

## Executive summary

**S**o far, Austria has weathered the global financial crisis better than other OECD countries. Even so, it is entering its worst recession in half a century. Moreover, its strong economic links with Central and Eastern Europe involve risks to GDP growth and financial stability. In the face of the crisis, the stance of monetary policy has been loosened in the euro area and measures have been taken in Austria to strengthen the liquidity and capital basis of the financial system, whilst automatic stabilisers coupled with discretionary fiscal measures also serve as a cushion.

- While measures in Austria and abroad have been introduced to stabilise financial markets, further financial-sector support might be needed to deal quickly with downside risks should they materialise. Income maintenance should continue to be administered with a view to protect workers rather than jobs and in conjunction with schemes improving their longer-term employability. Nevertheless helping maintain existing jobs for a limited duration can be helpful in the current state of the crisis.
- The deterioration in the fiscal position calls for spelling out soon credible medium-term consolidation measures, to take effect once economic conditions improve. This will be helped by the new four-year expenditure ceiling framework and the transition to performance budgeting but also calls for greater commitment on the part of the Länder.

**Beyond the ongoing crisis, the economy will need to be put on a stronger growth path, and to regain the ground lost over the past decade vis-à-vis better-performing economies. There is room and need for policies to enhance both labour productivity and labour utilisation.**

- The productivity gap between dynamic, trade-exposed manufacturing and comparatively lagging sheltered service sectors should be addressed through more active domestic competition policies.
- The persisting contrast between the employability of skilled prime-age versus older and less-skilled workers should be reduced through measures enhancing labour supply and demand for disadvantaged groups.

**High-quality education is key both for growth and social cohesion. Austria's education system, from pre-school to university, should be strengthened. Ambitious reforms, which have already been launched in some areas, should be considered a national priority.**

- From age three onwards, all children should benefit from high-quality pre-school education.
- In compulsory education, resources should be reallocated to the most important and innovative policy initiatives, such as the Neue Mittelschule. The federal government should continue with efforts to provide more autonomy to schools, in exchange for improved accountability in meeting national education standards.
- At the tertiary level, growing registration demand needs to be met without compromising teaching quality. Universities should have greater leeway to select their students and charge tuition fees, with a comprehensive student grant and income-contingent loan system ensuring equality of opportunity.