OECD Economic Surveys

Austria

December 2021

OVERVIEW

http://www.oecd.org/economy/Austria-economic-snapshot/
This document, as well as any data and any map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
Foreword

This Survey is published on the responsibility of the Economic and Development Review Committee of the OECD, which is charged with the examination of the economic situation of member countries. The economic situation and policies of Austria were reviewed by the Committee on 15 November 2021. The draft report was then revised in the light of the discussions and given final approval as the agreed report of the whole Committee on 03 November 2021. The Secretariat’s draft report was prepared for the Committee by Rauf Gönenç (Senior Economist) and Dennis Dlugosch (Economist), under the supervision of Isabelle Joumard (Head of Division). The Survey also benefitted from contributions by the staff of the Federal Ministry of Finance in Vienna and Michael Abendschein from the OECD. Statistical research assistance was provided by Eun Jung Kim and editorial assistance by Heloise Wickramanayake. The previous Survey of Austria was issued in November 2019. Information about the latest as well as previous Surveys and more information about how Surveys are prepared is available at www.oecd.org/eco/surveys.
## Table of contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreword</td>
<td>1</td>
</tr>
<tr>
<td>Executive Summary</td>
<td>6</td>
</tr>
<tr>
<td><strong>1 Key policy insights</strong></td>
<td>12</td>
</tr>
<tr>
<td>The pandemic hit Austria hard, requiring to adjust the sharing of health responsibilities across levels of government</td>
<td>12</td>
</tr>
<tr>
<td>Macroeconomic outlook and risks</td>
<td>18</td>
</tr>
<tr>
<td>Economic and social supports are being adapted to the recovery</td>
<td>26</td>
</tr>
<tr>
<td>Important structural changes are pending after the pandemic</td>
<td>38</td>
</tr>
<tr>
<td>Social cohesion is under pressure</td>
<td>45</td>
</tr>
<tr>
<td>Public sector reforms become more compelling</td>
<td>57</td>
</tr>
<tr>
<td>Illustrative medium-to-long term growth scenarios and policy recommendations</td>
<td>62</td>
</tr>
<tr>
<td>References</td>
<td>66</td>
</tr>
</tbody>
</table>

### FIGURES

<table>
<thead>
<tr>
<th>Figure</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Figure 1. The drop in activity has been severe</td>
<td>7</td>
</tr>
<tr>
<td>Figure 2. Fiscal support has been vigorous</td>
<td>7</td>
</tr>
<tr>
<td>Figure 3. Labour force participation of women could improve further</td>
<td>9</td>
</tr>
<tr>
<td>Figure 4. Productivity in business services lags behind</td>
<td>9</td>
</tr>
<tr>
<td>Figure 5. Austria is less digitalised than peer countries</td>
<td>10</td>
</tr>
<tr>
<td>Figure 1.1. The four waves of the pandemic differed in intensity</td>
<td>13</td>
</tr>
<tr>
<td>Figure 1.2. Containment policies were more frequently adjusted than in comparable countries</td>
<td>14</td>
</tr>
<tr>
<td>Figure 1.3. The massive national vaccination effort had to cope with scepticism in certain parts of the population</td>
<td>15</td>
</tr>
<tr>
<td>Figure 1.4. The intensity of the pandemic varied across Länder</td>
<td>16</td>
</tr>
<tr>
<td>Figure 1.5. Workplace and retail mobility has fluctuated during the pandemic</td>
<td>18</td>
</tr>
<tr>
<td>Figure 1.6. The drop in activity has been severe but the resilience of investment is encouraging</td>
<td>19</td>
</tr>
<tr>
<td>Figure 1.7. The consumption mix has dropped more and changed less than in peer countries</td>
<td>20</td>
</tr>
<tr>
<td>Figure 1.8. Exports remain closely linked to European value chains</td>
<td>21</td>
</tr>
<tr>
<td>Figure 1.9. House prices have soared after a long period of moderation</td>
<td>24</td>
</tr>
<tr>
<td>Figure 1.10. After the pandemic banks’ capital should be strengthened</td>
<td>25</td>
</tr>
<tr>
<td>Figure 1.11. Austria’s economic support during the pandemic</td>
<td>27</td>
</tr>
<tr>
<td>Figure 1.12. Budget costs of Corona aid measures</td>
<td>28</td>
</tr>
<tr>
<td>Figure 1.13. Grants and Loans in the Recovery and Resilience Facility</td>
<td>33</td>
</tr>
<tr>
<td>Figure 1.14. The massive fiscal stimulus will be followed by a strong consolidation</td>
<td>36</td>
</tr>
<tr>
<td>Figure 1.15. Public finance dynamics are less favourable than in peer countries</td>
<td>37</td>
</tr>
<tr>
<td>Figure 1.16. Structural reforms can help to lower public debt</td>
<td>38</td>
</tr>
<tr>
<td>Figure 1.17. There is potential for progress in reducing carbon emissions</td>
<td>40</td>
</tr>
<tr>
<td>Figure 1.18. Industrial processes and transportation account for a large share in emissions</td>
<td>42</td>
</tr>
<tr>
<td>Figure 1.19. The room is large for harmonising and raising carbon prices</td>
<td>43</td>
</tr>
</tbody>
</table>
Figure 1.20. Aggregate labour market performance and social transfers were upholding social cohesion before the pandemic
Figure 1.21. Social protection has prevented employment losses during the pandemic
Figure 1.22. The increase in long-term unemployment
Figure 1.23. The self-employed have received less support than wage earners
Figure 1.24. Self-employment may become more frequent in the future
Figure 1.25. Women’s labour force participation can improve significantly
Figure 1.26. The childcare infrastructure should be considerably strengthened
Figure 1.27. Foreign-language speakers have a large share in the population and face integration challenges
Figure 1.28. Public spending is already high
Figure 1.29. Improving public trust

TABLES
Table 1. A strong recovery
Table 1.1. Macroeconomic indicators and projections
Table 1.2. Events that could lead to major changes in the outlook
Table 1.3. Fiscal policy, public finances, debt sustainability: past OECD recommendations and government follow-ups
Table 1.4. Labour market, social partnership, collective agreements: past OECD recommendations and government follow-ups
Table 1.5. Gender equality: past OECD recommendations and government follow-ups
Table 1.6. Immigrants’ economic participation and social inclusion: past OECD recommendations and government follow-ups
Table 1.7. Public sector reforms (including education reforms): past OECD recommendations and government follow-ups
Table 1.8. GDP impacts of reforms
Table 1.9. Estimated fiscal costs of selected policy recommendations
## BASIC STATISTICS OF AUSTRIA, 2020¹
*(Numbers in parentheses refer to the OECD average)²*

### LAND, PEOPLE AND ELECTORAL CYCLE

<table>
<thead>
<tr>
<th>Population (million)</th>
<th>8.9</th>
<th>Population density per km²</th>
<th>108.1 (38.6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 15 (%)</td>
<td>14.4 (17.8)</td>
<td>Life expectancy at birth (years, 2019)</td>
<td>81.8 (80.2)</td>
</tr>
<tr>
<td>Over 65 (%)</td>
<td>19.2 (17.4)</td>
<td>Men (2019)</td>
<td>79.5 (77.6)</td>
</tr>
<tr>
<td>International migrant stock (% of population, 2019)</td>
<td>19.9 (13.2)</td>
<td>Women (2019)</td>
<td>84.2 (82.9)</td>
</tr>
<tr>
<td>Latest 5-year average growth (%)</td>
<td>0.6 (0.6)</td>
<td>Latest general election</td>
<td>September-2019</td>
</tr>
</tbody>
</table>

### ECONOMY

<table>
<thead>
<tr>
<th>Land, People and Electoral Cycle</th>
<th>Value added shares (%)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (million)</td>
<td>8.9</td>
<td></td>
</tr>
<tr>
<td>Population density per km²</td>
<td>108.1 (38.6)</td>
<td></td>
</tr>
<tr>
<td>Under 15 (%)</td>
<td>14.4 (17.8)</td>
<td></td>
</tr>
<tr>
<td>Life expectancy at birth (years, 2019)</td>
<td>81.8 (80.2)</td>
<td></td>
</tr>
<tr>
<td>Over 65 (%)</td>
<td>19.2 (17.4)</td>
<td></td>
</tr>
<tr>
<td>Men (2019)</td>
<td>79.5 (77.6)</td>
<td></td>
</tr>
<tr>
<td>International migrant stock (%)</td>
<td>19.9 (13.2)</td>
<td></td>
</tr>
<tr>
<td>Women (2019)</td>
<td>84.2 (82.9)</td>
<td></td>
</tr>
<tr>
<td>Latest 5-year average growth (%)</td>
<td>0.6 (0.6)</td>
<td></td>
</tr>
</tbody>
</table>

### GENERAL GOVERNMENT

<table>
<thead>
<tr>
<th>General Government</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>432.0</td>
</tr>
<tr>
<td>Agriculture, forestry and fishing</td>
<td>1.3</td>
</tr>
<tr>
<td>Industry including construction</td>
<td>28.4</td>
</tr>
<tr>
<td>Services</td>
<td>70.3</td>
</tr>
<tr>
<td>Services</td>
<td>70.3</td>
</tr>
</tbody>
</table>

### EXTERNAL ACCOUNTS

<table>
<thead>
<tr>
<th>External Accounts</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exchange rate (EUR per USD)</td>
<td>0.88</td>
</tr>
<tr>
<td>Main exports (% of total merchandise exports)</td>
<td>0.76</td>
</tr>
<tr>
<td>PPP exchange rate (USA = 1)</td>
<td>0.76</td>
</tr>
<tr>
<td>Machinery and transport equipment</td>
<td>36.8</td>
</tr>
<tr>
<td>In per cent of GDP</td>
<td>378.6</td>
</tr>
<tr>
<td>Manufactured goods</td>
<td>19.7</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>51.2</td>
</tr>
<tr>
<td>Chemicals and related products, n.e.s.</td>
<td>15.1</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>48.6</td>
</tr>
<tr>
<td>Main imports (% of total merchandise imports)</td>
<td>47.1</td>
</tr>
<tr>
<td>Current account balance</td>
<td>1.9</td>
</tr>
<tr>
<td>Machinery and transport equipment</td>
<td>34.4</td>
</tr>
<tr>
<td>Net international investment position</td>
<td>10.0</td>
</tr>
<tr>
<td>Manufactured goods</td>
<td>16.0</td>
</tr>
<tr>
<td>Chemicals and related products, n.e.s.</td>
<td>15.1</td>
</tr>
</tbody>
</table>

### LABOUR MARKET, SKILLS AND INNOVATION

<table>
<thead>
<tr>
<th>Labour Market, Skills and Innovation</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment rate (aged 15 and over, %)</td>
<td>57.5</td>
</tr>
<tr>
<td>Unemployment rate, Labour Force Survey (aged 15 and over, %)</td>
<td>5.4</td>
</tr>
<tr>
<td>Men</td>
<td>62.5</td>
</tr>
<tr>
<td>Youth (aged 15-24, %)</td>
<td>10.5</td>
</tr>
<tr>
<td>Women</td>
<td>52.7</td>
</tr>
<tr>
<td>Long-term unemployed (1 year and over, %)</td>
<td>1.3</td>
</tr>
<tr>
<td>Participation rate (aged 15 and over, %)</td>
<td>60.8</td>
</tr>
<tr>
<td>Tertiary educational attainment (aged 25-64, %)</td>
<td>34.2</td>
</tr>
<tr>
<td>Average hours worked per year</td>
<td>1,400</td>
</tr>
<tr>
<td>(1,687) Gross domestic expenditure on R&amp;D (% of GDP, 2018)</td>
<td>3.2</td>
</tr>
</tbody>
</table>

### ENVIRONMENT

<table>
<thead>
<tr>
<th>Environment</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total primary energy supply per capita (toe)</td>
<td>3.5</td>
</tr>
<tr>
<td>CO2 emissions from fuel combustion per capita (tonnes, 2019)</td>
<td>7.1</td>
</tr>
<tr>
<td>Renewables (%)</td>
<td>32.4</td>
</tr>
<tr>
<td>Renewable internal freshwater resources per capita (1,000 m³, 2017)</td>
<td>6.3</td>
</tr>
<tr>
<td>Exposure to air pollution (more than 10 μg/m³ of PM 2.5, % of population, 2019)</td>
<td>82.4</td>
</tr>
<tr>
<td>Municipal waste per capita (tonnes, 2019)</td>
<td>0.6</td>
</tr>
</tbody>
</table>

### SOCIETY

<table>
<thead>
<tr>
<th>Society</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Income inequality (Gini coefficient, 2018, OECD: latest available)</td>
<td>0.280</td>
</tr>
<tr>
<td>Education outcomes (PISA score, 2018)</td>
<td>(0.318)</td>
</tr>
<tr>
<td>Relative poverty rate, (%, 2018, OECD: 2017)</td>
<td>9.4</td>
</tr>
<tr>
<td>Reading</td>
<td>484</td>
</tr>
<tr>
<td>Median disposable household income (thousand USD PPP, 2018, OECD: 2017)</td>
<td>34.1</td>
</tr>
<tr>
<td>Mathematics</td>
<td>499</td>
</tr>
<tr>
<td>Public and private spending (% of GDP)</td>
<td>(487)</td>
</tr>
<tr>
<td>Health care (OECD: 2019)</td>
<td>11.5</td>
</tr>
<tr>
<td>Share of women in parliament (%)</td>
<td>39.3</td>
</tr>
<tr>
<td>Pensions (2017)</td>
<td>13.6</td>
</tr>
<tr>
<td>Net official development assistance (% of GNI, 2017)</td>
<td>0.3</td>
</tr>
<tr>
<td>Education (% of GNI, 2019)</td>
<td>5.0</td>
</tr>
</tbody>
</table>

---

¹The year is indicated in parenthesis if it deviates from the year in the main title of this table.
²Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 80% of member countries.

OECD ECONOMIC SURVEY: AUSTRIA 2021 © OECD 2021
Executive Summary
The recovery has been strong until a resurgence in the pandemic

Austria has faced the successive waves of the pandemic with varying degrees of intensity. The human toll has been significant, despite the large health care resources. The vaccination campaign reached 66% of the total population by mid-November 2021. Shortcomings in health literacy may have slowed down the vaccination campaign, confirming the importance of the 2015 Health Literacy Strategy. The restrictions on mobility have generally led to significant drops in economic activity, before a strong recovery through summer 2021 (Figure 1). This reflected, particularly in certain periods of the year, the large share of tourism in economic activity, which has also led to regional differences in the impacts of the pandemic.

Figure 1. The drop in activity has been severe

Real GDP

Economic policymakers reacted forcefully to the shock of the pandemic. They used the fiscal space made available by prudent fiscal management in the past, to implement a comprehensive support package. Austria's direct fiscal transfers after the start of the pandemic, including the measures planned until 2023 will reach 15% of GDP, above the OECD and peer country averages (Figure 2). Public loans and guarantees have been used more sparingly. This approach has mitigated further increases in corporate debt and preserved corporate investment capacity. The generous short-time working scheme has retained up to 1.2 million jobs, roughly 20% of total private employment.

Accelerating vaccination rates and the lifting of restrictions have led to a very strong recovery in 2021, until the strong fourth wave late autumn. GDP has surpassed its pre-pandemic level in the 3rd quarter of 2021. Business investment is boosted by bold fiscal support, including from Next Generation EU funds (Table 1). Private consumption is rising as households are running down part of their pent-up savings, albeit at a moderate pace. The labour market is tight, with vacancy rates edging up. Without the severe supply chain disruptions and labour shortages, the recovery would be even stronger. Against this backdrop consumer price inflation soared above 3% starting from August. The intensification of the 4th wave through Fall and the lock-down of the non-vaccinated from mid-November is nonetheless expected to slow down the economy.

House prices have surged, exacerbating related financial risks. The stock of housing loans is still low in international comparison but is expanding rapidly. Guidance issued by the Financial Market Stability Board for a prudent management have been complied with only partially.

Figure 2. Fiscal support has been vigorous

Table 1. A strong recovery

<table>
<thead>
<tr>
<th>Annual growth rates %</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross domestic product</td>
<td>1.5</td>
<td>-6.8</td>
<td>4.1</td>
<td>4.6</td>
<td>2.5</td>
</tr>
<tr>
<td>Private consumption</td>
<td>0.6</td>
<td>-8.4</td>
<td>3.7</td>
<td>5.8</td>
<td>2.6</td>
</tr>
<tr>
<td>Government consumption</td>
<td>1.5</td>
<td>-0.4</td>
<td>3.1</td>
<td>0.2</td>
<td>0.5</td>
</tr>
<tr>
<td>Gross fixed capital formation</td>
<td>4.8</td>
<td>-5.0</td>
<td>7.9</td>
<td>4.4</td>
<td>2.9</td>
</tr>
<tr>
<td>Exports</td>
<td>3.3</td>
<td>-11.5</td>
<td>10.4</td>
<td>8.1</td>
<td>5.6</td>
</tr>
<tr>
<td>Imports</td>
<td>1.8</td>
<td>-9.3</td>
<td>11.6</td>
<td>6.9</td>
<td>5.3</td>
</tr>
<tr>
<td>Unemployment rate (%)</td>
<td>4.5</td>
<td>5.4</td>
<td>5.0</td>
<td>4.7</td>
<td>4.5</td>
</tr>
<tr>
<td>Consumer price index</td>
<td>1.5</td>
<td>1.4</td>
<td>2.8</td>
<td>3.0</td>
<td>2.3</td>
</tr>
<tr>
<td>Current account balance (% of GDP)</td>
<td>2.1</td>
<td>1.9</td>
<td>-0.2</td>
<td>0.1</td>
<td>0.3</td>
</tr>
<tr>
<td>General government fiscal balance (% of GDP)</td>
<td>0.6</td>
<td>-8.3</td>
<td>-6.3</td>
<td>-2.3</td>
<td>-1.1</td>
</tr>
</tbody>
</table>

Source: OECD Economic Outlook 110 database.
The authorities should continue making fiscal support increasingly targeted to address post-pandemic supply bottlenecks and structural changes. Policymakers started to adapt the support programme from mid-2021 by withdrawing measures in areas where conditions are normalising. Income support has been shifted to the standard social safety net. Part of business supports are being phased out. An important “eco-social tax reform”, combining a carbon pricing trajectory between 2022-25 with social transfers and cuts in personal and corporate income tax rates, has been sent to Parliament.

Firms’ investment capacity would improve with a stronger equity basis. Debt leverage rose in several activities, in particular in tourism businesses. Tourism activities have a large weight in the economy and contribute significantly to employment and income generation in remote areas. Tourism businesses should regain their investment capacity in order to seize the new growth opportunities emerging after the pandemic.

The corporate financing bias towards retained earnings and bank loans should not hold up investments. Incentivising financing with external equity through the tax system would complement the otherwise successful banking model. Stronger corporate balance sheets would facilitate long-term investments and the post-pandemic technological and industrial restructurings.

Labour and skill shortages are holding up the recovery. They have been amplified as some immigrant workers have durably returned to their home country during the pandemic. These shortages invite new policy and business initiatives to better mobilise Austria’s large labour reserves, including the high proportions of partially or entirely inactive women and elderly workers. Supports to the upskilling and employment of low-skilled workers, and to the tourism and hospitality sectors impeded by the fourth wave continue.

Policy frameworks and business practices that make the majority of women and of the healthy seniors participate only partially weigh also on long-term potential growth. Population ageing will be reflected in a decline in the share of the working-age population from around 76% of the total population in 2020 to 69% in 2060, intensifying pressures on labour markets. Facilitating the participation of female and older workers, including by promoting more attractive work organisations and workplaces, would help strengthen labour supply.

Training and investment needs to support climate transition and digitalisation, combined with population ageing, will put pressure on public finances. The share of public spending in GDP is already high. Additional demands for public investment and expenditure will require new prioritisation procedures to protect fiscal sustainability, including through a strengthened medium-term expenditure framework at general government level.

Moving to a greener economy

Assertive action is needed to reduce the carbon intensity of the economy which has failed to decline in the most recent years and to make progress toward zero net emissions by 2040. Plans to phase in carbon prices starting from 2022 are welcome. Reaching the ambitious 2040 goal – 10 years before the EU target date - will nevertheless be difficult on the basis of current policies. Additional greenhouse gas emission cuts will be needed across all sectors. The potential is particularly large in transportation, buildings and industrial processes. New emission regulations will need to be introduced, carbon prices will need to be increased and harmonised further, and R&D for emission-saving innovations will need to be boosted.

More rigorous climate policies would have substantial distributional impacts. The users of carbon-intensive goods and services (including fossil fuel cars and poorly insulated houses) would be strongly affected. Compensation for low-income households would need to be combined with forward-looking disclosure of the intended regulatory and price changes for after 2025, to improve medium-term predictability and help firms and households to adjust well in advance.

Social cohesion requires decisive policy action

The pandemic has exacerbated labour market vulnerabilities. Long-term unemployment soared during the pandemic, although from a relatively low rate, before declining partially. Skill mismatches have increased in all regions. The ongoing and expected acceleration of automation amplifies the employability challenge. Up-skilling the low-skilled and the long-term unemployed should be key priority to avoid long-lasting scars on labour markets. There is room for improving the quality and labour market relevance of life-long learning programmes.
The pandemic has amplified gender gaps. The double burden of work and care obligations affected women, in particular women teleworking from home, more than men. The proportion of women working in severely hit sectors was higher, resulting in sharper declines of their work hours and incomes. Child care services need to be quantitatively and qualitatively improved to allow mothers to work full-time. Adapting work organisations and rebalancing parental leaves between mothers and fathers would help transform the deeply rooted male breadwinner model. Recent gender balance-friendly reforms in the public sector may stimulate further progress in the private sector.

Figure 3. Labour force participation of women could improve further

Full-time female employment rate, 20-64 year-olds, 2020

![Graph showing labor force participation of women in different countries.]


Workers with non-standard contracts have suffered most during the pandemic. The freelancers and the self-employed have endured severe income losses. Their protection against systemic shocks appeared inadequate according to social protection standards prevailing in Austria. Promoting free-lance work would boost business dynamism, job creation and the training of apprentices.

Fostering productivity gains

While the level of productivity is high, its growth has been disappointing since the Global Financial Crisis, as in many other OECD countries. Productivity growth in services has been one of the weakest across the OECD area over the past decade. While preserving high standards of service and consumer safety should remain a priority, fostering competition in all service activities would help to foster much-need productivity gains.

Reallocating resources across firms and sectors will be key for boosting productivity. In the past, Austria’s high level of productivity has largely resulted from gains within firms and sectors rather than on productivity-enhancing reallocations across activities. While the entry rates of new firms have been on an upward trend, the relatively low overall business dynamism slowed down the diffusion of new technologies and weighed on productivity growth. The share of total employment in young firms remains low. In addition to product market regulations conducive to entrepreneurship, deeper markets for venture and equity capital would provide a more fertile soil for start-ups and young firms.

Innovative activity is not diversified enough across sectors. Austria succeeded in bringing national R&D expenditures above 3% of GDP. Compared to other OECD countries, R&D intensity is higher in traditional and already competitive industries, but lags behind innovation leaders in high-tech sectors. Public support for business R&D is generous compared with other OECD countries and is mainly provided through tax incentives. R&D grants may better support longer-term and risky investments. A better balanced support structure would help to invigorate Austria’s activity portfolio.

Figure 4. Productivity in business services lags behind

Real gross value added per hour worked, 2010-2019 (or latest year)

![Graph showing productivity in business services across countries.]

Note: Unweighted average for the OECD aggregate.
Austria was less digitalised than peer countries before the pandemic. Entry rates in ICT services were among the lowest in the OECD. The pandemic gave a boost to digitalisation in business enterprises, to teleworking and to digital interactions, including with government agencies. The authorities should leverage this push further.

Figure 5. Austria is less digitalised than peer countries

Digital economy and society index, scale from 0 to 100, 2020

High-speed broadband coverage is lower than in most other European countries. Low-hanging fruits in deploying high-speed broadband appear to have been exploited. High capacity mobile technologies can offer alternatives to fiber infrastructures in low-density rural and mountain areas but they are not yet fully mature. The government’s commitment to give access to Gigabit connectivity to all Austrian households by 2030, including via public-private partnerships in geographical areas where commercial incentives are not strong, is welcome.
<table>
<thead>
<tr>
<th>MAIN FINDINGS</th>
<th>RECOMMENDATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Health policies</strong></td>
<td>Monitor the impact of the lock-down on vaccinations. Boost vaccinations with an assertive awareness campaign drawing on the National Health Literacy Strategy.</td>
</tr>
<tr>
<td><strong>Macroeconomic policies</strong></td>
<td>The post-pandemic upturn has been sharp but many activities are held up by labour, skill and other supply side shortages. In certain sectors demand continues to be hindered by low domestic and international mobility.</td>
</tr>
<tr>
<td>Demand pressures, price surges and the rapid expansion of mortgage loans are exacerbating financial risks in the housing sector.</td>
<td>Make Financial Market Stability Board’s prudential guidance for mortgage loans mandatory.</td>
</tr>
<tr>
<td>Public debt rose to a high level in national standards, due to the ample economic and social supports mobilised during the pandemic.</td>
<td>Prepare a medium-term fiscal consolidation strategy while sparing room for targeted supply- and demand-side supports as required. Implement this strategy as the recovery is fully self-sustained.</td>
</tr>
<tr>
<td><strong>Green growth</strong></td>
<td>The carbon intensity of the economy is declining too slowly against the ambitious 2040 climate neutrality goal. The eco-social tax reform 2022 is highly welcome but additional measures will be indispensable.</td>
</tr>
<tr>
<td>Carbon prices and taxes will likely remain lower and more uneven than in peer countries for a while.</td>
<td>Increase and harmonise further carbon prices after 2025 by integrating the largest possible share of emissions in the national and EU emission trading system. Eliminate the diesel/gasoline tax gap.</td>
</tr>
<tr>
<td>Low-income households using carbon-intensive goods and services at high frequency will be heavily affected by carbon price increases.</td>
<td>Prepare methods and measures to identify and compensate the most vulnerable households to the planned and expected carbon price increases during 2022-25 and after transition to integrated national and EU emission trading systems.</td>
</tr>
<tr>
<td><strong>Business dynamism, digitalisation and productivity</strong></td>
<td>Many service sectors have long been sheltered from full competition by regulations, self-regulations and trade and investment protections.</td>
</tr>
<tr>
<td>The low supply of private risk capital constitutes a bottleneck for business dynamism.</td>
<td>Reduce regulatory barriers in entering market services without undermining their quality and skill standards.</td>
</tr>
<tr>
<td>Fixed broadband coverage, in particular at higher speed tiers, is lower than in most other European countries.</td>
<td>Improve the effectiveness of start-up and growth financing instruments, including by avoiding complexity, scaling up later stage funding and improving conditions for institutional investors to invest in venture capital.</td>
</tr>
<tr>
<td>Both high- and low-educated Austrians participate less to life-long learning than in peer countries. Internal training within firms is also less developed.</td>
<td>Increase access to high-quality internet throughout the entire country and achieve the national and EU goal of Gigabit connectivity for all households by 2030.</td>
</tr>
<tr>
<td>The share of business R&amp;D in the high-tech sector is low and lags behind innovation leaders. Public support to R&amp;D is provided mainly through tax incentives.</td>
<td>Publicise the employment and income outcomes of various life-long learning programmes. Incentivise workers at all levels to participate in high-quality programmes, including with the help of individual learning accounts.</td>
</tr>
<tr>
<td><strong>Social cohesion</strong></td>
<td>The traditionally low rate of long-term unemployment appears on a structural upward trend, in particular for the low-skilled, despite improvements during the post-pandemic upturn.</td>
</tr>
<tr>
<td>Employment costs are inflated by the still high labour tax wedges. Low-skilled labour demand is hindered.</td>
<td>Up-skill the long-term unemployed, emphasising employer-driven schemes.</td>
</tr>
<tr>
<td>The start-uppers and the self-employed have been comparatively less well protected by the social safety net and COVID-19 transfers than wage-earners. Quantitative and qualitative shortcomings in early child care infrastructures constrain women’s life choices and economic participation.</td>
<td>Continue to reduce the employment cost of the long-term unemployed. Adapt the successful “Springboard” scheme of employment subsidies to the long-term unemployed.</td>
</tr>
<tr>
<td>The parental leave system as currently implemented helps to perpetuate separate gender roles. However, the provisions encouraging a balanced use between mothers and fathers are little used.</td>
<td>Improve the social protection of the start-uppers and self-employed, drawing on ongoing consultations between social partners. Bolster the availability and quality of early child care services throughout the entire territory, in particular in rural areas.</td>
</tr>
<tr>
<td>Full-time labour force participation expectations of women, higher geographical mobility of young cohorts and an increased incidence of age-related conditions call for adjustments in long-term care arrangements.</td>
<td>Encourage the balanced use of parental leaves between mothers and fathers to promote a more balanced sharing of paid and unpaid work between parents.</td>
</tr>
<tr>
<td><strong>Long-term public finances and public sector reform</strong></td>
<td>Population ageing puts pressure on public finances. Many elderly workers withdraw before the official retirement age.</td>
</tr>
<tr>
<td>Ensure the long-term sustainability of the pension system, e.g. by linking retirement age to life expectancy. Reduce early retirement pathways by further reforming the access to disability pensions, improving prevention and rehabilitation measures, and enhancing incentives to continue working at an older age while ensuring good working conditions.</td>
<td></td>
</tr>
<tr>
<td>There are saving, quality improvement and resource re-allocation potentials in existing public services and transfers.</td>
<td>Further strengthen the quality of public spending reviews and the implementation of proposed recommendations.</td>
</tr>
<tr>
<td>Perceived gaps with peer countries in the quality of public governance persist.</td>
<td>Continue activities to reduce the perceived gaps in the quality of public governance, including in fighting corruption.</td>
</tr>
</tbody>
</table>
1. Key policy insights

The Austrian economy has long performed well, with one of the highest GDP per capita in the OECD, a high productivity level, low-income inequality and low unemployment. In the years preceding the COVID-19 shock, the country suffered a relative decline in performance, with a slowdown of productivity growth, signs of skill mismatch despite a strong vocational training system, and environmental sustainability falling behind the best performers in the OECD, notably in reducing greenhouse gas emissions.

Austria’s response to the Covid-19 shock has been vigorous. The geographic position of the country has raised the risk of cross-border contagions, and the structure of the economy, notably the share of the tourism and hospitality sectors, increased the vulnerability to mobility restrictions. The authorities decided to mobilise the fiscal buffer that they had built up through several years of cautious fiscal management to attenuate the impact of the shock and to support firms and households. Namely, policy support compensated, mainly through direct fiscal transfers, a large part of the income losses experienced by businesses and households for more than a year. These policies have supported domestic demand and mitigated the social impact of the crisis.

Austria needs to target support to people and firms to the most affected sectors until the pandemic subsides. At the same time, two major structural transformations provide opportunities and challenges: The transition to a net zero emission economy with stricter environmental regulations, higher carbon prices and broader-based green investments; and the generalisation of more advanced forms of digitalisation.

Austria is facing this new agenda with both strengths and certain weaknesses. The main messages of this Survey are:

- Economic policy should remain supportive until the recovery is firmly under way. It should be increasingly targeted to tackling supply-side issues. Certain sectors, which are still significantly affected such as tourism and hospitality, should continue to be backed.
- More exits and entries in the business sector, more capital and labour re-allocation, and, arguably, greater geographic labour mobility will be necessary. This implies adaptations in several areas, including financial market, life-long learning and housing policies.
- The public sector is large and features a relatively high level of debt. It started to face wider claims for public investments and other expenditures after the pandemic, while population ageing weighs already on public finances. Public sector reviews and reforms would contribute to the prioritisation and effective allocation of public resources.

The pandemic hit Austria hard, requiring to adjust the sharing of health responsibilities across levels of government

Austria has faced the successive waves of the pandemic with varying degrees of intensity (Figure 1.1). It countered the first wave with tight restrictions in spring 2020, which permitted to curb the number of cases and fatalities more rapidly than in comparable countries (for purposes of this Survey, Austria’s peer countries are Germany, Switzerland and Denmark). Subsequently, a swifter relaxation of restrictions fuelled a faster increase in contagions during the second and third wave in fall 2020 and spring 2021, respectively. A vigorous policy response permitted to better contain the epidemic through 2021. The fourth wave in autumn 2021 has triggered a stronger increase in the number of contagions and fatalities than in
comparable countries. After a sharp increase in the number of people tested positively for the virus and hospitalisations in October and November, the authorities have first announced a lockdown only for the unvaccinated, and then, following a continued worsening, a new 20-day country-wide strict lockdown starting from 22 November on (Figure 1.1).

Figure 1.1. The four waves of the pandemic differed in intensity

![Graph showing the four waves of the pandemic](image)

Note: The colour scale of the background reflects confinement stringency based on the Oxford Stringency Index. The population data refer to 2020. The latest data point is for 29 November.


The human toll has been significant, as in most OECD countries (Figure 1.1), despite the large health care resources. Austria entered the epidemic with one of the OECD’s best-equipped hospital systems, with 7.4 hospital beds for 1 000 residents and 29 intensive care units for 100 000 inhabitants, above most other countries. The hospital infrastructure was recently renovated, which has permitted to convert standard beds into intensive care units according to needs (Hofmarcher, 2020). The hospital infrastructure is also regionally well-balanced. As other small open economies, Austria could not, and did not, aim at suppressing the pandemic. The key objective has been to keep the number of hospitalisations below the available care capacity (Pollak et al., 2020). A five-step plan, announced in October 2021, continued this
objective and made further restrictions depending on the evolution of hospitalisations. However, the sharp deterioration of the sanitary situation in the beginning of November required more decisive action than foreseen in the five-step plan, notably a country-wide lockdown for the vaccinated and unvaccinated.

The containment policy mix displayed certain specificities

Austria has a federal structure which vests the nine Länder with wide public health policy responsibilities. The policy response to COVID-19 was nevertheless largely centralised with the consent of sub-central authorities (Scott et al., 2021). A range of implementation responsibilities remained with the Länder (Hofmarcher and Singhuber, 2021). The composition of policies (the respective roles of mobility restrictions, school closures, contact tracing and vaccinations) has been similar to those of the peer countries, with a special focus on certain instruments. Restrictions on public transportation have been tight, given the weight of public transportation in passenger mobility. Austria has also been one of the most active proponents of mask use, and of individual upward tracing of contagion cases – a system which has served as a blueprint for certain other countries in the region (Haindl and Schmidt, 2020). School closures were limited in the first phase of the pandemic (later OECD assessments found that this was justified given long-term implications), but had to be generalised in the face of the severity of the second and third waves (Figure 1.2). The authorities have avoided school closures during the fourth wave so far. Parents are allowed to keep their children at home without attestations. On the first days of the lockdown in November 2021, more than 70% of children returned to class. Distance learning will, however, be re-introduced at a class-level for at least five days if more than two children have been tested positive for the virus.

Figure 1.2. Containment policies were more frequently adjusted than in comparable countries

Oxford COVID-19 Government Response Tracker, Index, from 0 (no restriction) to 100 (strictest), 7-day moving average

![Index graph showing containment policies](https://stat.link/a2wbfy)

Note: The latest data point is for 29 November.


Mass testing was strongly promoted, by distributing and administering tests in public places, private homes and workplaces. The compliance of the population has fallen somewhat short of targets. In April 2021, in a public campaign inviting the population to take free COVID-19 tests at least once a week, a quarter of the population complied. One third took only one or two tests over four weeks. The acceptance of the
A strong emphasis has been put on mass vaccinations in 2021 (Figure 1.3). The rate of two-dose inoculations reached 64% of people above 18 by end of November. A University of Vienna Survey in mid-2020 found that only half of the population was ready to get vaccinated (Kittel et al., 2021). This subsequently improved as in other OECD countries, but, as of mid-2021, Austrians were displaying more vaccine scepticism than in comparable countries (Figure 1.3, Panel B). The lockdown for the unvaccinated, announced in mid-November, then followed by a lockdown for the whole population, may have helped to raise the rate of vaccinations. From February 2022 on, vaccinations against COVID-19 will be mandatory.

Figure 1.3. The massive national vaccination effort had to cope with scepticism in certain parts of the population

Note: In Panel A, the latest data point is for 30 November. Panel B are based on European Commission flash Eurobarometer 494: “Attitudes on vaccination against Covid-19”, conducted from 21 to 26 May 2021. Respondents were asked to answer the first question: “When would you like to get vaccinated against COVID-19 (coronavirus)?” and the sixth question: “Among the following sources, which ones would you trust more to give you reliable information on COVID-19 vaccines?”. Source: Hale et al., (2021), Oxford COVID-19 Government Response Tracker, Blavatnik School of Government; Roser et al. (2021), "Coronavirus Pandemic (COVID-19)", Published online at OurWorldInData.org, https://ourworldindata.org/coronavirus; and European Commission (2021), Flash Eurobarometer 494: “Attitudes on vaccination against Covid-19", May.
Differences between Länder and preliminary lessons from the management of the pandemic

The intensity of the pandemic has diverged across Austria’s regions (Figure 1.4). This reflects differences in exposure to cross-border contagions, uneven urban densities and age structures, and, arguably, differences in local populations’ compliance with public health recommendations (Bargain and Aminjonov, 2020). Local restrictions have been differentiated in response to uneven contagion rates, according to a federal government-guided “traffic lights” approach based on multiple indicators. This system has produced useful information. The federal government further refined it in mid-2021 by adding colours conveying additional nuances in risk levels (Midgley, 2021).

Figure 1.4. The intensity of the pandemic varied across Länder
Cumulative deaths per 100 000 inhabitants by Länder, September 2021

Note: Population data are based on the number of residents on 1 January 2020 and on 1 January 2021.
Source: AGES COVID19 Dashboard and Statistik Austria.

A panel discussion organised for this Survey, to gather the experience of public authorities, health professionals and social partners in the fight against the pandemic emphasised certain specific issues. These issues will be relevant for the further course of the pandemic and other public health emergencies:

- The quality of the individual health data infrastructure covering the entire population is crucial in managing a pandemic. Austria started from a relatively less developed infrastructure in this area than comparable countries at the onset of the pandemic (Oderkirk, 2021), but made progress since then (Health Hub Vienna, 2021). The legal and regulatory framework is well adapted, but certain organisational and technical features continue to keep the system relatively fragmented. Austria
can further improve this infrastructure by drawing on OECD recommendations on health data governance (OECD, 2019c).

- National public health and social research community’s access to such data, under adequate privacy, ethical and anonymity standards, would support policymaking. Austria has a strong research infrastructure in medical, public health and social sciences and this capacity can be more fully mobilised in informing policymaking. There is currently a gap vis-à-vis peer countries in this area (Oderkirk, 2021). With the establishment of the “Austrian Micro Data Center” in 2021 official data is being made more widely available to researchers.

- The health literacy of the population should be improved. Gaps in this area were acknowledged and documented before the pandemic (Moreira, OECD, 2018). The government had introduced a Health Literacy Strategy in 2015 as a follow-up to the 2013 Health Reform, but the campaign had reached only part of the target population (Gesundheitsziele, 2021) (Box 1.1). Progress along this strategy would enhance the responsiveness and compliance of the population in future testing, vaccination and tracing initiatives.

- Telemedicine made good progress during the pandemic (Bodomo, 2021; Atos, 2020). However, certain innovations risk being rolled back after the pandemic because of legal and regulatory uncertainties, and future developments can be undermined (Khalil, 2020). Health service suppliers’ economic incentives may favour a return to physical contact-intensive procedures. Policymakers and health professionals should ensure that the full potential of telemedicine continues to be well exploited.

- The urgent fight against COVID-19 entailed a temporary centralisation of health policies. However, co-ordination with the Länder resulted in difficulties, which were tackled in ad hoc ways under the exceptional circumstances of the pandemic. Co-operation difficulties hindered notably the implementation of the contact tracing system and the full enforcement of the “traffic light” approach. Testing and mask bearing policies were under Länder responsibility and this created fragmentation in these areas across the territory. Co-ordination between federal and Länder public health policy authorities should be improved (Hofmarcher and Singhuber, 2021).

**Box 1.1. The Health Literacy Strategy**

Following the first European Health Literacy Survey (2011) which pointed out that the population health literacy level in Austria was below the average of the 8 countries participating in the survey, Austria defined a national public health goal on health literacy in 2012. Subsequently, health literacy was integrated into the ongoing healthcare reform process in 2013. A National Health Literacy Alliance was implemented in 2015 to supervise, coordinate and further develop activities. The Alliance is chaired by the Austrian Minister of Health and has an intersectoral steering board.

Since 2015, the main aim of the alliance is to empower professionals in healthcare and other settings to improve their impact on the health literacy of their target groups. Since the foundation of the Alliance, the following focal areas have been addressed:

- Quality of communication in healthcare: a national strategy was developed and is now in the process of being implemented, among others through trainings for healthcare professionals.
- Quality of written and audio-visual health information: the platform issued a set of recommendations on high-quality health information as well as guidelines on how to apply the recommendations in commissioning, developing or selecting health information.
- Organizational health literacy: the Alliance provides self-assessment tools for organizational health literacy so as to support organizations to reflect and improve the impact of their structures and processes on the health literacy of staff and clients/patients.
Citizen and patient empowerment: the Alliance works on strengthening the link between patients’ rights and health literacy and at encouraging patients to ask questions in medical encounters (for example by applying an Austrian adaptation of the “ask me 3” campaign).

Measuring health literacy: Austria participated in the 2nd European Health Literacy Survey (HLS 19). Results which were published in 2021 point towards a slight improvement in population health literacy over the last 10 years (improvement of good and excellent health literacy from 48% to 53% of the population).

So far, the activities of the Austrian Health Literacy Alliance have been implemented on a voluntary basis by health literacy champions (organizations joining the Alliance as members). Although some of the activities – especially those performed by the Ministry of Health, social insurance organisations or some of the Austrian Länder – already have high outreach, the activities do not yet systematically reach the population at large. As a step towards better population coverage, the Alliance is currently preparing the implementation of model regions for health literacy, with the aim to systematically apply the tools developed so far in a combined approach in selected regions so as to improve navigation of the health system and health literacy. Implementation of the regions approach is expected to start in 2024.

In parallel, activities to integrate health literacy into legal regulations are being pursued in order to strengthen the role of the healthcare system in improving population health literacy.


Macroeconomic outlook and risks

The recovery has started strong

Bold fiscal stimulus supported the resilience and recovery of the economy after the first shock of the pandemic (Figure 1.5). Economic activity grew faster than expected in the first three quarters of 2021 and in the third quarter aggregate output recovered its pre-pandemic level (Figure 1.6, Panel A). Both demand for goods and services had however contracted more strongly than in peer countries during the pandemic, congruent with more limited recourse to on-line shopping during the pandemic (Figure 1.7). The accumulated savings are expected to be spent as the recovery takes hold, but only partly and gradually as they are skewed towards high income groups with high saving rates and are perceived, generally, as additional wealth entailing a low marginal propensity to consume.

Figure 1.5. Workplace and retail mobility has fluctuated during the pandemic

Note: The latest data point is for 28 November.
Source: Google LLC, Google COVID-19 Community Mobility Reports.

StatLink 2 https://stat.link/ye7z3w

OECD ECONOMIC SURVEY: AUSTRIA 2021 © OECD 2021
Figure 1.6. The drop in activity has been severe but the resilience of investment is encouraging.


StatLink https://stat.link/oausrm
Figure 1.7. The consumption mix has dropped more and changed less than in peer countries

Household consumption expenditure

Business investment (proxied by machinery and equipment investment in Austrian statistics) has contracted less than in other OECD and peer countries during the shock (Figure 1.6, Panel C). Investment subsidies have certainly played a role. The composition of the capital stock appears to have shifted towards subsidised green and digital technologies.

Export performance during the pandemic has suffered from the sharp contraction of tourism exports (which account for 30% of service exports). Service export performance was hurt more strongly in the second wave, which crushed the entire winter tourism season, before recovering strongly through summer 2021 (Figure 1.6, Panel D). The resurgence of the 4th wave in autumn, combined with renewed lockdowns for the entire population in November re-increased the uncertainties for the outlook of the winter tourism season.

Manufacturing exports plunged from the second quarter of 2020, but bounced back faster than services, pulled by buoyant value chain demand from Germany. Exports to Germany account for one third of total exports, driven by strong Austrian participation in Germany-centred value chains. Austrian industry benefits therefore from Germany’s global performance in machinery and car sectors. In contrast, exports to China and exports of ICT goods and services remain limited (Figure 1.8). A long-term analysis of export performance found that exporters climbed up successfully quality and price ladders, but remained confined to the geographical and product markets which tend to expand below the global average (Federal Ministry of Digital and Economic Affairs, 2020). Austria’s share of world markets remained relatively constant around 1%, including in the pandemic year 2020.

The re-allocation of export potential to greener and higher technology products, and stronger presence in Asian markets, would improve aggregate export performance. A new foreign trade strategy, adopted in 2018, focuses on innovation and technology, digitalisation, and emerging markets. An addendum is being prepared to emphasise the potential in the area of green technologies.

The current account surplus shrank moderately during the pandemic and, after a short-term deterioration, is expected to revert back to its pre-crisis level once the hospitality sectors fully recover. The decline in the

Note: Data refer to household consumption expenditure (domestic concept).
Source: OECD (2021), OECD National Accounts Statistics (database) as of 1 December 2021.

StatLink 2 https://stat.link/i6t284
current account resulted mainly from a deterioration in the income balance. While a drop in travel exports weighed on the trade balance, the balance remained nevertheless positive (European Central Bank, 2021).

The 2020 trade agreement between the EU and the UK is expected to counterbalance most of the losses in goods trade due to Brexit. Nevertheless, bilateral trade with the UK will decline, though Austria will maintain a positive balance. The agricultural sector is most affected. The reduction of agricultural exports of the European Union to the United Kingdom implies that Austrian agricultural exporters will face more competition from other European countries.

Figure 1.8. Exports remain closely linked to European value chains

Supply bottlenecks

With the strong recovery in 2021 a number of sectors faced labour bottlenecks, notably in hospitality activities. This compounded the skill shortages and the recruitment difficulties which had been bearing on the economy before the pandemic, and are analysed in Chapter 2 as structural constraints on Austria’s potential growth. A distinct aspect has been a sub-group of immigrant workers’ having gone back to their home country not coming back and resuming work during the recovery. This affected the activities employing a large proportion of immigrant workers such as tourism - where they account for 40% of the labour force. Shortages affected also other sectors. This is inciting many businesses to solicit senior age cohorts (28% of persons between 60-64 are in the labour force as of 2021) and part-time female workers - 40% of whom declare that they would be prepared to work full-time if their child and elderly care responsibilities were alleviated.

This bottleneck is more straightforward to tackle for high productivity firms which are in a position to offer more attractive work and pay conditions to their workers. This might nurture employment transfers to such activities after the pandemic (De Smet at al., 2021; Cook, 2021).

Supply-side bottlenecks arose also in international value chains. Delivery delays, material shortages and price increases in a range of intermediate products and raw materials have dampened activities in Austria. According to an investigation by the central bank, disruptions concern in particular semiconductors and microchips, and various raw materials including copper, aluminium and lithium (OeNB, 2021). They may have caused a shortfall of up to EUR 750 million (amounting to 0.3 to 0.4 percentage points of GDP) in
Austria's economic output in the second and third quarters 2021. Supply chain disruptions are expected to fade by the latter half of 2022.

Inflation pressures

Inflation increased more than in the peer countries during the pandemic, but less than the international average (Figure 1.6, Panel F). Before the pandemic Austria was experiencing inflation above the euro area average, but no special pressure was observed immediately after the COVID-19 shock (Beer et al., 2020). The previous OECD Economic Survey had related Austria's inflation gap to less strict competition and lower productivity growth and stronger wage growth in services (OECD Economic Survey of Austria, 2019).

Price pressures increased in the post-pandemic recovery, due mainly to disruptions in cross-border value chains. Tensions are expected to subside by the latter half of 2022. Other pressures will arise from the normalisation of the VAT rates (notably in restaurant services which account for 8% in the consumer basket) and from the introduction of carbon prices (see below). The latter will augment each year and will diffuse throughout the economy. Under these influences inflation could stabilise at a higher level than before.

Wage increases do generally not feed into an inflation spiral in Austria as settlements are based on previous year's inflation, irrespective of ongoing developments. Unions tend to internalise the impacts on Austria's international competitiveness. According to years, they may prioritise improvements in work organisations and work hours over nominal increases. Wage settlements were kept moderate in 2020 and are expected to remain broadly commensurate to productivity gains in the Fall 2021 negotiations. Prevailing labour shortages and skill scarcities will nevertheless put pressure on wages in several market segments. Aggregate outcomes for 2022 remain uncertain.

The fourth wave of the pandemic generated a faster upturn in contagions than in comparable countries (Figure 1.1 above) but did not alter substantially cyclical developments (as of late October). The winter tourism season and broader economic conditions may still be affected. The short-term macroeconomic outlook and risks are outlined in Box 1.2.

Box 1.2. Short term macroeconomic outlook

The new lockdown introduced in November 2021 will temporarily weigh on activity, but GDP is projected to recover, growing by 4.6% in 2022 and 2.5% in 2023. Economic activity in the first three quarters of 2021 grew faster than expected. Following the gradual easing of sanitary and travel restrictions and progress with the vaccination campaign in the first half of 2021, output in service sectors severely hit by the pandemic has rebounded. Business investment is supported by a significant increase in international trade, continued relatively low financing costs and the investment premium. Private consumption is expanding as households lower their saving ratio. Supply bottlenecks and labour shortages hold back an even faster expansion of economic activity. Inflation is set to increase to above 3% in 2022 but will moderate over 2023. While the fiscal deficit is decreasing, the funds from the European Recovery and Resilience Facility support further public investment, mostly in the areas of digitalisation and greening the economy.

The outlook remains nonetheless uncertain and dependent on the evolution of the pandemic and the length of the new lockdown, especially in hospitality sectors. The number of people tested positively for the virus and hospitalisations have sharply increased in October and November. A five-step plan by the government foresees new restrictions conditional on the evolution of hospitalisations. On 8 November, step 4 has been activated, mandating that access to contact-intensive services, restaurants, hotels and cultural and sport activities is restricted to people fully vaccinated or fully recovered from the virus. On 14 November, the authorities introduced a lockdown for the unvaccinated, the last step of the five-step plan. A further worsening of the pandemic combined with continued strong pressures on the capacity of intensive care units, notably in the Salzburg region and Upper Austria required however the authorities to re-introduce a country-wide lockdown for the entire population lasting
for 20 days, starting on 22 November. Furthermore, the authorities have announced that vaccinations against the virus will be mandatory after February 2022.

Table 1.1. Macroeconomic indicators and projections
Annual percentage change, volume (2015 prices)

<table>
<thead>
<tr>
<th>Current prices (EUR billion)</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>Projections</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2021</td>
</tr>
<tr>
<td>Gross domestic product (GDP)</td>
<td>369.6</td>
<td>2.4</td>
<td>1.5</td>
<td>-6.8</td>
<td>4.1</td>
</tr>
<tr>
<td>Private consumption</td>
<td>194.0</td>
<td>1.1</td>
<td>0.6</td>
<td>-8.4</td>
<td>3.7</td>
</tr>
<tr>
<td>Government consumption</td>
<td>72.0</td>
<td>1.2</td>
<td>1.5</td>
<td>-0.4</td>
<td>3.1</td>
</tr>
<tr>
<td>Gross fixed capital formation</td>
<td>87.1</td>
<td>4.5</td>
<td>4.8</td>
<td>-5.0</td>
<td>7.9</td>
</tr>
<tr>
<td>Housing</td>
<td>16.6</td>
<td>1.9</td>
<td>3.9</td>
<td>1.8</td>
<td>6.3</td>
</tr>
<tr>
<td>Business</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>11.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Final domestic demand</td>
<td>353.1</td>
<td>1.9</td>
<td>1.9</td>
<td>-5.9</td>
<td>4.7</td>
</tr>
<tr>
<td>Stockbuilding</td>
<td></td>
<td>0.5</td>
<td>-1.2</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Total domestic demand</td>
<td>357.9</td>
<td>2.4</td>
<td>0.6</td>
<td>-5.8</td>
<td>4.5</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>200.8</td>
<td>4.8</td>
<td>3.3</td>
<td>-11.5</td>
<td>10.4</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>189.1</td>
<td>4.8</td>
<td>1.8</td>
<td>-9.3</td>
<td>11.6</td>
</tr>
<tr>
<td>Net exports</td>
<td>11.7</td>
<td>0.2</td>
<td>0.9</td>
<td>-1.5</td>
<td>-0.3</td>
</tr>
</tbody>
</table>

Other indicators (growth rates, unless specified)

| Potential GDP               |      | 1.5  | 1.7  | 1.6  | 1.4  | 1.4  | 1.3  |
| Output gap                  |      | 0.7  | 0.5  | -7.8 | -5.4 | -2.5 | -1.4 |
| Employment                  |      | 1.4  | 0.8  | -1.3 | 1.4  | 1.7  | 0.6  |
| Unemployment rate           |      | 4.8  | 4.5  | 5.4  | 5.0  | 4.7  | 4.5  |
| GDP deflator                |      | 1.8  | 1.6  | 2.3  | 1.6  | 2.8  | 2.1  |
| Consumer price index (harmonised) |      | 2.1  | 1.5  | 1.4  | 2.8  | 3.0  | 2.3  |
| Core consumer prices (harmonised) |      | 1.8  | 1.7  | 2.0  | 2.4  | 2.7  | 1.8  |
| Household saving ratio, net1 |      | 7.7  | 8.5  | 14.4 | 11.4 | 7.3  | 7.3  |
| Current account balance4    |      | 0.9  | 2.1  | 1.9  | -0.2 | 0.1  | 0.3  |
| General government fiscal balance4 |      | 0.2  | 0.6  | -8.3 | -6.3 | -2.3 | -1.1 |
| Underlying general government fiscal balance2 |      | -0.2 | 0.3  | -2.9 | -2.9 | -1.0 | -0.5 |
| Underlying government primary fiscal balance2 |      | 1.1  | 1.5  | -1.9 | -2.1 | -0.3 | 0.0  |
| General government gross debt (Maastricht)4 |      | 74.1 | 70.6 | 83.4 | 83.1 | 79.6 | 77.8 |
| General government net debt4 |      | 50.9 | 49.5 | 62.4 | 60.9 | 56.8 | 54.4 |
| Three-month money market rate, average |      | -0.3 | -0.4 | -0.4 | -0.5 | -0.5 | -0.5 |
| Ten-year government bond yield, average |      | 0.7  | 0.1  | -0.2 | -0.1 | -0.2 | -0.1 |

1. Contribution to changes in real GDP.
2. As a percentage of potential GDP.
3. As a percentage of household disposable income.
4. As a percentage of GDP.


Housing and banking sector risks

The COVID-19 shock has augmented financial risks in the housing and banking sectors. Housing markets, after staying relatively immune to global house price inflation in the 2000s, have come under pressure in recent years (Figure 1.9). Low global interest rates, combined with the relatively low starting level of prices, have attracted international investors, notably in residential real estate (Artner, 2017). Domestic demand for houses has also increased, in particular by young households. The movement has accelerated during the pandemic. With the expansion of teleworking, but also due to the rise in savings and disposable
incomes enabled by policy support and lower consumption demand, housing demand has risen, notably in small semi-rural settlements (OGM, 2021).

Figure 1.9. House prices have soared after a long period of moderation

House price increases create financial risks. The Financial Market Stability Board (FMSB) issued guidelines in 2018 to cap the maturity of mortgage loans and their loan-to-value and debt service-to-income ratios. However, a substantial share of new lending did not comply with these guidelines - more than half of loans have less than 20% own financial contribution, and one fifth have a debt-service-to-income ratio above the recommended 40% (OeNB, 2021). Although the stock of housing loans is still low, it is expanding rapidly and the bulk is provided by banks rather than specialised financial institutions. Half of the new mortgage loans are extended to borrowers aged 35 years or younger.

In mid-2021, FMSB, on the basis of analysis by the central bank, reiterated that housing related risks are increasing, and again urged banks to comply with its quantitative guidance (Financial Market Stability
Board, 2021). The guidance for housing loans recommends maximum values for their maturity (loans with maturities of more than 35 years should be granted only in exceptional cases), requiring a down payment of at least 20% of total financing needs and a benchmark for the debt service to income ratio of borrowers (debt service should not go above 30-40% of household net income. Although compulsory enforcement may raise operational challenges, financial authorities should consider making their mortgage guidelines mandatory in order to avoid weakening the quality of banks’ portfolios.

Banks themselves faced the pandemic in relatively healthy conditions, but also with room to improve their capital ratios (Figure 1.10). FMSB asked banks not to distribute dividends during the pandemic in order to increase their capital buffers. The shock strained their asset quality less than feared, as customers, both businesses and households, were well protected by public policies. There was still a spike in the loans under close surveillance (Stage 2 loans). Part of these fragile credits may turn non-performing when government support is phased out and when standard loan classifications are restored. These standards were temporarily relaxed during the pandemic, along European Banking Authority guidelines.

**Figure 1.10. After the pandemic banks’ capital should be strengthened**

![Graph showing regulatory tier 1 capital to risk-weighted assets and capital to assets for different countries](https://stat.link/qs5rzi)

Source: IMF (2021), IMF Financial Soundness Indicators Database.

Banks have anticipated these risks in 2020 and 2021. Risk provisioning quadrupled in 2020 and absorbed half of banks’ operating profits on that year. Uncertainty over average asset quality remains nonetheless high. The Central Bank estimated in June 2021 that “more than a year after the COVID-19 pandemic spread, its effects on the banking sector are still not fully assessable”. As recommended by the Central Bank, focussing on a solid capital base would be prudent.

Bank services were carried out smoothly during the pandemic, without technical bottlenecks during lockdowns, as demand for tele-banking soared. Banks increased their limits for contactless payments and adopted innovative digital identification solutions. There is room for consolidating the distribution channels (e.g. domestic branches) and back-office operations (e.g. information technology applications) as current systems have accumulated through time, are not fully integrated, and place banks at a technological gap against fintech firms. Banks’ retail network is also too dense and offers room for rationalisation at both branch and network levels. Operational costs are high and risk overstretching the sector’s profitability and investment capacity. Banks’ competitiveness may come more at risk when retail lending open fully to cross-border and on-line competition. Banks face also skill shortages, as experts commanding simultaneously
state-of-the-art software and banking knowledge are in short supply. Banks started to co-operate with fintech firms to tackle this bottleneck.

Some key developments and events which may lead to major changes in the baseline outlook are shown in the following Table 1.2

<table>
<thead>
<tr>
<th>Vulnerability</th>
<th>Possible outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>An extension of the lockdown announced on 22 November and continued outbreaks</td>
<td>Economic activity would be reduced considerably and businesses could fail, with negative impacts on employment, consumption and business investment. Contact-intensive service sectors, especially hospitality sectors are particularly exposed to the sanitary situation and restriction measures.</td>
</tr>
<tr>
<td>of the pandemic due to the emergence of new variants.</td>
<td></td>
</tr>
<tr>
<td>Financial strains and debt overhang in groups of businesses and households</td>
<td>Insolvencies and non-performing loans may increase more than expected, harming business confidence and causing financial strain and credit rationing in the banking sector.</td>
</tr>
<tr>
<td>may rise, when policy support is phased out and the credits contracted during</td>
<td></td>
</tr>
<tr>
<td>the pandemic come to maturity.</td>
<td></td>
</tr>
<tr>
<td>New trade tensions and international supply chain bottlenecks.</td>
<td>Output, investment and trade growth can be curbed and price and wage pressures may increase.</td>
</tr>
</tbody>
</table>

Table 1.3. Fiscal policy, public finances, debt sustainability: past OECD recommendations and government follow-ups

<table>
<thead>
<tr>
<th>Past OECD recommendations</th>
<th>Follow-ups</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continue to reduce the public debt ratio. If cyclical conditions worsen, let automatic</td>
<td>Prior to the outbreak of the pandemic, budget planning envisaged a gradual reduction in the public debt ratio, with the aim of falling below the 60% Maastricht benchmark by 2023. In 2019, the ratio was still 70.6%, and, due to the pandemic, it was 83.2% in 2020. Its decline, which started in 2021, will continue in 2022 according to the Draft Budgetary Plan, to reach 79.1% in 2022.</td>
</tr>
<tr>
<td>stabilisers operate and consider more active measures when growth disappoints.</td>
<td></td>
</tr>
<tr>
<td>Monitor demographic developments and promptly increase the retirement age, raise</td>
<td>The effective retirement ages for both women and men have constantly increased in recent years and the government intends to raise them further. Furthermore, the female statutory retirement age will be gradually raised to 65 between 2024-2033 (by ½ years steps).</td>
</tr>
<tr>
<td>contributions or reduce benefits as needed. Link the retirement age to life expectancy.</td>
<td></td>
</tr>
<tr>
<td>Make macro-prudential recommendations on mortgage lending compulsory.</td>
<td>The Financial Market Stability Board (FMSB) requested the Central Bank to prepare a comprehensive analysis of the systemic risks in housing finance. This analysis will inform a possible FMSB recommendation to the Financial Market Authority.</td>
</tr>
<tr>
<td>Ensure that banks of all sizes are robustly capitalised.</td>
<td>As of June 2021, Austrian banks reported a consolidated common equity tier 1 ratio of 16.1% (50 basis points higher than at end-2019). Compared with levels before the 2008 global financial crisis, the sector has more than doubled its capital ratio, in line with tighter prudential regulations. In 2020, banks markedly reduced their profit distributions to increase their overall capital.</td>
</tr>
</tbody>
</table>

Economic and social supports are being adapted to the recovery

**A comprehensive support package**

Economic policymakers reacted forcefully to the shock of the pandemic. They drew on the fiscal room regained by prudent fiscal management after the global financial crisis, to phase in a comprehensive support package (Figure 1.11, Panel A). According to the IMF’s COVID-19 database from October 2021, Austria’s direct fiscal transfers will reach 15.2% of GDP from the beginning of the pandemic, including the measures planned until 2023. This amount is above the OECD average and above the peer countries. According to the same database, Austria has relied less on “below-the-budget-line” support (including concessional loans by public banks, loan guarantees and equity injections).
Figure 1.11. Austria’s economic support during the pandemic

A. Supports have been particularly comprehensive

Oxford economic support index¹, scale from 0 to 100 (most comprehensive), March 2020 to November 2021

1. The index gauges the income support and the debt relief measures for households. A composite indicator is composed of two economic policies indicators: Income support (E1) and Debt or contract relief (E2) measured by the Oxford COVID-19 Government Response Tracker (OxCGRT). A score of each indicator is calculated using the ordinal value and adding an extra half-point if the policy is general rather than targeted, if applicable and then is rescaled to range between 0 and 100. Rescaled scores are averaged with equal weights to calculate the composite indicator. The latest data point is for 30 November.

2. According to the classification of economies in the IMF Fiscal Monitor.


StatLink https://stat.link/kt0hgi

These below-the-line supports, in particular concessional loans, are difficult to document on an internationally comparable basis. Private institutions provide part of the credit-centred support to their customers and support them in difficult times. They have continued to support them during the pandemic. Available data on total loan moratoria offered by public and private banks (in compliance with the European Banking Authority guidance) and the total loans and advances that they extended under government guarantees suggest that Austria’s banking system mobilised these instruments at a higher rate than in comparable countries (OECD Economic Survey of the European Union, 2021).

The federal government support through direct transfers rather than public loans was positive for the business sector. Firms have not been further burdened by additional debt and can therefore invest more freely on the way out of the pandemic. One original instrument has been direct public subsidies to business
investment. New investments have benefitted from a standard 7% subsidy, which was doubled to 14% for investments in the areas of greening, digitalisation, and health projects and life sciences. Climate-damaging investments, including in equipment and installations that directly use fossil fuels are excluded. Businesses responded and general-purpose, green and digital investments have accelerated during the pandemic.

Support to households was channelled mainly through the “short-time working scheme” (Box 1.3). It partially compensated the working time losses of wage earners, especially at low-to-middle income levels. The intention of the scheme was to preserve the firm-specific human capital embodied in stable employment relations. Employment in industry declined by only 1.3% in 2020, against an average contraction of work hours of 6.6%. Up to 1.2 million jobs in spring 2020 (20% of total private sector employment) are estimated to have been conserved through this scheme. The total drop in wage and salary incomes remained moderate at -0.4% in 2020. One estimation found that around 88% of income losses were compensated (Christl et al., 2021). The standard social safety net also provided substantial support. The unemployment insurance, unemployment assistance and anti-poverty transfer schemes – automatic social stabilisers - contributed around 2.8 percentage points of GDP in 2020 and a projected 3.4 percentage points of GDP in 2021 (European Commission, 2021). Certain sectors affected in particularly acute forms, such as culture and sport activities, benefitted from special supports (Box 1.4).

**Box 1.3. Policy support measures in response to the pandemic**

Since mid-March 2020, a budget envelope of initially EUR 38 billion (10% of GDP) has gradually been spent. Furthermore, the government mobilised additional support and committed to expand it, if needed. On 16 June 2020, the package was increased to EUR 50 billion (13% of GDP), including stimulus measures. The budget envelope included also guarantees of around EUR 10.7 billion with no immediate impact on the public deficit. As of 24 November 2021 COVID-19-support measures amounting to EUR 41.8 billion have been provided, including guarantees and tax breaks (Figure 1.12). The actual budgetary expenditure amounts to EUR 28.6 billion as of 24 November 2021.

**Figure 1.12. Budget costs of Corona aid measures**

(as of 24 November 2021)

Note: Guarantees represent approved maximum, of which parts have already expired; guarantees and tax deferrals have no immediate effect on public deficit. Rounding errors can occur.

Source: Ministry of Finance of Austria
Expenditure measures

The major crisis management measure was the short-time working scheme (“Kurzarbeit”). As of 24 November 2021 the total volume of approved short-time working scheme applications summarized to EUR 10.3 billion. Based on actual hours worked, paid-out short-time work aid amounted to EUR 9.1 billion as of 24 November 2021. The short-time working scheme has been extended four times and is expected to expire in June 2022. In five phases, the government reimbursed employees for a share of their last year’s net income, including social security contributions. The eligibility and the share of income reimbursed depend on the specific phase.

- Phase I and Phase II (16 March – 30 September 2020): Working hours could be reduced by 10%-90% on average over a given period. The reimbursement rate was 80% (over EUR 2 685 gross salary), 85 (EUR 1 700 to EUR 2 685) or 90% (below EUR 1 700) of net salary. Salaries of apprentices were fully reimbursed.

- Phase III and IV (1 October 2020 – 30 June 2021): Similar to Phase I and II, but the reduction in working hours eligible for support was narrowed down to 30%-80%.

- Phase V (1 July 2021 – June 2022): Phase V offers two possible variants. The first type addresses firms hit hard by the economic effects of the pandemic and runs until the end of March 2022. It is available for businesses that suffer a loss in revenue of more than 50% compared to 2019 or that are directly affected by the reintroduced containment measures. These firms could tap the same reimbursement rate as in the previous phases. The second type is open for all other businesses and runs until the end of June 2022. In this case, the reduction of working hours was further limited and the reimbursement rate further reduced.

- In addition, the government recently announced two bonuses related to short-time work. First, seasonal businesses are granted 65% of labour costs of staff hired between 3 November 2021 and the end of the recent lockdown measures. Second, employees who were in short-time in November 2021 and in total at least ten months since March 2020 receive a one-off bonus in the amount of EUR 500.

The Corona aid-fund (“Corona Hilfs-Fonds”) aimed at upholding corporate liquidity. An envelope of EUR 15 billion was reserved. It provided (i) state guaranteed loans and (ii) subsidies for firms’ fixed costs.

- The government guaranteed up to 100% of eligible loans through the newly established COFAG agency (“Covid-19 Finanzierungsagentur des Bundes GmbH”). Overall, the government assumed guarantees amounting to EUR 7.1 billion, of which EUR 6.1 billion were still outstanding as of 24 November 2021.

- Lockdown-turnover substitute: The lockdown-turnover substitute was granted to firms directly and indirectly affected from the lockdowns in November and December 2020. Depending on the business sector, firms could receive 20% / 40% / 60% / 80% of their turnover loss in November and 12.5% / 25% / 37.5% / 50% in December. Indirectly affected firms additionally had to have incurred a turnover shortfall of at least 40% as compared to 2019. As of 24 November 2021 EUR 3.5 billion of lockdown-turnover substitutes have been paid out.

- Fixed cost subsidy: The fixed cost subsidy covered a share of firms’ fixed costs. The first phase of this subsidy (Fixed cost subsidy I) covered the period from 16 March 2020 to 15 September 2020. Firms were subsidized up to 75% of their fixed costs, depending on the magnitude of revenue losses above a threshold of at least 40% as compared to 2019. The second phase (Fixed cost subsidy 800 000) covered the period from September 2020 to June 2021. The loss in revenue as compared to the previous year needed to be above 30% to qualify. Applications were possible until end of August 2021 in the first phase and are still...
possible until end of March 2022 for the second phase. As of 24 November 2021 EUR 2.1 billion fixed cost subsidies have been paid out.

- Loss replacement (“Verlustersatz”): The loss replacement has been created specifically for larger companies. It originally covered the period from September 2020 to June 2021 and replaced up to 90% of the allowable loss, depending on the size of their turnover and head count. Prerequisite was a revenue loss of at least 30% as compared to 2019. The loss replacement has been prolonged two times. Phase II covers the period July 2021 to December 2021. In line with the economic rebound, firms are now eligible if their revenue loss compared to 2019 amounts to at least 50%. Against the backdrop of reintroduced lockdown measures, the loss replacement has recently been prolonged once again. Phase III covers allowable losses (up to 90%) incurred in the period January to March 2022, provided that the revenue loss compared to the months in 2019 amounts to at least 40%. The volume of applications amounted to EUR 1.4 billion as of 24 November 2021, of which EUR 0.5 billion have been already paid out.

- Loss bonus (“Ausfallsbonus”): The loss bonus is a monthly liquidity assistance covering the months from November 2020 to September 2021 and again from November 2021 to March 2022. Firms can apply if they incur a revenue loss of at least 40% as compared to 2019, except for the months July, August and September 2021 for which the threshold has been raised to 50% as well as for November and December 2021 for which the threshold has been lowered to 30% revenue loss. Depending on the specific month, the replacement rate and the cap vary. Starting from July 2021 onwards also the sector in which the applying firm operates affects the replacement rate. As of 24 November 2021 an amount of EUR 3.3 billion has been already paid out.

Besides the short-time working scheme and the above mentioned grants, the government provided more targeted support through relief funds for specific industries for bridging finance for firms which could not apply to the Corona aid-fund. In addition, the government adopted aid packages for families as well as for municipalities and increased spending on medical equipment and research related to the pandemic:

- Hardship Fund: The hardship fund for smaller firms originally covered the period from March 2020 to September 2021 and recently has been reintroduced for the period November 2021 to March 2022 (Phase IV). The government disbursed funds to sole proprietors, small firms and agricultural businesses of up to EUR 1 000 (Phase I), EUR 2 000 (Phase II and IV) or EUR 600 (Phase III) per month, depending on last year’s net income. As of 24 November 2021 the federal government provided EUR 2.3 billion for the hardship fund.

- Municipal Investment Act 2020: Via the Municipal Investment Act 2020 the government provides EUR 1.0 billion to promote public investments by municipalities. As of 24 November 2021 the federal government paid out EUR 0.8 billion.

- NPO support fund: For non-profit organizations (among others in the area of sports and culture) the government set up a support fund with an envelope of EUR 0.8 billion (has been recently increased by EUR 125 million). As of 31 October 2020, EUR 0.6 billion have been paid out by the federal government.

- Further support measures and emergency aids sum up to EUR 6.8 billion and include among others the child bonus (EUR 665.3 million, paid out in 2020), two one-off payments for unemployed persons (EUR 368.7 million, payments made to a great extent in 2020), the Family hardship compensation allowance and measures to fight poverty (in total EUR 216.1 million as of 24 November 2021), the bridging finance for self-employed artists (EUR 140 million paid out of federal budget of which EUR 135.9 million were disbursed to beneficiaries as of 31 October 2021), or the special purpose grant for long-term care (in total EUR 150.0 million.
Arts and culture play important roles in Austrian society and economy and have been among the most affected sectors by the COVID-19 shock. They encompass various activities involving close physical contacts and large proportions of free-lance employees. Contact- and mobility-restricting measures triggered a sharp contraction of activities, revenues and employment in these sectors and, in response, the authorities introduced a range of measures to assist the affected organisations and workers in addition to the general support measures described in Box 1.2.

Culture was among the first sectors that had to lock down and among the last sectors that were allowed to reopen again. The sector’s aggregate revenue losses approached EUR 2 billion in 2020 (about a quarter of the year’s value added) with additional challenges for restauration and conservation activities. Museums for example, whose visitors come traditionally for more than 60% from abroad, lost 70% of visits and 80% of proceeds.

The following sector-specific measures were implemented by the Federal Government (with Lander and municipal authorities allowed to phase in additional specific supports):

- **Reduction of the value-added tax (VAT).** The rate was cut from the standard 20% to 5% for gastronomy, culture and publishing/book trade from July 2020 until end 2021. This was estimated to have generated significant additional local demand for these activities.

---

**Box 1.4. Special measures in support of culture and sports during the pandemic**

Arts and culture play important roles in Austrian society and economy and have been among the most affected sectors by the COVID-19 shock. They encompass various activities involving close physical contacts and large proportions of free-lance employees. Contact- and mobility-restricting measures triggered a sharp contraction of activities, revenues and employment in these sectors and, in response, the authorities introduced a range of measures to assist the affected organisations and workers in addition to the general support measures described in Box 1.2.

Culture was among the first sectors that had to lock down and among the last sectors that were allowed to reopen again. The sector’s aggregate revenue losses approached EUR 2 billion in 2020 (about a quarter of the year’s value added) with additional challenges for restauration and conservation activities. Museums for example, whose visitors come traditionally for more than 60% from abroad, lost 70% of visits and 80% of proceeds.

The following sector-specific measures were implemented by the Federal Government (with Lander and municipal authorities allowed to phase in additional specific supports):

- **Reduction of the value-added tax (VAT).** The rate was cut from the standard 20% to 5% for gastronomy, culture and publishing/book trade from July 2020 until end 2021. This was estimated to have generated significant additional local demand for these activities.
• **Bridge funds for artists.** EUR 150 million were allocated to artists in financial emergency.

• **COVID-19 Fund for artists and educators.** EUR 40 million were allocated to artists and educators not eligible for the cross-sectoral hardship fund and the bridge funds for artists.

• **Protective shield for events.** EUR 300 million were dedicated to event organisers in the fields of culture, sport, congresses and fairs.

• **Comeback grant for film and TV productions.** EUR 25 million offset the financial risk of stopped or postponed shootings.

The sport sector, estimated at around 4% of GDP (according to the so-called “Vilnius definition”), is larger in Austria than in other EU countries and represents nearly twice the 2% EU average. This is due notably to more than yearly 60 million sport-related overnight stays (summer and winter). The COVID-19 pandemic and respective mitigation efforts, have led to a very difficult period for the Austrian sport sector with an estimated 19% value added contraction in 2020 and estimated 63 000 net job losses.

The following measures were mobilised to tackle the special consequences of the shock in the sector:

• **COVID-19 funds for sport leagues.** This intends to secure the current structures within professional and semi-professional high performance Olympic team sports – volume 2021 EUR 35 million.

• **#Comebackstronger programme.** This initiative aims to support the comeback of sport activities, including via: i) A Long day of sport programme to promote awareness and increase the physical activity level of the population; and ii) a Sportbonus to back sport clubs to gain and regain members (the Federal government is funding up to 75% of the membership fee under a cap).

• **A new special website.** The website www.nachhaltiger-sport.at was set up by the Federal Ministry for Arts, Culture, the Civil Service and Sport in cooperation with the Federal Environment Agency to promote the more sustainable development of sport clubs in the future. A tool in the website will help sport clubs to survey their current sustainability and identify further potentials and measures towards improvements.

*Source: Federal Ministry for Arts, Culture, the Civil Service and Sport.*

**Transition policies out of the pandemic**

Policymakers started to adapt the support programme from mid-2021. Measures were withdrawn from areas where conditions were normalising, and were targeted to the sectors and regions still bearing impacts from the pandemic. Fixed cost subsidies were phased out for most activities. Income support for households was shifted to the standard social safety net. Still, resources remain available in the Hardship Fund for exceptional distress cases. Short-time work subsidies were prolonged for heavily hit firms until the end of 2021 or summer 2022 for some cases. The worsening of the sanitary situation and the introduction of a new country-wide lockdown may require additional economic support for the affected firms and households.

The authorities should adjust support measure as sanitary conditions evolve. The extension of the short-working scheme and the fix-cost subsidy to the end of March 2022 is therefore welcome. It will help to cushion the impact of the lockdown on economic activity. Going forward, the authorities will be faced with a double-agenda: i) avoiding that economic scars from the pandemic undermine the macroeconomic recovery; and ii) facilitating the reallocation of capital and labour resources to more promising activities in the structural transformations of the post-pandemic era.

These two agendas overlap in the management of corporate debt. As in other OECD economies, the issue was somewhat concealed by the exceptional measures taken during the pandemic. Tax and other liability
deferrals, postponement of insolvency and bankruptcy procedures, and public and private creditor leniency offered reliefs. The challenge is compounded by the already high leverage that Austrian businesses had before the pandemic (OECD Economic Survey of Austria, 2019) and additional lending provided by local co-operative banks and Hausbanken.

Insolvency risks do not appear very high, but excessive leverage may hold up capital formation on the way out of the pandemic. If the projects of high-potential firms cannot be financed, the growth and productivity potential of the economy would be durably hampered. As discussed in detail in Chapter 2, policymakers’ challenge is to address balance sheet strains by separating promising from non-viable businesses.

Policymakers’ structural task on the way out of the pandemic is supporting Austria’s transition to a greener and more digitalised economy. As in other EU economies, Austria has framed new initiatives under the Next Generation European Union (NGEU) plan Box 1.5). The investment cash subsidies introduced during the pandemic and leveraged with an additional premium for green and digitalisation investments played already an important role. Their extension via planned investment tax allowances will continue to stimulate transformational investments.

**Box 1.5. Austrian Resilience and Recovery Plan**

Austria’s recovery and resilience plan was submitted to the European Commission in April 2021 (EC, 2021a). It was approved by the European Council in July. It has an envelope of EUR 4.5 billion (1.1% of 2019 GDP). EUR 3.5 billion will be financed from EU grants. The specific financing amount will not be determined until 2022. Measures that cannot be covered by EU grants will be financed from the national budget. Austria has not applied for EU loans for complementary funding (Figure 1.13).

**Figure 1.13. Grants and Loans in the Recovery and Resilience Facility**

Note: Calculations based on Bruegel RRP database of July 14 where there is no data for Netherlands who did not yet submit their plan. Estimated RRF grants is from Annex IV of the Recovery and Resilience Facility Regulation, which is based on the Commission’s Autumn 2020 forecast. According to the Regulation, the final amount of grants will be calculated by mid-2022.


[StatLink](https://stat.link/bxtcil)
The plan aims at supporting green growth and digitalisation, with a special focus on social inclusion. It contains mutually reinforcing reform measures and investment projects in four areas:

**“Sustainable recovery”** aims at reducing GHG emissions according to the European and Austrian climate targets:

1. **Renovation wave** (EUR 209 million) contains a reform measure ‘Renewable Heating Act’, and investments to reduce the use of fossil resources for heating, while minimising the social costs of these conversions.
2. **Eco-friendly mobility** (EUR 849 million) contains two reforms: the ‘Mobility Masterplan’ and the ‘1, 2, 3 Ticket’ (a low-cost pass for public transportation at local, regional or national levels) and investments in emission-free vehicles and the railway network.
3. **Biodiversity and circular economy** (EUR 350 million) will help with the development of a new legal framework to increase collection rates for plastic beverage packaging and recourse to reusable containers, principally in the food sector.
4. **Transformation towards climate neutrality** (EUR 100 million) includes a reform ‘Renewables Expansion Law’ and an investment package ‘Transforming industry into climate neutrality’.

**“Digital recovery”** addresses digital connectivity and social cohesion issues:

1. **Broadband expansion** (EUR 891 million) contains a reform (‘Creation of the Internet Infrastructure Austria 2030), and an investment plan (‘Gigabit enabled access networks and Gigabit connectivity in areas with particular socio-economic priorities’).
2. **Digitalisation of education** (EUR 172 million) includes measures to improve the digital skills of lower secondary students, and investments in digital school equipment.
3. **Digitalisation investment in public administration** (EUR 160 million).
4. **Digitalisation and ecological transformation of businesses** (EUR 605 million) will support digital and green investments by private businesses.

**“Knowledge-based recovery”** will support initiatives in research, innovation and upskilling:

1. **Research** (EUR 212 million) contains a ‘Research, Technology and Innovation Strategy 2030’ and will support investments in universities and research centres.
2. **Re-skilling and up-skilling** (EUR 277 million) will support the re-training of the unemployed.
3. **Education** (EUR 129 million) contains a reform (‘Improving Access to Education’) and will co-fund investments in primary schools and in remedial education.
4. **Strategic innovation** (EUR 250 million) includes two projects of common European interest (IPCEI): ‘Microelectronics and connectivity’ and ‘Hydrogen technologies’.

**“Just recovery”** addresses various social cohesion challenges:

1. **Health** (EUR 125 million) will invest in primary health centres and in an electronic mother-child passport, and will offer ‘early aid’ for socially disadvantaged pregnant women and their little children up to three years.
2. **Resilient municipalities** (EUR 104 million) contains two reforms: a new ‘Soil strategy’ and ‘Care provision’, together with investments to foster ‘climate-fit town centres’ and ‘community nursing’.
3. **Arts and culture** (EUR 67 million) contains two reforms: ‘Development of a building culture’ and ‘Development of a national strategy for the digitalisation of the cultural heritage’.
4. **Resilience through reforms** entails no budget spending. It includes reforms in the areas of multi-level governance in the federal system, carbon taxation, and the development of a new legal form for start-ups.
The tourism sector is facing particular challenges

The two main objectives of post-pandemic economic policies (repairing the scars of the shock and facilitating structural changes) entail new measures for the tourism sector. The sector generates substantial economic value by drawing on Austria’s outstanding cultural and natural resources. It accounts directly for more than 7% of national GDP and the Austrian Institute of Economic Research (WIFO) estimates that it generates 2% of GDP of additional “first round indirect” (via foreign tourists’ local purchases) and 2% of GDP of “first round induced” effects (via tourism workers’ spending). The sector contributes prominently to employment and incomes in rural areas. It has accumulated high-quality professional know-how and a strong international brand image in around 11,800 hotels and 21,300 restaurants, often family-owned.

The sector was heavily affected by the pandemic and special support has been granted. Due to seasonal employment patterns, part of tourism workers were protected by supplementary provisions to standard unemployment insurance, rather than through short-time working. Hotels and restaurants made also large use of “fixed cost subsidies” (Box 1.2) and special credit guarantees were offered by the Austrian Bank for Tourism Development (ÖHT). Debt leverage of tourism firms, which was already above the national average before the pandemic (three-star hotels had a median equity-to-asset ratio of 10% and four and five-star hotels a median ratio of 17%) increased further – including as a result of large maintenance works undertaken during the pandemic.

The additional debt that tourism businesses took during the pandemic is becoming a challenge. Part of it will mature from 2022. Some businesses may then face bankruptcy risks, and more of them may face debt overhang. Yet, to seize new growth opportunities, hotels and restaurants will need to regain their investment capacity. Discussions on debt conversion schemes to replace part of the accumulated debt by long-term quasi-equity instruments, without subverting ownership structures, are ongoing. It is also planned to address the equity situation of tourism businesses in the new tourism funding guidelines that will come to effect in the course of 2022. Local private banks may constitute good partners in these operations. They can help to identify the most promising firms and to overcome informational asymmetries. Balance sheets in the tourism sector may indeed be underestimating the existing assets, through hidden reserves, undervalued real estate properties and as assets in use may have been already fully depreciated.

The tourism sector also faces a number of structural challenges in the post-pandemic world. One is the potential decline of business travel, by both nationals and foreigners. Transition to on-line meetings during the pandemic may partially persist afterwards. Another challenge is the strains arising for winter tourism from climate change in medium-altitude areas. To facilitate the recovery of the sector and address the most pressing challenges, the Ministry of Agriculture, Regions and Tourism has developed a “Comeback Plan” in 2021. An action plan is also being developed on the basis of the national tourism strategy - “Plan T”. Increasing the adaptability, innovativeness and value-added generation capacity of tourism businesses is an important objective. High value-adding firms not only can re-build their investment capacity more easily, they can also offer more attractive pay and working conditions to their workers and therefore better overcome labour shortages.

Consequences and outlook for public finances

A significant share of the anti-COVID-19 discretionary transfers are being rolled back from the second half of 2021 (Figure 1.14). After the sizeable loosening of the primary budget balance by 9% of GDP and of the cyclically-adjusted general government balance by 3.4% in 2020, and smaller additional stimulus in 2021, both are expected to tighten in 2022, by respectively 4.4% and 2.3% of GDP over 2021. Austria’s Medium-Term Stability Programme published in spring 2021 was already aiming at a firm consolidation in 2022 and 2023. Stronger than expected growth in 2021 makes consolidation goals easier to attain. According to the Draft Budgetary Plan submitted in October 2021 the growth outlook for 2021 and 2022 has improved even further.
Fiscal policymakers’ aim at resuming convergence with the temporarily suspended Maastricht target. Public debt sustainability remains a central goal of national economic policymaking and the government aims at reining in the post-pandemic growth of government debt as fast and as growth-friendly as possible (Figure 1.15 Panel E). Thanks to debt-break rules agreed between Federal and Länder governments, public debt had been put on a declining path after soaring in the wake of the Global Financial Crisis (when the government had to bail out Austria’s over-exposed banking sector in Central and Eastern Europe), but the public debt ratio was still above the 60% Maastricht reference threshold. The authorities estimate that the current size of government debt is restricting their fiscal margins of manoeuvre and may increase their future borrowing costs. Therefore, the goal is to bring public finances back to a sustainable level as quickly as possible.

Figure 1.14. The massive fiscal stimulus will be followed by a strong consolidation

Change in the underlying primary balance, % of potential GDP

Note: Vertical lines indicate the medians of the shown countries. EA17 refers to the seventeen Euro Area countries which are OECD member countries.
Source: OECD (2021), OECD Economic Outlook 110 database and OECD calculations as of 2 December 2021.

StatLink 2 https://stat.link/19ak3u

Two further factors incite policymakers to re-constitute fiscal buffers sooner rather than later. First, contingent liabilities grew as a result of the loan guarantees provided during the pandemic. Granted through various government institutions, they increased from 16.1% of GDP in 2019 to 19.1% in 2020. They can be fully or partly called in when COVID-19 supports are phased out. Second, the low government borrowing
rates will increase in the medium-term. Debt roll-overs will come at higher costs. The Ministry of Finance estimated that the interest cost of Austrian public debt may vary between 0.9% and 1.5% of GDP already from 2023, compared with 1.4% in 2019, depending on global monetary conditions. However, Austria is less at risk than many other OECD countries as the residual maturity of public debt is above average. Should the short-term macroeconomic circumstances or high priority public investment needs require it, it can create additional fiscal room.

**Figure 1.15. Public finance dynamics are less favourable than in peer countries**

Note: In Panels A, B, C and E, the OECD aggregate is an unweighted average of data for available countries. In Panel D, EU refer to 24 OECD countries, which belong to European Union. All panels include projected data from OECD Economic Outlook 110 database.

Source: OECD (2021), OECD Economic Outlook 110 database and OECD calculations as of 2 December 2021.
Long-term challenges for public finances invite nevertheless caution. Demographic change is a heavy challenge and will start to put pressure on public finances already in the 2020s (see below). There will be other investment needs, notably in education, environmental sustainability and digitalisation (re. below), which the Recovery and Resilience Facility will fund only partially and only in the short term.

Long-term fiscal projections carried out for this Survey suggest that caution is needed in a baseline scenario, where the current policy framework is maintained and the cyclically-adjusted primary balance is kept constant except for ageing-related expenditures. Ageing-related expenditures will drive a steady increase in general government deficit and debt, which can only be reversed with reforms and durable saving measures (or tax increases). Structural reforms would improve debt sustainability in the longer term (Figure 1.16). There are upward risks on interest rates, which may require a lower primary deficit target. If further structural reforms succeed to lift trend growth, additional fiscal room may be created for new investments or tax reductions, or for swifter debt reduction.

**Figure 1.16. Structural reforms can help to lower public debt**

General government gross debt as % of GDP, Maastricht definition

![Graph showing debt as % of GDP over time](https://stat.link/ibjpm2)

Note: Policy scenarios are described in Table 1.Y. Interest rates are assumed to rise to 2.0% by 2030 and then slowly increase over the rest of the projection horizon.


**Important structural changes are pending after the pandemic**

As in all OECD countries, labour and capital reallocation is expected to accelerate in the period ahead, but its actual magnitude remains uncertain. More recourse to teleworking, more digital interactions between firms and their customers and suppliers, as well as with banks and government agencies have accelerated systemic digital changes. Chapter 2 discusses these transformations and their policy implications.

The firming up of climate policies is creating a thoroughly new environment. The welcome more binding national and international commitments to lower greenhouse gas emissions alter the technological frontier, and the cost structures, creating new markets and growth opportunities, but also thorough adjustment challenges. The section below summarises this agenda.
The intended fast shift to carbon neutrality will have important economic impacts

The Austrian government, in place since January 2020, includes a green coalition partner and has ambitious environmental goals. In particular, it aims at achieving climate neutrality (zero net emissions) by 2040, 10 years before the EU target date. Reaching this goal will require substantial efforts across all sectors (IEA, 2020). Relying on nuclear power is not an option as the Parliament voted on a ban in 1978 which was subsequently confirmed by a Federal Constitutional Act in 1999 (OECD, 2016).

Austria entered the millennium with low carbon intensity in international comparison (Figure 1.17, Panel A) thanks to the high share of renewables in energy production (Panel B). Subsequently, the decoupling of emissions from GDP growth has been slower than the OECD average and significantly slower than the most advanced peer countries. Absent a structural inflexion, the country will fail to comply with its 2030 Paris agreement emission commitments (Figure 1.17, Panel C). Two recent assessments, by the International Energy Agency in 2020 (IEA, 2020) and the European Commission in 2021 (European Commission, 2021) suggest that the carbon neutrality goal set for 2040 will be very difficult to attain under present trends. The Ministry of Environment is working on a Long-term Energy Strategy designed to attain the 2040 zero emission goal and the Austrian Climate and Energy Plan is being updated. In October 2021 the authorities announced an Eco-Social Tax Reform which represents a welcome step forward in the pricing of carbon emissions, fostering a market-oriented approach to climate policies (Box 1.6).

Box 1.6. The Eco-Social Tax Reform

The government has announced a eco-social tax reform in October 2021, which includes the introduction of carbon prices throughout the economy starting from 2022. Revenues from carbon pricing are intended to flow back to the population and the economy via compensation transfers.

The Plan is currently a Ministerial decision which has been further detailed and presented to the public as a draft law in November 2021. The legislative procedure is expected to commence in December 2021 and the law may enter into force in 2022. All currently untaxed carbon emissions (those not included in the European emission trading system) will be priced EUR 30 per tonne starting from July 2022 and prices will rise to EUR 35 in 2023, EUR 45 in 2024 and EUR 55 in 2025. Compensation transfers of EUR 100 per person and per year will be granted to the entire population, together with an additional premium of up to EUR 100 for rural residents. Two intermediary compensation levels are foreseen according to the degree of accessibility of living places to the public transportation network. A supplementary benefit of 50% per child will be granted. The compensation transfers will increase in 2023 to 2025, as will revenues from CO2 pricing.

In parallel, the personal income tax rate will be cut from 35% to 30% for persons earning between EUR 18 000 and EUR 31 000 per year. From July 2023, the rate will drop from 42% to 40% for those earning between EUR 31 000 and EUR 60 000. Health insurance contributions for low and medium incomes will be reduced and the Austrian “Family Bonus Plus” (a tax-deductible amount per child and year) will be increased from EUR 1 500 to EUR 2 000. The additional child allowance, which applies for low-wage earners with children as a negative tax, will be increased from EUR 250 to EUR 450.

Businesses will benefit from a reduction of the corporate income tax rate from 25% to 24% in 2023 and to 23% in 2024. Further measures to relieve the tax burden on labour and the economy as well as additional greening measures (e.g. an ecological investment allowance as well as tax incentives for the replacement of fossil heating systems and the thermal renovation of buildings) are also foreseen.

The intended CO2 price trajectory mimics broadly the scheme introduced in Germany in 2021. The synchronism is meant to keep a balance between prices in the two countries to avoid “carbon leakages” between their highly integrated industrial sectors. Announced prices remain nonetheless below the market prices currently in vigour in the EU Emissions Trading Scheme (ETS), which allocates tradeable
allowances to big industrial polluters and power generators. The ETS price attained EUR 65 in November 2021 and may increase further. International estimations suggest that a price of EUR 120 per tonne of carbon will be required by 2030 to set European economies on track for reaching their zero emission goal by 2050.

Transition to a fully market-based system will entail a shift from fixed prices to fixed quantities in managing emissions. The phase of fixed prices within the trading scheme will end by 2025, followed by a market phase from 2026 onwards. By then, preconditions either for a transition to a possible EU trading system or for free trading in national allowances will need to be completed. Austria is in favour of the first approach and sees the second as a subsidiary solution. An efficient framework for the supply of emission quotas will be important for a successful transition.

The net fiscal cost of the Eco-tax reform is projected to be around 0.5% of GDP in 2022 and 1% of GDP in 2023.

Figure 1.17. There is potential for progress in reducing carbon emissions

1. Includes CO2 emissions from combustion of coal, oil, natural gas and other fuels. Gross domestic product (GDP) expressed at constant USD using purchasing power parity.
2. Total GHG emissions exclude LULUCF (land-use, land-use change and forestry). Scatters in 2030 indicate IMF implied unconditional nationally determined contribution (NDC) economy-wide target levels on GHGs excluding LULUCF. The population estimate for 2030 is based on the UN population data with the medium-variant projection.
Reducing the carbon intensity of the economy beyond 2025 will require wider policy instruments. Firmer emission regulations, higher carbon prices and additional public and private investments in climate friendly technologies can deliver such a shift of trajectory. The experience of leading countries (OECD Economic Survey of Denmark, 2021) and detailed cross-country evaluations by the International Energy Agency (IEA, 2021) endorse this outlook. Austria has distinct assets in this area but also a number of specific structural impediments that it will need to tackle.

High political commitment and social sensitivity to climate transition will be best served by Austria’s well-developed research, development and innovation (RDI) capabilities in environmental technologies. In its 2020 country review, the IEA observed that Austria has “impressive” capacities for green innovations (IEA, 2020). The country has also a strong record in mobilising private funding for RDI. For each public euro dedicated to environmental research, an estimated EUR 2.5 in private funding is mobilised. The multiplier could go to up to ten in solar projects. Austria has also published a first report on the energy research expenditures by private firms broken down by technology fields – a best-practice among IEA countries which helps steer mission-oriented research projects. These efforts show in environmental patents representing around 10% of all national patent applications, above OECD averages.

Policymakers aim at developing further these capabilities as a basis for international supply of new products and services. The Ministry of Economy has an industrial location strategy "Chancenreich Österreich" which aims at drawing on digitalisation and environmental technologies for making Austria one of the top 10 business locations in the world by 2040. A global pioneering role is intended in green technologies and green materials.

A number of impediments arise from the prevailing activity mix and the consumption and life habits of the population. Industrial activities account for a higher share of the economy than in comparable countries, including emission-intensive sectors such as iron and steel, paper and pulp, refineries and petrochemicals. In aggregate, industrial processes contribute more to carbon emissions than in comparable countries (Figure 1.18). Life habits interfere mainly through emissions originated in transportation, principally from passenger cars. These emissions are amplified by the weight of highly polluting vehicles (notably diesel cars, the utilisation of which has been stimulated by low diesel prices). The share of electrical cars has been very low until recently, but a sharp acceleration in market demand occurred in the second half of 2021. Carbon emissions from the construction sector are also high, reflecting genuine settlement patterns (a large share of the population living in individual houses in rural and semi-rural areas) and the low energy efficiency of buildings, notably in the public sector.

Emission reduction challenges are amplified by urban sprawl (OECD, 2019). The introduction of a low-cost multi-modal public transportation pass at urban, regional and national levels (1,2,3 Climate-Ticket) and the introduction of subsidies to replace fossil fuel-burning heating systems (see below for details) have been noticeable policy responses. The Ministry of Environment estimates that emission savings from these measures will be amplified when higher carbon prices are phased in and the public transportation infrastructure is developed further.
Emission regulations

Emission regulations are considered to be in line with OECD good practices. Additional measures will nevertheless be required in the main leakage areas. The most critical issue is the prohibition of highly polluting cars. Austria may need to ban all internal combustion driven new vehicles by 2030-2035, along with front running countries. Policymakers should also consider stricter speed limits on roads, reinforced building and construction material codes, firmer electrical appliance standards and more frugal heating temperature regulations for offices and default cooling temperatures for air conditioning units. In turn, the existing ban on carbon capturing technologies, which was initially introduced for safety reasons, may need to be relaxed in the light of technological developments. They could play an important role in reducing net carbon emissions in the future.

Carbon prices

The current level of CO₂ prices and taxes are within international averages but well below leading countries. They are also more dispersed between market segments (Figure 1.19). So far, only emissions from road transportation have been priced above the OECD and EU recommended benchmark of EUR 60 per tonne of CO₂, while diesel and petrol taxes (including VAT) are among the lowest in the EU. Emissions from electricity production and manufacturing have also been priced below international benchmarks. Many Austrian firms estimate that uncertainties about the expected path of carbon prices are an important impediment to their investments, and hinder climate-mitigating strategies – a challenge which appears to be more disquieting in Austria than in comparable countries (Figure 1.19, Panel B). The new eco-social tax plan (Box 1.6) is a major step in pricing emissions and Austria is prepared to harmonise the national trading scheme with the European Emission Trading System (EU ETS) after 2025. The highly-polluting sectors transportation and buildings, currently excluded from EU ETS, will therefore need to be integrated by 2026, entailing higher carbon prices.
Figure 1.19. The room is large for harmonising and raising carbon prices

A. Less than half of carbon emissions in Austria are priced above EUR 60 per tonne of CO₂

B. Effective carbon taxes and prices², 2018

C. Uncertainty about regulations and taxes is an obstacle to climate mitigating investment³

---

1. It measures the extent to which countries have attained the goal of pricing all energy related carbon emissions at certain benchmark values for carbon costs. EUR 30 per tonne of CO₂ is a historic low-end price benchmark of carbon costs in the early and mid-2010s; EUR 60 per tonne of CO₂ is a low-end 2030 and mid-range 2020 benchmark according to the High-Level Commission on Carbon Pricing; and EUR 120 per tonne of CO₂ is a central estimate of the carbon price needed in 2030 to decarbonise by the mid-century under the assumption that carbon pricing plays a major role in the overall decarbonisation effort.

2. The emissions include biofuels. It should be noted that ETS prices have increased since 2018. The ECRs are measured separately for six economic sectors: road transport, off-road transport, agriculture and fisheries, residential and commercial energy use, industry, and electricity generation.

3. Share of firms citing uncertainty about the regulatory environment and taxation as an obstacle to investing in activities to tackle the impacts of weather events and emissions reduction.


---

**Emission saving technologies and investments**

Investing in emission-saving technologies is the third pillar for progressing towards carbon neutrality. It encompasses public and private investments in energy producing, distributing and using activities, and in research, development and innovation, in particular:

- Investments in electrification. The IEA has estimated that the role of electricity in Austria’s energy mix will need to increase to reach carbon neutrality by 2040. A new "Renewables Expansion Law" was adopted in 2020 to increase the share of carbon-free electricity to 100% by 2030.
• Investments in clean vehicles. Fossil fuel-powered cars and water and air vessels should be gradually replaced by electrical, hydrogen etc. powered alternatives. The infrastructure required for the new vehicles should be put in place. A good practice is Norway’s charging network development policy (Box 1.7) (IEA, 2021).

• Energy-saving building rehabilitations and energy-efficient building constructions (IEA, 2021). A Renewable Heating Law started to fund the substitution of fossil-fuel heating systems with electrical alternatives (households in the two lowest income quintiles are subsidised by up to 100%).

• Investments in myriad research and development activities have augmented. Successful R&D projects will claim additional resources for market tests, pilot implementations and broader-based promotion – including training investments (IEA, 2021).

• The temporary 7% cash investment subsidy introduced during the pandemic had an additional premium of 7% for green investments and the market response was strong. According to a review by the Institute of Industrial Sciences three quarters of companies reported that they would not have submitted investment projects without this measure. More than 165 000 of the 244 000 applications came from micro-enterprises and a quarter of new investment was dedicated to green projects.

Box 1.7. Norway’s policies to promote electrical vehicles

Norway fosters actively the transition to electrical vehicles. It has the largest number of electrical cars among European countries (16% of total annual sales in 2020). Its experience suggests that: i) transition to zero-emission vehicles is a long-term endeavour, calling for persistent policies; even in Norway, at current trends, greening the entire car fleet will take decades; ii) incentives should be structured in a way to encourage the replacement of the oldest and most polluting cars, rather than subsidising simply the purchase of new electrical vehicles (tax incentives should be capped and taxes should continue to be charged on luxurious electrical cars); and iii) the development of an adequate recharging stations network is key.

Policy support for charging stations has been in place since 2010 and the current scheme aims for fast charging stations every 50km on a road network of 7 500 km. In 2021, there were around 5 700 charging points, up from 800 in 2015. Commercial operators have been building stations without subsidies in recent years, especially in larger cities and along major highways. While un-subsidised stations are expected to become increasingly viable, government support will continue to be needed for availability in remote areas.

Policymakers consider replacing the current taxation of vehicles by a GPS-based distance, location and time-contingent road charge. This type of taxation is expected to incite road users to internalise congestion costs and related externalities. It can also help offset the fuel-tax revenue losses arising from the transition to electrical vehicles.


Austria’s Recovery and Resilience Plan is fostering several carbon-saving investments in the above areas (Box 1.5) above. Climate-related projects involve EU grants of around EUR 2 billion in the ongoing first phase, capturing 60% of total funds dedicated to Austria. They include zero-emission buses, building renovations and rehabilitations, thermal refurbishment of around 2 000 family houses, and the exchange of oil and gas heating systems for around 30 000 dwellings by new technologies such as biomass, heat pumps and district heating.

Green investments are funded concurrently by private and public investors at national and local levels, and by public-private partnerships. Austria is not among leading countries in the use of public and private “green” financing instruments but the authorities have started to evaluate them.
Mitigating social impacts

Stricter environmental policies will have distributional impacts. Low-income households will be affected more as they tend to use a higher proportion of their income on carbon-intensive products than higher income households. The purchasing power of users of highly polluting cars and energy-inefficient houses will be affected particularly. The compensation of severely affected social groups would mitigate the shock and facilitate the social acceptability of stricter carbon pricing. The eco-social tax reform embodies a bonus to low-income and rural households (Box 1.6 above). In the future, the compensation may need to follow the increase in carbon prices and be made more targeted. The Chamber of Labour (AK) suggested that micro-level information on household budgets and expenditures in government databases could be used to devise more targeted and less costly compensation schemes. Such an approach could raise constitutionality issues, but has already been used in the standing system of commuter tax credits which are based on place of residence, income levels, transportation times and access to the public transportation network.

Policymakers and social partners are also keen to minimise adverse trade, output and employment impacts from higher carbon pricing via trade diversion (carbon leakage) towards countries with less strict practices. They support the “border adjustment mechanism” envisaged by the European Union, as a second best and less demanding alternative to global emission regulations and global carbon prices. Border adjustments may help reduce leakages from imports into the European market, but do not address competition distortions in third-country markets. Their compliance with global trade rules would also need to be secured.

Social cohesion is under pressure

All OECD countries face social cohesion challenges on the way out of the pandemic, as the temporary hardship that the shock has put on the vulnerable segments of the population was compounded by a durable decline in demand for certain categories of labour. Austria faces these challenges in special circumstances. On the one hand, the high social cohesion standards of the population create expectations of a high degree of public support through post-pandemic structural changes. On the other hand, a number of labour market vulnerabilities already present before the pandemic have been exacerbated.

Austria entered the pandemic with a high degree of social cohesion with certain weaknesses

Austria’s rate of structural unemployment and rate of youth unemployment were among the lowest in the OECD before the pandemic, even though aggregate performance was masking vulnerabilities in certain segments such as female and elderly employment (OECD Jobs Strategy, 2018) (Figure 1.20, Panels A and B). Taxes and transfers were reducing income inequalities, and the standard social safety net had put poverty risks on a declining trend (Figure 1.20, Panels C and D). Transfers during the pandemic have been progressive and the Gini coefficient has somewhat diminished in 2020 (over a hypothetical non-Covid counterfactual scenario) (Christl et al., 2021). The pandemic shock on the labour market was largely cushioned: 35% of the 40% fall in total work hours was buffered by the short-time working scheme, and only 5% passed through to unemployment (Figure 1.21).

At the same time, specific labour market segments - which were already vulnerable before the pandemic - were exposed to significant strains (OECD, 2020). In accommodation and food services (where non-standard employment accounted for 45% of employment before the shock) work hours fell by 90%, and 40% passed through to unemployment. In arts, entertainment and recreation (where non-standard contracts dominated at 55%) work hours fell by 50% and 15% passed through to unemployment (WIFO, 2021; Böheim and Leoni, 2020). The fragmentation of the minimum income benefit rules across Länder, resulting in support gaps for those with very low earnings, continued to be a weakness in the support system (OECD, 2020).
Figure 1.20. Aggregate labour market performance and social transfers were upholding social cohesion before the pandemic

A. Structural unemployment rate (NAIRU) 2019

B. Youth unemployment 15-24 year-olds

C. Income distribution before and after taxes and transfers

Gini coefficient, scale from 0 (perfect equality) to 1 (perfect inequality), 18-65 year-olds, 2019 or latest year

D. Proportion of people at risk of poverty exclusion Total population

1. After taxes and before transfers for Mexico and Turkey.
Source: OECD (2021), OECD Economic Outlook: Statistics and Projections (database), OECD Labour Market Statistics (database), and OECD Social and Welfare Statistics (database) and Eurostat (2021), People at risk of poverty or social exclusion by age and sex (database).
The pandemic has exacerbated existing vulnerabilities on the labour market

Re-integrating the long-term unemployed

Long-term unemployment increased over the past decade, albeit from a low level. An improvement occurred during the macroeconomic upswing between 2017 and 2019. A share of those who lost their jobs during the pandemic did not benefit from the first phase of the recovery, lifting up the rate of long-term unemployment to historical heights (Figure 1.22). However, many found employment under the ensuing tighter labour markets, also with the help of new government schemes (including the Corona Job Offensive and Stepping Stone initiatives which are estimated to have stimulated the creation of significant numbers of new jobs) and average outcomes improved. There are, nonetheless, several signs of a structural challenge building up.
Figure 1.22. The increase in long-term unemployment

Long-term unemployment, 20-64 year-olds

A statistical analysis before the pandemic had identified three key influences on long-term unemployment: low education, advanced age and poor health. Almost 40% of the long-term unemployed had no more than compulsory schooling, 50% were aged above 55 and 53% had health problems (WIFO, 2018). As many as 40% were aged between 25 and 40, well below the natural retirement age. The share of young long-term unemployed could increase further in the future as the hiring rate of youth (their hiring-to-employment ratio) decreased by 4 percentage points in 2020, more than in the peer countries (where it decreased by one percentage point) and more than the OECD average (a decline of 2 percentage points).

The entrenchment of long-term unemployment would be a severe threat to social cohesion. There are still avenues (“tunnels”) from long-term unemployment to early retirement, but they are being reduced.

International experience suggests that skill mismatches increase during deep recessions, as vanished demand for obsolete skills does not fully come back in subsequent recoveries (Jaimovich and Siu, 2018). Chapter 2 highlights the apparition of such a problem already before the pandemic (an outward shift in the Beveridge curve) and hints at a possible worsening in 2020 (Figure 2.14). A comparative review of the Beveridge curve across Austrian regions found a trend deterioration in all of them (Böheim and Christl, 2021). A local simulation in 2020 found that while occupations processing complex information will not be prone to automation in the decade ahead, many clerical routine jobs may be automated. Demand for a number of qualifications will decline, increasing the risks of increase in long-term unemployment (Stephany and Lorenz, 2021).

Policymakers have started to respond along four directions (OECD, 2021):

1. Up-skilling the long-term unemployed is the prime policy response (OECD, 2021). It is implemented as part of the general life-long learning policies. The special difficulty with the long-term unemployed is the extra erosion of their skills, motivation and reputation. Potential employers are in the best position to help the long-term unemployed upskill and become productive again. This also calls for special treatment by the public employment service (OECD, 2021). Its caseload ratio (number of job-seekers per client-facing personnel) is average in international comparison and there are certain signs that there may be a shortage of specialised personnel dealing with difficult
cases (ICON Institute, 2016). The recent “Corona initiative” aims at reinforcing professional guidance and counselling, taking into account individual requirements.

2. Reducing the cost of employment of the long-term unemployed, with either temporary employment subsidies or cuts in social security contributions can boost demand for their services. The latest OECD Employment Outlook suggests that such measures can help to prevent detachment of individuals from the labour market, while avoiding that money is spent for workers who would have been hired anyway. Chapter 2 shows that employment costs are inflated in Austria by a high labour tax wedge. Targeted employment subsidies to long-term unemployed were introduced in 2021 (notably the Springboard program which aims at reintegrating 50 000 long-term unemployed with a total of EUR 300 million of employment subsidies).

3. Start-up incentives promote entrepreneurship by encouraging the unemployed to launch their own business (OECD, Jobs Strategy, 2018). The 2021 OECD Employment Outlook stresses their distinct potential to contribute to the job recovery after the pandemic (OECD, 2021). There is room for more self-employment in Austria as discussed below (Figure 1.24).

4. The “Corona initiative” includes start-up incentives. Complementary reforms to foster competition and new entries in service activities would help.

5. Public sector job creation schemes subsidise temporary, non-market jobs which would not be created without public intervention (OECD, 2021). While the long-term ability of these schemes to bring participants durably back to the labour market is questioned (Card et al., 2017), recent OECD assessments suggest that they may be of some help in extreme circumstances (OECD, 2021). Austria introduced a small scale but innovative job guarantee scheme in 2021. Rather than offering standard guaranteed jobs in the public sector, it combines the previous three options in an individualised framework (Kasy and Lehner, 2021). It deserves to be closely monitored (Box 1.8).

Box 1.8. The Lower Austria universal job guarantee programme

A universal job guarantee experiment, run by the Austrian Public Employment Service and designed in co-operation with Oxford University economists started in the town of Marienthal in 2021 (home to a path-breaking sociological study of the consequences of long-term unemployment in the 1930s - Jahoda et al., 1931).

The scheme guarantees a fully-paid job to every Marienthal resident who has been unemployed for more than 12 months. As well as getting training and assistance, all participants are guaranteed paid work, at least at a minimum wage level, in either the public or the private sector, or as self-employed, for a duration of up to three years. Participation is entirely voluntary.

Participants start with a two-month preparatory course, which includes one-to-one training and, for those who need it, support from experienced social workers and psychologists. They are then helped to find a suitable and subsidised private sector job, or supported to create their own micro-business based on their skills and their knowledge of their community’s needs. Options include: i) jobs in a newly founded enterprise (carpentry, renovation, gardening, support for elderly and childcare); ii) projects created by participants themselves (for example putting in place a local bike trail); iii) a subsidised job in the regular labour market.

The Public Employment Service funds the project, which will cost EUR 7.4 million. A year of unemployment support is estimated to incur fiscal costs of around EUR 30 000 per recipient in Austria. The project is calculated to cost EUR 29 841 per participant. The designers of the project consider that the newly created jobs may generate fiscal revenues of more than EUR 380 000.
The project includes very detailed evaluation provisions. It will be monitored by an international team of researchers. An assessment plan has been registered with the American Economic Association. A detailed evaluation report will be published by 2024.

Table 1.4. Labour market, social partnership, collective agreements: past OECD recommendations and government follow-ups

<table>
<thead>
<tr>
<th>Past OECD recommendations</th>
<th>Follow-ups</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour utilisation remains low. Minimise the tax distortions that penalise transition from part-time to full-time work.</td>
<td>Lowering fiscal burdens on minor or part-time employment is seen by the authorities as the most efficient tax measure to incentivize participation on the labour market. The eco-social tax reform, (presented to the public in October 2021) contains tax rate reduction targets for various income brackets (Box 1.6). Health insurance contributions of low income earners will also be reduced.</td>
</tr>
<tr>
<td>New forms of work blur the lines between dependent and independent work. Adapt labour law and social partnership to enhance representation and protection of platform workers.</td>
<td>No action so far. A consultation is initiated between social partners for policy recommendations in this area.</td>
</tr>
<tr>
<td>Create room for labour tax cuts for lower income earners by raising consumption, environmental and inheritance taxes. Consider replacing VAT rate reductions with targeted transfers.</td>
<td>Austria gained some experience with an “inheritance tax” levied until 2008 and a “wealth tax” abolished in the 1990s. Authorities report that models simulating the effects of such taxes suggest that they would be counterproductive and would not generate sufficient revenues compared to administrative costs. The eco-social tax reform plans to introduce incrementally increasing carbon taxes from July 2022 (Box 1.6).</td>
</tr>
<tr>
<td>Enhance incentives for businesses to offer apprenticeship positions, notably in professions affected by digitalisation.</td>
<td>An apprenticeship bonus introduced in 2020 helped fund 25,000 new apprenticeship places. The “Digi Scheck” subsidy introduced in 2021 as a funding opportunity in the company-based apprenticeship funding scheme supports company-based apprenticeships in digital technologies, sustainability, energy efficiency, circular economy and entrepreneurship.</td>
</tr>
<tr>
<td>Further develop special life-long learning schemes focusing on digital skills. Involve employer organisations more closely in the design and management of these programmes.</td>
<td>Various related programmes including “Digital Skill Vouchers”, “Innovation Camps” and “Digital Pro Bootcamps” were introduced in 2020-21, in addition to “Fi4Internet”, an initiative started in 2019.</td>
</tr>
</tbody>
</table>

Better supporting the free-lancers and the self-employed

Workers with non-standard contracts have suffered more during the pandemic, as they were comparatively less protected by the standard social safety net and Covid-specific measures than regular wage earners (OECD, 2021f). The self-employed -- who represent a low proportion of the labour force in Austria but employ more apprentices than in other countries -- have faced the most serious strains. Since 2009, they were given the possibility to take voluntary unemployment insurance, but only a negligible proportion (0.3%) had done so before the pandemic. Take-up rates picked up somewhat after spring 2020. Their rate of compensation for lost income, and their take up rates of COVID-19 measures fell below wage earners and below their counterparts in the peer countries (Figure 1.23). Financing livelihoods through borrowing was also difficult, as many had a narrow equity base which restricted their access to bank loans. While severe distress cases benefitted from transfers from the Hardship Fund, more than 30% of the self-employed have endured significant income losses. Children in families with self-employed parents, especially two self-employed parents, have suffered in particular (University of Vienna, 2020; WIFO, 2020).
Discussions on the economic circumstances of the self-employed during the pandemic concluded that their protection against systemic shocks is inadequate in comparison to the prevailing standards of social protection in Austria. Social partners started consultations on the issue with a view to make joint policy recommendations. This is not only a strain for social cohesion, but also discourages potential start-uppers. Individuals envisaging to shift from wage-earning to an entrepreneurial experience, as well as new labour force entrants considering to create their own business are exposed to high risks. The OECD has emphasised the distinct role that this group can play as an engine of job creation and social inclusion after the Covid-19 shock (OECD, 2021). They should also be expected to contribute more to the Austrian economy in the future (Figure 1.24). Their social protection should be aligned with other social groups.

Figure 1.24. Self-employment may become more frequent in the future

Share of self-employed people, 15-64 year-olds, 2020

Re-addressing gender inequalities

The pandemic has amplified gender differences in Austria. The double burden of work and care obligations affected women more than men (WIFO, 2021; Böheim and Leoni, 2020). Employment losses were slightly higher for men during the pandemic, due notably to the contraction of construction activities. However, aggregate income losses were higher for women, as a result of sharper losses in work hours. Income replacement schemes have compensated women's and men's losses in a fairly balanced way (Christl et al., 2021). Nonetheless, during the pandemic the highly skilled women were particularly squeezed between workplace and family responsibilities (Bock-Schappelwein et al., 2020).

Gender gaps were wide before the pandemic, as a result of the deeply rooted traditional family and work arrangements (OECD, 2015). The so-called “separate gender roles” model persists despite many policy initiatives to balance the roles. While young women have on average higher education than young men, the majority of women with children withdraw fully or partly from the labour force until their children reach school age and, for some, until they complete high school. In Austria’s Recovery and Resilience Plan (RRP) a reform measure aims at a compulsory sharing of pension contributions (Pensions-splitting), which should mitigate the resulting gender gaps for retirees. The parental leave system which permits an asymmetric use of leaves between genders helps to perpetuate this pattern. Women carry also currently the main responsibility for caring for dependant elderly (Unbehaun et al, 2014). These liabilities constrain women's life choices and deprive the society of existing talent. Life-time career opportunities, income paths and participation opportunities in public life diverge, generating dissatisfaction in growing segments of society, among both women and men.

Just before the pandemic, women’s full-time labour force participation rate was one of the lowest among comparable countries (Figure 1.25) and their part-time employment rate one of the highest. The shortcomings of the childcare infrastructure became more visible during the pandemic (Figure 1.26). A stronger social and political consensus may emerge from this experience in support of a more rapid catching-up with advanced country standards of childcare infrastructure.

The legal entitlement of parents to publicly available childcare from the child's first birthday is an option discussed in Austria. Earlier OECD analyses recommended an integrated policy framework to reduce gender imbalances through four streams: i) making the tax and benefit system more employment friendly; ii) making the parental leave system better balanced between mothers and fathers; iii) significantly upgrading the child and elderly care infrastructure (while maintaining the enrolment age of very young children flexible according to parental preferences, and developments in pedagogical research); and iv) encouraging more flexible workplace practices (OECD, 2015). An OECD simulation suggested that if the labour force participation gap between men and women were eliminated by 2030, annual GDP could increase by an additional 0.7% per year in Austria (one of the highest simulated gains of the OECD area, OECD, 2012). It confirms that more, better and flexible childcare options, including via innovative services such as certified nannies and childminders (Figure 1.26 and Box 1.9), would benefit growth, well-being, social cohesion and the long-term sustainability of public finances.

The parental leave system was enhanced in recent years with more incentives to the balanced use of leave entitlements between mothers and fathers. These provisions are however not yet broadly used. A comprehensive empirical analysis of Austria’s parental leave and child care support policies published in 2021 concluded that public policy measures have a stronger impact on gender gaps in labour markets when they are backed by supportive changes in social norms and preferences regarding the family-career choices of men and women (Kleven et al., 2021).
Figure 1.25. Women’s labour force participation can improve significantly

Full-time employment rate by gender, 20-64 year-olds

Source: Eurostat (2021), “Employment by sex, age, professional status and full-time/part-time” and “active population by sex, age and citizenship” in the EU Labour Force Survey Statistics.

Box 1.9. Norwegian, Swedish and German experiences in facilitating mothers’ return to work

International experiences suggest that wider access to and reduced cost of early childcare improve considerably women’s labour supply. For example, a reform expanding access and reducing the cost of childcare in Norway in the 2000s facilitated the increased uptake of one- and two-year-olds from 40% in 2002 to 80% in 2012. The reform boosted women’s employment and earnings and enabled more women living in couples to move into full-time work. Attitudes vis-à-vis early childcare changed also since the start of the reform, with the share of mothers estimating that full-time centre-based childcare is the best type of care for three-year-olds increasing from 41% in 2002 to 72% in 2010. Sweden is another country where centre-based childcare expanded in tandem with both an increase in women’s employment and a steady increase in the share of women working full-time.

Well-designed and balanced parental leave entitlements also enable parents to pursue both career and family responsibilities from an early stage. Incentives to split parental leave between mothers and fathers more evenly than in the traditional asymmetric systems help foster a more equitable distribution of paid and unpaid work within a family, also after the parental leave period. Germany’s “partner bonus” system is an interesting example. The parental leave system includes three options (Basic Allowance, Allowance Plus and Partner Bonus) which offer additional benefits when parents i) share the leave entitlements in more balanced ways, and ii) go both back to the labour market at the end of the leave period. Benefits range from a minimum of EUR 300 to a maximum of EUR 1 800 depending on pre-birth incomes of both parents. A “parental allowance calculator” is available on a web-based family portal permitting parents to simulate their entitlements under various arrangements.

Sources: OECD Economic Survey of the Netherlands, 2021; Germany’s Partner Bonus, 2021).
Figure 1.26. The childcare infrastructure should be considerably strengthened

Note: In Panel C, potential mismatches between the enrolment data and the coverage of the population data may generate some inconsistencies in enrolment rates. Data in Panel D are estimates based on EU-SILC. Data refer to children using centre-based services (e.g. nurseries or day care centres and pre-schools, both public and private), organised family day care, and care services provided by professional childminders. See the source for more details.

Source: OECD (2021), “Public policies for families and children (PF)” in OECD Family Database.
Table 1.5. Gender equality: past OECD recommendations and government follow-ups

<table>
<thead>
<tr>
<th>Past OECD recommendations</th>
<th>Follow-ups</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enhance the availability of full-day care centres and schools. Consider introducing legal entitlements for these services.</td>
<td>An agreement between the federal government and the Länder for 2018-22 helped to improve care offerings for children under 3, to promote qualified child-minder offerings, and to prolong opening hours during the year. New childcare places for 3 to 6-year-olds were funded. The government is also investing in expanding all-day schooling, aiming to have 40% of children attending all-day schools by 2025. Funds are allocated in co-operation with Länder authorities, on the basis of numerical indicators.</td>
</tr>
<tr>
<td>Keep the regulatory framework open for new providers and capacity growth in child care, under proper quality and security standards. Subsidies to these services should be granted on a level-playing field between public, non-profit and commercial providers to stimulate competition and innovation.</td>
<td>The current agreement between the federal government and the Länder which regulates child education and care, early language support, and compulsory attendance in the last year of kindergarten will expire in August 2022. The federal government is starting new negotiations to improve the accessibility and quality of childcare services and of early language support for children in need.</td>
</tr>
<tr>
<td>Reduce the implicit taxation of transition from marginal and part-time to full-time employment.</td>
<td>The authorities estimate that Austria has already one of the most flexible childcare allowance systems in Europe. Nonetheless, an evaluation is ongoing.</td>
</tr>
<tr>
<td>Transform childcare allowance and parental leave schemes into a unique childcare account that allows parents to allocate subsidised absence from work flexibly over time. Reserve a sizeable part of this account, at least 33%, for the exclusive use of fathers.</td>
<td>An agreement between the federal government and the Länder for 2018-22 helped to improve care offerings for children under 3, to promote qualified child-minder offerings, and to prolong opening hours during the year. New childcare places for 3 to 6-year-olds were funded. The government is also investing in expanding all-day schooling, aiming to have 40% of children attending all-day schools by 2025. Funds are allocated in co-operation with Länder authorities, on the basis of numerical indicators.</td>
</tr>
<tr>
<td>Develop a comprehensive data base on social transfers or a comprehensive panel survey to assess the impact of alternative family policy schemes on child care use and labour supply and adjust policy packages in the light of this information.</td>
<td></td>
</tr>
</tbody>
</table>

**Boosting the inclusion of low-skilled immigrants and their children**

Immigrants have suffered more from the pandemic due to their more vulnerable position in the labour market, in contact-intensive services such as tourism, and poorer housing conditions (OECD, 2020d). Before the pandemic, 37% of foreigners working in Austria (a sub-group of the total population of immigrants, OECD, 2015) were exposed to poverty risks, against a national rate of 13%. Following the COVID-19 shock and in terms of labour market impacts, the number of unemployed foreigners increased by 67%, against 54% for Austrians. By July 2020, these averages had settled respectively at 42% and 29%.

Populations with another mother tongue than German are large, and have long been facing integration challenges. This challenge increased after the inflow of new cohorts of immigrants from crisis countries in the second half of 2010s. Pupils speaking another language than German at home constitute more than 20% of the school population, and experience difficulties with local language, as also experienced by their parents (Figure 1.27). Shortcomings in reading, understanding and writing are recognised as key obstacles to socio-economic integration and mobility, in both education ladders and in the labour market (OECD, 2017)."
As the early transmission of human capital takes place principally within families in Austria, rather than through childhood education, human capital gaps tend to entrench across generations and low-skilled migrants are particularly affected (OECD, 2019). The high concentration of children of immigrants in schools, and their limited interaction with German-speaking children constitute an additional obstacle. The Ministry of Education introduced several measures in recent years to improve the language proficiency of children of immigrants - including an additional year of compulsory pre-school education with targeted language assistance.

The disruption of school presence by all age cohorts during the pandemic created new headwinds with long-term consequences (Kocher and Steiner, 2020). Effects have been more serious for children of immigrants, due to uneven online teaching capabilities across schools and the uneven pedagogical support capacity of parents. A panel of education experts suggested that systematic and long-lasting support is needed for pupils who had severe problems during lockdowns and distance learning (Schober,
Lüftenegger and Spiel, 2021). The Ministry of Education introduced a Covid support package with additional hours of learning support. The expert panel emphasised the need to address in particular generic learning aptitudes. It recommended individual learning plans, with the participation of pupils, teachers and parents, and supporting instruments such as mentoring and summer schools. High-frequency individual learning outcome data available in the education system makes such individual targeting possible.

Table 1.6. Immigrants’ economic participation and social inclusion: past OECD recommendations and government follow-ups

<table>
<thead>
<tr>
<th>Past OECD recommendations</th>
<th>Follow-ups</th>
</tr>
</thead>
</table>
| Strengthen the German language learning opportunities and the economic participation potential of low-skilled immigrants and their entire families. Support the early socialisation as well as language and cognitive development of children from disadvantaged backgrounds to improve their intergenerational education mobility. | Since the 2018-19 school year new initiatives were implemented to reinforce the teaching of German:  
- Primary education: 15 hours per week of intensive language training.  
- Lower secondary education: 20 hours per week of intensive language training.  
- Summer school 2020-21: a two-week individual program for targeted students, to reinforce their capacity to follow the lessons in the coming school year. This was introduced in the wake of the Corona crisis and will continue in summer 2022. |
| Open social partnership institutions to immigrant groups to enhance immigrant families’ capacity to support their children’s education and other socialisation needs. |                                                                                                                                              |

Public sector reforms become more compelling

Beyond the short-term fiscal policy issues, Austria faces medium-to-long term public finance challenges. These result from demographic developments and from public investment needs to ease the transition to a greener and more digitalised economy. The conjunction of these two agendas strengthens the case for public sector reforms. These reforms, started with the introduction of “impact orientation” innovations in public administration by the Ministry for Arts, Culture, Civil Service and Sport, should identify and exploit the potential for savings in the already very large public sector (Figure 1.28). They should help deliver the public services and investments which will be in high demand in the period ahead as efficiently as possible.

Figure 1.28. Public spending is already high

Government expenditure, 2020 or latest year, % of GDP

Note: Colombia, Costa Rica, Israel, Korea, Mexico, New Zealand, Switzerland, Turkey and USA for 2019.  
Fruitful public sector reforms would bolster both the potential growth rate of the economy and social cohesion, helping to diffuse productivity gains through the society, and increasing the labour force participation of women, elderly and the low-skilled.

Table 1.7. Public sector reforms (including education reforms): past OECD recommendations and government follow-ups

<table>
<thead>
<tr>
<th>Past OECD recommendations</th>
<th>Follow-ups</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implement high-quality independent government spending reviews to improve the quality and</td>
<td>Nine spending reviews were completed since 2016 and two further reviews will be launched: i) Family Judicial Assistance and Adult Protection</td>
</tr>
<tr>
<td>cost-efficiency of services.</td>
<td>programmes by the Ministry of Justice; ii) Analysis of the climate finance landscape including climate-related grants and incentives.</td>
</tr>
<tr>
<td>More closely align revenue raising and spending responsibilities between government levels.</td>
<td>A pilot project in the field of housing subsidies has furthered Länder's tax autonomy. A “Long-term care taskforce care” was created to assess the evolving</td>
</tr>
<tr>
<td></td>
<td>needs in this area and to evaluate policy options, including concerning the financing and delivery responsibilities of different levels of government.</td>
</tr>
<tr>
<td>Seek economies of scale in municipal services through shared services or consolidation of</td>
<td></td>
</tr>
<tr>
<td>government.</td>
<td></td>
</tr>
<tr>
<td>Re-assess the present school infrastructure, class sizes and teaching personnel against</td>
<td>The Education Reform Act 2017 provided schools more autonomy in staff recruitment and performance management, and allowed school mergers.</td>
</tr>
<tr>
<td>demographic trends and develop a rationalisation plan.</td>
<td></td>
</tr>
</tbody>
</table>

Handling the fiscal costs of ageing

Pensions

Past pension reforms have improved the long-term sustainability of public pensions amid welcome increases in life expectancy (European Commission, 2021). At the same time, the share of public pension spending and pension contributions in GDP, and the average number of years in retirement are among the highest in the OECD. The size of the system exposes it to large risks in case the parametric assumptions underlying its financial balances come under pressure. While the equilibrium between lifetime pension contributions and benefits improved after reforms, effective retirement ages for men and women fall below official ages due to unattractive working conditions for senior workers and the persisting early retirement avenues (Chapter 2). The authorities have decided to re-install the financial disincentives to early retirement that they had temporarily waved in 2019, and which had led to an upsurge in early withdrawals from the labour force. Rehabilitation policies for senior workers with health issues are also being reinforced. Future financial balances of the pension system are very sensitive to i) average life expectancy, ii) the employment rate of senior workers, iii) immigration trends, and iv) average productivity gains in the economy (European Commission, 2021). Recurrent parametric adjustments are requisite according to developments in these areas, as discussed in the previous OECD Economic Survey of Austria (OECD, 2019). The long-term sustainability of the pension system should be ensured including e.g. by linking retirement age to life expectancy and enhancing financial and workplace incentives to continue working at an older age.

Health spending

Public health insurance is generous and public health spending, at 8.8% of GDP in 2020, is one of the highest in the OECD. Additional pressures will arise from population ageing, the rising incidence of age-related chronic diseases, and more costly medical technologies and pharmaceuticals. The latest Ageing Report of the European Commission suggests that baseline pressures (the trend increase in public health spending as a share of GDP) and underlying risks (additional spending entailed by risk scenarios) are
higher in Austria than in comparable countries (European Commission, 2021). In the years immediately preceding the COVID-19 shock, policymakers have stabilised public health expenditures with budgetary caps. This is a transitory approach and, if prolonged, can generate access bottlenecks and quality tensions in health services (Bachner et al., 2018). Structural reforms, such as aligning health spending and financing responsibilities across government layers and better balancing preventive and curative services, could promote spending effectiveness. Telemedicine innovations, which helped sustain and improve health services during the pandemic, should be consolidated and further developed. Their adoption by all health professionals may call for adjustments in regulations and payment systems. According to some stakeholders this will require legal and regulatory clarifications (CMS, 2020).

**Long-term care**

Long-term care for dependent elderly displays distinct features. The predominance of family care, of government cash transfers (rather than in-kind services), and the special role of foreign care workers characterise Austria. About 75% of dependant elderly are taken care by their families, 20% by care institutions, and 5% by foreign care workers. These arrangements came under pressure during the pandemic. Care responsibilities increased within families and became more demanding, while travel restrictions constrained the mobility of foreign care workers.

In the post-pandemic period, expanding incidence of chronic age-related diseases, combined with full-time labour force participation expectations of women and higher geographical mobility of young cohorts, will call for adjustments in long-term care arrangements. Digital techniques, which facilitated communication and surveillance during the pandemic, may help make home-based care - the preferred living arrangement of the majority of dependant elderly in Austria - more convenient, safer and less costly. A strategic plan for long-term care would help evaluate policy options. A “Long-term Care Task Force” created in 2020 and gathering various stakeholders has provided a consultation platform. This Task Force has already inspired and initiated a pilot project: the appointment of 150 community nurses with an aim to increase the health literacy of senior citizens above 75 and help them live in their own home for longer periods and in safer conditions. It is funded by the European Recovery and Resilience Fund, with a view to be generalised to the territory if successful.

A core issue concerns labour shortages in the provision of care. This is already a challenge whilst the majority of dependant elderly are still being taken care of by their families. Working conditions are demanding and the prevailing work organisation and pay conditions are not attractive. Demand projections suggest that the challenge will expand: Mobile and in-patient care may require up to 24 000 additional staff by 2030 (Famira-Mühlberger and Firgo, 2019). Short-term shortages appear to have become more acute after the pandemic - as part of immigrant labour has found alternative employment opportunities in Austria or abroad.

Short- and medium-term labour shortages will need to be tackled under fiscal constraints. According to detailed projections (after the legal abolition of fiscal recourse to elderly dependants’ own assets to co-fund their care costs) public spending for both cash transfers and benefits in kind could increase from EUR 5.1 billion in 2018 to EUR 7.5 billion in 2030 (in constant prices). This amounts to an increase of EUR 600 million (0.12% of GDP) per year. Technical and organisational innovations in the delivery of services, including by drawing on digital techniques and improved working conditions, may be compelling.

**Fiscal implications of the transition to a greener and digitalised economy**

The transition to a greener and digitalised economy will require additional public investments. Medium-term fiscal costs are difficult to quantify. Adjustment needs of the public capital stock imply a broad range of projects with positive economic and social returns - which may surpass the available and borrowable public financial resources.
Skills and capabilities to be built up throughout childhood, primary, secondary, vocational, tertiary and lifelong education are extensive (OECD, 2021). The 2017 OECD Education Policy Outlook of Austria, after reviewing the strong achievements of public education, notably in vocational education, concluded that i) implementing significant governance reforms, ii) continuing to increase spending, and iii) improving resource efficiency should be key goals for Austria. An evaluation of school resources that the 2017 review drew on (OECD, 2016) estimated that existing governance arrangements create structural challenges for the management of school resources, due to a complex distribution of responsibilities between Federal and Länder levels, and, as clear lines of accountability and integrated monitoring systems are lacking, that they foster over- and misspending. Evidence-based assessments of the costs and benefits of various school structures, education streams, methods and curricula, including following the introduction of on-line teaching applications during the pandemic, are desirable. As discussed in Chapter 2, there is also significant potential for improving the quality and employment benefits of public support to life-long learning, including more active recourse to user choice and competition in the provision of related services.

Climate transition policies will have sizeable public finance implications, on both revenue and spending sides. The recently proposed carbon taxes are planned to be revenue-neutral, as revenues will be re-distributed as transfers to address its distributional effects. In the medium-term, additional spending needs will likely increase in this area as public green investments will form the third key instrument of green development strategies together with higher carbon prices and stricter emission regulations.

Policymakers and the research community are notably engaged in a range of medium-term technological projects to reduce greenhouse gas emissions. They are well-funded in the short-term, but may require wider resources when shifting to fuller scale implementation (European Commission, 2021).

Investment needs in the physical infrastructure of the digital economy are also large as discussed in Chapter 2. Further development needs of the broadband infrastructure have been well-identified and are being addressed through public and private investments. Some analysts suggest that additional public capital will be needed (WIFO, 2021). On the other hand, new technologies may permit savings, for example if high-speed mobile communications reduce the need for fibre networks in low-density areas (see Chapter 2). New projects, including those under the European Economic Recovery and Resilience Plan (Box 1.5 above) are addressing some of these needs.

Managing competing public expenditure and investment projects will require new spending prioritisation procedures, given limited resources. A two-legged approach could help to tackle potential imbalances between available and borrowable resources on the one hand, and the portfolio of suitable spending projects on the other:

- The economic and social benefits and costs of existing and proposed projects should be documented rigorously, according to standard methodologies. In addition to existing government measures to promote efficiency in public services, sector-specific spending reviews would help with these assessments. The area of education and life-long learning lends itself, in particular, to an in-depth review of the efficiency of allocation of public resources. Spending reviews should be based on good international practices, ensure the participation of all stakeholders, and be conducted in an arms-length and independent perspective. The European Resilience and Recovery Programme entails also some spending reviews.
- Policymakers may consider medium-term spending ceilings at the general government level, as have been applied by Finland, the Netherlands and Sweden to sustain political and social consensus around a total spending envelope in the past. Recent evaluations in the European Commission (European Commission, 2020) and in the OECD (OECD Economic Survey of the Euro area, 2021) are favourable to such rules in the context of the fiscal policy challenges of the post-pandemic period. In addition to the existing spending caps included in the annual budgets and reaching out to the subsequent two years on a rolling basis, Austria’s multi-yearly spending frameworks can be strengthened by anchoring them in government programmes and keeping them
constant during their entire period of execution. Broadening them to the general government sector (beyond the central government budget) would also make them better in line with international good practices and more binding (Ljungman, 2008). They may be defined at different aggregation levels, and must be compatible with the projected tax revenues and the targeted public debt trajectory.

**Strengthening public governance, integrity and trust**

The trust of the population in public institutions surfaced as a key issue in all OECD countries during the pandemic. The assumed link between public trust in institutions and compliance with COVID-19 policies has been confirmed by empirical research (Rodriguez-Pose and Burlina, 2021). Country- and region-specific findings for Austria have not yet been published, but cross-country findings hint at room for progress in this area. Surveys in Austria confirm that public trust in the key institutions involved in the management of the pandemic started strong in the early phases of the shock, but then weakened (Waibel et al., 2020; Kowarz and Pollak, 2020). Strengthening trust may facilitate population's compliance with future policies (see Figure 1.3 Panel B). Improving the health literacy would help as discussed earlier.

Beyond the challenges of the pandemic, recent research, including by the OECD (OECD, 2018), confirms the existence of a link between the perceived quality of public governance institutions, public sector size, and economic performance. Earlier OECD Economic Surveys of Austria had suggested that, given the very large public sector, the credibility of governance institutions should be strengthened to offset adverse impacts on economic performance (OECD, 2019). Recent international indicators suggest that the perceived gaps in the quality of governance institutions vis-à-vis peer countries are persisting (Worldbank, 2021). This Survey’s growth simulations suggest that Austria’s catching-up in this area may deliver growth gains.

One key dimension of public governance is the efficacy of fight against corruption (Figure 1.29). The previous OECD Survey had noted, on the basis of assessments by the OECD’s Working Group on Bribery, that Austria’s policies could be strengthened. The perceived efficacy of anti-corruption policies may have weakened in recent years (Figure 1.29, Panel B). The complex multi-layer structure of the government, the multitude of public procurement authorities, and the presence of myriad Länder- and municipality-owned entities widen the exposure to corruption risks.


Certain observers estimate that prosecution authorities should be further emboldened to enforce the existing anti-corruption laws and rules in a more rigorous manner. Transposing the EU Whistleblower Directive into national law by end-2021 requires an acceleration of preparations. The “leniency programme” (offering special protection to key witnesses in penal law proceedings), which was adopted in 2016 with a 5 year sunset clause, could be converted into a permanent law to consolidate the legal infrastructure for public integrity.

Other longstanding issues include elements of bank secrecy and vulnerability to money laundering (OECD, 2019). The authorities state that the revised Austrian Banking Act is not anymore an obstacle to detecting criminal activities and tax evasion. Since Austria’s accession to the EU, exemptions to secrecy rules have been incorporated, permitting to fight criminal activities. Nonetheless, financial sector’s exposure to transactions with countries carrying risks in this area invites special policy attention to reducing vulnerability (Financial Times, 2021a; Financial Times, 2021b). Austria has taken steps to address a number of these issues. The next evaluation of Austria by the OECD Expert Group on Bribery is planned for 2024.
Illustrative medium-to-long term growth scenarios and policy recommendations

The structural reforms recommended in this Survey would boost business sector dynamism, improve resource re-allocation and improve labour force participation in all labour market segments. Table 1.8 sets out illustrative macroeconomic scenarios and shows the impacts on medium-term growth trajectories, based on the OECD cross-country reform impact assessment model.

A package of structural reforms combined with stronger economic institutions could boost the level of the real GDP per capita by around 11% after a 10-year horizon. Table 1.8 sets out five reform scenarios. Table 1.9 presents the estimated fiscal costs of some reform recommendations:

- The baseline trajectory is based on ongoing medium-term trends and assumes no changes to structural policies and economic institutions. It projects an increase in the level of real GDP per capita of 12% after 10 years. The estimation framework underpinning the baseline trajectory rests on data prior to the COVID-19 pandemic.
- A first set of structural reforms would remove anticompetitive regulatory barriers in product markets by improving the Austria’s indicators to the average of the five best-performing OECD countries. This would boost labour efficiency but also improve employment and the capital stock. After 10
years, the level of real GDP per capita would increase by an additional 2.1 percentage points as compared to the baseline.

- A second wave of reforms would prioritise labour markets and shift the tax burden away from labour towards a less distorting base. Labour tax wedges for singles and couples would be reduced to the OECD average. This reform scenario would lift the level of real GDP per capita by 2.2 percentage points compared to the baseline after 10 years.

- While Austria has already an institutional framework conducive to growth, in a third reform scenario improving the rule of law to the level of the best performing OECD country (Norway) could raise the level of real GDP per capita by 0.4 percentage points after 10 years.

- The fourth scenario simulates reforms that bolster child-care services and the re-balancing of parental leaves, helping reduce the labour force participation gap between men and women by half by 2030. This would increase the level of real GDP per capita by around 6% after 10 years.

- In a fifth scenario, a reform package consisting of the removal of anticompetitive regulatory barriers, a reduction in tax wedges, improving on the rule of law and aligning the labour force participation of men and women (a combination of the Scenarios 1-4) may yield a boost to the level of real GDP per capita of around 11 percentage points as compared to the baseline after 10 years.

Table 1.8. GDP impacts of reforms

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Policy action</th>
<th>Increase in the level of real GDP per capita over ten years as compared to a no-policy baseline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scenario 1: Competition reform</td>
<td>Close the gap in product market regulations to the average of the five best performing OECD countries over a 10-year horizon.</td>
<td>2.1 percentage points</td>
</tr>
<tr>
<td>Scenario 2: Labor market reform</td>
<td>Reduce tax wedges for singles and couples to the OECD average.</td>
<td>2.2 percentage points</td>
</tr>
<tr>
<td>Scenario 3: Institutional progress</td>
<td>Improve the institutional framework conditions (rule of law) to the best performing OECD country (Norway) over a 10-year horizon.</td>
<td>0.4 percentage points</td>
</tr>
<tr>
<td>Scenario 4: Raising female participation in the labour force</td>
<td>Reduce the labour force participation gap between men and women by half by 2030</td>
<td>6 percentage points</td>
</tr>
<tr>
<td>Scenario 5: Competition, labor market and institutional reform and progress package</td>
<td>All reforms from Scenario 1, 2, 3 and 4.</td>
<td>10.7 percentage points</td>
</tr>
</tbody>
</table>

Note: Model results should be seen as illustrative. Policy changes in the model are based on comparing the policy settings in Austria with other OECD countries. The model assumes that any spending increases are offset such that reforms are fiscally neutral. The model does not capture policy-induced changes in deep-rooted preferences like risk aversion and their subsequent effects on economic variables.

Table 1.9. Estimated fiscal costs of selected policy recommendations

<table>
<thead>
<tr>
<th>Policy recommendation</th>
<th>Estimated fiscal costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduce an allowance for corporate equity, applicable to both internally and externally raised new additions to equity.</td>
<td>Roughly around 0.05-0.1% of GDP (based on a notional return of 1.5% applied to additions to equity only)</td>
</tr>
<tr>
<td>Reduce the employment cost of the long-term unemployed.</td>
<td>0.07% of GDP (maximum direct fiscal cost of halving the social security contribution rate of all re-hired long-term unemployed).</td>
</tr>
<tr>
<td>Up-skill and re-skill the long-term unemployed in line with labour market needs.</td>
<td>No cost increase (re-training costs per unemployed is already the highest of the OECD area, there is room to improve allocation).</td>
</tr>
<tr>
<td>Bolster the early child care and education infrastructure to reach advanced country standards.</td>
<td>1 - 1.2% of GDP (convergence of enrolment rates and of spending per pupil on a PPP basis with Sweden).</td>
</tr>
</tbody>
</table>
**Policy recommendations (key recommendations are bolded)**

<table>
<thead>
<tr>
<th>MAIN FINDINGS</th>
<th>RECOMMENDATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Health policies</strong></td>
<td></td>
</tr>
<tr>
<td>Around one third of the population appears to resist COVID-19 vaccination.</td>
<td>Monitor the impact of the lock-down on vaccinations. Boost vaccinations with an assertive awareness campaign drawing on the National Health Literacy Strategy.</td>
</tr>
<tr>
<td>Individual health data infrastructure has improved during the pandemic but remains relatively fragmented. Research community’s access to individual health data falls behind peer countries.</td>
<td>Continue to draw on the OECD Council recommendations on health data governance. Improve the access of researchers to individual health data under adequate ethical and professional safeguards.</td>
</tr>
<tr>
<td>The co-ordination of the fight against the pandemic between Federal and Länder governments faced certain challenges.</td>
<td>Clarify the prerogatives of the Federal and Länder authorities in the face of pandemics and other public health matters.</td>
</tr>
<tr>
<td><strong>Macroeconomic policies</strong></td>
<td></td>
</tr>
<tr>
<td>The post-pandemic upturn has been sharp but many activities are held up by labour, skill and other supply side shortages. In certain sectors demand continues to be hindered by low domestic and international mobility.</td>
<td>Concentrate public supports on overcoming supply-side shortages and on backing the still temporarily hampered activities such as tourism.</td>
</tr>
<tr>
<td>The low labour force participation of elderly workers heightens labour and skill shortages in several sectors.</td>
<td>Support businesses to improve their work organisation and workplaces to make job positions more attractive for elderly workers.</td>
</tr>
<tr>
<td>Demand pressures, price surges and the rapid expansion of mortgage loans are exacerbating financial risks in the housing sector.</td>
<td>Make Financial Market Stability Board’s prudential guidance for mortgage loans mandatory.</td>
</tr>
<tr>
<td>The capital base of the banking sector as a whole is adequate, but some banks may need additional capital on the way out of the pandemic.</td>
<td>Secure a solid capital base for all banks.</td>
</tr>
<tr>
<td>Public debt rose to a high level in national standards, due to the ample economic and social supports mobilised during the pandemic.</td>
<td>Prepare a medium-term fiscal consolidation strategy while sparing room for targeted supply- and demand-side supports as required. Implement this strategy as the recovery is fully self-sustained.</td>
</tr>
<tr>
<td><strong>Green growth</strong></td>
<td></td>
</tr>
<tr>
<td>The carbon intensity of the economy is declining too slowly against the ambitious 2040 climate neutrality goal. The eco-social tax reform 2022 is highly welcome but additional measures will be indispensable.</td>
<td>Design and implement complementary regulatory and emission saving investment schemes to align the trajectory of emissions with targets.</td>
</tr>
<tr>
<td>Carbon prices and taxes will likely remain lower and more uneven than in peer countries for a while.</td>
<td>Increase and harmonise further carbon prices after 2025 by integrating the largest possible share of emissions in the national and EU emission trading system. Eliminate the diesel/gasoline tax gap.</td>
</tr>
<tr>
<td>Low-income households using carbon-intensive goods and services at high frequency will be heavily affected by carbon price increases.</td>
<td>Prepare methods and measures to identify and compensate the most vulnerable households to the planned and expected carbon price increases during 2022-25 and after transition to integrated national and EU emission trading systems.</td>
</tr>
<tr>
<td><strong>Social cohesion</strong></td>
<td></td>
</tr>
<tr>
<td>The traditionally low rate of long-term unemployment appears on a structural upward trend, in particular for the low-skilled, despite improvements during the post-pandemic upturn.</td>
<td>Up-skill the long-term unemployed, emphasising employer-driven schemes.</td>
</tr>
<tr>
<td>Employment costs are inflated by the still high labour tax wedges. Low-skilled labour demand is hindered.</td>
<td>Continue to reduce the employment cost of the long-term unemployed. Adapt the successful “Springboard” scheme of employment subsidies to the long-term unemployed.</td>
</tr>
<tr>
<td>Quantitative and qualitative shortcomings in early child care services constrain women’s life choices and economic participation.</td>
<td>Bolster the availability and quality of early child care services throughout the entire territory, in particular in rural areas.</td>
</tr>
<tr>
<td>There is potential for increasing the share of the free-lancers and self-employed in the labour force.</td>
<td>Help the long-term unemployed to start their own business in new market niches, drawing on ongoing pilot experiments.</td>
</tr>
<tr>
<td>The parental leave system as currently implemented helps to perpetuate separate gender roles. However, the provisions encouraging a balanced use between mothers and fathers are little used.</td>
<td>Encourage the balanced use of parental leaves between mothers and fathers to promote a more balanced sharing of paid and unpaid work between parents.</td>
</tr>
<tr>
<td>Disruption of school presence during the pandemic affected more children and teenagers from immigrant and disadvantaged households, due notably to uneven technical endowment and pedagogical support.</td>
<td>Introduce individual support and learning programmes for children and teenagers from immigrant and disadvantaged households who fell behind in their educational development during the pandemic.</td>
</tr>
</tbody>
</table>
### MAIN FINDINGS

**Population ageing is putting pressure on public finances. Many aged workers withdraw before the official retirement age.**

There is potential for saving, quality improvement and resource re-allocation in existing public services and transfers.

Proposals for new public programmes to support green growth and digitalisation are expanding. They may further expand in the future.

Given limited resources, managing competing public expenditure and investment projects across areas will require prioritisation procedures.

Full-time labour force participation expectations of women, higher geographical mobility of young cohorts and an increased incidence of age-related conditions call for adjustments in long-term care arrangements.

In its last evaluation of Austria, the OECD Working Group on Bribery in International Business Transactions recommended stronger policies.

### RECOMMENDATIONS

Ensure the long-term sustainability of the pension system, e.g. by linking retirement age to life expectancy. Reduce early retirement pathways by further reforming the access to disability pensions, improving prevention and rehabilitation measures, and enhancing incentives to continue working at an older age while ensuring good working conditions.

Further strengthen the quality of public spending reviews and the implementation of proposed recommendations.

Continue activities to reduce the perceived gaps in the quality of public governance, including in fighting corruption.

Evaluate the costs and benefits of the new public programmes to support green growth and digitalisation according to rigorous common methodologies.

Further strengthen the quality of public spending reviews and the implementation of proposed recommendations.

Better align revenue raising and spending responsibilities across government layers. Start with health spending.

Develop a strategic plan for long-term care for dependent elderly, taking into account the private and social costs and benefits of alternative arrangements and making use of technological developments related to the provision of care.

Comply with the recommendations of the OECD Working Group on Bribery in International Business Transactions.
References

Artner, S. (2017), Real Estate Trends and Foreign Investments in Austria, Expert Guides.


CMS (2021), Digital Health Apps and Telemedicine in Austria, CMS Expert Guides.


Federal Ministry of Finance (2021), Austrian Stability Programme (Update for the period 2020 to 2024).


Financial Times (2021b), “Vienna’s banking industry struggles to shake off dirty money scandals”, 1 September.


Frauenhofer Austria (2021), E-Mobility and the Austrian Production Potential, Project Report, Vienna.


Health Hub Vienna (2021),”COVID-19: An Opportunity for Health Care in Austria”.


Korlat, S. (2021), Learning under COVID-19: Challenges for self-regulation, WELSfocus, University of Vienna.


McKinsey and Co. (2021b), ‘Great Attrition’ or ‘Great Attraction’? The choice is yours, September.

Midgley, E. (2021), What is Austria’s new five-colour COVID traffic light system?, The Local.


OECD (2016), “Nuclear Legislation in OECD and NEA Countries: Austria”.
OECD (2018a), How Does Austria Compare?, OECD Jobs Strategy.
OECD (2021e), Employment, Skills and Work, Adult Learning.
OECD (2021g), Active Labour Market Policy Measures to Mitigate the Rise in Unemployment: A Summary of Country Responses to the OECD-EC Questionnaire.
OECD (2021i), OECD Affordable Housing Database.
ONB (2021), Financial Stability Report 41.


WIFO (2018), Unemployment Remains High, Austrian Institute of Economic Research.


Worldbank (2021), Worldwide Governance Indicators.

Yonhap News Agency (2021), S.Korea, Austria agree to forge ‘strategic partnership’.