

Assessment and recommendations

Austria has enjoyed a remarkable performance in terms of low unemployment and steady convergence with top GDP per capita levels. This has been combined with low income inequality, high environmental standards and rising life expectancy. This was achieved with a unique combination of supportive conditions for a dynamic business sector, priority for family based care, a wide and deep supply of public services and a well functioning social partnership framework.

The challenge is to maintain these achievements and address tensions in a changing global environment. Particular attention will need to be paid to the following three areas: pressures arising from demographic developments; environmental sustainability; and changes in the global economy.

Public governance reforms are advancing. Notably, the transition to performance-based budgeting and systematic regulatory impact assessment will allow for a broader consideration of interactions between well-being dimensions. The social partnership approach has a potential to accelerate reforms but fiscal federal relations are opaque and a common platform for an evidence-based national policy dialogue across all dimensions of well-being and including all stakeholders is largely missing.

This *Economic Survey* will first describe the various dimensions of well-being using the rich data base of *Going Beyond GDP* and then address the policy challenges in the three areas of demographic developments, environmental sustainability and globalisation. All these areas involve trade-offs between different areas of well-being.

A moderate recovery is underway

The renewed weakness of the global economy and in particular the worsening of the euro area sovereign debt crisis in 2012 also affected Austria. GDP growth slowed over the course of 2012 and the economy contracted slightly in the last quarter. Export growth was weak and this spilled over to business confidence and business investment. Residential investment, however, supported growth in 2012, partly in response to rapidly increasing house prices in the recent past. Robust nominal wage growth and employment gains were partly offset by resurgent inflation (mainly from services), leading to only modest growth in real disposable income and private consumption.

After remaining subdued in the first half of 2013, GDP growth is set to gradually accelerate. Business and consumer confidence has improved from the lows of late 2012, but remains weak. Export-market growth is set to pick up and an increase in real incomes should

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support consumption. Public spending will remain subdued due to ongoing consolidation efforts. Export growth will underpin a moderate recovery and growth will reach 0.5% in 2013. With a gradually improving external environment, increasing confidence is expected to support also domestic demand and growth is set to accelerate to 1.7% in 2014. Employment growth will nevertheless remain weak for some time and the unemployment rate, the lowest in the European Union for more than three years, will continue to edge up in 2013 before stabilising and then edging down towards the end of 2014.

Table 1. **Short-term economic outlook**

	2009	2010	2011	2012	2013	2014
	Current prices € billion	Percentage changes, volume (2005 prices)				
GDP at market prices	275.5	2.2	2.7	0.8	0.5	1.7
Private consumption	151.0	1.6	0.9	0.4	0.1	0.8
Government consumption	54.5	0.0	-0.4	0.4	0.4	0.1
Gross fixed capital formation	57.5	0.7	6.3	1.8	0.6	2.8
Final domestic demand	263.0	1.1	1.8	0.7	0.3	1.1
Stockbuilding ¹	1.9	0.6	0.5	-0.3	-0.4	0.0
Total domestic demand	264.9	1.8	2.4	0.0	-0.2	1.1
Exports of goods and services	137.3	8.9	7.1	1.8	2.1	5.9
Imports of goods and services	126.7	8.0	7.0	1.2	1.5	5.1
Net exports ¹	10.6	0.7	0.4	0.4	0.4	0.7
Memorandum items						
GDP deflator		1.8	2.2	2.2	1.5	1.3
Harmonised index of consumer prices		1.7	3.6	2.6	2.0	1.5
Private consumption deflator		2.0	3.5	2.9	1.8	1.4
Unemployment rate ²		4.4	4.1	4.3	4.7	4.7
Household saving ratio, net ³		9.1	7.4	7.7	7.9	7.9
General government financial balance ⁴		-4.5	-2.4	-2.5	-2.3	-1.7
General government debt, Maastricht definition ⁴		71.9	72.4	73.5	75.3	75.5
Current account balance ⁴		3.4	1.4	1.8	2.4	2.9

1. Contributions to changes in real GDP, actual amount in the first column.

2. Based on Labour Force Survey data.

3. As a percentage of disposable income.

4. As a percentage of GDP.

Source: OECD Economic Outlook 93 Database.

The risks to the outlook are broadly balanced. On the positive side, a quicker restoration of confidence could lead to a stronger pick up in domestic investment and consumption in the near term. Downside risks relate mainly to a renewed deterioration of the sovereign debt crisis in the euro area and a weaker outlook in Central, Eastern and South-Eastern Europe (CESEE). Materialisation of these risks would harm export growth, confidence and could exacerbate financial sector tensions with potential negative spillovers to government finances. The resilience of the banking sector has improved since the global crisis but it remains considerably exposed to the CESEE region (see section below). A severe shock in one or several countries to which Austrian banks are substantially exposed may lead to a deterioration of domestic lending conditions. State support to the banking sector also remains substantial. The banking sector may require additional support, in order to deal with the legacy of bad assets, which should be debt financed in the short run so as not to endanger the fragile recovery. However, additional debt may push up currently low sovereign bond spreads. The debt burden could be reduced

by negotiating an appropriate sector contribution. Potential risks associated with the recent rapid house price increases should be assessed and monitored (see below).

Further efforts are necessary to strengthen the resilience of the banking sector

The banking sector is relatively large compared to the size of the economy and significantly exposed to CESEE countries, in contrast to more limited exposure to troubled peripheral euro area countries (Table 2). Concerns of generalised deleveraging of Austrian banks in the CESEE have not materialised. On the contrary, Austrian banks continued to increase their overall exposure to countries in the region, residents of which still hold large foreign currency (predominantly euro) loans. However, developments were not uniform and the exposure of Austrian banks to some CESEE countries with high political and economic risks decreased (Figure 1). These activities contribute to the profitability of Austrian banks, but they also imply higher risks as illustrated by the increase in loan loss provisions (Figure 1).

Table 2. **Foreign claims of Austrian banks**
Banks with headquarters in Austria, consolidated, December 2012

	EUR millions	% of GDP
Peripheral Europe ¹	15 950	5.1
New EU member states 2004/07 ²	150 670	48.6
Non-EU South-Eastern Europe ³	35 080	11.3
Commonwealth of Independent States ⁴	19 053	6.1
Top 5 countries		
Czech Republic	47 560	15.3
Romania	26 840	8.7
Slovak Republic	24 540	7.9
Croatia	23 200	7.5
Hungary	19 800	6.4

1. Italy, Spain, Ireland, Portugal, Greece.

2. Bulgaria, Estonia, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia, Czech Republic, Hungary.

3. Bosnia and Herzegovina, Croatia, Montenegro, Macedonia, Serbia, Turkey.

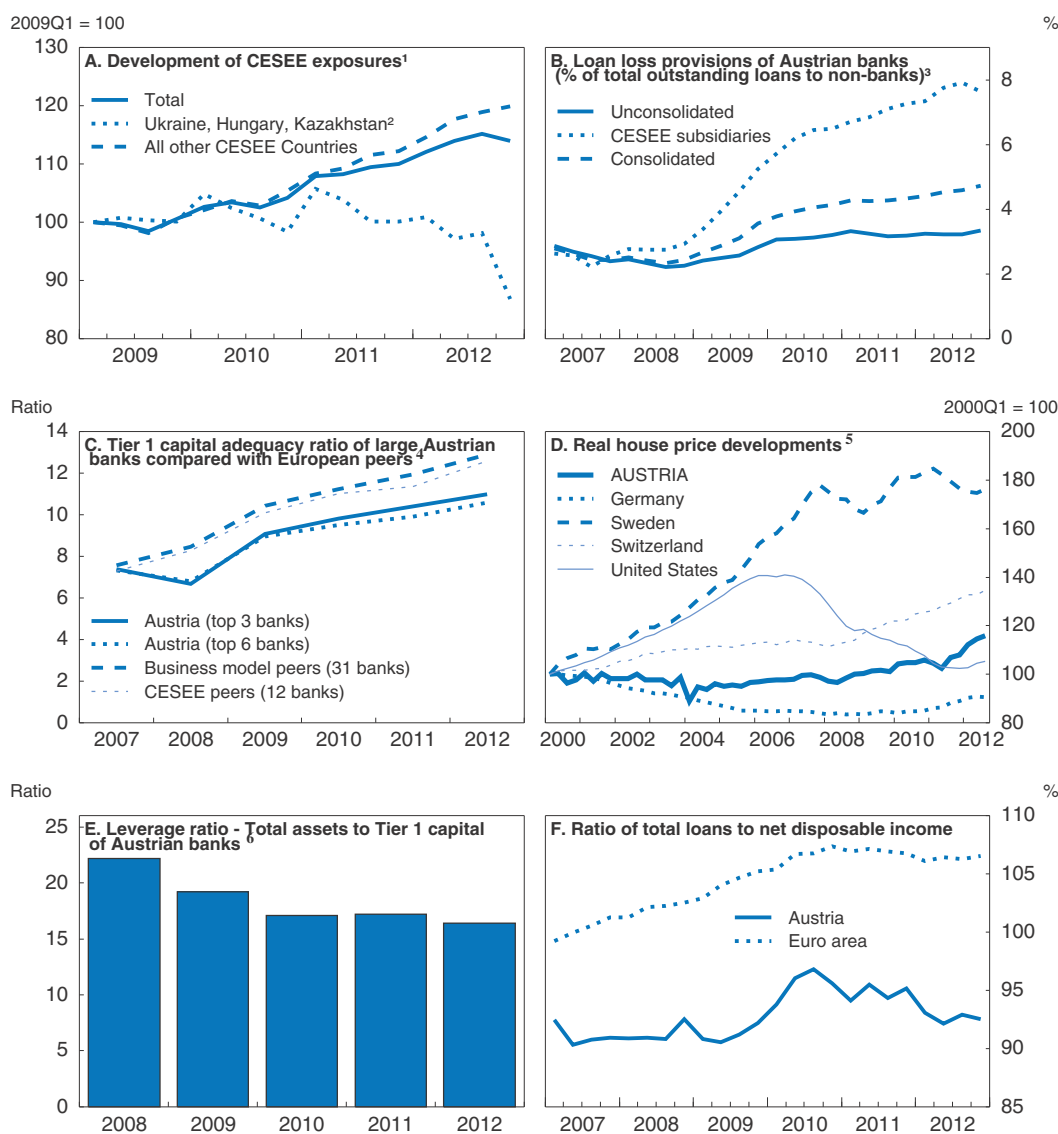
4. Azerbaijan, Kazakhstan, Russia (June 2012), Ukraine.

Source: BIS Banking Statistics. Consolidated claims of reporting banks – immediate borrower basis.

The authorities have introduced several measures to increase the resilience of large internationally active Austrian banks. For example, in March 2012, they introduced a regulatory guideline (currently concerning Erste Group Bank, Raiffeisen Zentralbank and UniCredit Bank Austria), which calls for the implementation of the Basel III capital standards already in 2013, and submission of groupwide recovery and resolution plans to promote quick restructuring in the event of a crisis. The guideline aims at avoiding boom-bust cycles in lending by requesting banks' CESEE subsidiaries to enhance stable funding from local sources, mainly deposits. At the same time, the initiative Vienna 2.0 was launched in February 2012. The new initiative focuses on fostering co-ordination between home and host financial market regulators in addition to the private sector co-ordination of its predecessor (Vienna Initiative), set up during the global crisis. By covering the whole CESEE region, it allows for co-operation with countries outside EU regulations and umbrellas.


In May 2013, the Austrian government approved a legislative proposal on bank intervention and restructuring. The law foresees early warning mechanisms, commits banks to write last wills in order to facilitate their restructuring, and strengthens the pre-

Figure 1. Risks to financial market stability remain



1. All banks with an Austrian banking licence (irrespective of ownership) including their respective CESEE subsidiary. Numbers are adjusted for exchange rate fluctuations and loan loss provisions. Exposure is measured as foreign claims including loans, debt securities, and equity.
2. The decline in Q4 2012 is amongst others due to the sale of a subsidiary.
3. Unconsolidated loan loss provisions cover primarily loans to domestic customers. Consolidated loan loss provisions are the sum of unconsolidated provisions and provisions of subsidiaries.
4. Tier 1 capital adequacy ratio is defined as eligible tier 1 capital (primarily core capital) over risk weighted assets at the end of the year. The CESEE peer groups consist of 12 banks with similar CESEE exposure and the business model peers of banks with a comparable business model as defined by the Austrian Central Bank.
5. Nominal house prices deflated by private consumption deflator. House price index for Austria is the population weighted index of Vienna and the rest of Austria.
6. End of the year data.

Source: OeNB (Austrian Central Bank); OECD Economic Outlook Database; OeNB (2012), *Financial Stability Report* 24.

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emptive powers of the financial supervisor. The proposal does not include a mechanism to wind up bankrupt banks. In this respect, Austria will likely adopt the future EU rules that are currently under discussion.

Loan growth to non-financial corporations has been subdued for several quarters. Nevertheless, credit growth has stayed consistently above the euro area rate. According to the euro area bank lending survey, Austrian banks tightened their credit standards for loans to non-financial corporations slightly for the fourth time in a row in the first quarter of 2013. At the same time, banks have also observed a decline in loan demand over the last seven quarters.

Foreign currency loans in the domestic market pose potential risks to Austrian financial stability. Since 2008, regulatory standards concerning new foreign currency loans have been tightened several times. However, the stock of foreign currency denominated loans (mainly Swiss Francs) is still considerable. As of September 2012, the share of foreign currency loans in total outstanding loans to households and non-financial corporations was 25% and 7% respectively. Moreover, outstanding foreign currency loans to households were in large part designed as repayment vehicle loans, i.e. the principal is paid back at maturity and capital for repayment is accumulated through investment in financial products. Potential price fluctuations of these financial products add further risks to this type of loans.

Two medium-sized banks have had to be fully nationalised since the onset of the global crisis, and one of the five largest banks was partly nationalised. In 2011/12 some of the participation capital (i.e. non-voting equity capital with preferential dividend payments) that was initially provided had to be written off and/or converted into common Tier 1 equity and additional capital injections became necessary to comply with regulatory requirements. Besides these measures, participation capital was also provided for the two largest banks, none of which has yet repaid these funds. As of September 2012, the total amount of capital injections and participation capital reached EUR 8 billion (2.6% of GDP). Dividends on participation capital are rising over time, providing strong incentives for repayment. In addition, the outstanding guarantees for debt and equity vehicles amount to more than EUR 12 billion (3.9% of GDP) (Schratzstaller, 2013). As of May 2013, the nationalised banks were in the process of being restructured – including dealing with bad assets- in order to comply with the EU competition law. The privatisation process has started and further restructuring plans have been submitted to the European Commission.

Overall, the Austrian banking sector strengthened its capital position. Austrian banks' leverage ratio (unweighted assets over Tier 1 capital) declined from 24 to 16 between 2008 and 2012 (Figure 1) and the leverage ratio of the three largest banks, at 16, is below European peers with a comparable business model at 22. The aggregate Tier 1 capital adequacy ratio reached 11% in the fourth quarter of 2012, 2.9 percentage points higher than at the end of 2007. However, large internationally active Austrian banks still have a lower Tier 1 capital adequacy ratio than their peers (Figure 1). In addition to the lending portfolio risks, the repayment of participation capital and upcoming tighter regulatory requirements warrant a better capitalisation of these banks.

Recently, Austrian property prices soared markedly. In the third quarter of 2012 real prices rose 8.4% (year on year) (Figure 1) and the rise was particularly pronounced in Vienna where they rose by 12.7%. The rise in property prices was however only to a limited degree credit financed. Loans for housing purposes rose 1.7% year on year in the first quarter of 2013. Total household debt remains with about 90% of net disposable income lower than the euro area average (Figure 1). While house price increases are still moderate compared to developments in some other countries before the crisis, the authorities should closely monitor these developments, assess their potential impacts on financial stability and stand ready to tighten macro-prudential tools such as loan-to-value ratios.

Fiscal policy is on an appropriate consolidation path

The general government headline budget deficit was 2.5% of GDP in 2012, slightly up from 2011 but below the target of the 2012 Stability Programme of 3% of GDP. Improvements of public finances of the *Länder* and municipalities were stronger than foreseen, whereas the federal deficit was slightly higher. The latter is mainly due to additional banking support measures, which overall amounted to 0.8% of GDP. Public debt increased slightly from 72.4% of GDP in 2011 to 73.5% of GDP in 2012 and public spending edged up from 50% to 51% of GDP (Table 3).

Table 3. **General government finances**

% of GDP	2008	2009	2010	2011	2012	2012	2013	2014	2015	2016	2017
	OECD data					National data from the 2013 Stability Programme					
General government balance	-1.0	-4.1	-4.5	-2.4	-2.5	-2.5	-2.3	-1.5	-0.6	0.0	0.2
Structural balance	-2.5	-3.6	-2.9	-1.9	-1.1	-1.4	-1.8	-1.3	-0.8	-0.5	-0.4
Primary government balance	1.1	-1.9	-2.3	-0.3	-0.3	0.1	0.3	1.1	1.9	2.4	2.7
Structural primary balance	-0.4	-1.4	-0.8	0.3	1.1						
Total disbursements	49.6	52.8	52.5	50.5	51.2	51.2	51.3	50.4	49.4	48.9	48.6
Total receipts	48.6	48.6	48.1	48.1	48.7	48.7	48.9	48.8	48.8	48.8	48.8
Gross public debt (Maastricht)	64.2	69.4	71.9	72.4	73.5	73.4	73.6	73.0	71.3	69.3	67.0

Source: OECD Economic Outlook Database and BMF (2013), Austrian Stability Programme.

To put debt on a declining path after 2013 and reach a balanced budget by 2016, the government adopted a second consolidation programme in early 2012. Over the period 2012-17, further improvements of the structural balance are planned, about two-thirds of it coming from spending restraint.

On the spending side, the consolidation programme envisages savings by bringing the actual retirement age closer to the statutory one, including by imposing stricter eligibility criteria on several subsidised early retirement paths, in particular disability pensions. To cut costs in the public administration, pay and hiring freezes, better management of federal real estate holdings and the merger of small district courts are planned. Savings on the lower government level are envisaged from better targeting subsidies and a health care reform (see below). Along with these saving measures, additional funds for universities, full day care schools, research and development and thermal insulation totalling EUR 6 billion over the period 2012-16 have been made available to stimulate growth. On the revenue side, the main measures include changes in the capital gains tax on real estate, closing tax loopholes in the VAT, a tax hike for high-income earners, and a tax repatriation agreement with Switzerland.

Overall, in structural terms the pace of this consolidation path appears to strike an appropriate balance between debt sustainability and growth considerations. It also brings public finances in line with the provisions of the debt brake. The debt brake specifies that, as of 2017, the general government structural deficit may not exceed 0.45% of GDP and that, starting from 2017, if accumulated structural deviations from the target exceed 1.25% of GDP on the federal level or 0.35% of GDP on the lower government level, a deficit reduction plan has to be initiated. The authorities should adhere to the structural consolidation path, refrain from election-related spending increases or tax cuts and implement all planned measures to preserve fiscal credibility. The automatic stabilisers can be allowed to operate freely.

The second stage of the implementation of comprehensive fiscal framework reforms began in 2013, including most importantly the introduction of performance budgeting (see below) and regularly updated long-term public spending projections. As described in the chapter on medium-term fiscal policy in the *2009 Economic Survey of Austria* the first stage of fiscal framework reforms, implemented in 2009, consisted inter alia of legally binding medium-term expenditure ceilings covering about 75% of central government outlays and created saving incentives for line ministries by allowing the carry-over of unspent funds from one year to the next.

Fiscal risks and long-term spending pressures remain

The additional revenues from some consolidation measures are highly uncertain. For instance, extra revenues from the tax repatriation agreement with Switzerland, budgeted at EUR 1 billion in 2013, depend on individual uptake which is hard to predict. In addition, the budget assumes revenues of EUR 500 million a year from 2014 from the proposed European financial transaction tax, although the tax is not yet in place. On the spending side, some uncertainty exists around the implemented and planned measures to increase the actual retirement age and to better target subsidies and measures on the lower government level are not sufficiently specified. Furthermore, additional support measures for the banking sector might be necessary and pose a risk for fiscal outcomes. Fiscal risks also stem from general government public guarantees (for banking support, state enterprises and export credits) and off-budget debt (mainly in state-owned enterprises), which have reached EUR 194 billion (63% of GDP) and EUR 33 billion (11% of GDP), respectively (Schratzestaller, 2013)

In the long-term, fiscal pressures will arise from population ageing, mainly affecting pension and health spending. Baseline OECD projections (not yet including the changes in pension parameters introduced in 2012) suggest that the share of public pension spending in GDP, currently 12% of GDP, will rise to around 14% after 2030. The most recent official projections of the Austrian government confirm an expected increase of 2 percentage points between 2011 and 2030 (BMF, 2013). Policymakers have some leverage on pension spending, for example by increasing pensions less than inflation, as will be done in 2013 and 2014, and by refining contribution and benefit parameters. The parameters subject to the largest uncertainty, however, are the employment rates of older workers and the distribution between full-time and part-time work, neither of which are under direct policy control. Government projections assume favourable developments in both areas, i.e. a higher average effective retirement age and an increased labour force participation of the 55-64 years old.

Government projections foresee an increase in public health spending from 7.0% of GDP in 2011 to 8.0% in 2030 and 8.8% in 2050 (BMF, 2013). Projections assume that additional years of life expectancy will be spent in good health, and non-demographic factors (relative prices of medical goods and services and technological innovation) will not inflate spending from 2020 onwards. Austria's policymakers have tools at their disposal to cap health spending in the short-term but experience shows that spending targets are subject to upward pressures in the long-term. Users have relatively unconstrained access to health services and goods, and spending is driven by demographic, health technology and medical price trends which have proved difficult to control, as outlined in the chapter on the health-care system of the *2011 Economic Survey* (OECD, 2011). Taking into account these uncertainties, the Ministry of Finance has produced a cost containment scenario (with expenditures rising to 7.3% of GDP in 2030 but then declining to 6.9% in 2050) and a high

spending scenario (expenditures are to reach 9.6% of GDP in 2030 and 12.6% in 2050). Response measures should be prepared in case total public spending trends diverge from the official baseline.

Box 1. Main policy recommendations on fiscal policy and financial markets

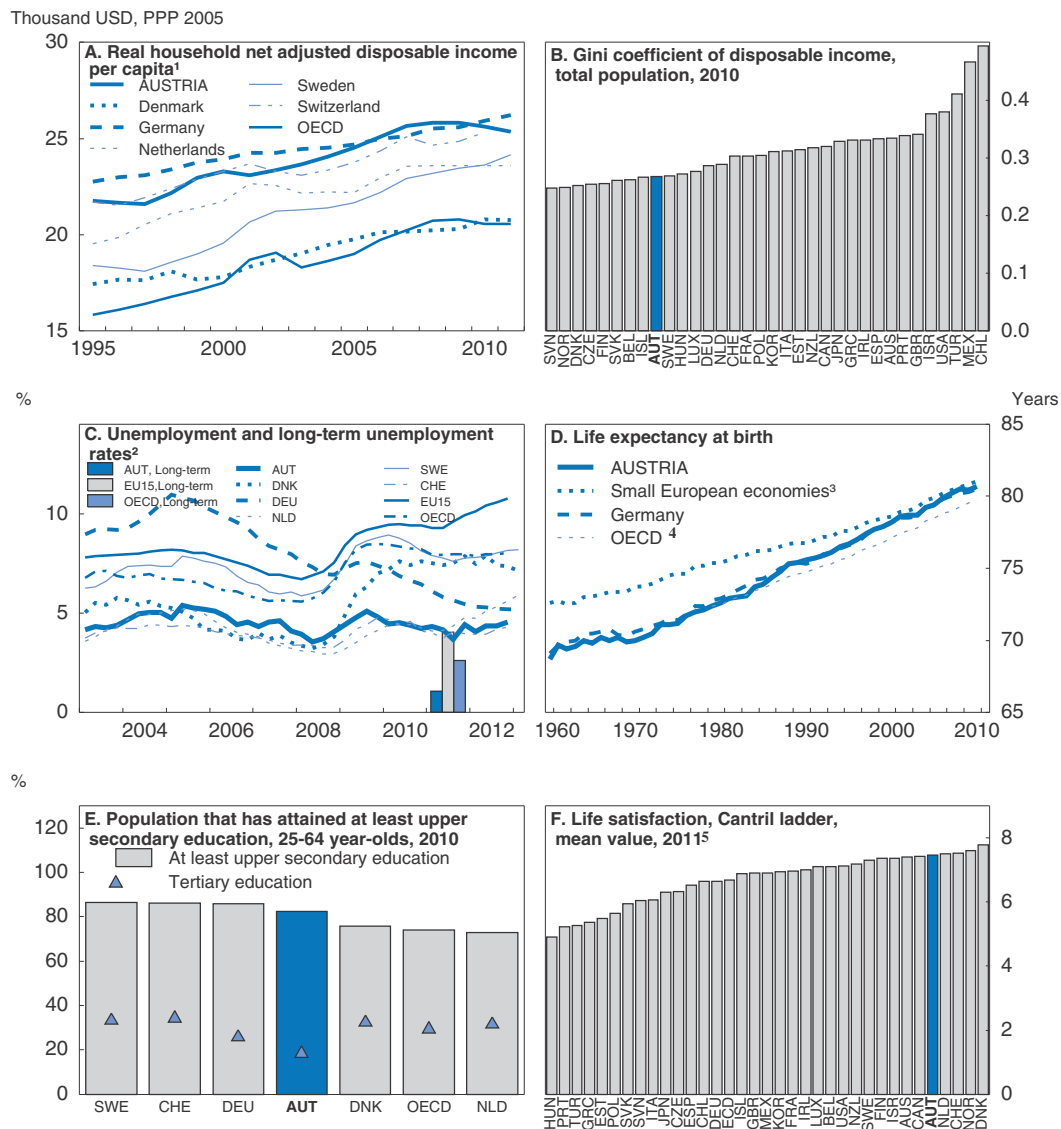
- Let automatic stabilisers operate freely around the announced structural consolidation path towards a balanced budget.
- Internationally active banks should be required to present clear strategies to strengthen their capital base taking into account the need to repay government capital. The restructuring of the nationalised banks should be pursued.
- Prepare response measures to be implemented if total public spending trends diverge from the official baseline.

Austria's well-being model draws on specific economic and social features

Overall, Austria has achieved a remarkable level of well-being. Strong gains in material living standards have been accompanied by social cohesion and gains in leisure time, especially time spent in retirement. Particularly remarkable for a small open economy has been the degree of stability, which may have contributed to Austria's high quality of life. Strong public and family services have played a role as well. Following the OECD's *How's Life* (OECD, 2011d) framework, well-being outcomes along the proposed 11 dimensions can be summarised as follows (Figures 2 and 3; for details see Chapter 1):


- *Income*: GDP per capita growth over the past decades translated into decisive improvements in household disposable incomes, while significant redistribution has ensured low inequality and poverty.
- *Jobs*: The unemployment rate is low and satisfaction with working conditions is generally high, which may reflect high average earnings combined with high job stability. Still, the labour market has weaknesses. Older, unskilled workers, in particular those with migrant background, have lower labour market attachments, as detailed in past *OECD Economic Surveys* (OECD, 2011, 2009). The intensity of female labour force participation appears to be hampered by difficulties to reconcile work and family obligations and the gender pay gap is relatively high and persistent in Austria.
- *Housing*: Gains in living standards also manifest themselves in good housing conditions overall and housing remains broadly affordable thanks in particular to a large and generously subsidised social and co-operative housing sector.
- *Health*: Health outcomes have improved considerably, but fall somewhat short of what can be expected given the scale of public resources devoted to the sector, as analysed in the chapter on health in the 2011 *OECD Economic Survey* (OECD, 2011). Health outcomes vary widely with socio-economic background because of different life-style choices and prevention practices.
- *Education*: Austria's educational system and in particular its vocational training system, has been one of the backbones of strong productivity growth and low youth unemployment. However, university graduation rates fall behind international benchmarks and weaknesses exist in the ability of the education system to provide equal opportunities for all youth, as analysed in the chapter on education in the

Figure 2. Well-being outcomes are remarkable



1. Households include non-profit institutions serving households. Actual individual consumption of households is used as deflator.
2. Long-term unemployment rate refers to unemployment of one year and over.
3. Arithmetic average of other small European high income economies: Denmark, the Netherlands, Sweden and Switzerland.
4. Arithmetic average over OECD countries.
5. The Cantril ladder is measured on a scale from 0 to 10. Data refer to 2008 for Iceland and Norway; 2009 for Switzerland; and 2010 for Chile, Israel and Brazil.

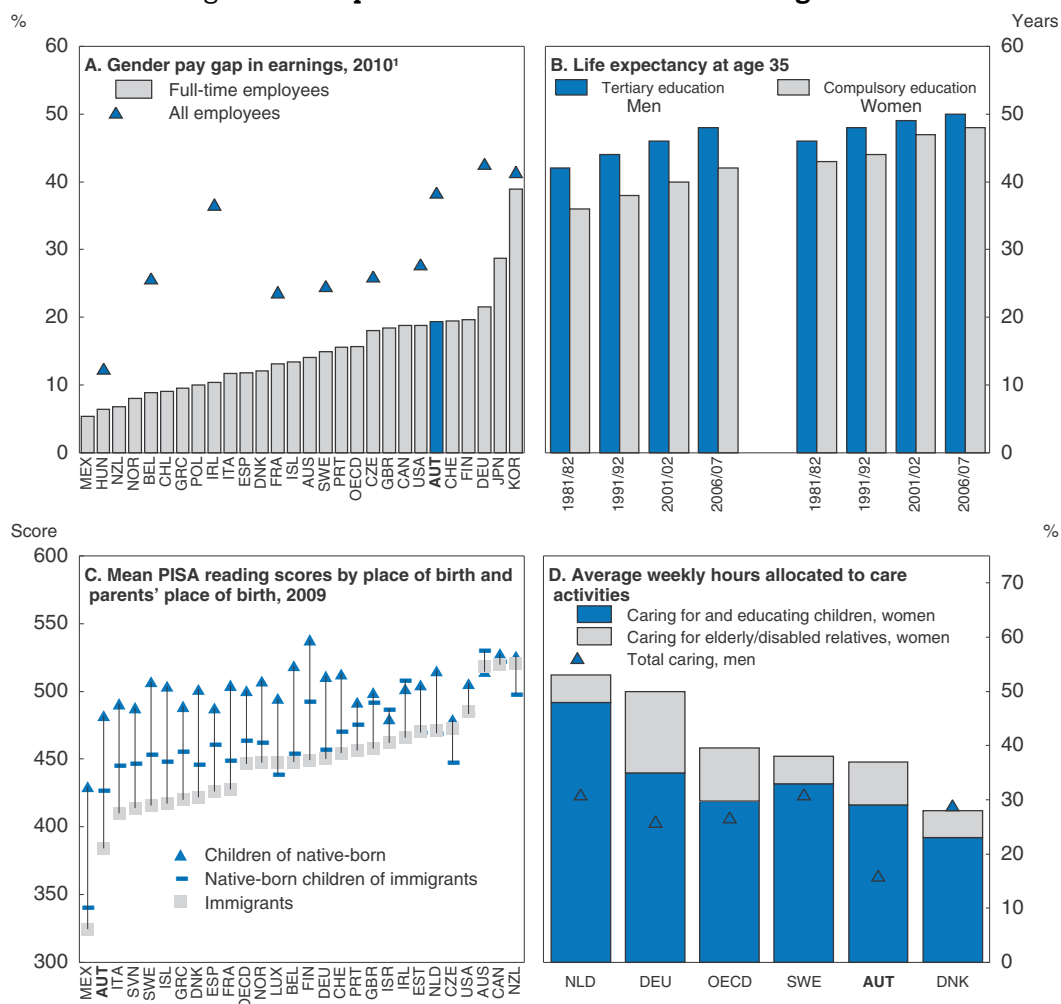
Source: OECD National Accounts Database; OECD Income Distribution and Poverty Database; OECD Economic Outlook Database; OECD Labour Force Statistics Database; OECD Health Statistics Database and OECD calculations; OECD (2012), *Education at a Glance*; OECD (2012), *Closing the Gender Gap: Act Now*; Gallup World Poll.

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2009 OECD Economic Survey. Test outcomes vary significantly with socio-economic background, with students from some migrant backgrounds faring particularly poorly.


- **Work-Life Balance:** Working hours per day are longer than in other Western European countries, but periods out of work are also longer. Traditional gender roles have been more persistent than in other countries.

Figure 3. Inequalities exist in several well-being areas



Note: The wage gap is defined as the difference between male and female median wages divided by male median wages. Earnings used in the calculation refer to gross earnings of wage and salary earners excluding self-employed women and unpaid family workers. Data refer to 2009 (instead of 2010) for Austria, the Czech Republic, Denmark, Finland, Germany, Ireland, Israel, Korea, Sweden and Switzerland; to 2008 for Belgium, France, Greece, Iceland, Italy, Poland, Portugal and Spain. The values for the OECD are calculated as an unweighted average excluding Mexico and Chile.

Source: OECD (2012), *Closing the Gender Gap: Act Now*; Statistics Austria; OECD, *Settling In: OECD Indicators of Immigrant Integration 2012*; OECD (2011), *How's Life? Measuring well-being*.

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- **Social connections:** Social capital seems to be formed more locally in Austria, with well functioning social support networks among friends and family. In contrast, general trust in others in the society is not particularly high.
- **Civic engagement and governance:** Civic engagement and the degree of trust in public institutions appears to be similar to other OECD countries.
- **Personal Security:** Personal security/safety is high, as Austria has low levels of crime.
- **Environment:** Austria possesses rich natural assets and water and air quality is good. However, the negative effects of urban sprawl are becoming a concern and local concentrations of some air pollutants may be threatening health outcomes.
- **Subjective well-being:** Subjective well-being is high regardless of whether one considers life satisfaction, “affect balance” (the share of respondents who report having

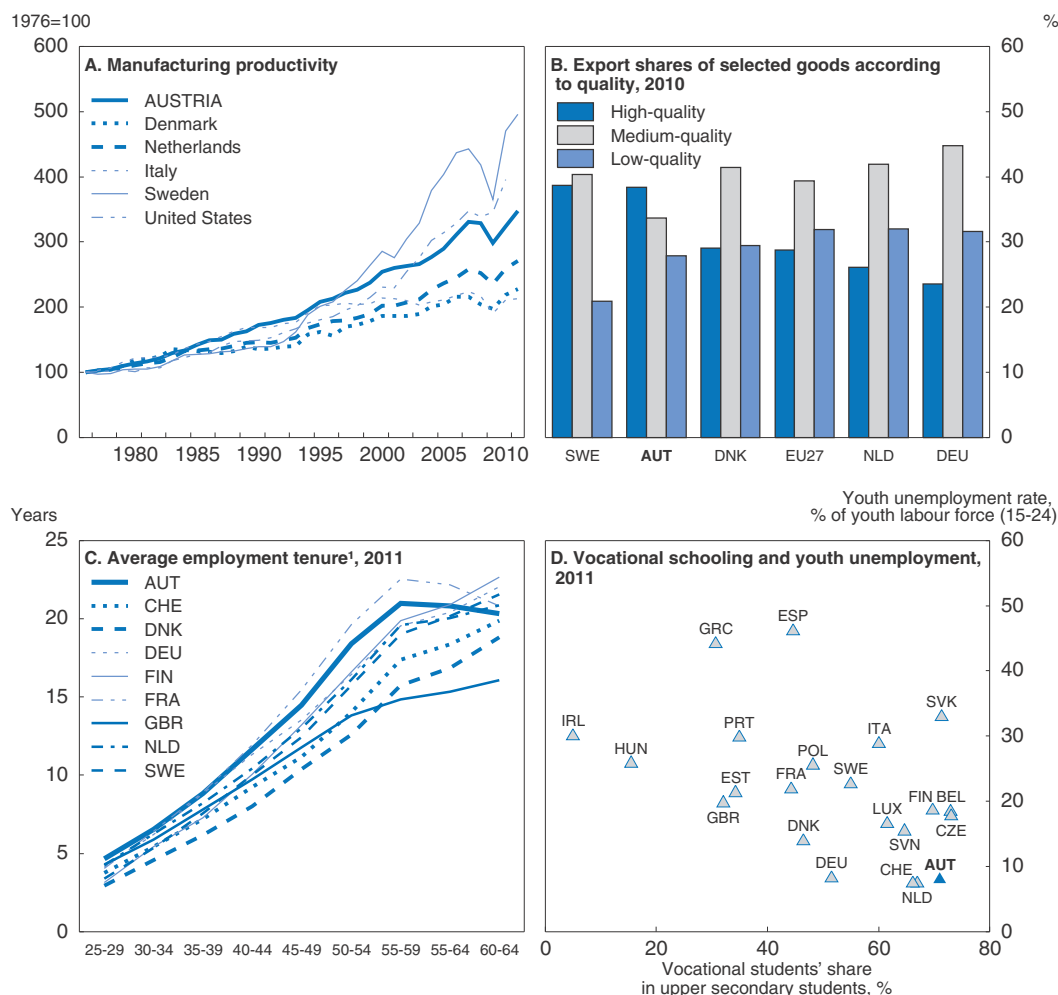
experienced more positive than negative emotions on the previous day) or “flourishing” (the set of potential and actual achievements that are available to an individual).

Outcomes along different dimensions of well-being are correlated and certain groups in the population tend to cumulate multiple disadvantages at the same time. Single parents and people with migrant background do not seem to have participated to the same degree as others in well-being gains. The gaps experienced by immigrants are in several dimensions larger than in the average OECD country.

Three economic and social features appear to have played a mutually reinforcing role in Austrian well-being (Chapter 1):


1. *Reconciling strong productivity growth with stable employment structures.* Strong productivity growth within established enterprise structures, good long-term labour relations, and stable geographical settlement patterns have been important (Figure 4). Domestically

Figure 4. **Productivity growth based on stable and vocational intensive employment**



1. Job tenure is measured by the length of time workers have been in their current or main job or with their current employer.

Source: OECD STAN Database; WIFO (2012), *Bildung 2025: Die Rolle von Bildung in der österreichischen Wirtschaft*; OECD, *Labour Force Statistics Database*; OECD, *Education at a Glance 2012*; OECD, *Employment and Labour Market Statistics Database*.

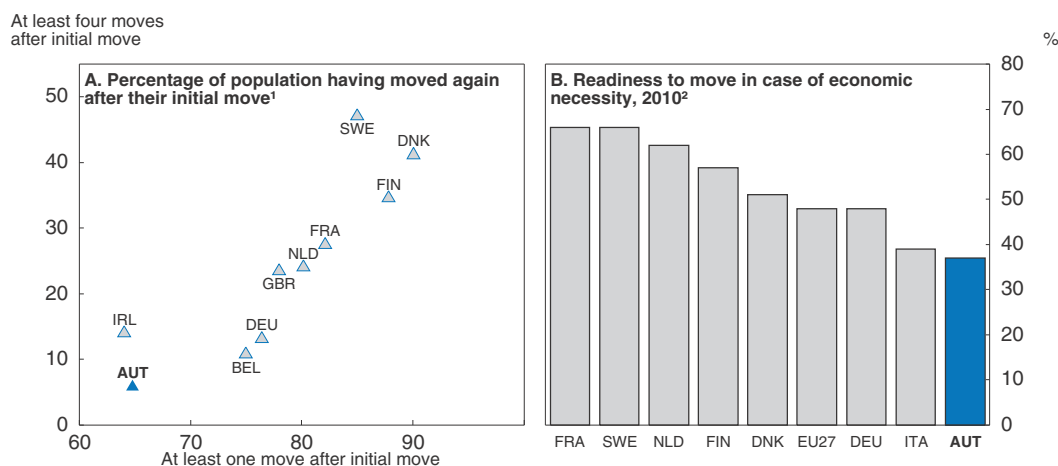
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owned, trade-exposed manufacturing is largely based on medium-size and family owned firms, which achieve high productivity, generate high income and provide long-tenure jobs. Social partnership arrangements among employers, workers and farmers have helped keep real wage growth in line with productivity and have actively promoted human capital accumulation and technological change. Long-tenure jobs do not conflict with occupational flexibility within enterprises.

2. *Families providing intensive services to members, backed by local social capital.* The role of families, especially of women, in the care of young children and dependant elderly is particularly high in Austria, and families also play an important role in education. Public policies facilitate this pattern by offering family benefits in cash forms. The stability of living places supports these traditional family roles (Figure 5). The flip side is an increasing tension between work and family responsibilities for women, in particular if they wish to follow full-time employment careers. Furthermore, families with migrant background and low human capital find it difficult to provide similar education services for their children.
3. *Public governance based on federalism and social partnership.* The public sector is complex and costly, but delivers high quality services appreciated by the population (Figure 6). Large social expenditures help reduce income inequalities. Public governance draws on the unique social partnership system.

These features – however successful in the past – are, nevertheless, exposed to intensifying tensions today and their sustainability cannot be taken for granted. Sustainability challenges arise from demographic developments, environmental trends, and globalisation.

Figure 5. **Living patterns remain very stable**



Note: Internationally comparable mobility data is usually presented in terms of number of moves after initial move out of the parents' house.

1. With at least one of the four moves to another city. The initial move out of parents' house is not counted.
2. Percentage of responses to the question, "If you were unemployed and had difficulties finding a job here, would you be ready to move to another region or country to find one?"

Source: EC, Eurobarometer 64.1, "Mobility, Food Risk, Smoking, AIDS Prevention, and Medical Errors", September-October 2005; EC, Special Eurobarometer 337, *Geographical and labour market mobility*, June 2010.


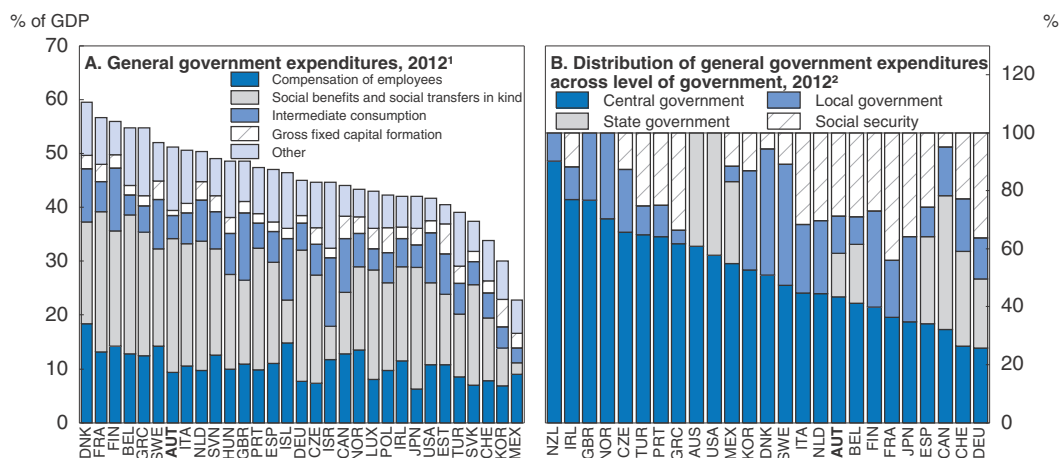

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Figure 6. Public expenditures are large and have a complex structure



- 2010 for Canada, Korea and Turkey; 2011 for Israel, Japan, Mexico, Switzerland and the United States.
- 2010 for Canada, Korea, New Zealand and Turkey; 2011 for Australia, Japan, Switzerland, Mexico and the United States.

Source: OECD, National Accounts at a Glance Database; OECD, National Accounts Database.

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Demographic changes: Achieving sustainable work-life balances for all

Demographic changes raise challenges for Austrian well-being in three main areas: i) the ageing of the population challenges the sustainability of the retirement and pension system; ii) rising female labour force participation strengthens the demand for policies to be implemented to support the reconciliation of work and care responsibilities; and iii) the large weight of immigrant groups with low human capital calls for adjustments in the channels of human capital formation and transmission of social capital.

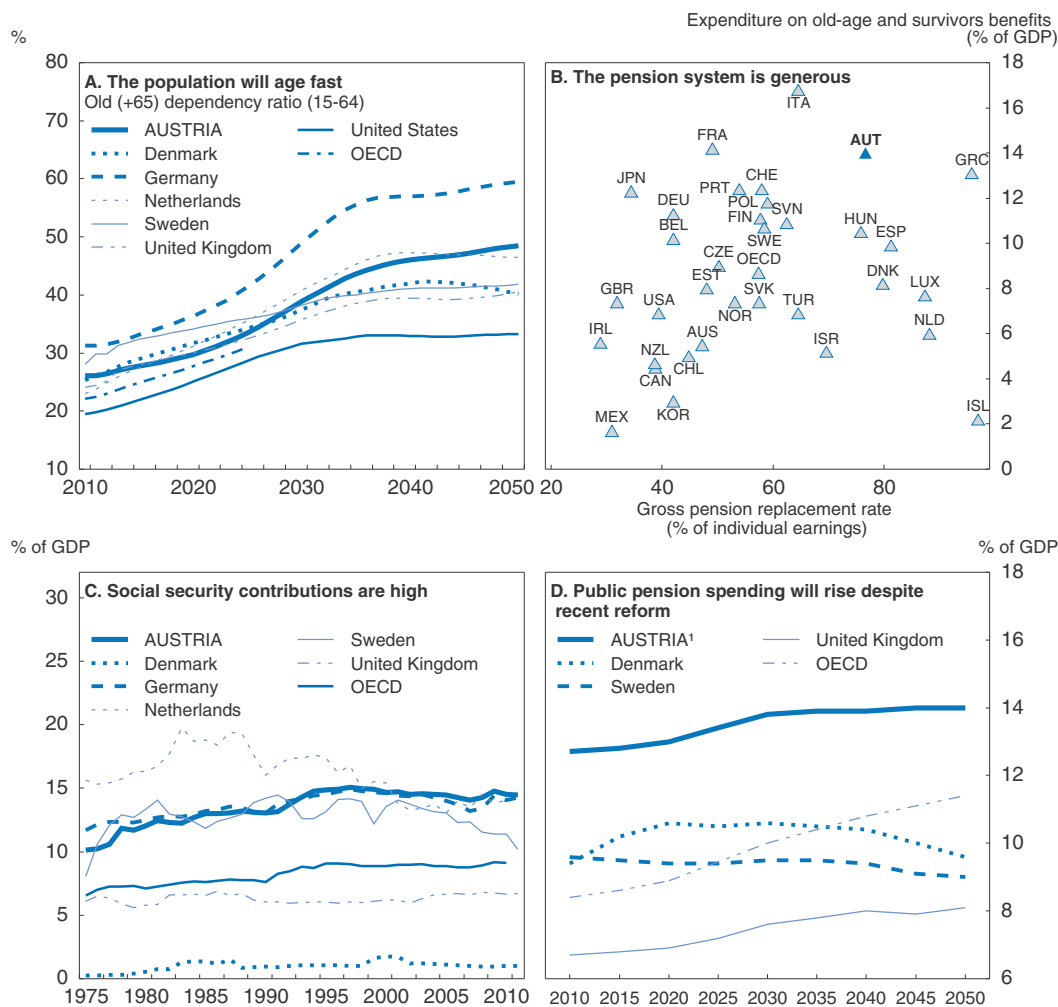
Labour force participation and retirement in an ageing society: Reconciling sustainability and choice

Long and healthy retirement periods funded by public pensions have been a major ingredient of Austrian well-being to date, for those retiring voluntarily. These benefits are becoming increasingly more costly to sustain with the ageing of the population, as the retirement benefits enjoyed by cohorts retiring up till the 2000s have been highly favourable relative to their life-time contributions. These tensions became more transparent in the 2000s and triggered a series of pension and health care reforms.

Sustainability calculations assume 20 years or more in retirement, under full public health insurance. In a society where the proportion of people above 65 currently represents 25% of people aged between 15-64 and will soar to 50% by 2050, the pension system is therefore both a core source of individual well-being and a major source of fiscal costs. Projections before adjustments in pension parameters in 2012 suggest that the share of public pension spending in GDP, which is already above 12%, is projected to reach 14% of GDP by 2030 and stabilise at about that level until 2050-60, one of the highest spending shares in the OECD (Figure 7).

A fundamental redesign of the pension system in 2005 unified the previously fragmented retirement schemes and re-set contribution and benefit parameters, with higher minimum retirement ages (formally for women and *de facto* for men) and longer

Figure 7. **There are strong demographic pressures on the pension system**



1. Pension spending projections for Austria do not take into account the adjustments in pension parameters introduced in 2012.

Source: OECD, Historical population data and projections (1950-2050) Database; OECD Pensions Outlook 2012; OECD Social Expenditure (SOCX) Database; OECD, Revenues Statistics Database ; OECD, Pensions At A Glance 2011: Retirement-income systems in OECD and G20 countries.

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contribution periods. The public pension scheme will remain the principal revenue source for future retirees, with high contribution rates when in activity (23% of gross wages) and high replacement rates in retirement (80% of average earnings in the best 40 years of activity, covering practically the entire working life). The reform is being phased in gradually from 2005 on for the cohorts born in 1987 and younger, while the pre-reform entitlements of the cohorts born between 1955 and 1986 will be credited to the new pension accounts (see below) by 2014.

According to recent OECD analysis in *Pensions at a Glance* (OECD, 2011), the Austrian pension reform is broadly in line with international standards, does not unduly penalise working at old age, and – notwithstanding remaining loopholes to early retirement – does not excessively encourage early retirement. Further parametric adjustments are however

desirable, such as a more rapid increase of the statutory retirement age for women (OECD, 2004a). Furthermore, raising the penalty for early retirement from the present 5.1% loss in benefits for each year of early retirement to above 6% is advisable (OECD, 2011). The OECD has welcomed the creation of individual pension accounts, which will allow benefits to be managed in line with contributions (OECD, 2005; OECD, 2011b). A Pension Commission with representatives from political parties, social partners, pensioner associations and experts was established to make proposals, every three years, for adjustments in contribution and benefit parameters in order to secure the long-term sustainability of the system. Its next report is due for autumn 2013.

While the pensions policy framework is today on a sound foundation, it continues to display certain important uncertainties and shortcomings. Additional action is required in the following areas:

- *Enhancing the transparency of the redistributive and contribution-related elements.* The still complex system, including the modalities of phasing-in of reforms, results in potentially high cross-subsidisation across cohorts, professional groups, income categories, married and single contributors, and survivors. To improve the evidence base for future pension measures, “redistributive” and “deferred saving” elements should be calculated. The Pension Commission should be mandated with this task.
- *Closing undue loopholes to early retirement.* In 2010, only 28% of new pensioners took the regular route to old-age pension, whereas 31% were granted a disability pension, and 41% benefitted from other early retirement schemes. Measures were taken to improve the labour force participation of older workers at the time of the pension reform, including amendments in the disability, heavy work and part-time work rules. The share of employed older workers increased as a result, but remains comparatively low. These new policies should be fully implemented and the development of the effective retirement age should be closely monitored so as to take appropriate measures if the gap between the effective and the statutory retirement age persists.
- *Improving employment opportunities for older workers.* The labour force participation rate of older workers remains low, in part because of dissatisfaction with working conditions (Chamber of Labour, 2009). Involuntary withdrawals from the labour force hamper individual well-being and thwart economic and fiscal performance. Measures taken to improve job prospects during the last decade at different government layers (Federal government, *Länder* governments, Social Security Institutions) should be developed as a package (OECD, 2004a and OECD, 2012f). High seniority-based wage increases in collective agreements also remain an obstacle to the employment of older workers in those cases where their costs exceed their productivity.
- *Strengthening the mandate of the Pension Commission to better take into account rising life expectancy.* Contribution and benefit parameters are supposed to be adjusted to reflect changes in life expectancy, but this adjustment has not been systematically implemented to date. The sustainability mechanism should be reformed on the basis of a clearly defined set of indicators and fully take into account changes in life expectancy.

The health care system will also come under pressure from ageing. The chapter on Austria’s health system in the 2011 *Economic Survey* provided a thorough review, pointing to its high appreciation by the population, but also its excessively high cost. It recommended aligning the fragmented financing, spending and provision responsibilities between the federal government, *Länder* and health insurance institutions. Integration of preventive,

curative and post-hospitalisation services is necessary for cost savings and quality gains. Co-ordination with “non health service” areas, such as life-styles and diets is also crucial. These co-ordination needs are relevant in an ageing society, notably in areas of mental health and increasing forms of dependence (for example Alzheimer disease). The policy framework should stimulate more innovative, less segmented and lower cost health services.

Box 2. Main policy recommendations on ageing and retirement policy

- Identify and reduce all remaining obstacles to the employment of older workers and close the remaining loopholes into early retirement.
- The Pension Commission should be mandated to better reflect changes in life expectancy in the sustainability mechanisms of the pension system. It should also calculate “deferred saving” and “redistributive” elements between cohorts in order to improve the evidence basis for future measures.
- Pension transfers serving social goals should be funded from transparent sources, minimising opaque cross-subsidies within the system. The future fiscal cost of the pension system should be assessed and controlled in the light of this analysis.

Female labour force participation and family policies: balancing family and work obligations

The balance between work and family responsibilities will continue to shape material sources of well-being, equality of opportunity for both genders, and family life patterns. The evolution of fertility will also depend on the way work and family responsibilities are reconciled.

Austria has a relatively high female labour force participation rate at 67%, against the OECD average of 57%, but this is below countries such as Sweden, Switzerland, Denmark and the Netherlands. In couple families, the standard employment pattern is one full-time and one part-time worker, as the majority of women combine family responsibilities with part-time work. This pattern faces sustainability challenges, however, for two reasons: i) strains between work and family responsibilities remain high, even for women working part-time (Eurobarometer, 2012); and ii) as women become better educated, their desire to work full-time increases, as does the opportunity cost of not doing so. Families need to find new ways of reconciling work and care responsibilities, including by rearranging gender roles. New policy initiatives, including a National Action Plan for Gender Equality in the Labour Market introduced in 2010, and a Charter for a Better Reconciliation of Family and Work adopted in 2012 aim at addressing these challenges (Chapter 2).

Labour force participation and choice between full-time and part-time work – for both genders- is subject to trade-offs between different dimensions of well being (material sources of well-being on one hand, and family time and leisure on the other hand). Low female labour force participation has costs in terms of lower family income, foregone GDP growth and gender equality. On the other hand, if reflecting a fully deliberate choice on how to balance work and family obligations, both men and women spending more time with the family could also have well-being advantages.

Growth projections range between 1.5% and 2.1% per annum until 2030, according to alternative paths of female labour force participation (Table 4).

Table 4. Growth under different scenarios of labour force participation (2011-30)

	Projected average annual growth rate in GDP per capita (USD 2005 PPP, percentage, 2011-30)		
	No change in present labour force participation rates (LFPR)	Male and female LFPR gap reduced by 50%, by 2030	Male and female LFPR gap reduced by 100%, by 2030
Austria	1.5	1.8	2.1
Denmark	1.2	1.4	1.5
Finland	1.9	2.0	2.2
Germany	1.6	1.8	2.1
Netherlands	1.6	1.9	2.1
Sweden	1.9	2.1	2.2
Switzerland	1.9	2.2	2.4
United Kingdom	1.4	1.7	1.9
United States	1.7	1.9	2.2
OECD	1.8	2.1	2.4

Source: OECD (2012), *Closing the Gender Gap*.

Austria provides significant support to families with child and elderly care responsibilities. Family benefits accounted for about 3% of GDP in 2009, compared to the OECD average of 2.6% (OECD, 2013). The share dedicated to young children and institutional care remains lower than in comparable countries, while benefits last longer. Support to old-age dependent care is also one of the most generous in the OECD, with 1.5% of GDP, and is expected to claim more fiscal resources in the future (Eurocentre, 2013). The organisation of these policies is complex: cash transfers (via a variety of means-tested and non means-tested schemes) are granted by the federal government, subsidised in-kind care facilities for old-age dependants mostly by the Länder, and child care facilities mostly by municipalities.

From the perspective of maximising well-being, public policies should help family members combine work and family responsibilities according to their preferences. The availability of high quality external care for children and the elderly is crucial in this regard. Despite efforts at Federal, Länder and municipal levels, these services are currently not available at the required degree of accessibility and affordability (OECD, 2012b). Enterprises are also expected to contribute to better work-family balances in the future. The success of the voluntary “Work and Family Audits”, which help companies develop a family friendly corporate culture, is evidence of the commitment of firms. Such audits are being extended to small-and-medium sized enterprises and to hospitals and nursing homes, which employ large proportions of female workers.

Subsidies to kindergarten help keep their fees low, but constraints on opening hours and accessibility in holiday periods are difficult to reconcile with full-time employment for both parents. The entry of new providers, additional capacity from existing providers and service innovations in this sector would facilitate families’ work-life balances. Further attention is necessary to make sure that entry barriers for providers are not higher than necessary to maintain high quality standards.

Family support is generally provided in forms permitting families to organise care needs according to their preferences – even if complex interactions between income-

contingent child benefits and direct subsidies to care providers make it difficult to pin down the actual degree of neutrality (see Chapter 2 for a detailed discussion). In all instances, the neutrality of the policy framework has not proven sufficient to date to improve gender balances in care responsibilities within families (OECD, 2013c). New policy initiatives have been introduced to support the re-balancing of care responsibilities within families and foster the engagement of male family members (Chapter 2).

Free choices between internal and external care may be altered by public policies for good reasons. For example, there is a legitimate case in favour of external care for children above 2 years old, given the benefits for their development from socialisation – notably for the children of disadvantaged families (OECD, 2011c). As a result of recent policy emphasis, the enrolment rate of children above 2 in institutional care has now reached international standards (see Annex A1 for details). In contrast, the case for institutional care for children under two years is more open to discussion and should continue to be evaluated (OECD, 2011c; OECD, 2004b; US Committee on Integrating the Science of Early Childhood Development, 2000). Austria has different policies for children below and those above 2. Parental leave entitlements and child subsidies are capped when children are aged 2-2½, and subsidised external care is made more broadly available above that age. External care for children below 2 is available mainly on a part-time basis and supply falls short of demand. Parents who opt for shorter periods of parental leave often lack adequate care facilities.

A comprehensive analysis of current instruments to balance work and family responsibilities would help with a systematic assessment of their fiscal costs to the government and well-being outcomes for families, children and dependant elderly. Improving transparency would contribute to the long-term fiscal management of family policies, and help direct spending toward families most in need via the most well-being enhancing instruments.

Box 3 outlines recommendations in this area, drawing on the comprehensive recent OECD project “Closing the Gender Gap” and the last *OECD Economic Survey of Austria* (OECD, 2012a; OECD, 2012b; OECD, 2011).

Box 3. Main policy recommendations for improving families’ work-life balances

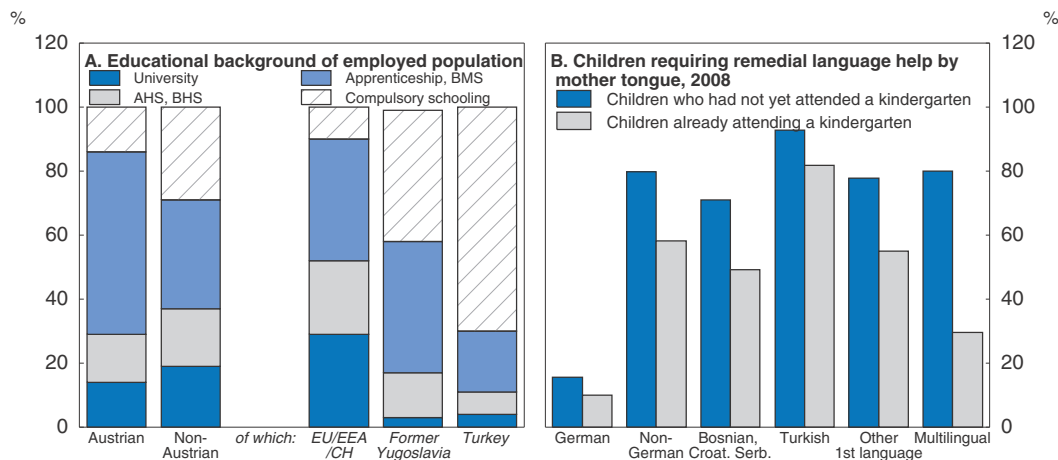
- To make parents’ choice between in-house and external care feasible, make high quality external care available for children at all ages, including in rural areas. Improve the compatibility of child care services with parents’ work hours and conditions.
- For very young children, combine existing cash benefits with affordable and accessible external child care. For older children at pre-school age, continue to give policy preference to high quality institutional care.
- Keep the regulatory framework open for new providers and capacity growth in child care and elderly care, under proper quality and security regulations. Subsidies to these services should be granted on a level-playing field between public, non-profit and commercial providers to stimulate competition and innovation.
- Analyse the full range of policies to help balance work and family responsibilities. Evaluate outcomes against fiscal costs. Focus policies on the most effective instruments.

Improving the quality of education for people with migrant background and low human capital


People with a migrant background now represent 19% of the population and the share is steadily growing. Nearly one third of them were born in Austria as the children of immigrants (second generation). The largest group of first generation immigrants is from Germany (23%), followed by people from former Yugoslavia (22%) and Turkey (19%), with the latter having a higher share among second generation migrants. The proportion of the population with a migrant background is projected to increase in the coming decades assuming constant immigration and birth rates.

Immigration contributes importantly to Austrian well-being by supporting labour force growth and adding to the skill supply (OECD, 2011b). A recent in-depth OECD analysis of the labour market integration of immigrants concluded that there has been significant progress in Austria's integration framework over the past few years, but policies still lag behind those of other OECD countries (OECD, 2012). The recent creation of a Secretariat of State in charge of integration issues has been an important step forward. This section addresses only the education challenges of children of families with migrant background and low human capital. Given the important role of the family-based education and human capital building (including good health care practices – see the 2011 OECD Economic Survey) in Austria, the starting gaps of such families perpetuate across generations and undermine the integration of their young members in the Austrian well-being model (Figure 8).

Figure 8. **Migrants' human capital gaps remain significant**



Source: Statistics Austria, Migration and Integration 2012.

StatLink  <http://dx.doi.org/10.1787/888932856209>

A recent survey by Statistik Austria (Statistik Austria, 2012) finds that some children who do not use German at home begin their education in a special school (*Sonderschule*, intended for children with disabilities), rather than in a standard elementary school. Nearly 30% of all pupils in special schools came from non-German speaking families in 2011. Furthermore, children with a migrant background constitute a high proportion (28%) of pupils in “non-academic lower secondary” schools. The quality of these schools in rural areas and small towns is good, but is admittedly lower in large urban areas where migrants

are concentrated. The proportion of migrants attending schools providing a university entrance qualification is also below average. High drop-out rates from the education system is another area of divergence. Nearly 15% of pupils who do not speak German at home and completed their 8th grade in 2010, did not continue their education. Only 4% of their German-speaking peers were in this situation. These educational handicaps of migrant families are a source of accumulated well-being disadvantages.

Policymakers have taken important initiatives in this area, as reviewed by an in-depth OECD investigation on the education of immigrants (OECD, 2011b):

- i) Offering high quality early child care support. These efforts focus on improving language capabilities from a very early age, both in German and in the mother tongue. Exposure to an environment where both good quality mother tongue and German are practiced and taught appear essential for children's linguistic and mental development (OECD, 2012g). However, offering such support has not proven easy. Adequate professional capacities in the kindergarten, and co-operation by families themselves are both critical for success, but are not always available. More weight is now put on linguistic abilities in "fit for school" tests before children's entry into primary school, to direct pupils with inadequate linguistic abilities to an additional pre-school preparation year.
- ii) Another key goal has been to make schools more inclusive in the subsequent stages of education, as discussed in the chapter on education of the 2009 OECD *Economic Survey of Austria*. The objective is to eliminate excessively early tracking of students before they have developed their full potential, which is particularly important for the children of immigrant families. One planned instrument is to upgrade non-academic lower-secondary schools into higher quality *Neue Mittelschule*. These will be generalised by 2018 and are intended to provide graduates aged 14 better access to higher education opportunities (see Annex A1 for more details). Successful upgrading of non-academic lower-secondary schools in urban areas might require additional pedagogical and material resources. On the other hand, currently only few academic lower secondary schools adopt the *Neue Mittelschule*. Ways should be explored to broaden this welcome initiative.
- iii) Curbing early drop-out rates is also a key target. The proportion of school drop-outs in Austria is lower than the EU average for natives, but higher for migrants. New initiatives included youth and apprentice coaching, free-of-charge programmes to provide qualifications to pupils who have not completed schooling (second-chance education), and training guarantees for students who have not found company based apprenticeships (by training them in dedicated public facilities). Early results from these initiatives are encouraging. Between 2007-2010, Austria succeeded in reducing the average school drop-out rates more than in the other EU countries (despite starting from a lower average level) and reduced the rates for migrant children – while these rates increased in the EU (EC, 2012).
- iv) More actively involving immigrant groups in public policy efforts, for instance through inclusion in social partnership institutions which play an important role in the policy debate, could facilitate a more effective communication with such groups and ease their participation in human capital strengthening programmes through a better understanding of what is expected from families. Best practices from OECD countries suggest that programmes which provide education and integration support to migrant

children are more effective when they are administered in close co-operation with beneficiary groups, including in dedicated facilities open to parents (OECD, 2012g).

Box 4. Main policy recommendations for strengthening migrants' human capital

- Provide migrant children with high quality German language education from a very young age and provide mother tongue support where necessary.
- Transform all non-academic lower-secondary schools into *Neue Mittelschule* by 2018, as planned. Fully enforce their quality standards, including in disadvantaged urban areas. Encourage academic lower secondary institutions to join this welcome initiative.
- Open social partnership institutions for immigrant groups to enhance immigrant families' awareness and capacities in supporting their children's health, education and other socialisation needs.

Ensuring environmental sustainability

Austria's rich natural asset base, its forests, mountains, biodiversity and natural beauty, as well as the improving air and good water quality, have contributed to the population's high level of well-being. Good environmental quality positively affects life satisfaction (Boarini et al., 2012) and natural assets generate important revenues and employment thanks to a thriving tourism sector. High quality recreation opportunities and satisfactory air and water quality also have positive health effects and thereby increase well-being (e.g. Prüss-Üstün and Corvalán, 2006; Ellaway et al., 2005).

Environmental pressures arise from urban sprawl and a strong increase of road traffic. The rural population is declining, as new employment is mainly created in urban areas, but new housing is mostly built in suburban areas, leading to urban sprawl and more commuting (Figure 9). Higher incomes and the desire to live in larger dwellings have reinforced suburbanisation. Land-use changes due to new built-up area have far outpaced population growth and are far above the national target (Figure 10). The sealed area (paved land, for example) has more than doubled since 1995, increasing the risk of floods and endangering biodiversity. Regional population projections suggest a continued trend of suburbanisation.

Nevertheless, the population living in rural areas is still high in international comparison, which may in part be due to the low residential mobility described above. With declining employment opportunities in rural areas and limited access to public transportation, this has contributed to a rapid increase in car commuting. However, low residential mobility also strengthens local ties, contributing to local social capital (see above and David et al., 2008). Strong social capital may result in both private and social benefits, for example through reduced crime rates (OECD, 2011, Putnam, 2000; Halpern, 2005).

Increased car commuting has coincided with a strong acceleration of road freight traffic, in particular cross-border and transit traffic, owing mainly to Austria's high trade intensity and central location after the fall of the Iron Curtain. Despite declining trends, thanks mainly to better car emission standards, road traffic's contribution to air pollution is significant and concentrations of particulate matters (PM10), ozone and nitrogen dioxide (NO₂) in several urban areas and along transport routes are above national limits set to

Figure 9. **Net internal migration flows**
Average 2002-11, per 1 000 inhabitants

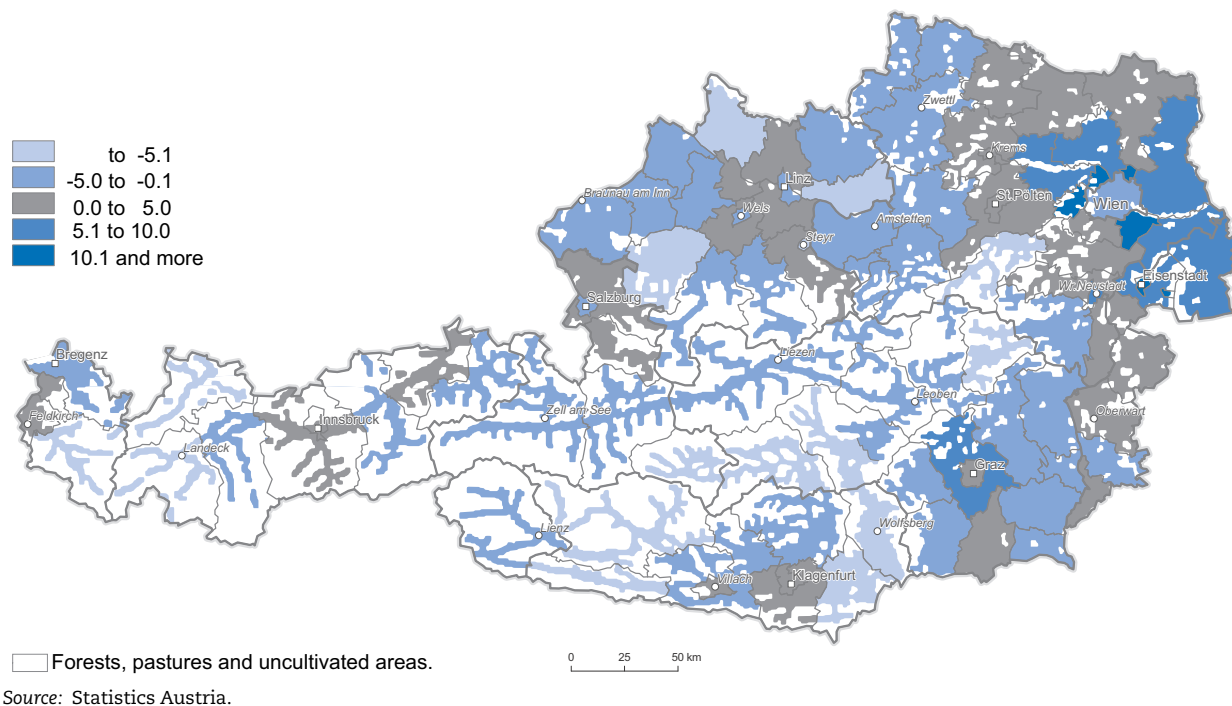
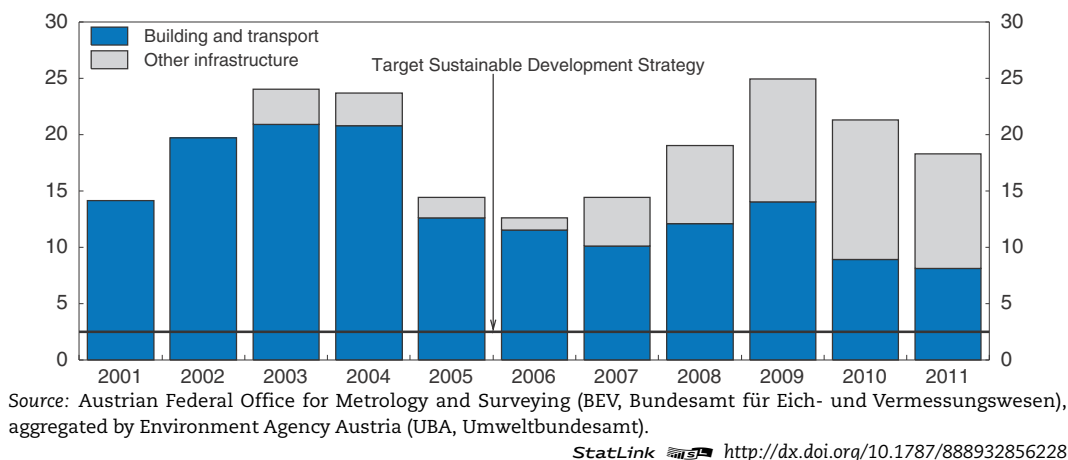


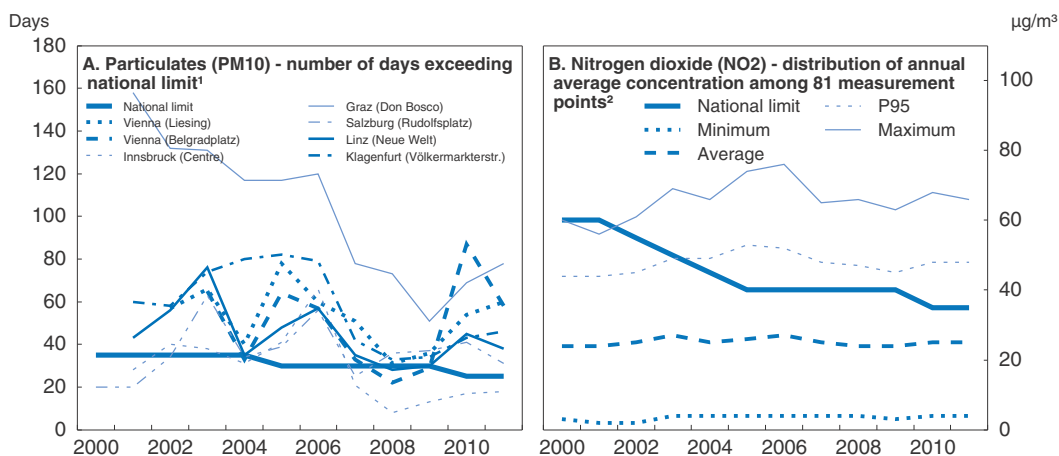
Figure 10. **Land-use changes due to new built-up area are above target**
Average annual increase in hectares per day



avoid adverse health effects (Figure 11). In addition, road transport is the largest emitter of GHG emissions outside the EU emissions trading system and emissions have increased strongly since the 1990s (Table 5). This is partly due also to fuel sales to non-residents owing to lower taxes than in neighbouring countries. Meeting Austria's EU 2020 GHG reduction targets will be difficult without reducing emissions from road transport.

Turning around these environmental trends will require more appropriate pricing of the externalities associated with transport and better regional development policies to foster denser settlements that are well connected to public transport. This entails a need

Figure 11. Air pollution



1. The national limit requires that the daily maximum should not exceed 50 $\mu\text{g}/\text{m}^3$ more than 35 (until 2004), 30 (until 2009) and 25 (since 2010) days a year to limit health effects.
2. National limit includes margin of tolerance. From 2012 onwards the national limit is 30 $\mu\text{g}/\text{m}^3$.

Source: Umweltbundesamt (Environment Agency Austria).


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Table 5. GHG emissions from road transport

	Change in emissions 1990-2010 (%)	Share in total emissions 1990	Share in total emissions 2010
Freight transport	113	5.5	10.9
Light trucks	35	1.7	2.1
Heavy trucks	147	3.9	8.8
Passenger transport	37	11.8	15.0
Diesel cars	397	1.8	8.2
Petrol cars	-30	9.6	6.2

Source: Umweltbundesamt (Environment Agency Austria).

to strengthen co-ordination between different government layers and better integration of regional development with transport and housing policies to foster policy consistency.

Improving the pricing of road externalities

The government is aware of the environmental pressures arising from increased road traffic and has launched a range of initiatives. Most notable is the *klima:aktiv mobil* initiative, which includes consulting and information campaigns and subsidies for climate friendly mobility projects. The government has recently rolled out its action plan to promote electric cars and more generally electricity based transportation (e-mobility). While these initiatives are welcome, their effects are likely to be visible only in the long-term and a more appropriate pricing of externalities associated with transport would be a more cost-efficient way to reduce externalities. By increasing the costs of car commuting, this would also provide incentives to move closer to the workplace or places with better access to public transportation.

Lower fuel prices compared to neighbouring countries, owing both to lower pre-tax prices but also lower excise taxes, in particular compared to Germany, Italy and Switzerland, contribute to sizeable fuel sales to non-residents. While some emissions are simply diverted from neighbouring countries to Austria, as especially lorry drivers in

transit or cross-border traffic use the opportunity to fill-up their tanks, there are quite likely additional emissions and congestion as a result of extra trips and detours taken exclusively to exploit fuel price differences.

Diesel fuel is taxed at a lower rate than gasoline. Partly as a result, the share of diesel cars in the local fleet has increased sharply. However, local externalities associated with diesel imply higher social costs, mainly owing to more severe pollution, notably through particulate matter. Hence, Austria should increase taxation on diesel fuels above gasoline taxes to better reflect externalities. More generally, Austria should participate in efforts to harmonise fuel taxation at the European level to reduce fuel price competition and assure that each country can price externalities appropriately.

While fuel taxes can address externalities, including congestion, other instruments are more precise. In particular, Austria could extend its system of road and congestion pricing. While congestion is less of a problem in Austrian cities than in comparable European metropolitan areas, traffic does temporarily lead to above-limit local emissions and capacity constraints in cities and areas around urban centres. Lorries and heavy vehicles pay a kilometre-based road toll on motorways and expressways depending on emission class. Passenger cars pay a fixed yearly fee independent of the distance travelled. In addition, there are special tolls for certain roads and tunnels mainly for Alpine passes.

The benefits from congestion and road pricing could be further expanded in Austria by extending distance-based prices to passenger cars and by targeting them in time and geographically. Geographical pricing would take into account the higher social costs of pollution in mountainous areas, where air pollution will frequently be trapped and cause extended exposure (EEA, 2013). Higher user charges at peak hours and in congested areas would give incentives to road users to adapt their daily schedule, spreading the peaks in demand over the day and leading to a more efficient use of road capacity and less demand for infrastructure expansion. Extending road prices in this way should be feasible at relatively low additional costs, as an electronic toll system for trucks is already in place in Austria.

Car use and commuting is subsidised through the tax deductibility of commuting trips and the tax treatment of company cars as a low taxed fringe benefit. Commuting allowances are distance dependent and higher if public transport is not available. Their eligibility has recently been widened to part-time workers. Removing the distorting effects of car usage subsidies, would strengthen the incentives from pricing road externalities to reduce private transportation.

Higher prices for road transport along with fostering competition in rail transport to reap full cost-efficiency gains may also divert more traffic to the train, in line with government goals. In freight transport the share of rail is slightly above 30%, already high in international comparison. However, Austria aims to increase this share to 40% by 2025 (BMVIT, 2012) mainly through a modernisation of the existing rail infrastructure to increase capacity. Fostering competition in railway could help to lead to a more cost-efficient service provision and lower prices. The railway market in Austria was formally liberalised in 1998 and according to the Rail Liberalisation Index (IBM, 2011) the degree of market openness is among the highest in the EU. However, despite progress in recent years, the market share of the incumbent still remains at above 80% in freight and above 90% in passenger transport (IRG, 2013). Open tenders for the provision of transport services under a public contract could help boost competition.

Better integrating regional, transport and housing policies and improving policy coherence

While better pricing of road externalities can help internalise some of the environmental costs of urban sprawl, namely air pollution, noise and congestion associated with car commuting, other costs, such as a loss of natural space and biodiversity, are harder to quantify and price. In this case regulations may be more appropriate, which will call for improving regional development policies to foster denser settlements around urban cores. Denser settlement favours walking or biking, is a prerequisite for the cost-efficient provision of public transport and reduces the loss of natural space and biodiversity. These goals are broadly incorporated in the *Austrian Spatial Development Concept* (ÖREK, 2011). In addition, the *Austrian Sustainable Development Strategy* of 2002 (BMLFUW, 2002) specifies an annual national upper limit for new built-up areas. This target has, however, never been met (Figure 10). This may be due to a lack of co-ordination between the federal level and Länder and municipalities, that are mainly responsible for regional planning.

The national regional development strategy should be complemented with instruments to improve co-ordination between different layers of government. Criteria for priority areas for development could be set out at the federal level, while leaving the responsibility for implementation at lower levels of government. To assure compliance with national targets, regional development plans of lower levels of government could be subject to central government approval as is envisaged in the new national territorial development concept of Luxembourg (see OECD, 2012c).

Better integration of regional planning and transport policies would help to assure that settlement is well connected to public transport. The new comprehensive transport plan (*Gesamtverkehrsplan*, BMVIT, 2012) is an important step in this direction. It suggests that by 2020 50% of all new construction development areas should be within 500 metres of an existing or planned public transport stop. This should be complemented by improved co-ordination of spatial and public transportation planning between regional authorities and especially between central cities and the surrounding municipalities. Provision of (regional) public transportation is mainly the responsibility of municipalities and provision is often not well co-ordinated between municipalities.

Public financing of supply is highly complex and fragmented between different levels of the government. To improve the co-ordination of public transportation supply, a federal fund could be established, similar to the agglomeration fund in Switzerland. Municipalities could compete for the federal funds, the allocation based on rigorous cost-benefit analysis, criteria related to sustainable transport, and spatial planning goals and preference be given to projects that improve inter-regional co-operation.

With effective regional development policies in place, other policies can help increase land supply, in particular in urban areas and agglomeration centres, and strengthen incentives to settle in these areas. The price responsiveness of housing supply is particularly low in Austria compared to other OECD countries (Caldera Sánchez and Johansson, 2011). Low supply responsiveness drives up prices in places with abundant employment opportunities, providing incentives to live further away from workplaces. The large social and co-operative housing market and rent regulations in the private sector may have improved the affordability of housing, but may have also put pressure on expected returns and hence lowered rental supply.

Housing supply could be increased and land hoarding reduced by updating outdated land-values on which property taxes are levied. Raising currently low property tax revenues in this way could also be growth enhancing if the revenues are used to reduce more growth detrimental taxes such as labour taxes, as argued in the 2011 *OECD Economic Survey*. To foster demand for housing in urban areas and agglomeration centres, ecological considerations of existing housing subsidies could be strengthened and extended by, for example, differentiating subsidies according to access to public transport.

To strengthen policy coherence and efficiency, the consistency between different subsidies and other policies related to regional development, transport and housing should be reviewed. Trade-offs between different well-being dimensions exist. Housing policies, such as housing subsidies, rent control and social housing, may have increased the affordability of housing. They may have also reinforced low residential mobility which has contributed to stability of living spaces with positive effects on social connections and local social capital (see above). However, by lowering residential mobility, housing policies may have also increased commuting pressures.

Austria also spends a large amount of subsidies on the development of rural spaces. While a large share of these subsidies are tied to environmental goals, such as organic farming or nature preservation, they may have kept a larger share of the population in rural areas, where settlements are more fragmented and the car is the main mode of transportation. It may therefore be useful to conduct a comprehensive study on the interaction and combined impact of these and other policies on overall well-being.

Box 5. Main policy recommendations to ensure environmental sustainability

- Better price externalities stemming from road transport. Increase diesel taxes to reflect externalities. Consider extending the road pricing system. Abolish the favourable taxation of company cars and phase out the commuting subsidy.
- Develop instruments to improve co-ordination between the regional, Länder and federal level to promote denser settlements well connected to public transport. To increase land supply in designated areas, raise property taxes by updating land values on which they are levied.
- Review the consistency between different subsidies and other policies related to regional development, transport and housing. Conduct a comprehensive study on the interaction and combined impact of these policies on overall well-being.

Responding to structural changes in the global economy

As discussed in previous *Economic Surveys* (OECD, 2007 and OECD, 2009), changes in the patterns of competition in the global economy may affect the drivers of Austrian well-being through three channels: i) Austria's strong position in international manufacturing chains becomes more contestable; ii) the service sectors, which have a large share in the economy, need to adapt to a different and considerably more competitive environment; and iii) the education system needs to produce more sophisticated and more generic and portable skills. Successfully coping with these challenges would help keep Austria's long-term growth on a strong path and would support both the material sources of well-being and strong and sustainable fiscal resources for public policies.

Changes in global manufacturing chains may imply deeper and more frequent adjustments in the business sector

The circumstances of integration of enterprises in the international economy are changing, including in Austria, as discussed in a chapter on economic integration in the 2007 *Economic Survey* (OECD, 2007). The main areas of change are:

- Production chains are unbundled across borders with deeper vertical specialisation (McKinsey, 2012; Deloitte and Touche, 2012). This development generates a new environment for many medium-sized Austrian enterprises.
- Geographical proximity to one of the three “global industrial nodes” (North America, East Asia and Continental Europe) becomes more important than in the past (Baldwin, 2012). Austria is well placed in this regard. The manufacturing industry draws inputs from Eastern neighbours and is mostly a supplier to German system assemblers (Ragacs et al., 2011). According to recent OECD-WTO *Trade in Value Added* (TIVA) indicators, the imported input content of Austrian exports, at 33% in 2008, has reached one of the highest levels among similar countries. The integration of Austria’s exports in downstream global manufacturing chains is also significant (OECD, 2012e).
- Corporate governance of family enterprises may need to be further modernised in this environment, for two reasons. First, joint ventures and mergers with foreign firms become more viable business strategies, calling for formal governance arrangements. Second, generational ownership transmissions will be necessary for one third of family firms within the next ten years (BMWFJ, 2012), requiring formal transmission plans and clearer governance arrangements. According to a recent review, family ownership in Austria has not hindered organisational change so far (Altomonte et al., 2012), but the prevailing high degree of informality in governance may become a handicap in more strategic restructurings (KMU Forschung Austria, 2008).

New firms will likely play a more important role in the reallocation of business assets and labour resources in the future (Andrews and Cingano, 2012). Austria is implementing policies to support R&D and innovation (total R&D spending has reached 2.8% of GDP in 2011) but is not yet fully mobilising its innovation potential. Relative underdevelopment of venture capital is one of the reasons. Venture capital investment represented 0.008% of GDP in 2012 against an EU27 average of 0.024% (EVCA, 2012) and Austria is behind other countries in new enterprise birth rates and business angel networks (Figure 12). More firms should be allowed to emerge and grow at their full potential and the financial sector should further diversify to accompany these transformations (Jud et al., 2013). A range of recent policy initiatives aim at leveraging private venture capital supply – without overcrowding it.

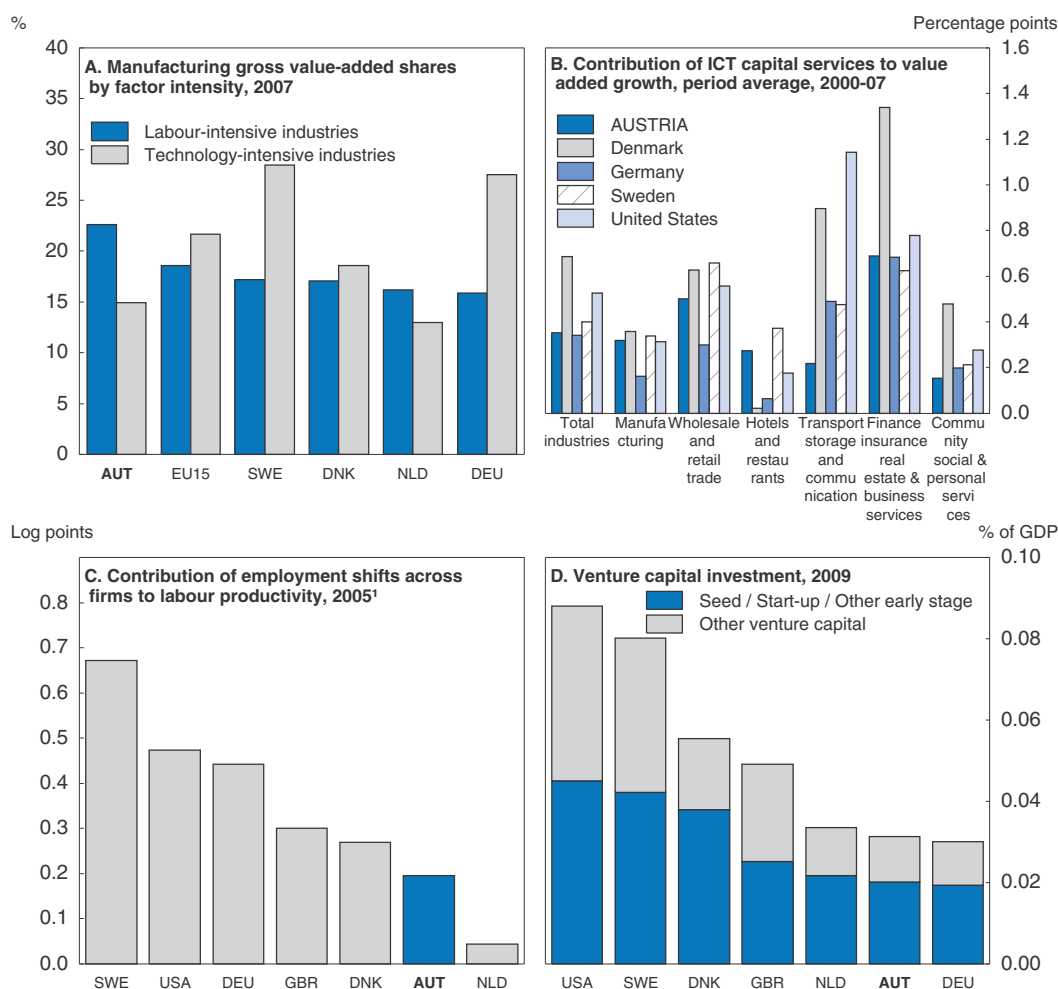
Box 6. Main policy recommendations for facilitating the adjustment of the business sector to changes in global production chains

- Promote further the ongoing private sector efforts to formalise the corporate governance arrangements of family-owned firms, including concerning ownership transmissions.
- Venture and other equity capital provision for new firms as promoted by new programmes (*Jungunternehmeroffensive* initiated in 2013) should be encouraged. International expertise in the area of venture capital, private equity and business angel networks should be better diffused (Chapter on product market reforms of the 2007 *Economic Survey*).

Box 6. Main policy recommendations for facilitating the adjustment of the business sector to changes in global production chains (cont.)

- Austria's and Vienna's favourable geographical position should continue to be built on. Logistical and legal infrastructures servicing global production networks should be adapted to international best practices (Chapter on international integration of the 2007 Economic Survey).

Figure 12. **The technological intensity of industry may be falling behind**



1. The figure reports the estimated values of allocative efficiency, as obtained applying decomposition of industry-level productivity developed by Olley and Pakes (1996), "The Dynamics of Productivity in the Telecommunications Equipment Industry", *Econometrica*, 64(6), pp. 1263-97. Positive values indicate that the actual allocation of employment boosts labour productivity (e.g. by around 50% in the US) compared to a situation where employment is allocated randomly across firms.

Source: WIFO (2012), *Bildung 2025: Die Rolle von Bildung in der österreichischen Wirtschaft*; EUKLEMS, NACE 1.1 Database (www.euklems.net); D. Andrews and F. Cingano (2012), "Public Policy And Resource Allocation: Evidence From Firms In OECD Countries", *OECD Economics Department Working Papers No. 996*; *OECD Science, Technology and Industry Scoreboard 2011*.

Adapting service sectors to a more competitive environment

The 2007 and 2009 *Economic Surveys* analysed the sheltered character of service sectors in Austria and highlighted negative impacts on productivity (OECD, 2007; OECD, 2009). Recent analyses further emphasised the links between market structures and service productivity in neighbouring Germany (Coricelli and Wörgötter, 2012) and the same indicators confirm that this type of gaps exist in Austria. Services are less exposed to international competition than manufacturing (with the exception of specific sectors such as tourism and financial services) and many service activities have long been regulated in competition unfriendly ways (OECD 2007, Janger and Schmidt-Dengler 2010). The OECD has regularly recommended to Austria to converge its regulatory framework for services with pro-competitive international best practices (OECD 2012b, EC 2012). Progress has been achieved in recent years, notably after the adoption of a “Horizontal Services Act” to implement the EU Services Directive, but outcomes should be monitored.

More lively competition in services is essential today for two reasons. First, cost-efficient and high quality services are vital for trade exposed manufacturing. OECD-WTO *Trade in Value-Added* (TIVA) indicators confirm that service inputs account already for 50% of the gross value added of Austrian exports. Second, new entries in social services such as child care, elderly care and health care would increase the cost-efficiency and quality of these critical services for well-being.

Box 7. Main policy recommendations for promoting vibrant services

(From the chapter on product market reforms of the 2007 *Survey* and the 2009 *Survey*)

- Open service sectors to new suppliers while maintaining high quality standards and consumer protection.
- Extend competition law and further strengthen the powers of the competition authority over service sectors.
- Ensure that infrastructures in network industries are accessible to new entrants and value-added service providers at cost efficient levels and competition-friendly conditions.
- Continue to relax restrictive rules in regulated trades and liberal professions to allow more competition.

The education and training system will have to produce more generic and advanced skills

Austria’s well-being model has largely drawn on the quality of its vocational education system, but the education system as a whole faces important challenges, as discussed in the chapter on education in the 2009 *OECD Economic Survey* (OECD, 2009). A major study on Austria’s evolving skill needs concluded that the education system has been responsive to changing skill needs in quantitative terms, but the quality of academic skills falls short of requirements (Bock-Schappelwein et al., 2012). The proportion of students below minimum proficiency levels in international tests has increased, while the share of those reaching the highest proficiency levels has diminished (Janger, 2013). Strong generic skills are particularly needed for systemic, non-incremental innovations in services (Andrews, 2013).

Ambitious education policy measures were introduced in recent years. A compulsory pre-school year and a central upper secondary school leaving examination (to test student competences according to national standards from 2015) are among them. Social partners proposed one additional compulsory, free pre-school year, and compulsory education graduation standards with an emphasis on German, English and Mathematics. Such measures require additional fiscal resources, but room is available for rationalising existing school and class structures and reinvesting freed resources in improving quality (OECD, 2009).

The university system faces serious challenges. Student numbers have expanded without a parallel increase in resources, study years have lengthened, and drop-out rates are very high. Efforts to introduce student selection and tuition fees faced resistance, but convergence with international best practices in the funding and governance of tertiary education appears indispensable. In the face of these needs, the projected nominal increase of 2% per year in budgetary allocations for tertiary education may fall short of needs. Universities should be allowed to select their students (see Annex A1 on the most recent measures in this area), charge tuition fees and avoid socioeconomic segregation with the help of a comprehensive student grant and loan system with income-contingent repayment.

Box 8 summarises recommendations based on recent OECD investigations (OECD, 2009) – pending conclusions from an important ongoing *Skills Strategy* project based on a *Programme for the International Assessment of Adult Competencies* (PIAAC) (OECD, 2013a). PIAAC will shed light on the structure and level of competencies in the Austrian labour force (as well in other countries) and will lead to a further refinement of the policy recommendations (OECD, 2012d).

Box 8. Main policy recommendations for strengthening Austria's education system

(From the chapter on education of the 2009 *Economic Survey*)

- Enhance the participation of all children into full-day pre-school education from age three onwards.
- Re-assess the present school infrastructure, class sizes and teaching personnel against demographic trends and develop a rationalisation plan and re-invest freed resources into improving teaching quality.
- Permit universities to select students and charge tuition fees, while avoiding socioeconomic segregation with the help of comprehensive income-contingent student grant and loan system.

Sectoral policy initiatives would benefit from horizontal public sector reforms

As reviewed in the public sector chapter of the 2011 *Economic Survey* (OECD, 2011) the introduction of modern public management tools will facilitate sectoral reforms through several channels. Systematic cost-benefit assessments in all policy areas will help take into account social benefits in all well-being dimensions, while minimising fiscal costs:

- *Performance-based budgeting* from 2013 will facilitate the integration of many government programmes in various ministries and government layers around key functional

objectives. Policy responses to demographic, environmental and economic challenges will be more clearly spelled out. This should help improve policy synergies and minimise programme overlaps.

- *Regulatory impact assessment* is expected to permit a re-evaluation of Austria's extensive tax and benefit policies. Impacts on various well-being dimensions should be taken into account. Re-assessments would be particularly useful in areas such as environmental taxation and family tax allowances and benefits.
- *Long-term projections and scenarios* in the key public spending areas should clarify fiscal costs and help increase spending efficiency within and between the key well-being areas.
- *The increased empirical evidence on well-being beyond GDP* should be properly used in the policy formation process. Monitoring the various dimensions of well-being allows for a more complete identification of synergies and tensions, helping base policies on a more systemic approach. Social partners should aim at representing all stakeholders and continue to be active issuing policy proposals.

These management tools are expected to give a new stimulus to the somewhat stalled federal/fiscal reforms. Policy overlaps, cost overruns and quality shortcomings in complex federal/fiscal arrangements for service provision are expected to become more transparent, which should facilitate the political economy of reforms.

Box 9. **Main policy recommendations for horizontal public sector reforms**

(Based on the public sector chapter of the 2011 Economic Survey)

- Fully implement performance-based budgeting, regulatory impact assessment and long-term public spending simulations and extend them to the whole general government sector.
- Make sure that increasingly available indicators on different dimensions of well-being are integrated in the policy formation process. Encourage social partners to aim for representation of all stakeholders.

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ANNEX A1

Follow-up to previous OECD policy recommendations

Macroeconomic policy priorities	
Recommendations of the 2011 Survey	Action taken
Accelerating fiscal consolidation to bring the debt to GDP ratio below 60%.	Consolidation program 2012 with a total volume of 27.8 bn EUR (2012-2016); national debt brake rule; Inner-Austrian Stability Pact 2012 with Länder and Municipalities; new Federal Budget Law introducing easier reserves, accrual budgeting and long-term budget projections. Government's target: balanced budget in 2016, surplus in 2017. First positive developments: Budget execution in 2012 with lower than planned deficit and lower debt level.
Taking more frontloaded action to meet foreseeable medium-to-long-term spending pressures.	Pay freeze and hiring freeze as well as moderate pension increases are curbing public personnel costs also in the long run. Disability pensions will be reduced, the factual retirement age increased and pension laws further harmonized. Health care expenditure dampening path includes for the first time all levels of Government and will limit health care expenditure growth to GDP growth. Prevention programs in the health care sector are also implemented.
Reforming the Domestic Stability Pact and the Fiscal Equalisation Act and implementing the fiscal framework reforms at all levels of government.	The new Internal Stability Pact 2012 sets out a balanced Maastricht budget until 2016, introduces a structural balance rule as of 2017; expenditure growth must stay below the medium-term reference rate of potential output and a reduction of debt ratio is determined. These rules are binding on all levels of government and have been implemented effectively.
Seeking efficiency gains in all major spending areas.	Pension and health care reform (see above); Public administration reform: fewer courts, fewer disbursing agencies for long-term care allowances; less and more targeted subsidies to transport and agriculture. The Austrian Stability Pact 2012 provides regulations on the allowable expenditure growth, on the debt ratio adjustment, on limits of liability and to improve the co-ordination of financial management between local authorities.
Switching the tax burden away from labour and entrepreneurship toward less distortive taxes.	Despite a necessary fiscal consolidation the tax burden on labour and entrepreneurship has not been raised, in fact a reform on taxation on gains from sales of private real property has been implemented. In terms of commuting issues, the burden was reduced for both employees and employers. Among others public transportation costs borne by employers for commuting employees are tax exempted.

Structural policy priorities	
Recommendations of the 2011 Survey	Action taken
<p>All subsidised avenues into early retirement should be eliminated.</p>	<p>Pension subject to very long insurance period (“Hacklerregelung”): Access to this pension scheme was substantially tightened by increasing the respective retirement age (62 for men, 57 for women and further increasing to 62).</p> <p>Amendment “Corridor Pension”: Early retirement age: 62 years. Necessary contribution period will be increased stepwise from 37.5 to 40 years by 2017. The yearly deduction for early retirement is increased from 4.2% to 5.1%.</p> <p>New Disability scheme: Disability pension only in cases of permanent disability; no “limited” disability pension for those born after 1964. Implementation of a competence center (= organisation where decisions are taken on disability – either in a medical or an occupational rehabilitation path). Rehabilitation and retraining measures will be obligatory. Gradual increase of the present benchmark for qualifying for disability pension from 57 years to 60 years in 2017.</p> <p>Costs for “repurchasing” university and school years (to be added to the contribution record) were increased and this provision will be phased out from 2014.</p>
<p>The work incentives of low-skilled workers should be strengthened and their cost of employment reduced. Successful up-skilling programmes should be further developed.</p>	<p>From 1 July 2009 on, a modified in-work benefit for low-skilled workers (Kombilohnbeihilfe) targeted at the elderly (> 50 years), handicapped persons and those returning to work with dependent children, who have unemployment spells longer than six months, was introduced. The new in-work benefit is granted in form of a monthly wage top-up of € 300 (full-time) or € 150 (part-time) as an incentive to take up low-paid employment (between € 650 and € 1 700). This measure is an instrument of active Labour Market Policy for unemployed with reduced chances of Labour Market inclusion aiming at encouraging taking up work (administration by the Public Employment Service).</p> <p>“Skilled workers package”, which will be implemented from mid-2013 will help raise the qualifications of low and medium skilled workers by supporting further education.</p> <p>The newly introduced up-skilling programme “Qualifikationsplan 2020” is a comprehensive strategy to reduce the proportion of people in Vienna who have only compulsory education.</p>
<p>Early child care infrastructure and full-day schooling should be expanded, with recent government initiatives going in the right direction.</p>	<p>2011: Decision on continuing the expansion of childcare facilities – especially for children aged up to 3 years – via a mix of in-kind and monetary measures. Aim: creation of about 5 000 additional childcare places p.a. to raise institutional child care rate to 28% of all under 3-year-olds by 2014.</p> <p>To this end, federal and regional governments will each invest a total amount of € 55 million from 2011 to 2014. Starting with the school year 2013/2014, only child-care facilities with minimum weekly and yearly opening hours will be funded, as well as additional personnel costs arising from extended opening hours.</p> <p>The City of Vienna is a forerunner in providing and expanding (free) early child care infrastructure.</p> <p>The development of childcare ratios of 3, 4 and 5-year-old children in the last ten years shows that in all three age categories increases are significant: the attendance rate of the 3-year-olds increased from 57.8% in 2001 to 80.2% in 2011/2012. In the 4-year-olds, an increase of 88.3 to 94.2 % was recorded in the last ten years, with the 5-year-olds from 89.7 to 96.3%. However, for children from 3-6 years, regional gaps should be closed.</p> <p>The number of school-based day care programmes has doubled compared to the school year 2007/08. Currently, 119 000 pupils take advantage of school-based afternoon care or attend a combined all-day school. They measures are welcome by 78% of parents according to surveys.</p>

Structural policy priorities	
Recommendations of the 2011 Survey	Action taken
Education reforms should continue, to overcome the excessively early streaming of students, and to permit universities to select students and charge tuition fees, accompanied by a comprehensive grant and income-contingent loan system to avoid socioeconomic segregation.	<p>All in all, the federal government has adopted 54 projects in the field of educational reform since 2007, ranging from early childhood education to the university entrance examination. The graduates of the first generation of Neue Mittel Schule (NMS) succeed in their educational career: The share of pupils admitted to academic secondary school (AHS) and VET college (BHS) at the end of the school year 2011/12 (1st generation NMS) was 53% in the 67 "pioneer schools". Compared to the last age group at lower secondary school (in 2010/11) at these locations, this corresponds to an increase by 12 percentage points. By 2015/16, all lower secondary school locations will be upgraded to NMSs. By the school year 2018/19, all 1 176 lower secondary school locations and classes will be converted to new secondary schools and this type of school will be attended by some 238 000 pupils or 70% of 10-14 year-olds.</p> <p>Student guidance initiative: Widening guidance for educational and career choices ("Studienchecker") to all schools, "Trying out studying" ("Studieren probieren"), opportunity to attend university lectures.</p> <p>Introduction of new university funding measures are implemented with "performance agreements 2013-2015". In March 2013, an amendment to the law concerning universities was enacted. Universities will be allowed to limit the number of students in defined fields of study (architecture, biology, IT, management, pharmacy). The law stipulates a new framework for financing Austrian universities from 2016 onwards (lump sum budgets for teaching, research and infrastructure).</p> <p>The main goal is to increase the quality and funding of Austrian Higher Education in teaching as well as in research.</p>
Competition should be further enhanced in network services such as rail, postal services and electricity, as well as in liberal professions.	<p>Railway sector: The private train operating company „Westbahn AG“ has been offering passenger transport services between Vienna and Salzburg since December 2011.</p> <p>Postal Services: The European legal framework consists of three EU directives from 1997, 2002 and 2008. The European framework was implemented in Austria in the Postal Market Act which went into effect on January 2011 and fully liberalised the market and opened it to competition.</p> <p>Electricity/Gas: A new switching ordinance entered into force in January 2013 to better enable customers switch energy suppliers. A new gas market model was also implemented, with an entry-exit system facilitating access to the network and creating a virtual trading point.</p> <p>Liberal Professions: amendments to the Accounting Law (Bilanzbuchhaltungsgesetz) and the Chartered Public Accountants Law (Wirtschaftstreuhandgesetz) came into force in 2012. The amendment of the Accounting Law has facilitated the access of accountants to the profession of tax advisors and increased competition in accounting professions.</p>
Health policy priorities	
Recommendations of the 2011 Survey	Action taken
More clearly assign performance, financing and spending responsibilities in the area of health care.	<p>Federal government, Länder and social insurance institutions have agreed on a health reform. With the agreed health care expenditure dampening path, all levels of government are bound by law to share responsibilities for health care services and financing.</p> <p>A financial target control system aims to align the increase in public health expenditure with average GDP growth (+3.6% p.a.) by 2016, reducing the expected growth of health spending by € 3.4 bn.</p>
Fully enforce the national capacity plan for inpatient and outpatient care.	<p>The national capacity plan (Österreichischer Strukturplan Gesundheit, ÖSG) is subject to a continuous review process and was last updated in 2012. One objective of the latest adaptation was the optimization of inpatient care capacities.</p>
Introduce performance-based payment mechanisms in both inpatient and outpatient care and increase competition in the pharmaceutical market.	<p>The health care reform explicitly addresses performance-based payment mechanisms.</p> <p>The Land Vienna has implemented and employs a performance-based payment mechanism (Wiener LKF-Modell), last updated in 2012, to improve the steering of service levels in municipally-funded hospitals.</p>
Promote disease management programmes in all chronic care areas.	<p>One disease-management program is currently being implemented (Diabetes Mellitus II). Other programs are in preparation but not yet implemented.</p>
Set out challenges of the medium-term fiscal outlook of the system, through detailed health and long-term care spending projections and scenarios.	<p>The health care reform is based on the principle of outcome orientation. In fact, for any objective being set and any action being taken, the outcome will be analyzed ex ante and ex post. A monitoring framework is in the state of development.</p> <p>The 2012 Federal Budget Law introduced regular long-term budgetary projections (until 2050), including for health and long-term care. The first report on long-term projections addresses related challenges for public finances.</p>



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