Austria: Addressing three major challenges for a stronger and more sustainable recovery

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Austria faces several challenges. Beyond the immediate task to minimise the human and economic costs of the pandemic, structural reforms to ensure the long-run sustainability of public finances, to promote more and better employment and the transition to a greener economy are key priorities for delivering on stronger and greener growth than before the pandemic.

While the country-wide lockdown to contain the fourth wave of COVID-19 infections weighed on growth during the last two months of 2021, GDP is projected to recover quickly and grow by around 5% in 2022 and 2.5% in 2023. Bold fiscal stimulus, using the fiscal space made available by prudent management in the past, supported the resilience and recovery of the economy and limited job losses and bankruptcies. Subsequently, economic activity grew faster than expected in the first three quarters of 2021 and the level of economic activity has surpassed its pre-crisis levels already in the summer of 2021

(Figure 1).

Figure 1. The economy is recovering fast from a severe shock

Real GDP
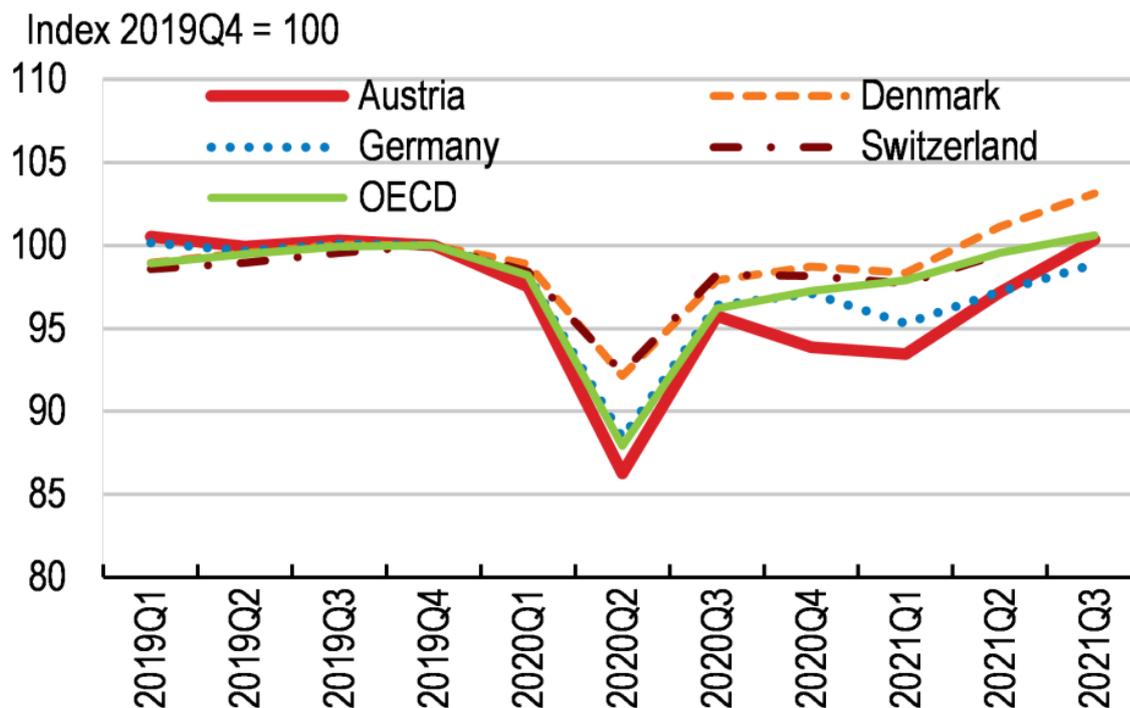
Source: OECD (2021), OECD Economic Outlook: Statistics and Projections (database).

Near-term risks to the outlook are tilted to the downside. New sanitary restrictions would reduce growth prospects, notably in hospitality sectors which contribute significantly to Austria's incomes and regional cohesion by providing jobs in remote areas.

The **OECD Economic Survey of Austria 2021** highlights three key economic policy challenges. First, policymakers need to restore medium-term fiscal sustainability. This will help to address the high level of public debt as compared to national standards following the ample economic and social supports mobilised during the pandemic. The second big challenge is to boost labour force participation, particularly of women and seniors. Shortfalls in labour force participation are weighing on economic growth and public finances, and denting individuals' living standards. The third key policy challenge

is aligning total greenhouse gas emissions with the intendent trajectory. 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.

I. Ensuring long-term fiscal sustainability

Following effective anti-COVID fiscal supports, the gross public debt is projected to increase from 70.6% in 2019 to around 80% of GDP by 2022 (Maastricht definition). This level is elevated compared to national historical standards and may restrict the authorities' fiscal room of action in the future.

New spending pressures are arising from population ageing and other policy needs, such as investments in decarbonisation and digitalisation of the economy. The share of public spending in GDP is already high, at around 50% of GDP in 2019. The additional demands for public investment and expenditure will require new prioritisation procedures to protect fiscal sustainability. A medium-term fiscal consolidation strategy, including a strengthened medium-term expenditure framework covering the federal government, Lander and municipalities, that spars room for needed fiscal action in the future should complement the prioritisation procedures.

II. Creating more and better jobs

The pandemic has exacerbated vulnerabilities on labour markets. Long-term unemployment soared in the second half of 2020, although from a relatively low rate, before declining partially. Skill mismatches have increased in all regions and labour and skill shortages constitute a major impediment to faster activity growth in many sectors. These shortages have been amplified as some immigrant workers have returned to their home country during the pandemic. There is considerable potential for higher labour force participation by certain population groups, including women and seniors.

Facilitating the participation of senior workers who retired

too early from the labour force is essential. Key in this regard would be to improve rehabilitation and up-skilling measures, further reform access to disability pensions, and enhance incentives to continue working at an old age by adapting working conditions.

Figure 2. Labour force participation of women could improve further

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

% of female labour force
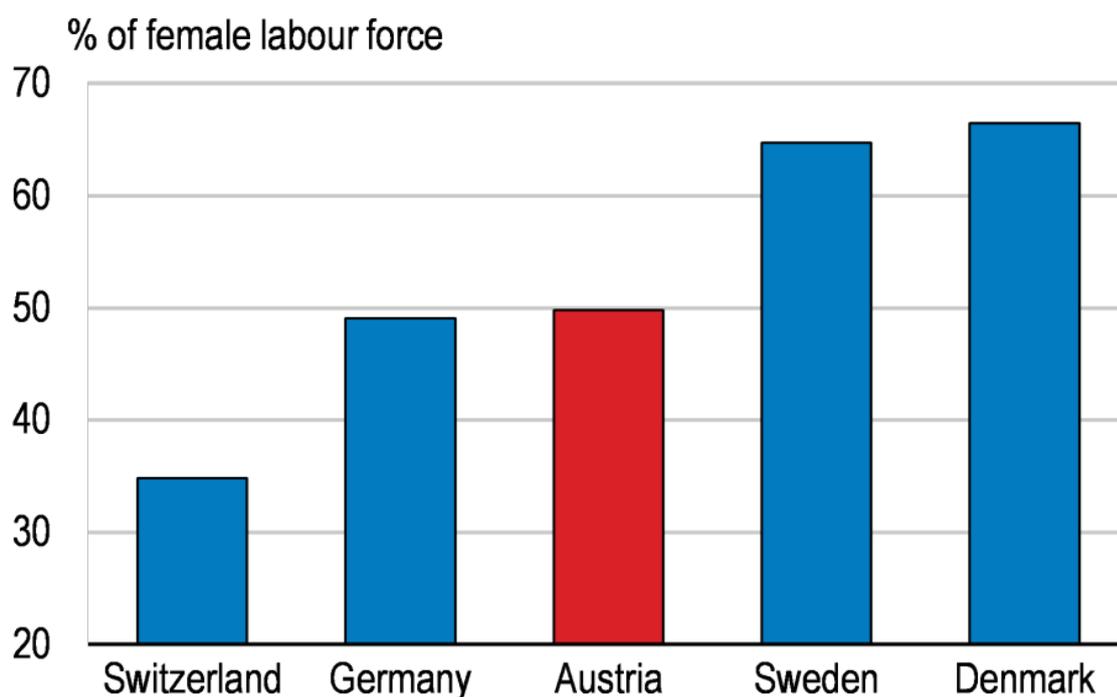
Source: Eurostat (2021), Labour Force Survey Statistics.
Full-time employment of working-age women in Austria needs to increase. It currently stands at only 50%, well below the EU average of 65% (Figure 2). The Survey recommends to bolster the availability and quality of early child care services throughout the country, including in rural areas. Austria has one of the lowest enrolment rates in early childhood education and care in the OECD. The OECD also recommends encouraging the balance use of parental leaves for a more equal sharing of paid and unpaid work between mothers and fathers.

III. Ensuring a fair and efficient transition towards a green economy

Austria's ambitious target of carbon neutrality by 2040 — 10 years earlier than the EU goal — is welcome. Austria has already a high share of renewables in total energy supply and a new law that aims to shift the country to 100% carbon-free electricity by 2030. However, the carbon intensity of the economy has not declined in the most recent years, and has fallen behind comparable countries.

The recently announced Eco-Social Tax Reform is a major step forward in the pricing of emissions. It will help foster a market-oriented approach to carbonless growth. Further emission cuts will nevertheless be needed across all sectors, particularly in transportation, buildings and industrial processes, where the potential is large.

Figure 3. Austria is not on track to reach its Paris agreement targets

Per capita metric tons of CO2 equivalent
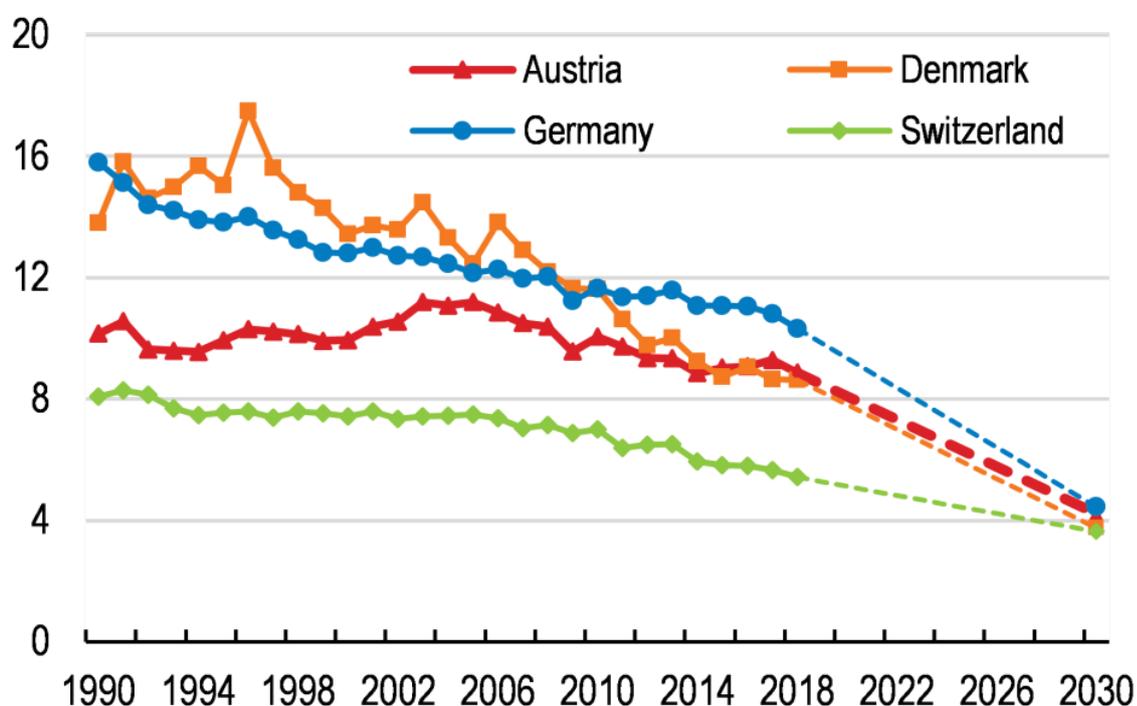
Note: Total GHG emissions exclude LULUCF (land-use, land-use change and forestry). Scatters in 2030 indicate IMF implied unconditional nationally determined contribution (NDC) economy-wide target levels on GHGs excluding LULUCF. The population estimate for 2030 is based on the UN population

data with the medium-variant projection. Dotted lines refer to the linear emission trajectories required to reach the announced targets in 2030.
Source: OECD calculations based on IMF Climate Database, and United Nations (2019). World Population Prospects 2019.

New emission regulations will have to be introduced. Carbon prices will need to be harmonised and increased further. Austria needs to better leverage its remarkable capabilities in the area of R&D to expand emission-saving innovations. More rigorous climate policies would however have important 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 after 2025, to improve medium-term predictability and help firms and households to adjust well in advance.

References

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