# Growth is picking up in Austria but fundamentals need to be strengthened

by Rauf Gonenc and Volker Ziemann, Austria Desk, OECD Economics Department

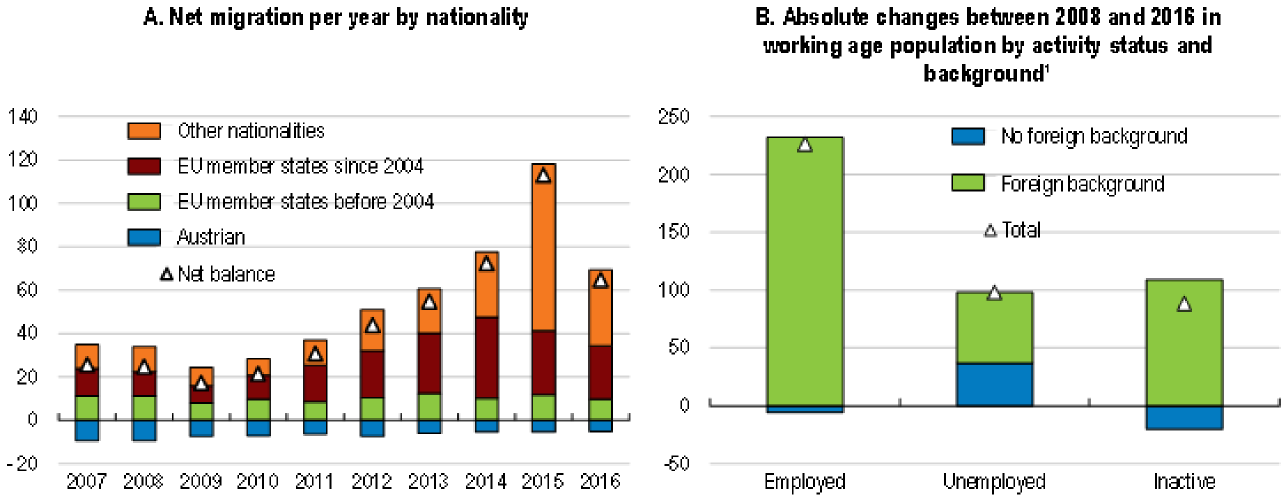
After several years of subdued growth, economic output accelerated in 2016 supported by a tax reform that entered into force in 2015-16, and more recently a pick-up in international trade. The upturn has improved fiscal balances, and the public debt ratio, though still high, is on a downward path. The improvement in the macroeconomic situation has strengthened business and household confidence and the short-term outlook is favourable.

Nonetheless, the OECD 2017 Economic Survey of Austria suggests that Austria may be adapting too slowly in a rapidly changing environment, including with respect to digitalisation. Austria’s strong position in regional value chains has suffered somewhat since 2012 amid intense competition with catching-up Eastern European countries notably in supplying traditional key partners such as Germany or Italy. On the other hand, Austria has managed to gain export market shares in countries like the United States, China, India or Japan which, together with vibrant tourism, has kept the current account in positive territory.

Austria’s labour force and employment have expanded strongly in recent years largely driven by migration from new EU member states and, especially in 2015, by refugee inflows (see Figure below). Pension reforms limiting pathways to early retirement have induced a strong increase in employment of older workers albeit from very low levels in international comparison. Labour participation of women has also improved, though mainly through part-time work reflecting prevailing gender-inequalities, which were analysed in detail in the OECD 2015 Economic Survey of Austria.

**Migration inflows have fostered labour supply**

Thousand persons




1. Foreign background means that both parents are born abroad.

*Source*: Statistics Austria.

The resulting decline in average hours worked per person contributed to the decline in trend growth observed since the beginning of the 2000s, alongside the slowdown of both the capital stock and total factor productivity. While Austria shares these trends with most, if not all, other advanced OECD countries, some specific weaknesses emerge. Geographical mobility is low and the labour tax wedge remains high. OECD indicators further suggest that, despite some progress, retail and professional services are over-regulated. Enterprise churn rates are lower than in comparable countries which may be partly driven by restricted financing options. Austria has recently launched a crowd-financing initiative, but external financing of start-up and small firms remains overly reliant on bank credit and venture capital is scarce. The government's January 2017 policy package will help reduce some of these bottlenecks provided that the political process surrounding the October 2017 snap elections does not undermine its implementation.

**Find out more:**

OECD (2015), *OECD Economic Surveys: Austria 2015*, OECD Publishing, Paris.

OECD (2017), *OECD Economic Surveys: Austria 2017*, OECD Publishing, Paris.