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Weak Growth Amid High Uncertainty.
Economic Outlook for 2023 and 2024

Christian Glocker, Marcus Scheiblecker

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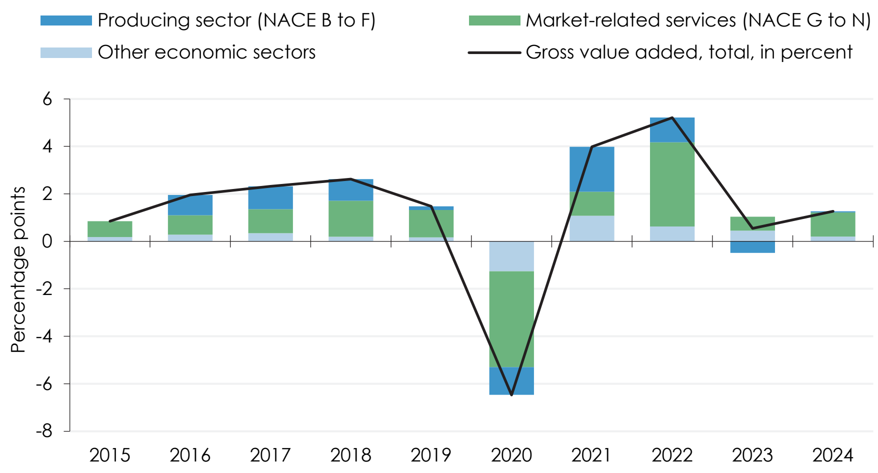
- After a strong increase in the previous year (+4.9 percent), GDP is expected to roughly stagnate in 2023 (+0.3 percent) and grow slightly in 2024 (+1.4 percent).
- In 2023, the domestic business cycle is split: a recession in industry contrasts with increases in value added in market-related services.
- Fiscal policy is expansionary in both forecast years.
- As labour supply continues to grow and employment growth levels off, unemployment is expected to rise in 2023.
- After 8.6 percent in 2022, inflation remains above average in both forecast years (2023 +7.5 percent, 2024 +3.8 percent, according to CPI).
- Downside risks arise primarily from the international environment.

Growth contribution of economic sectors to gross value added, volume



The growth contributions indicate the extent to which the two components (producing sector and market-related services) contribute to the change in gross value added. The size of a component's contribution to growth is calculated by dividing the absolute change of the component compared to the previous period by the value of gross value added in the previous period (source: WIFO, Statistics Austria, WDS – WIFO data system; Macrobond. – 2023 and 2024: forecast).

"While buoyant industrial economic activity still contributed to economic growth in 2022, industry will make a negative contribution to overall economic growth in 2023."

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Christian Glocker, Marcus Scheiblecker

July 2023

Weak Growth Amid High Uncertainty. Economic Outlook for 2023 and 2024

After strong growth in the first half of 2022, the Austrian economy entered a phase of stagnation that will continue in 2023. Manufacturing and closely related sectors are now in recession, while market-related services are expanding overall. This dichotomy in the business cycle is not expected to abate until 2024. After +0.3 percent in 2023, WIFO expects GDP growth of 1.4 percent in 2024. The upward pressure on prices will only subside slowly.

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

The Austrian economy is in a phase of stagnation, which had already begun in the summer of 2022 and is expected to continue in 2023. Leading indicators, which at the beginning of the year had still pointed to a broad improvement in the economic situation, have recently deteriorated significantly.

The global economy is expected to remain weak over the forecast period. Increasingly tight monetary policy is worsening financing conditions, while fiscal policy is already weighing on economic activity in some countries. Stubbornly high inflation is also dampening private household consumption in many places. Nevertheless, there are no signs of a global recession, especially since energy prices, which had risen sharply in 2022 and dampened economic activity, have recently fallen.

Under these conditions, Austria's economic output is expected to stagnate in 2023 (+0.3 percent). The economic upswing of the previous years thus ends abruptly. Manufacturing and closely related sectors are now in recession, while market-related services are expanding. This dichotomy in the business cycle continues in 2023, but should weaken in 2024, leading to a pick-up in overall economic growth to 1.4 percent.

The economic weakness leads to an unfavourable development on the labour market, especially in 2023. Alongside moderate employment growth (+1.0 percent), unemployment is expected to increase year-on-year (+2.3 percent), as the weak economic activity coincides with an expansion in labour supply. In 2024, the unemployment rate is expected to decline (2023 6.4 percent, 2024 6.1 percent).

The projected slowdown in the business cycle is expected to have only a slow impact on prices. The inflation rate according to the Harmonised Index of Consumer Prices (HICP) will initially fall only slightly to 7.4 percent in 2023 (+8.6 percent in 2022). In 2024, inflation will moderate significantly to 3.5 percent, but will remain buoyant compared to the long-term average.

Table 1: **Main results**

	2019	2020	2021	2022	2023	2024
	Percentage changes from previous year					
Gross domestic product, volume	+ 1.5	– 6.5	+ 4.6	+ 5.0	+ 0.3	+ 1.8
Manufacturing	+ 1.0	– 5.8	+ 9.5	+ 3.5	– 1.9	+ 1.6
Wholesale and retail trade	+ 3.0	– 5.9	+ 3.7	+ 2.4	+ 2.4	+ 2.7
Private consumption expenditure[1], volume	+ 0.5	– 8.0	+ 3.6	+ 4.1	+ 1.3	+ 2.0
Consumer durables	+ 0.2	– 2.2	+ 4.4	– 3.9	+ 3.0	+ 2.0
Gross fixed capital formation, volume	+ 4.5	– 5.3	+ 8.7	– 0.9	+ 0.0	+ 1.0
Machinery and equipment[2]	+ 5.3	– 7.0	+ 11.3	– 0.8	+ 0.8	+ 3.2
Construction	+ 3.6	– 3.4	+ 5.8	– 1.0	– 0.8	– 1.4
Exports, volume	+ 4.0	– 10.7	+ 9.6	+ 11.1	+ 2.0	+ 3.3
Exports of goods, fob	+ 3.5	– 7.3	+ 12.9	+ 7.5	+ 0.3	+ 3.5
Imports, volume	+ 2.1	– 9.2	+ 13.7	+ 5.7	+ 2.1	+ 3.2
Imports of goods, fob	+ 0.3	– 6.2	+ 14.2	+ 2.8	+ 0.3	+ 3.0
Gross domestic product, value	+ 3.1	– 4.1	+ 6.6	+ 10.2	+ 7.4	+ 6.1
billion €	397.17	381.04	406.15	447.65	480.63	509.89
Current account balance as a percentage of GDP	2.4	3.0	0.4	0.5	1.6	2.1
Consumer prices	+ 1.5	+ 1.4	+ 2.8	+ 8.6	+ 7.1	+ 3.8
GDP deflator[3]	+ 1.5	+ 2.6	+ 1.9	+ 5.0	+ 7.1	+ 4.2
Three-month interest rate percent	– 0.4	– 0.4	– 0.5	0.3	3.9	4.7
Long-term interest rate[4] percent	0.1	– 0.2	– 0.1	1.7	4.1	6.0
General government financial balance, Maastricht definition as a percentage of GDP	0.6	– 8.0	– 5.9	– 2.5	– 1.8	– 0.4
Persons in active dependent employment[5]	+ 1.6	– 2.0	+ 2.5	+ 3.0	+ 0.8	+ 1.3
Unemployment rate						
Eurostat definition[6]	4.8	6.0	6.2	4.8	4.7	4.5
National definition[7]	7.4	9.9	8.0	6.3	6.4	6.1
Greenhouse gas emissions[8]	+ 1.5	– 7.7	+ 4.8	– 4.8	– 0.7	– 0.0
million t CO_2 equivalent	79.74	73.59	77.14	73.44	72.92	72.92

Source: WIFO, ECB, Environmental Agency Austria, Federation of Social Insurances, OeNB, Public Employment Service Austria, Statistics Austria. 2023 and 2024: forecast. – [1] Including non-profit institutions serving households. – [2] Including weapons systems. – [3] Measures purely domestic inflation. – [4] 10-year central government bonds (benchmark). – [5] Excluding persons in valid employment contract receiving child care benefit or being in military service. – [6] 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. – [7] As a percentage of dependent labour force. – [8] From 2021: forecast.

2. The starting position

After the Austrian economy recovered quickly from the COVID-19 crisis in 2021, geopolitical upheavals led to high uncertainty and a further acceleration of inflation. Against this backdrop, the business cycle cooled from mid-2022. After a strong first half (first quarter +1.3 percent, second quarter +1.7 percent quarter-on-quarter), economic output stagnated in the second half of the year. Overall, GDP grew by 4.9 percent in 2022 compared to the previous year (real, +10.0 percent nominal).

On the supply side, in particular the core tourism sectors accommodation and food service activities and the transport sector expanded strongly in 2022. Industry and construction, which were still buoyant at the beginning of the year, lost momentum in mid-2022. In addition to the deterioration of the international environment, the high price increases for energy commodities and other intermediate goods had a dampening effect. Total value added in manufacturing grew by 4.0 percent in 2022, and by 1.7 percent in construction.

On the demand side, exports were the main stimulus to the economy. As they grew faster than imports, foreign trade made an arithmetically positive contribution to GDP growth in 2022. Private consumption was still expanding strongly in 2022, but investments were already declining.

On the distribution side, both wage income (compensation of employees, +7.6 percent) and capital income (gross operating surplus and mixed income, +7.3 percent) increased. The latter had already grown strongly in 2021 due to cyclical factors (+7.2 percent compared to the previous year).

Dependent active employment was noticeably expanded in 2022 (+3.0 percent compared to the previous year), especially in many service industries. Unemployment was still largely declining in the first half of the year, before shifting into a volatile sideways movement. Against the background of the high number of vacancies, the labour market thus hardly eased.

Consumer price inflation was strong in 2022 at +8.6 percent. It intensified during the year and thus followed producer price inflation with a lag. The high consumer price inflation was mainly due to the increase in the price of energy (mineral oil products and natural gas from spring, electricity from summer) and (durable) consumer goods.

3. The framework conditions

This forecast is based on the information available as of mid-June 2023 regarding the orientation of economic policy and the developments in the global economy, exchange rates, commodity prices and interest rates. The forecast period covers the second quarter of 2023 to the fourth quarter of 2024.

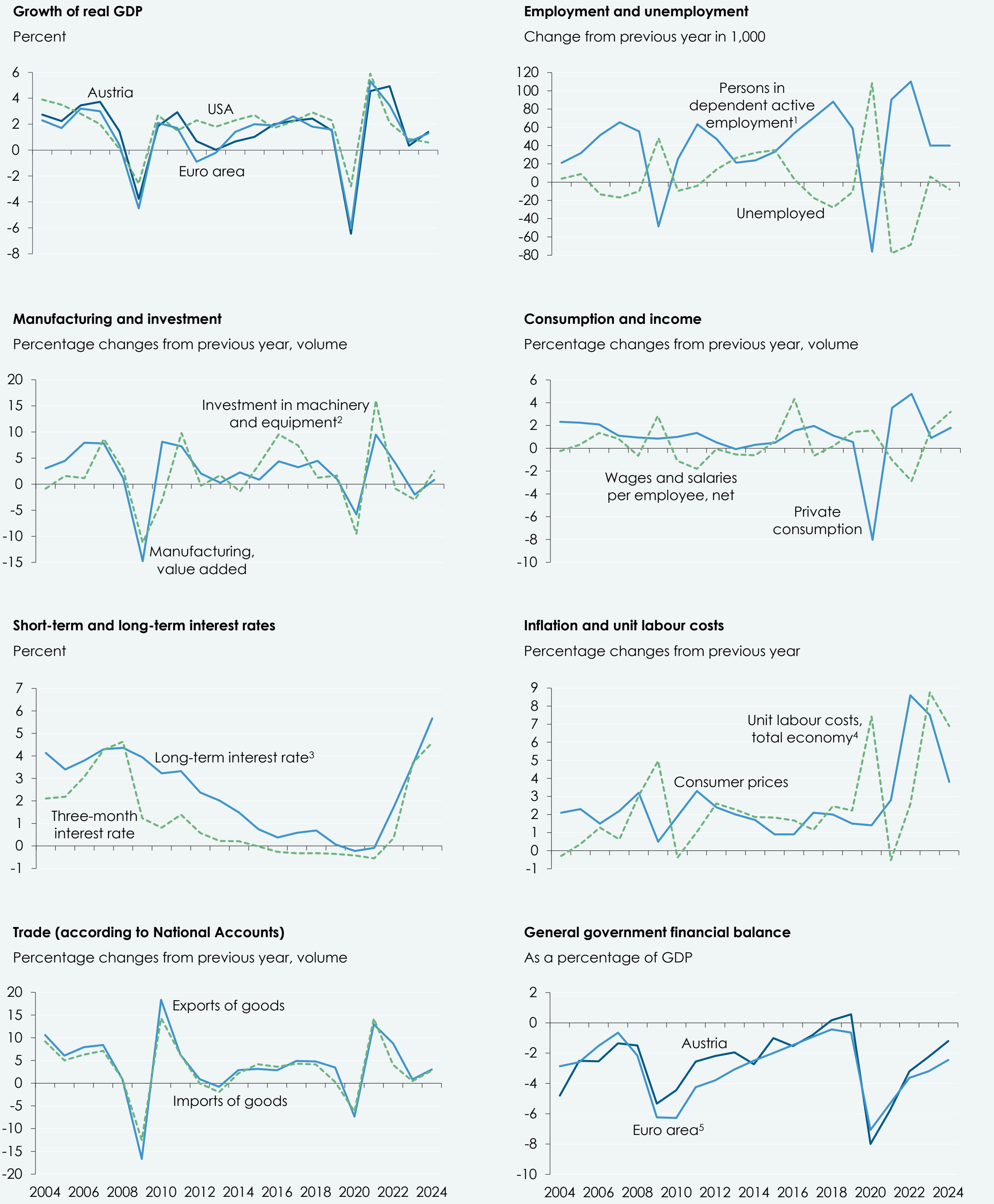
With regard to the geopolitical environment, it is assumed that the Ukraine war will continue but not escalate further. It is also assumed that the EU sanctions against China, Iran and Russia will remain in place, but will not be extended. Although natural gas deliveries from Russia to Europe are not expected to stop, the development of the gas price remains uncertain, which means that high price fluctuations on the spot and futures markets can still be expected.

Table 2: **International economy**

	Percentage shares 2021		2019	2020	2021	2022	2023	2024
	Austria's exports of goods	World GDP[1]	GDP volume, percentage changes from previous year					
EU 27	68.1	14.8	+ 1.8	− 5.6	+ 5.4	+ 3.5	+ 0.7	+ 1.5
Euro area	51.9	10.5	+ 1.6	− 6.1	+ 5.3	+ 3.5	+ 0.6	+ 1.3
Germany	30.2	3.3	+ 1.1	− 3.7	+ 2.6	+ 1.8	− 0.4	+ 1.5
Italy	6.8	1.9	+ 0.5	− 9.0	+ 7.0	+ 3.7	+ 1.2	+ 0.9
France	3.8	2.3	+ 1.8	− 7.5	+ 6.4	+ 2.5	+ 0.5	+ 0.8
CEEC 5[2]	15.3	2.2	+ 4.0	− 3.3	+ 6.2	+ 4.2	+ 1.0	+ 2.3
Hungary	3.7	0.2	+ 4.9	− 4.5	+ 7.2	+ 4.6	− 0.6	+ 2.6
Czech Republic	3.6	0.3	+ 3.0	− 5.5	+ 3.6	+ 2.5	− 0.4	+ 1.8
Poland	4.0	1.0	+ 4.4	− 2.0	+ 6.9	+ 5.1	+ 1.9	+ 2.4
USA	6.7	15.7	+ 2.3	− 2.8	+ 5.9	+ 2.1	+ 0.9	+ 0.6
Switzerland	5.2	0.5	+ 1.1	− 2.4	+ 4.2	+ 2.0	+ 0.4	+ 1.5
UK	2.7	2.3	+ 1.6	− 11.0	+ 7.6	+ 4.1	+ 0.4	+ 1.3
China	2.9	18.6	+ 6.0	+ 2.2	+ 8.4	+ 3.0	+ 5.6	+ 4.6
Total[3]								
PPP-weighted[4]		52	+ 3.4	− 2.2	+ 6.7	+ 2.9	+ 2.5	+ 2.3
Export weighted[5]	86		+ 1.9	− 5.1	+ 5.5	+ 3.3	+ 0.9	+ 1.5
Market growth[6]			+ 1.7	− 6.1	+ 11.0	+ 5.7	+ 1.0	+ 3.2
Forecast assumptions								
Crude oil prices								
Brent, $ per barrel			64.1	43.3	70.7	98.7	77	72
Natural gas price								
Dutch TTF, € per MWh			13.6	9.5	45.9	121.5	40	45
Electricity price Austria								
Base, € per MWh			40.1	33.2	107.2	261.6	111	135
Peak, € per MWh			43.1	36.0	116.8	275.5	122	162
Exchange rate								
$ per €			1.120	1.141	1.184	1.054	1.09	1.14
Key interest rate								
ECB main refinancing rate[7], percent			0.0	0.0	0.0	0.6	3.9	4.5
10-year government bonds yields Germany, percent			− 0.3	− 0.5	− 0.4	1.1	3.0	5.2

Source: WIFO, Bureau of Economic Analysis, European Energy Exchange, Eurostat, ECB, HWWI, IMF, Intercontinental Exchange, OECD, Statistics Austria. 2023 and 2024: forecast. – [1] PPP-weighted. – [2] Czech Republic, Hungary, Poland, Slovenia, Slovakia. – [3] EU 27, UK, USA, Switzerland, China. – [4] Weighted by GDP at purchasing power parities in 2021. – [5] Weighted by shares of Austrian goods exports in 2021. – [6] Real import growth of trading partners, weighted by shares of Austrian goods exports. – [7] Minimum bid rate.

Figure 1: **Indicators of economic performance**



Source: WIFO. 2023 and 2024: forecast. – [1] 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. – [2] Including weapons systems. – [3] 10-year central government bonds (benchmark). – [4] Including short-time work grants. – [5] Source: European Commission.

Supported by the good development in the BRICS countries, the global economy gained momentum in the first quarter of 2023.

3.1 The international framework conditions

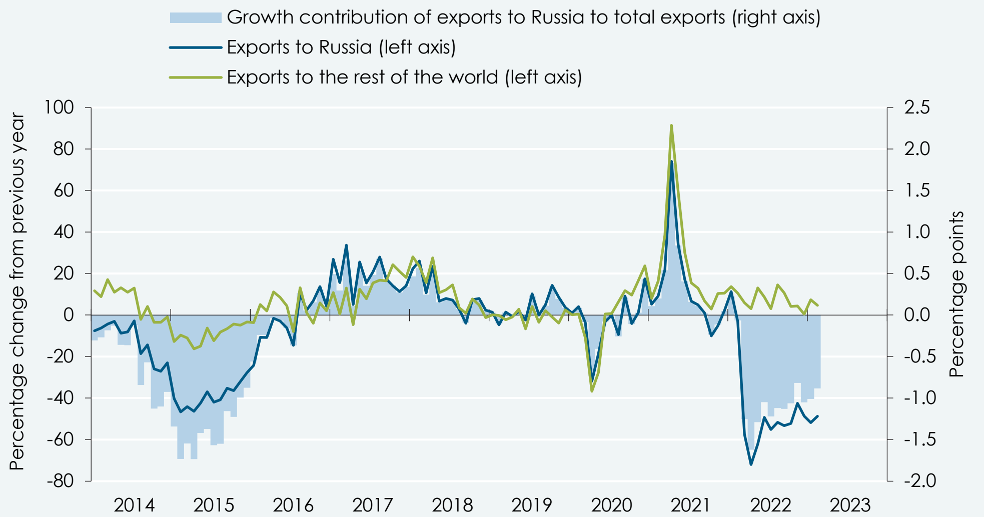
The global economy expanded in the first quarter of 2023, albeit regionally unevenly: weak growth in the industrialised countries contrasts with strong growth in the BRICS countries (Brazil, Russia, India, China and South Africa) and in many other emerging markets. Leading indicators suggest that this development is likely to continue. The J. P. Morgan Global Composite Manufacturing PMI remained unchanged below the 50-point growth threshold in May, but points to continued improvement in economic sentiment in emerging markets and deterioration in developed markets.

In the USA, gross domestic product increased in the first quarter of 2023, although the momentum weakened significantly. Private consumption rose and investments also expanded, despite the weakening industrial activity and the continued tightening of monetary policy. Household and business sentiment indicators point to a rather gloomy outlook. On the other hand, inflation has weakened compared to 2022. This should boost private households' propensity to spend. Although the decline in residential investment has slowed recently, the tight monetary policy is likely to dampen expansion in residential construction and other interest-sensitive sectors and prolong the economic slowdown (2023 +0.9 percent and 2024 +0.6 percent).

China was able to significantly increase its economic output in the first quarter of 2023. Business and consumer sentiment indicators point to a moderate recovery. According to the latest Caixin China General Manufacturing PMI data, business conditions in the manufacturing sector improved in May for the first time in three months. Output grew at the fastest pace in almost a year. However, the sub-index of firms' production expectations for the next 12 months deteriorated, likely reflecting global economic uncertainty. Overall, China's economy is expected to grow by 5.6 percent in 2023 and by 4.6 percent in 2024. It will therefore continue to expand at a much slower pace than in the years immediately preceding the COVID-19 pandemic.

Figure 2: **CEEC 5 export development**

Export of goods, current prices



Source: IMF (Direction of Trade Statistics); WDS – WIFO Data System; Macrobond. CEEC 5: Czech Republic, Hungary, Poland, Slovakia, Slovenia.

Commodity prices have fallen noticeably recently. However, core inflation continues to rise, especially in the EU. This is dampening the decline in consumer price inflation.

Within the EU, the development in the first quarter of 2023 was very heterogeneous. Among the large economies, Spain and Italy recorded the highest growth rates, while the German economy is now in a technical recession. Among the Central and Eastern European countries (CEEC), the Czech Republic and Hungary have been in recession since the third quarter of 2022. It is difficult to assess the development in Poland, especially as in the first quarter of 2023 a massive drop in imports combined with a sharp decline in domestic demand led to a high arithmetic GDP increase. In addition to the decline in domestic demand, the CEECs are suffering above all from weak foreign demand. In particular, exports to Russia, which account for a high share of total exports, have collapsed (Figure 2).

In the euro area, real retail sales stagnated in April compared to the previous month and were 2.6 percent below the level of the previous year. The ESI also deteriorated, especially in the retail trade subsector. Those factors that held back growth in 2022 are expected to continue to diminish. Energy prices have fallen significantly and consumer price inflation has slowed. Nevertheless, the current environment is unfavourable due to higher key interest rates and the initiated fiscal consolidation. For 2023, WIFO expects stagnation in Germany and France and moderate growth in Italy and Spain. A stronger expansion is expected for 2024, especially in Germany. A similar pattern is expected for the Central and Eastern European countries.

Commodity and energy prices have fallen noticeably recently, with natural gas in particular becoming much cheaper. Although natural gas storage facilities in many EU countries are better filled than a year ago, there is still a risk of another sharp price increase if supplies from Russia fail or the flow of Russian gas through Ukraine is interrupted. Otherwise, the moderate development of the global economy should dampen commodity prices. WIFO expects the price of natural gas (Title Transfer Facility – TTF) to be around 40 € per MWh in 2023 (2024: 45 €), down from 121.5 € in 2022, and the price of crude oil (Brent) to be around 77 $ per barrel (2024: 72 $), down from 98.7 $ in 2022.

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

From mid-2022, the European Central Bank (ECB) set several interest rate steps in response to the high inflation. The key interest rates were raised by a total of 4 percentage points. The main refinancing rate has been at 4 percent since mid-June 2023, the deposit rate at 3.5 percent and the marginal lending rate at 4.25 percent. In addition, the ECB has started to reduce its securities holdings acquired under the purchase programmes. At the end of May 2023, the ECB held around 3,201 billion € and 1,675 billion € of securities under the regular Asset Purchase Programme (APP) and the Pandemic Emergency Purchase Programme (PEPP), respectively. While bond holdings under the APP are being reduced, the PEPP provides for a complete reinvestment until the end of 2024 to counteract possible yield differentials in the euro area.

WIFO assumes that the key interest rates will initially continue to rise. On average, the interest rate for the main refinancing operations is assumed to be 3.9 percent in 2023. From autumn 2024, a slight reduction in the key interest rates is expected as core inflation declines and inflation rates converge to the ECB's target level in the medium term.

3.2.2 Macroprudential policy

The credit-to-GDP gap – the key indicator for the level of the Countercyclical Capital Buffer (CCyB) – does not currently suggest an increase in the buffer.

The portfolio of real estate loans has been trending downwards in Austria since mid-2022, driven by monetary policy and macroprudential tightening. As of 1 August 2022, the requirements for lending were tightened. According to the WIFO-Konjunkturtest (business cycle survey), access to bank loans for companies has become significantly more difficult since then. In May 2023, the credit hurdle – defined as the balance of the share of companies that describe bank lending as accommodating (positive values) and the share of companies that describe bank lending as restrictive (negative values) – deteriorated again compared to the previous quarter and was as unfavourable as last seen in autumn 2014. The Financial Market Stability Board (FMSB) recently noted that the risk weights for mortgage-backed loans and corporate loans are at relatively low levels by historical standards, with those for corporate loans having fallen again. Furthermore, the fundamentals price indicator for residential property and the price-to-rent ratio are still close to previous highs, despite the recent easing. It is also worth noting the development of corporate loans, which have expanded robustly so far despite the tightening of monetary policy. As a result of the to the still high nominal GDP growth and lower credit growth, the credit-to-GDP gap fell to –9.9 percentage points in the fourth quarter of 2022, well below the critical threshold of 2 percentage points. The FMSB therefore recommends maintaining a Countercyclical Capital Buffer (CCyB) of 0 percent of risk-weighted assets.

3.2.3 Fiscal policy

Although the pandemic-related measures are coming to an end, support packages for households and companies to cushion the impact of the rise in energy prices and high inflation are weighing on public finances. Domestic fiscal policy tends to remain expansionary in both forecast years.

The general government budget deficit will be further reduced over the forecast period, starting from 3.2 percent of GDP (2022). On the revenue side, the high rates of price increases will lead to strong additional tax revenues over the forecast period. However, inflation-induced increases in public spending on intermediate consumption, wages and salaries, pensions, indexed social benefits and interest reduce the positive budgetary effects.

Pandemic-related expenditure, which still accounted for around 1.5 percent of GDP in 2022, will be largely phased out. The numerous measures adopted to cushion real income losses due to higher energy prices and high inflation (increased climate bonus, inflation compensation measures, electricity price brake) will be continued in 2023 and partly (in a weakened form) until 2024. Structural measures such as the eco-social tax reform and the abolition of the fiscal drag will have a noticeable impact on public budgets in the coming years. On the other hand, additional government revenues from the energy crisis contribution and the CO_2 pricing will contribute to an improvement in the fiscal balance. In total, WIFO expects a general government budget balance of –2.2 percent of GDP in 2023; in 2024 it will improve further to –1.2 percent.

Table 3: **Fiscal and monetary policy – key figures**

	2019	2020	2021	2022	2023	2024
	As a percentage of GDP					
Fiscal policy						
General government financial balance[1]	0.6	– 8.0	– 5.8	– 3.2	– 2.2	– 1.2
General government primary balance	2.0	– 6.6	– 4.7	– 2.2	– 1.1	0.1
General government total revenue	49.2	48.8	50.3	49.6	49.0	49.0
General government total expenditure	48.7	56.8	56.1	52.8	51.2	50.2
	Percent					
Monetary policy						
Three-month interest rate	– 0.4	– 0.4	– 0.5	0.3	3.7	4.6
Long-term interest rate[2]	0.1	– 0.2	– 0.1	1.7	3.6	5.7

Source: WIFO, ECB, OeNB, Statistics Austria. 2023 and 2024: forecast. – [1] According to Maastricht definition. – [2] 10-year central government bonds (benchmark).

4. Prospects for the Austrian economy

An advantageous sectoral structure of the supply side allows the Austrian economy to compensate for the slowdown of the industrial activity through higher growth in market-related services. Nevertheless, overall economic output is expected to stagnate in 2023 and not to grow significantly again until 2024.

The weakening of global industrial activity and a loss of price competitiveness due to high energy prices brought the strong export momentum to an abrupt end. The decline in goods exports in the fourth quarter was followed by another in the first quarter of 2023. The upturn in manufacturing also came to a halt. The economic weakness was also reflected in a subdued development of machinery and equipment and construction investments. This was exacerbated by the tightening of monetary policy, especially in the interest-sensitive construction sector.

The weakness in manufacturing, however, contrasts with the significant expansion of market-related services. Stimulated by strong tourism demand, exports of services increased. This boosted gross value added in accommodation and food service activities in 2022. In addition, other service sectors are currently expanding strongly. Domestic economic development is thus divided. According to leading indicators, this dichotomy will remain for the time being.

In the Austrian manufacturing sector, the index of current business situation of the WIFO-Konjunkturtest turned negative in April and continued to decline in May. The index of business expectations recently declined even more sharply. On balance, companies reported a decline in the dynamics of production activity. The assessment of the order books deteriorated compared to April. This is in line with the results of the latest economic barometer issued by the Austrian Economic Chambers (WKO). According to this, almost half (46 percent) of the companies in the industry sector expect the order situation to worsen, while only 27 percent expect it to improve. The sectoral heterogeneity of the assessments in the WIFO-Konjunkturtest continued in May: in the intermediate goods industry, which was particularly affected by the rise in energy prices, the indices remained clearly negative, in the consumer goods industry they fell slightly below the zero line. In the capital goods industry, on the other hand, they remained positive despite significant declines. The UniCredit Bank Austria Purchasing Managers' Index paints a similar picture; it declined noticeably in May and is now at its lowest level since April 2020. The renewed decline signals an acceleration of the economic slowdown and a continuation of the recession in domestic industry. The global environment does not suggest any positive impulses for the export-oriented industry in the short term, especially since the industrial economy has deteriorated not only in Austria, but also in all major export markets.

For the services sector, on the other hand, the results of the WIFO-Konjunkturtest in May continue to signal a favourable development. Although the composite index for the assessments of the current situation fell slightly compared to the previous month, it is still well above the long-term average. On balance, companies' assessments of the current business situation and demand declined slightly in May, while those of the current employment situation remained almost stable. Order books also remained well filled, albeit somewhat weaker than in the previous month. The composite index of economic expectations fell significantly, but remained close to the long-term average and in positive territory. Optimistic expectations thus outweighed sceptical ones.

Table 4: **Gross value added**

At basic prices

	2021	2022	2023	2024	2021	2022	2023	2024
	Billion € (reference year 2015)				Percentage changes from previous year			
Volume (chain-linked series)								
Agriculture, forestry and fishing	4.29	4.50	4.50	4.50	+ 4.5	+ 5.1	± 0.0	± 0.0
Manufacturing including mining and quarrying	68.46	71.42	69.99	70.55	+ 9.6	+ 4.3	– 2.0	+ 0.8
Electricity, gas and water supply, waste management	9.83	10.19	10.04	10.16	– 2.4	+ 3.7	– 1.5	+ 1.2
Construction	19.80	20.15	19.95	19.59	+ 2.6	+ 1.7	– 1.0	– 1.8
Wholesale and retail trade	39.44	40.35	40.84	41.65	+ 3.7	+ 2.3	+ 1.2	+ 2.0
Transportation	17.02	18.88	18.50	18.87	+ 2.5	+ 10.9	– 2.0	+ 2.0
Accommodation and food service activities	8.89	13.35	13.81	14.37	– 13.2	+ 50.2	+ 3.5	+ 4.0
Information and communication	13.37	14.13	14.62	15.06	+ 3.5	+ 5.7	+ 3.5	+ 3.0
Financial and insurance activities	15.21	15.06	15.36	15.75	+ 1.1	– 1.0	+ 2.0	+ 2.5
Real estate activities	31.35	32.04	32.10	32.26	+ 1.0	+ 2.2	+ 0.2	+ 0.5
Other business activities[1]	33.46	35.45	35.98	36.74	+ 6.8	+ 5.9	+ 1.5	+ 2.1
Public administration[2]	56.78	57.99	59.04	59.63	+ 5.2	+ 2.1	+ 1.8	+ 1.0
Other service activities[3]	7.56	8.05	8.49	8.56	+ 2.4	+ 6.4	+ 5.5	+ 0.8
Total gross value added[4]	324.35	341.26	343.12	347.46	+ 4.0	+ 5.2	+ 0.5	+ 1.3
Gross domestic product at market prices	365.16	383.15	384.45	389.83	+ 4.6	+ 4.9	+ 0.3	+ 1.4

Source: WIFO, Statistics Austria. 2023 and 2024: forecast. – [1] Professional, scientific and technical activities; administrative and support service activities (NACE M and N). – [2] Including defence, compulsory social security, education, human health and social work activities (NACE O to Q). – [3] Arts, entertainment and recreation; other service activities; activities of households (NACE R to U). – [4] Before deduction of subsidies and attribution of taxes on products.

Table 5: **Productivity**

	2019	2020	2021	2022	2023	2024
	Percentage changes from previous year					
Total economy						
Real GDP	+ 1.5	– 6.5	+ 4.6	+ 4.9	+ 0.3	+ 1.4
Hours worked[1]	+ 1.6	– 8.7	+ 4.8	+ 2.9	+ 0.6	+ 0.9
Productivity[2]	– 0.1	+ 2.5	– 0.2	+ 1.9	– 0.3	+ 0.5
Employment[3]	+ 1.3	– 1.9	+ 2.4	+ 3.2	+ 0.9	+ 1.0
Manufacturing						
Production[4]	+ 1.0	– 5.8	+ 9.5	+ 4.0	– 2.0	+ 0.8
Hours worked[5]	+ 0.9	– 6.3	+ 5.1	+ 2.2	+ 0.5	+ 0.3
Productivity[2]	+ 0.0	+ 0.5	+ 4.2	+ 1.8	– 2.5	+ 0.5
Employees[6]	+ 1.7	– 1.4	+ 0.4	+ 2.2	+ 1.5	± 0.0

Source: WIFO, Statistics Austria. 2023 and 2024: forecast. – [1] Total hours worked by persons employed, National Accounts definition. – [2] Production per hour worked. – [3] Employees and self-employed, National Accounts definition (jobs). – [4] Gross value added, volume. – [5] Total hours worked by employees. – [6] National Accounts definition (jobs).

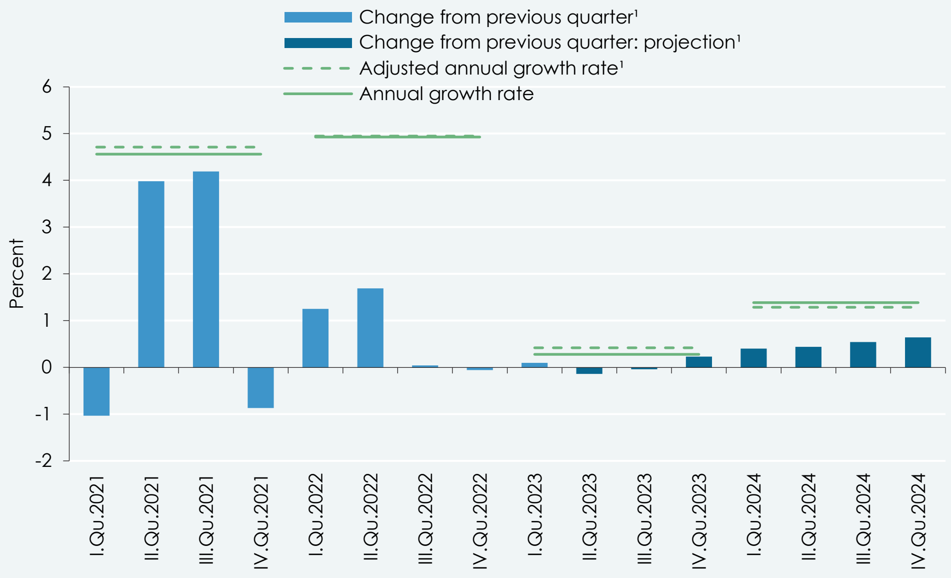
Consumer confidence, on the other hand, remains weak. The corresponding index of the European Commission remains at a historically low level. This is partly due to the low propensity to spend on major purchases. The sub-indicator of expected unemployment (in the next 12 months), which is relevant to consumption, reflects an increased risk of job losses.

4.1 Economic upswing ends abruptly

According to the leading indicators, the recession in manufacturing deepened in the second quarter of 2023, meaning that economic output is likely to be lower than in the first quarter, despite stabilisation due to market-related services. The subsequent stagnation is expected to last until the end of 2023. Only then, from today's perspective, will a cyclical recovery set in. Quarterly growth rates should increase steadily in 2024, reaching around potential growth towards the end of the forecast period. The GDP growth rates reflect the business cycle only to a limited extent. The main reason for this is the cyclical bifurcation in 2023. Even though the cyclical oscillations of gross value added in manufacturing on the one hand and in market-related services on the other have a high amplitude, their opposing developments neutralise the effect on GDP growth.

Figure 3: **Cyclical profile Austria**

GDP, volume



Source: WIFO. – [1] Seasonally and calendar adjusted according to Eurostat.

Table 6: **Technical breakdown of the real GDP growth forecast**

		2021	2022	2023	2024
Growth carry-over[1]	percentage points	+ 0.8	+ 2.4	+ 0.4	+ 0.1
Growth rate during the year[2]	percent	+ 6.3	+ 2.9	+ 0.1	+ 2.0
Annual growth rate	percent	**+ 4.6**	**+ 4.9**	**+ 0.3**	**+ 1.4**
Adjusted annual growth rate[3]	percent	+ 4.7	+ 4.9	+ 0.4	+ 1.3
Calendar effect[4]	percentage points	+ 0.0	– 0.0	– 0.1	+ 0.1

Source: WIFO. 2023 and 2024: forecast. – [1] 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. – [2] 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. – [3] Seasonally and calendar adjusted according to Eurostat. Comparative figure to the OeNB economic forecast. – [4] 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 7: **Revision of the growth forecast**

GDP, volume

		2023	2024
WIFO Economic Outlook March 2023	percent	+ 0.4	+ 1.7
Data revisions[1]	percentage points	– 0.1	– 0.0
Forecast error for the first quarter of 2023[2]	percentage points	+ 0.4	± 0.0
Forecast revision	percentage points	– 0.3	– 0.4
WIFO Economic Outlook June 2023	**percent**	**+ 0.4**	**+ 1.3**

Source: WIFO. Based on seasonally and working-day adjusted values according to Eurostat. – [1] Revision of the quarterly national accounts by Statistics Austria compared to the data used for the WIFO Economic Outlook of March 2023. – [2] At the time of the preparation of the WIFO Economic Outlook of March 2023, no values were available from Statistics Austria for this quarter.

After the strong recovery in 2022 (+4.9 percent), Austria's economic output will stagnate in 2023 (+0.3 percent) and not grow significantly again until 2024 (+1.4 percent; Figure 2, Table 1). The underlying quarterly pattern implies that the stagnation that started in the summer of 2022 will continue in the current year. While in 2022 both the high growth rate during the year and the growth carry-over from the previous year contributed to GDP growth, in 2023 growth essentially results from the carry-over from the previous year. This underlines the current weakness of the Austrian economy and the strength of the cyclical setback (from +4.9 percent in 2022 to +0.3 percent in 2023). In 2024, the two effects are reversed – a near-zero carry-over from 2023 is offset by a high growth rate during the year of +2.0 percent (Table 6). If the forecast of the inter-annual growth rate does not already prove realistic in spring 2024, annual growth in 2024 is likely to be weaker.

As domestic economic activity had already reached the pre-crisis level of the fourth quarter of 2019 in the course of 2021 and continued to expand strongly in the following year, a positive output gap emerged by the end of 2022. This is reflected, inter alia, in buoyant price inflation and labour shortages. Due to the stagnation of economic activity in 2023 and the fact that expected GDP growth in 2024 is at potential growth, the output gap is expected to close. The over-utilisation of production factors will thus decrease. This should subsequently also dampen inflation.

4.2 Economic slowdown due to low export activity

The cyclical dichotomy on the supply side is reflected on the demand side, especially in exports. Due to the weakness in world trade and global industrial production, exports of goods are expected to almost stagnate in 2023 and only pick up slightly in the following year as the external environment improves. A stronger increase is counteracted by the increasing loss of competitiveness. According to the WIFO-Konjunkturtest, domestic industrial companies now rate their competitiveness as low compared to their direct competitors in the EU countries. Compared to the competitors outside the EU, the assessments have even reached historical lows. Moreover, unit labour costs in the domestic industrial environment are likely to rise at an above-average rate in both forecast years (2023 +9.7 percent, 2024 +7.1 percent, based on hours worked). Against this background, market share losses are expected over the forecast period. Weak foreign trade will have a knock-on effect on industry and, given high stocks of finished goods, lead to a decline in gross value added in 2023. The contraction in industry will subsequently lead to a further decline in construction and machinery and equipment investment, thus dampening overall demand. Moreover, the development of building permits points to a decline in residential construction investment in 2023 and 2024. In contrast, investments are supported by the monetary environment. Although nominal interest rates are higher in both forecast years than assumed in earlier projections due to the tightening of monetary policy, the increase in capital income (+6.7 percent) in particular counteracts a stronger decline in investment in 2023. This effect should reverse in 2024. The expected path of investment is thus in line with the results of the latest WIFO-Investitionsbefragung (investment survey) from June 2023. According to this, investment growth is likely to slow down noticeably in 2023 – both in machinery and equipment and in other fixed assets. This slowdown is likely to be more pronounced in manufacturing than in market-related services. This is also suggested by the results of the WKO Economic Barometer from May 2023. Of the 3,761 industrial companies surveyed, 38 percent plan to reduce their investment volume in the next 12 months. Only 20 percent of the companies plan to expand their investments. In 2024, capital spending is expected to pick up, especially as economic activity recovers. However, it will be dampened by the return to positive real interest rates.

Total exports will be stabilised by the favourable development of service exports. This will increase value added on the supply side in many service sectors. In addition to tourism-related sectors (accommodation and food service activities as well as trade), financial and insurance services as well as other economic services are expected to expand. Market-related services will contribute 0.5 percentage points to GDP growth in 2023, roughly offsetting the negative contribution from industry (–0.4 percentage points).

The dichotomy of the domestic economy is reflected on the demand side in stagnating exports of goods and rising exports of services. On the supply side, a recession in manufacturing contrasts with an expansion in market-related services.

On the demand side, in addition to weak investment, consumption is shaping the dynamics. Forecasting consumer demand is particularly difficult at the moment due to diverging influences. Private household consumption is being dampened in particular by the considerable loss of real income due to high inflation. This effect comes primarily from households with limited liquidity. Although their share is small overall, it is likely to increase due to the high inflation. By contrast, households that are not directly faced with liquidity constraints are likely to increase their consumption expenditure in 2023, as the negative real interest rate reduces the incentive to save or encourages a reduction in saving. This effect will be weakened by rising income uncertainty, which fosters precautionary saving – with adverse implications for private consumption. Overall consumption will be supported by public measures such as the energy price brake and the abolition of the fiscal drag. Moreover, the delayed inflation compensation

Austria reported a balanced current account in 2022. In 2023 and 2024, the current account balance is clearly positive due to the decline in energy prices.

should lead to strong growth in real wages in 2024. WIFO expects private consumption to increase by 0.9 percent (2023) and 1.8 percent (2024). A stronger expansion in 2024 will be countered by the return to positive real interest rates.

Table 8: **Expenditure on GDP**

Volume (chain-linked series)

	2021	2022	2023	2024	2021	2022	2023	2024
	Billion € (reference year 2015)				Percentage changes from previous year			
Final consumption expenditure	258.78	270.24	272.13	276.09	+ 4.8	+ 4.4	+ 0.7	+ 1.5
Households[1]	181.82	190.50	192.22	195.68	+ 3.6	+ 4.8	+ 0.9	+ 1.8
General government	76.86	79.65	79.81	80.29	+ 7.8	+ 3.6	+ 0.2	+ 0.6
Gross capital formation	99.91	97.48	96.74	97.45	+ 11.4	– 2.4	– 0.8	+ 0.7
Gross fixed capital formation	95.38	95.71	95.13	95.87	+ 8.7	+ 0.3	– 0.6	+ 0.8
Machinery and equipment[2]	31.79	31.52	30.57	31.34	+ 16.0	– 0.9	– 3.0	+ 2.5
Construction	41.97	41.40	40.90	40.16	+ 5.8	– 1.4	– 1.2	– 1.8
Other investment[3]	21.66	22.91	23.82	24.78	+ 5.1	+ 5.7	+ 4.0	+ 4.0
Domestic demand	358.97	366.59	367.80	372.41	+ 6.5	+ 2.1	+ 0.3	+ 1.3
Exports	211.50	238.09	243.75	251.23	+ 9.6	+ 12.6	+ 2.4	+ 3.1
Travel	6.32	12.41	13.71	14.10	– 32.5	+ 96.4	+ 10.5	+ 2.9
Minus imports	205.92	221.60	226.92	233.43	+ 13.7	+ 7.6	+ 2.4	+ 2.9
Travel	5.34	8.45	8.97	9.31	+ 60.0	+ 58.3	+ 6.1	+ 3.9
Gross domestic product	365.16	383.15	384.45	389.83	+ 4.6	+ 4.9	+ 0.3	+ 1.4
Value	406.15	446.93	481.06	505.42	+ 6.6	+ 10.0	+ 7.6	+ 5.1

Source: WIFO, Statistics Austria. 2023 and 2024: forecast. – [1] Including non-profit institutions serving households. – [2] Including weapon systems. – [3] Mainly intellectual property products (research and development, computer programmes, copyrights).

Table 9: **Earnings, international competitiveness**

	2019	2020	2021	2022	2023	2024
	Percentage changes from previous year					
Wages and salaries per employee[1]						
Nominal, gross	+ 2.9	+ 2.2	+ 2.5	+ 4.4	+ 8.2	+ 7.2
Real[2]						
Gross	+ 1.3	+ 0.8	– 0.3	– 3.9	+ 0.7	+ 3.3
Net	+ 1.4	+ 1.6	– 1.1	– 2.9	+ 1.7	+ 3.2
Wages and salaries per hour worked[1]						
Real, net[2]	+ 0.9	+ 9.4	– 4.1	– 2.7	+ 2.0	+ 3.4
	Percent					
Wage share, adjusted[3]	69.2	68.9	68.6	68.9	68.9	71.8
	Percentage changes from previous year					
Unit labour costs, nominal[4]						
Total economy	+ 2.2	+ 7.4	– 0.5	+ 2.6	+ 8.8	+ 6.9
Manufacturing	+ 3.2	+ 4.6	– 5.6	+ 4.4	+ 9.7	+ 7.1
Effective exchange rate – manufactured goods[5]						
Nominal	– 0.7	+ 1.4	+ 0.6	– 1.5	+ 1.4	+ 0.8
Real	– 1.1	+ 1.7	+ 0.2	– 1.7	+ 2.8	+ 2.1

Source: WIFO, Statistics Austria. 2023 and 2024: forecast. – [1] National Accounts definition. – [2] Deflated by CPI. – [3] 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. – [4] 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. – [5] Weighted by exports and imports, real value adjusted by relative HCPI.

As export growth is roughly equal to import growth in both forecast years, net exports do not make a significant contribution to GDP growth in purely arithmetical terms. A key factor for foreign trade is the improvement in the terms of trade. The ratio of export to import prices had deteriorated drastically in 2022, but the sharp decline in energy prices (especially for natural gas) triggered a pronounced countermovement. The resulting income gains will not offset the losses from previous years, but should strengthen domestic demand in both forecast years.

4.3 Core inflation keeps upward pressure on prices

The rise in energy prices pushed consumer price inflation in 2022 to its highest level since 1974 (+8.6 percent; 1974 +9.5 percent). The energy price increases were reflected in the consumer price index in two ways. First, the CPI rose proportionally to the weight of energy prices in the index, especially as private households purchase energy directly. Second, the increased energy costs were passed on to the prices of a wide range of goods and services, as energy is a crucial factor in the production of many goods. This led to an increase in core inflation.

Energy prices are currently falling, which is contributing to a weakening of inflationary pressures. However, the continued upward trend in core inflation is keeping headline inflation high. There are, nevertheless, increasing signs of easing. On the one hand, producer price inflation has weakened sharply recently. On the other hand, leading indicators of the WIFO-Konjunkturtest point to a slowdown in inflation, especially in the area of consumer goods. After 8.6 percent in 2022, price inflation is weakening in both forecast years, but remains high by historical standards (2023 +7.5 percent, 2024 +3.8 percent; according to CPI).

Although the significant decline in energy prices is dampening inflation, core inflation continues to rise for the time being. However, leading indicators point to an easing of inflation over the forecast period.

Table 10: **Private consumption, income and prices**

	2019	2020	2021	2022	2023	2024
	Percentage changes from previous year					
Private consumption expenditure[1]	+ 0.5	– 8.0	+ 3.6	+ 4.8	+ 0.9	+ 1.8
Durable goods	+ 0.2	– 2.2	+ 4.4	– 1.0	+ 1.5	+ 2.0
Non-durable goods and services	+ 0.6	– 8.6	+ 3.5	+ 5.4	+ 0.8	+ 1.8
Private household disposable income	+ 1.6	– 2.9	+ 1.9	+ 0.8	+ 0.1	+ 2.6
	As a percentage of disposable income					
Household saving ratio						
Including adjustment for the change in pension entitlements	8.6	13.3	12.0	8.8	8.0	8.7
Excluding adjustment for the change in pension entitlements	8.0	12.8	11.4	8.3	7.5	8.2
	Percentage changes from previous year					
Loans to domestic non-banks (end of period)	+ 4.2	+ 3.7	+ 6.6	+ 5.0	+ 1.8	+ 5.1
Consumer prices						
National	+ 1.5	+ 1.4	+ 2.8	+ 8.6	+ 7.5	+ 3.8
Harmonised	+ 1.5	+ 1.4	+ 2.8	+ 8.6	+ 7.4	+ 3.5
Core inflation[2]	+ 1.7	+ 2.0	+ 2.3	+ 5.1	+ 7.8	+ 4.8

Source: WIFO, OeNB, Statistics Austria. 2023 and 2024: 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. – [1] Private households including non-profit institutions serving households. – [2] Excluding energy, food, alcohol and tobacco.

As a result of buoyant consumer price inflation, high wage settlements are also expected in 2023. Gross wages and salaries per employee will increase by 8.2 percent in 2023 and by 7.2 percent in 2024 (nominal). Despite the significant increases, they will initially only barely compensate for inflation. Gross real wages per employee (deflated by the CPI) increase only slightly in 2023 (+0.7 percent) after the significant decline in the previous year. Strong increases in gross and net real wages are expected in 2024 (+3.3 percent and 3.2 percent, respectively).

4.4 Upswing in the labour market is coming to an end

Labour supply continues to increase throughout the forecast period despite the economic slowdown. Several factors are responsible for this: the increase in the participation rate of older workers, partly due to past pension reforms[1], the continuous increase in the labour force participation of women and better educated cohorts[2] increase the domestic labour supply; at the same time, a further increase in the supply

The economic slowdown is dampening employment growth. As labour supply continues to grow, unemployment rises in 2023.

[1] The employment rate will increase slightly mainly due to the gradual increase in the statutory retirement age for women starting in 2024.

[2] A higher level of education is associated with higher labour force participation.

of foreign labour is expected, mainly from EU countries, but also from Ukraine. The total number of persons in dependent active employment will increase by 1.0 percent in 2023 and by the same amount in 2024 (2022 +3.0 percent). In 2023, the increase in employment will not be sufficient to reduce unemployment significantly, given the expansion in labour supply. The unemployment rate according to national definition was 6.3 percent in 2022. A slight increase to 6.4 percent is forecast for 2023 and a rate of 6.1 percent for 2024.

Table 11: **Labour market**

	2019	2020	2021	2022	2023	2024
	Change from previous year in 1,000					
Demand for labour						
Persons in active employment[1]	+ 61.4	– 76.6	+ 96.9	+ 115.6	+ 41.0	+ 43.0
Employees[1,2]	+ 58.9	– 76.1	+ 90.4	+ 110.2	+ 40.0	+ 40.0
National employees	+ 12.3	– 53.9	+ 28.1	+ 22.9	– 10.0	± 0.0
Foreign employees	+ 46.6	– 22.2	+ 62.4	+ 87.4	+ 50.0	+ 40.0
Self-employed[3]	+ 2.5	– 0.5	+ 6.5	+ 5.4	+ 1.0	+ 3.0
Labour supply						
Population of working age						
15 to 64 years	+ 11.4	+ 9.9	+ 5.4	+ 48.6	+ 13.0	+ 2.6
Labour force[4]	+ 50.6	+ 31.7	+ 19.0	+ 47.0	+ 47.0	+ 35.0
Labour surplus						
Unemployed[5]	– 10.8	+ 108.3	– 77.9	– 68.6	+ 6.0	– 8.0
Unemployed persons in training	– 6.8	– 4.9	+ 13.2	– 0.8	– 1.0	– 3.0
	Percent					
Unemployment rate						
As a percentage of total labour force (Eurostat)[6]	4.8	6.0	6.2	4.8	4.9	4.7
As a percentage of total labour force[5]	6.6	8.9	7.2	5.6	5.7	5.5
As a percentage of dependent labour force[5]	7.4	9.9	8.0	6.3	6.4	6.1
	Percentage changes from previous year					
Labour force[4]	+ 1.1	+ 0.7	+ 0.4	+ 1.0	+ 1.0	+ 0.8
Persons in active dependent employment[1,2]	+ 1.6	– 2.0	+ 2.5	+ 3.0	+ 1.0	+ 1.0
Unemployed[5]	– 3.5	+ 35.9	– 19.0	– 20.7	+ 2.3	– 3.0
Persons (in 1,000)	301.3	409.6	331.7	263.1	269.1	261.1

Source: WIFO, Eurostat, Federation of Social Insurances, Public Employment Service Austria, Statistics Austria. 2023 and 2024: forecast. – [1] Excluding persons in valid employment contract receiving child care benefit or being in military service. – [2] According to the Federation of Social Insurances. – [3] According to WIFO, including liberal professions and unpaid family workers. – [4] Persons in active employment plus unemployed. – [5] According to Public Employment Service Austria. – [6] 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.

5. The risk environment

The projection presented here describes the most likely scenario for economic development from today's perspective under the assumptions made. Actual developments may, however, differ due to a variety of factors.

WIFO has not significantly revised its forecast since the last calculation in March 2023. Nevertheless, the downside risks have increased further. With regard to inflation, core inflation in particular poses risks. It could prove more persistent than assumed if incomes rise more than forecast and profit margins are maintained. Buoyant demand for services would add to the risk. If declines in commodity prices are passed on delayed or asymmetrically, core inflation will also remain high for longer.

Tighter monetary policy in response to high inflation also entails risks. It cannot be ruled out that the interest rate hikes will lead to turbulence in the European banking sector. Distortions could also occur in the event of sharp fall in house prices. Although a decline in prices has a corrective effect in view of the high overvaluation of real estate, the adjustment process itself harbours risks. In the case of loan-financed real estate, price reductions result in changes in the valuation of the loan collateral, which can lead to a deterioration in the conditions for new loans. In the worst case, this could have a negative impact on the real economy through reduced lending.

Further downside risks to the domestic economy arise from the recession in manufacturing. In the past, such a recession had often spread to market-related services, contributing to a broader recession.

Upside risks to domestic demand include fiscal policy. The federal government is currently considering new expenditures, such as special monthly subsidies for low-income households with children. If fiscal policy were to be more expansionary than assumed, this would support real GDP growth, but at the same time reignite inflation. Similar consequences would arise if households were to use the (forced) savings accumulated during the COVID-19 pandemic for consumption purposes to a greater extent than assumed in this forecast.

The international environment remains exceptionally uncertain. The turmoil in the banking sector and geopolitical tensions have introduced new risks. A fragmentation of world trade that could follow from the geopolitical conflicts poses a downside risk to the global economy and would also entail significant economic costs for Austria. Moreover, the rapid global tightening of monetary policy in 2022 revealed the vulnerability of some emerging markets to over-indebtedness. Last but not least, the further course of the geopolitical tensions around Taiwan, the Ukraine war and the political conflict between Russia and the EU, the USA and NATO is also difficult to predict. The likelihood of the conflict spiralling out of control is increasing. The Doomsday Clock now stands at 90 seconds to midnight – closer to a global catastrophe than at any time since its inception 76 years ago.