

Austria



Chancellor: Werner FAYMANN	Population (2007 est.): 8,316,487
Finance Minister: Josef PROELL	GDP (2007): €270.8 billion
Central Bank Governor: Claus J. RAIDL	GDP/capita: €32,600
	GDP by sector:
Joined the EU: 1995	Agriculture 1.8%
Adopted the Euro: 1999	Industry 30.6%
Currency prior to Euro: Schilling	Services 67.6%
	Life Expectancy (women / men): 82 / 77
	2005 2006 2007 2008*
Real GDP growth rate	2.9% 3.4% 3.1% 1.9%
Inflation	2.1% 1.7% 2.2% 3.4%
Unemployment Rate	5.2% 4.7% 4.4% 3.9%

* forecast

Austria in the EU and the Euro Area

Austria became a member of the EU in 1995. It adopted the Euro for accounting purposes in 1999 and introduced Euro coins and banknotes in 2002, in place of the Schilling. EU membership was a catalyst for positive change in Austria, leading to solid economic growth, structural changes and a significant consolidation of public finances and price stability. After joining the EU, Austria undertook reforms in taxation, pensions, health care and administrative systems, all of which were cited as successes by the IMF and the OECD. Membership in the EU has drawn an influx of foreign investors attracted by Austria's access to the single European market and proximity to the new EU economies.

Economic Overview of Austria

Austria's economy is largely based on exports and industrial activity, with Germany being its largest trade partner. 76% of Austria's trade is with the other EU-27 countries. Austria's main exports include machinery and equipment, motor vehicles and parts, paper, metal goods, chemicals, iron ore, oil, timber.

Solid economic policies focusing on macroeconomic stability, structural reform, and an early focus on Central, Eastern, and South Eastern Europe, especially in the banking and insurance sector, explain Austria's strong economic performance in the recent past. Wage moderation, resulting from a strong social partnership, has preserved competitiveness and supported export-led growth, which has exceeded the euro area average.

The economy grew strongly in 2006-07: real GDP increased by more than 3 percent in both years, driven by robust exports and investment. Looking ahead, the growth momentum is expected to soften to around 2% in the course of 2008-09 as activity in trading partners dampens. As elsewhere in Europe, headline inflation in Austria went up due to sharp increases in energy and food prices, while core inflation has been contained.

The Executive Board of the IMF¹ considered that the main challenges facing the Austrian authorities are to stay competitive and ensure the government budget stays under control. Other areas to improve are healthcare, pensions, and fiscal federalism.

Some Economic Challenges Facing Austria

GDP per capita is high, but the gap vis-à-vis the best performing countries is widening because of a deteriorating relative productivity performance. The labor market is weak in certain areas, suffering from lower wages in other countries.²

High Access Prices and Ownership restrictions in Network Industries

In Austria, ownership restrictions on the production and distribution of electricity as well as in the telecommunications sector remain notably high. Paired with high network access prices this undermines the competitiveness of Austrian network industries and deters new entrants to these industries.

Unemployment of Older People and Austria's pension system

The Austrian pension system makes it very appealing for Austrians to retire early between the ages of 55 and 64, rather than at the statutory age of 65. Therefore, one of the challenges Austria has to face is reducing the financial disincentives to pursue work at older ages and reverse the trend of a decreasing average retirement age. As there will be a greater proportion of the population entering retirement and drawing state pensions, as compared with the number of working tax payers, the state pension system might not be sustainable for future generations. There still exists a significant difference in the pension schemes of the public sector and the private sector, which leads to a higher number of early retirements in the public sector. Incentives for early retirement, such as the "heavy workers" entry scheme, and higher unemployment benefits for older people should be revised. Austria has taken steps to negotiate the harmonization of the public sector pension schemes with the private sector pension scheme, as well as set up a study group to reform the disability pension law in 2008. At the same time, the government has reversed some measures of past pension reforms, making earlier retirement more generous.³

Improve graduation rates from tertiary education

¹ International Monetary Fund (IMF), <http://www.imf.org/external/np/sec/pn/2008/pn0872.htm> 06/13/2008

² "Economic Reform: Going for Growth." OECD. 2008

³ "Unemployment in Austria: low but..." ECFIN Country Focus. Vol. III, Issue III. 2006

The share of the labor force with tertiary education is low, and the quality of some vocational and tertiary education programs remains sub-standard. Such conditions hinder productivity growth and innovation, thus undermining Austria's competitiveness. Moreover, the low rates of tertiary education mean that a significant proportion of younger people are entering the labor market early and taking the jobs of the older generation. This in turn helps encourage older workers to take their pensions early, thus linking back to the problem of early retirement. To remedy this, it was recommended that performance-based funding in tertiary education be extended and strengthened. To foster higher enrollment rates for tertiary education the government intends to grant exemptions from existing tuition fees to those students undertaking voluntary social work, such as tutoring younger students.

Regulatory restrictions in the services sectors and marginal income tax

Restrictive regulations of trades and professions still remain notably high, restricting productivity growth and competition in the service sectors. The government undertook certain steps to remove barriers to competition in the liberal professions and to review the corresponding regulatory framework. In January 2008 legal shop opening hours were extended, with maximum opening hours raised to 72 hours per week. To strengthen work and entrepreneurship incentives, it was recommended that marginal income tax rates be lowered and the numerous existing tax allowances be reduced so as to broaden the tax base.