INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/26

AUSTRIA

2016 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT FOR AUSTRIA

February 2017

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2016 Article IV consultation with Austria, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis following discussions that ended on December 13, 2016, with the officials of Austria on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 13, 2017.
- An **Informational Annex** prepared by the IMF staff.

The documents listed below have been or will be separately released.

Selected Issues

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February 2, 2017

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2016 Article IV Consultation with Austria

On February 1, the Executive Board of the IMF concluded the Article IV consultation[1] with Austria, and considered and endorsed the staff appraisal without a meeting.[2]

Austria is prosperous and stable. The economy has weathered the global financial crisis (GFC) relatively well, and output surpassed pre-crisis levels in 2011. While growth has been slow in recent years, inequality and poverty are low, and living standards high.

The economic recovery has strengthened in 2016. GDP growth in 2016 is estimated at 1.4 percent, an improvement over the average growth of 0.6 percent in 2012–15. Growth has been broad-based, driven by private consumption supported by income tax cuts, a recovery in investment, and higher public consumption due to spending on refugees. Employment growth has picked up as well, and unemployment has stabilized at below 6 percent. At 1.5 percent y/y in November 2016, inflation is gradually picking up from low levels, driven mainly by rising energy prices and price hikes in tourism-related services. The outlook for 2017 appears similarly robust, while in the medium term growth would decline toward its potential rate, which IMF staff estimate at just above 1 percent. Risks to the outlook are mainly external, with limited likely impact overall.

Executive Board Assessment

In concluding the 2016 Article IV consultation with Austria, Executive Directors endorsed the staff's appraisal as follows:

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

Austria benefits from high levels of stability and social cohesion. Per capita income is high, unemployment comparatively low (even though higher than previously), social protection systems are strong, and the society is among the most equitable of advanced economies.

The overall outlook is solid, but potential growth is low. Growth picked up in 2016, but is projected to slow gradually toward the medium-term potential rate of just above 1 percent as the output gap closes and fiscal policy turns back to consolidation. Unemployment is set to remain elevated for some time as employment creation just keeps pace with the rising labor force, while inflation is projected to gradually rise to slightly above 2 percent in the medium term.

Risks arise from a number of external factors, but are overall limited. International political fragmentation or slow growth in other advanced economies and/or emerging markets would undermine Austria's performance, largely through the trade and financial channels. However, with the European Single Market providing a stable economic framework and bank exposure to risks in CESEE declining, the overall vulnerability of the Austrian economy is limited.

Raising the economy's potential is important to raise living standards further and lower unemployment, as well as to ease the fiscal burden of demographic change. A comprehensive reform package should focus on four key areas: (i) structural reforms to strengthen competition and further reduce firms' administrative burden; (ii) raising public investment to support private sector productivity and investment; (iii) shifting the tax mix away from labor toward property, pollution, and consumption; and (iv) providing incentives for higher labor force participation among elderly workers, as well as for full-time employment of women.

Long-term fiscal sustainability requires additional reforms. While projections indicate a reduction of the fiscal deficit and debt in the medium term—largely on account of interest savings and restraint in government consumption—fiscal pressures will re-emerge over the longer term as the population ages, and debt will start to rise again. To ensure fiscal sustainability in such an environment, the current window of opportunity should be used to put in place efficiency-boosting expenditure reforms in health, education, and subsidies, as well as further pension reform measures. To be successful, many of these reforms require adjustments in fiscal relations between the federal and subnational governments. The potential for savings is significant, and, in combination with growth-raising reforms, sufficient to ensure long-term fiscal sustainability. Full implementation of these reforms would also allow reducing the labor tax wedge further.

Maintaining financial stability calls for ensuring that banks raise capital as planned and availing regulators with macroprudential tools to address potential risks in the real estate market. Boosting banks' capital buffers remains important, even though the low-growth, low-interest rate environment makes this challenging. The authorities' introduction of a systemic risk capital buffer is welcome—they now need to ensure that banks will meet their capital targets as scheduled. This is all the more important as the environment for banking remains difficult both at home and abroad, and new challenges may arise. Financial stability risks from the real estate markets are currently limited; nonetheless, regulators should be given the legal authority to use macroprudential instruments at their discretion. To preserve Austria's position as a financial center, the authorities will also need to bolster its AML/CFT framework, notably by enhancing supervision and banks' compliance.

Austria: Main Economic Indicators, 2011–22
(Annual percent change, unless otherwise indicated)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
					Est.	Projections					
NATIONAL ACCOUNTS											
Real GDP (expenditure)	0.7	0.1	0.6	1.0	1.4	1.3	1.2	1.3	1.1	1.1	1.1
Domestic demand	0.2	0.0	0.1	0.6	1.6	1.3	1.2	1.4	1.2	1.2	1.1
Consumption	0.4	0.1	0.0	0.6	1.3	1.0	1.0	1.5	1.1	1.2	1.3
Private	0.5	-0.1	-0.3	0.0	1.6	1.4	1.4	1.7	1.4	1.1	1.2
Public	0.2	0.7	0.8	2.1	0.6	0.0	0.0	1.1	0.4	1.3	1.5
Gross fixed capital formation	1.4	2.2	-0.9	0.7	2.7	2.1	2.1	1.1	1.5	1.1	0.8
Private	2.0	1.9	-0.7	0.9	2.9	2.3	1.8	1.5	1.3	1.1	1.1
Public	-2.5	3.6	-1.7	-0.6	1.0	0.4	4.3	-1.8	2.9	1.0	-1.4
GNFS exports	1.7	0.5	2.3	3.6	3.9	1.3	2.2	2.4	2.4	2.6	2.5
GNFS imports	1.1	0.7	1.3	3.4	4.4	1.3	2.4	2.8	2.6	2.8	2.8
Contribution to GDP (percentage points)											
Final domestic demand	0.6	0.6	-0.2	0.6	1.5	1.2	1.2	1.3	1.2	1.1	1.1
Net exports	0.3	0.0	0.6	0.2	-0.1	0.1	0.0	-0.1	0.0	0.0	0.0
Inventories and statistical discrepancy	-0.2	-0.4	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment (% GDP)	24.0	23.8	23.7	23.5	23.6	23.8	24.0	23.9	24.0	24.0	24.0
Public	4.4	4.5	5.5	4.2	3.7	3.8	3.8	3.7	3.7	3.7	3.6
Private	19.6	19.4	18.2	19.3	19.9	20.0	20.2	20.3	20.3	20.3	20.4
Gross national savings (% GDP)	25.5	25.8	26.0	25.4	26.0	26.2	26.3	26.1	26.1	26.1	26.1
Public	2.2	3.1	2.7	3.2	2.3	2.7	3.0	3.1	3.3	3.1	3.0
Private	23.3	22.7	23.3	22.2	23.6	23.5	23.2	23.0	22.8	23.0	23.1
Potential output	1.1	1.0	1.1	0.6	0.9	0.9	0.9	1.1	1.1	1.1	1.1
Output gap (% potential GDP)	-0.2	-1.0	-1.5	-1.2	-0.6	-0.2	0.1	0.3	0.2	0.2	0.2
LABOR MARKET											
Employment	1.3	0.5	0.6	0.9	0.7	0.8	0.6	0.5	0.2	0.2	0.0
Wages (hourly)	3.2	2.8	2.7	2.0	2.6	2.4	2.2	2.5	3.0	2.9	3.1
Unemployment rate (% labor force)											
EU harmonized rate	4.9	5.3	5.6	5.7	6.1	5.9	5.9	5.9	5.9	5.9	5.9
National definition	7.0	7.6	8.4	9.1	9.1	8.9	8.8	8.7	8.7	8.6	8.6
PRICES											
Consumer prices (avg)	2.6	2.1	1.5	0.8	0.9	1.6	1.8	2.1	2.2	2.2	2.2
Consumer prices (eop)	2.8	1.9	0.7	1.1	1.5	1.6	1.9	2.3	2.2	2.2	2.2
Core CPI (eop)	2.6	2.1	1.5	1.9	1.8	1.8	1.9	2.0	2.0	2.0	2.0
GDP deflator	2.0	1.6	1.8	1.9	1.6	1.7	1.8	2.1	2.1	2.1	2.1
MACRO-FINANCIAL											
Broad money	2.3	3.3	4.3	5.0	3.1	3.0	3.0	3.4	3.2	3.2	3.2
Credit to the private sector	0.8	-0.2	-2.0	1.8	3.1	3.0	3.0	3.4	3.2	3.2	3.2
Corporations	1.1	-0.4	-5.0	-0.3	2.1	2.3	2.6	3.4	3.3	3.5	3.1
Households	0.5	0.0	1.4	3.9	4.1	3.6	3.5	3.3	3.1	3.0	3.4
GENERAL GOVERNMENT FINANCES (% GDP)											
Revenue	49.2	49.9	50.0	50.6	49.5	49.5	49.5	49.5	49.5	49.5	49.5
Expenditure	51.5	51.2	52.8	51.6	50.9	50.6	50.2	50.0	49.9	50.0	50.1
Net lending/borrowing	-2.2	-1.4	-2.7	-1.0	-1.4	-1.2	-0.7	-0.5	-0.4	-0.6	-0.7
Structural balance	-1.7	-1.0	-0.4	0.2	-0.8	-0.7	-0.7	-0.6	-0.5	-0.7	-0.8
Structural primary balance	1.0	1.6	2.1	2.6	1.4	1.3	1.2	1.2	1.2	1.0	0.8
Gross debt	82.0	81.3	84.4	85.5	83.6	81.3	78.9	76.3	74.1	72.4	70.8
BALANCE OF PAYMENTS											
Current account (% GDP)	1.5	2.0	2.4	1.8	2.4	2.4	2.3	2.2	2.1	2.1	2.1
Export volume (goods and services)	1.7	0.5	2.3	3.6	3.9	1.3	2.2	2.4	2.4	2.6	2.5
Import volume (goods and services)	1.1	0.7	1.3	3.4	4.4	1.3	2.4	2.8	2.6	2.8	2.8
Int'l investment position, net (% GDP)	-3.2	1.3	2.2	2.9	5.5	7.7	9.6	11.4	13.1	14.7	16.2
MEMORANDUM ITEMS											
Nominal GDP (bn €)	317	323	330	340	350	361	372	384	397	409	423
Population (million)	8.4	8.5	8.5	8.6	8.7	8.8	8.8	8.9	8.9	9.0	9.0
GDP per capita ($)	48,381	50,533	51,390	43,750	44,679	44,321	45,264	46,571	47,911	49,139	50,455
US$/€ (rate; annual avg)	1.29	1.33	1.33	1.11	…	…	…	…	…	…	…
Real effective exchange rate	-1.5	1.9	2.7	-2.7	0.8	-0.1	0.0	0.0	0.0	0.0	0.0

Sources: Authorities' data and IMF staff estimates and projections.

INTERNATIONAL MONETARY FUND

AUSTRIA

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

January 13, 2017

KEY ISSUES

Context: Austria is prosperous and stable. Nevertheless, it can still improve its economic performance to ensure a continuing rise in incomes and employment within a stable macroeconomic environment. To this end, a comprehensive package of structural and fiscal reforms can raise low GDP growth and ensure the steady decline of public debt. Financial system stability needs to be maintained in a challenging environment.

Outlook and risks: After a pick-up in 2016 supported by a tax cut-driven fiscal stimulus and a recovery in investment, growth is expected to gradually decline to potential. Inflation would gradually rise to above 2 percent in the medium term. Unemployment has stabilized, but remains high by Austrian standards (though low compared to other Euro Area countries). Risks arise from external factors such as international political fragmentation, slower global growth, and a possible rise in risk premia embedded in global interest rates.

Raising GDP growth: Structural reforms to boost competition and reduce firms' administrative burden, higher public investment, shifting the burden of taxation away from labor, and enabling higher labor force participation would raise GDP growth, support higher employment and living standards, and ease fiscal strains.

Preserving fiscal sustainability: Public debt peaked at 85½ percent of GDP in 2015, and fiscal consolidation is underway after the stimulus in 2016. However, to meet ageing-related costs in the medium to long term, efficiency-boosting expenditure reforms in health, education, and subsidies, as well as further pension reform measures, need to be implemented. Many of these reforms require adjustments in fiscal relations between the federal and subnational governments to realize their full potential.

Maintaining financial stability: The financial system is stable, but capital levels of large banks are still low relative to peers, and raising them should be a priority. At the same time, the low-interest rate environment, high bank costs, and legacies of heavy engagement in emerging Europe call for significant adjustments in the banks' business models. Macroprudential tools to address potential risks in the real estate market need to be made available to the regulators.

Approved By
Mahmood Pradhan (EUR) and Yan Sun (SPR)

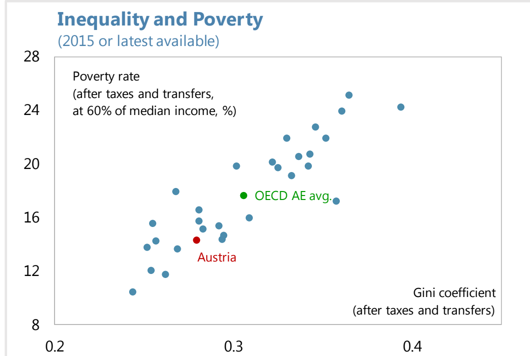
Discussions for the 2016 Article IV consultation were held in Vienna during December 2–13, 2016. The mission comprised Messrs. Gueorguiev (head), Pitt, Yehoue (all EUR), and Andrle (RES). Mr. Smith and Ms. Calixto (both EUR) assisted from headquarters. Ms. Erbenova and Mr. Just (both OED) joined the discussions.

CONTENTS

ANNEXES

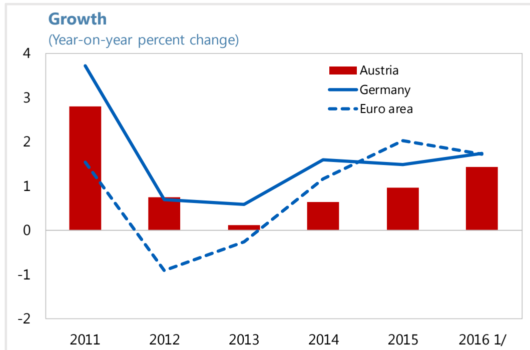
RECENT DEVELOPMENTS

1. **Austrians enjoy high quality of life.** The economy has weathered the global financial crisis (GFC) relatively well, and output surpassed pre-crisis levels in 2011. While growth has been slow in recent years, inequality and poverty are low, and living standards high.



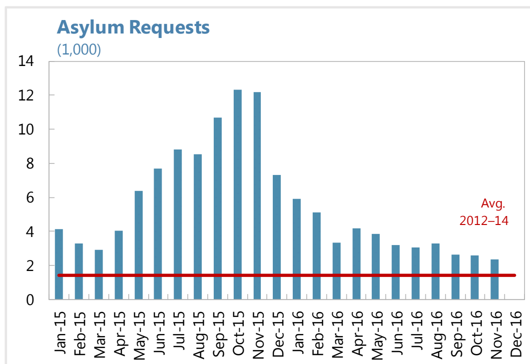
Source: OECD.

2. **The recovery has strengthened.** GDP growth in 2016 reached 1.4 percent (y/y) in 2016:Q1–Q3, and is estimated at 1.4 percent for the year as a whole. Growth has been broad-based, driven by private consumption supported by income tax cuts, a recovery in investment, and higher public consumption, in part due to spending on refugees. Employment growth has picked up in 2016 (Figure 1), catching up with the rising labor supply driven by migration and higher labor force participation. As a result, unemployment has stabilized recently, at 5.8 percent in November (EU harmonized rate) although it remains elevated relative to historical levels.[1] At 1.5 percent y/y in November, inflation is picking up from low levels, driven mainly by price hikes in tourism-related services.



Sources: National authorities and IMF staff estimates.
1/ Estimate.

3. **Refugee inflows have slowed significantly.** Austria received 89,000 asylum seekers in 2015, one of the highest figures in the EU relative to the population. Arrivals of refugees have since slowed sharply and processing of asylum applications is gradually catching up. Policies to integrate accepted asylum seekers into the labor market and society are being implemented, supported by a €0.6-1 billion increase in refugee-related fiscal spending in 2016 relative to 2015. Nonetheless, significant challenges remain, such as a language barriers and low skills.



Source: National authorities.

4. **The external position remains broadly in line with fundamentals and desirable policies** (Annex I). The External Balance Assessment suggests that the current account balance in 2016 was somewhat below the norm, while the REER was modestly overvalued. Policy gaps explain about a third of the current account gap/REER overvaluation, with the main policy effect coming from high health expenditure relative to trading partners (see ¶20 and footnote 8). Staff expects the current

[1] The national unemployment rate, based on registered unemployment, stood at 8.9 percent in December.

account surplus to gradually decline from some 2½ percent of GDP in 2016 to 2.1 percent of GDP in the medium term, as steadily improving business and consumer sentiment nudge private investment and consumption higher (Tables 1 and 3). The international investment position, currently moderately positive, should strengthen accordingly.

5. **Political situation.** The coalition government of Social Democrats and the right-of-center People's Party holds a small parliamentary majority. The partners' views on some economic issues, including further fiscal reforms, diverge at times. The need to build political consensus sometimes slows down the design and implementation of economic policy measures. The next parliamentary elections are due in September 2018. In a re-run of the second round of the presidential election in December 2016, Alexander van der Bellen, backed by the Green Party, defeated Norbert Hofer of the right-wing Freedom Party.

OUTLOOK AND RISKS

A. Outlook

6. **Growth is projected to slow in the medium term, while inflation would gradually normalize.** In 2017, GDP growth is projected to slow marginally to 1.3 percent as the 2016 fiscal stimulus tapers off. Current momentum in private investment and employment, strengthening demand in major trading partners, and positive credit growth, supported by the ECB's accommodative policy stance, should underpin GDP growth around that level. In the medium term, the closing negative output gap and the projected moderate fiscal consolidation should see growth revert to its potential rate of just above 1 percent. With the output gap eventually turning mildly positive, inflation should run somewhat above 2 percent in the medium term.

B. Risks

7. **Risks to the outlook are largely external, with likely limited overall impact (Annex II):**

- *International political fragmentation:* Increasingly inward-oriented economic policies in some trading partners may undermine international policy coordination and collaboration. This would affect Austria, a very open economy, through the export and FDI channels. Also, prolonged uncertainty over the modalities of Brexit could affect Austria via trading partners, although the impact would likely be small.[2] Lastly, should immigrant inflows resurge due to further dislocation in the Middle East, Austria's fiscal and economic capacity to absorb refugees could be strained.

- *Global growth:* A slowdown of growth in non-European emerging markets, notably China, would affect Austria largely indirectly through trading partners. However, a deceleration in Central,

[2] Austria's economic links with the UK are limited. Exports of goods to Britain comprise only about 3 percent of total exports, and the share in tourism is similar. However, Germany, Austria's most important trading partner taking 30 percent of Austria's exports, is more exposed through trade, direct investment, and financial links. The Brexit repercussions therefore affect Austria largely indirectly, through their impact on Germany and other partners.

Eastern, and Southeastern Europe (CESEE) countries, which take 31 percent of Austria's exports and with which its banks have extensive financial relations, could affect growth directly, as well as the financial system. More broadly, structurally weak growth in Austria and other advanced economies would make fiscal consolidation and debt reduction more difficult.

- *Financial conditions:* A tightening of global financial conditions caused by a rise in risk premia could be an upside risk for Austria, as its sovereign debt is widely regarded as a safe-haven asset. On the other hand, were Austrian banks' profitability to be significantly reduced by materialization of political or regulatory risks in CESEE countries, confidence in Austria's financial stability could be affected and financial conditions deteriorate.

However, the impact of these risks would likely be limited, as the European Single Market, the destination of 70 percent of Austria's exports, continues to provide a stable economic framework. Also, declining bank exposure to risks in CESEE is containing vulnerabilities.

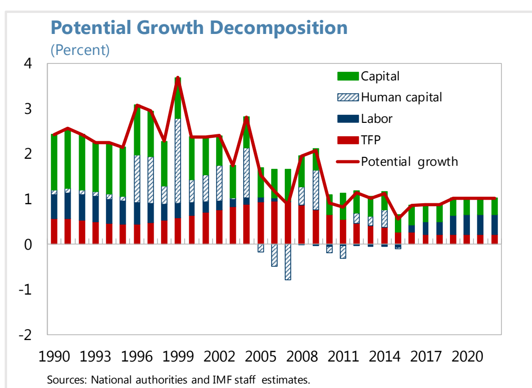
Authorities' views

8. The authorities broadly concurred with the staff's assessment. However, they estimated medium-term potential growth somewhat higher, at around 1¼–1½ percent, based on a higher total factor productivity (TFP) growth, which led to marginally higher projections of growth in 2017 and beyond. They were also more optimistic about containing non-demography related spending in the long term. Concerning risks, the authorities emphasized that Austria, as a small open economy, was dependent on open access to markets, and also highlighted the direct and indirect effects of a potential slowdown in emerging markets, especially in CESEE. At the same time, they agreed that banks' exposure to risks in CESEE had declined with divesting of subsidiaries by several banks.

POLICIES

Increasing potential output by raising productivity, public investment, and labor force participation would boost employment and living standards and ease fiscal strains. Efficiency gains in public spending would create fiscal space for growth-friendly policies and ensure the continued decline of public debt. Maintaining financial stability is a key component of a stable overall macroeconomic environment.

A. Raising Potential Output

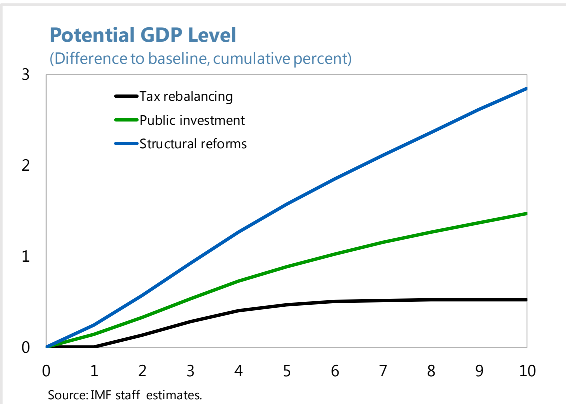


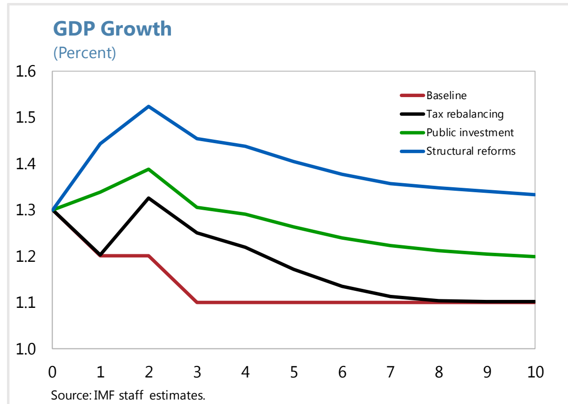
9. Raising the economy's potential would require sustained and coordinated efforts. Currently, staff estimates the potential growth rate at just above 1 percent, limited mainly by low TFP growth. Higher potential output—which would manifest itself in a higher potential and actual growth rate for a number of years—would help absorb the rising labor force, ensure a continuing rise in living standards, and ease the fiscal burden of demographic change. However, with Austria near the best practice in many structural policies, there are no easy gains to be made from a single policy measure. Nonetheless, a package of structural and fiscal policies can have an appreciable impact on potential output—some 3 percent within ten years and up to 5 percent in the long run (chart).

Effects of Reform on Potential GDP and Growth Rate

The level of potential GDP would rise permanently …

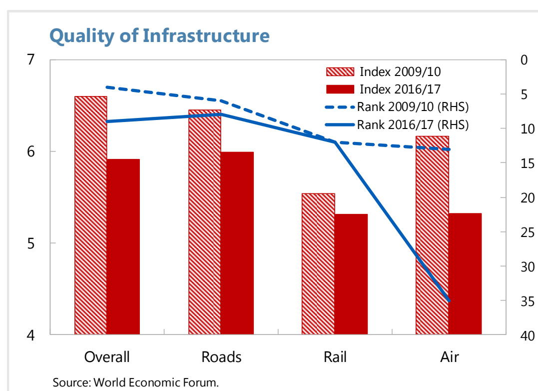
… with the growth rate rising above the baseline for a number of years.





10. Structural reforms need to concentrate on policies to strengthen innovation and competition. Austria performs well in many structural indicators of economic governance. But there is scope to lower barriers to entrepreneurship (regulations that hinder entry and competition in professional services, as well as regulations that impose high administrative burdens on companies, including start-ups) and barriers to investment in the network sectors. Improving Austria's product market regulation score by some 20 percent through reforms in these areas could boost potential output by about 1.5 percent in the medium term (Figure 6).[3] In this regard, the authorities' start-up promotion package announced earlier this year—providing administrative and financial aid—is a step in the right direction, as is the increased support for research and development (R&D) in 2016.

11. Higher public investment can enhance productivity. While Austria's infrastructure is of high quality, investment is low: in 2015, gross budget investment (including capital transfers) stood at only 3.7 percent of GDP, resulting in net investment below ½ percent of GDP. Moreover, Austria has fallen back in the World Economic Forum's global ranking of infrastructure quality between 2009/10 and 2016/17.[4] An increase in public investment, focusing on infrastructure bottlenecks, would raise the productivity



[3] See the accompanying Selected Issues Paper *Structural and Fiscal Measures to Increase Potential Output in Austria*

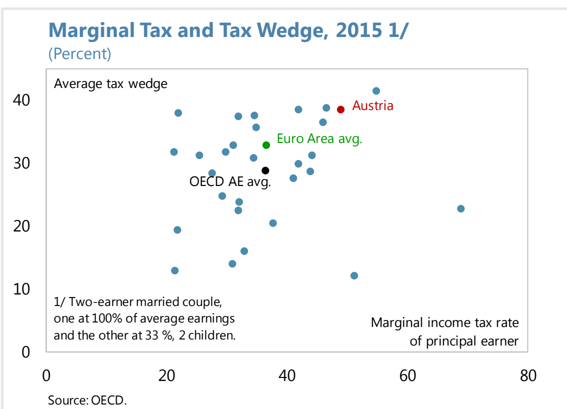
[4] However, in the World Bank's Logistics Performance Index, Austria's ranking in the infrastructure sub-index has improved over the same period.

of private sector investment. Staff's model simulation indicates that increasing public investment by ½ percent of GDP (which would bring it back to the levels of 2010–11), compensated by reform-driven cuts in government consumption, could raise GDP by about 1 percent in the medium term and up to 2 percent in the long term.

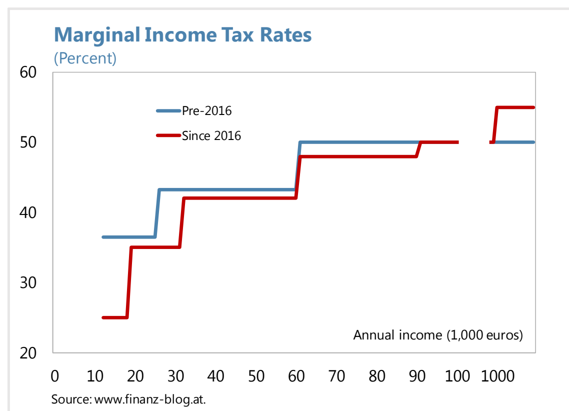
12. Shifting the tax mix would also raise potential output and employment. Despite recent tax relief, Austria's high labor tax wedge remains a drag on employment creation. Shifting the burden of taxation away from labor and toward property, pollution, and consumption (by improving VAT efficiency) would reduce economic distortions, improve resource allocation, and raise output. If low-income households are adversely affected by such a tax shift, they would need to be protected through the social assistance system by, e.g., raising the eligibility thresholds for means-tested social benefits and the associated amounts. A model simulation suggests that if one percent of GDP in income taxes is replaced by a combination of increased consumption and property taxes, potential GDP would rise by about ½ percent over the medium term.

Taxation of Wages and Personal Income

Austria has a high tax wedge …



… though the 2016 reform has reduced it somewhat



13. Higher labor force participation would raise output and ease pressures on social security funds. Overall, labor force participation (LFP) of both men and women is close to the OECD advanced economies (AE) average. However, in the age group of 55–64 it is significantly lower, and also lower than the Nordics––the leaders in LFP (Box 1). While low LFP and part-time work may very well reflect individual and societal preferences, they strain social security systems due to both lower contributions and higher demand for basic income support from pensioners with too low accumulated pension rights. LFP among the elderly is already on the rise and is likely to rise further in the long term as already legislated reforms to raise the pension age for women gradually take effect after 2024. However, bringing forward this increase, further tightening early retirement options, and indexing the pension age to life expectancy would generate further and faster savings. Measures to make full-time work more attractive for women (including through an extension of kindergarten and school hours where needed) should raise hours worked (Box 1). The planned introduction of incentives to work beyond the official pension age would help as well.

Authorities' views

14. The authorities agreed on the need to raise potential output. They outlined measures already implemented to this effect, but also pointed to economic, social, and political limitations on reforms.

- With regard to *structural reforms*, they pointed to initiatives already undertaken to reduce financial and administrative burdens on start-ups, as well as increase support for R&D. They agreed that deregulation of professional services and other heavily regulated professions could strengthen competition, but pointed out that some regulations were needed to ensure high quality standards. Staff agreed that quality and consumer protection should not be compromised and pointed to the experience of some Nordic countries and Switzerland that achieve high penetration and quality in professional services with less regulation.[5]

- The authorities agreed that *public investment* was important to support the economy. They were generally satisfied with Austria's quality of public infrastructure, and thought that public investment should focus on R&D, digitalization, and education. Some were skeptical about the productivity-raising effect of certain infrastructure projects. Staff agreed that infrastructure projects need to be carefully designed and prioritized to achieve maximum economic effect,

- With regard to the *tax mix*, while seeing the merit of further reduction in social security contributions, the authorities thought that finding offsetting tax measures would be politically difficult. They would prefer instead to rely on improved tax administration, where measures put in place in the course of 2016 should bear fruit in 2017, and on expenditure savings in the medium term. Staff encouraged the authorities to persevere in their efforts.

- On measures to raise *labor force participation*, the authorities agreed that improvements in provision of childcare, in particular the extension of kindergarten and school hours, would help. In this regard, they pointed to efforts underway to lengthen school hours, as well as to their recently legislated education/training guarantee for youth up to the age of 21. On pension system measures, views were split, with some satisfied with the effects of recently legislated reforms while others arguing for further measures before population ageing raised costs. Regarding integration of accepted asylum seekers, the authorities pointed to programs for language training and identification and recognition of skills, but noted that the asylum seekers' uneven skills slowed them in finding employment.

[5] See https://www.oecd.org/eco/reform/Sector-regulation-indicators.xlsx.

Box 1. Growth and Female Labor Force Participation

Raising female LFP can help cushion the impact of demographic change. Improving opportunities for full-time work for women and promoting employment for the elderly—both men and women—could have a significant effect on the labor supply.

Background (Box Figure 1): The increase in employment over the past 20 years has been entirely in part-time employment, and mostly by women who have higher incidence of part-time work than in other OECD AEs. Concomitantly, the average number of hours worked has declined significantly.

Causes: The relatively high incidence of part-time work by women may be due to personal or societal preferences (including caregiving for children or old people, which is cited by 38 percent of women as the main reason for working part-time).[1] Limited availability of childcare also likely plays a role, since not all facilities (especially outside cities) offer full-time care.[2] On the other hand, the share of children in childcare has increased significantly since 1995, and attendance is free or subsidized. The rapid increase in part-time work by men suggests that preferences in a rich society may shift toward a higher valuation of free time. With regard to low labor force participation of elderly workers, reasons include the relatively low retirement age for women (60 years, set to rise to 65 from 2024 to 2033), as well as options for early retirement for workers doing arduous work.

Childcare provision

Age group	Share in childcare 1995	2014
0-2	4.6	23.8
3-5	70.6	92.0
6-9	7.0	16.5

Source: Statistik Austria.

Impact: A high incidence of part-time work leads to lower pensions in an insurance-based system such as Austria's. However, old-age poverty in Austria is overall low, supported by a means-tested minimum income for pensioners.[3] Nonetheless, while the impact of part-time work on individuals is mitigated by the social security system, the cost in terms of public spending (and foregone social security contributions) can be significant. Indeed, Austria's public expenditure on pensions is among the highest in the OECD. Lastly, the level of potential output is lower than if more part-time workers worked full time.

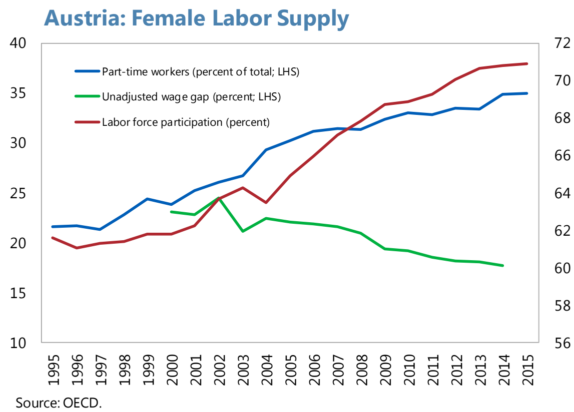
Policy measures: Reforms to the pension system have already been legislated (including an increase in the retirement age for women, and a tightening of eligibility for early retirement). Nonetheless, further reforms (though not gender-specific) will be required to contain rising pension costs. With regard to the high incidence of female part-time work, an increase in child care availability or long term care for the elderly could widen women's choices and encourage some to work full time.

Simulation: If policy measures were to lead to a decline in female part-time work to a level in line with other OECD AEs (with male part-time work unchanged) and a corresponding increase in full-time employment, full-time equivalent employment in Austria would rise by 2.9 percent, *ceteris paribus*.[4] An increase in overall LFP in the 55–64 age group to the OECD AE average (and employment of the additional workers) would increase employment by a further 3.5 percent.

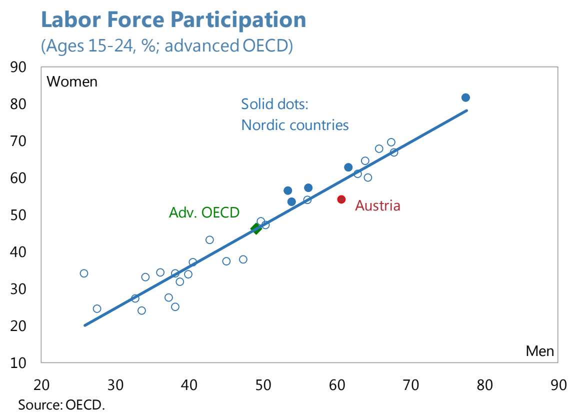
[1] Only 11 percent of women and 16 percent of men work part-time involuntarily, well below the average of OECD AEs.
[2] However, e.g., in Vienna, childcare facilities are open 11 hours or longer a day.
[3] The risk of poverty is, though, somewhat higher for women over 65 than for men (15 percent vs. 11 percent).
[4] Assuming that two part-time employees work as much as one full-time employee.

Box 1. Growth and Female Labor Force Participation (concluded)

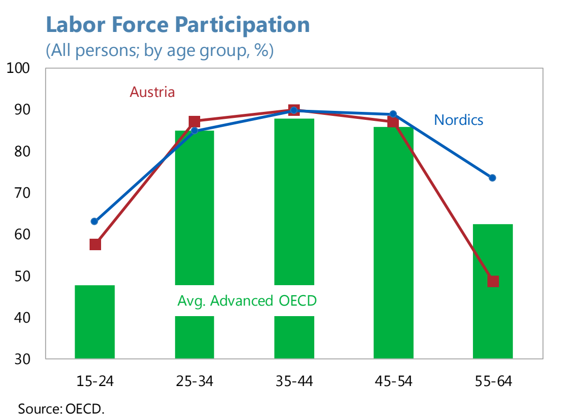
Female labor supply has increased …



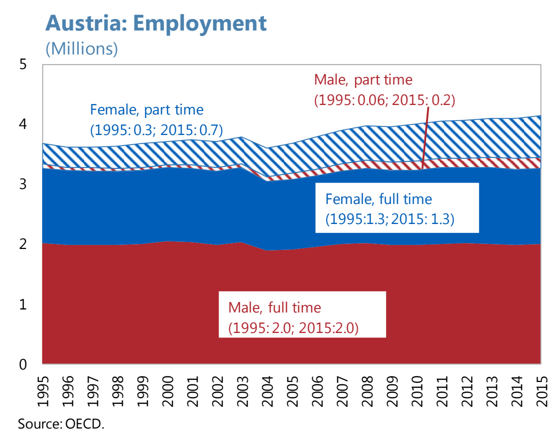
… and LFP is overall in line with AE peers …



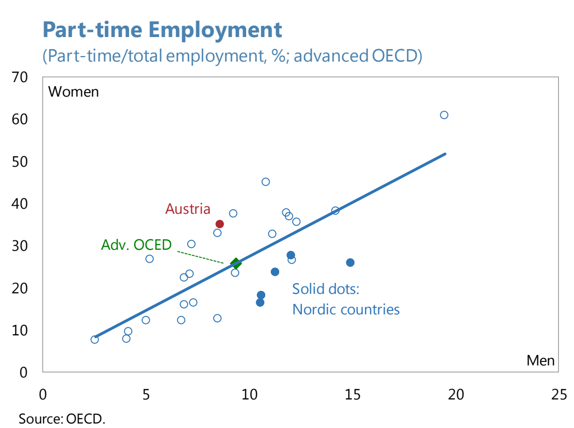
… but low for elderly workers, both men and women.



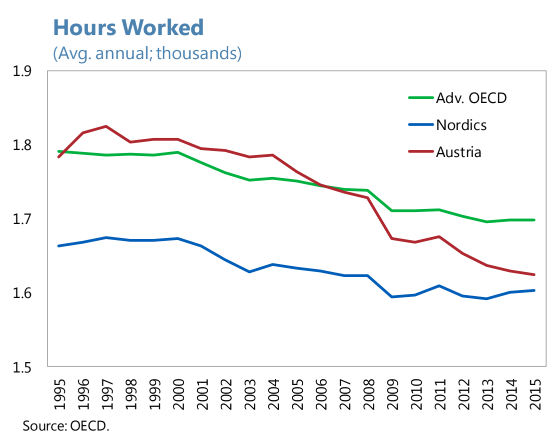
The rise in employment has been exclusively due to a rise in part-time work …



… which is disproportionately carried out by women …



… and has contributed to a decline in average hours worked.



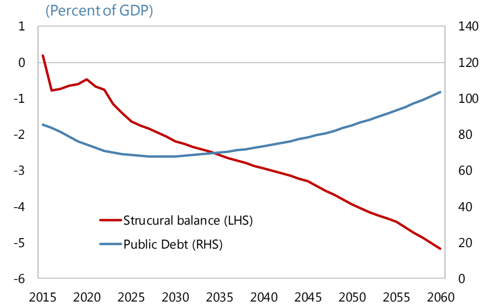
B. Ensuring Fiscal Sustainability

15. Tax cuts generated a fiscal stimulus in 2016. With a structural surplus of 0.2 percent of GDP (and a headline deficit of 1 percent), the fiscal outturn in 2015 was better than anticipated, in part due to early dividend payments ahead of an increase in capital gains taxation in 2016. Public debt stood at 85½ percent of GDP, and financing costs have declined further on the back of the ECB's quantitative easing policies. However, in 2016, the fiscal deficit is estimated to have widened to 1.4 percent of GDP (0.8 percent of GDP in structural terms), as income tax cuts took effect, compensating tax administration measures were implemented only gradually, capital gains tax revenue fell, and refugee-related spending increased. Nonetheless, staff estimates that public debt declined to below 84 percent of GDP.

16. Fiscal policy is set to gradually return the structural deficit to ½ percent of GDP, Austria's medium-term objective (MTO), by 2020 and reduce public debt. The authorities project that interest savings and restraint in public consumption would bring expenditure down by some 1¼ percentage points of GDP by 2020, more than enough to offset the ageing-driven rise in social benefits of ¼ percent of GDP (Table 2). This, as well as the positive effects of the HETA debt restructuring deal would bring gross public debt to some 71 percent of GDP by 2022, 13 percentage points down from its 2016 level (Annex III).

17. In the longer run, however, demography-related fiscal strains are emerging. Without additional measures, strong pressures arising from an increase in the share of pensioners in the population and higher healthcare and long-term care costs would drive up spending by some 3 percentage points of GDP, widen the budget deficit accordingly, and push public debt above 100 percent of GDP by 2060 (text chart).[6]

Long-term Fiscal Pressures
(Percent of GDP)



Source: IMF staff projections.

18. Moreover, both the medium term and the long term projections are subject to downside risks. In the medium term, the fiscal restraint envisaged for the wage bill and spending on goods and services, while certainly feasible, may run into political or implementation constraints, as the projected 2018–22 levels (relative to GDP) are notably below the averages for the last five years. In the long run, slower growth, lower labor force participation, or higher costs of social policies could jeopardize fiscal consolidation and lead to debt levels even significantly higher than in the baseline.

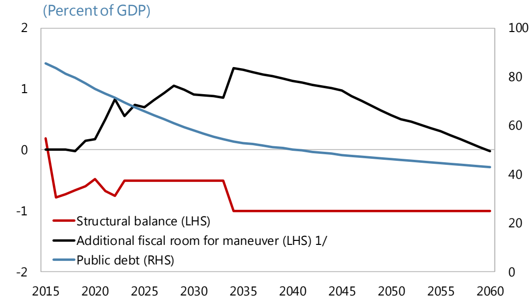
[6] In the 2015 Article IV consultation, staff projected debt to exceed 130 percent of GDP by 2060 on unchanged policies. The reduction to just above 100 percent of GDP in this round reflects: (i) the authorities' updated long-term demographic projections, reflecting recent trends in the labor force; (ii) the debt agreement with the creditors of HETA, the wind-down unit of the former Hypo Alpe Adria bank (see Annex II), (iii) updated interest rate and inflation projections, reflecting the latest WEO projections, and (iv) a downwardly revised 2015 debt outcome. These developments have also led to improved debt sustainability in 2017–22 (Annex II).

19. Maintaining debt on a steady downward path is important. The authorities' envisaged path toward a structural fiscal balance target of -0.5 percent of GDP strikes the right balance between reducing public debt and supporting the economy. Specifically, the essentially neutral fiscal stance in 2017 is appropriate in view of the still slightly negative output gap (Table 1). So is their plan to maintain this structural balance target until debt falls below 60 percent of GDP and risks to long-term sustainability of public finances are reduced, and relax it to -1 percent thereafter in line with EU rules. By rebuilding fiscal buffers, such a policy would: (i) increase the space for countercyclical fiscal response to growth shocks; (ii) allow absorbing potential materialization of contingent liabilities stemming from Austria's large banking sector and sizable export guarantees, (iii) help Austria regain its AAA rating, and thus keep borrowing costs low in the long term, and (iv) prevent a deterioration in Austria's external position.[7]

20. Efficiency-enhancing structural fiscal reforms would open up fiscal space. In the 2015 Article IV consultation report (Country Report No. 16/50), staff identified a number of areas in which significant savings in public expenditure could be realized while maintaining the quality of public service delivery. The main areas are the health and, to a lesser extent, education systems, which together comprise around one quarter of total public spending, as well as spending on subsidies.[8] Moreover, pension system measures (see ¶13) could reduce demographic spending pressures in the long term. Combined, the expenditure savings in all these areas could amount to 2½–3 percent of GDP over the medium to long run. Realizing these potential savings would also insure against risks to the medium-term outlook as noted above. Some of these reforms would require adjustments of fiscal relations between the federal and subnational governments with the aim of improving subnational entities' incentives to enhance the efficiency of service delivery (Box 2).

21. The fiscal space thus created is significant. Implementation of such fiscal reforms will allow meeting the authorities' targeted structural balance over the long term and thereby further reducing debt—rather than letting it rise again—and financing additional infrastructure investment of at least ½ percentage points of GDP as recommended in ¶10. Any remaining fiscal room for maneuver once the reforms are fully implemented could then be used for additional growth- and employment-enhancing measures, such as more infrastructure investment or labor tax cuts. This approach would re-create fiscal buffers against possible future shocks, as well as help lay the groundwork for higher growth.

Comprehensive Reform Scenario
(Percent of GDP)



Source: IMF staff projections.
1/ After achieving targeted structural balance and boosting public investment by 0.5% of GDP (as discussed in ¶10).

[7] With this deficit path, gross public debt would fall below 60 percent of GDP by 2029 and stabilize around 43 percent of GDP in the long run.

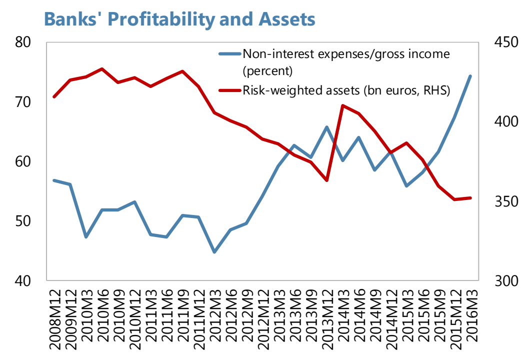
[8] A reduction in health expenditure would also contribute to maintaining an external position broadly in line with fundamentals (¶4).

Authorities' views

22. The authorities reaffirmed their commitment to Austria's MTO. They acknowledged longer-term fiscal pressures, as well as risks surrounding the projections, and agreed on the need for policy measures to maintain the MTO over the longer run. They also thought that healthcare, education, and subsidies offered opportunities for savings, but emphasized that quality standards needed to be maintained or improved, in particular in education. They also noted that, while a reform of fiscal federalism was desirable, political difficulties were significant, in part due to trade-offs between efficiency, autonomy and equity.

C. Maintaining Financial Stability

23. Austria's banking system as a whole is well capitalized, but large banks' capital buffers remain relatively thin. The country's banking system is sound with a capital adequacy ratio of 16.5 percent as of June 2016, but the capital buffers of large Austrian banks remain low compared to peers even though this gap has been reduced recently (Figure 4). A mitigating factor is that the average leverage ratio of Austrian banks is high at 6.5 percent at mid-2016, one of the highest in the Euro Area. The authorities are phasing in a systemic risk capital buffer of up to 2 percent in the twelve largest banks over 2016–19.



Source: National authorities and IMF staff estimates.

24. Risks to banks' portfolios have declined. Bank profits increased in 2015–16, largely owing to lower risk provisioning as the quality of bank assets improved, and higher profits in CESEE. To reduce risk further, banks have actively promoted conversion of Swiss franc mortgage loans to euro-denominated loans with gradual amortization in Austria, as recommended by staff (Annex IV), and a reduction in foreign-currency loans in CESEE. In a move that paves the way for a closure on the global financial crisis legacy, a large majority of HETA creditors representing nearly 99 percent of the claims have accepted the authorities' offer for a settlement giving senior and junior creditors an NPV of 90 percent and 45 percent, respectively, which avoids an involuntary restructuring under the Bank Recovery and Resolution Directive and problems with guarantees on Hypo Alpe Adria's liabilities extended by the state of Carinthia.

25. Credit dynamics are mixed. While business credit to Austrian firms remains subdued, lending to households has picked up (largely mortgages) against a background of rising house prices (Figure 3 and Box 3). In response, the authorities are drafting a law enabling the Financial Market Authority (FMA) to introduce real-estate-loan related macroprudential instruments (caps on the loan-to-value ratio, debt- and debt service to income ratio, amortization requirements etc.). Meanwhile, in November 2016 the European Systemic Risk Board (ESRB) issued a warning that house prices appear overvalued. In many CESEE markets, credit growth remains robust overall against a background of continuing strong deposit mobilization. This has allowed Austrian-owned

Box 2. Fiscal Federalism in Austria

Fiscal federal relations involve tradeoffs between equity, autonomy, and efficiency. In Austria, the different levels of government (federal, state, and local) are closely interlinked financially, and the system is fairly complex and rigid. This leads to spending inefficiencies, as sub-national authorities have little incentive to economize. On the other hand, the degree of spatial equity is high.

Features:

- *Size and complexity.* States and local authorities play a considerable role in providing public services. Together, they are responsible for about 31 percent of total public spending. Transfers flow from the federation to states and municipalities, as well as from states to municipalities, and from them to states.

- *Autonomy.* The fiscal autonomy of subnational governments is very narrow. Most taxes are levied at the federal level and shared in specific proportions among the federation, states, and municipalities. Only a small amount of taxes is levied by states (5½ percent of their revenue) and municipalities (14 percent of revenue). Expenditure autonomy is also very limited, as a large share of transfers from higher-level governments are earmarked.

- *Redistribution.* Austria has a strong redistributive mechanism, with revenue being allocated to ensure a similar level of public service provision across the country.

Implications:

- *Efficiency.* Limited revenue and spending autonomy demotivates efficiency, since more efficient provision of public services does not allow a reduction in taxation (and only to a limited extent a reallocation of funds for other purposes). This may go some way to explain why Austria has high spending on, e.g., health and education relative to the achieved results (see Country Paper 16/50).

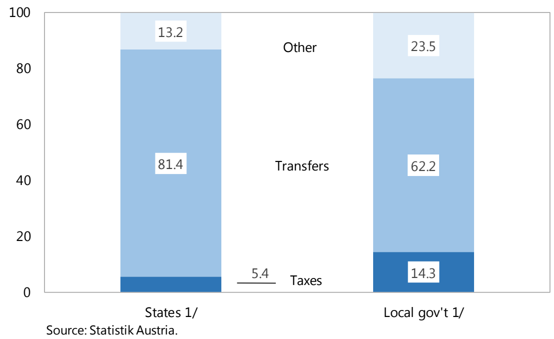
- *Equity.* However, limiting revenue autonomy, as well as significant redistribution, may help limit regional economic disparities, while a lower degree of spending autonomy implies that public services are supplied to broadly the same standards.

Reform options: With strong centralized social security systems—which ensure a degree of equity across the population independent of states' fiscal position—Austria is in a position to exploit the opportunities that greater fiscal autonomy offers. Higher revenue autonomy could lead to better use of efficient tax resources (e.g., property taxes, since these are locally determined). At the same time, most business and consumption taxes should continue to be set at the federal level to avoid beggar-thy-neighbor policies and economic distortions. Higher expenditure autonomy, accompanied by financial incentives such as sharing in the gain from reforms, benchmarking targets to best domestic and international practice, and rewards/penalties for under/overspending, would motivate the states to bring health and education spending per capita in line with other high-income federations without loss of quality (Box Figure 1). This need not come at the expense of equity; for example, neighboring Switzerland combines significant fiscal autonomy for its cantons, with a high degree of equity. The most recent agreement on fiscal equalization for 2017–22 takes some steps in this direction: the introduction of cost reduction paths, spending reviews and benchmarking aims at reducing healthcare spending while ensuring quality, while states gain autonomy over one, admittedly minor, tax.

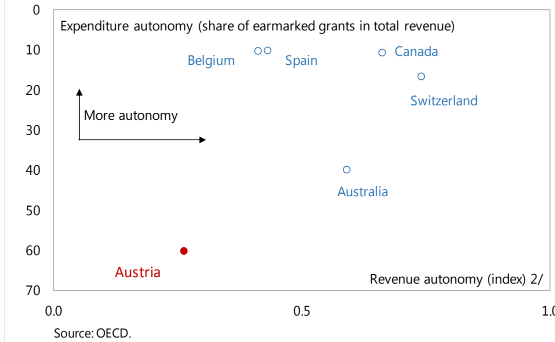
Box 2. Fiscal Federalism in Austria (concluded)

Subnational governments have little own revenue … *… and Austria stands out for its fiscal rigidity.*

Revenue Sources
(Percent of total, 2015)

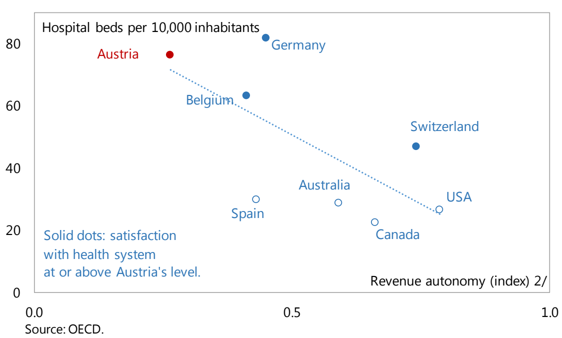


Revenue and Expenditure Autonomy
(Latest available data)

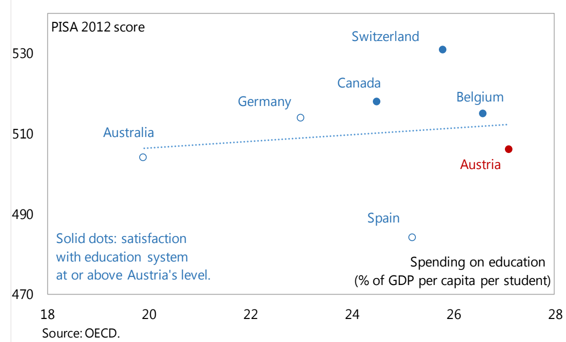


This helps explain high spending, e.g., in health and education, but limited efficiency.

Revenue Autonomy and Hospital Beds
(Latest available data)

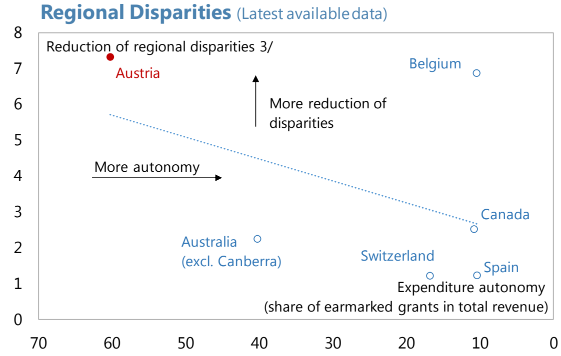


Education Spending and Results
(Latest available data)

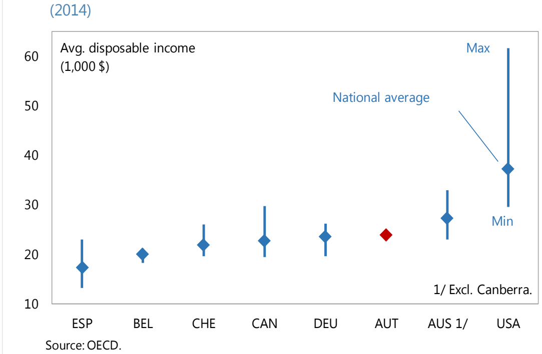


Interregional redistribution is relatively strong … *… but equity can also be achieved with more fiscal autonomy.*

Expenditure Autonomy and Reduction of Regional Disparities (Latest available data)



Regional Dispersion of Disposable Income
(2014)



1/ States exclude Vienna, local governments include Vienna.
2/ Revenue autonomy index: different revenue types are assigned an autonomy index between 0 and 1, dependent on the degree of control of local authorities over the revenue source. The overall index is the weighted average.
3/ Reduction of regional disparities: ratio of GDP per capita disparities across regions over disposable income disparities: (((Max(GDP per capita$_{states}$)-Min(GDP per capita$_{states}$))/GDP per capita $_{national}$)/ (((Max(Disp. income per capita$_{states}$)-Min(Discp. income per capita$_{states}$))/Disp. income per capita $_{national}$).

subsidiaries to extend credit at rates comparable or faster than the overall credit growth in these countries in 2016 while further reducing their dependence on parent-provided funding.[9] Thus, the plans to raise capital through cost rationalization and asset reduction have not adversely affected credit supply in these countries so far. The risk of this happening in the future is reduced by the overall profitability of CESEE subsidiaries and the fact that asset reduction is planned to occur mainly through sale of non-core assets rather than restraint on lending.

Private Sector Credit, September 2016
(percent, y-o-y)

		Subsidiaries of:		
	Total	RBI	Erste	UCBA 1/
Czech Republic	6.3	13.6	9.6	...
Slovak Republic	9.9	4.0	7.4	...
Hungary	-4.2	-3.5	8.1	9.0
Bulgaria	-0.6	1.4	...	1.2
Croatia	-5.0	-6.7	-4.5	-0.8
Romania	0.4	7.2	0.0	7.3
Bosnia	2.5	1.6	...	5.4
Serbia	8.5	3.7	30.8	10.0

1/ June 2016.
Sources: IFS, banks' quarterly reports.

26. **Slow credit demand, high costs, and declining interest margins make it challenging for banks to strengthen capital.** To meet their capital targets, banks rely on divesting non-core assets abroad and cutting costs to raise profitability with the aim of capitalizing profits. However, costs are being cut only slowly, and the low-growth, low-interest rate environment hampers a sustained increase in profits in the home market, while in CESEE markets higher profits are accompanied by higher economic, political, and regulatory risks. This calls for significant adjustments in the banks' business models and makes it challenging to raise capital. The authorities will need to stand firm in enforcing capital strengthening along the envisaged path, using the full range of tools available to them. This would bolster financial stability and place the banking system in a better position to finance private sector investment should credit demand recover with reforms that lead to faster potential growth.[10]

27. **Macroprudential tools to address potential risks in the real estate market need to be made available to the regulators.** While real estate-related risks—and banks' exposure to them—are currently limited, including due to overall conservative lending practices (Box 3), a law allowing the introduction of real estate-specific macroprudential tools should be passed as soon as possible to allow the authorities to stay ahead of the curve. This is all the more important since, as experience elsewhere shows, the design, development, and application of macroprudential tools is typically a time-consuming process, and implementation often needs to be phased. Measures to stimulate the supply response to the increased demand for housing in major cities should also be implemented, such as reviewing the zoning regulations and other restrictions on construction.

28. **To preserve Austria's position as a financial center, the authorities will need to strengthen the AML/CFT framework.** The 2016 Financial Action Task Force (FATF) Mutual Evaluation Report of Austria recommended a number of prioritized actions, including to enhance

[9] The loan to deposit ratio for Austrian-owned CESEE subsidiaries declined from 90 percent in 2015:Q3 to 88 percent in 2016:Q1.

[10] See accompanying Selected Issues Paper *Credit Growth and Economic Recovery in Europe After the Global Financial Crisis*.

the effectiveness of AML/CFT supervision and the implementation of preventive measures, as well as improvements in the investigation and prosecution of money laundering and in the use of financial intelligence.[11] The authorities have developed an action plan to implement the report's recommendations, including through, among other measures, strengthening of banks' compliance functions and an increase of supervisory agencies' resources, as well as legislation to implement the 4th EU AML Directive.

Authorities' views

29. The authorities underlined their commitment to stronger bank capitalization. They contended that banks were on track to meet their capital targets thus far, but assured staff that they would deploy all available tools to ensure this outcome should problems appear. They indicated that they were in regular consultation with banks to ensure interim targets were met.

30. The Austrian supervisory authorities shared staff's assessment that real estate-related risks were limited, while agreeing that macroprudential tools needed to be made legally available to them. They thought that the ESRB's warning did not sufficiently take into account initial conditions, including the low share of mortgage lending both as a percentage of GDP and in relation to banks' capital compared with other Euro Area countries, but focused only on price changes. They also explained that homeownership in Austria was low on account of the comparative prevalence of social and rental housing (above all in Vienna), and mortgage lending practices conservative, as evidenced by the low default and loss ratios on mortgages. Nonetheless, they agreed that the situation needed monitoring, and considered the passage of legislation to enable the FMA to develop and apply macroprudential tools as a priority. They also pointed out that they were already encouraging banks to shift consumers from variable to fixed-rate mortgages to reduce risks to debt service affordability.

31. The government emphasized that they were strongly committed to strengthen their AML/CFT framework. They explained that legislation to implement the European Union's 4th AML Directive and strengthen banks' risk analysis, customer due diligence, and compliance functions (including intra-bank group information exchange across borders) was being prepared. Meanwhile, negotiations to amend the Directive at the EU level were ongoing, *inter alia* to create a legal basis for intra-EU cooperation among supervisory authorities with regard to AML. They also indicated that they had formed an inter-agency committee to better coordinate AML/CFT work and hold to account individual agencies, and were planning to strengthen key agencies (the FMA and Financial Intelligence Unit) with more powers and personnel. However, they pointed out that much of the FATF's comments on Austria's AML/CFT framework pertained to implementation, and results of the measures taken now would take time to materialize.

[11] The FATF is an intergovernmental body tasked with setting standards and promoting effective implementation of measures to combat money laundering, finance terrorism, and other related issues.

Box 3. Recent Dynamics of House Prices in Austria

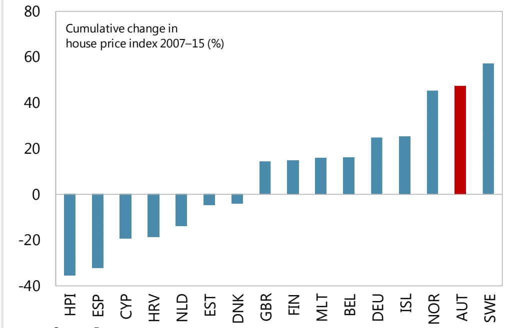
House price growth has been strong in recent years by international comparisons. The cumulative increase in the house price index over 2007–2015 was nearly 40 percent. To a large extent, this increase was driven by price dynamics in Vienna. The OeNB residential price index indicator, which assesses whether prices move in line with fundamental factors, points to an overvaluation of property prices of about 22 percent for Vienna, while prices in the rest of the country appear broadly in line with fundamentals.

Price increases in Vienna have moderated lately, while picking up in the rest of the country (Figure 3). In 2015, prices rose by 7.6 percent nationwide, of which 3.9 percent in Vienna and 9.6 percent in the rest of the country. As of June 2016, the year-on-year house price increase picked up to 9.5 percent, with 3.1 percent in Vienna and 12.8 percent elsewhere.

Factors underpinning recent housing price dynamics. Low interest rates over recent years have loosened credit constraints and increased households' borrowing capacity, putting upward pressure on housing demand. That said, prices have been kept high by supply side constraints and other idiosyncratic factors, especially in Vienna.[1] Reviewing and relaxing local planning systems and regulations to facilitate the supply response to price movement can help contain the price rises close to the long run trend.

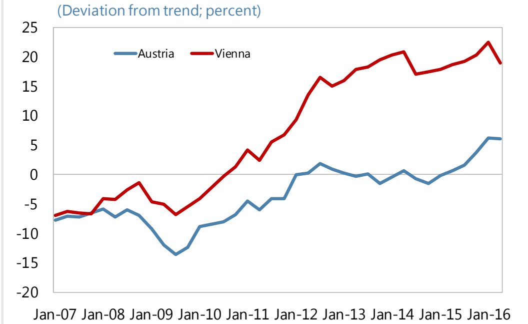
Are the rising prices a problem? Financial stability risks seem contained. Nominal real estate loan growth is in the 5–6 percent range and their stock accounts for around 20 percent of total loans (Figure 3). As of mid-2016, the average loan-to-value ratio for mortgage loans is about 65 percent, and the household debt-to-income ratio is about 90 percent, low compared to peers. Nonetheless, the authorities need to have the legal authority to expand the macroprudential toolkit with real estate-specific instruments when needed, to limit any potential risks to banks' portfolios if real estate price bubbles were to emerge. Moreover, the large share of new mortgages at variable interest rates (77 percent in 2016:Q1) raises concerns about debt service affordability if interest rates begin to rise.

House Prices



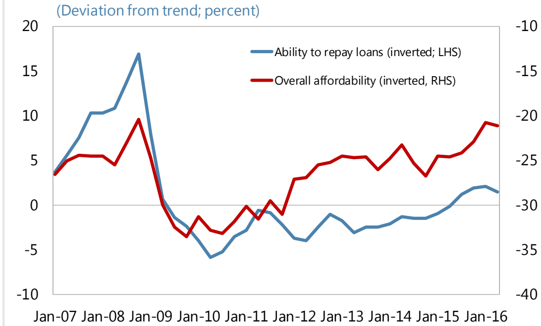
Source: Eurostat.

House Price Index
(Deviation from trend; percent)



Source: OeNB.

Affordability
(Deviation from trend; percent)



Source: OeNB.

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[1] In Vienna, municipality-provided social housing (which can be rented only by eligible households) accounts for some 70 percent of total housing. Moreover, strong international demand for luxury housing is affecting price developments.

STAFF APPRAISAL

32. Austria benefits from high levels of stability and social cohesion. Per capita income is high, unemployment comparatively low (even though higher than previously), social protection systems are strong, and the society is among the most equitable of advanced economies.

33. The overall outlook is solid, but potential growth is low. Growth picked up in 2016, but is projected to slow gradually toward the medium-term potential rate of just above 1 percent as the output gap closes and fiscal policy turns back to consolidation. Unemployment is set to remain elevated for some time as employment creation just keeps pace with the rising labor force, while inflation is projected to gradually rise to slightly above 2 percent in the medium term.

34. Risks arise from a number of external factors, but are overall limited. International political fragmentation or slow growth in other advanced economies and/or emerging markets would undermine Austria's performance, largely through the trade and financial channels. However, with the European Single Market providing a stable economic framework and bank exposure to risks in CESEE declining, the overall vulnerability of the Austrian economy is limited.

35. Raising the economy's potential is important to raise living standards further and lower unemployment, as well as to ease the fiscal burden of demographic change. A comprehensive reform package should focus on four key areas: (i) structural reforms to strengthen competition and further reduce firms' administrative burden; (ii) raising public investment to support private sector productivity and investment; (iii) shifting the tax mix away from labor toward property, pollution, and consumption; and (iv) providing incentives for higher labor force participation among elderly workers, as well as for full-time employment of women.

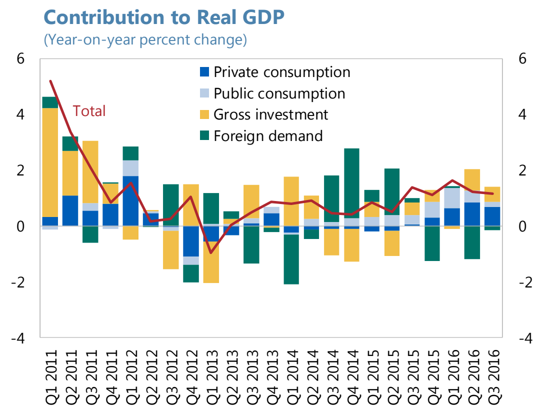
36. Long-term fiscal sustainability requires additional reforms. While projections indicate a reduction of the fiscal deficit and debt in the medium term—largely on account of interest savings and restraint in government consumption—fiscal pressures will re-emerge over the longer term as the population ages, and debt will start to rise again. To ensure fiscal sustainability in such an environment, the current window of opportunity should be used to put in place efficiency-boosting expenditure reforms in health, education, and subsidies, as well as further pension reform measures. To be successful, many of these reforms require adjustments in fiscal relations between the federal and subnational governments. The potential for savings is significant, and, in combination with growth-raising reforms, sufficient to ensure long-term fiscal sustainability. Full implementation of these reforms would also allow reducing the labor tax wedge further.

37. Maintaining financial stability calls for ensuring that banks raise capital as planned and availing regulators with macroprudential tools to address potential risks in the real estate market. Boosting banks' capital buffers remains important, even though the low-growth, low-interest rate environment makes this challenging. The authorities' introduction of a systemic risk capital buffer is welcome—they now need to ensure that banks will meet their capital targets as scheduled. This is all the more important as the environment for banking remains difficult both at home and abroad, and new challenges may arise. Financial stability risks from the real estate markets are currently limited; nonetheless, regulators should be given the legal authority to use macroprudential instruments at their discretion. To preserve Austria's position as a financial center, the authorities will also need to bolster its AML/CFT framework, notably by enhancing supervision and banks' compliance with AML/CFT obligations.

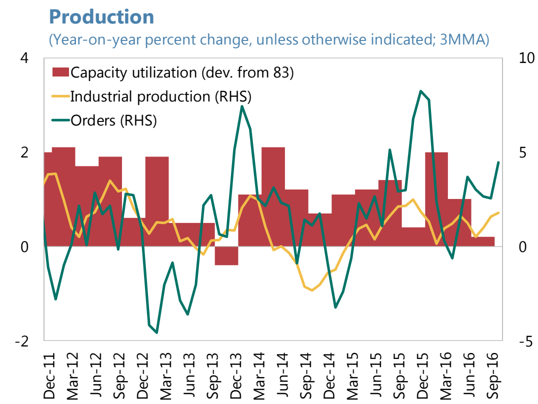
38. It is recommended that the next Article IV consultation be held on the standard 12-month cycle.

Figure 1. Real Sector Developments

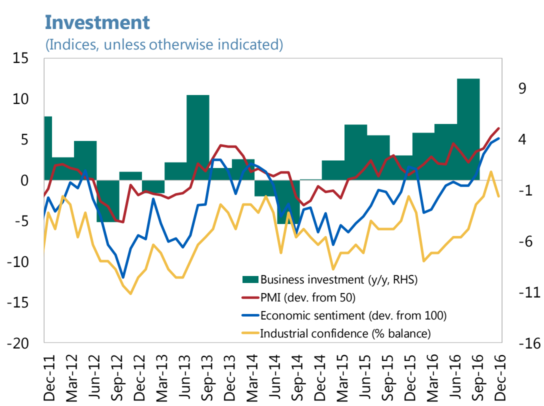
GDP growth has picked up …



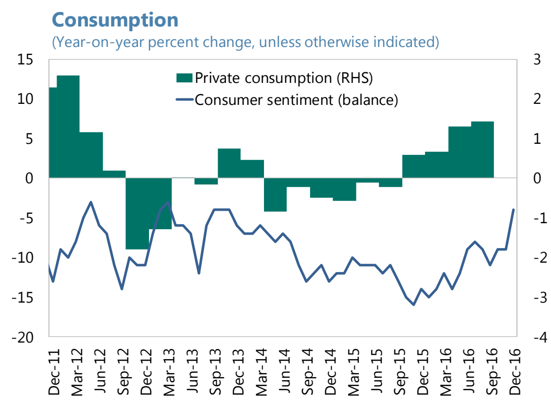
… on the strength production indicators.



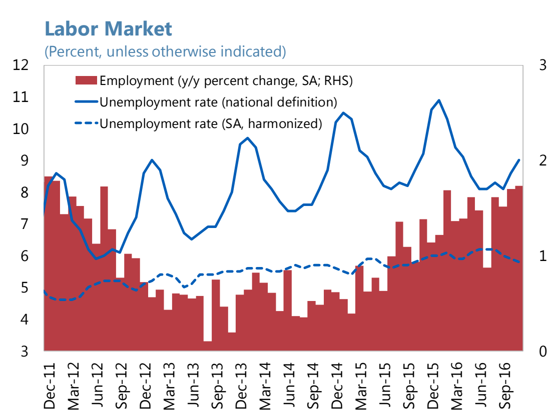
Investment and business indicators have risen …



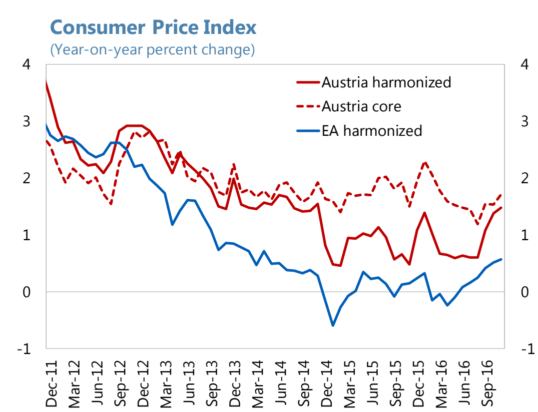
… as has consumption …



… as well as employment, even though unemployment has edged up.



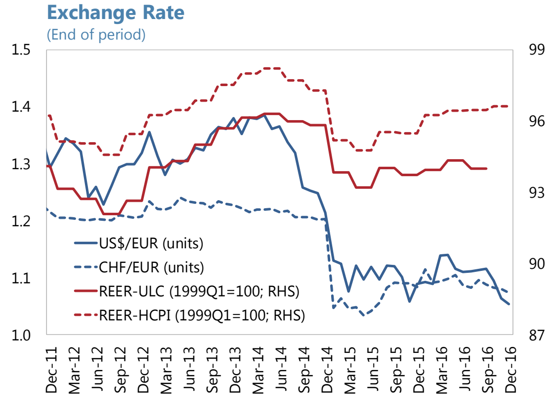
At the same time, inflation is picking up from low levels.



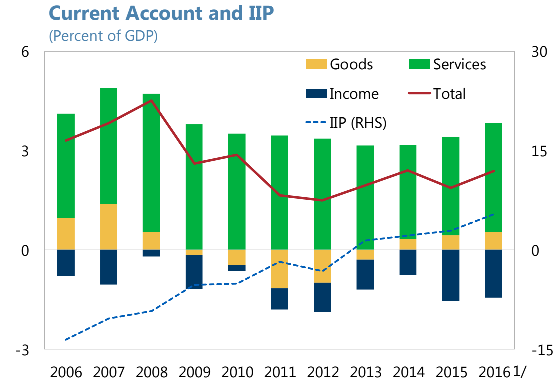
Sources: National authorities and IMF staff estimates.

Figure 2. External and Fiscal Developments

The real exchange rate has remained broadly stable …

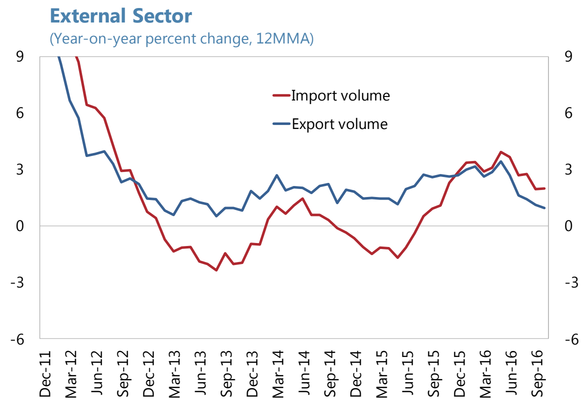


… and the current account is in small surplus.

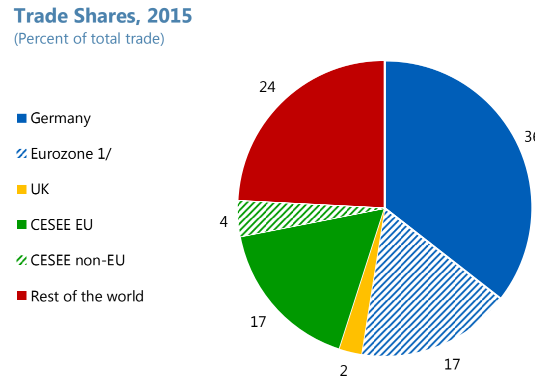


1/Estimate.

Trade growth has recently abated.

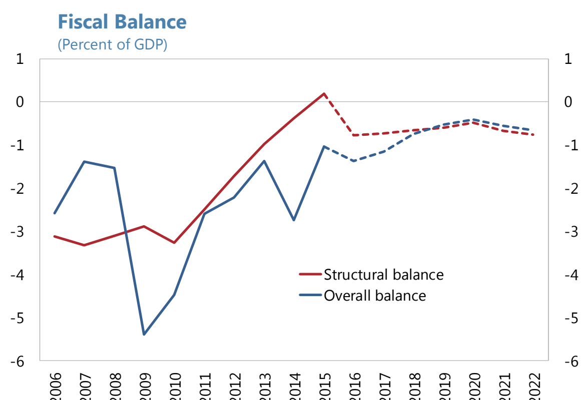


Most trade is with the EU.

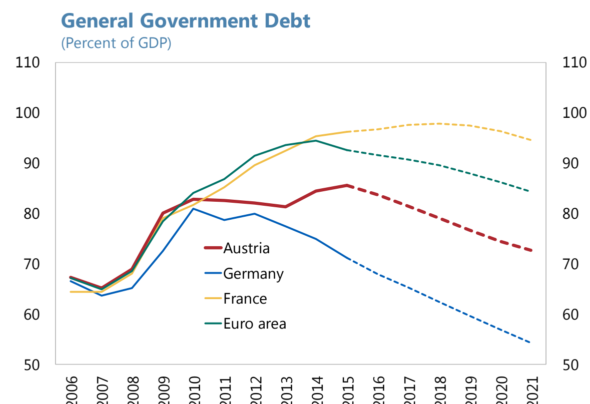


1/Excluding Germany and CESEE eurozone countries.

Fiscal consolidation is projected to resume …



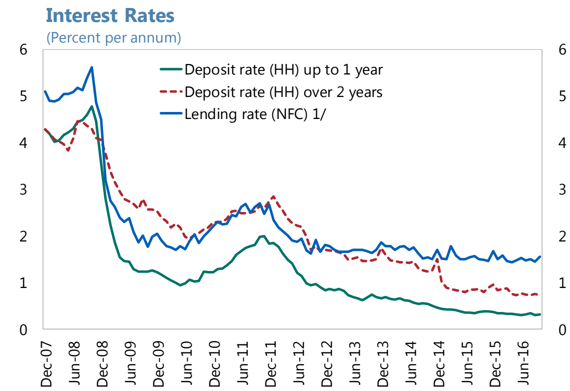
… which would allow debt to decline.



Sources: National authorities and IMF staff estimates.

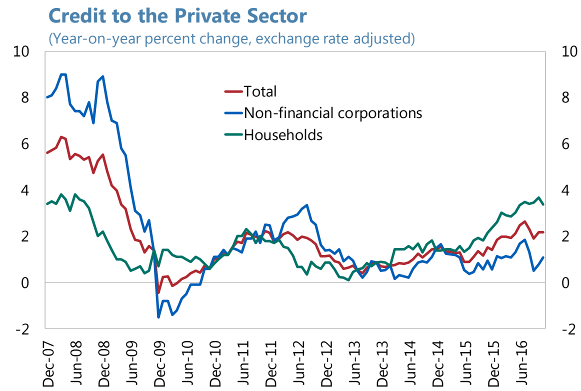
Figure 3. Credit and Housing

Interest rates have declined further …

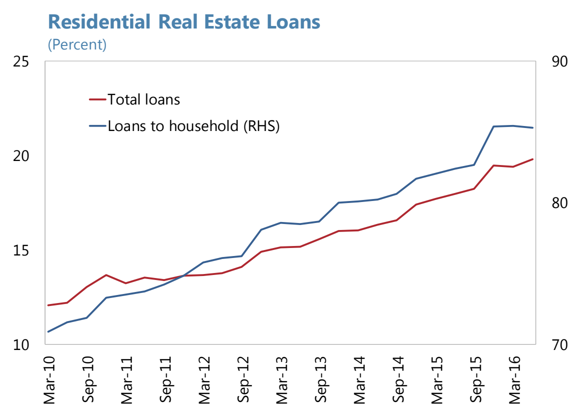


1/ Up to one year fixed rate for new loans over 1 million euros to non-financial corporations.

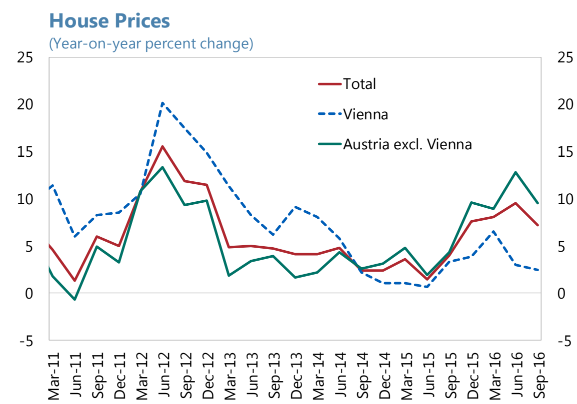
… and credit has picked up,



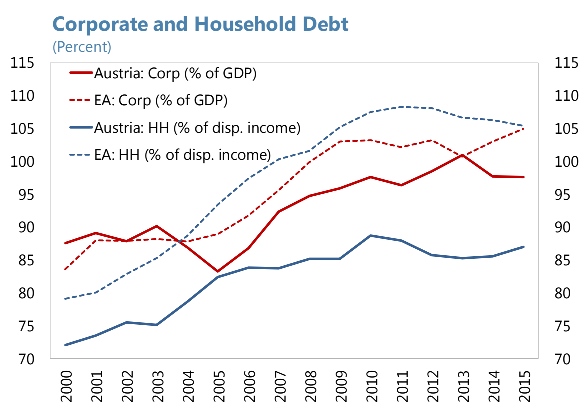
especially in real estate loans …



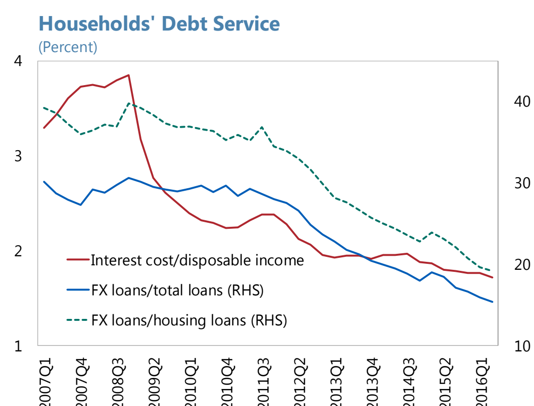
… as house prices are increasing.



However, debt levels remain below those of EA peers …



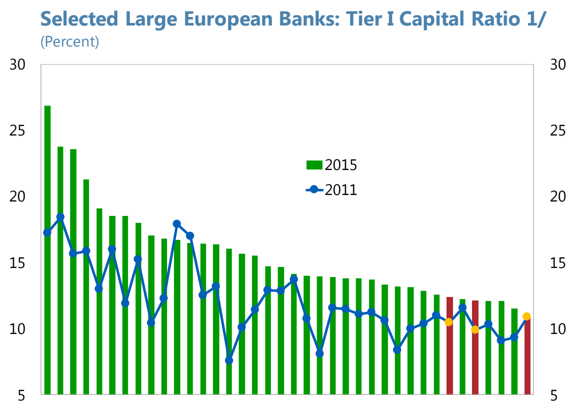
… and debt service as well as risk indicators have declined.



Sources: National authorities and IMF staff estimates.

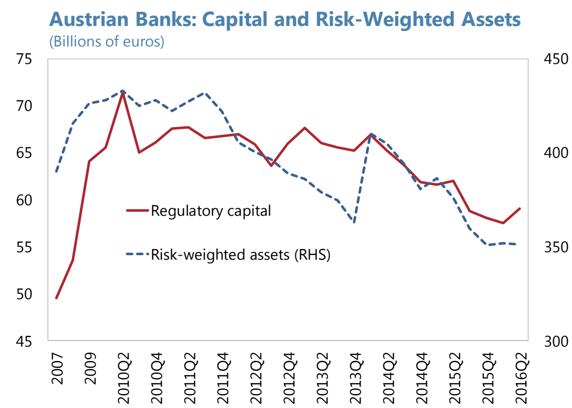
Figure 4. Banking System

Austrian banks' capital is low compared to peers ...

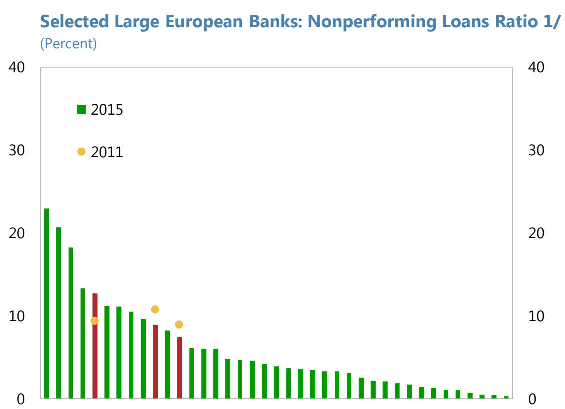


1/Austrian banks are shown in red/yellow.

... even as RWA fell

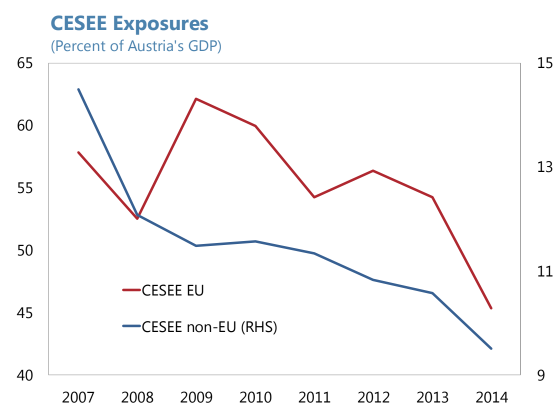


NPLs remain relatively high ...

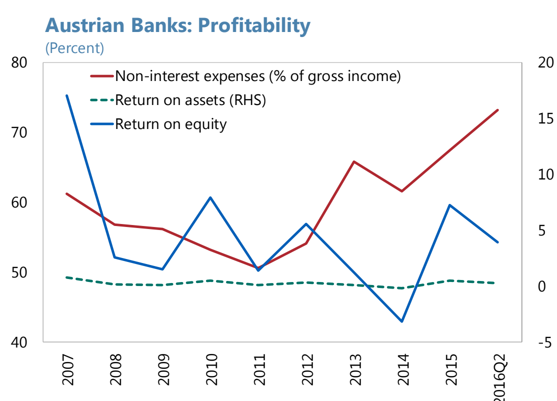


1/Austrian banks are shown in red/yellow.

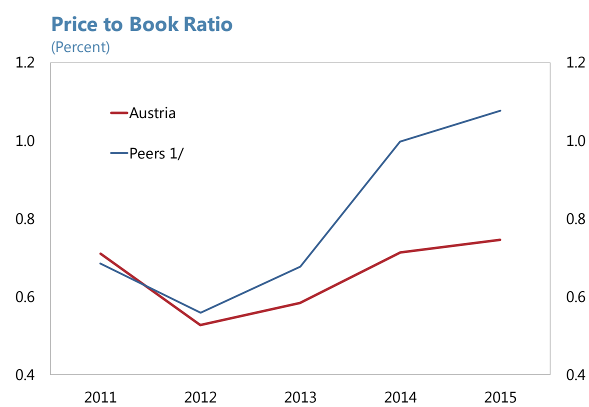
... although exposure to CESEE has declined.



Profitability is modest ...



... which is reflected in banks' valuation.

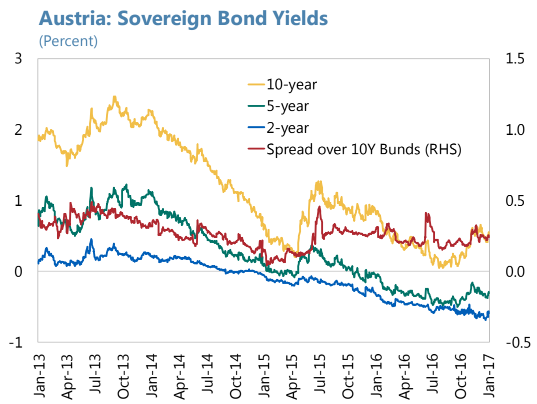


1/Italy, Hungary, Spain, Belgium, Germany, Sweden and France.

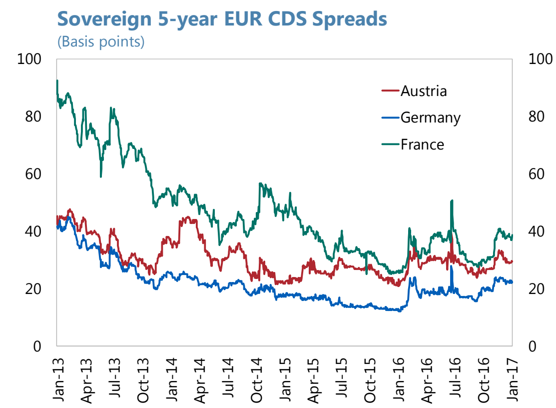
Sources: National authorities and IMF staff estimates.

Figure 5. Financial Markets

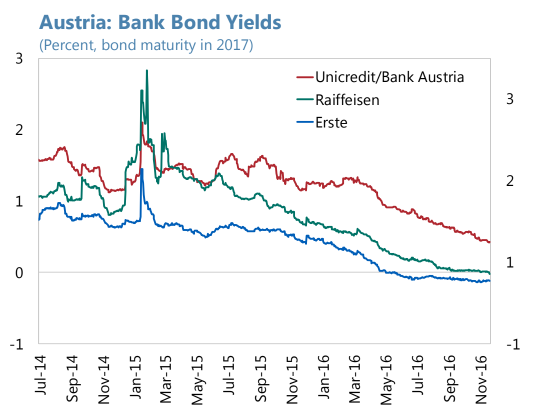
Borrowing cost have fallen further …



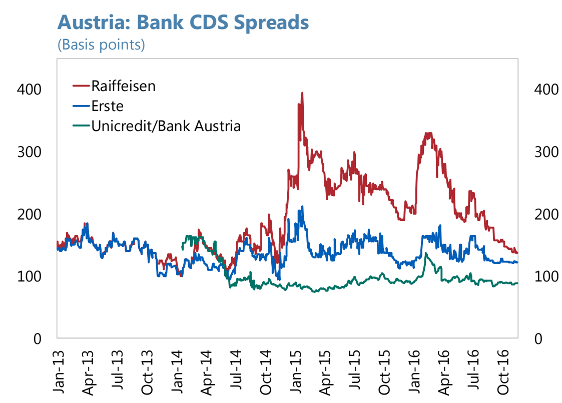
… and risk perceptions remain low.



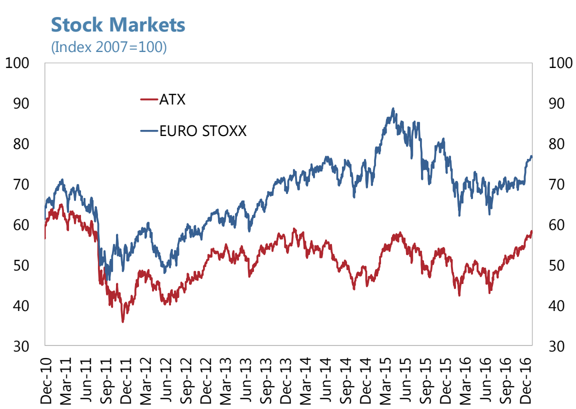
Bank bond yields have also declined …



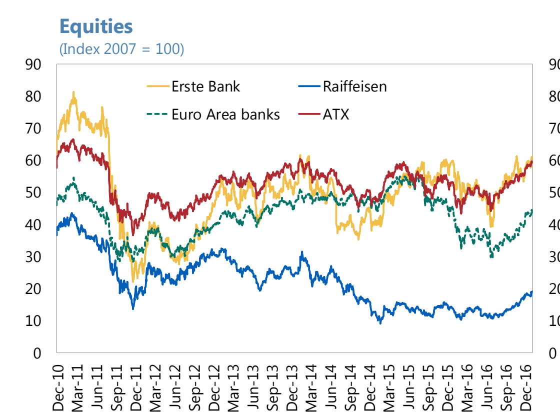
… and differences in risk perceptions have narrowed.



However, the stock market has underperformed …

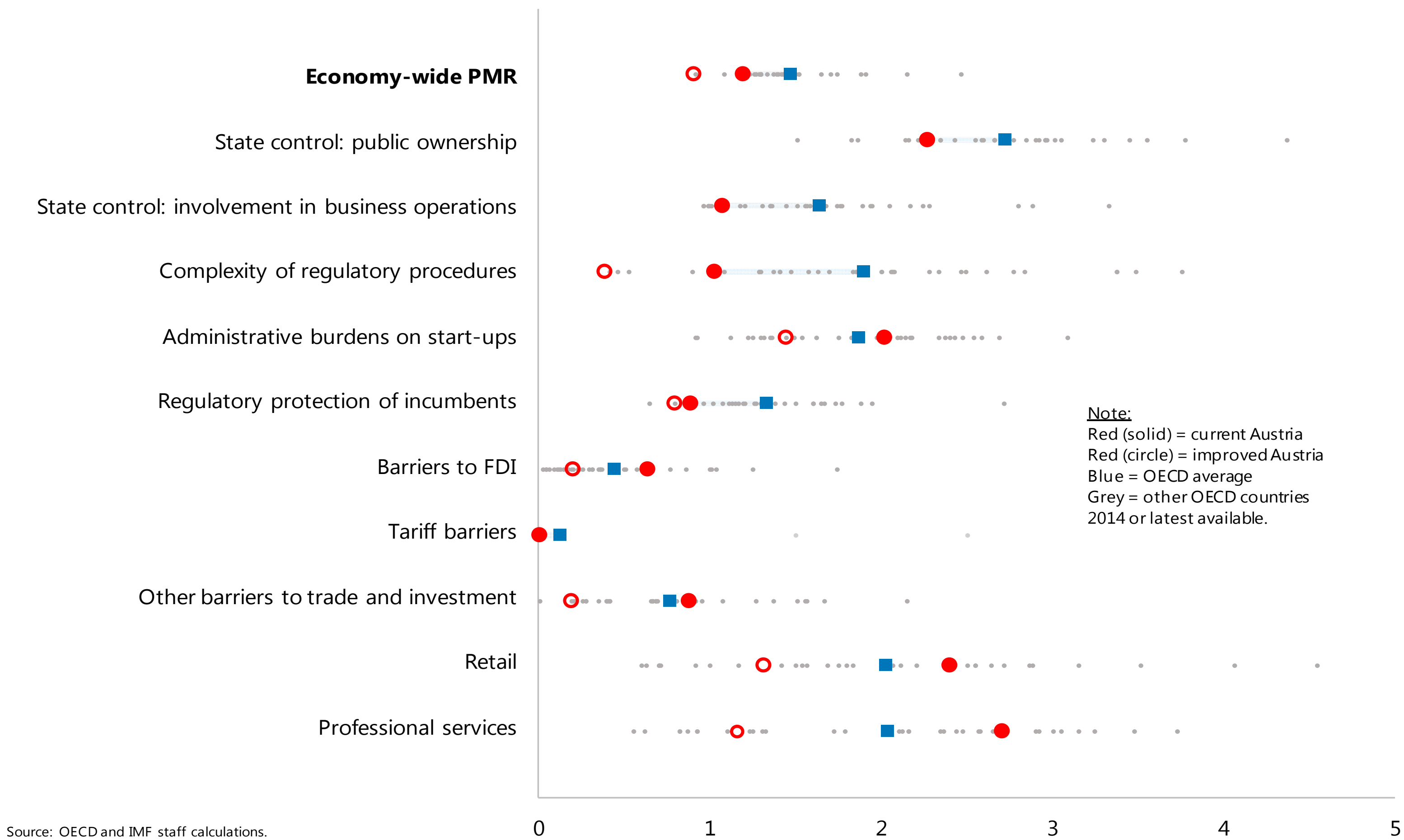


… as have some bank equities.



Sources: National authorities and IMF staff estimates.

Figure 6. Product Market Regulations



Source: OECD and IMF staff calculations.

Table 1. Main Economic Indicators, 2012–22
(Annual percent change, unless otherwise indicated)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
					Est.			Projections			
NATIONAL ACCOUNTS											
Real GDP (expenditure)	0.7	0.1	0.6	1.0	1.4	1.3	1.2	1.3	1.1	1.1	1.1
Domestic demand	0.2	0.0	0.1	0.6	1.6	1.3	1.2	1.4	1.2	1.2	1.1
Consumption	0.4	0.1	0.0	0.6	1.3	1.0	1.0	1.5	1.1	1.2	1.3
Private	0.5	-0.1	-0.3	0.0	1.6	1.4	1.4	1.7	1.4	1.1	1.2
Public	0.2	0.7	0.8	2.1	0.6	0.0	0.0	1.1	0.4	1.3	1.5
Gross fixed capital formation	1.4	2.2	-0.9	0.7	2.7	2.1	2.1	1.1	1.5	1.1	0.8
Private	2.0	1.9	-0.7	0.9	2.9	2.3	1.8	1.5	1.3	1.1	1.1
Public	-2.5	3.6	-1.7	-0.6	1.0	0.4	4.3	-1.8	2.9	1.0	-1.4
GNFS exports	1.7	0.5	2.3	3.6	3.9	1.3	2.2	2.4	2.4	2.6	2.5
GNFS imports	1.1	0.7	1.3	3.4	4.4	1.3	2.4	2.8	2.6	2.8	2.8
Contribution to GDP (percentage points)											
Final domestic demand	0.6	0.6	-0.2	0.6	1.5	1.2	1.2	1.3	1.2	1.1	1.1
Net exports	0.3	0.0	0.6	0.2	-0.1	0.1	0.0	-0.1	0.0	0.0	0.0
Inventories and statistical discrepar	-0.2	-0.4	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment (% GDP)	24.0	23.8	23.7	23.5	23.6	23.8	24.0	23.9	24.0	24.0	24.0
Public	4.4	4.5	5.5	4.2	3.7	3.8	3.8	3.7	3.7	3.7	3.6
Private	19.6	19.4	18.2	19.3	19.9	20.0	20.2	20.3	20.3	20.3	20.4
Gross national savings (% GDP)	25.5	25.8	26.0	25.4	26.0	26.2	26.3	26.1	26.1	26.1	26.1
Public	2.2	3.1	2.7	3.2	2.3	2.7	3.0	3.1	3.3	3.1	3.0
Private	23.3	22.7	23.3	22.2	23.6	23.5	23.2	23.0	22.8	23.0	23.1
Potential output	1.1	1.0	1.1	0.6	0.9	0.9	0.9	1.1	1.1	1.1	1.1
Output gap (% potential GDP)	-0.2	-1.0	-1.5	-1.2	-0.6	-0.2	0.1	0.3	0.2	0.2	0.2
LABOR MARKET											
Employment	1.3	0.5	0.6	0.9	0.7	0.8	0.6	0.5	0.2	0.2	0.0
Wages (hourly)	3.2	2.8	2.7	2.0	2.6	2.4	2.2	2.5	3.0	2.9	3.1
Unemployment rate (% labor force)											
EU harmonized rate	4.9	5.3	5.6	5.7	6.1	5.9	5.9	5.9	5.9	5.9	5.9
National definition	7.0	7.6	8.4	9.1	9.1	8.9	8.8	8.7	8.7	8.6	8.6
PRICES											
Consumer prices (avg)	2.6	2.1	1.5	0.8	0.9	1.6	1.8	2.1	2.2	2.2	2.2
Consumer prices (eop)	2.8	1.9	0.7	1.1	1.5	1.6	1.9	2.3	2.2	2.2	2.2
Core CPI (eop)	2.6	2.1	1.5	1.9	1.8	1.8	1.9	2.0	2.0	2.0	2.0
GDP deflator	2.0	1.6	1.8	1.9	1.6	1.7	1.8	2.1	2.1	2.1	2.1
MACRO-FINANCIAL											
Broad money	2.3	3.3	4.3	5.0	3.1	3.0	3.0	3.4	3.2	3.2	3.2
Credit to the private sector	0.8	-0.2	-2.0	1.8	3.1	3.0	3.0	3.4	3.2	3.2	3.2
Corporations	1.1	-0.4	-5.0	-0.3	2.1	2.3	2.6	3.4	3.3	3.5	3.1
Households	0.5	0.0	1.4	3.9	4.1	3.6	3.5	3.3	3.1	3.0	3.4
GENERAL GOVERNMENT FINANCES (% GDP)											
Revenue	49.2	49.9	50.0	50.6	49.5	49.5	49.5	49.5	49.5	49.5	49.5
Expenditure	51.5	51.2	52.8	51.6	50.9	50.6	50.2	50.0	49.9	50.0	50.1
Net lending/borrowing	-2.2	-1.4	-2.7	-1.0	-1.4	-1.2	-0.7	-0.5	-0.4	-0.6	-0.7
Structural balance	-1.7	-1.0	-0.4	0.2	-0.8	-0.7	-0.7	-0.6	-0.5	-0.7	-0.8
Structural primary balance	1.0	1.6	2.1	2.6	1.4	1.3	1.2	1.2	1.2	1.0	0.8
Gross debt	82.0	81.3	84.4	85.5	83.6	81.3	78.9	76.3	74.1	72.4	70.8
BALANCE OF PAYMENTS											
Current account (% GDP)	1.5	2.0	2.4	1.8	2.4	2.4	2.3	2.2	2.1	2.1	2.1
Export volume (goods and services)	1.7	0.5	2.3	3.6	3.9	1.3	2.2	2.4	2.4	2.6	2.5
Import volume (goods and services)	1.1	0.7	1.3	3.4	4.4	1.3	2.4	2.8	2.6	2.8	2.8
Int'l investment position, net (% GDP)	-3.2	1.3	2.2	2.9	5.5	7.7	9.6	11.4	13.1	14.7	16.2
MEMORANDUM ITEMS											
Nominal GDP (bn €)	317	323	330	340	350	361	372	384	397	409	423
Population (million)	8.4	8.5	8.5	8.6	8.7	8.8	8.8	8.9	8.9	9.0	9.0
GDP per capita ($)	48,381	50,533	51,390	43,750	44,679	44,321	45,264	46,571	47,911	49,139	50,455
US$/€ (rate; annual avg)	1.29	1.33	1.33	1.11	…	…	…	…	…	…	…
Real effective exchange rate	-1.5	1.9	2.7	-2.7	0.8	-0.1	0.0	0.0	0.0	0.0	0.0

Sources: Authorities' data and IMF staff estimates and projections.

Table 2. Fiscal Accounts, 2012–22
(In percent of GDP, unless otherwise indicated)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
					Est.	Projections					
GENERAL GOVERNMENT OPERATIONS											
Revenue	**49.2**	**49.9**	**50.0**	**50.6**	**49.5**	**49.5**	**49.5**	**49.5**	**49.5**	**49.5**	**49.5**
Tax revenue	27.8	28.1	28.3	28.9	27.8	28.0	28.0	28.1	28.0	28.1	28.1
Direct taxes	13.0	13.4	13.8	14.3	13.1	13.2	13.3	13.3	13.3	13.2	13.2
Of which: Personal income tax	9.9	10.1	10.4	10.8	10.0	10.0	10.1	10.1	10.2	10.2	10.2
Corporate income tax	2.1	2.2	2.2	2.3	2.1	2.1	2.1	2.2	2.1	2.1	2.1
Indirect taxes	14.8	14.7	14.6	14.6	14.7	14.7	14.8	14.7	14.7	14.8	14.8
Of which: VAT	7.8	7.7	7.7	7.7	7.8	7.9	8.0	8.0	8.1	8.2	8.2
Social contributions	14.9	15.2	15.3	15.4	15.4	15.4	15.4	15.4	15.4	15.4	15.4
Other current revenue	6.5	6.6	6.4	6.2	6.2	6.1	6.0	6.0	6.0	6.0	6.0
Expenditure	**51.5**	**51.2**	**52.8**	**51.6**	**50.9**	**50.6**	**50.2**	**50.0**	**49.9**	**50.0**	**50.1**
Expense	48.5	48.8	49.8	48.7	48.0	47.8	47.3	47.2	47.0	47.1	47.4
Compensation of employees	10.8	10.7	10.7	10.8	10.8	10.7	10.6	10.6	10.5	10.5	10.6
Goods and services	6.5	6.5	6.5	6.4	6.4	6.2	6.1	6.1	6.1	6.2	6.2
Social benefits	22.5	23.0	23.2	23.3	23.4	23.4	23.6	23.6	23.7	23.8	23.9
Other current transfers	2.6	2.7	2.6	2.7	2.7	2.6	2.5	2.4	2.4	2.4	2.4
Capital transfers	1.5	1.4	2.5	1.3	0.8	1.0	0.8	0.8	0.8	0.8	0.8
Interest	2.7	2.6	2.5	2.4	2.2	2.0	1.8	1.8	1.7	1.6	1.6
Subsidies	1.5	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Other	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4
Acquisition of nonfinancial assets	2.9	2.4	2.9	2.9	2.9	2.8	2.9	2.8	2.9	2.9	2.9
Of which: Gross fixed capital formation	3.0	3.1	3.0	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.8
Operating balance	0.7	1.1	0.2	1.9	1.5	1.7	2.2	2.3	2.5	2.4	2.2
Primary balance	0.5	1.2	-0.3	1.3	0.8	0.9	1.1	1.3	1.3	1.1	0.9
Net lending/borrowing	**-2.2**	**-1.4**	**-2.7**	**-1.0**	**-1.4**	**-1.2**	**-0.7**	**-0.5**	**-0.4**	**-0.6**	**-0.7**
GENERAL GOVERNMENT BALANCE SHEET											
Financial liabilities	107	103	111	111	108	105	102	99	96	94	92
Gross debt	93	89	97	97	94	92	89	86	84	82	80
Other	14	14	14	14	14	14	13	13	13	12	12
Financial assets	50	48	52	55	26	25	25	24	23	22	22
Net financial worth	-57	-56	-59	-56	-82	-80	-78	-75	-73	-72	-70
Net debt	71	68	72	70	68	66	64	62	61	59	58
Gross debt (Maastricht def.)	**82**	**81**	**84**	**86**	**84**	**81**	**79**	**76**	**74**	**72**	**71**
Guarantees	39	34	26	27	23	21	21	20	19	19	18
MEMORANDUM ITEMS											
Cyclically adjusted balance	-2.1	-0.8	-1.9	-0.4	-1.0	-1.0	-0.8	-0.7	-0.6	-0.7	-0.8
Structural balance 1/	-1.7	-1.0	-0.4	0.2	-0.8	-0.7	-0.7	-0.6	-0.5	-0.7	-0.8
Structural primary balance 1/	1.0	1.6	2.1	2.6	1.4	1.3	1.2	1.2	1.2	1.0	0.8
Change in real revenue (percent)	1.6	0.9	1.3	3.2	0.0	1.3	1.2	1.2	1.0	0.9	1.0
Change in real primary expenditure (percent)	1.0	-0.6	4.4	-0.1	1.1	1.1	0.7	0.8	1.0	1.3	1.3
Nominal GDP (bn €)	317	323	330	340	350	361	372	384	397	409	423

Sources: Authorities' data and IMF staff estimates and projections.

1/ One-off measures as defined in the Austrian Stability Program.

Table 3. Balance of Payments, 2012–22
(In percent of GDP, unless otherwise indicated)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
					Est.	Projections					
BALANCE OF PAYMENTS											
Current account	**1.5**	**2.0**	**2.4**	**1.8**	**2.4**	**2.4**	**2.3**	**2.2**	**2.1**	**2.1**	**2.1**
Balance on goods and services	2.4	2.9	3.2	3.4	3.8	3.9	3.7	3.5	3.3	3.2	3.1
Exports of goods and services	53.5	53.4	53.2	53.1	53.2	54.5	54.6	54.6	54.7	54.7	54.6
Exports of goods	39.3	38.4	37.8	37.7	37.5	38.4	38.3	38.2	38.2	38.2	38.2
Exports of services	14.2	15.1	15.3	15.4	15.7	16.1	16.3	16.4	16.5	16.5	16.4
Imports of goods and services	51.1	50.6	50.0	49.7	49.4	50.5	50.9	51.1	51.4	51.4	51.5
Imports of goods	40.3	38.7	37.5	37.3	37.0	38.1	38.4	38.4	38.4	38.5	38.6
Imports of services	10.8	11.9	12.5	12.5	12.4	12.4	12.5	12.7	12.9	12.9	12.9
Primary income, net	0.1	0.3	0.2	-0.5	-0.4	-0.4	-0.3	-0.3	-0.2	-0.1	0.0
Secondary income, net	-1.0	-1.2	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Capital account	**-0.1**	**-0.2**	**-0.1**	**-0.5**	**-0.2**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**
Financial account	**1.7**	**3.4**	**0.8**	**1.5**	**2.2**	**2.3**	**2.2**	**2.1**	**2.0**	**2.0**	**2.0**
Direct investment, net	3.2	2.4	-0.6	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Direct investment abroad, net	4.5	2.5	-0.2	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Direct investment in Austria, net	1.3	0.1	0.4	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Portfolio investment, net	-1.8	-0.7	3.8	3.9	4.5	4.6	4.5	4.4	4.3	4.3	4.3
Financial derivatives, net	-0.3	-1.2	-0.4	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Other investment, net	0.3	2.7	-2.6	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1	-4.1
Reserve assets	0.3	0.1	0.7	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions, net	0.3	1.6	-1.3	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET											
Int'l investment position, net	**-3.2**	**1.3**	**2.2**	**2.9**	**5.5**	**7.7**	**9.6**	**11.4**	**13.1**	**14.7**	**16.2**
Assets	272	267	268	262	255	246	237	227	219	210	202
Liabilities	275	265	266	259	249	238	227	216	205	195	186
Direct investment	13	13	11	14	15	17	18	19	21	22	23
Assets	88	89	90	96	96	97	97	97	97	97	97
Liabilities	75	76	79	83	81	80	79	77	76	75	74
Portfolio investment	-45	-40	-36	-31	-26	-20	-15	-10	-6	-1	3
Financial derivatives	1	0	1	0	0	0	-1	-1	-1	-1	-1
Other investment	21	23	20	15	10	6	2	-2	-6	-10	-14
Reserve assets	7	5	6	6	6	6	5	5	5	5	5
MEMORANDUM ITEM											
Nominal GDP (bn €)	317	323	330	340	350	361	372	384	397	409	423

Sources: Authorities' data and IMF staff estimates and projections.

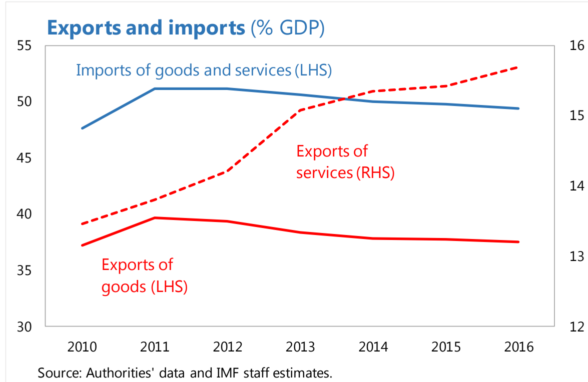
Table 4. Financial Soundness Indicators for the Banking Sector, 2011–16
(Percent)

	2011	2012	2013	2014	2015	2016Q2
Capital adequacy						
Regulatory capital to risk-weighted assets 1/	15.8	17.0	18.0	16.3	16.5	16.8
Regulatory Tier I capital to risk-weighted assets 1/	12.0	12.9	13.7	12.3	13.2	13.7
Capital to assets (percent) 2/	7.2	7.8	8.0	6.8	7.4	7.8
Large exposures to capital 2/	62.9	59.1	52.6	70.5	59.2	60.8
Nonperforming loans net of loan-loss provisions to capital 2/ 4/	8.0	6.9	5.8	13.8	13.2	12.5
Asset quality						
Nonperforming loans to total gross loans 2/ 4/	2.7	2.8	2.9	3.5	3.4	3.2
Sectoral distribution of loans to total loans 3/						
Residents	70.0	70.5	70.2	70.0	73.5	73.2
Deposit-takers	25.4	23.6	22.6	20.2	19.8	19.3
Central bank	2.0	2.6	1.7	1.6	3.1	2.4
Other financial corporations	2.9	2.8	2.7	3.0	3.1	3.1
General government	4.0	4.0	3.9	4.3	4.5	4.6
Nonfinancial corporations	18.1	18.9	19.8	20.0	20.7	20.9
Other domestic sectors	17.7	18.6	19.6	20.8	22.4	22.9
Nonresidents	30.0	29.5	29.8	30.0	26.5	26.8
Geographical distribution of loans to total loans 2,3,5/						
Domestic economy	70.0	70.5	70.2	70.0	73.5	73.2
Advanced economies	14.5	14.6	14.6	16.4	14.5	15.3
Emerging market and developing countries	15.6	14.9	15.2	13.7	12.0	11.5
Africa	0.1	0.1	0.1	0.1	0.2	0.2
Of which: Sub-Sahara Africa	0.1	0.1	0.1	0.1	0.1	0.2
Central and Eastern Europe	12.6	12.2	12.3	10.7	9.6	9.3
Commonwealth of Independent States and Mongolia	2.0	1.9	2.1	2.0	1.5	1.3
Developing Asia, including China	0.4	0.5	0.5	0.5	0.5	0.5
Middle East	0.3	0.1	0.1	0.1	0.1	0.1
Western Hemisphere	0.1	0.1	0.1	0.2	0.2	0.2
Earnings and profitability 1/						
Return on assets	0.1	0.3	0.1	-0.2	0.5	0.3
Return on equity	1.4	5.5	1.2	-3.2	7.2	3.9
Net interest income to gross income	63.3	59.3	65.7	58.7	58.8	59.0
Noninterest expenses as a percentage of gross income	87.4	84.4	96.5	77.3	69.6	73.5
Liquidity 2/						
Liquid assets to total assets	25.4	24.8	24.5	22.8	24.8	24.4
Liquid assets to short-term liabilities	71.6	73.4	68.9	67.0	68.5	67.0
Net open position in foreign exchange to capital	0.1	0.4	0.2	0.7	0.2	1.0
Other FSIs 2/						
Trading income as a percentage of gross income	1.7	3.3	2.6	1.8	2.5	1.0
Personnel expenses as a percentage of noninterest expenses	51.2	51.2	50.7	53.1	50.2	51.9
Spread between reference lending and deposit rates (basis points)	208.0	180.0	181.0	196.0	193.0	190.0
Foreign currency-denominated loans to total loans	21.4	19.7	18.8	18.8	15.5	14.8
Foreign currency-denominated liabilities to total liabilities	12.0	10.6	10.0	9.9	7.5	7.2

Sources: IMF FSI.
1/ Domestically controlled, cross-border and cross sector consolidation basis.
2/ Domestic consolidation basis.
3/ Total loans include loans to financial institutions.
4/ Starting in 2014, NPLs are reported on a borrower rather than single loan basis, which results in a break in the series.
5/ The Czech Republic, Slovakia, and Slovenia are included in the group of advanced economies as per the IMF's classification.

Annex I. External Sector Assessment

External position. Austria's external position has strengthened considerably in recent years, with the international investment position (IIP) moving from -13 percent of GDP in 2006 to a moderate +5½ percent in 2016. This turnaround stems from a combination of factors. While Austria's share in world goods exports has declined, exports of services (mainly tourism) have expanded strongly, so that the overall exports of goods and services remained stable at 53–55 percent of GDP in 2010–16. On the other hand, the weak domestic demand during the global financial crisis and its aftermath has reduced imports somewhat (chart). Regarding



financial flows, Austrian banks sharply reduced their reliance on foreign wholesale financing (and exposure to CESEEs), with the decline in foreign liabilities exceeding the decline in assets as deposits rebounded both at home and in CESEEs. This has led to a decline in banks' gross external assets from a peak of well over 100 percent of GDP in 2008 to about 76 percent of GDP in 2016, still above the 1995 level of about 40 percent of GDP. However, Austria's total gross external assets increased from 67 percent of GDP in 1995 to a peak of 273 percent in 2007, before receding more moderately to 255 percent in 2016.

Current account balance and real exchange rate. The External Balance Assessment suggests that the current account balance in 2016 (2.4 percent of GDP) was below the norm (estimated at 3.4 percent of GDP), while the REER was modestly overvalued (around 8¾–10½ percent), with both effects largely due to an unexplained residual.[1] Policy gaps explain about one-third of the current account gap and REER overvaluation, with the main policy effects coming from high health

External Balance Assement Results

Methodology	Total Gap (%)	Policy Gaps (%) Total	Fiscal Balance	Health Exp.	Private Credit	Interest Rate	Capital Controls	Residual (%)
Current Account	**-0.9**	**-0.3**	0.7	-1.0	0.1	...	-0.1	**-0.6**
REER (index) 1/	**8.7**	**2.4**	...	2.4	-0.3	0.3	...	**6.3**
REER (level) 2/	**10.6**	**3.6**	...	3.5	-0.3	0.4	...	**7.0**

1/ Considers the REER CPI index in each country, and thus does not explain inter-country variations of the REER.
2/ Takes into account differences in real exchange rates across countries by considering PPP real exchange rate.

[1]The analysis is based on panel regressions of the current account balance and the real effective exchange rate (REER), which are simultaneously determined. The first stage is descriptive and focused on understanding current account and real exchange rate developments. The second stage is oriented toward a normative evaluation, drawing on the regression results to estimate equilibrium values for the current account balance and the REER, deviations ("gaps") of actual current account balances and REER from these equilibrium values, as well as the contributions of "policy gaps" to the overall current account balance and REER gaps.

expenditure relative to trading partners (see ¶20, footnote 8 in the main text). In the current account analysis, the low budget deficit relative to trading partners partially offsets the effect of the high health spending.

Capital and financial account. Net direct investment outflows to both CESEE countries and the EU15, have recovered quickly after the GFC driven by real-sector investment, keeping the FDI position in surplus. Net portfolio investment outflows have been strong as well and are expected to remain so, despite the further retrenching of Austrian banks' foreign holdings, and the negative net portfolio investment position is expected to close gradually. This will be mirrored by a decline in the positive net "other investments" position.

Overall assessment. Austria's external position is sustainable and broadly in line with fundamentals. The ageing population implies that a build-up of external assets in the next few years is warranted as a buffer for future withdrawals. Policies are broadly appropriate, though raising the efficiency of health expenditures would open significant savings potential to help ensure fiscal sustainability in the long run.

Annex II. Risk Assessment Matrix[1]

Source	Likelihood/ Direction	Time Horizon	Impact	Impact/Policy Response
EXTERNAL RISKS				
Economic fallout from political fragmentation				
Rise in populism and nationalism in large economies could slow down or even reverse policy coordination and collaboration; international trade liberalization; financial, and labor flows; and lead to unsustainable policies, weighing on global growth and exacerbating financial market volatility.	High	Short to medium term	Medium	Austria is a very open economy, with exports comprising over 50 percent of GDP (of which about 70 percent to the EU). Political fragmentation could reduce exports and potential growth and jeopardize fiscal consolidation. However, the impact is likely limited. *Policy response:* maintain free movement of goods, services, capital, and labor with key partners as at present.
Protracted uncertainty associated with negotiating post-Brexit arrangements could weigh on confidence and investment more than expected. Increased barriers could also dampen the longer-run economic performance of affected countries more than expected.	Medium	Short to medium term	Low	The effects of Brexit are largely indirect (via their impact on Germany and other EU partners) since direct economic relations with the UK are limited. However, a slump in confidence could reduce investment. *Policy response:* raise public investment to boost demand, productivity, and potential growth.
Heightened risk of fragmentation/security dislocation in part of the Middle East, Africa, and Europe, leading to a sharp rise in migrant flows, with negative global spillovers.	High	term	Low	Increased migrant flows could lead to another wave of refugees entering Austria. Apart from creating political tensions, this would put some strain on public finances in the short term. The contribution of immigrants to the economy will depends on the success of integration policies. *Policy response:* invest in integration of admitted asylum seekers.
Tighter and more volatile global financial conditions				
Sharp rise in risk premia with flight to safety: Investors withdraw from specific risk asset classes as they reassess underlying economic and financial risks in large economies, or respond to unanticipated Fed tightening, and increases in U.S. term premia, with poor market liquidity amplifying volatility. Safe haven currencies—especially the US dollar—surge creates balance sheet strains for FX debtors.	Medium	Short term	Low	For Austria, this can be an upside risk. Despite a high level of public debt, its bonds are regarded as safe-haven assets. Current risk premia in sovereign yields are exceptionally low, so an increase will be easily manageable. However, were Austrian bank profitability to be notably reduced by materialization of political or regulatory risks in CESEE countries, confidence in Austria's financial stability could be affected and financing conditions deteriorate. *Policy response:* strengthen banks' capital cushions.

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Weaker-than-expected global growth				
Significant China slowdown and its spillovers: Key near term risks are a loss of investor confidence, disorderly corporate defaults, a sharp fall in asset prices, and a quicker fading of the stimulus impact. Weak domestic demand further suppresses commodity prices, roils global financial markets, and reduces global growth	Low in the short term /medium thereafter	Short to medium term	Low	The impact on Austria would be largely indirect, via its main trading partners, in particular Germany. *Policy response:* accelerate structural and fiscal reforms, and public investment.
Structurally weak growth in key advanced and emerging economies: Weak demand, low productivity growth, and persistently low inflation from a failure to fully address crisis legacies and undertake structural reforms, leading to lower medium-term path of potential growth (the Euro area, Japan, and the United States) and exacerbating legacy financial imbalances especially among banks (the Euro area) (high likelihood). Tighter financial conditions and insufficient reforms undermine medium-term growth in emerging markets (medium likelihood).	High/medium	Medium term	Medium	Austria would be directly affected, in particular if growth in Germany, the rest of the EU, and CESEE were to slow. *Policy response:* accelerate structural and fiscal reforms, and public investment. Continue close monitoring of banks' profitability and capital levels.

Annex III. Debt Sustainability Analysis

Austria's debt outlook has improved. Public debt is sustainable within the medium-term projection horizon, though ageing cost pressures are looming in the longer term. Under the baseline, debt will fall from around 84 percent of GDP at end-2016 to 71 percent of GDP by end-2022. Standardized macro-fiscal stress tests indicate that lower growth and a combined macro-fiscal shock could shift the debt-to-GDP ratio upwards, even though debt would remain on a downward trajectory. However, in the longer term (starting in the mid-2020s), ageing cost pressures and higher interest rates would reverse the debt path without additional policy measures.

Baseline

Under the baseline, fiscal policy is set to return the structural deficit to ½ percent of GDP, Austria's MTO, by 2020.[1] This, as well as the positive effects of the deal with the creditors of HETA, the wind-down unit of the former Hypo Alpe Adria bank, would bring gross public debt to 71 percent of GDP by 2022, 13 percentage points down from its 2016 level.[2] Gross financing needs are moderate in the period 2017–22.

The heat map indicates that vulnerabilities have receded. The declining debt level implies that the impact of potential shocks would not push Austria's debt—with the exception of a contingent liability shock—over the relevant thresholds. The high share of public debt held by non-residents, and the attendant external financing requirements, are a potential vulnerability, though this is limited by the perception of Austria as a safe-haven Euro Area country. However, it could lead to higher volatility in spreads, especially once the ECB's asset purchases end, depending on interest rate dynamics outside Austria and residual risks from commercial banks' CESEE exposure.

Stress Tests

The low-growth scenario assumes that growth is reduced by one standard deviation of the historical outturn, implying a reduction of growth by 2 percentage point in 2017–18. The debt-to-GDP ratio would increase by close to 8 percentage points to a peak of 84½ percent of GDP in 2019 and then decline to 79 percent of GDP by 2022. An illustrative contingent liability shock of 10 percentage points of GDP would raise public debt to 97½ percent of GDP, which would only slowly decline to 93½ percent of GDP by 2022. The other standardized macro shocks—the primary balance shock, the real exchange rate shock, and the real interest rate shock—will not lead to significant deviations from the baseline debt path. A combined shock for all variables is driven by assumed lower growth and leads to a similar debt path as in the low-growth scenario.

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[1] The structural balance excludes various one-offs, in particular bank restructuring cost. International experience suggests that the baseline scenario is realistic (see panel "Austria Public DSA – Realism of Baseline Assumptions").

[2] The debt forecast for 2021 is lower than in the 2015 Article IV consultation by 4½ percentage points (ppts) of GDP on account of now-incorporated projections for HETA asset recovery (1.6 ppts), a 0.7 ppts better outturn of the debt ratio in 2015, and 2.1 ppts on account of a slightly higher nominal GDP and a lower deficit during 2015–21, resulting from a 2015 base effect (higher revenue and lower expenditure than expected that carry through the medium term) and lower projected real interest rates, reflecting updated nominal interest rate and inflation projections.

Austria Public Sector Debt Sustainability Analysis (DSA)–Baseline Scenario

(in percent of GDP unless otherwise indicated)

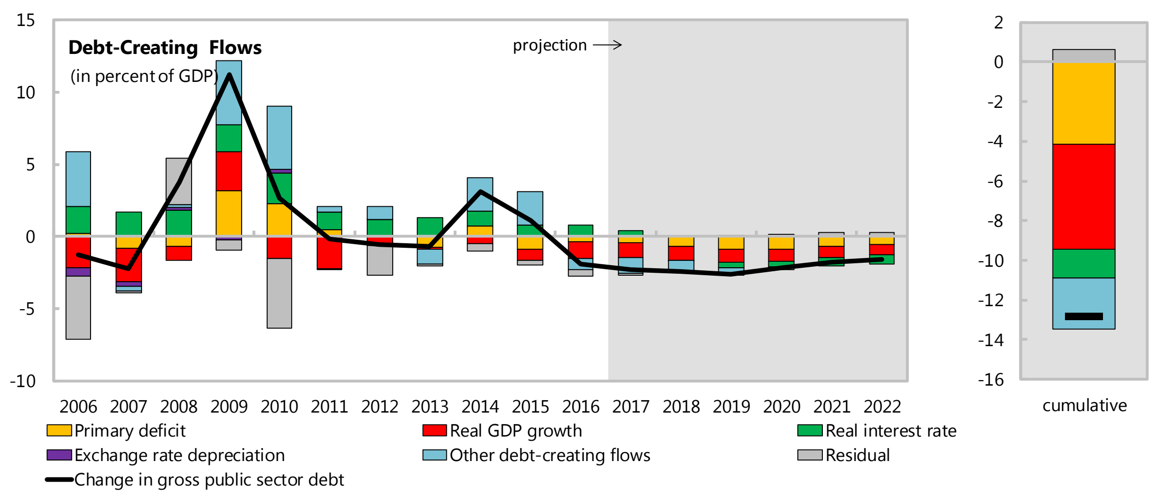
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2006-2014 [2/]	2015	2016	2017	2018	2019	2020	2021	2022
Nominal gross public debt	77.2	85.5	83.6	81.3	78.9	76.3	74.1	72.4	70.8
Public gross financing needs	11.3	9.1	9.3	10.7	11.5	10.5	9.6	9.1	9.5
Real GDP growth (in percent)	1.2	1.0	1.4	1.3	1.2	1.3	1.1	1.1	1.0
Inflation (GDP deflator, in percent)	1.8	1.9	1.6	1.7	1.8	2.1	2.1	2.1	2.1
Nominal GDP growth (in percent)	3.0	2.9	3.1	3.0	3.0	3.4	3.2	3.2	3.2
Effective interest rate (in percent) [4/]	4.0	2.9	2.6	2.2	1.8	1.7	1.5	1.4	1.3

As of November 18, 2016		
Sovereign Spreads		
EMBIG (bp) 3/	28	
5Y CDS (bp)	30	
Ratings	Foreign	Local
Moody's	Aa1	Aa1
S&Ps	AA+	AA+
Fitch	AA+	AA+

Contribution to Changes in Public Debt

	Actual			Projections							
	2006-2014	2015	2016	2017	2018	2019	2020	2021	2022	cumulative	debt-stabilizing
Change in gross public sector debt	1.8	1.1	-1.9	-2.3	-2.4	-2.6	-2.1	-1.8	-1.6	-12.8	primary
Identified debt-creating flows	2.8	1.4	-1.5	-2.1	-2.4	-2.7	-2.3	-2.0	-1.9	-13.5	balance [9/]
Primary deficit	0.5	-0.9	-0.4	-0.4	-0.7	-0.9	-0.9	-0.7	-0.6	-4.1	-1.3
Primary (noninterest) revenue and gra	48.2	50.1	49.1	49.1	49.1	49.1	49.1	49.1	49.1	294.4	
Primary (noninterest) expenditure	48.7	49.2	48.7	48.6	48.4	48.2	48.2	48.4	48.5	290.3	
Automatic debt dynamics [5/]	0.6	0.0	-0.4	-0.6	-1.0	-1.3	-1.2	-1.3	-1.3	-6.8	
Interest rate/growth differential [6/]	0.7	0.0	-0.4	-0.6	-1.0	-1.3	-1.2	-1.3	-1.3	-6.8	
Of which: real interest rate	1.6	0.8	0.8	0.4	0.0	-0.3	-0.4	-0.5	-0.6	-1.5	
Of which: real GDP growth	-0.9	-0.8	-1.2	-1.0	-0.9	-1.0	-0.8	-0.8	-0.7	-5.3	
Exchange rate depreciation [7/]	-0.1	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	1.7	2.3	-0.7	-1.1	-0.8	-0.6	-0.2	0.0	0.0	-2.6	
General government net privatizatior	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Stock-flow adjustment (incl. asset rec	1.7	2.3	-0.7	-1.1	-0.8	-0.6	-0.2	0.0	0.0	-2.6	
Residual, including asset changes [8/]	-1.1	-0.3	-0.4	-0.2	0.0	0.1	0.2	0.3	0.3	0.6	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

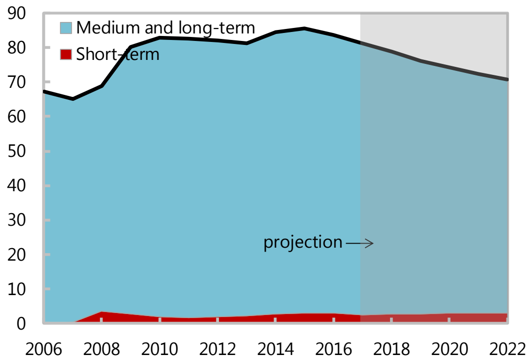
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Austria Public DSA–Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

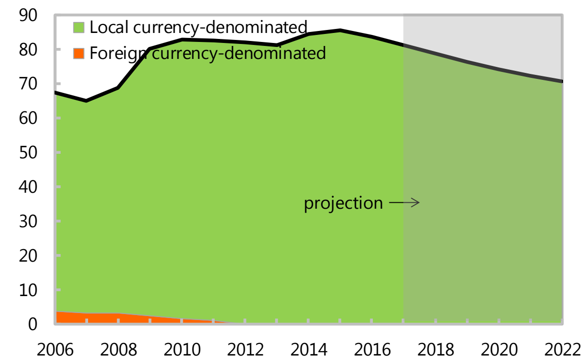
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)

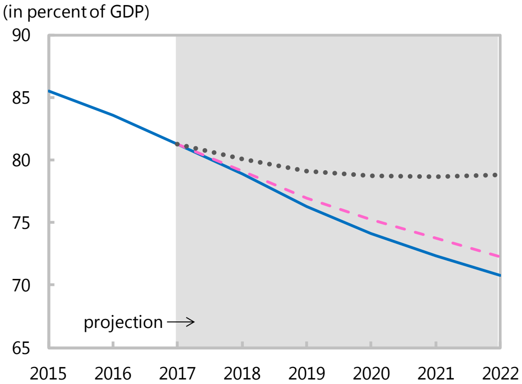


Alternative Scenarios

Baseline — Historical — Constant Primary Balance

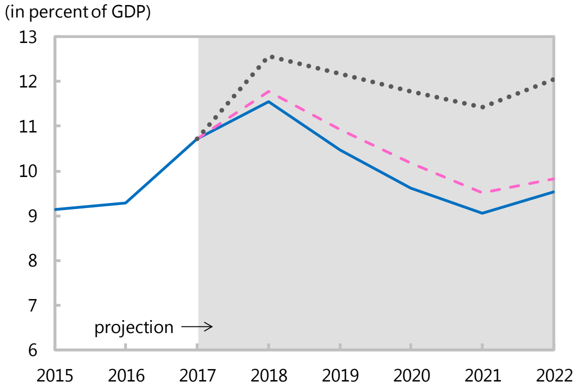
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

Baseline Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	1.3	1.2	1.3	1.1	1.1	1.0
Inflation	1.7	1.8	2.1	2.1	2.1	2.1
Primary Balance	0.4	0.7	0.9	0.9	0.7	0.6
Effective interest rate	2.2	1.8	1.7	1.5	1.4	1.3
Constant Primary Balance Scenario						
Real GDP growth	1.3	1.2	1.3	1.1	1.1	1.0
Inflation	1.7	1.8	2.1	2.1	2.1	2.1
Primary Balance	0.4	0.4	0.4	0.4	0.4	0.4
Effective interest rate	2.2	1.8	1.7	1.5	1.4	1.3

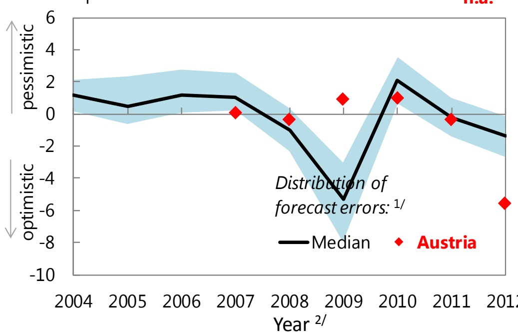
Historical Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	1.3	1.0	1.0	1.0	1.0	1.0
Inflation	1.7	1.8	2.1	2.1	2.1	2.1
Primary Balance	0.4	-0.3	-0.3	-0.3	-0.3	-0.3
Effective interest rate	2.2	1.8	2.0	2.0	2.1	2.3

Source: IMF staff.

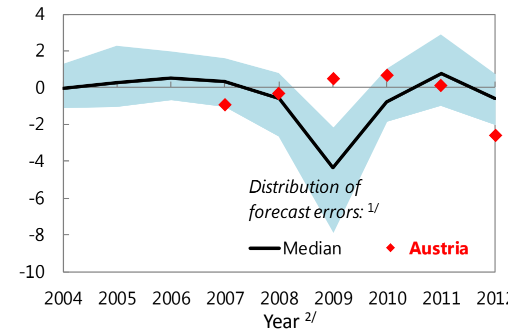
Austria Public DSA–Realism of Baseline Assumptions

Forecast Track Record, versus all countries

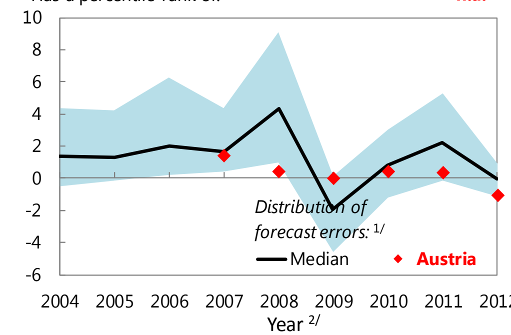
Real GDP Growth
(in percent, actual-projection)
Austria median forecast error, 2004-2012: **n.a.**
Has a percentile rank of: **n.a.**



Primary Balance
(in percent of GDP, actual-projection)
Austria median forecast error, 2004-2012: **n.a.**
Has a percentile rank of: **n.a.**

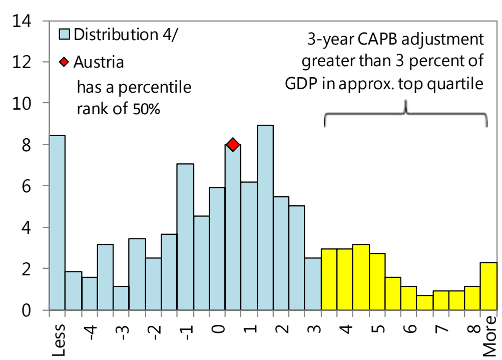


Inflation (Deflator)
(in percent, actual-projection)
Austria median forecast error, 2004-2012: **n.a.**
Has a percentile rank of: **n.a.**

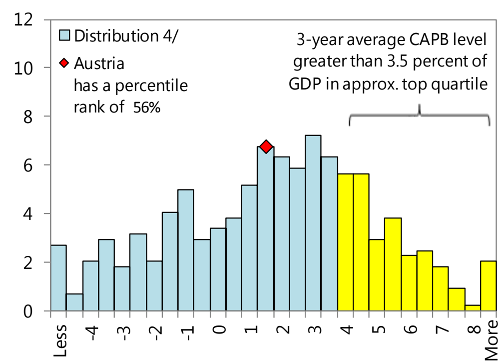


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)

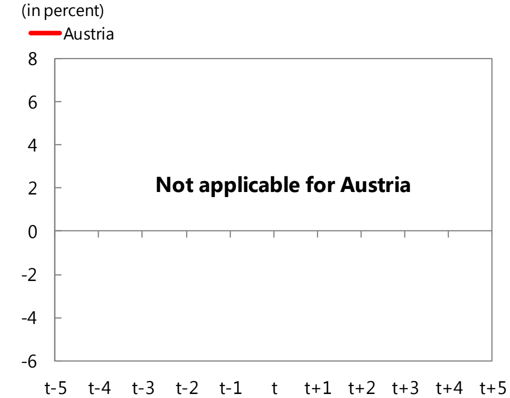


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Boom-Bust Analysis 3/

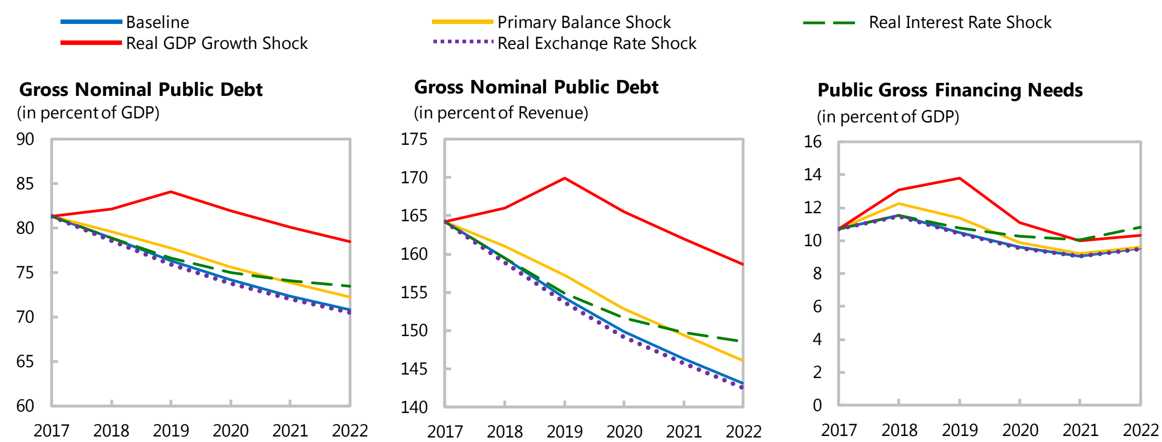
Real GDP growth
(in percent)



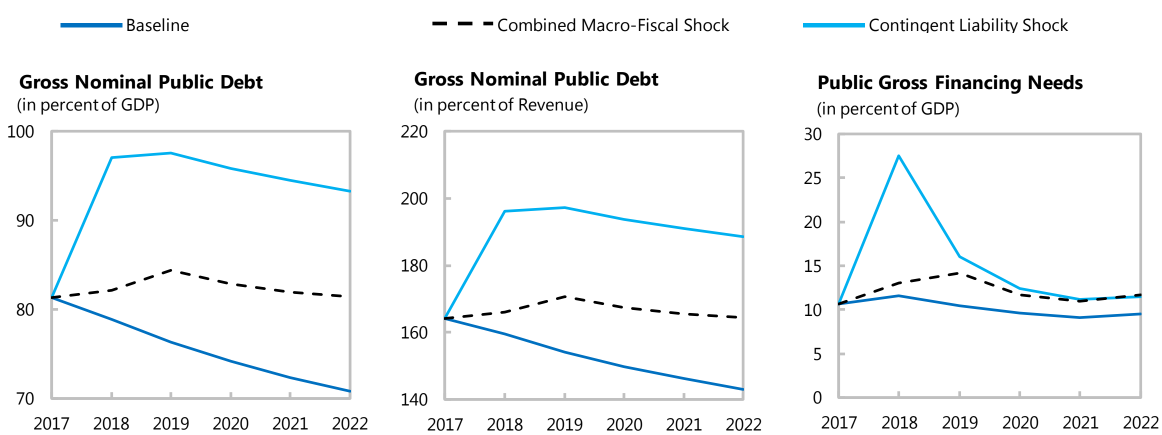
Source : IMF Staff.
1/ Plotted distribution includes all countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Austria, as it meets neither the positive output gap criterion nor the private credit growth criterion.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Austria Public DSA–Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

	2017	2018	2019	2020	2021	2022
Primary Balance Shock						
Real GDP growth	1.3	1.2	1.3	1.1	1.1	1.0
Inflation	1.7	1.8	2.1	2.1	2.1	2.1
Primary balance	0.4	0.0	0.2	0.9	0.7	0.6
Effective interest rate	2.2	1.8	1.7	1.5	1.4	1.4
Real Interest Rate Shock						
Real GDP growth	1.3	1.2	1.3	1.1	1.1	1.0
Inflation	1.7	1.8	2.1	2.1	2.1	2.1
Primary balance	0.4	0.7	0.9	0.9	0.7	0.6
Effective interest rate	2.2	1.8	2.1	2.2	2.4	2.7
Combined Shock						
Real GDP growth	1.3	-0.8	-0.7	1.1	1.1	1.0
Inflation	1.7	1.3	1.6	2.1	2.1	2.1
Primary balance	0.4	-0.5	-1.6	0.9	0.7	0.6
Effective interest rate	2.2	1.8	2.1	2.3	2.5	2.7

	2017	2018	2019	2020	2021	2022
Real GDP Growth Shock						
Real GDP growth	1.3	-0.8	-0.7	1.1	1.1	1.0
Inflation	1.7	1.3	1.6	2.1	2.1	2.1
Primary balance	0.4	-0.5	-1.6	0.9	0.7	0.6
Effective interest rate	2.2	1.8	1.7	1.6	1.5	1.4
Real Exchange Rate Shock						
Real GDP growth	1.3	1.2	1.3	1.1	1.1	1.0
Inflation	1.7	2.2	2.1	2.1	2.1	2.1
Primary balance	0.4	0.7	0.9	0.9	0.7	0.6
Effective interest rate	2.2	1.8	1.7	1.5	1.4	1.3
Contingent Liability Shock						
Real GDP growth	1.3	-0.8	-0.7	1.1	1.1	1.0
Inflation	1.7	1.3	1.6	2.1	2.1	2.1
Primary balance	0.4	-14.9	0.9	0.9	0.7	0.6
Effective interest rate	2.2	2.0	2.5	2.2	2.1	2.0

Source: IMF staff.

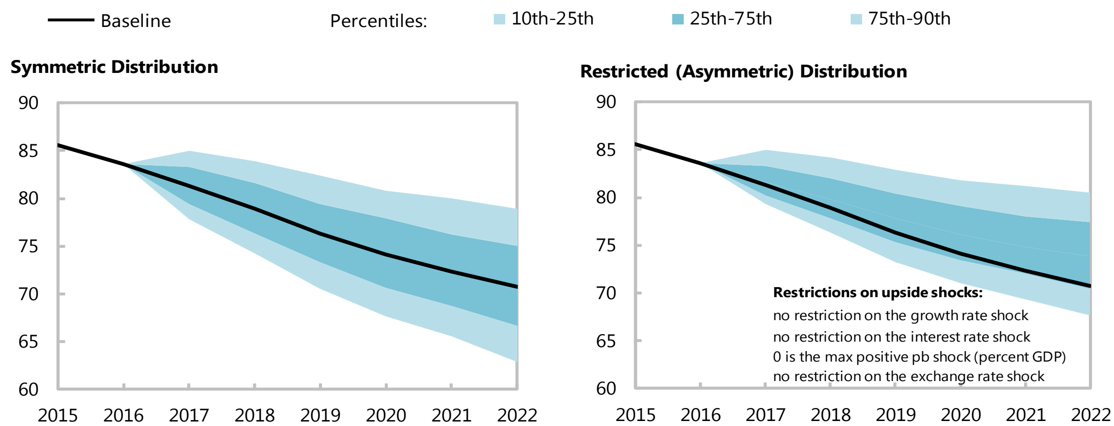
Austria Public–DSA Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

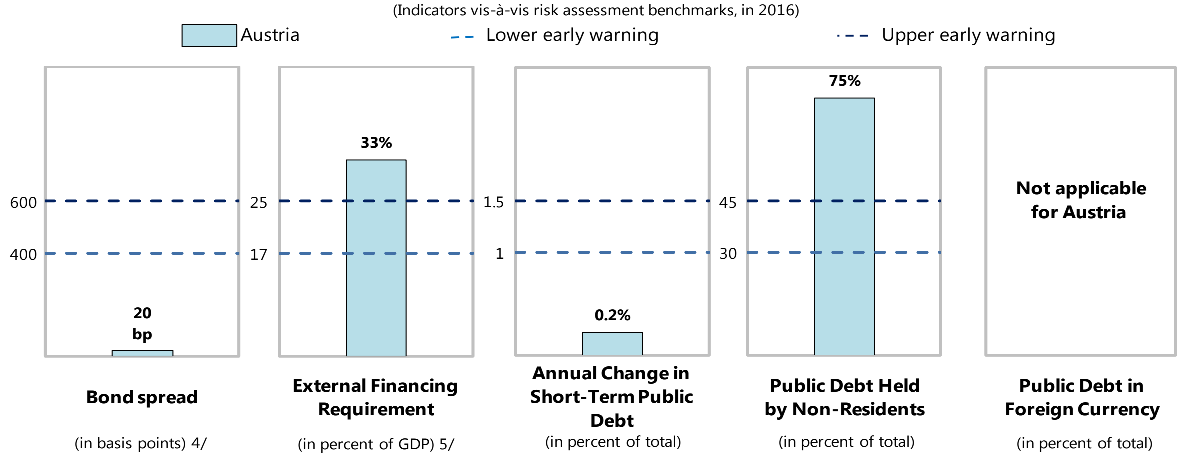
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2016)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 85% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 20% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

400 and 600 basis points for bond spreads; 17 and 25 percent of GDP for external financing requirement; 1 and 1.5 percent for change in the share of short-term debt; 30 and 45 percent for the public debt held by non-residents.

4/ Long-term bond spread over German bonds, an average over the last 3 months, 20-Aug-16 through 18-Nov-16.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Annex IV. Authorities' Response to Past IMF Policy Recommendations

2015 Article IV Recommendations	Authorities' Response
Fiscal policy I Broadly neutral fiscal stance in 2016, defined as a fiscal relaxation within ½ percentage points of GDP	In 2016, the structural fiscal balance was relaxed by some 1 percentage point of GDP, as a result of an upward revision of the 2015 outcome and delays in planned tax administration measures.
Fiscal policy II Consolidation in medium term. Moving to a structural surplus in 2018-20 and keeping it until public debt reaches 60 percent of GDP	While envisaging consolidation, the authorities' latest projections imply a structural deficit of 0.5 percent of GDP by 2020. This is supported by improved demographic projections and one-off debt-reducing factors.
Fiscal policy III Broad-based expenditure reforms to realize savings while maintaining quality of public service delivery	Discussions on fiscal federal relations aimed to introduce incentives for savings at the level of state governments. The government started discussions on further pension reforms.
Fiscal policy IV Further reduction of labor tax wedge	The tax code envisages some modest reductions in social security contributions in 2017-18.
Immigration Rapid integration of accepted asylum seekers	Several initiatives taken, including provision of language classes and a program to identify skills.
Structural reforms Policies to raise TFP growth and labor force participation	A program to support start-ups financially and administratively has been put in place. Fiscal support to encourage work instead of early retirement is in place and further measures to retain elderly workers are in discussion.
Financial sector I Continuously assess adequacy of bank capital	The authorities are closely monitoring banks' capital cushions and capital-raising plans.
Financial sector II Alternative measures to raise capital if banks' plans to raise capital ratios falter.	Not applicable, as banks' plans are still being implemented.
Financial sector III Proactively mitigate risks related to Swiss franc loans	Banks have been promoting conversion of Swiss franc mortgage loans to euro-denominated loans with gradual amortization.
Financial sector IV Strengthen preparedness by introducing macroprudential instruments	In process. Legislation not yet approved.

INTERNATIONAL MONETARY FUND

AUSTRIA

January 12, 2017

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By	European Department

CONTENTS

FUND RELATIONS

(As of November 30, 2016)

Mission: Consultation discussions were held in Vienna from December 2–13, 2016. The authorities released the mission's concluding statement, which is available at: http://www.imf.org/en/News/Articles/2016/12/13/MCS12-13-2016-Austria-Staff-Concluding-Statement-of-the-2016-Article-IV-Mission

Staff team: Messrs. Gueorguiev (head), Pitt, Yehoue (all EUR), and Andrle (RES). Ms. Erbenova and Mr. Just (OED) participated in the discussions.

Country interlocutors: Minister of Finance Schelling, OeNB Governor Nowotny, Labor and Social Affairs Minister Stöger, other senior officials, parliamentarians, and representatives of the social partners, the banking sector, and think tanks.

Fund relations: Austria is on a 12-month consultation cycle. The last consultations were held from December 3–14, 2015 and the staff report is available at: http://www.imf.org/external/pubs/ft/scr/2016/cr1650.pdf

Membership Status: Joined: August 27, 1948; Article VIII, as of August 1, 1962

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	3, 932.00	100.00
Fund holdings of currency	3,477.66	88.45
Reserve position in Fund	454.35	11.56
Lending to the Fund:		
New Arrangements to Borrow	318.01	

SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	1,736.31	100.00
Holdings	1,623.90	93.53

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

Projected Payments to Fund:

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2016	2017	2018	2019	2020
Principal	---	---	---	---	---
Charges/Interest	---	0.31	0.32	0.32	0.32
Total	---	0.31	0.32	0.32	0.32

Implementation of HIPC Initiative: Not Applicable

Exchange System:

As of January 1, 1999, the currency of Austria is the euro, which floats freely and independently against other currencies. Austria's exchange system is free of restrictions on the making of payments and transfers for current international transactions, with the exception of restrictions notified to the Fund in accordance with decision No.144-(52/51) resulting from UN Security Council Resolutions and EU Council Regulations.

STATISTICAL ISSUES

1. **Macroeconomic statistics are adequate for surveillance.** Austria subscribed to the Fund's Special Data Dissemination Standard (SDDS) in 1996, and its metadata are available on the Fund's electronic Dissemination Standards Bulletin Board. Austria is availing itself of the SDDS flexibility option on the timeliness of the industrial production index and the merchandise trade data. Austria is currently preparing for SDDS Plus adherence.

2. **The ECB reporting framework is used for monetary statistics and data are reported to the IMF through a "gateway" arrangement with the ECB.** The arrangement provides an efficient transmission of monetary statistics to the IMF and for publication in the IFS and IFS Supplement.

Austria: Table of Common Indicators
(as of December 31, 2016)

	Date of latest observation	Date received	Frequency of data	Frequency of reporting	Frequency of publication
Exchange rates	12/31/16	12/31/16	Daily	Daily	Daily
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Nov. 2016	12/20/16	Monthly	Monthly	Monthly
Reserve/Base Money	Nov. 2016	12/30/16	Monthly	Monthly	Monthly
Broad Money	Nov. 2016	12/30/16	Monthly	Monthly	Monthly
Central Bank Balance Sheet	Nov. 2016	12/30/16	Monthly	Monthly	Monthly
Consolidated Balance Sheet of the Banking System	Nov. 2016	12/30/16	Monthly	Monthly	Monthly
Interest Rates[2]	12/31/16	12/31/16	Daily	Daily	Daily
Consumer Price Index	Nov 2016	12/14/16	Monthly	Monthly	Monthly
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	2016:Q3	12/30/16	Quarterly	Quarterly	Quarterly
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Nov. 2016	12/30/16	Monthly	Monthly	Monthly
Stocks of Central Government and Central Government-Guaranteed Debt	Nov. 2016	12/30/16	Monthly	Monthly	Monthly
External Current Account Balance	2016:Q3	12/30/16	Quarterly	Quarterly	Quarterly
Exports and Imports of Goods and Services	2016:Q3	12/30/16	Quarterly	Quarterly	Quarterly
GDP/GNP	2016:Q3	12/30/16	Quarterly	Quarterly	Quarterly
Gross External Debt[5]	2016:Q3	12/30/16	Quarterly	Quarterly	Quarterly
International Investment Position	2016:Q3	12/30/16	Quarterly	Quarterly	Quarterly

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra-budgetary funds, and social security funds) and state and local governments).

[5] Including currency and maturity composition.