Effects of financial crisis on austria

Effects of financial crisis on Austria The recent financial crisis has destroyed the economic backbone of many countries and Austria is also not an exception. Austria suffered many direct and indirect effects of the global recession and is struggling currently to reshape or revitalize its economy. This paper briefly analyses the effects of the recent financial crisis on Austria.

“ The crisis in the Far East could depress the growth of Austrias exports by at most 0. 5 percentage points and the expansion of real GDP by 0. 1 percentage point to 0. 2 percentage points, even under pessimistic assumptions”(Hahn). Austria’s products are struggling to compete with the products China and India like Asian countries because of the higher prices of the Austrian products. India and China are the most heavily populated countries in the world and they don’t have the manpower shortage problems. On the other hand, Austria is facing severe manpower shortage and hence the labour cost is comparatively high in Austria. Subsequently the products of Austria are heavily priced in the global market.

“ Lending rates are a key element in the transmission of monetary impulses to the real economy even more so in bank-based financial systems such as the Austrian one” (Jobst). Austrian banks were more particular in safeguarding the interests of their customers rather than the interests of the country. Austrian banks were not much particular in adjusting the interest rates even at a time when the Austrian economy fluctuated a lot. Banks miscalculated that the relationships with the customers are more important even at a time when the economy was in a unstable condition. Banks took a more relaxed approach to risk assessment and risk premiums decline even when the recession struck the economy hard.

The economic expansion of Austria suffered a major setback when the recession entered the world quiet unexpectedly in 2007. The slump in world trade has affected Austria also very much. Unemployment and inflation were reached all time high during the recession period in Austria. Many of the Austrian firms forced to cut down their labor force in order to escape from recession. However, Austria is currently showing signs of the great recovery. While most of their European counterparts struggling to repair the damage, Austria seems to be succeeded in finding solutions for the damages caused by recession.

Compared to other Euro zone counterparts, Austria was able to recover quickly even though the recession struck their economy severely. The current growth rates of Austria are more than some of the biggest European countries like Italy or Britain. " Austria has had a steady growth rate for the past 8 years and always ended up above the European average of 1. 7%" (Weingartner). The deficit of Austria is less compared to its European colleagues and it is expected that the deficit may come down again in 2011.

Conclusions

Like most of the other European countries, recession badly hit Austria also. Unemployment and inflation increased a lot in Austria as a result of the recession. But currently, Austria is showing signs of a recovery and their recovery seems to be more rapid compared their European counterparts.

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