and is surveyed in the European Commission's consumer confidence survey, expressed a tendency towards negative sentiment in September, as in previous months: consumers are increasingly concerned about the continuation of their employment relationships.

### 4.1 Economic upswing ends abruptly

According to the leading indicators, growth in the overall economy will weaken significantly from the third quarter of 2022. This development is expected to continue until the second quarter of 2023. From today's perspective, a cyclical recovery will then set in. This forecast assumes that no new shocks will occur until the end of the forecast period, leading to a gradual decline in the magnitude of the cyclical oscillation and to growth rates approaching trend growth.

After the strong recovery in 2021 (+4.6 percent), Austria's GDP is still expected to grow by 4.8 percent in 2022 – despite the considerable international headwinds. In 2023,

however, the growth rate will shrink significantly to an expected +0.2 percent (Figure 2, Table 4). In addition to the significant growth carry-over from the previous year (+2.1 percentage points), the high inter-annual growth rate in particular contributes to the expansion in 2022 (+2.8 percent). It is mainly due to the strong growth in the first half of the year, while the contribution of the second half is significantly smaller. In 2023, quarterly growth rates are initially expected to be weak, sometimes even negative, but to improve in the second half of the year, resulting in an overall positive inter-annual growth rate of 0.8 percent. Combined with

the positive, albeit very small, carry-over from the previous year (+0.1 percentage point), this results in a weakly positive annual growth rate of 0.2 percent for 2023. This figure nevertheless points to stagnation, given the difficulties of measuring GDP (Table 5). In 2023, the lower number of working days results in a negative calendar effect of 0.1 percentage point. The impact of the cyclical setback is reflected above all in the decline in the annual growth rate from +4.8 percent (2022) to +0.2 percent (2023). It is strikingly strong, especially in view of the high autocorrelation of annual GDP growth rates.

Table 4: **Technical breakdown of the real GDP growth forecast**

		2020	2021	2022	2023
Growth carry-over <sup>1</sup>	percentage points	- 0.2	+ 0.8	+ 2.1	+ 0.1
Growth rate during the year <sup>2</sup>	percent	- 5.6	+ 6.1	+ 2.8	+ 0.8
<b>Annual growth rate</b>	<b>percent</b>	<b>- 6.5</b>	<b>+ 4.6</b>	<b>+ 4.8</b>	<b>+ 0.2</b>
Adjusted annual growth rate <sup>3</sup>	percent	- 6.6	+ 4.7	+ 4.8	+ 0.3
Calendar effect <sup>4</sup>	percentage points	+ 0.0	+ 0.0	± 0.0	- 0.1

Source: WIFO. 2022 and 2023: forecast. – <sup>1</sup> Impact of year-earlier growth dynamics on growth in the current year. Equals the annual growth rate in the current year, if the level of GDP in the current year remains constant from the fourth quarter of the previous year; seasonally and calendar adjusted according to Eurostat. – <sup>2</sup> Reflects the growth dynamics during a calendar year. Equals the year-on-year growth rate for the fourth quarter; seasonally and calendar adjusted according to Eurostat. – <sup>3</sup> Seasonally and calendar adjusted according to Eurostat. Comparative figure to the OeNB's economic forecast. – <sup>4</sup> Impact of the annual number of working days and the leap day. The sum of the adjusted annual growth rate and calendar effect may differ from the value of the unadjusted annual growth rate as it also includes seasonal and irregular effects.

Table 5: **Revision of the growth forecast**

GDP, volume

		2022	2023
WIFO Economic Outlook June 2022	percent	+ 4.3	+ 1.7
Data revisions <sup>1</sup>	percentage points	- 0.3	- 0.0
Forecast error for the second quarter of 2022 <sup>2</sup>	percentage points	+ 1.1	+ 0.3
Forecast revision	percentage points	- 0.3	- 1.7
<b>WIFO Economic Outlook October 2022</b>	<b>percent</b>	<b>+ 4.8</b>	<b>+ 0.3</b>

Source: WIFO. Based on seasonally and working-day adjusted values according to Eurostat. – <sup>1</sup> Revision of quarterly national accounts by Statistics Austria compared with the data available for the preparation of the WIFO Economic Outlook of June 2022. – <sup>2</sup> At the time of preparing the June 2022 WIFO Economic Outlook, no Statistics Austria figures had yet been published for this quarter.

Since domestic economic activity has already reached the pre-crisis level in the course of 2021 and the negative output gap has thus narrowed significantly in 2021 as a whole, overall economic capacity utilisation will be above average again in 2022. Trend output (according to the European Commission's method) is expected to grow by 1.7 percent in 2022 and by 1.5 percent in 2023. This results in a positive output gap in 2022, which indicates an increasing overutilization of production capacities. This is reflected, among other things, in the strong upward pressure on prices and the growing labour shortage.

#### 4.2 Economic slowdown due to lower export activity

Domestic industry is still benefitting from good order backlogs, which are supporting production as material bottlenecks ease. However, the global economic environment has also significantly dampened export prospects. The weakening of global economic activity will lead to a near stagnation of domestic goods exports, especially in 2023. This, in turn, will strongly affect industrial production and result in declining gross value added in 2023 given the already high inventory of finished goods. High energy prices,

which in themselves cause production declines, are exacerbating this effect, reflecting in particular the high price of natural gas. However, the direct negative effect of energy prices on industry is likely to be somewhat weaker in Austria than in Germany, especially since the natural gas intensity of Austrian industry is somewhat lower (Figure "Natural gas intensity of the Austrian and German economy"). The recession in industry will subsequently lead to a weakening of construction investment and a decline in machinery and equipment investment, thus

dampening aggregate demand. Investments, on the other hand, will be supported by the monetary environment. Although nominal interest rates will be higher than originally assumed in both forecast years due to the tightening of monetary policy, at the same time inflation is expected to be much stronger than expected in earlier forecasts. This dampens the already long negative real interest rate, which in itself should trigger additional investment incentives in both forecast years.

Table 6: **Expenditure on GDP**  
Volume (chain-linked series)

	2020	2021	2022	2023	2020	2021	2022	2023
	Billion € (reference year 2015)				Percentage changes from previous year			
Final consumption expenditure	246.88	258.78	264.45	263.62	- 6.0	+ 4.8	+ 2.2	- 0.3
Households <sup>1</sup>	175.58	181.82	188.73	190.61	- 8.0	+ 3.6	+ 3.8	+ 1.0
General government	71.28	76.86	75.71	73.06	- 0.5	+ 7.8	- 1.5	- 3.5
Gross capital formation	89.69	99.91	104.59	106.71	- 4.8	+ 11.4	+ 4.7	+ 2.0
Gross fixed capital formation	87.72	95.38	94.94	95.74	- 5.3	+ 8.7	- 0.5	+ 0.8
Machinery and equipment <sup>2</sup>	27.40	31.79	29.89	29.68	- 9.5	+ 16.0	- 6.0	- 0.7
Construction	39.65	41.97	42.05	42.47	- 3.4	+ 5.8	+ 0.2	+ 1.0
Other investment <sup>3</sup>	20.60	21.66	22.96	23.54	- 3.4	+ 5.1	+ 6.0	+ 2.5
Domestic demand	337.17	358.97	369.38	370.33	- 5.5	+ 6.5	+ 2.9	+ 0.3
Exports	192.98	211.50	231.37	233.36	- 10.7	+ 9.6	+ 9.4	+ 0.9
Travel	9.36	6.32	12.58	12.82	- 44.0	- 32.5	+ 99.2	+ 1.9
Minus imports	181.09	205.92	218.24	220.29	- 9.2	+ 13.7	+ 6.0	+ 0.9
Travel	3.34	5.34	7.89	7.90	- 63.7	+ 60.0	+ 47.8	+ 0.1
Gross domestic product	349.24	365.16	382.78	383.65	- 6.5	+ 4.6	+ 4.8	+ 0.2
Value	381.04	406.15	451.27	478.25	- 4.1	+ 6.6	+ 11.1	+ 6.0

Source: WIFO, Statistics Austria. 2022 and 2023: forecast. – <sup>1</sup> Including non-profit institutions serving households. – <sup>2</sup> Including weapon systems. – <sup>3</sup> Mainly intellectual property products (research and development, computer programmes, copyrights).

Table 7: **Gross value added**  
At basic prices

	2020	2021	2022	2023	2020	2021	2022	2023
	Billion € (reference year 2015)				Percentage changes from previous year			
<b>Volume (chain-linked series)</b>								
Agriculture, forestry and fishing	4.10	4.29	4.29	4.29	- 2.6	+ 4.5	± 0.0	± 0.0
Manufacturing including mining and quarrying	62.46	68.46	70.72	69.30	- 5.9	+ 9.6	+ 3.3	- 2.0
Electricity, gas and water supply, waste management	10.06	9.83	10.02	9.92	+ 2.4	- 2.4	+ 2.0	- 1.0
Construction	19.29	19.80	19.76	19.92	- 1.9	+ 2.6	- 0.2	+ 0.8
Wholesale and retail trade	38.02	39.44	40.82	41.80	- 5.9	+ 3.7	+ 3.5	+ 2.4
Transportation	16.61	17.02	18.72	17.22	- 10.7	+ 2.5	+ 10.0	- 8.0
Accommodation and food service activities	10.25	8.89	14.58	14.62	- 36.6	- 13.2	+ 64.0	+ 0.3
Information and communication	12.92	13.37	13.77	13.84	- 2.0	+ 3.5	+ 3.0	+ 0.5
Financial and insurance activities	15.04	15.21	15.13	15.29	- 2.6	+ 1.1	- 0.5	+ 1.1
Real estate activities	31.04	31.35	31.97	32.29	- 0.0	+ 1.0	+ 2.0	+ 1.0
Other business activities <sup>1</sup>	31.34	33.46	35.00	35.17	- 6.5	+ 6.8	+ 4.6	+ 0.5
Public administration <sup>2</sup>	53.98	56.78	57.75	58.61	- 4.0	+ 5.2	+ 1.7	+ 1.5
Other service activities <sup>3</sup>	7.38	7.56	7.86	7.98	- 18.6	+ 2.4	+ 4.0	+ 1.5
Total gross value added <sup>4</sup>	311.93	324.35	340.43	340.62	- 6.5	+ 4.0	+ 5.0	+ 0.1
Gross domestic product at market prices	349.24	365.16	382.78	383.65	- 6.5	+ 4.6	+ 4.8	+ 0.2

Source: WIFO, Statistics Austria. 2022 and 2023: forecast. – <sup>1</sup> Professional, scientific and technical activities; administrative and support service activities (NACE M and N). – <sup>2</sup> Including defence, compulsory social security, education, human health and social work activities (NACE O to Q). – <sup>3</sup> Arts, entertainment and recreation; other service activities; activities of households (NACE R to U). – <sup>4</sup> Before deduction of subsidies and attribution of taxes on products.

On the demand side, in addition to weak investment, consumption is also shaping the dynamics. Forecasting consumption is currently particularly difficult due to diverging influences. On the one hand, households with limited liquidity will reduce their consumption. This is mainly a consequence of the loss of real income due to high inflation. Although the share of these households is small, it is likely to increase due to strong price increases, so that the negative impulse emanating from this household group will be pronounced. On the other hand, the consumption expenditure of those households that are not confronted with immediate liquidity restrictions is likely to increase,

especially since the already negative real interest rate will continue to fall as a result of the persistently strong price increases. This lowers the incentive to save and leads to a reduction in savings, which stimulates consumption. This effect is weakened by rising income uncertainty, which could lead to precautionary saving – with unfavourable consequences for private consumption. Consumption of both household groups will be supported by public measures such as the anti-inflation packages, the energy price brake and the abolition of the cold progression (from 2023). WIFO assumes an increase in private consumption of 3.8 percent (2022) and 1.0 percent (2023).

**Austria's economy will show a current account surplus in 2022 despite the negative terms-of-trade shock.**

Table 8: **Productivity**

	2018	2019	2020	2021	2022	2023
	Percentage changes from previous year					
<b>Total economy</b>						
Real GDP	+ 2.4	+ 1.5	– 6.5	+ 4.6	+ 4.8	+ 0.2
Hours worked <sup>1</sup>	+ 1.9	+ 1.6	– 8.7	+ 4.8	+ 4.5	– 0.1
Productivity <sup>2</sup>	+ 0.5	– 0.1	+ 2.5	– 0.2	+ 0.3	+ 0.3
Employment <sup>3</sup>	+ 1.8	+ 1.3	– 1.9	+ 2.4	+ 2.9	+ 0.5
<b>Manufacturing</b>						
Production <sup>4</sup>	+ 4.5	+ 1.0	– 5.8	+ 9.5	+ 3.3	– 2.0
Hours worked <sup>5</sup>	+ 2.4	+ 0.9	– 6.3	+ 5.1	+ 3.0	– 0.9
Productivity <sup>2</sup>	+ 2.0	+ 0.0	+ 0.5	+ 4.2	+ 0.3	– 1.1
Employees <sup>6</sup>	+ 2.8	+ 1.7	– 1.4	+ 0.4	+ 1.8	+ 0.1

Source: WIFO, Statistics Austria. 2022 and 2023: forecast. – <sup>1</sup> Total hours worked by persons employed, National Accounts definition. – <sup>2</sup> Production per hour worked. – <sup>3</sup> Employees and self-employed, National Accounts definition (jobs). – <sup>4</sup> Gross value added, volume. – <sup>5</sup> Total hours worked by employees. – <sup>6</sup> National Accounts definition (jobs).

Table 9: **Private consumption, income and prices**

	2018	2019	2020	2021	2022	2023
	Percentage changes from previous year					
Private consumption expenditure <sup>1</sup>	+ 1.1	+ 0.5	– 8.0	+ 3.6	+ 3.8	+ 1.0
Durable goods	+ 1.0	+ 0.2	– 2.2	+ 4.4	– 4.0	+ 3.5
Non-durable goods and services	+ 1.1	+ 0.6	– 8.6	+ 3.5	+ 4.7	+ 0.7
Private household disposable income	+ 1.2	+ 1.6	– 2.9	+ 1.9	– 1.0	– 0.2
As a percentage of disposable income						
Household saving ratio						
Including adjustment for the change in pension entitlements	7.7	8.6	13.3	12.0	7.7	7.0
Excluding adjustment for the change in pension entitlements	7.0	8.0	12.8	11.4	7.1	6.4
Percentage changes from previous year						
Loans to domestic non-banks (end of period)	+ 4.9	+ 4.4	+ 3.8	+ 6.5	+ 7.0	+ 6.3
Consumer prices						
National	+ 2.0	+ 1.5	+ 1.4	+ 2.8	+ 8.3	+ 6.5
Harmonised	+ 2.1	+ 1.5	+ 1.4	+ 2.8	+ 8.4	+ 6.6
Core inflation <sup>2</sup>	+ 1.8	+ 1.6	+ 2.0	+ 2.3	+ 5.0	+ 4.6

Source: WIFO, OeNB, Statistics Austria. 2022 and 2023: forecast. The values for private household disposable income and the saving rate have been changed since the publication of the economic forecast on 7 October 2022 due to adjustments in the accounting of the climate bonus. – <sup>1</sup> Private households including non-profit institutions serving households. – <sup>2</sup> Excluding energy, food, alcohol and tobacco.

As goods exports will expand at a weaker rate in 2022 than in the previous year, total exports are expected to increase by 9.4 percent. Foreign trade will make an above-average contribution to growth in 2022 despite the continued high level of imports, which will decline significantly in 2023 due to the flattening of services export growth. The

terms-of-trade shock manifests itself primarily in the form of a sharp increase in nominal goods imports, which worsens the current account balance. As a result of the high growth in services exports, however, an – albeit small – current account surplus is still expected for 2022.

Table 10: **Earnings, international competitiveness**

	2018	2019	2020	2021	2022	2023
	Percentage changes from previous year					
Wages and salaries per employee <sup>1</sup>						
Nominal, gross	+ 2.7	+ 2.9	+ 2.2	+ 2.5	+ 3.7	+ 6.9
Real <sup>2</sup>						
Gross	+ 0.7	+ 1.3	+ 0.8	– 0.3	– 4.2	+ 0.4
Net	+ 0.2	+ 1.4	+ 1.6	– 1.1	– 2.8	+ 4.4
Wages and salaries per hour worked <sup>1</sup>						
Real, net <sup>2</sup>	+ 0.3	+ 0.9	+ 9.4	– 4.1	– 4.1	+ 5.3
Percent						
Wage share, adjusted <sup>3</sup>	68.9	69.2	68.9	68.6	67.0	67.8
Percentage changes from previous year						
Unit labour costs, nominal <sup>4</sup>						
Total economy	+ 2.5	+ 2.2	+ 7.4	– 0.5	+ 1.9	+ 7.4
Manufacturing	+ 1.6	+ 3.2	+ 4.6	– 5.6	+ 3.7	+ 9.1
Effective exchange rate – manufactured goods <sup>5</sup>						
Nominal	+ 1.8	– 0.7	+ 1.4	+ 0.6	– 1.9	+ 0.6
Real	+ 1.7	– 1.1	+ 1.7	+ 0.2	– 2.3	+ 0.8

Source: WIFO, Statistics Austria. 2022 and 2023: forecast. – <sup>1</sup> National Accounts definition. – <sup>2</sup> Deflated by CPI. – <sup>3</sup> Compensation of employees as a percentage of national income, adjusted for the change in the share of employees in total employment from base year 1995. – <sup>4</sup> Labour costs in relation to productivity (hourly compensation per employees divided by GDP and value added, respectively, per employed persons' hours worked), including short-time work grants. – <sup>5</sup> Weighted by exports and imports, real value adjusted by relative HCPI.

### 4.3 High commodity and energy prices drive inflation

Inflation rose further in September to 10.5 percent (according to the CPI flash estimate). The rise in energy prices was again the main driver of overall inflation. Price pressures are reaching more and more sectors. This is partly due to the indirect impact of high energy costs on the overall economy. Accordingly, inflation has continued to accelerate in most sub-sectors of the CPI. The continued pressure from higher energy and food prices will keep inflation high until mid-2023. Higher inflationary pressure also results from the depreciation of the euro and from the demand stimuli resulting from the expansionary fiscal policy. In particular, the recent support measures aimed at mitigating real income losses are likely to boost inflation. A significant part of these measures consists of cash payments to low-income households. In combination with goods market multipliers and the fact that these households have a high marginal propensity to consume, this should result in a noticeable expansion of aggregate demand, which will boost inflation. After 2.8 percent in 2021, inflation will be strong in both forecast years

(2022 +8.3 percent, 2023 +6.5 percent; according to CPI).

As a result of high consumer price inflation, higher wage settlements are expected, especially in 2023. Gross wages and salaries per employee will increase by 3.7 percent in 2022 and by 6.9 percent in 2023 (in nominal terms). Although wages will thus increase significantly, the high inflation will not be offset for the time being. Gross real wages per capita will fall by 4.2 percent in 2022 and are only expected to rise again in 2023 (+0.4 percent).

### 4.4 Phasing out of the recovery on the labour market

Despite the economic slowdown, labour supply will continue to grow throughout the forecast period. The increase in the labour force participation rate of older workers and the rise in female labour force participation will increase the domestic labour supply; at the same time, a further influx of foreign workers, especially from the EU and Ukraine, is expected.

If prices for electricity and natural gas remain high for a longer period of time – as is currently likely – inflation will also be strong in 2023, especially since the price increases will only be reflected in consumer prices with a time lag.

As a result of the economic slowdown, employment growth will slow down. Unemployment is expected to rise again in 2023 due to the continued increase in labour supply.

Table 11: Labour market

	2018	2019	2020	2021	2022	2023
	Change from previous year in 1,000					
<b>Demand for labour</b>						
Persons in active employment <sup>1</sup>	+ 91.6	+ 61.4	- 76.7	+ 95.4	+ 107.0	+ 21.0
Employees <sup>1,2</sup>	+ 88.0	+ 58.9	- 76.1	+ 90.4	+ 102.0	+ 20.0
National employees	+ 33.7	+ 12.3	- 53.9	+ 28.1	+ 19.0	+ 5.0
Foreign employees	+ 54.4	+ 46.6	- 22.2	+ 62.4	+ 83.0	+ 15.0
Self-employed <sup>3</sup>	+ 3.6	+ 2.5	- 0.6	+ 5.0	+ 5.0	+ 1.0
<b>Labour supply</b>						
Population of working age						
15 to 64 years	+ 13.2	+ 11.4	+ 9.9	+ 5.4	+ 51.1	+ 41.1
Labour force <sup>4</sup>	+ 63.8	+ 50.6	+ 31.6	+ 17.5	+ 42.0	+ 36.0
<b>Labour surplus</b>						
Unemployed <sup>5</sup>	- 27.9	- 10.8	+ 108.3	- 77.9	- 65.0	+ 15.0
Unemployed persons in training	- 3.4	- 6.8	- 4.9	+ 13.2	± 0.0	+ 2.0
Percent						
Unemployment rate						
As a percentage of total labour force (Eurostat) <sup>6</sup>	5.2	4.8	6.0	6.2	4.6	4.7
As a percentage of total labour force <sup>5</sup>	6.9	6.6	8.9	7.2	5.7	6.0
As a percentage of dependent labour force <sup>5</sup>	7.7	7.4	9.9	8.0	6.4	6.7
Percentage changes from previous year						
Labour force <sup>4</sup>	+ 1.4	+ 1.1	+ 0.7	+ 0.4	+ 0.9	+ 0.8
Persons in active dependent employment <sup>1,2</sup>	+ 2.5	+ 1.6	- 2.0	+ 2.5	+ 2.7	+ 0.5
Unemployed <sup>5</sup>	- 8.2	- 3.5	+ 35.9	- 19.0	- 19.6	+ 5.6
Persons (in 1,000)	312.1	301.3	409.6	331.7	266.7	281.7

Source: WIFO, Eurostat, Federation of Social Insurances, Public Employment Service Austria, Statistics Austria. 2022 and 2023: forecast. – <sup>1</sup> Excluding persons in valid employment contract receiving child care benefit or being in military service. – <sup>2</sup> According to the Federation of Social Insurances. – <sup>3</sup> According to WIFO, including liberal professions and unpaid family workers. – <sup>4</sup> Persons in active employment plus unemployed. – <sup>5</sup> According to Public Employment Service Austria. – <sup>6</sup> Labour Force Survey. Due to a revision of the Labour Force Survey methodology planned for the end of June, a forecast of this indicator is currently waived.

In 2022, the number of persons in active dependent employment will be 2.7 percent higher than in the previous year; in 2023, the increase will be weaker at +0.5 percent. The unemployment rate is expected to rise again in the forecast period. The increase in employment will no longer be sufficient to

enable a significant reduction in unemployment in view of the expansion of the labour supply. In 2021, the unemployment rate was 8.0 percent. For 2022, there are signs of a significant decline to 6.4 percent, and a rate of 6.7 percent is forecast for 2023.

## 5. The risk environment

The forecast presented here describes the most probable scenario for economic growth from today's perspective under the assumptions made. However, the actual development may deviate from this due to a variety of factors.

The further course of the Ukraine war and the political conflict between Russia and the EU is difficult to predict. It is quite conceivable that Russia will completely stop its natural gas deliveries to Europe in the coming weeks or months. A total loss of Russian natural gas supplies would not be compensable for the European economies in the short term and would lead to rationing of natural

gas in some countries. This would result in production losses in industry, restrictions in transport, a renewed increase in energy prices and possibly also restrictions on natural gas consumption by private households, and would plunge the European economies into a severe recession in the winter half-year 2022-23. Uncertainties also remain with regard to food prices, as supplies from Ukraine and Russia could be interrupted.

The further course of the COVID-19 pandemic also continues to pose risks. A resurgence of the pandemic in Europe in autumn 2022 could lead to renewed restrictions on public life and economic activity.