

THE OECD ECONOMIC SURVEY OF AUSTRIA 2009
Introductory remarks by Andrew Dean,
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Ministers, journalists and colleagues,

It is an honour and a pleasure for me to introduce our latest *Economic Survey of Austria* today, in the presence of this distinguished audience. I will keep my remarks relatively short so as to give sufficient time for Secretaries of State Schieder and Lopatka to comment, and then later for our education colleagues to speak. *Education policies and reforms* are the subject of a special chapter in this *Survey* and my OECD colleague Barbara Ischinger will say more about our education policy recommendations in the second part of the session when we look forward to the views of Ministers Schmied and Hahn.

The release of an *OECD Economic Survey* is always a good opportunity to take stock of a country's economic performance and policies and to put them in international perspective. Our *Surveys* aim at capturing the main economic policy challenges facing a country and try to bring out what the international community can learn from each country's experience.

My remarks will be in three parts. I will first summarise what the *Survey* says on Austria's shorter-term macroeconomic economic challenges and policy responses. I will then shift to longer-term challenges and structural policies. And I will conclude with some comments on the need to achieve better *synergy and mutual support* between short- and longer-term policies in the context of the crisis.

1) Short-term macroeconomic challenges

Starting with macroeconomic developments, our *Survey* confirms that Austria has so far weathered the global financial crisis better than many other OECD countries. Even so, it has entered its worst recession in half a century. We expect GDP to contract by more than 4% (4.3%) in 2009 and to be almost unchanged in 2010 (-0.1%), though with growth picking up to an annual rate of close to 2% by the end of 2010. Unemployment is expected to rise towards 8% next year.

Against this background, let me comment on three aspects of macroeconomic policy:

First, we judge the fiscal policy reaction to the crisis to have been appropriate. Large automatic stabilisers, coupled with discretionary measures, have served as a cushion. Measures for income maintenance, based on legal entitlements and on more *ad hoc* initiatives such as the *Kurzarbeit* scheme, have played an important role. They should continue to be administered with a view to protecting workers rather than specific jobs. That said, in the current circumstances, helping preserve existing jobs for a limited duration (as being done today) can be helpful, as long as it does not favour any specific sector or enterprises over others. These policies should continue to be supported by effective programmes targeting individuals' post-crisis employability.

Second, the unavoidable deterioration of the fiscal position to a budget deficit of 5 or 6% of GDP calls for spelling out soon a robust and credible medium-term consolidation plan, to be implemented once economic conditions improve. Our *Survey* argues that such a plan should be based chiefly on expenditure reductions and, only if necessary, on limited increases in less distortive taxes.

Third, the stance of monetary policy has been loosened considerably in the euro area and energetic measures have been taken in Austria to improve the liquidity and capital basis of the financial system. So far, so good. However, Austria's strong links with central and eastern Europe entail risks to growth and financial stability, even though the related financial market strains have abated somewhat recently. We think it is important that contingency plans and support for the financial sector should be kept ready to deal with any downside risks should they materialise.

2) Longer-term structural agenda

Turning now to the area of structural policies, the *Survey* argues that there are five areas where it is essential to make the most of Austria's economic potential:

First, containing the long-term fiscal implications of ageing. Austria has made important progress in containing the trend growth of ageing-related expenditures. The 2003 Pension Reform has put long-term pension balances on a more sustainable path, assuming that the underlying growth, employment and effective retirement age projections are realised. Ageing-related expenditures, including health and long-term care, are nonetheless projected to increase significantly in the decades ahead in the absence of additional reforms, although less sharply than in most other OECD countries. It is important that there are no steps backwards in implementing the 2003 Pension Reforms and that policy is directed towards increasing the effective age of retirement. Efforts in this area should be sustained, as they contribute to the credibility of Austria's economic management and because the risks and uncertainties concerning retirement ages, early retirement loopholes and health care spending are high.

Second, addressing weak productivity in services. The productivity gaps between the dynamic, trade-exposed manufacturing sector, and the relatively lagging service sectors seem to persist. These gaps can be addressed through more active competition policies in services.

Third, helping vulnerable workers. The employment rates of skilled prime-age workers, male and female, remain significantly higher than those of older and less-skilled workers – independently from the crisis. These differences are larger than in other advanced OECD countries. Our *Survey* argues that these gaps can be reduced through targeted policy measures to improve labour supply and demand for these disadvantaged groups.

Fourth, dealing with the immigration challenge. Austria has absorbed sizeable immigration flows in the past. The average educational attainment of the existing immigrant population is one of the lowest in the OECD. This raises special education and labour market challenges, including for second-generation cohorts born in Austria. The inflow of workers from neighbouring countries could further accelerate after the liberalisation of labour movements with the new EU member states in 2011. While Austria's production potential and trend growth should benefit from such inflows, complementary policies in a range of areas will be needed to absorb these new workers.

And *finally*, strengthening education. High-quality education is central for both growth and social cohesion, in particular in Austria's current circumstances. Although there have already been some reforms, the special chapter of our *Survey* finds that Austria's education system, from pre-school all the way through to university, needs strengthening in ways that my colleague will point out later.

3) Synergies between macroeconomic and structural policies

Austria's response to the crisis differed from that in other OECD countries in one important respect: you have provided most of your discretionary fiscal stimulus through *permanent* tax cuts and *permanent* spending increases, in areas corresponding to long-term structural priorities. Timing desirable structural measures so that they have countercyclical benefits is astute. But it means that post-crisis consolidation will need to draw on *new* areas of fiscal saving rather than on reversing temporary measures. This will make for a more demanding *exit* strategy than in other countries as economic conditions improve. Let me conclude with two short comments in this regard:

First, the *Survey* argues that the budget consolidation challenge will be even greater because there will be further needs for permanent spending increases and permanent tax reductions. For example, as we will hear later, additional public resources will be needed in pre-school care and in comprehensive secondary schooling as reforms in education progress. At the same time, Austria will probably need to reduce employers' social security contributions for low-skilled workers to improve their job prospects. So policymakers will need to create additional "fiscal room" to reconcile their macroeconomic and structural policy objectives. This calls for revisiting the whole structure of public spending.

But the *second* point is that there is also some encouraging news in this area. Austria is in the process of introducing some state-of-the-art fiscal policy instruments: efficiency reviews across the entire public sector; strategic and performance-based budgeting; and four-year rolling expenditure ceilings. All of these can help with rational fiscal consolidation and efficient reallocation of public resources. You are introducing these instruments with an ambitious, but realistic step-by-step plan, which should be fully operational in the coming years. International experience shows, however, that these innovations, to be effective, need to affect somewhat *taboo* areas such as health expenditure, social transfers, and spending by the *Länder* and municipalities. Austria is expected to draw on its traditions of social partnership and federal consensus-searching to move forward in these sensitive areas.

Austria's OECD partners will be watching to see how you manage these important challenges. Rising to these challenges will benefit social cohesion and economic growth, objectives that are even more compelling at a time of crisis.

Thank you for your attention.