

Serguei Kaniovski, Hans Pitlik, Stefan Schiman

# Economic Growth to Remain Subdued Over the Years to Come

## Medium-term Forecast for the Austrian Economy Until 2017

**Following a slowdown of the Austrian economy in 2012, WIFO forecasts sluggish growth in the medium term. Real GDP growth will peak at a moderate annual rate of 2 percent in 2015, averaging an annual rate of 1.7 percent over the next five years. The main factors behind low real growth rates in the medium term include weak external demand and weak domestic demand. Economic growth will not reduce the unemployment rate. We see no indications of significant inflationary pressure in the medium term. The Austrian federal government will continue to pursue its policy of budgetary consolidation.**

For definitions of terms used, see "Methodological Notes and Short Glossary", in this volume and <http://www.wifo.ac.at/wwadocs/form/WIFO-BusinessCycleInformation-Glossary.pdf> • The authors are thankful to Karl Aiginger, Marcus Scheiblecker and Thomas Url for useful and constructive comments. The data were processed and analysed with the assistance of Christine Kaufmann • E-mail addresses: [Serguei.Kaniovski@wifo.ac.at](mailto:Serguei.Kaniovski@wifo.ac.at), [Stefan.Schiman@wifo.ac.at](mailto:Stefan.Schiman@wifo.ac.at), [Hans.Pitlik@wifo.ac.at](mailto:Hans.Pitlik@wifo.ac.at)

Over the period from 2012 to 2017, the Austrian economy is expected to grow at an average annual rate of 1.7 percent<sup>1</sup>. The time series of annual growth rates show a gentle upturn, with a gradual recovery after the setback to growth recorded in 2012. The GDP growth rate is expected to peak at 2 percent in 2015. Compared with last year's WIFO medium-term forecast (*Ederer et al.*, 2012), the projected cyclical pattern remains unchanged: the sluggish growth of 2012 was correctly anticipated, while the scenario of a moderate upturn in 2013 and 2014, followed by a modest peak in 2015, is retained in the current forecast. The projected cyclical pattern of business activity is less pronounced than in earlier periods of economic recovery.

The weak economic growth in the medium term owes both to domestic factors such as the moderate growth of private consumption and rising household saving, and to external conditions such as the persistent cyclical weakness in the euro area. The fiscal policy framework of European Monetary Union, as it has been in force since 1999, has proved insufficient in the light of the recent sovereign debt crisis. The financial crisis and the ensuing economic recession have uncovered these shortcomings and gave rise to acute problems of debt refinancing in a number of countries. The negative effect of austerity programmes on economic activity have been stronger than expected (*Blanchard – Leigh*, 2013). As a consequence of the crisis, existing fiscal rules were tightened and new ones introduced. These measures will weigh on business activity, at least in the short run. A reform of the economic and fiscal policy framework of the euro area, with the aim of stabilising market conditions, helping the distressed euro area countries and fostering a cyclical recovery, still appears vague from today's perspective (*Aiginger et al.*, 2012, *Aiginger – Huber – Firgo*, 2012). GDP growth in the euro area will therefore remain subdued for some

**Policy-related  
economic uncertainty  
weighing on outlook  
for the euro area**

<sup>1</sup> The present medium-term forecast for Austria is based on the medium-term forecast for the world economy until 2017 (*Schulmeister*, 2013). It extends the WIFO short-term forecast for 2013 and 2014 (*Glocker*, 2013).

time; at an annual average rate of 1.1 percent it will turn out lower than in the EU 27 (+1.4 percent) and in the USA (+2.4 percent). The medium-term projection for the world economy up to 2017 is discussed in detail by *Schulmeister (2013)*.

Table 1: Main results

	Ø 2002-2007	Ø 2007-2012	Ø 2012-2017	2012	2013	2014	2015	2016	2017
	Year-to-year percentage changes								
Gross domestic product									
Volume	+ 2.6	+ 0.6	+ 1.7	+ 0.6	+ 1.0	+ 1.8	+ 2.0	+ 1.8	+ 1.9
Value	+ 4.4	+ 2.4	+ 3.4	+ 2.7	+ 2.9	+ 3.6	+ 3.8	+ 3.5	+ 3.5
Consumer prices	+ 1.9	+ 2.2	+ 2.1	+ 2.4	+ 2.1	+ 2.0	+ 2.3	+ 2.0	+ 1.9
Gross wages and salaries per employee, volume <sup>1</sup>	+ 0.5	- 0.2	+ 0.5	+ 0.3	- 0.1	+ 0.5	+ 0.7	+ 0.8	+ 0.7
Persons in active dependent employment <sup>2</sup>	+ 1.1	+ 0.9	+ 0.9	+ 1.4	+ 0.6	+ 0.9	+ 1.0	+ 1.0	+ 0.9
	Ø 2003-2007	Ø 2008-2012	Ø 2013-2017	2012	2013	2014	2015	2016	2017
	Percent								
Unemployment rate									
Eurostat definition <sup>3</sup>	4.7	4.3	4.5	4.3	4.6	4.6	4.5	4.5	4.3
National definition <sup>4</sup>	6.9	6.8	7.4	7.0	7.4	7.4	7.4	7.4	7.2
	As a percentage of GDP								
Net exports	4.4	4.2	3.9	3.4	3.7	4.0	3.8	3.9	4.0
General government financial balance (Maastricht definition)	- 2.0	- 3.0	- 1.4	- 3.1	- 2.6	- 2.0	- 1.3	- 0.8	- 0.4
	As a percentage of disposable income								
Household saving ratio	9.9	9.3	8.1	7.5	7.6	7.9	8.0	8.4	8.7

Source: Statistics Austria, WIFO calculations. – <sup>1</sup> Excluding employers' contributions, employees according to National Accounts definition. – <sup>2</sup> Excluding parental leave and military service. – <sup>3</sup> According to Eurostat Labour Force Survey, percent of total labour force. – <sup>4</sup> According to Public Employment Service Austria, percent of total labour force excluding self-employed.

Table 2: International fundamentals

	Ø 2002-2007	Ø 2007-2012	Ø 2012-2017
	Year-to-year percentage changes		
Gross domestic product, volume			
Euro area	+ 2.2	- 0.2	+ 1.1
23 OECD countries <sup>1</sup>	+ 2.5	+ 0.3	+ 2.0
	Ø 2003-2007	Ø 2008-2012	Ø 2013-2017
	Dollar per Euro		
Exchange rate	1.25	1.37	1.27
	Dollar per barrel		
Oil price			
Brent	51.8	92.1	106.7

Source: EU, OECD, WIFO calculations. – <sup>1</sup> EU 15 (excluding Austria), Island, Norway, Switzerland, Turkey, Australia, Japan, Canada, New Zealand, USA.

Whereas the average annual growth in the euro area is set to remain sluggish in the medium term, the outlook for Austria is somewhat more optimistic. The growth advantage vis-à-vis the euro area average derives, i.a., from a robust and export-oriented supply structure, a high degree of specialisation in knowledge-based sectors, and comparatively high spending on research and development (*Janger et al., 2011*), factors suggest above-average growth being maintained in the future. Moreover, the need for a consolidation of public finances in Austria is less pressing than in other euro area countries like Spain, Italy, Ireland, Portugal, Greece or Belgium. A further positive factor lies in the strong ties with East-central Europe, where Austria should benefit from the prospect of a rapid economic recovery in the region. Against this background, GDP growth in Austria should even slightly exceed that of Germany.

## Export gains in non-EU countries

Figure 1: Growth of real GDP

Percentage changes from previous year



Source: EU, OECD, WIFO calculations.

The exploitation of new markets in Latin American and South-east Asian emerging economies will further stimulate exports of Austrian manufacturers. Overall, exports are expected to gain 5.2 percent on annual average between 2012 and 2017. The export trend will move in parallel with the cyclical pattern, picking up from +1.1 percent in 2012 to +3.4 percent in 2013 and +5.4 percent in 2014. Only by 2015 will export growth of 5.8 percent catch up to the long-term average (1978-2008), while still falling short by nearly 1 percentage point of the average rate of expansion over the period 1998-2008, when the export ratio climbed from 41 percent to 59 percent of GDP. Given the outlook for the external environment (*Schulmeister, 2013*) and a sustained strong pace of non-EU exports, total export growth above 5 percent p.a. appears achievable also beyond 2015.

Similar to the trend of exports, investment grows at a slow pace. While corporate spending on machinery and equipment is expected to rebound as capacity utilisation improves, weak demand for construction will hold back overall gross fixed capital formation. After edging up by only 0.5 percent in 2012, spending on machinery and equipment will gain 2.5 percent in 2013 and 3 percent in 2014. Driven by increasing sales prospects and buoyant exports, the momentum should accelerate to between +4.4 percent and +4.9 percent as of 2015, when firms will seek to enlarge their productive capacities. Construction investment, however, will reach a cyclical trough only in 2013, as suggested by the decline in the number of building permits and the cuts in public investors' budgets. While construction investment outlays should have gained a healthy 1.1 percent in 2012, it may edge up by only 0.6 percent in 2013, followed by a rebound of 1.1 percent in 2014. After a peak of +1.8 percent in 2015, in line with the overall cyclical pattern, growth should abate as from 2016.

Financing conditions will stay benign over the entire projection period, with no monetary tightening in sight. Only by the end of the forecast horizon, short-term interest rates may head up somewhat. The US Federal Reserve recently gave clear signals of policy self-constraint to markets when it set targets for the unemployment and the inflation rate, pledging for continued monetary expansion until these targets are met. The ECB cannot stay entirely outside such developments, as they have a substantial influence on the exchange rate. The present forecast infers that the exchange rate will be of major concern for both Central Banks, as the external component becomes all the more important due to subdued domestic demand.

---

**Favourable financing conditions fosters private investment**

Table 3: Components of aggregate demand, volume

	Ø 2002-2007	Ø 2007-2012	Ø 2012-2017	2012	2013	2014	2015	2016	2017
	Year-to-year percentage changes								
Consumption expenditure									
Private households <sup>1</sup>	+ 1.7	+ 0.9	+ 1.0	+ 0.6	+ 0.7	+ 1.0	+ 1.1	+ 1.0	+ 1.2
General government	+ 1.7	+ 1.2	+ 0.7	+ 1.0	+ 0.7	+ 1.0	+ 0.4	+ 0.7	+ 0.7
Gross fixed capital formation	+ 2.0	+ 0.2	+ 2.4	+ 0.8	+ 1.5	+ 2.0	+ 3.3	+ 2.5	+ 2.8
Machinery and equipment	+ 3.1	+ 1.2	+ 3.9	+ 0.5	+ 2.5	+ 3.0	+ 4.9	+ 4.4	+ 4.8
Construction	+ 1.3	- 0.8	+ 1.1	+ 1.1	+ 0.6	+ 1.1	+ 1.8	+ 0.8	+ 1.0
Domestic demand	+ 2.2	+ 0.7	+ 1.3	+ 0.4	+ 0.8	+ 1.4	+ 1.6	+ 1.4	+ 1.5
Exports	+ 7.1	+ 0.2	+ 5.2	+ 1.1	+ 3.4	+ 5.4	+ 5.8	+ 5.6	+ 5.8
Imports	+ 6.6	+ 0.4	+ 4.8	+ 0.8	+ 3.1	+ 5.0	+ 5.4	+ 5.2	+ 5.4
Gross domestic product	+ 2.6	+ 0.6	+ 1.7	+ 0.6	+ 1.0	+ 1.8	+ 2.0	+ 1.8	+ 1.9

Source: Statistics Austria, WIFO calculations. – <sup>1</sup> Including private non-profit institutions serving households.

The sluggish growth of 2012 will be reflected in demand for labour only in 2013, as employment reacts to variations of business activity with a time lag. In 2012, the number of persons in dependent active employment still rose by a healthy 1.4 percent; in the current year, it is expected to edge up by only 0.6 percent. In a medium-term perspective, employment growth for the period from 2012 to 2017 is projected at 0.9 percent per year, matching the rate recorded in the previous period (2007-2012) and down from 1.1 percent p.a. between 2002 and 2007. In the next five years, employment growth will largely be due to an increase in foreign labour (with a projected annual increase by 22,500 persons for the period 2012-2017), and to a lesser extent due to a further increase in female labour force participation as well as by restrictions in access to early retirement (with the number of new entrants expected to decline by 1,800 per year). Job creation (in net terms) will be confined to the private sector, whereas the number of public sector jobs is set to edge down from 541,300 in 2012 to around 538,800 in 2017, largely on account of the fiscal consolidation.

### Growth will not suffice to reduce unemployment

Table 4: Labour market, income

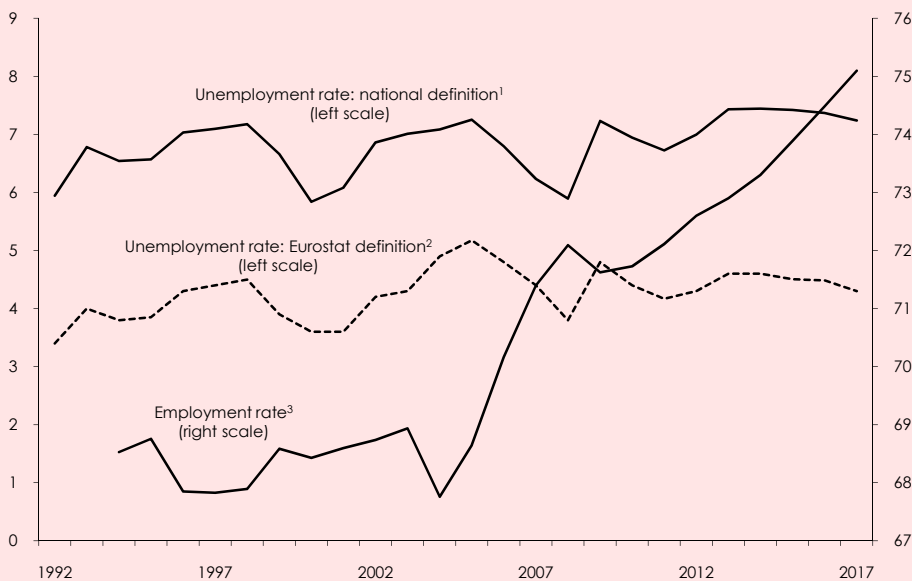
	Ø 2003-2007	Ø 2008-2012	Ø 2013-2017	2012	2013	2014	2015	2016	2017
	In percent								
Unemployment rate									
Eurostat definition <sup>1</sup>	4.7	4.3	4.5	4.3	4.6	4.6	4.5	4.5	4.3
National definition <sup>2</sup>	6.9	6.8	7.4	7.0	7.4	7.4	7.4	7.4	7.2
	Ø 2002-2007	Ø 2007-2012	Ø 2012-2017	2012	2013	2014	2015	2016	2017
	Year-to-year percentage changes								
Persons in active dependent employment <sup>3</sup>	+ 1.1	+ 0.9	+ 0.9	+ 1.4	+ 0.6	+ 0.9	+ 1.0	+ 1.0	+ 0.9
Registered unemployed	- 0.9	+ 3.2	+ 1.6	+ 5.7	+ 7.3	+ 1.1	+ 0.6	+ 0.2	- 1.0
Productivity <sup>4</sup>	+ 1.5	- 0.4	+ 0.7	- 0.9	+ 0.2	+ 0.6	+ 0.9	+ 0.8	+ 0.9
Gross wages and salaries <sup>5</sup>	+ 3.6	+ 3.3	+ 3.6	+ 4.2	+ 2.7	+ 3.6	+ 4.1	+ 3.8	+ 3.7
Per employee, volume <sup>6</sup>	+ 0.5	- 0.2	+ 0.5	+ 0.3	- 0.1	+ 0.5	+ 0.7	+ 0.8	+ 0.7
Unit labour costs, total economy	+ 0.8	+ 2.5	+ 1.9	+ 3.6	+ 1.7	+ 1.8	+ 2.1	+ 2.0	+ 1.7

Source: Federation of Austrian Social Security Institutions, Statistics Austria, WIFO calculations. – <sup>1</sup> According to Eurostat Labour Force Survey, percent of total labour force. – <sup>2</sup> According to Public Employment Service Austria, percent of total labour force excluding self-employed. – <sup>3</sup> Excluding parental leave and military service. – <sup>4</sup> Real GDP per employment (dependent and self-employed according to National Accounts definition). – <sup>5</sup> Excluding employers' contributions. – <sup>6</sup> Employees according to National Accounts definition.

Since the liberalisation of the labour market will have been completed by 2014 with the expiry of the transition period for workers from Bulgaria and Romania, the inflow of foreign labour will abate thereafter (2014 +25,000 persons, 2017 +21,600). For demographic reasons, the Austrian population of working age will hardly increase further, edging up by only 0.1 percent p.a. over the period 2012-2017, after +0.4 per-

cent p.a. in the previous 5-year period. Over the entire forecast period, the domestic labour force will thus increase less than the foreign one, i.e., in a range between +3,000 persons in 2013 and +7,500 each in 2015 and 2016.

Figure 2: Labour market trends



Source: Labour Market Service, WIFO calculations. – <sup>1</sup> As a percentage of total labour force exclusive self-employed; according to Public Employment Service Austria. – <sup>2</sup> As a percentage of total labour force; according to Eurostat Labour Force Survey. – <sup>3</sup> Persons in employment as a percentage of population of working age (15 to 64 years).

The forthcoming cyclical recovery and the accompanying rise in employment will not be strong enough as to reverse the upward trend of unemployment. Labour supply growth will outpace labour demand until 2014, pushing further up the jobless figure from around 260,000 in 2012 to 283,000 in 2014. Thereafter, labour demand and supply should rise in parallel, with the number of unemployed levelling off at around 282,000 by 2017. The unemployment rate will reach an all-time high of 7.4 percent (national definition) in 2013, levelling off thereafter or possibly heading down at the forecast horizon.

Subdued GDP growth in 2012, coupled with relatively strong employment gains, has led to a decline in the aggregate labour productivity, which will not be entirely reversed by a slowdown in job creation in the current year. The prospects for the next few years are for regular gains in labour productivity. Real wage increases in combination with productivity losses have interrupted the downward trend in the macroeconomic wage ratio as well as in unit labour cost. The unadjusted wage ratio (i.e., compensation of employees as percent of national income), which had fallen from 75.7 percent in 1994 to 67.3 percent in 2011, ticked up to 68.5 percent, with a further slight increase to 69.8 percent expected by the end of the forecast period.

The projected trends of employment (2012-2017 +0.9 percent p.a.) and of real wages (2012-2017 +0.5 percent) will have a stabilising influence on household disposable income, while the influence of fiscal consolidation measures (e.g. adjustment of retirement benefits 2013-14 below the rate of inflation) will be modestly negative. Private consumption is expected to trail behind the rise in disposable income over the forecast period, since households will seek to restore their savings: during the recession, households had balanced income losses with cuts in saving in order to maintain accustomed consumption levels. The household saving ratio thus fell from 11.2 percent in 2009 to 7.4 percent in 2011. Asset accumulation will receive higher priority in the medium term, with the saving ratio projected to move up from 7.5 percent in 2012 to 8.7 percent in 2017, and the consumption ratio moderating

**Rising saving ratio  
weighing on private  
consumption**

accordingly. Private consumption will rise by an average 1.0 percent per year over the projection period. While this rate is close to the average increase observed during the crisis (2007-2012 +0.9 percent p.a.), it is markedly lower than the 1.7 percent p.a. recorded for the period 2002-2007. Hence, while private consumption stabilised final demand during the crisis, supported by private "dissaving" and resilient employment, its moderate increase will dampen GDP growth going forward.

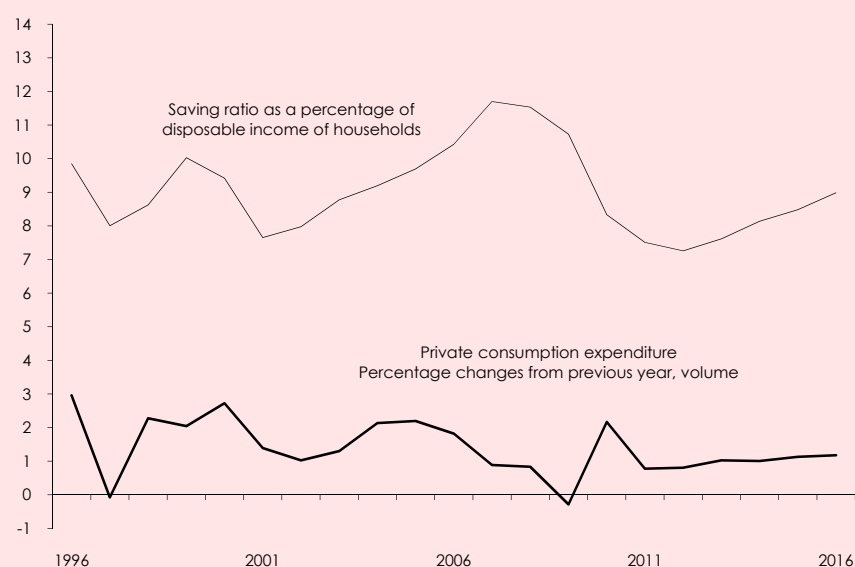
Figure 3: Expenditure on GDP and income

As a percentage of GDP, at current prices



Source: Statistics Austria, WIFO calculations.

Figure 4: Private consumption and saving ratio



Source: Statistics Austria, WIFO calculations.

Following a decline in 2013, crude oil prices are projected to rebound moderately in subsequent years. Increases in commodity prices will be reflected also in price increases of intermediary and finished goods, leading to import prices picking up as of 2015. Domestic price pressure will stay subdued, as the moderate upward trend in unit labour cost is unlikely to fuel inflation: the increase in the GDP deflator, which mirrors the domestic component of inflation, will stay below an annual rate of 2 percent over the forecast period (2012-2017 +1.7 percent). The slow domestic inflationary momentum will rein in the rise in export prices; with import prices projected to increase relatively faster, the terms of trade will weaken as from 2015. Nevertheless, over the entire forecast period, the terms of trade will deteriorate less than in the previous five-year period (2012-2017 -0.3 percent, 2007-2012 -0.6 percent). Owing to imported inflation, consumer prices will rise somewhat more than the GDP deflator, by an average 2.1 percent p.a. between 2012 and 2017.

### Inflation remains stable

Table 5: Implicit price indices

	Ø 2002-2007	Ø 2007-2012	Ø 2012-2017	2012	2013	2014	2015	2016	2017
	Year-to-year percentage changes								
Private consumption	+ 2.1	+ 2.1	+ 2.1	+ 2.4	+ 2.1	+ 2.0	+ 2.3	+ 2.0	+ 1.9
Exports	+ 1.3	+ 1.6	+ 1.4	+ 1.1	+ 0.8	+ 1.2	+ 2.3	+ 1.5	+ 1.4
Imports	+ 1.8	+ 2.2	+ 1.8	+ 1.3	+ 0.5	+ 1.3	+ 3.3	+ 1.9	+ 1.9
Gross domestic product	+ 1.8	+ 1.8	+ 1.7	+ 2.1	+ 1.9	+ 1.8	+ 1.8	+ 1.7	+ 1.6

Source: Statistics Austria, WIFO calculations.

The fiscal policy framework of the EU, which has been repeatedly modified over the last years, obliges Austria to improve its government balance substantially and to lower the public debt ratio. According to the Excessive Deficit Procedure, to which Austria has been subjected since 2009, the general government deficit (in the Maastricht definition) shall be cut to below 3 percent of GDP by 2013, accompanied by a reduction of the cyclically-adjusted (structural) deficit by 0.75 percent of GDP over the period from 2011 to 2013; the public debt-to-GDP ratio shall be brought onto a downward path towards the reference value of 60 percent of GDP.

The general government deficit will be gradually reduced over the forecast period from 3.1 percent of GDP in 2012 to 2.6 percent in 2013 and 0.4 percent of GDP in

### Gradual fiscal consolidation to be continued

2017. The first prescription of the Excessive Deficit Procedure will thus be fulfilled, whereas the Federal government's target of a balanced budget by the forecast horizon may not be fully met in view of the subdued growth prospects. It is also uncertain whether the structural budget balance will improve as planned by the government (see *Schatzenstaller, 2013*).

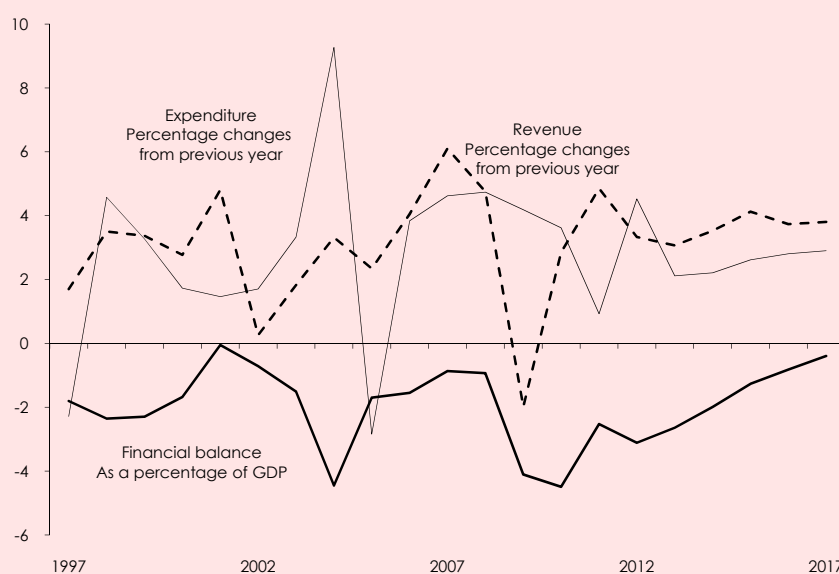
Table 6: General government

Current prices

	Ø 2002-2007	Ø 2007-2012	Ø 2012-2017	2012	2013	2014	2015	2016	2017
	Year-to-year percentage changes								
Current revenue	+ 3.5	+ 2.7	+ 3.7	+ 3.3	+ 3.1	+ 3.5	+ 4.1	+ 3.7	+ 3.8
Current expenditure	+ 3.6	+ 3.6	+ 2.5	+ 4.5	+ 2.1	+ 2.2	+ 2.6	+ 2.8	+ 2.9
Gross domestic product	+ 4.4	+ 2.4	+ 3.4	+ 2.7	+ 2.9	+ 3.6	+ 3.8	+ 3.5	+ 3.5
	Ø 2003-2007	Ø 2008-2012	Ø 2013-2017	2012	2013	2014	2015	2016	2017
	As a percentage of GDP								
General government financial balance (Maastricht definition)	- 2.0	- 3.0	- 1.4	- 3.1	- 2.6	- 2.0	- 1.3	- 0.8	- 0.4

Source: Statistics Austria, WIFO calculations.

Figure 5: Revenue, expenditure and financial balance (according to Maastricht) of general government



Source: Statistics Austria, WIFO calculations.

An essential requirement for the reduction of the deficit to the extent projected is continued restraint on spending at all government levels, allowing the expenditure-to-GDP ratio to drop below 50 percent as from 2015. Between 2012 and 2017, government expenditure will rise by only 2.5 percent p.a. in nominal terms, markedly more slowly than the average 3.6 percent per year recorded for the period 2007-2012. Government revenues are expected to increase by an annual 3.7 percent between 2012 and 2017, as compared with +2.7 percent p.a. in the previous five-year period.

Risks to the budgetary projections derive not only from general cyclical developments and from the uncertainty emanating from the European financial market and sovereign debt crisis. Thus, it is also uncertain whether the € 1 billion in public revenues expected in 2013 from the tax agreement with Switzerland will actually accrue to full extent. Further uncertainty relates to the anticipated additional € 500 million



per year in revenues as from 2014 from a financial transaction tax still to be agreed at EU level, as well as to the planned savings of € 500 million from a review of subsidy schemes (as from 2015); both items are only partially taken into account for the present forecast. Moreover, further need for government support for distressed nationalised banks may not be ruled out, with repercussions for the government balance and/or the stock of public debt.

Furthermore, the budgets of the Länder and the local communities hold latent risks for the general government deficit projection. While all government levels have committed to sustained consolidation efforts in the context of the new national stability pact of 2012, it remains to be seen whether all territorial authorities will honour their commitments. Whether policymakers will resist the temptation to grant "campaign goodies" (be they social benefits or tax cuts) in the election year 2013 may prove to be crucial for a successful and lasting consolidation strategy.

Government debt is set to rise further in absolute terms over the forecast horizon, while heading down in relation to GDP as from 2014. Given a starting point above 76 percent of GDP in 2013, the arrival at or below 60 percent of GDP is currently not in sight. Over the last years, the trend in public debt has been substantially shaped by stock-flow adjustments (i.e., debt-relevant transactions that do not impact on the deficit in the Maastricht definition). Should further developments lead to the redemption of debt, such as via sales of government stakes in banks or other privatisation revenues, debt reduction may proceed more quickly. Conversely, the revision of the European System of Accounts (ESA) due in 2014 may oblige the authorities to include certain off-budget items and thus lead to an increase in recorded debt. This complicates any projection of the stock-flow adjustment.

The present medium-term projections for Austria, as well as the underlying short-term forecast for Austria and the medium-term projections for the world economy, are subject to numerous uncertainties. The budget dispute in the USA ("fiscal cliff") appears to have been settled, as assumed in the forecast. Public finances, having slipped out of control, nevertheless need to be corrected over the medium term, implying a dampening effect on economic growth. The probability of automatic budgetary cuts entering into force, with adverse repercussions on economic activity, is heightened by the existing legal debt ceiling in a situation of stand-off between two political camps of opposite convictions about the course of economic policy. As uncertain as in the USA is the future policy stance in the euro area. The impact of new and to some extent stricter fiscal rules in the context of the Fiscal Compact for debt reduction and their reception by market participants is still unclear, given that these rules will take effect only in a medium-term perspective and have so far received little consideration due to their complexity and lack of transparency.

In addition, the problem of mutual dependency between financial market intermediaries and government authorities is just about to be addressed. A clear solution which would limit the cost of future financial market crises for the public sector will not necessarily have been found by the end of the forecast period. The institutional framework of the euro area thus remains fragile and prone to external shocks, adding to the uncertainty surrounding the forecast as referred to above. In case of the ongoing adjustments to that framework (e.g., ESM, Banking Union, reform of the Stability and Growth Pact) leading to an earlier solution of the confidence crisis, the cyclical recovery of the euro area would take on stronger momentum. This would have a positive impact on Austrian exports and domestic private investment.

Finally, the use of an econometric forecast model gives rise to methodological limitations and constraints. The WIFO Macromod model reflects the empirical relations as they have shaped economic developments in Austria on average over the last 35 years (*Baumgartner – Breuss – Kaniovski, 2005*). Should economic agents change their behaviour in a lasting way – which cannot be excluded given the novelty of the current crisis –, this would not be captured by the model for lack of empirical evidence.

---

## Risks to the forecasts

- Aiginger, K., Ederer, St., Cramme, O., Liddle, R., Thillaye, R., "Reconciling the Short and the Long Run: Governance Reforms to Solve the Crisis and Beyond", WWWforEurope Policy Brief, 2012, (1), <http://www.wifo.ac.at/wwa/pubid/46058>.
- Aiginger, K., Huber, P., Firgo, M., "Policy Options for the Development of Peripheral Regions and Countries of Europe", WWWforEurope Policy Brief, 2012, (2), <http://www.wifo.ac.at/wwa/pubid/46059>.
- Baumgartner, J., Breuss, F., Kaniovski, S., "WIFO-Macromod – An Econometric Model of the Austrian Economy", in OeNB (Eds.), "Macroeconomic Models and Forecasts for Austria", Proceedings of OeNB Workshops, 2005, (5), S. 61-86.
- Blanchard, O., Leigh, D., "Growth Forecast Errors and Fiscal Multipliers", IWF Working Paper, 2013, (WP/13/1).
- Ederer, St., Kaniovski, S., Pittlik, H., Url, T., "Verhaltens Konjunkturaufschwung nach Wachstumsdelle 2012. Mittelfristige Prognose der österreichischen Wirtschaft bis 2016", WIFO-Monatsberichte, 2012, 85(1), S. 51-62, <http://www.wifo.ac.at/wwa/pubid/43376>.
- Glocker, C., "Cyclical Revival in Sight. Economic Outlook for 2013 and 2014", Austrian Economic Quarterly, 2013, 18(1), pp. 1-14, <http://www.wifo.ac.at/wwa/pubid/46680>.
- Janger, J., Hölzl, W., Kaniovski, S., Kutsam, J., Peneder, M., Reinstaller, A., Sieber, S., Stadler, I., Unterlass, F., "Structural Change and the Competitiveness of EU Member States", WIFO, Wien, 2011, <http://www.wifo.ac.at/wwa/pubid/42956>.
- Schatzenstaller, M., "The Draft Federal Budget 2013: Consolidation Path Subject to Uncertainties", Austrian Economic Quarterly, 2013, 18(1), pp. 49-64, <http://www.wifo.ac.at/wwa/pubid/46698>.
- Schulmeister, S., "Growth Dynamics Exposed to Conflict Between Easy Monetary Conditions and Fiscal Restriction. Medium-term Forecast for the World Economy Until 2017", Austrian Economic Quarterly, 2013, 18(1), pp. 25-40, <http://www.wifo.ac.at/wwa/pubid/46694>.

## *Economic Growth to Remain Subdued Over the Years to Come*

### *Medium-term Forecast for the Austrian Economy Until 2017 – Summary*

Following a slowdown of the Austrian economy in 2012, we forecast sluggish growth in the medium term. Over the next five years, real GDP growth will peak at a moderate annual rate of 2 percent in 2015, averaging an annual rate of 1.7 percent.

The main factors behind low real growth in the medium term are weak external demand (economic slowdown in the euro area) and weak domestic demand (modest consumption growth due to enhanced savings). Exports will expand by an annual average of 5.2 percent during 2012-2017. Imports to Austria are expected to increase by 4.8 percent per year. In spite of a positive trade balance, the contribution of net exports to the growth of aggregate demand will not induce any significant growth of real GDP in Austria. Investment into machinery and equipment is not expected to pick up until 2015, growing at an average annual rate of 3.9 over the forecasting period. Construction investment will increase at roughly 1 percent per year. The growth of private consumption will remain sluggish in the medium term, with the savings ratio rising to 8.7 percent of disposable income in 2017. Private consumption expenditure will expand at an average of 1.0 percent per year.

We see no significant indications of inflationary pressure in the medium term. The consumer price index will rise by an annual average of 2.1 percent during 2012-2017. The trend in unit labour cost as a key domestic inflationary factor will remain weak, while import prices will exert an upward pressure on domestic inflation.

Economic growth is not strong enough to reduce the unemployment rate. Although employment is expected to rise, the growth in labour supply will leave the rate of unemployment unchanged. Labour supply will rise mainly due to labour migration, although a further increase of female participation and a decline of early retirement rates play a role as well. The unemployment rate, averaging at 4.5 percent over the years, will decrease slightly in 2017.

The Austrian federal government intends to continue its efforts at budgetary consolidation. The general government deficit is expected to gradually fall from 3.1 percent of nominal GDP in 2012 to 0.4 percent in 2017. Public revenues are set to increase at a rate of 3.7 percent, while austerity measures should reduce growth in government expenditure to 2.5 percent. As a consequence, the ratio of government expenditure to GDP is expected to fall below 50 percent of nominal GDP by 2015.