launch version

OECD Economic Surveys: Austria 2026

March 2026
Volume 2026/9

OECD Economic Surveys: Austria 2026

This work was approved and declassified by the Economic Development and Review Committee on 23/02/2026.

Please cite this publication as:
OECD (2026), *OECD Economic Surveys: Austria 2026*, OECD Publishing, Paris, https://doi.org/10.1787/7cea027b-en.

ISBN 978-92-64-85887-9 (print)
ISBN 978-92-64-64459-5 (PDF)
ISBN 978-92-64-44175-0 (HTML)

OECD Economic Surveys
ISSN 0376-6438 (print)
ISSN 1609-7513 (online)

OECD Economic Surveys: Austria
ISSN 1995-3127 (print)
ISSN 1999-0189 (online)

Photo credits: Cover © BAHDANOVICH ALENA/Shutterstock.com.
Chapter 1 © Andrei Kuzmik/Shutterstock.com.
Chapter 2 © Es sarawuth/Shutterstock.com.
Chapter 3 © FooTToo/Shutterstock.com.
Chapter 4 © voronaman/Shutterstock.com.

Corrigenda to OECD publications may be found at: https://www.oecd.org/en/publications/support/corrigenda.html.

Foreword

This Economic Survey was prepared by Falilou Fall and Simone Romano, under the supervision of Sebastian Barnes. Research assistance was provided by Michela Gamba and editorial support by Jean-Rémi Bertrand.

This Survey is published under the responsibility of the Economic and Development Review Committee of the OECD. The Committee discussed the draft Survey on 27 January 2026. The cut-off date for data used in the Survey is 5 March 2026.

Information about this and previous Surveys and more information about how Surveys are prepared is available at https://www.oecd.org/en/topics/economic-surveys.html.

Table of contents

FIGURES

TABLES

BOXES

Basic statistics of AUSTRIA, 2024

(Numbers in parentheses refer to the OECD average)[1]

LAND, PEOPLE AND ELECTORAL CYCLE					
Population (million)	9.2		Population density per km²	111.2	(39.6)
Under 15 (%)	14.4	(16.7)	Life expectancy at birth (years, 2023)	81.5	(80.2)
Over 65 (%)	19.8	(18.6)	Men (2023)	79.2	(77.6)
International migrant stock (% of population)	25.5	(15.7)	Women (2023)	84.3	(82.8)
Latest 5-year average growth (%)	0.7	(0.5)	Latest general election	September 2024	
ECONOMY					
Gross domestic product (GDP)			Headline inflation (y-o-y % change, Dec-2025)	3.76	(3.67)
In current prices (billion USD)	534.1		Value added shares (%)		
In current prices (billion CLP)	493.8		Agriculture, forestry and fishing	1.4	(2.5)
Latest 5-year average real growth (%)	0.4	(1.7)	Industry including construction	25.7	(25.3)
Per capita (thousand USD PPP)[1]	73.4	(59.0)	Services	72.9	(72.2)
GENERAL GOVERNMENT (% of GDP)					
Expenditure (OECD: 2022)	55.2	(43.8)	Gross financial debt (OECD: 2023)	87.9	(110.6)
Revenue (OECD: 2022)	50.5	(38.8)	Net financial debt (OECD: 2023)	47.3	(67.3)
EXTERNAL ACCOUNTS					
Exchange rate (CLP per USD)	0.92		Main exports (% of total merchandise exports)		
PPP exchange rate (USA = 1)	0.73		Machinery and electronics	26.2	
In per cent of GDP			Chemicals	14.7	
Exports of goods and services	55.7	(30.4)	Metals	13.6	
Imports of goods and services	53.1	(30.0)	Main imports (% of total merchandise imports)		
Current account balance	1.5	(-0.4)	Machinery and electronics	22.8	
Net international investment position	22.9		Transportation	12.2	
			Chemicals	11.8	
LABOUR MARKET, SKILLS AND INNOVATION					
Employment rate (aged 15-64, %)	74.1	(70.2)	Unemployment rate, LFS (aged 15 and over, %)	5.2	(4.9)
Men	77.5	(77.0)	Youth (aged 15-24, %)	10.3	(11.1)
Women	70.7	(63.5)	Long-term unemployed (1 year and over, %)	1.1	(1.0)
Participation rate (aged 15-64, %)	78.2	(74.0)	Tertiary educational attainment (aged 25-64, %)	37.7	(41.2)
Average hours worked per year	1 529	(1 736)	Gross domestic expenditure on R&D (% of GDP, 2023)	3.3	(2.7)
ENVIRONMENT					
Total primary energy supply per capita (toe, 2023)	3.3	(3.7)	CO_2 emissions from fuel combustion per capita (tonnes, 2023)	6.1	(7.6)
Renewables (%, 2023)	35.7	(12.5)	Renewable internal freshwater resources per capita (1 000 m³, 2021)	6.1	
Exposure to air pollution (more than 10 µg/m³ of $PM_{2.5}$, % of population, 2020)	71.5	(56.5)	Municipal waste per capita (tonnes, 2022, OECD: 2023)	0.8	(0.6)
SOCIETY					
Income inequality (Gini coeff., 2022)	0.285	(0.317)	Education outcomes (PISA 2022 score)		
Relative poverty rate (%, 2022)	9.6	(11.5)	Reading	480	(476)
Median disposable household income (thousand USD PPP, 2022)	47.3	(31.7)	Mathematics	487	(472)
Public and private spending (% of GDP)			Science	491	(485)
Health care (2022)	9.4	(9.3)	Share of women in parliament (%)	36.1	(33.3)
Pensions (2022)	13.7	(9.9)	Net ODA (% of GNI, 2022)	0.4	(0.4)
Education (total spending, 2022)	4.6	(5.1)			

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

1. OECD aggregate refers to weighted average.

Source: Calculations based on data extracted from databases of the following organisations: OECD, International Energy Agency, International Labour Organisation, International Monetary Fund, United Nations, World Bank.

Executive summary

Key messages

Austria enjoys high living standards, supported by strong institutions and a well-educated workforce. However, following the energy price shocks triggered by Russia's war of aggression against Ukraine, a prolonged recession disrupted the post-pandemic recovery. A substantial fiscal deficit has emerged, even as growth begins to recover. Ambitious fiscal and structural reforms are needed to boost business dynamism, raise productivity, improve housing affordability, and address population ageing and climate and energy transition challenges.

- The budget deficit should be reduced steadily as planned, supported by bolder fiscal reforms to contain spending growth, enhance tax efficiency and create space to meet long-term ageing and climate-related costs.
- Business dynamism has declined over the past decade and competitiveness has been eroded by high energy prices and rising labour costs. Policy priorities include improving innovation outcomes, accelerating digitalisation, securing critical inputs and fostering competition in key markets.
- While Austria's housing model has delivered good outcomes, affordability in major cities has become more challenging. Better targeting housing in the limited profit sector, revising property taxation, streamlining building permits and improve land-use would help restore affordability.
- The population is ageing and the labour force will decline. Improving access to affordable childcare, tightening access to early retirement and increase employability of older workers would help increase employment among women and the elderly. Strengthening primary care, advancing the digitalisation of the health system and better targeting the long-term care allowance will sustain the financial and operational sustainability of the health and long-term care systems.

After a prolonged recession, the Austrian economy is recovering

Austria has high levels of well-being, but has experienced recently its longest recession since 1945. The economy is now recovering, but long-standing challenges remain of slow productivity growth, declining business dynamism, rising housing costs and ageing pressures.

Austria enjoys high per capita income, underpinned by strong macroeconomic fundamentals, solid institutions, a large industrial base, and a dynamic services sector. Deep integration into EU industrial value chains, a sophisticated production structure, and a well-educated workforce are key strengths.

Following a strong post-pandemic rebound, the economy slowed sharply in 2023–24 (Figure 1)**, leading to a prolonged recession and a substantial fiscal deficit**. Output declined across most sectors—industry, manufacturing, retail, and services—while construction slumped. Domestic demand remained subdued. High inflation in 2022–23 eroded real wages and consumption, but in 2024 easing inflation and strong nominal wage growth lifted real incomes. However, much of this income gain was saved, keeping consumption moderate. Investment remained weak, particularly in housing and commercial real estate. The labour market proved resilient, mainly in the public and related sectors, and the services sector. The financial system appears sound, although non-performing loans have increased in the real estate sector. Making permanent borrowed-based macroprudential measures would help manage risk. Industrial competitiveness has weakened due to rising energy costs and rapid wage growth following the inflation surge.

Implementing a comprehensive package of policies to improve energy and price competitiveness, productivity, strategic sourcing of inputs and R&D and innovation, including through aligning sectoral strategies, would help raise the performance of the Austrian economy. High energy intensity and costs continue to undermine industrial competitiveness. Upgrading and expanding the electricity grid with prioritised investment would facilitate greater use of renewable energy, while raising diesel and fuel taxes could support the switch to cleaner modes of transport. In addition, strengthening higher education performance would enable better utilisation of the existing workforce and enhance labour productivity.

A gradual recovery is projected, with GDP growth of 1.1% in 2026 and 1.3% in 2027 (Table 1). Household consumption will be supported by rising incomes, easing inflation, and stable employment. Improving financial conditions as inflation and interest rates decline will bolster investment, while exports will strengthen with the recovery in Germany.

Risks stem from global uncertainties. Geopolitical tensions could disrupt European value chains, while rising competition from China—especially in the automotive sector—and renewed energy price increases could undermine competitiveness and reignite inflationary pressures.

Table 1. Growth is projected to recover

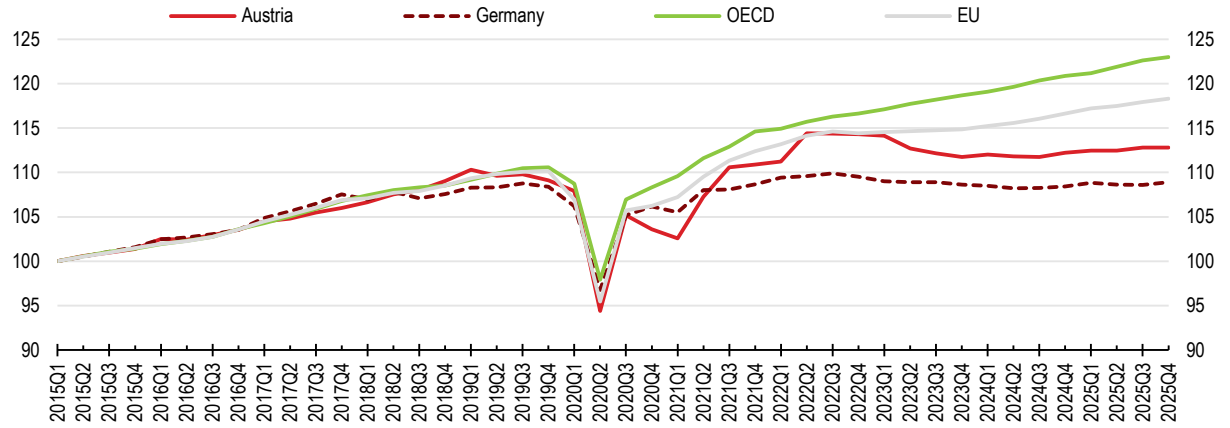
Annual growth rates, %, unless specified

Annual % change unless specified	2023	2024	Projections		
			2025	2026	2027
Gross domestic product (GDP)	-0.7	-0.8	0.6	1.1	1.3
Consumer price index	7.7	2.9	3.6	2.5	2.2
Core consumer price index	7.3	3.9	3.1	2.6	2.2
Unemployment rate (% of the labour force)	5.1	5.2	5.5	5.4	5.4
General government fiscal balance (% of GDP)	-2.6	-4.7	-4.5	-4.2	-4.0

Source: OECD, Economic Outlook database.

Figure 1. Austria has gone through a prolonged recession

Real GDP growth, 2015Q1=100



Note: The EU aggregate corresponds to the composition of European Union as of 2020. The OECD aggregate corresponds to the simple average of the OECD countries.
Source: OECD.

StatLink 2 https://stat.link/orgmxp

Fiscal consolidation needs to advance, but without undermining growth

The general government budget deficit widened in 2024, triggering a fiscal consolidation plan designed to bring back the deficit below the 3% EU rule by 2028 and reduce the debt burden over time. The planned steady fiscal adjustment should be implemented, and additional fiscal reforms initiated to contain spending increases and create fiscal space to cope with mounting spending pressures from ageing and climate-related expenditures.

The general government deficit widened to 4.7% of GDP in 2024. Fiscal consolidation began in 2025 and aims to bring the deficit below 3% of GDP by 2028. While fiscal support helped cushion the economy during a period of weak private demand, a sustained adjustment is now essential to stabilise the debt ratio. The government should proceed with its planned gradual medium-run consolidation plan to 2031. Developing a long-term fiscal strategy focusing on reducing social spending, improving spending efficiency and enhancing the fairness and effectiveness of the tax system, would help with the implementation of the government's consolidation plan.

Austria carries a relatively high public debt burden and faces mounting long-term fiscal pressures. Over the medium to long term, rising costs from population ageing, the green transition, and the maintenance of Austria's comprehensive welfare system will intensify budgetary strains. Pension, health, and long-term care expenditures are already substantial, and ageing will further increase spending while eroding the tax base. Additional investment will also be needed to support the mitigation of and adaptation to climate change, while the shift to electric vehicles will reduce fuel-related tax revenues in the absence of reform. Developing a long-term fiscal strategy for spending and taxation would help to prepare for these pressures on public finances.

Efficiency gains can create fiscal space. Savings could come from better targeting and managing social transfers, and enhancing the efficiency of public procurement and outsourcing. There is room to making family benefits more progressive by phasing out transfers to higher income people. The expected retirement of large cohorts of civil servants provides an opportunity to reorganise and further digitalise the public administration. Regular spending reviews and stronger evaluation mechanisms would improve prioritisation. Reforming the fiscal

equalisation framework—currently based largely on population rather than needs or performance—would strengthen incentives for cost efficiency and innovation.

A more growth-friendly tax structure would support medium-term consolidation and long-term sustainability. Austria's tax system remains heavily dependent on labour income, while underutilising more efficient tax bases such as property and inheritance. Austria does not levy inheritance or gift taxes, except for real estate transfer duties. Rebalancing the tax system away from labour, in particular for low-income people, by lowering social security contributions and personal income tax, alongside raising more revenues, including from property taxes, VAT and a well-designed inheritance and gift tax could enhance both equity and efficiency while safeguarding fiscal sustainability.

Boosting business dynamism would help build economic resilience

Austria's business dynamism has been in decline for many years. Rising labour and energy costs have eroded firms' price competitiveness, while deeper structural weaknesses persist. Reviving productivity requires easing regulation, accelerating digitalisation, strengthening competition in key markets, and reducing occupational licensing requirements. Innovation must translate more effectively into market products.

While firm entry and exit rates have been fairly stable in manufacturing, they have fallen significantly in services—the largest sector of the economy. Post-entry employment growth among new firms is low. Medium to long-run challenges related to energy vulnerabilities, higher competition from new contenders, innovation and digitalisation gaps, and trade risks will require a faster pace of reallocation between firms and sectors than in the past.

As a small open economy with few natural resources, the Austrian economy is dependent on imported fossil fuels for energy and on specialised imported intermediate goods. As global trade restrictions are growing, securing the sourcing of key inputs for industry and the economy is crucial.

Austria benefits from a strong innovation ecosystem and high R&D and innovation spending. Austria ranks highly in design and patent applications, but the transformation of these outputs into new-to-market and new-to-firm innovations is among the lowest in the EU. Policies that help mitigate the risks associated with developing and introducing new products—particularly through financial incentives—have a crucial role to play.

Digitalisation of the economy and of businesses is limited by a low coverage of high-speed broadband and shortages in advanced digital skills. Fully implementing and expanding access to digital programmes will strengthen Austria's foundation for a digital society and help workers stay resilient in the face of digital disruption.

Market concentration remains high across many sectors. Austria maintains somewhat high barriers to entry and burdensome administrative requirements. Easing entry requirements can boost productivity in professional services and in sectors that depend on them. Strict oversight and cooperation between the Competition Authority and sector regulators would help uphold fair competition.

Restoring the affordability and improving the functioning of the housing market

Price-to-income ratios and rents have risen sharply over the past two decades, mainly driven by the for-profit segment in large cities. Reassessing regularly the financial situation of tenants in limited-profit housing and increasing rents for those who no longer satisfy the eligibility criteria would support limited-profit housing supply. Revising property taxation would improve market efficiency. Streamlining and digitalising building permits and improving land use through better coordination would enhance supply efficiency.

Austria's housing model has long provided affordable and excellent quality homes, with rented and limited-profit housing playing a major role, especially in cities. However, price-to-income ratios and rents have risen sharply over the last 20 years (Figure 2).

Austria has relied heavily on social housing, mostly delivered through the limited-profit sector. Recent rises in construction and land costs, together with the reduction in public expenditure on social housing, contributed to reduce limited-profit share of total supply. Increasing rents for limited-profit tenants who no longer satisfy the eligibility criteria, targeting the social housing stock to those more in need without loosing social diversity and extending indexation to prices for the whole rent for limited-profit tenants, compensating low earners with housing allowances, would help limited-profit housing supply to keep pace with rising demand and favour its price-dampening effect.

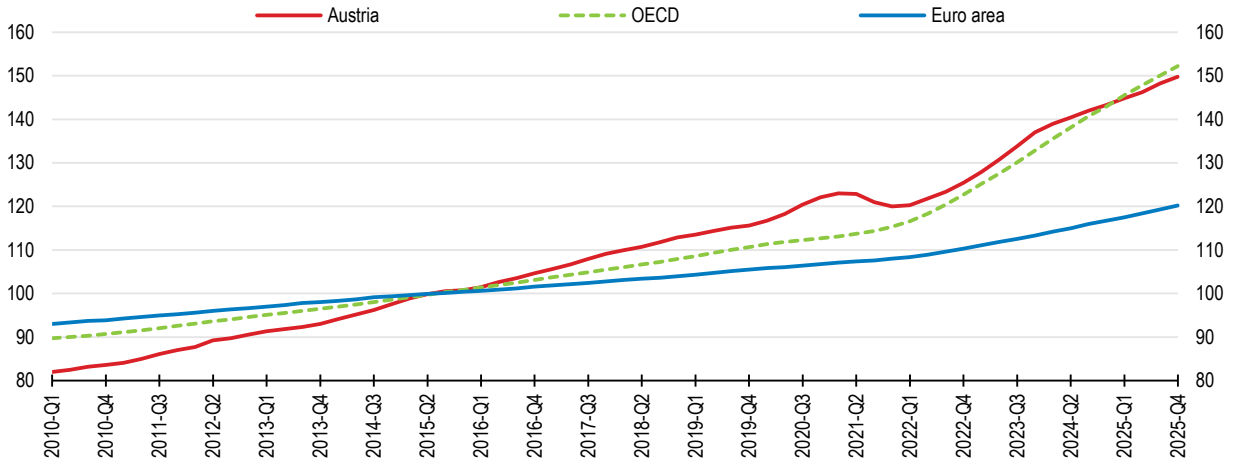
Austria imposes one of the lowest rates of recurrent immovable property tax within the OECD, and the tax base does not reflect the current market value of properties. Transitioning the tax base calculation from outdated cadastral values to contemporary market valuations would improve fairness and effectiveness. The introduction of recurrent taxes on vacant dwellings and the revision of the current very low taxation on unused constructable land would mobilise and stimulate supply.

Complex land use decision processes and building permit procedures constrain housing supply and drive-up costs. Strengthening the monitoring and enforcement powers of the Austrian Conference on Spatial Planning (ÖROK) would improve land planning efficiency. Expanding and improving public transport networks and infrastructure and increasing density in peri-urban areas proximate to transport infrastructure would contribute to lower price pressures in urban centres. Digitalising the entire permitting process, streamlining it by consolidating legislation, requirements and administrative steps at the federal level, introducing clear national statutory deadlines for building permits and implementing tacit approval mechanisms for simpler, lower-risk projects would enhance supply responsiveness.

The direct emissions and energy intensity of Austria's residential sector are above the OECD averages. Consolidating all financial incentives to avoid dispersion and duplication, and creating a digital, clear, user-friendly one-stop shop for applicants would foster the demand for residential building renovation. Expanding construction industry capacity would assure supply can meet the rising demand.

Figure 2. Housing affordability has deteriorated

Rent, Index, 2015 = 100



Note: Data are seasonally but not calendar adjusted. The Euro area aggregate corresponds to the OECD countries of the euro area. The OECD aggregate corresponds to the simple average of the OECD countries. Both averages only refer to countries with data for both periods.
Source: OECD Analytical house prices indicators (database).

StatLink 2 https://stat.link/ezn0up

Addressing demographic challenges requires a bold set of reforms

Population ageing is shrinking the labour force while driving up social spending. Raising employment among women and older workers would help ease labour shortages. Linking the statutory retirement age to life expectancy gains and tightening access to early retirement would strengthen pension sustainability. Improving primary care, advancing health system digitalisation, and better targeting long-term care (LTC) allowances, alongside expanding the LTC workforce, would enhance both financial sustainability and service capacity.

Austria's population is ageing rapidly, with fewer prime-age workers and a growing share of older people and retirees. This trend, driven by declining fertility and rising life expectancy, poses risks to economic growth, productivity, and the long-term sustainability of the pension, health, and long-term care systems (Figure 3).

Ageing will reduce the working-age population and intensify labour shortages, while labour market participation and employment, particularly among women and older workers, remain below many OECD peers. Encouraging wage structures that reflect productivity, performances and tasks rather than seniority, tightening access to early retirement, and better targeting old-age subsidised part-time and partial retirement schemes would help extend working lives. Expanding affordable childcare, promoting shared parental leave, and phasing out single-earner tax credits would reduce barriers and disincentives to female labour force participation.

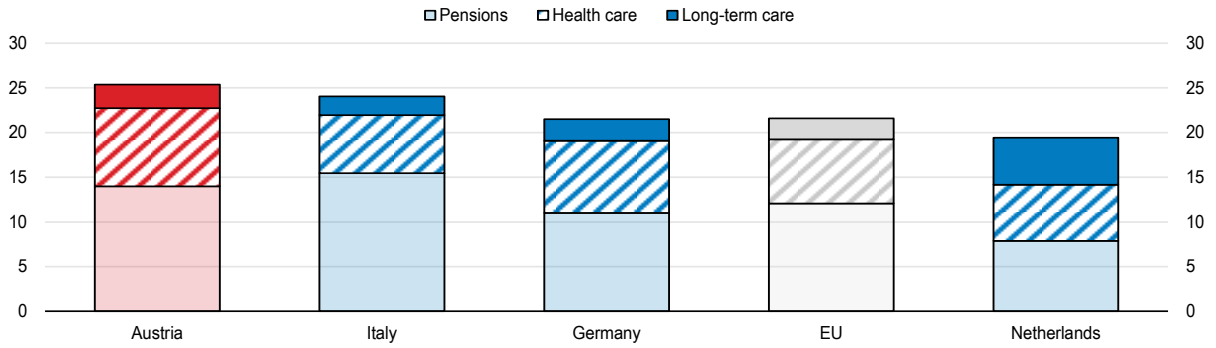
Pension spending, already among the highest in the OECD, is projected to rise further until 2035. Linking the statutory retirement age to life expectancy gains, slightly lowering accrual rates, and reforming the indexation of pensions to inflation by setting a rule to differentiate adjustments between low and high pensions would strengthen the long-term sustainability and fairness of the system.

Austria's public health spending is among the highest in the OECD, yet system efficiency remains below potential. Fully and rapidly implementing recent reforms and further streamlining the structure and coordination of the health system would strengthen both efficiency and sustainability. Expanding and enhancing primary care, particularly by further deploying multidisciplinary primary health care units and improving the attractiveness of general practice, especially in rural areas, would help reduce the heavy reliance on hospitals. Removing legal and technical barriers to health data interoperability would enable better governance, research, and prevention. Allowing pharmacists to substitute branded drugs with generics without prior physician approval and capping reimbursement at the least expensive generic's price would lower high outpatient pharmaceutical costs.

The ratio of formal long-term care (LTC) workers to people aged 65 and over is below the OECD average, while ageing will continue to drive up demand. Improving LTC working conditions, attracting more male workers, and better targeting the LTC allowance would help secure workforce supply, sustain service quality, and preserve financial sustainability.

Figure 3. Ageing will impact public finances

Gross expenditure as % of GDP, 2050



Note: The EU aggregate corresponds to the composition of European Union as of 2020.
Source: European Commission (2024) Working Group on Ageing Populations and Sustainability (AWG).

StatLink 2 https://stat.link/40nea7

MAIN FINDINGS	KEY RECOMMENDATIONS
Addressing key risks to macroeconomic stability and boosting potential growth	
GDP growth is projected to strengthen gradually. Ongoing fiscal consolidation plan will continue until 2031 at a steady pace in line with fiscal rules. But public debt will remain high and fiscal pressures from ageing and climate change are building.	Implement the planned multi-year fiscal adjustment plan to reduce the fiscal deficit and put the debt ratio on a downward path. Establish a long-term fiscal reform strategy to create fiscal space to manage spending pressures.
The financial sector has been resilient to past shocks, but there are risks from commercial real estate and higher non-performing loans.	Make permanent borrower-based macroprudential measures.
The labour tax wedge is among the highest in the OECD.	Rebalance the tax system away from labour and increase other revenues by lowering social security contributions and personal income tax, alongside revenue raising measures including property taxation.
High energy prices continue to hinder competitiveness and production. Continued reliance on oil and gas undermines both climate goals and energy security, leaving Austria off track for its emission reduction targets.	Upgrade and expand the electricity grid by setting clear investment priorities, reforming financing regulations and digitalising the grid. Align diesel and gasoline taxes and raise fuel taxes to match neighbouring countries.
A growing minority of young people are not in education, employment, or training (NEET). Tertiary completion rates remain low by international standards.	Further tighten the link between higher education institution's funding and performance to strengthen accountability and student success.
Building economic resilience through business dynamism	
Austria ranks highly in design and patent applications but the transformation of these outputs into new-to-market and new-to-firm innovations is among the lowest in the EU.	Implement a comprehensive package of policies to improve energy and price competitiveness, productivity, strategic sourcing of inputs and R&D and innovation.
Austria's overall PMR score sits above the OECD average. Barriers to entry in services are among the highest in the OECD.	Broaden qualification pathways and reduce experience requirements to professional services.
Market concentration remains high across many sectors. Competition in energy market is low and fragmented at the *länders* level.	Develop a more nationally integrated and competitive energy supply market by inducing more competitors in markets.
Restoring the affordability and improving the functioning of the housing market	
Eligibility for non-market rentals is currently only assessed at the time the rental contract is signed, not considering any income improvements during the tenancy.	Regularly reassess the financial situation of tenants of limited-profit housing, and increase rents for those who no longer satisfy the eligibility criteria.
Average purchase prices for constructable land have increased substantially. Austria ranks high among OECD countries for vacant dwellings and seasonal residences as shares of total housing stock.	Revise and increase the recurrent taxation on unused land and introduce recurrent taxes on dwellings that remain unoccupied in high-cost pressure areas.
Vienna and other big cities face strong housing demand while many rural and peri-urban areas face population stagnation or decline.	Expand and improve public transport networks and infrastructure to better connect rural and peri-urban areas with urban centres.
Austria's building stock is old and is characterized by high energy intensity and direct emissions. Renovation rates progress slowly despite incentives.	Consolidate all incentives for home energy efficiency to avoid dispersion and duplication.
Addressing demographic challenges requires a bold set of reforms	
Austria has a low, although gradually rising, average effective age of labour market exit.	Tighten the access to early retirement schemes and make sure the old-age subsidised part-time scheme (*Altersteilzeit*) closely targets those at risk of early labour market exit.
Women often take a high share of childcare responsibilities, switching to part-time work when their children are young.	Extend the leave that fathers need to take within the overall parental leave period. Gradually phase out the single-earner tax credit to reduce tax-induced distortions in work incentives.
Public pension expenditure as a share of GDP in Austria is one of the highest in the OECD and will rise further up to 2035.	Ensure the long-term sustainability of the pensions system, for example by linking the retirement age to life expectancy gains.
Efficiency of Austria's health system remains hampered by its structural and financial fragmentation.	Implement recent reforms and continue to optimise and harmonise the functioning and the governance of the health system.
The health system is currently too reliant on expensive inpatient care and primary care does not exercise a formal gate-keeping function.	Strengthen further primary health care to reduce high reliance on hospitals, particularly through further deploying multidisciplinary primary health care units.
Expenditure on outpatient pharmaceutical products accounts for more than 15% of total health spending and the share of generic medicine prescribed is substantially lower than in other OECD countries.	Enable pharmacists to substitute branded drugs with generics without requiring prior physician approval and set the maximum reimbursement level at the price of the least expensive generic medicine.


EURO
EYPΩ
EURO
EYPΩ
EURO
EYPΩ
EURO

1 Rekindling growth while strengthening the public finances

Falilou Fall

After a prolonged recession triggered by the energy price shock and weak demand in Europe, Austria's economy is gradually returning to growth. Output is recovering gradually, supported by resilient employment, rising real incomes and easing inflation. The fiscal deficit remains elevated following strong spending increases, but is expected to narrow under the government's consolidation plan. Over the medium term, ageing and climate transition costs will add to spending pressures, requiring shifts and greater efficiency in spending and a more growth-friendly tax mix. Productivity growth remains weak. Improving education outcomes is essential to boost long-term growth and competitiveness. While progress has been made in expanding renewables, Austria must accelerate grid expansion, streamline permitting and reduce fossil-fuel dependence to reduce high energy costs.

1.1. Economic activity is weak but starting to recover

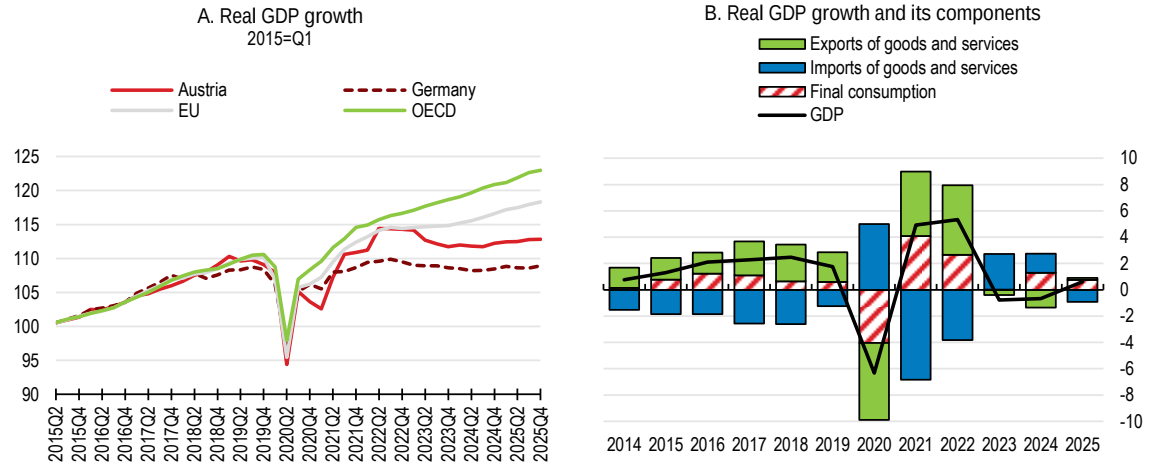
Austria enjoys relatively high per capita income and well-being, supported by strong macroeconomic fundamentals, solid institutions, a large industrial base and dynamic services sector. After a strong post-pandemic rebound, the economy slowed markedly in 2023–24, leading to a prolonged recession, but it is now recovering and projected to grow gradually in the coming years. A substantial fiscal deficit has emerged but is expected to narrow under the government's fiscal consolidation plans and as growth strengthens. Nevertheless, Austria faces long-term fiscal challenges.

1.1.1. The economy has experienced a prolonged recession

The Russian war of aggression against Ukraine disrupted the post-pandemic recovery and triggered a prolonged recession in Austria (Figure 1.1). The downturn, driven by the 2022 energy price shock, hit Austria particularly hard and will have permanent effect on the level of output. Austria's economic performance has closely tracked Germany's, given close trade and other business links, but diverged from the rest of the European Union since 2023 (Figure 1.1, Panel A). After two years of contraction, economic activity began a modest recovery in late 2024. Between the fourth quarter of 2022 and the trough in the third quarter of 2024, real GDP declined by 2.8%. Output fell across most sectors—industry, manufacturing, retail, trade, and services—while construction slumped sharply. By contrast, public sector activity and some services sectors expanded, partly cushioning the downturn.

Figure 1.1. A prolonged recession

Year-on year, percentage change



Note: The EU aggregate corresponds to the composition of European Union as of 2020. The OECD aggregate corresponds to the unweighted average of the OECD countries. Panel B: Final consumption includes Private and Government Final Consumption.
Source: OECD.

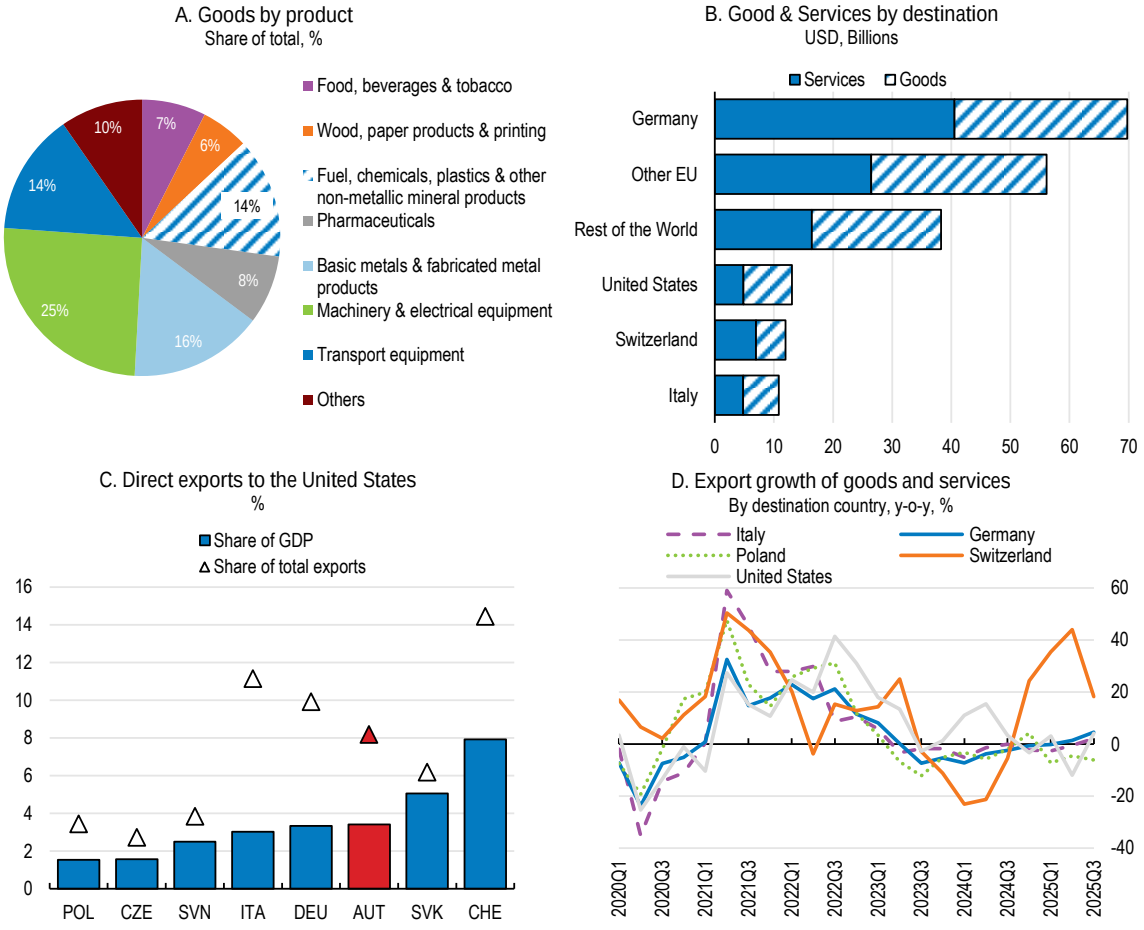
StatLink 2 https://stat.link/8gp6lw

Industrial competitiveness has been hit by higher energy prices, rapid wage growth following high consumer price inflation (see Chapter 2). An increasingly uncertain global environment, the upheaval in the automotive sector, the war in Ukraine and intensifying competition from China pose major challenges for exporting firms. Between the fourth quarter of 2022 and the second quarter of 2025, real exports of goods and services declined by 5.5%. Most of this fall occurred within the EU, reflecting Austria's deep integration into German and Central, Eastern and South-Eastern Europe value chains. By contrast, exports to the United States rose strongly in 2023 and 2024, driven mainly by pharmaceutical products. New U.S. tariffs on EU goods are expected to impact Austrian exports overall (Figure 1.2). The

United States accounts for about 8% of Austrian goods exports, but much of the impact will occur indirectly through reduced demand from European partners, as many Austrian products are embedded in goods exported by its partners (Figure 1.2, Panel D).

Figure 1.2. Exports are largely to European markets, but remain exposed to US tariffs

Share of exports by sector and destination, 2023



Note: Panel A: Values are balanced and adjusted for re-exports. Categories follow the OECD BIMTS CPA 2.1 classification: "Food, beverages and tobacco" (C10T12); "Wood, paper products & printing" (C16T18); "Fuel, chemicals, plastics & other non-metallic mineral products" (C19T23 excl. C21 Pharmaceuticals); "Basic metal & fabricated metal products" (C24_25); "Machinery and electrical equipment" (C26–C30); "Transport equipment" (C29–C30); "Others" comprise the remaining mainly manufactured products. Panel B: Top five destinations shown; "Other EU countries" covers OECD members in the EU. Panel C: Trade shares based on OECD Balanced International Merchandise Trade (2023). Panel D: Goods data refer to total industry (ÖNACE). Countries shown reflect Austria's most relevant destinations.

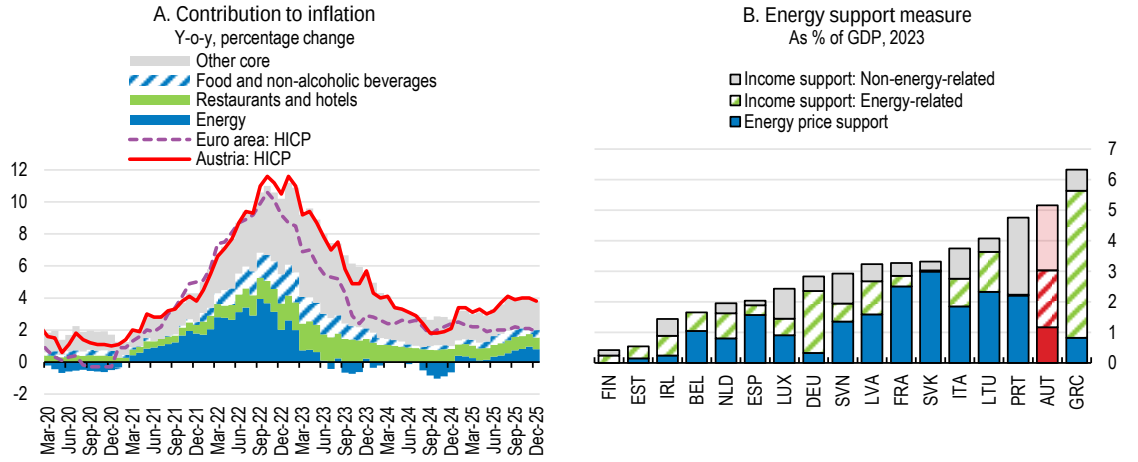
Source: OECD Balanced international merchandise trade statistics (BIMTS), IMF (Goods, Panel B), OECD International Trade in Services (database), OECD Economic Outlook, Volume 2025 Issue 1: Tackling Uncertainty, Reviving Growth, OENB, Austrian National Bank.

StatLink 2 https://stat.link/0lkp2e

Inflation surged in 2022 as soaring energy prices spread across the economy (Figure 1.3). Thanks to extensive energy support measures introduced in 2023, energy prices began to fall, helping to slow inflation. However, backward-looking wage adjustment to inflation has led to persistent price pressures, especially for services, which are highly wage intensive. Food prices also contributed to keeping inflation high. While headline inflation peaked in late 2022 in year-on-year terms, it has remained above 3% in underlying terms.

Inflation rose again in January 2025, following the expiry of energy support measures and other factors. Energy inflation rose sharply in early 2025, surging from –7.8% to +5.2% from December 2024 to January 2025, largely due to the end of the electricity price brake, the reinstatement of the electricity and natural gas levies, the reintroduction of renewable energy charges, higher electricity and gas network fees and an increase in the CO_2 price. These changes will mechanically add to measured inflation throughout 2025. However, core inflation is expected to ease gradually towards 2% in the coming years.

Figure 1.3. Inflation has fallen but remains elevated



Note: Panel A: Data refer to COICOP 1999 divisions. Panel B: Energy price support measures directly reduce, regulate or cap energy market prices or reduce energy end-use through reductions in VAT or excise duties. Energy-related income support involves budgetary transfers linked to the level of energy consumption while non-energy-related income support directly increase the disposable income of beneficiaries through budgetary transfers or tax reductions without any link to energy consumption.
Source: OECD Consumer Prices Indices (database); and OECD (2023), Energy Support Measures Tracker.

StatLink 2 https://stat.link/rb93li

1.1.2. Demand remains weak and savings are rising, despite a strong labour market

Domestic demand—particularly private consumption—has remained weak during the prolonged recession. High inflation in 2022 and 2023 initially caused real wage losses and a fall in consumption due to delayed wage adjustments. In 2024, however, strong nominal wage growth combined with easing inflation led to a sharp rise in real household incomes but only a moderate increase in consumption. Households have remained cautious, increasing their savings amid uncertainty about geopolitical risks, inflation, and Austria's wider prospects. The savings rate rose from 8.7% in 2022–2023 to 11.7% in 2024 and it is expected to remain elevated at around 10.4% in 2025 as consumer confidence remains weak (Figure 1.4, Panel A). The tourism sector representing 4.2% of GDP in 2023, surged in 2024 reaching around 4.5% of GDP and has further increased in 2025, contributing to sustain activity. The number of visitors and night spent has increased. According to provisional data, overnight stays reached 157.27 million and arrivals of guests increased to 48.17 million in 2025. This is 1.9% more overnight stays and 3.1% more guests than in 2024, the strongest year to date (Statistik Austria, 2026). The indirect effect of tourism on across all economic sectors – from accommodation and food service activities to transport, trade, arts, entertainment and leisure – contributed to supporting aggregate demand.

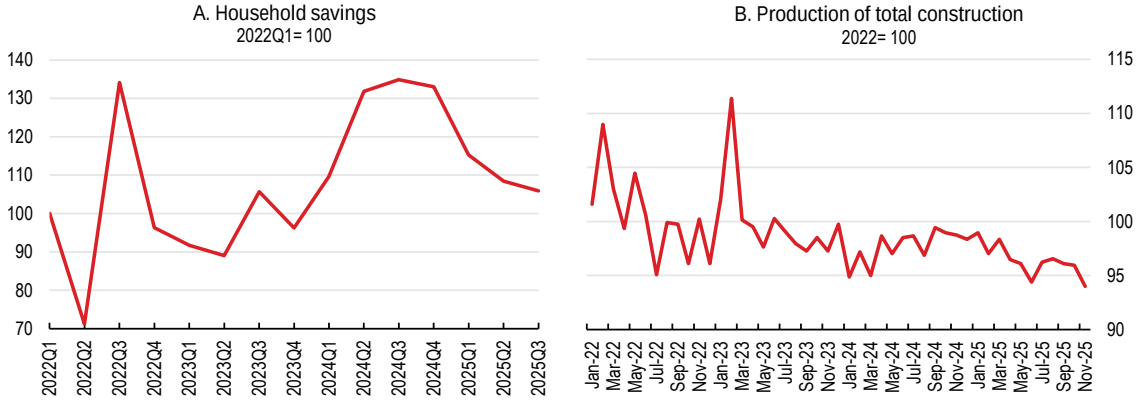
Industrial production reached a trough in October 2024, when it was down 9% from the fourth quarter of 2022. The decline is largely attributable to energy-intensive sectors, which were particularly affected by the rise in energy prices triggered by the Russian war of aggression against Ukraine. Industry has been affected by high energy prices, wage increases, triggered by high inflation and the difficult international

environment. The exporting industrial sector faces major challenges from a combination of uncertain US tariff policies, disruption in the automotive industry, the war in Ukraine and growing competition from China.

The downturn in construction—particularly residential building—has also weighed on economic activity. Residential investment began to decline as early as mid-2022, reflecting higher financing costs and the turning of the housing cycle. Construction output fell throughout 2023 and 2024 (Figure 1.4, Panel B). However, rising building permits since mid-2024 have started to feed through, and construction activity is expected to gradually recover from 2026. More broadly, investment contracted in 2023 and 2024 but is showing signs of a gradual rebound in 2025.

Figure 1.4. Household savings increased and construction declined

Index, seasonally adjusted



Note: Panel A: Data correspond to net saving of households including NPISH in relation to disposable income (gross) adjusted for changes in pension entitlements. Panel B: Data correspond to section F, NACE rev2.
Source: OECD, MEI (database).

StatLink 2 https://stat.link/gql1hy

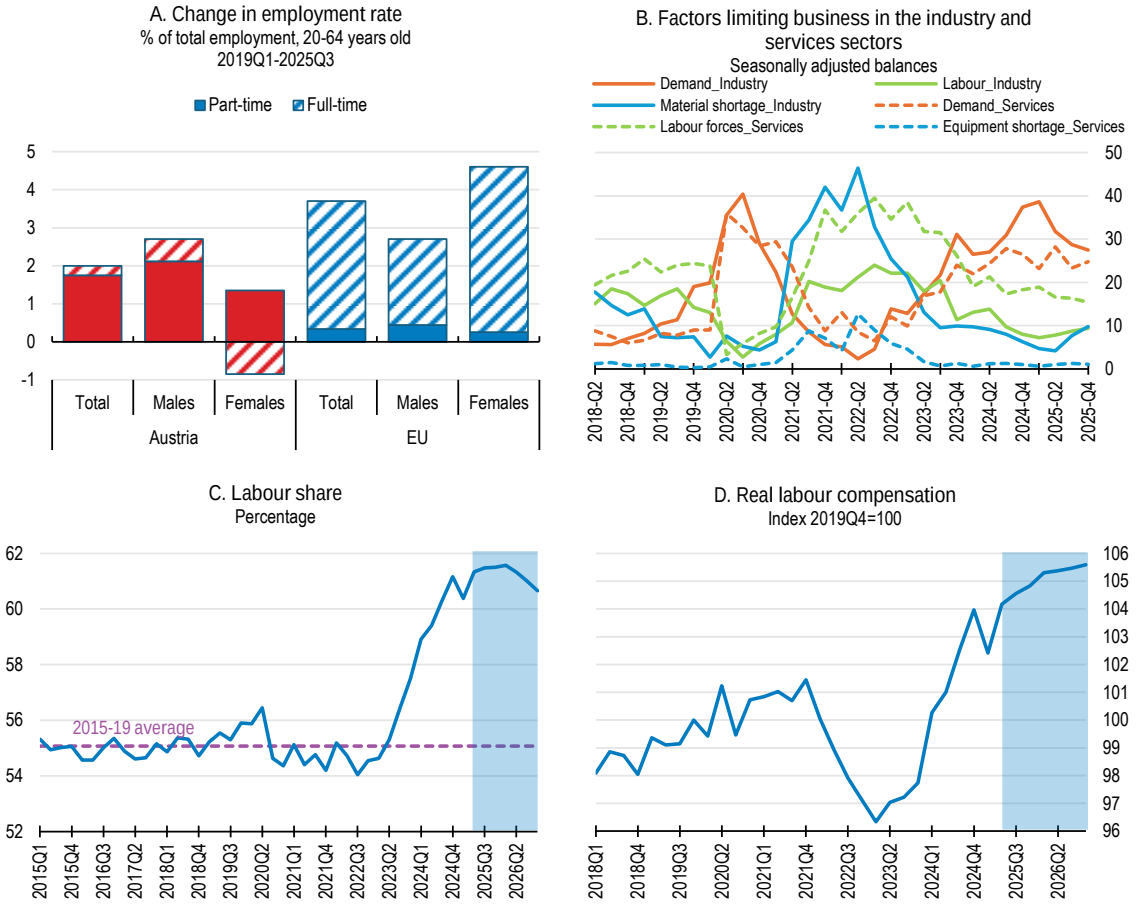
The labour market has remained relatively resilient, despite the weakness of GDP growth (Figure 1.5). Employment continued to rise slightly in 2024, driven partly by job creation in the public and public-related sectors. However, unemployment edged up in 2024 and 2025 as employment in industry and market services declined. Labour shortages that had constrained business activity in the aftermath of the pandemic eased during 2024 and early 2025 (Figure 1.5, Panel B). The gradual increase in the statutory retirement age for women, introduced in 2024, has also helped ease labour supply pressures. Of every eight women affected, seven remain in employment longer with the remaining woman in longer unemployment (WIFO, 2025). While both part-time and full-time employment have increased since 2019 overall, women's part-time work has risen while their full-time work has declined.

Real wages rose sharply in 2024 as inflation moderated, while nominal wages continued to adjust to past price increases, widening the competitiveness loss vis-à-vis many other euro area countries. In Austria, wage bargaining is largely backward-looking, causing nominal wages to respond to inflation with a lag and tends to follow consumer prices, including increases in the costs of imported energy and food (see Box 1.1). Higher labour compensation has contributed to a notable rise in the labour share (Figure 1.5, Panel C). In 2025, however, wage agreements showed early signs of wage moderation as rising labour costs began to weigh on employment in labour-intensive sectors, particularly services.

To ensure competitiveness is maintained and that wages keep in line with productivity, the inflation reference in wage bargaining could be adjusted. Alternative proposals include using the GDP deflator (more stable but less timely), core inflation (favoured by the Central Bank for being less volatile and closely correlated with domestic prices) or forward-looking measures of inflation. Several OECD

countries, such as Belgium, France and Italy, use core inflation or a similar national index excluding volatile components and imported goods as a reference or index in their wage bargaining. Using the GDP deflator within the Benya formula could preserve flexibility while preventing distortions caused by temporary or imported price shocks. Anchoring collective bargaining outcomes more closely to developments in productivity and the GDP deflator as well as the overall economic conditions, would help maintain competitiveness.

Figure 1.5. A resilient labour market



Note: Panel A: EU aggregate reflects the 2020 EU composition. Data are seasonally but not calendar adjusted. Panel B: Net balances are the difference between weighted shares of firms reporting favourable vs. unfavourable answers. Panel C: Labour share is labour compensation over GDP net of taxes (minus subsidies) on production and imports. Panels B & C: Grey area indicates the forecast window. Panel D: Labour compensation rate is total employee compensation divided by dependent employment and deflated by the consumption deflator.
Source: Eurostat Labour Force Survey (database), EU Harmonised Business and Consumer Survey (database).

StatLink 2 https://stat.link/mxgyd7

Box 1.1. Collective wage settlements in Austria and the impact of inflation

Austria's collective bargaining system has been viewed as highly effective, with nearly all private-sector workers covered by agreements negotiated mainly at the sectoral level. The system's organised decentralisation allows for annual adjustments to wages and conditions, and contributes to flexibility and strong labour relations.

Wage negotiations are guided by the "Benya formula," which informally links wage increases to past consumer inflation, labour market conditions and productivity growth to maintain purchasing

power and a stable labour share of income.

However, since 2022, imported inflation—especially from rising energy prices—has challenged this model. The gap between consumer price inflation and the GDP deflator has caused swings in both real wages and the labour share, exposing weaknesses in using past CPI inflation as the main reference.

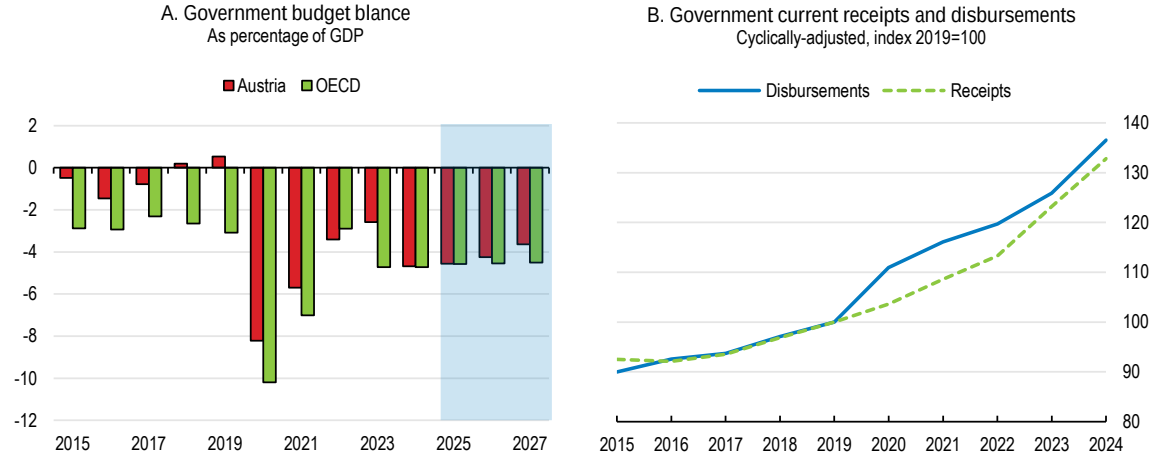
Austria's economy features widespread indexation mechanisms, linking many prices, wages, and government benefits to past inflation. About 13% of household spending is directly indexed, mainly through rents (5%), insurance (3.8%), and housing-related services. On the public side, pensions and other benefits are adjusted with inflation, while income tax brackets are partially adjusted to limit bracket creep.

A simulation of a 1% inflation shock suggests that second-round effects from indexation and wage adjustments are front-loaded (OeNB, 2025). Inflation would rise by an additional 0.4 percentage points in the first year and 0.16 points in the second, before levelling off. After four years, the cumulative price increase reaches 1.7% with no further impact thereafter. If indexation were reduced so only half the inflation shock feeds into wages, the total effect after four years drops to 1.4%. Roughly one-third of the secondary inflation comes from formal indexation, and two-thirds from de facto wage indexation.

Source: OECD, Economic Survey of Austria 2024 and OeNB (2025) https://www.oenb.at/Presse/oenb-blog/2025/2025-09-05-hohe-inflation.html.

Fiscal policy helped stabilise demand in 2024 and 2025. The fiscal deficit widened from 2.6% of GDP in 2023 to 4.7% in 2024 and is projected to remain around 4.5% in 2025. Government spending rose sharply by 9.3%, while revenues increased by only 5.3% in 2024 (Figure 1.6). Higher expenditure mainly reflected the lagged impact of inflation adjustments on wages, pensions, and indexed social benefits (Table 1.1). The evolution of public spending supported household income and demand, thereby limiting the depth of the recession. The structural primary balance remained substantial and negative at -2.5% in 2024. Conversely, the expiry of COVID-related aid subsidies reduced spending by about 0.3% of GDP in 2024. Interest payments have increased.

Figure 1.6. Fiscal policy contributed to maintain demand



Note: Panel A: Shaded area indicates OECD projections. The OECD aggregate corresponds to the unweighted average of the OECD countries.
Source: OECD Economic Outlook: Statistics and Projections (database).

StatLink 2 https://stat.link/j03ux6

Table 1.1. Expenditure developments in 2024

Category	Share of GDP 2023 (%)	Share of GDP 2024 (%)	Variation in % (2024)	Comment
Compensation of employees	10.5	11.3	10.8	Reflects delayed inflation adjustments
Social benefits (cash)	18.3	19.6	10.6	Driven by pensions and transfers
Social benefits in kind	4.3	4.6	9.9	Mainly health and care-related spending
Interest payments	1.2	1.5		Continued increase since 2023
Subsidies	2.3	1.9	-14.2	Expiry of COVID-related aid

Source: Ministry of Finance, 2025, "Report on effective measures to correct the excessive deficit", October 2025.

1.1.3. Growth is projected to pick up gradually

Economic activity is projected to recover gradually over the next two years, with GDP growth of 1.1% and 1.3% in 2026 and 2027 (Table 1.2). Household consumption will remain solid as real disposable incomes rise, supported by easing inflation and resilient employment. The gradual unwinding of excess savings could further sustain consumption. Financial conditions are expected to improve as inflation recedes and interest rates decline, supporting a progressive recovery in investment from 2026 onwards. Export growth will also strengthen as economic activity rebounds in Austria's main trading partner, Germany. Higher German public investment will boost growth and through trade marginally spill over into Austrian exports. The labour market is expected to loosen slightly, with a stable unemployment, while wages should remain resilient.

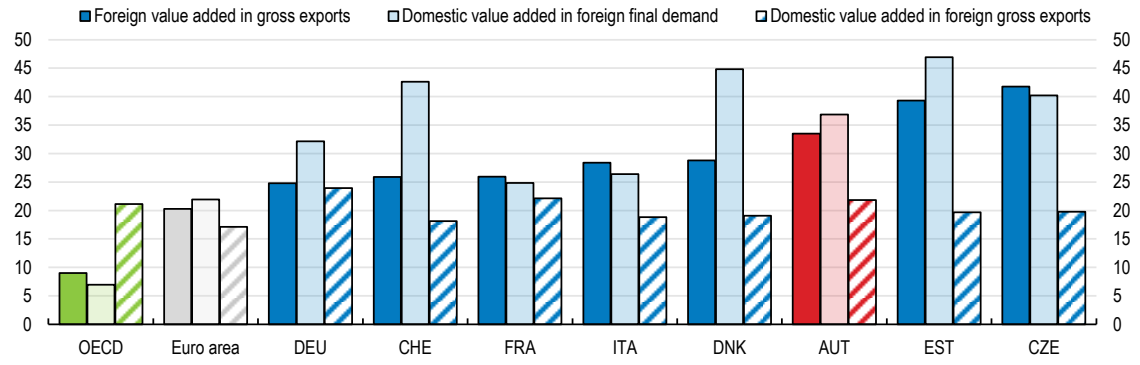
Inflation is projected to moderato to 2.5% in 2026 and 2.2% in 2027. Energy inflation—the main driver in 2025—should decline in 2026 as base effects fade and lower wholesale prices gradually pass through to consumers. Still rising wages, persistent retail and services inflation will continue to weigh on headline inflation, while a planned tobacco tax increase will also add modest upward pressure in 2026.

Significant global uncertainties continue to cloud the outlook, while tail risks exist (Table 1.3). The intensification of geopolitical tensions in Europe could impact Austria and its main trading partners. Security and trade risks remain high. Increased tensions could impact demand and uncertainty in the region, raise energy prices and test the resilience of key infrastructures. Austria's foreign value added in exports—around 32%, compared with 16% in the EU—is among the highest in the OECD, heightening exposure to rising trade barriers and global fragmentation (Figure 1.7). Despite some diversification of trade partners (Figure 1.2), goods exports remain highly concentrated in machinery and electrical equipment (25%) and transport equipment (14%). The industrial sector continues to perform weakly, and uncertainty about its prospects remains elevated. Growing competition from China, particularly in the automotive sector, poses an additional risk. Further diversifying input sources and export specialisation will be crucial to renewing industrial competitiveness. Austria also remains highly exposed to gas prices: renewed energy price increases would undermine competitiveness, fuel inflation, and trigger new wage pressures.

Important revisions to quarterly—and occasionally annual—GDP figures hinder short-term projections. In September 2025, the latest results of Austria's national accounts were published, revising data for the years 2021 to 2024, as well as the corresponding quarterly figures up to and including the second quarter of 2025. Part of the revision reflects new surveys and data, which are welcomed improvements. However, information gaps and delays in the transmission of firm-level and administrative data persist. In particular, VAT administrative data are transmitted with longer delays than in most other European countries. Shortening the transmission lag of VAT data would improve the estimation of trade and services activity and enhance the accuracy of quarterly GDP estimates.

Figure 1.7. Austria is highly integrated in trade value chains

Total activities, Percentage, 2022



Note: The OECD aggregate corresponds to the unweighted average of the OECD countries.
Source: OECD 2025 Trade in Value Added (TiVA), database.

StatLink 2 https://stat.link/c2u8bq

Table 1.2. Macroeconomic indicators and projections

Annual percentage change, volume (2020 prices)

	2022				Projections	
	Current prices (EUR bn)	2023	2024	2025	2026	2027
Gross domestic product (GDP)	449.5	-0.7	-0.8	0.6	1.1	1.3
Private consumption	228.9	-0.2	1.0	0.5	0.9	1.3
Government consumption	92.2	0.8	3.8	2.4	0.8	0.6
Gross fixed capital formation	113.7	-1.4	-4.4	1.4	1.0	2.2
Housing	29.2	-8.2	-3.3	-6.0	-1.5	0.8
Final domestic demand	434.9	-0.3	0.3	1.1	0.9	1.3
Stockbuilding[1]	17.3	-2.6	-1.3	-0.2	-0.2	0.0
Total domestic demand	452.1	-2.9	-1.1	1.3	1.1	1.3
Exports of goods and services	276.5	-0.2	-2.3	0.3	1.3	1.5
Imports of goods and services	279.1	-4.0	-2.6	1.7	1.1	1.5
Net exports[1]	-2.6	2.3	0.1	-0.7	0.2	0.0
Other indicators (growth rates, unless specified)						
Potential GDP	. .	1.3	1.1	0.9	0.8	0.8
Employment	. .	0.9	0.1	0.2	0.2	0.2
Unemployment rate	. .	5.1	5.2	5.5	5.4	5.4
GDP deflator	. .	7.2	4.1	3.2	2.0	1.9
Consumer price index (harmonised)	. .	7.7	2.9	3.6	2.5	2.2
Core consumer prices (harmonised)	. .	7.3	3.9	3.1	2.6	2.2
Household saving ratio, net[3]	. .	8.6	11.7	11.8	11.6	11.4
Current account balance[4]	. .	1.6	1.5	1.1	0.8	0.7
General government fiscal balance[4]	. .	-2.6	-4.7	-4.5	-4.2	-4.0
Underlying general government fiscal balance[2]	. .	-3.0	-3.8	-3.3	-3.2	-3.3
Underlying government primary fiscal balance[2]	. .	-2.2	-2.8	-1.9	-1.3	-1.1
General government gross debt (Maastricht)[4]	. .	77.7	80.0	81.9	84.0	85.7
General government net debt[4]	. .	44.9	47.8	49.8	51.9	53.6
Three-month money market rate, average	. .	3.4	3.6	2.2	2.0	2.2
Ten-year government bond yield, average	. .	3.1	2.8	3.0	3.1	3.3

Note: 1. Contribution to changes in real GDP. 2. As a percentage of potential GDP. 3. As a percentage of household disposable income. 4. As a percentage of GDP.
Source: OECD (2025), OECD Economic Outlook 118: Statistics and Projections (database).

Table 1.3. Events that could entail major changes to the outlook

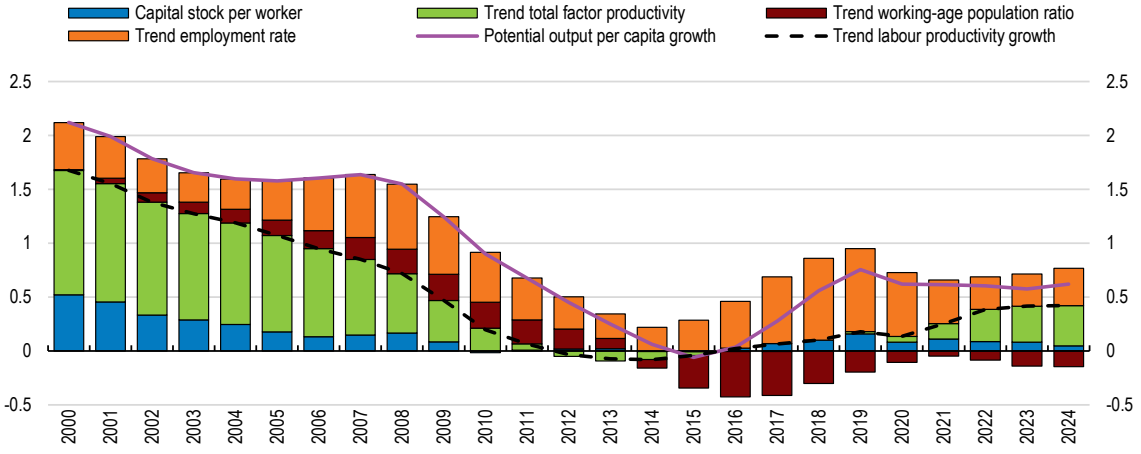
Risks	Likely impact
An intensification of global and regional geopolitical tensions.	Disruptions to key infrastructure and cyber risks and higher spending on defence and security.
Critical intensification of global trade tensions and increased protectionism at the global level.	Increases in trade barriers and restrictions that distort trade would reduce external demand and risk triggering supply bottlenecks. Higher US tariffs on EU goods would drag severely on output growth and undermine activity in industries highly integrated in international supply chains. Restrictions on key minerals could increase trade costs and impact the value chain of Austrian exports.
Large spikes in energy prices.	Geopolitical tensions could see renewed increases in energy prices. Households heating and many industries are highly exposed to gas prices.

1.1.4. Long-term growth prospects are modest, but could be raised by reforms

Potential GDP per capita growth has weakened since the pandemic (Figure 1.8). A shrinking working-age population, low productivity growth, and high energy costs have eroded industrial competitiveness. Trend labour productivity growth is low, held back by low capital intensity and rising part-time employment. Both cyclical headwinds and structural weaknesses continue to constrain Austria's productivity potential. Policy reforms are essential to unlock stronger and more inclusive growth. Increasing competition and business dynamism would boost innovation and productivity (see Chapter 2). Pension reform and higher employment of older workers (for example Action 55+), immigrants and women would mitigate the labour supply impact of ageing. Overall, the policy measures recommended in this Survey could significantly lift Austria's long-term growth potential (Box 1.2, Table 1.4). Austria must also address long-term challenges related to skills and energy security and costs.

Figure 1.8. Potential GDP per capita growth is low

Contribution to potential output per capita growth, in % points



Source: OECD Economic Outlook database.

StatLink 2 https://stat.link/lgaotq

Box 1.2. Estimated impact of structural reforms recommended in the Economic Survey

This box summarises potential medium-term impacts of selected structural reforms included in this Survey on GDP (Table 1.4). The quantification impacts and the packages of reforms are only illustrative.

Table 1.4. Illustrative impact of structural reforms on GDP level

Policy	Measure	10-year cumulative impact (%)	25-year cumulative impact (%)
Tax reform	Reducing the labour tax wedge by 2 ppts over 10 years (revenue neutral measure).	0.2	0.9
Increasing the retirement age	By 2/3 of life expectancy gains as of 2034.	0.0	1.6
Raise working time	Increasing employment rate of older workers by 2.5 percentage points by 2050, including by strengthening health risk prevention and reforming early retirement.	0.2	2.1
Improve childcare	Increasing female employment rate by 5 percentage points by 2050 by alleviating child and long-term care burden on women.	0.2	2.1
Reduce the regulatory burden	Reforming Administrative and Regulatory Burden to be equivalent to those in Denmark over 5 years.	0.6	2.1
Reduce regulatory barriers to competition in the services sector	Reforming Barriers in Service & Network to be equivalent to that in Denmark.	0.3	1.3
Total		1.5	10.2

Source: OECD long-term model and OECD calculations.

Improving education performance would help raise productivity

The ageing of the population is leading to a reduction of the labour force. Using and skilling the full workforce would be key to maintain potential growth by raising productivity. Austria invests heavily in education. Spending per student amounts to 29.6% of GDP per capita, well above the OECD average of 25.3%, representing 4.7% of GDP (Figure 1.9). This places Austria among the top four OECD countries in spending per student from primary to tertiary education. Public funding dominates, with governments providing 96% of total expenditure at primary to post-secondary non-tertiary levels, compared with an OECD average of 90% (OECD, 2025c). Spending is highest at tertiary level, reflecting strong investment in research and development. At pre-primary level, government spending rose by 24.5% between 2015 and 2022, partly driven by a 10.5% increase in enrolment as early years childcare has expanded.

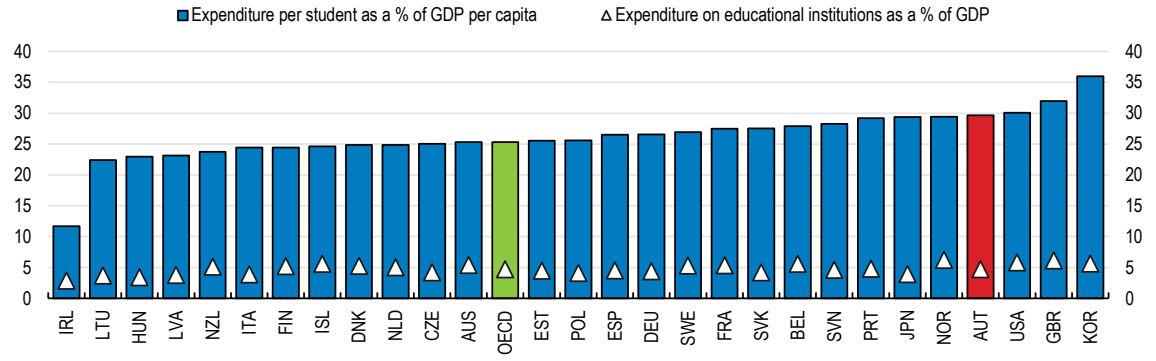
Austria's education system delivers good outcomes in terms of skills overall, but social background strongly shapes opportunities. In 2023, 63% of young adults with tertiary-educated parents also attained tertiary education, compared with just 16% among those whose parents lack upper secondary education—one of the widest gaps in the OECD (Figure 1.10). To counter this social background effect, Austria introduced from 2025 a "*Chancenbonus*" programme based on a social index, which considers parental education and language spoken at home to provide additional resources to schools with many disadvantaged pupils. The programme will be implemented from the school year 2026/27. Early tracking at age 10–11 into *Gymnasium* and *Mittelschule* reinforces these inequalities by limiting interaction across social groups and reducing catch-up opportunities for disadvantaged students (OECD, 2020[19]). Delaying tracking and strengthening support for students from low-education backgrounds would enhance both equity and efficiency in education.

A weakness in skills is that many Austrian adults have low literacy proficiency**.** About 31% of 25–64-year-olds score at or below Level 1 in the OECD Survey of Adult Skills (PIAAC), compared with 27% on average across the OECD (OECD, 2025c). Adults with tertiary education score, on average, 43 points higher than those with upper secondary qualifications—a gap larger than the OECD average of 34 points. Even accounting for migrant background, Austrians' literacy scores remain below peers and have declined over time. Strengthening basic skills and lifelong learning will be essential to raise

workforce proficiency and future productivity. The new educational leave programme, starting in 2026 and with a higher focus on low-skilled workers, could improve lifelong learning with targeted training provided that the financing share of employers is not a barrier to access.

Figure 1.9. Education spending is high

Expenditure on educational institutions, primary to tertiary education, 2022



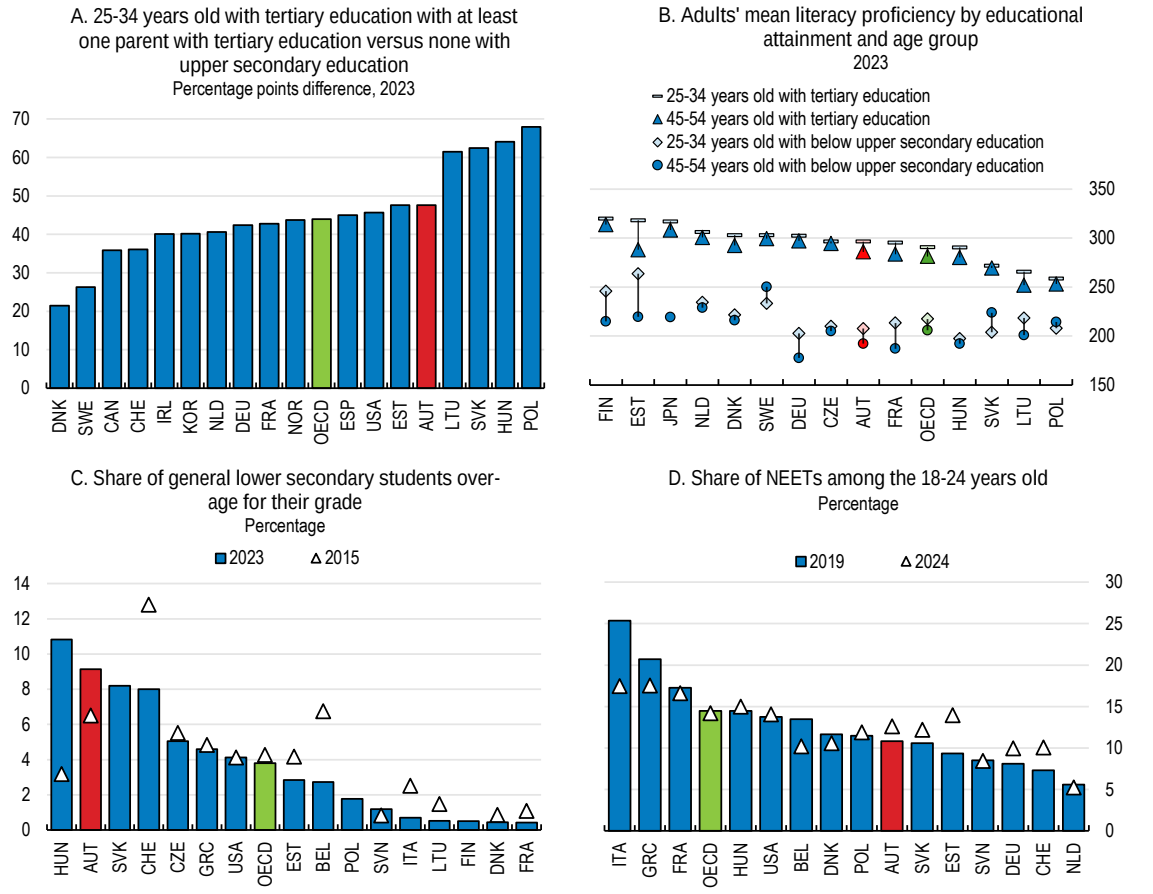
Note: The OECD aggregate corresponds to the simple average of the OECD countries. Data for United States refer to 2021.
Source: OECD (2025) Education at a Glance.

StatLink 2 https://stat.link/e0b1dg

Several indicators point to declining performance in Austria's education system. The share of students repeating a grade in lower secondary education is high and rising (Figure 1.10, Panel C). Grade repetition—when students fail to meet promotion requirements—aims to help struggling pupils but often produces negative outcomes, especially below upper secondary level (OECD, 2025c). Repetition is linked to lower academic performance, weaker school engagement, and a higher risk of early school leaving, even after accounting for socio-economic factors (Moulin and Sari, 2025; OECD, 2023). Austria should review and limit grade repetition, shifting instead toward targeted remedial support such as tutoring or summer programmes. Many Nordic countries (for instance, Finland, Sweden) have successfully replaced grade repetition with automatic promotion and individual learning support, improving both equity and outcomes.

Most Austrians aged 18–24 are engaged in education or employment, a key stage for building skills and entering the labour market. However, a growing minority are not in education, employment, or training (NEET)—a group at risk of long-term exclusion. Austria's NEET rate, though still low, has risen since the COVID-19 pandemic (Figure 1.10, Panel D). Contributing factors include school dropouts and low tertiary completion rates. Around 13% of students leave university after the first year of a bachelor's degree, matching the OECD average (Figure 1.11). Such high early dropout rates may reflect mismatches between expectations and study demands, insufficient career guidance, or inadequate academic preparation and admission procedures. Strengthening student orientation, mentoring, and tutoring, especially in the first year of tertiary education, would help reduce dropouts and improve labour market readiness.

Figure 1.10. Educational outcomes are generally good, but somewhat uneven

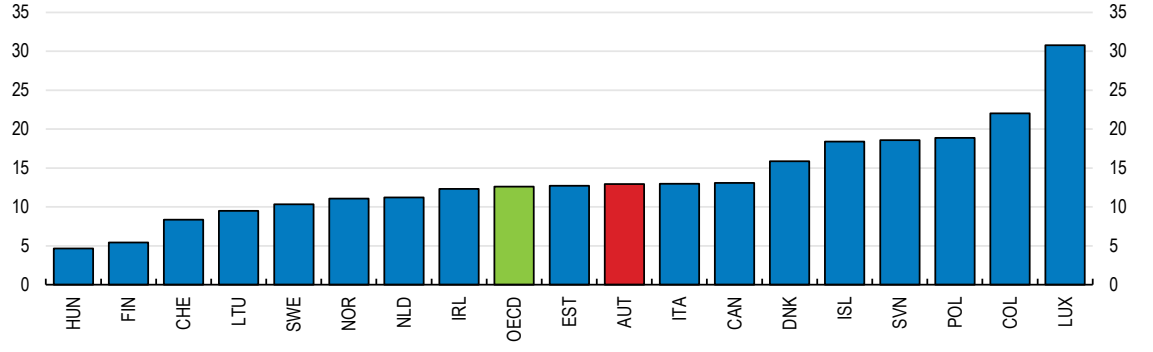


Note: The OECD aggregate corresponds to the unweighted average of the OECD countries. A selection of countries is shown.
Source: OECD Survey of Adult Skills (PIAAC); OECD (2025) Education at a Glance.

StatLink 2 https://stat.link/skd5cr

Figure 1.11. Dropout rates could be improved

Students who entered a bachelor's (or equivalent) programme and dropped out after the first year, percentage, 2023



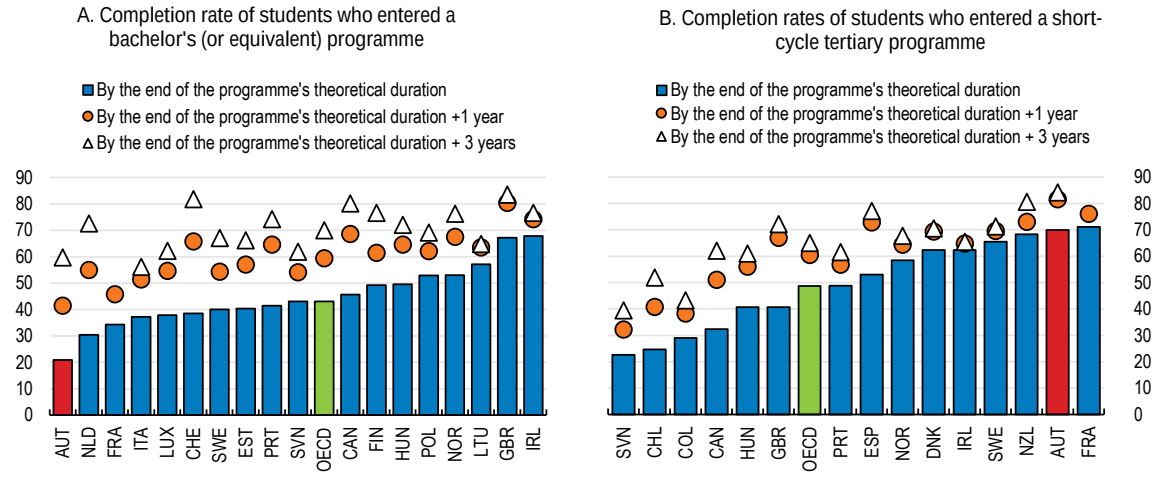
Note: The OECD aggregate corresponds to the unweighted average of the OECD countries. The survey includes full-time students who entered tertiary programmes for the first time. The reference year (2023) represents three years after the theoretical end of the programmes; 2021 represents one year after, and 2020 the theoretical end. Entry years—and therefore reference years for dropout rates—vary by country depending on programme length.
Source: OECD (2025), Education at a Glance.

StatLink 2 https://stat.link/4cop8z

Austria's tertiary completion rates remain low by international standards. Only 21% of new entrants to bachelor's programmes graduate within the theoretical duration, rising to 42% after one extra year and 60% after three (Figure 1.12, Panel A). This compares with OECD averages of 43%, 59%, and 70%, respectively. In contrast, short-cycle tertiary programmes, which are mostly vocational, show much higher completion rates (Figure 1.12, Panel B). The share of students entering bachelor's programmes (39%) is well below the OECD average (77%), reflecting Austria's strong upper secondary vocational education and training (VET) system. Completion rates vary sharply between public and private institutions. Private institutions outperform public ones by over 50 percentage points, a gap that narrows to 25 points three years beyond the standard duration (OECD, 2025c). The differences reflect selective admissions, programme structure, and study conditions. Public universities generally have open admission, while private institutions screen applicants more rigorously. Students in private universities and universities of applied sciences also report higher satisfaction with teaching quality, clearer course organisation, and greater study intensity, all of which support timely completion (Zucha et al., 2023). Other OECD countries have improved completion rates by linking funding to performance. In Estonia, 20% of tertiary funding depends on indicators such as completion rates. Denmark ties funding to study duration and graduate employment, with institutions losing up to 3.75% of core funding if average completion times exceed the norm. Similar systems exist in Finland, Israel, and Lithuania, while Norway conditions student loan-to-grant conversion on degree completion. Further tightening performance-based incentives introduced in 2018 by, for instance, increasing the European Credits Transfer System (ECTS) points targeted per year (16 ECTS), could strengthen institutional accountability and student success.

Figure 1.12. Completion rates of students in general tertiary education are low

Percentage, 2023



Note: The OECD aggregate corresponds to the unweighted average of the OECD countries. The survey includes full-time students who entered tertiary programmes for the first time. The reference year (2023) represents three years after the theoretical end of the programmes; 2021 represents one year after, and 2020 the theoretical end. Entry years—and therefore reference years for dropout rates—vary by country depending on programme length.
Source: OECD (2025), Education at a Glance.

StatLink 2 https://stat.link/43lsoj

Strengthening pathways from VET to tertiary education is crucial in Austria, where two-thirds of upper secondary students follow vocational tracks. While VET equips students with strong labour market skills, it should also provide routes to further study, enhancing lifelong learning and social mobility (Box 1.3). Expanding these pathways would raise the attractiveness of VET and allow graduates to upskill or reskill later in their careers. Ensuring vocational graduates are well prepared for tertiary education is essential. Students from colleges of higher vocational education (five-year track) have to

complete a final exam (*Reife- und Diplomprüfung*) that qualifies them for tertiary educational programmes. But some VET graduates (Berufsschule and Lehrabschluss) can only access short-cycle tertiary programmes, while graduates of three-year intermediate schools for vocation education may continue within the same institutions (*Berufsbildende Höhere Schulen*). The higher VET sector remains fragmented, with numerous providers and qualifications outside the formal system. The Federal Act on Higher Vocational Education and Training (HBB), in force since 2024, aims to consolidate this sector and establish it as a distinct pillar of the education system (CEDEFOP, 2025). It has consolidated the legal foundations for vocational higher degrees as professional bachelor equivalent to general degrees for professional workers. The new Bachelor Professional introduced in 2022, targeting primarily working professionals is a first step in that direction. Opening more vocational higher education programmes for workers with VET backgrounds would enhance reskilling and recognition. Further developing VET programmes in the ICT field would reduce the shortage in digital workers (see chapter 2).

Box 1.3. Strengthening career pathways for vocational tertiary level graduates

The International Standard Classification of Education (ISCED 2011) defines distinct vocational tracks for short-cycle tertiary programmes (ISCED 5), but not for bachelor's, master's or doctoral levels (ISCED 6–8). Nevertheless, many countries offer professional programmes at higher levels that build on vocational qualifications. These programmes combine advanced theory with practical training, providing upskilling pathways for individuals with vocational education and training (VET) backgrounds to move into highly skilled or supervisory roles.

As tertiary systems adapt to more diverse learners and rising demand for advanced technical skills driven by digitalisation and the green transition, professional programmes are gaining importance. They strengthen links between tertiary education and the labour market, promote lifelong learning, and ensure attractive career prospects for workers with VET backgrounds.

Recent reforms reflect this trend:

- **Germany (2020):** Amended its Vocational Training Act to create higher vocational qualifications—Certified Professional Specialist (ISCED 5), Bachelor Professional (ISCED 6), and Master Professional (ISCED 7)—to signal equivalence with academic degrees.
- **England (UK):** Degree apprenticeships combine academic study and work-based training, leading to undergraduate or master's degrees over 3–6 years. They are widely used but are being refocused towards early-career learners.
- **Sweden (2020):** Introduced short Higher Vocational Education (HVE) courses—up to six months—offering flexible upskilling for employed adults in cooperation with industry.
- **Netherlands:** The two-year Associate Degree in higher vocational education blends theory and practical skills, preparing students for employment or further study.
- **Switzerland:** Most professional examinations at tertiary level are situated at the ISCED 6 level and examples of qualifications include audio-prothesists, international trade experts or cyber security specialists.

Source: OECD (2025), Education at a Glance 2025.

High dependence on imported fossil energy affects competitiveness and security

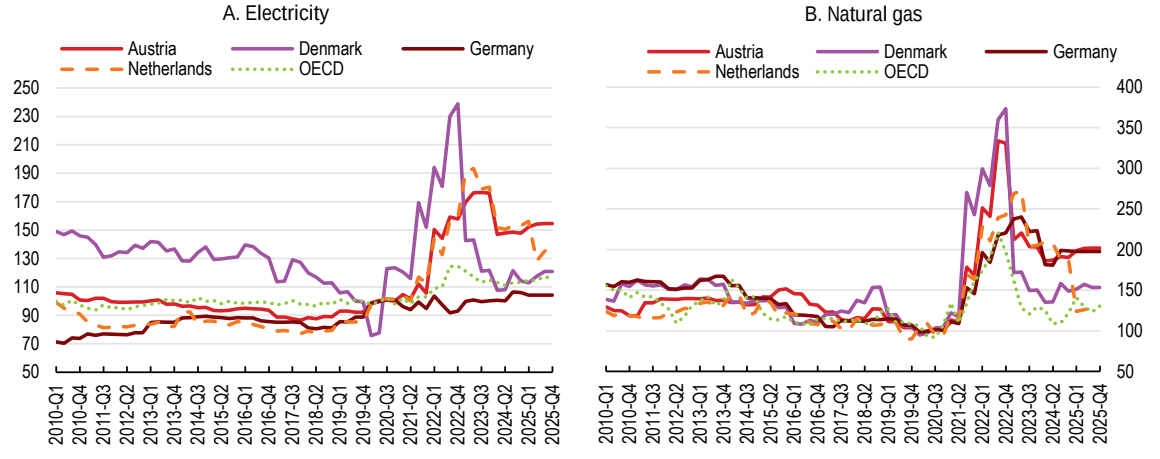
High energy prices continue to hinder competitiveness and production (Figure 1.13). Electricity prices for industrial use remain 40% above their level before the Russian war against Ukraine. Although natural gas prices have declined since 2022, they are still elevated. Industrial energy prices have increased more than in other EU countries. In Austria, electricity prices closely track fluctuations in natural gas and coal

markets. Dependence on Russian natural gas has made Austria highly vulnerable to price volatility. In April 2024, 81% of imported gas still came from Russia, an even larger share than in February 2022. In January 2025, gas deliveries through pipelines via Ukraine and Slovakia stopped. Austria has responded by further diversifying gas sources, mainly through imports from Germany and Italy, expanding storage capacity, and developing new transport lines such as the West Austria Gas Pipeline. Because Austria is landlocked, it can only rely on liquefied natural gas imports arriving through the North Sea, the Baltic, and the Mediterranean. Participating in the EU's joint gas purchasing mechanisms under the EU strategy can leverage collective bargaining power and secure more diversified supplies.

Expanding renewable energy production will strengthen energy security, whilst also reducing carbon emissions. Over the past decade, domestic energy production has averaged around 37% of total domestic supply, mainly from renewable sources (Figure 1.14). Austria has one of the highest shares of renewables in electricity generation in the OECD: about 60% of electricity comes from hydropower, and less than 20% from fossil fuels. The government aims to cover 100% of total electricity consumption with domestic renewables (on a national balance) by 2030. While the government has simplified and eased the deployment of small-scale hydropower, photovoltaic, and solar systems, administrative barriers to building large-scale renewable infrastructure remain high (OECD, 2024a). In Austria, wind power projects typically take five to six years to secure permits—longer than in most Western and Central European countries (European Commission, 2023). To accelerate investments, Austria could combine designating renewable energy projects as being of "overriding public interest" with requiring subnational governments to identify priority areas where permitting is streamlined, following examples from France, Spain, and Germany. Passing and implementing the Renewable Expansion Acceleration Act would help simplify permitting—by introducing a one-stop shop, defining energy transition projects as overriding public interest, and standardising criteria and thresholds for approvals.

Figure 1.13. Energy costs of production remain high

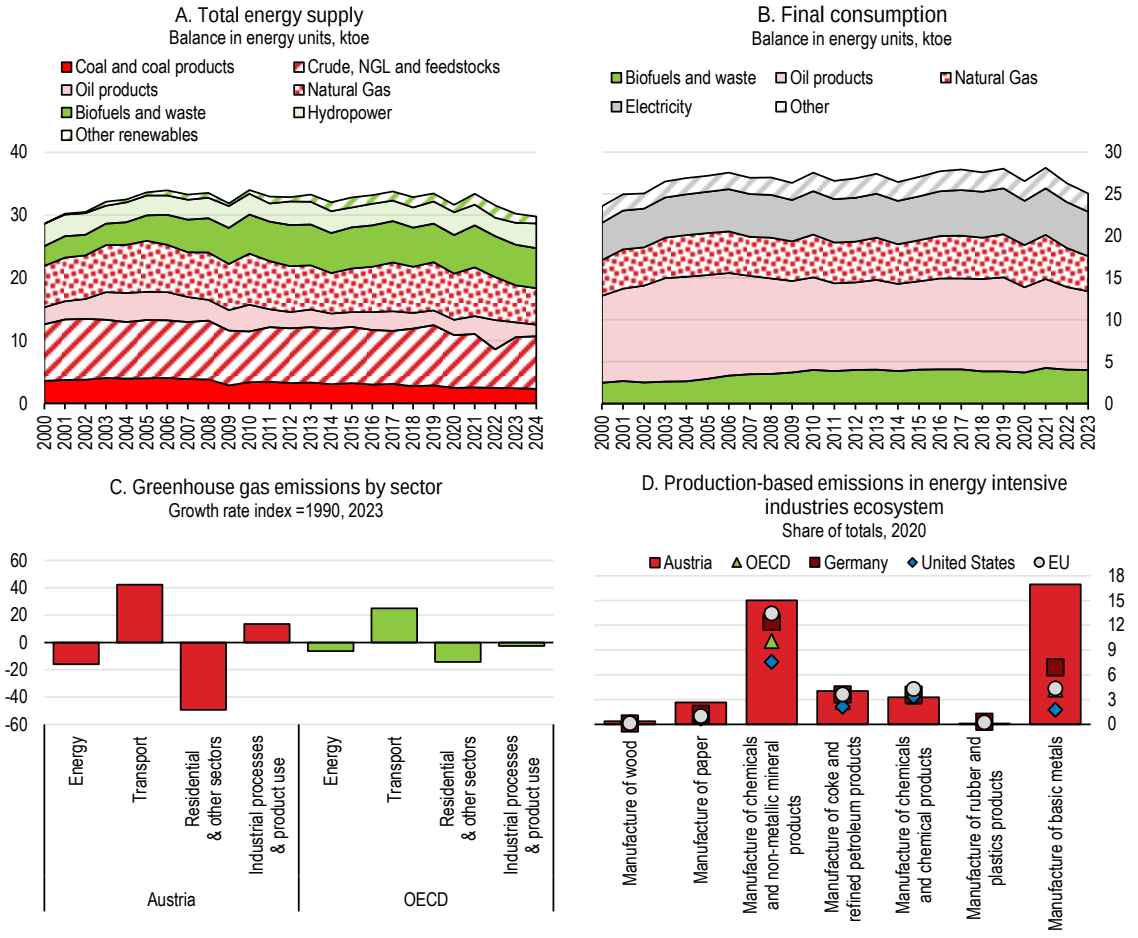
Real Indices of energy end-use prices, Industry sector (including transport)



Note: The OECD aggregate corresponds to the weighted average of the OECD countries. To calculate the real price index, the nominal prices were deflated with country-specific producer price indices (2015=100) for the industry sector and with country-specific consumer price indices (2015=100) for the household sector.
Source: IEA, Energy end-use-prices (database).

StatLink 2 https://stat.link/lsnh61

Figure 1.14. Increasing domestic sources of energy would reduce vulnerabilities and emissions



Note: Panel A: "Other renewables" includes electricity, heat, solar, wind and other renewables. Total energy supply equals production + net imports + stock changes – international bunkers. Panel B: "Other" includes coal and coal products, solar, wind, other renewables and heat. Final consumption is end-use plus non-energy use. Latest data are for 2023. For both panels the measure is thousand tonnes of oil equivalent (ktoe). Panel D: Energy-intensive industries comprise ISIC rev.4: 19 (Coke & petroleum), 23 (Non-metallic mineral), 20 (Chemicals), 24 (Basic metals), 17 (Paper), 22 (Rubber & plastic) and 16 (Wood). These sectors form an EU industrial ecosystem with dedicated policy guidelines (see European Commission, Annual Single Market Report 2021). "Manufacture of wood" covers wood and cork products; "Manufacture of paper" includes paper products, printing and media reproduction. EU aggregate reflects the 2020 EU composition. Panels C & D: OECD aggregate is the simple average across OECD countries.
Source: IEA World Energy Balances, OECD Environmental database.

StatLink 2 https://stat.link/g8uwni

Scaling up renewable electricity requires major grid upgrades and expansion. Grid capacity shortfalls already constrain new wind and solar projects, particularly in eastern Austria (OECD, 2024a). The current network cannot handle rising transmission and distribution demands. Administrative hurdles and complex permitting procedures—split between federal and provincial levels—remain key bottlenecks (Banasiak, Najdawi and Tiik, 2022). Lowering grid access fees, harmonising approval processes, and creating a central coordinating authority under the Renewable Energy Expansion Act would accelerate progress. The Austrian Network Infrastructure Plan (ÖNIP) should define clear investment priorities, while regulatory reforms to finance and digitalise the grid will further speed up connections and reduce costs. Austria is also a member of cross-border grid networks as the ALPACA — Allocation of Cross-zonal Capacity and Procurement of Automatic Frequency Restoration Reserves (aFRR) Cooperation Agreement – with Czechia and Germany, allowing the exchange and balancing of

power capacity. The association also allows joint procurement to reduce costs and enhance power balancing. Further developing such agreements would enhance balancing energy intermittency and security by permitting to cope with shortages in production or failure in transmission systems.

Mobility remains car-dependent, and the shift to low-emission transport is slow. Cutting fossil fuel use would reduce costs and boost competitiveness. Reforming fiscal incentives for transport and fuel use can further support decarbonisation. Commuter tax deductions and company-car benefits encourage long commutes and car dependence, while low diesel taxes attract cross-border fuel buyers. Phasing out these subsidies and aligning fuel taxes across fuels and with neighbouring countries could cut emissions and raise additional revenue (OECD, 2024a). Excise taxes on energy, fixed in nominal terms, in particular on diesel and gas, should be updated more regularly as the last update was in 2014.

1.2. Maintaining financial stability

The financial sector has remained resilient despite relatively high debt levels in the economy and rising interest rates in 2022–23. Banks' capitalisation continues to exceed regulatory requirements (Figure 1.15). The Common Equity Tier 1 (CET1) capital reached 18.6% of risk-weighted assets by mid-2025 (FSR, 2025). The leverage ratio stood at 9.0%, well above the 3% minimum. Strong profits in recent years have supported higher capital buffers; although declining from 2023, bank profits totalled EUR 10.8 billion in 2024 (FSR, 2025b). Robust net interest income, especially from corporate lending and central bank deposits, has been the main driver. However, with interest rates declining and corporate bankruptcies rising, profitability is expected to deteriorate, underscoring the need for higher profit retention to strengthen capital. The countercyclical capital butter remains at 0%, reflecting low credit growth and the limited sensitivity of the current credit to GDP gap indicator to systemic risk. Several European countries—such as Denmark, Ireland, Germany and Belgium—introduced positive buffers despite negative gaps. The Austrian National Bank incorporated additional indicators to better capture procyclical risks starting in October 2025 (Box 1.4).

Box 1.4. A new method to analyse procyclical systemic risks

The new OeNB method aims to enhance effectiveness and transparency. Starting in October 2025, the OeNB will apply a new framework for assessing procyclical systemic risks to determine the countercyclical capital buffer (CCyB). The previous approach relied mainly on the Basel credit-to-GDP gap indicator, which assesses whether credit growth outpaces economic growth. The new method broadens the analysis to five dimensions:

- **Financial sector:** indicators such as the Texas ratio (the ratio of non-performing assets to the sum of a bank's tangible common equity and loan loss reserves) and quarterly growth of domestic loans to households and firms.
- **Private sector:** debt service ratios (DSR) of non-financial corporations and households.
- **Macroeconomic conditions:** indicators such as new insolvency filings.
- **Financial markets:** the Composite Indicator of Systemic Stress.
- **Credit-to-GDP gaps:** two complementary measures to capture cyclical risk dynamics. Cyclical risks are identified when indicators exceed or fall below thresholds defined by the 10th or 90th percentiles of historical distributions.

Additionally, three indicators—capital surplus, net interest income/profitability, and liquidity buffer quality—will be assessed for both upward and downward deviations to capture a full range of cyclical vulnerabilities.

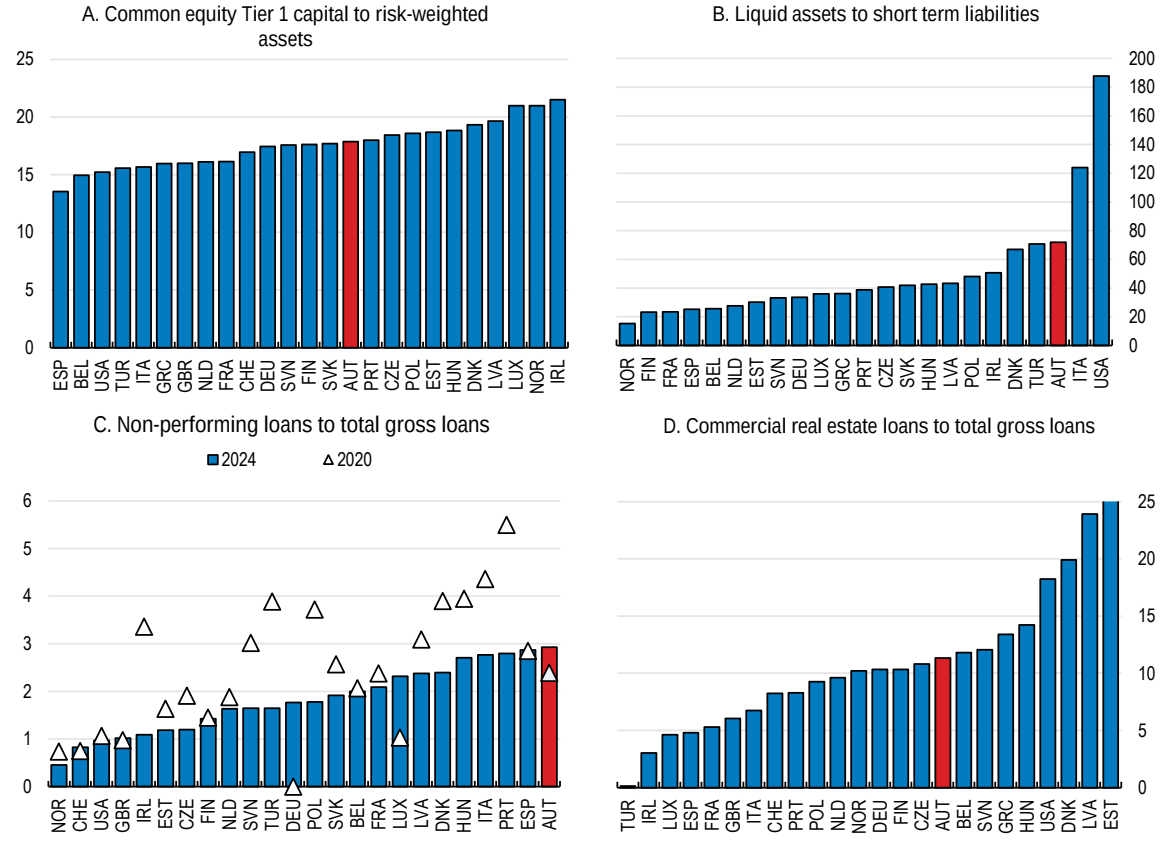
Source: Financial Stability Report, 2025.

Banking system liquidity remains strong. The ratio of liquid assets to short-term liabilities stood at 71%, while high-quality liquid assets covered 177% of net liquidity outflows under a 30-day stress scenario at end-2024—well above the 100% regulatory minimum (FSR, 2025). The ECB's monetary policy normalisation and the reduction of excess liquidity have led banks to shift portfolios away from central bank reserves towards government and covered bonds, increasing exposure to sovereign risk. Austrian banks hold a relatively high share of EU government bonds (61.5%) issued outside of Austria, compared to an EU average of 28%, with large exposures to Spain, France and Germany. While these assets receive preferential treatment in liquidity calculations, their concentration creates potential vulnerability in the event of sovereign downgrades and should be carefully monitored.

Risks to financial stability stem from rising business bankruptcies, small banks' exposure to non-performing loans (NPLs), commercial real estate lending, and cross-border exposure to Central, Eastern and South-Eastern Europe. Although credit growth has declined, non-performing loans (NPLs) remain relatively high compared with other OECD countries (Figure 1.15 C). The share of NPLs in total loans rose to 3.0% in 2024 (15C), driven mainly by exposures to commercial real estate and small and medium-sized enterprises. Corporate insolvencies surged in 2024, with nearly 6,600 companies filing for bankruptcy (FSR, 2025). The most affected sectors include real estate and construction, retail, and hospitality. Although the economy is now recovering, close monitoring of financial institutions exposed to the most affected sectors remains essential. In particular, small banks pose an elevated source of risk. Institutions with total assets below EUR 10 billion experienced a 115% increase in NPL volumes between the end of 2022 and the end of 2024, compared to less than 40% for large banks (FSR, 2025). As NPLs tie up a larger share of small banks' capital, they constrain lending capacity. Stricter supervision and enforcement of prudent lending standards for smaller banks are therefore warranted.

Figure 1.15. Indicators of financial stability remain solid

Percentage, 2024



Note: A selection of countries is shown.
Source: IMF Financial Soundness Indicators (database).

StatLink 2 https://stat.link/zeg7lj

The commercial real estate sector has become an increasing source of financial risk. Around one-third of the EUR 52 billion in total new corporate loans issued in 2024 was granted to firms in the construction and real estate sectors. Since 2022, the rate of NPLs in total lending among real estate companies has risen by 20 percentage points, from 15% to 35%, while that of construction firms has increased by 7 points to 16% (FSR, 2025). In response, a sectoral systemic risk buffer of 1% was introduced in July 2025 to address vulnerabilities in commercial real estate. Nonetheless, ensuring accurate property valuations and maintaining prudent lending standards remain essential to mitigate further risk accumulation.

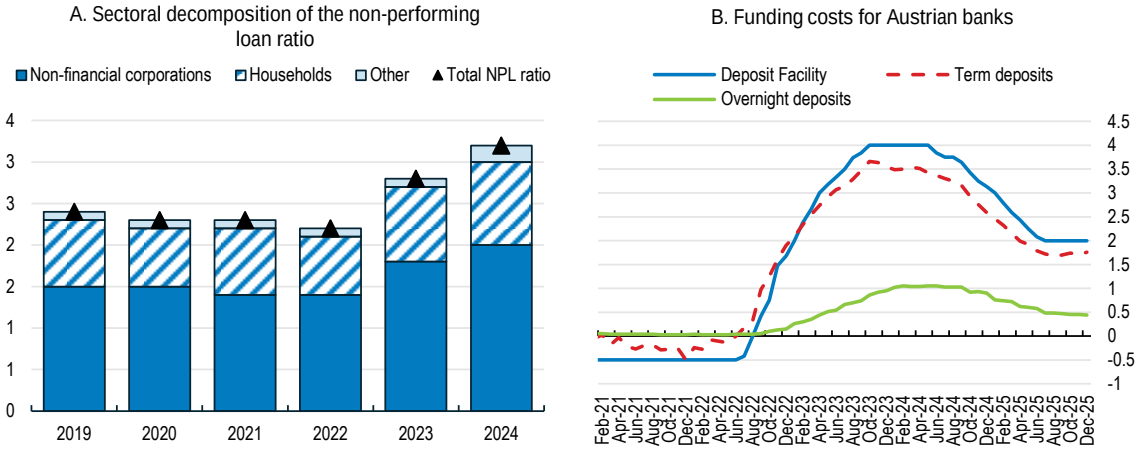
Non-performing loans (NPLs) in residential real estate loans increased only marginally to 1.3%. The coverage ratio of NPLs by specific loan loss provisions has continued its downward trend since 2019, declining further to 37% in 2024 (FSR, 2025). This leaves banks more exposed to potential losses should collateral values or loan recoveries weaken. Strengthening collateral requirements and improving credit risk assessment standards could help raise loan quality and mitigate future credit risks.

Vulnerabilities in the residential real estate market have eased following borrower-based macroprudential measures introduced in 2022 and upheld by the Constitutional Court in January 2024. These included limits of 35 years on loan maturity, a 90% loan-to-value ratio, and a 40% debt-service-to-income cap. The measures expired in June 2025, as mandated by law. According to the *Financial Stability Report* (2025), these rules proved effective in reducing lending risks. Although vulnerabilities in the mortgage market are not currently elevated and these rules only binding directly in some parts

of the market, these basic limits on excessive leverage are widely applied in other countries and should be made permanent.

Figure 1.16. Rising non-performing loans contrast with easing bank funding cost

Percentage



Note: Panel B: Term deposits correspond to deposits with an agreed maturity (new business).
Source: OeNB, Austrian National Bank.

StatLink 2 https://stat.link/z2bxvi

The Austrian banking sector conducts a substantial share of its activities abroad, particularly in Central, Eastern and South-Eastern Europe (CESEE). Czechia, Slovakia, Romania, Croatia and Hungary are the main host countries of Austrian bank subsidiaries. Total foreign exposure reached EUR 551 billion in 2024—equivalent to 44% of total banking assets and exceeding Austria's GDP. Of this, about EUR 315 billion is held by subsidiaries in 15 countries. CESEE subsidiaries generated net profits of EUR 5.4 billion, accounting for nearly half of Austrian banks' total profits (FSR, 2025). Risks from this activity remain contained: the NPL ratio of Austrian banks in CESEE stood at a historically low 1.9%, below the domestic level, with coverage at 64%. However, credit quality in cross-border lending has deteriorated somewhat, driven by rising NPLs in Germany's real estate and construction sectors. Austria's strong regional concentration exposes its banking system to potential structural shocks, such as disruptions in industrial value chains. The 2015 systemic risk buffer—updated in 2024—appropriately addresses such long-term, non-cyclical risks, now applying to 12 banks or banking groups at rates between 0.5 and 1.0 percentage points of CET1 capital relative to total risk exposure.

1.3. Advancing fiscal consolidation without undermining growth

1.3.1. Debt and medium to long-term fiscal challenges

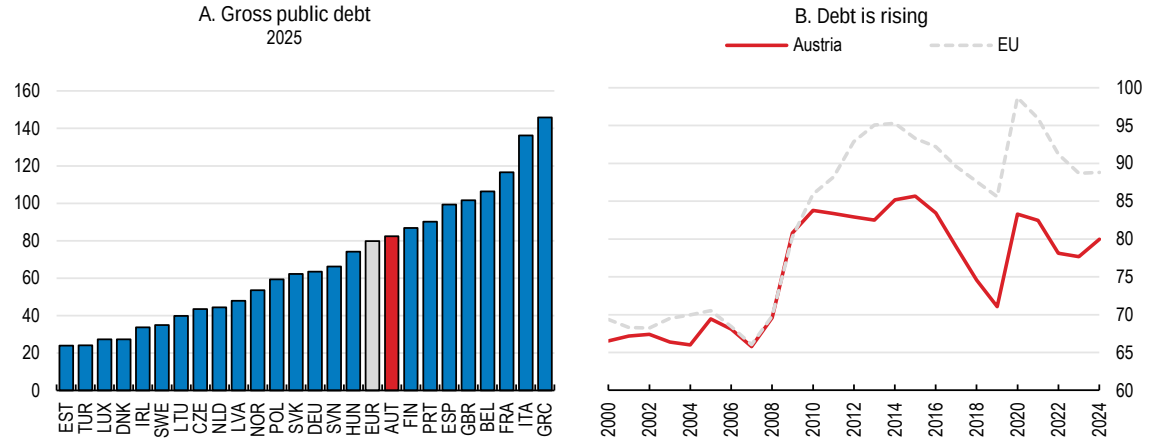
Due to high fiscal deficits of 4.7% in 2024 and 4.5% in 2025, Austria's gross debt-to-GDP ratio is rising again from around 80% of GDP in 2024 (Figure 1.17). Austria has committed to a medium-run fiscal consolidation path as part of its EU commitments to narrow the deficit and put the debt ratio on a sustainable downward path. However, this will be challenging to achieve and over the medium to long term, Austria will also need to adapt to growing fiscal pressures from population ageing, the green transition, and the rising costs of sustaining its comprehensive welfare model.

Over time, population ageing is creating pressure on the public finances through higher spending and lower revenues (see Chapter 4). Age-related public spending considering pensions, health and long-

term care is projected to increase by 1.8 percentage points of GDP by 2050 and by 2.5 points by 2070 (European Commission, 2024). As past reforms take full effect, the rise in pension spending is expected to peak around 2035 before gradually easing, increasing by only 0.3 percentage points per year between 2050 and 2070. However, long-term care expenditures are projected to rise significantly, adding about 2.5 percentage points of GDP by 2070. Overall, fiscal risks related to ageing are tilted to the upside, with alternative projections suggesting even higher potential budgetary impacts (Figure 1.18). Additionally, current defence expenditures are low and could increase substantially given the geopolitical context.

Figure 1.17. The debt level is rising again

Maastricht definition, % of GDP



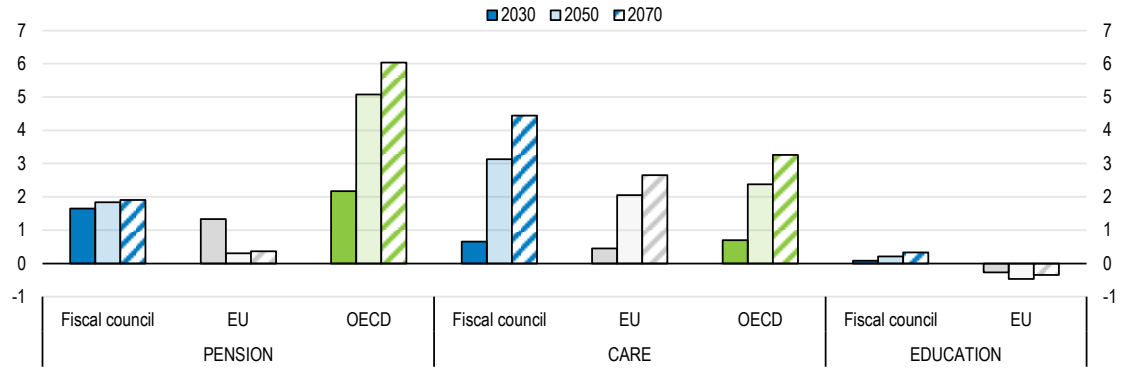
Note: The EU aggregate corresponds to the composition of European Union as of 2020.
Source: OECD (2025), OECD Economic Outlook: Statistics and Projections (database); and Eurostat.

StatLink 2 https://stat.link/ofgjik

Among Austria's long-term fiscal projections, the European Commission forecasts the lowest increase in ageing-related expenditures, while the projections of the OECD and the Fiscal Council are higher. The European Commission projects low ageing-related spending growth due to strong GDP growth assumptions, weaker cost trends and a projected decline in education expenditure due to a shrinking school-age cohort. The Austrian Fiscal Council incorporates historical spending trends and higher dependency ratios, leading to much higher long-term care cost projections and higher secondary and tertiary participation, raising per-student costs. In particular, the Austrian Fiscal Council model includes a historic "drift" component (cost growth beyond demographics and income) on health spending, while the European Commission assumes no drift.

Figure 1.18. There are risks that the impact of ageing on public finances is higher than projected

Changes from 2023, percentage points of GDP



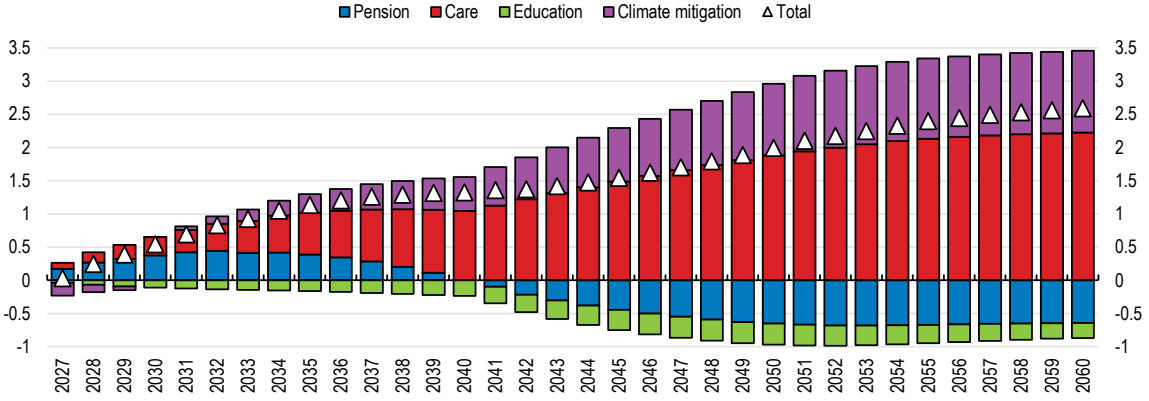
Note: Care includes health and long-term care.
Source: European Commission (2024) and Austria Fiscal Council (2025).

StatLink 2 https://stat.link/xu2b8y

The climate transition will add further pressure to public finances, and its fiscal impact is not yet fully reflected in official projections by the EU and the government (Figure 1.19). The additional long-term costs linked to climate related policies are estimated at 1.1% of GDP by 2050 and 1.3% by 2070 (Austria Fiscal Council, 2025). A key source of fiscal pressure will be the decline in energy tax revenues, projected to fall by 0.6 percentage points of GDP by 2060 due to reduced oil consumption. In addition, potential non-compliance costs under the EU Effort Sharing Regulation—arising from emissions above target—could increase by 0.7 percentage points of GDP by 2050 and 0.6 by 2070.

Figure 1.19. Spending pressures call for structural fiscal reforms

Projected increase in public spending by policy area, change between 2026 and 2050



Note: Projections for public spending on pension, care (healthcare and long-term care) and education are from the European Commission 2024 Ageing Report. Projections for climate change mitigation are from the 2025 Fiscal Sustainability Report of the Austrian fiscal Council (baseline scenario).
Source: Adapted from OECD (2025), OECD Economic Outlook 118 database.

StatLink 2 https://stat.link/l7rcm9

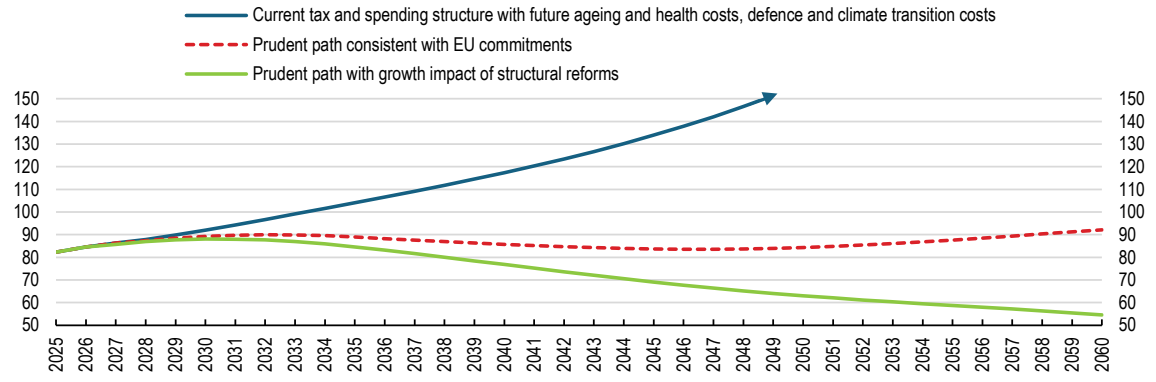
1.3.2. Achieving fiscal adjustment to put the public finances on a more prudent path

The fiscal consolidation path agreed by Austria with the European Union limits the nominal growth of net government expenditure to 2.6% in 2025, 2.2% in 2026–27, and 2.0% in 2028 as part of a 7-year plan (2031) to put the debt ratio on a more sustainable path (Box 1.6). This medium-term national plan with revenue-measured adjusted spending growing at around 2% each year in nominal terms until 2031, well below potential growth, will lead to an adjustment in the structural primary balance of around 0.5 percentage points of GDP each year. This path aims to return the fiscal deficit below 3% of GDP by 2028 and to put the debt ratio on a downward path in the medium term taking into account ageing costs. This will weigh modestly on demand in the coming years as the deficit narrows to a more sustainable level. Strong labour market conditions and the expected recovery beyond 2026 will support the fiscal adjustment.

Over the medium and longer term, budgetary pressures from ageing and the green transition will require steady structural adjustments in both tax and spending policies to improve fiscal sustainability (Figure 1.20). Illustrative OECD simulations suggest that under the current tax and spending structure (ageing-related as estimated by the European Commission and climate-related costs as estimated by the Fiscal council), the deficit would place the debt-to-GDP ratio on an upward trajectory, adding around 2% of GDP to fiscal pressures by 2050. Putting the debt on a sustained downward path in line with the EU fiscal rules would require a reallocation and reduction of spending and higher revenues amounting to about 4% of GDP from 2027 ("prudent path under fiscal rules," Figure 1.20). Austria needs a long-term strategy for public spending and taxation to address these challenges, which require significant adjustments in public spending and the tax system, together with ensuring that the system becomes more supportive to growth.

Figure 1.20. Structural reforms would put the debt-to-GDP ratio on a downward path

Percentage of GDP



Note: In the "current tax and spending structure with future ageing and climate mitigation costs" scenario, the primary government balance is projected to gradually deteriorate in line with rising costs. The "prudent path consistent with EU commitments" scenario assumes consolidation measures of 4.0% of GDP to stabilise the debt-to-GDP ratio when ageing and green costs are included. The "prudent path with growth of structural reforms" scenario assumes in addition that GDP growth increases with the implementation of structural reforms as shown in Table 1.8.
Source: OECD (2025), European Commission (2024) and Austria fiscal council (2025).

StatLink 2 https://stat.link/rd4ncg

Table 1.5 in Box 1.5 presents an illustrative policy mix of expenditure reprioritisation and revenue measures consistent with this adjustment and aligned with the recommendations in this Survey. This sets out ways to achieve the adjustment in a growth-friendly way. By fostering higher potential growth (Table 1.4), the structural reforms proposed in this Survey would mitigate fiscal pressures ("prudent

path and growth impact of structural reforms," Figure 1.20), leading to even lower debt or allowing less fiscal adjustment to be undertaken to achieve the same debt path.

Box 1.5. Estimated impact of fiscal reforms recommended in the Economic Survey

This box summarises the estimated impact of fiscal policy recommendations in this Survey, together with the budgetary impact of undertaking the recommended structural reforms. The estimated fiscal effects include only the direct impact and exclude potential behavioural responses that might occur due to a policy change. While many recommended reforms in this Survey have budget and GDP implications, not all can be quantified due to model limitations. The package is designed to support growth in a fair and efficient way, as well as achieving the medium-term fiscal adjustment required to narrow the deficit and manage longer-term costs. The fiscal objectives could be achieved using other combinations of spending and tax measures.

Table 1.5. Illustrative impact of recommendations on the government balance

Measure	Scenario	Impact on the budget balance % of GDP
Revenue measures		0
Tax-benefit reform	Reduce the labour tax wedge by 2 ppts over 5 years offset by raising other revenues.	-
Broaden the corporate income tax basis	Reducing the gap between the effective taxation rates or regime of the different types of corporations and reduce tax expenditures.	+
Introduce a tax on intergenerational transfers	Tax gifts, inheritances or estates directly and reform the taxation of transfers of immovable property through inheritances.	+
Spending measures		+3.0
Pensions	Link the retirement age with life expectancy gains, adjust pension indexation rules and reduce the pension accrual rate.	1.6
Efficiency gains in healthcare	Achieve savings on healthcare following improvements in prevention and coordination of care, increase efficiency of hospitals and reduce pharmaceutical costs.	0.2
Long-term care	Reforming long term care delivery and taking into account wealth and income in the long term-care cash-benefit allocation.	0.1
Family and social benefits	Differentiate child allocation along household income and increase the progressivity of social benefits.	0.3
Climate change mitigation	Phase out commuter tax deductions and company car benefits and introduce targeted support for unavoidable travel. Align diesel and gasoline taxes and raise fuel taxes to match neighbouring countries.	0.4
Public employment	Reduce public employment and reorganize services delivery using the retirement of 30% of public employees within the next 10 years and digitalisation.	0.3
Procurement and outsourcing	Increase the efficiency of procurement and outsourcing through digitalisation, pooling and higher competition.	0.1
Fiscal federalism	Reform the fiscal equalisation formula to incentivize subgovernments to better spend.	+
Total impact		3.0

Source: OECD calculations.

For 2025, the government aims for spending and revenue measures amounting to about 1.3% of GDP in 2025 and it has set out detailed plans amounting to 1.6% of GDP in net terms for 2026. This includes additional spending of 0.6 billion euros in 2025 and 1.6 billion euros in 2026 on policy priorities. Revenues are expected to rise by 0.3 percentage points of GDP in 2025 and 0.5% in 2026, reflecting both discretionary measures and growth. On the revenue side, new measures are modest and focus mainly on incremental tax adjustments rather than structural reform. Spending is projected to fall by

0.9% of GDP in 2025 and 1.2% in 2026, through targeted cuts and efficiency gains across several policy areas. Overall, spending cuts represent two-thirds of the adjustment while the rest is on the tax side. The focus on spending rather than tax revenue measures is welcome, given Austria's already relatively high tax-to-GDP ratio. Most savings will come from scaling back green-related subsidies, rationalising selected social benefits, and slowing public investment growth (Table 1.7 and Table 1.6). Operational costs across ministries will be reduced through efficiency measures and administrative savings (Table 1.7). Structural reforms on the labour market and in the pension area, as well as measures to increase the employment of older employees, will have long-term effects, leading to long-term gains totalling 2.7 billion euros in 2029 (BMF, 2025).

However, the 2025-2026 fiscal measures are adjustments essentially within existing policies and marginally reduce many programmes: pursing the required adjustment in later years will require more difficult choices and deeper reforms. Already, a moderation in public wage growth has been adopted. To ensure sustainability without hindering growth, future strategies should focus more strongly on reducing social spending, improving spending efficiency, and prioritising growth-enhancing public investment. Additionally, broadening the tax base of corporate income tax could bring some revenues.

Table 1.6. Evolution of government spending

Percentage of GDP

	2019	2022	2023	2024
Total spending	49.1	53	52.2	55.2
Social protection	20.2	21.5	21.2	22.8
Health	8.4	9.4	9.0	9.5
Economic affairs	6.0	8.1	7.4	7.1
General public services	5.8	5.3	5.6	6.0
Education	4.8	4.7	4.9	5.3
Public order and safety	1.3	1.3	1.3	1.5
Recreation, culture and religion	1.2	1.2	1.2	1.3
Defence	0.6	0.6	0.6	0.7
Environmental protection	0.4	0.5	0.6	0.7
Housing and community amenities	0.3	0.3	0.4	0.4

Source: OECD, National Accounts database.

Box 1.6. Policy priorities of the current government and consolidation plan

A coalition of the conservative People's Party (OVP), Social Democrats (SPO) and liberal Neos has been in government since March 2025.

In 2024, Austria's budget deficit reached 4.7% of GDP, exceeding the EU's 3% limit. As deficits are projected to remain above this threshold in 2025–2026, Austria entered an EU excessive deficit procedure in July 2025. The European Commission recommended limiting net expenditure growth to 2.6% in 2025, 2.2% in 2026–2027, and 2.0% in 2028. Fiscal policy now focuses on restoring compliance with EU rules. **Main measures include:**

- **Tax policy:** consolidation levies on energy firms and banks, inclusion of e-cars in insurance tax, higher betting and tobacco related taxes, tighter real estate transfer rules, partial suspension of income tax indexation (2026–2029), and anti-fraud initiatives.
- **Spending cuts:** reduced ministry operating costs, abolition of the climate bonus, and lower environmental and mobility subsidies and the low increase in public wages.

- **Labour and pensions:** removal of educational leave, stricter unemployment benefits, measures for older workers, increase in health insurance contributions for pensioners and adjustments to corridor pensions and introduction of a partial pension.
- **Targeted investments:** funding for employment and training ("Action55 Plus"), health innovations, psychosocial care, hygiene VAT relief, language and digital education, and continued defence rearmament.

Detailed additional consolidation measures are expected for 2027 and 2028.

Table 1.7. The impact of consolidation measures on the budget

Main revenue measures[1]	2025	2026	Main spending measures	2025	2026
Restructuring contribution banks (stability levy)	350	350	Abolition of climate bonus	-1.964	-1.974
Renovation contribution in the energy industry	200	200	Cuts in the operational costs of ministries	-984	-1.093
Abolition of VAT exemption for PV systems	175	700	Abolition of educational leave	-140	-650
Post-valorisation of federal fees	65	150	Cutting environmental subsidies	-469	-820
Tobacco tax - extension, increase	50	185	Climate ticket	-120	-120
Increase in gambling taxes, betting fees, bonus draws	91	191	Broadband funding	-150	
Inclusion of e-cars in motor-related insurance tax	65	130	Reduction of investment premiums	-130	
Closing the gap "share deals" in real estate transfer tax	35	100	ÖBB Infrastructure - Additional adjustments to the framework plan investments	-154	-415
Suspension of the last third of the inflation adjustment 2026-2029		440	Measures in the pension sector		-620
Increase in health insurance contribution rate for pensioners	366	697	Contribution to the state and municipal sector	-100	-150
Increases in dividends (compared to No Policy change)	447	461	Social Insurance Institutions Consolidation Measures/Reforms	-190	-190
Setting a tax-free employee bonus	-165	-85	Labour Market Funding Budget AMS	230	100
Working in old age		-300	Continuing education period		150
Total in % of GDP	0.3	0.5	Total in % of GDP[1]	-0.9	-1.2

Note: Million EUR. 1) The total of revenue and spending measures include other smaller items not reported.
Source: Ministry of Finance, "Report on effective measures to correct the excessive deficit", October 2025.

1.3.3. Beyond short-term consolidation, structural fiscal reforms are needed

Reforming social expenditures to cope with ageing pressures

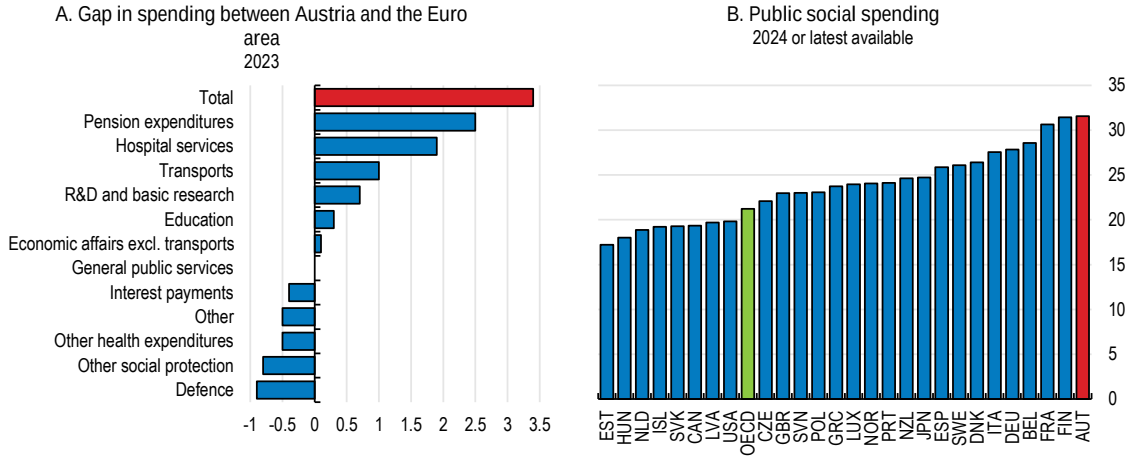
Public expenditure in Austria remains high compared with other European countries, reflecting the large size of its social protection system (Figure 1.21). In 2024, total government spending reached 55.2% of GDP, compared with 49.3% in the euro area in 2023. Social protection represents about 20% of total expenditure (22.8% of GDP), including old-age spending of 14% of GDP in 2023. Health-related expenditure accounts for almost another tenth of total spending (9.5% of GDP), with hospital services alone representing around 4.3% of GDP in 2023. As discussed in Chapter 4, there is room to limit spending increases in pension, long-term care and health by improving efficiency and reducing benefits. Social spending, in particular pensions, offers the highest potential for savings (Barnes et al., 2025).

Linking the retirement age with life expectancy gains and raising the effective retirement age by tightening early retirement schemes would yield substantial spending savings. Improving the efficiency of the health care system by better allocating patients between primary care facilities and hospitals and strengthening preventive health policies has the potential to bring savings.

Beyond these reforms, additional structural reforms to increase the efficiency of public spending on main spending components as public employment, subsidies, procurement and outsourcing would create the fiscal space needed to cope with new spending pressures, while maintaining debt around its current level. Rigorous evaluation of social spending programmes is useful to make sure that programmes achieve their goals and in an efficient and effective way.

Figure 1.21. Social spending is high

As a percentage of GDP



Note: Panel A: The categories follow the classification of functions of government (COFOG). Defence includes public order and safety. Other social protection excludes pension expenditures. Other health expenditures exclude hospital services. Pension expenditures cover old age and survivors. Other include all the remaining categories. All categories exclude R&D. Panel B: The OECD aggregate corresponds to the unweighted average of the OECD countries. A selection of countries is shown.
Source: Eurostat, General government expenditure by function; OECD Social Expenditure Database (2025).

StatLink 2 https://stat.link/61hfsc

Improving the efficiency of social support

Austria has a strong redistributive system operating mainly through the progressive tax system, while in peer countries cash benefits account for the majority of the redistribution (see the joint TBP). Social transfers in Austria are largely progressive, helping to reduce income inequality. Social assistance is the largest means-tested benefit and plays a key redistributive role. The legislative responsibility on social assistance schemes remains with the 9 federal provinces, each of which has its own legislation. In 2019, the Basic Social Assistance Act was introduced and sets maximum standards that may not be exceeded by provinces. Family transfers are the second layer of social benefits but are for the largest part not mean-tested. Therefore, there is scope to enhance the progressivity of family benefit transfers. Families with children receive support through four main programmes:

- Family Allowance (*Familienbeihilfe*): A universal, non–means-tested and non-taxable cash benefit for all families with dependent children. Amounts vary with the child's age and include supplements for larger families, children with disabilities, and a school-entry bonus.
- Child Tax Credit (*Kinderabsetzbetrag*): A refundable flat-rate credit paid together with the family allowance. From 2025, low-income families receive an additional Child Supplement

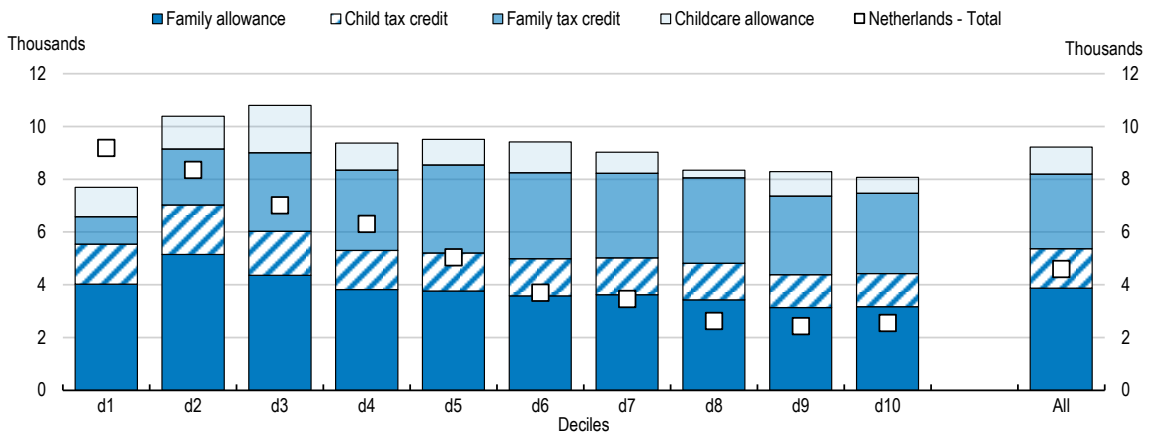
(*Kinderzuschlag*). Eligibility for the supplement is based on annual taxable income from employment or self-employment in the previous year, with an income threshold of EUR 25 725. The credit applies to single earners or single parents.

- Childcare Allowance (*Kinderbetreuungsgeld*): A time-limited benefit paid alongside the family allowance, generally for up to three years following childbirth. It can be received as a flat-rate or income-linked benefit and functions largely as a parental leave benefit. It can be received under alternative schemes:
  - **Childcare Benefit Account**: a flat-rate benefit amounting to EUR 15 020 over 12–24 months if one parent takes leave, or EUR 18 759 over 15–35 months if both parents do so (EUR 17.65–41.14 per day).
    - **Childcare Benefit Allowance**: a flat-rate benefit of EUR 6.06 per day for up to 12 months, in addition to Childcare Benefit Account, targeted mainly at single parents and low-income families.
  - **Income-dependent Childcare Benefit**: equal to 80% of prior earnings, capped at EUR 80.12 per day, payable for 12 months (or 14 months if both parents share leave).
- Family Tax Credit (*Familienbonus Plus*): A non-refundable flat-rate tax credit paid together with the Child Tax Credit. The amount depends on the number and age of children.

Total support for families with children is broadly similar across the income distribution (Figure 1.22). Families in the first income decile receive, on average, EUR 7,691 per year, compared with EUR 8,078 in the top decile. This pattern reflects the largely universal design of Austria's family-related programmes. The small differences observed across deciles arise from two main factors. First, some instruments incorporate income-related elements. The Family Allowance and the Family Tax Credit include supplements for low-income households, while the income-linked childcare allowance provides higher payments to parents with stronger prior labour market attachment. Since July 2025, the child tax credit has also included a top-up for low-income households—the Child Supplement—conditional on receipt of the single-earner or single-parent tax credit. Second, composition effects matter: larger families tend to receive higher total support and are overrepresented in lower income deciles due to the equivalence scale. This broad universality contrasts with approaches in countries such as the Netherlands, where family benefits are more strongly directed towards low-income households (Figure 1.22, white squares). Many European countries combine universal and income-targeted components to achieve greater progressivity.

Figure 1.22. Support levels for families with minors are universal

Distribution of the mean annual benefit (EUR) for families with minors across deciles of equivalised disposable, 2024



Note: Deciles are defined according to the equivalized disposable household income, using the OECD modified scale. Minors are defined as individuals in the household below the age of 18. Family benefits for the Netherlands include child benefits and the child related budget.
Source: OECD calculations using EUROMOD J1.0+ and EU-SILC 2022 data, 2024 policies.

StatLink 2 https://stat.link/3vzya9

Recent reforms to family benefits have increased the complexity of the system. There is scope to streamline family support, strengthen its redistributive components, and reduce poverty among families with children, while also generating fiscal savings. Merging the Family Allowance and the Child Tax Credit into a single-family benefit, together with the introduction of a progressive reduction of the Child Tax Credit, would enhance redistribution while delivering savings (see Box 1.7). Simulations presented in Box 1.7 indicate that combining the Family Allowance and Child Tax Credit and gradually reducing the Child Tax Credit could generate important savings. If transfers to low-income families were increased while reducing benefits for high-income families, the simulated reform package would reduce inequality and lower the overall poverty rate by about 2 percentage points. Poverty among children under the age of 14 would decline by 6.4 percentage points, while the poverty rate among young adults aged 15 to 24 would fall by 2.4 percentage points. In parallel, reducing fragmentation in social assistance, further developing access to childcare facilities and improving coordination across regions would enhance both the equity and efficiency of Austria's welfare system. One potential drawback of withdrawing benefits for higher earners is that this raises the marginal effective tax rate and so these measures should be implemented carefully and as part of a wider reform of the tax system.

Box 1.7. Simulations of different reform scenarios for family benefits

Reform scenarios are simulated using the OECD's TAXBEN model and EUROMOD J1 to illustrate the scope for increasing the progressivity of family transfers while generating fiscal savings:

- **Scenario 1** streamlines family benefits by merging the two main instruments—the Family Allowance and the Child Tax Credit—into a single programme that phases out support for higher earners while maintaining the level of support for low-income households. This scenario allows to assess the potential for fiscal savings of a family policy reform.
- **Scenario 2** introduces a linear withdrawal of the Family Tax Credit for higher earners to increase the efficiency of spending by reducing support for those on high incomes.

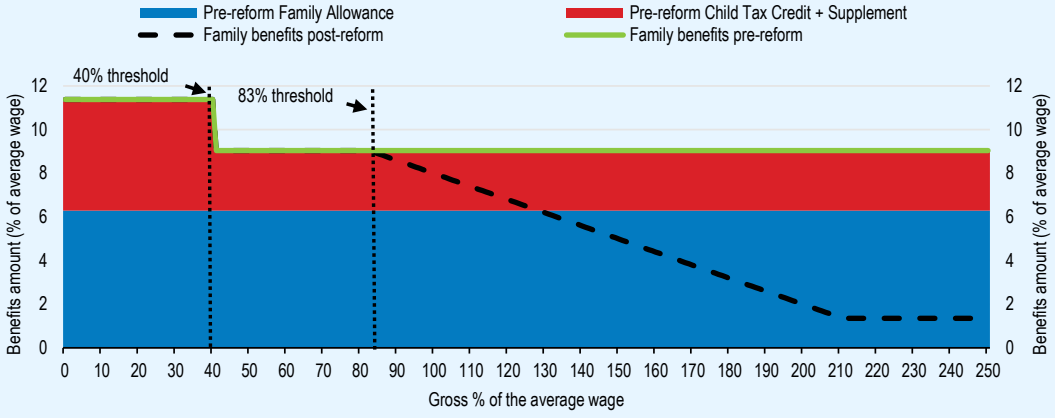
- **Scenario 3** merges the two main instruments—the Family Allowance and the Child Tax Credit—into a single programme (as in scenario 1) that provides higher support for low-income households combined with means-tested taper as income increases.

In Scenario 1, the new benefit is calibrated to *maintain* current support levels for low-income households and is gradually reduced once taxable family income exceeds a threshold (T), defined as twice the existing income threshold for eligibility to the Child Supplement. Since the Child Tax Credit applies to families with taxable annual income below EUR 25 725 (around 43% of average income), benefit withdrawal starts at 83% of average income (EUR 51 450). Above this threshold, the benefit is withdrawn at a rate of 6% of income, until it reaches a universal floor set at 15% of the pre-reform maximum benefit. This floor preserves a degree of universality and is reached at around 200% of average income.

As illustrated in Figure 1.23, benefits are withdrawn gradually across the middle of the income distribution, increasing the redistributive effect of family support. The income threshold and withdrawal rate can be adjusted to expand or limit fiscal savings and to determine the minimum level of support retained by high-income families, as well as to preserve work incentives at the margin. Under the illustrative scenario presented in Figure 1.23, the reform generates annual fiscal savings of EUR 1.7 billion, equivalent to around 0.35% of GDP.

Figure 1.23. A progressive unified family benefit would generate important savings

Pre and post reform family benefits in Austria for a one-earner couple with 2 children, by earnings level, 2024



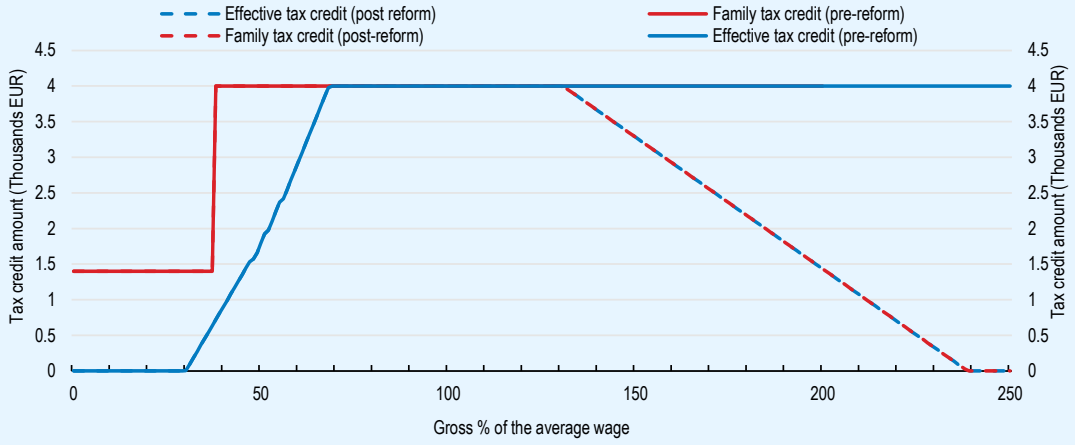
Note: The figure shows the amount of family benefits pre and post reform for a 40-year-old couple with 2 children, aged 4 and 6, by earnings of the primary earner. The primary earner is working full-time at the earnings level indicated. The decomposition corresponds to the pre-reform benefit design. The dashed line corresponds to the overall level of post-reform family benefit. The spouse is out-of-work. All values are presented as a percentage of the average wage. Policy reference date: January 1st, 2025, for Austria.
Source: OECD Tax-Benefit Model version 2.8.0, see TBP Reforming family transfers in Austria.

StatLink 2 https://stat.link/fl4x5v

Scenario 2 withdraws the Family Tax Credit once gross earnings exceed 130% of the average wage (EUR 80 586, assuming a 2025 average wage of EUR 61 989). Above this threshold, the tax credit would be tapered at the same 6% rate applied to the unified family benefit, reaching zero at high income levels (Figure 1.24). There is no change for families with earnings below the average wage. For higher-income households, the credit is gradually reduced, increasing income tax liabilities and strengthening the progressivity of transfers to families with children.

Figure 1.24. Increasing progressivity by reducing the Family Tax Credit gradually

Pre- and post-reform family tax credit in Austria for a one-earner couple with 2 children, by earnings levels, 2024



Note: The figure shows the amount of family tax credit and utilized tax credit for a 40-year-old couple with 2 children, aged 4 and 6, by earnings of the primary earner. The primary earner is working full-time at the earnings level indicated. Solid lines correspond to the pre-reform design and dashed lines to the reform design. The spouse is out-of-work. All values are presented as a percentage of the average wage. Policy reference date: January 1st, 2025 for Austria.
Source: OECD Tax-Benefit Model version 2.8.0., see TBP Reforming family transfers in Austria.

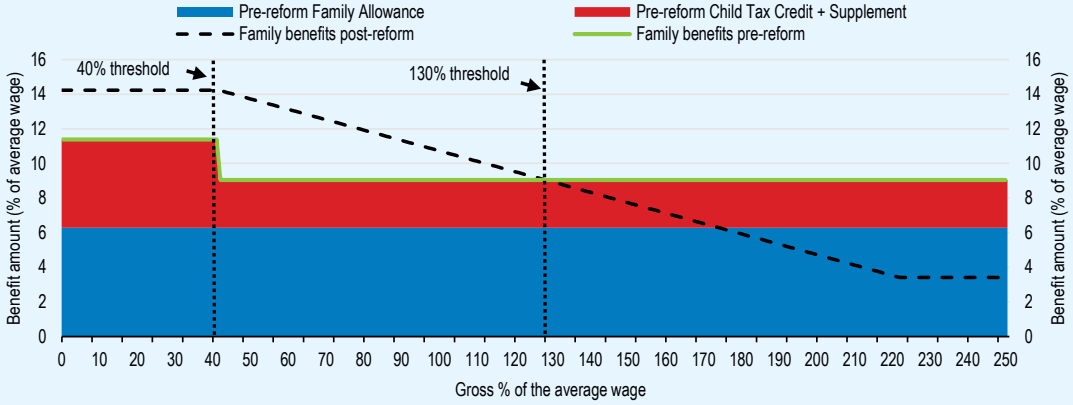
StatLink 2 https://stat.link/qcabmj

In Scenario 3, the baseline benefit is increased by 25%, raising support for low-income families who receive the full entitlement before the income test applies. For example, for a family with two children aged 4 and 6, the maximum entitlement (Family Allowance, Child Tax Credit, and Child Supplement combined) would rise to EUR 8,776.75 annually. This would be phased out once taxable family income exceeds EUR 25,725 (the existing threshold for the Child Supplement) and withdrawn at a rate of 6% of income above the threshold until it reaches a universal minimum equal to 30% of the pre-reform maximum. For a family with two children aged 4 and 6, this implies a guaranteed minimum annual benefit of EUR 2,106.42, thereby preserving a degree of universality.

Figure 1.25 illustrates pre- and post-reform support levels in Scenario 1. The proposed reform increases support for low-income households and remains more generous up to around 130% of average earnings, while gradually reducing benefits for higher-income families (Figure 1.25, dotted line). Overall, the redesigned benefit strengthens the redistributive impact and coherence of Austria's family support system, with estimated fiscal savings of EUR 37 million.

Figure 1.25. Increasing family transfers for low-income families

Pre and post reform family benefits in Austria for a one-earner couple with 2 children, by earnings level, 2024



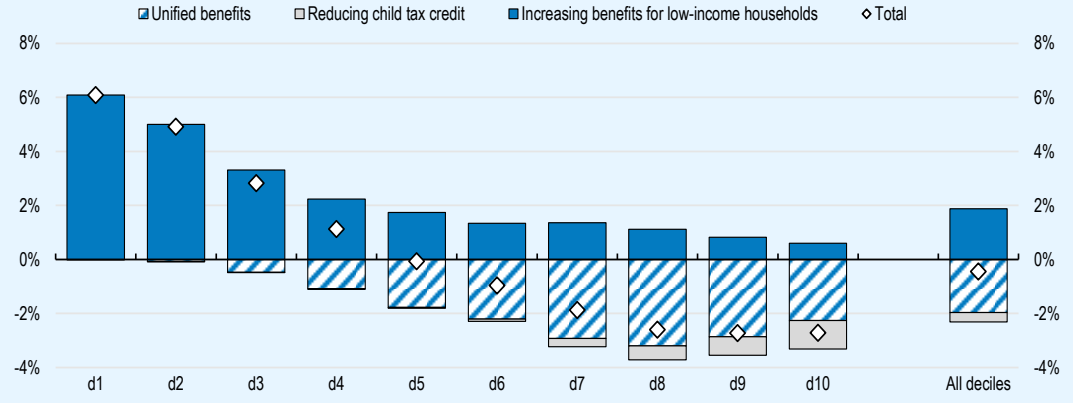
Note: The figure shows the amount of family benefits pre and post reform for a 40-year-old couple with 2 children, aged 4 and 6, by earnings of the primary earner. The primary earner is working full-time at the earnings level indicated. The decomposition corresponds to the pre-reform benefit design. The dashed line corresponds to the overall level of post-reform family benefit. The spouse is out-of-work. All values are presented as a percentage of the average wage. Policy reference date: January 1st, 2025, for Austria.
Source: OECD Tax-Benefit Model version 2.8.0., see TBP Reforming family transfers in Austria.

StatLink 2 https://stat.link/znpvre

All reform scenarios have positive redistributive effects, either by increasing support for households in the lower half of the income distribution or by reducing support for those in the upper half. Under the broadly fiscally neutral reform that increases benefits for low-income families with children, disposable income of eligible households in the bottom decile rises by 6%, while households in the top decile experience a smaller increase of 0.6%. Figure 1.26 illustrates the redistributive trade-offs and potentials for savings.

Figure 1.26. Reforms would redistribute resources towards low-income households

Impact of the reforms by income decile, as % of pre-reform equivalised disposable income, eligible families, 2024



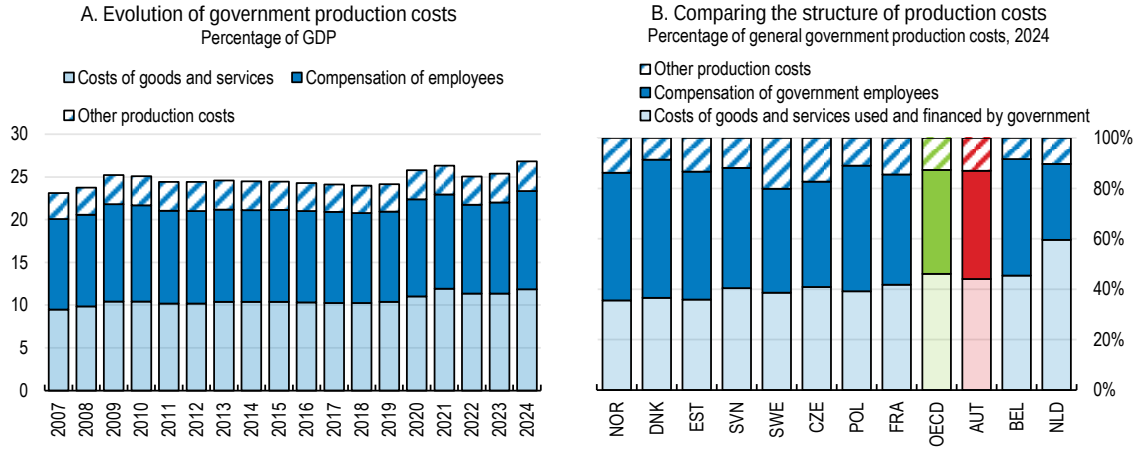
Note: Deciles are based on the equivalized disposable income distribution in the baseline (pre-reforms) scenario, using the OECD modified equivalence scale.
Source: OECD calculations using the EUROMOD J1.86+ model and EU-SILC 2022 data, 2025 policies, see TBP Reforming family transfers in Austria. Source: OECD calculations using the EUROMOD J1.86+ model and EU-SILC 2022 data, 2025 policies, see TBP Reforming family transfers in Austria.

StatLink 2 https://stat.link/t36dsx

Improving government spending efficiency

Government costs of providing public services and goods offer possibilities of additional spending savings. With high structural expenditures—such as public wages, social service delivery, and infrastructure—and a complex multi-level governance system involving the federal, *Länder* and municipal levels, there is a risk that production costs grow faster than output. In 2024, government production costs amounted to 26% of GDP, slightly above the OECD average but consistent with Austria's overall high level of public spending. These costs have increased recently by 1.8 percentage points of GDP between 2022 and 2024, linked to elevated inflation (Figure 1.27, Panel A). The largest component is the purchase of goods and services, accounting for about 45% of total costs in 2023, followed by employee compensation, which represents around 42% (Figure 1.27, Panel B).

Figure 1.27. Government production costs are relatively stable and dominated by intermediate inputs



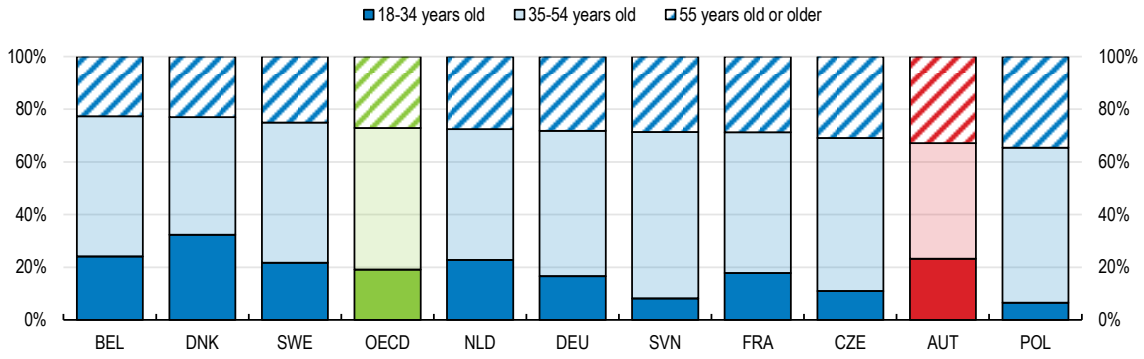
Note: Panel B: The OECD aggregate corresponds to the OECD countries members of the European Union.
Source: OECD National Accounts Statistics (database).

StatLink 2 https://stat.link/8vz3s6

Public employment represented about 15.6% of total employment in 2023, slightly below the OECD average of 18.4% (OECD, *Governance at a Glance*, 2025). Growth in public employment has been modest in recent years. The government wage bill has risen due to wage indexation but remains contained compared with OECD and EU averages. However, the age structure of the public workforce presents opportunities as well as challenges for efficiency gains. Around one-third (33%) of central government employees are aged 55 or above and will retire within the next decade (Figure 1.28). This natural turnover offers scope to reorganise service delivery, modernise administrative structures, and gradually reduce the wage bill by reducing public employment thanks to going more digital.

Figure 1.28. A large share of government employees will retire in the coming years

Distribution of employees in central administration by age, 2023



Note: The OECD aggregate corresponds to the unweighted average of the OECD countries. For Poland, age groups refer to under 30 years old, 30-49 years old, and 50 years old and over; for France, data refer to 2021; for Denmark, data are reported in full-time-equivalents (FTEs).
Source: OECD (2024), Survey on the Composition of the Workforce in Central/Federal Governments; ILOSTAT (database) Employment by sex and age, Annual Labour Force Statistics (LFS).

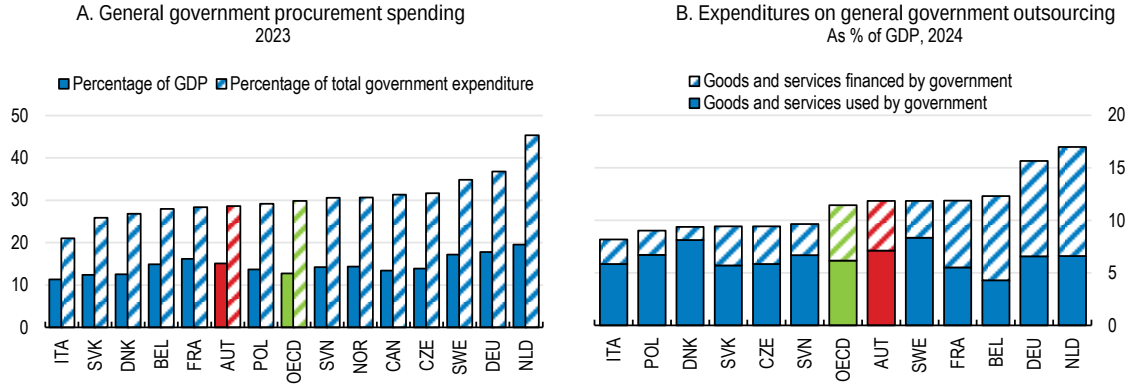
StatLink 2 https://stat.link/chr1ds

Public procurement and outsourcing represent a major share of Austria's public spending and economic activity. In 2023, public procurement amounted to around 15% of GDP—above the OECD average of 12.7% of GDP - and accounted for 30% of total public expenditure (Figure 1.29). Outsourcing, defined as government purchases of goods and services from external providers, represented 11.8% of GDP. Of this, 7.1% of GDP covered goods and services directly used by the government, while 4.7% of GDP financed services delivered to the public by non-government contractors, particularly in health care, housing, transport, and education (Figure 1.29, Panel B). Part of these amounts are purchased from government-controlled units, in particular, from the federal railway infrastructure unit, property management vehicles and long-term care facilities. At the same time, large outsourcing occurs in current transfers in the areas of childcare, hospitals and social services.

Austria's procurement system rests on a solid legal and institutional framework. The Federal Procurement Act (BVergG 2018) aligns national legislation with EU procurement directives, and the Action Plan for Sustainable Public Procurement (2021) integrates environmental goals into procurement policy. Austria also performs well on innovation procurement, ranking third in Europe and scoring above the EU average in most indicators (EU, 2024). However, with only around half of innovation-oriented policy measures fully implemented, the framework could be further strengthened. Updating the action plan to integrate digitalisation and AI-driven tools would enhance efficiency and transparency. Austria's Digital Government Index score (0.55) remains below the OECD average (0.61), indicating room for improvement in e-procurement and data-driven oversight.

Despite these strengths, Austria lags leading EU countries in certain dimensions of procurement systems. The publication rate of bids and the proportion of procedures awarded to the cheapest bid (30% for the later) are lower than the EU average (58%) (EU, 2023). Expanding the use of outcome-oriented tools and monitoring systems would help ensure better value for money. Austria currently lacks spending targets and systematic measurement of innovation procurement. Financial incentives and capacity-building initiatives for contracting authorities are also limited. Strengthening competition—particularly by increasing publication rates and improving SME access—would further enhance efficiency and innovation in public procurement.

Figure 1.29. A high share of government spending is through procurement and outsourcing



Note: The OECD aggregate corresponds to the unweighted average of the OECD countries. Panel A: Data for Türkiye are not included in the OECD average. A large share of general government procurement in the Netherlands is spent on social transfers in kind via market producers, scholastic grants and mandatory health insurance systems.
Source: OECD National Accounts Statistics (database).

StatLink 2 https://stat.link/mzl2oq

Improving efficiency in fiscal federalism

Austria's multi-tier fiscal system—comprising the federal, regional (Länder), and municipal levels—assigns significant spending responsibilities to subnational governments, notably in housing, education, and social services, while granting them limited revenue autonomy (OECD, 2021a). The fiscal equalisation system (*Finanzausgleich*, FAG) governs the sharing of tax revenues between the federal government, nine Länder, and over 2,000 municipalities. Its goal is to ensure all levels of government have adequate resources and to reduce vertical (across levels) and horizontal (across regions) fiscal imbalances. In practice, however, the system remains highly centralised: transfers from the federal level dominate, resulting in one of the largest vertical fiscal imbalances in the OECD (OECD, 2021a).

The fiscal equalisation mechanism operates through three main layers. First, a revenue-sharing formula allocates most federal taxes—VAT, PIT, CIT, and excise duties—among levels of government. Under the Fiscal Equalisation Act 2024–2028, Länder receive about 20.2% and municipalities 11.9% of shared taxes. Second, vertical transfers compensate subnational governments for gaps between revenue and expenditure responsibilities, particularly in education, health, housing, social welfare, and infrastructure. Third, horizontal equalisation transfers redistribute resources from fiscally stronger regions (for example Vienna, Upper Austria) to weaker ones. These are largely population-based, with limited adjustments for cost differences or fiscal capacity.

The efficiency and equity of Austria's fiscal equalisation framework could be improved. Population-based transfers insufficiently reflect needs or performance, limiting incentives for efficiency and innovation. Allocating without enough weight on need is clearly inefficient, leading to disparities in services and gives weak incentives for efficiency. The weak link between spending responsibilities and revenue autonomy also constrains accountability: Länder and municipalities oversee major expenditure areas but have little power to set tax rates or introduce local levies (Schratzenstaller, 2015).

The Fiscal Equalisation Act 2024–2028 introduced additional funding earmarked to certain priorities. A new "Future Fund" (*Zukunftsfonds*)—worth EUR 1.1 billion annually—supports targeted investment in childcare, housing, and climate protection, improving alignment with national priorities. Additional earmarked funding of EUR 2.5 billion for health and long-term care complements these measures. However, at just 0.1% of GDP, the Future Fund's scale limits its macroeconomic effect. While the Act reaffirmed existing transfers, deeper structural reform—particularly on revenue-sharing rules, local tax powers, and performance-based allocations—remains pending. In November 2025, the government,

Landers and municipalities agreed on a new national stability pact aligned with Austria's commitment to bring back the deficit to 3% by 2028. The national stability pact breaks down the national deficit trajectory into maximum deficit trajectory by sub-level of government. Strengthening local incentives through conditional or performance-linked grants could promote cost efficiency, innovation, and better service delivery.

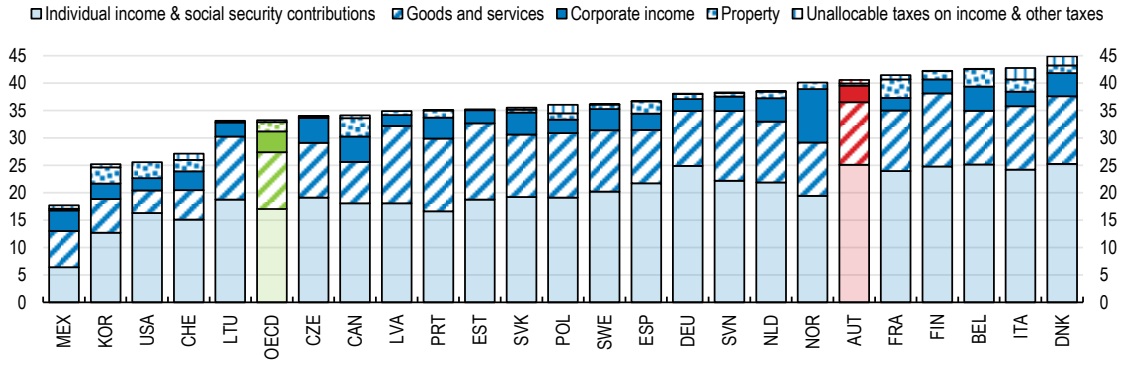
Spending reviews are an effective tool for identifying efficiency gains, cost savings, and resource reallocations (Doherty and Sayegh, 2022). Austria launched its spending review process under the 2017 Intergovernmental Fiscal Relations Act, and in 2021, prioritized targeted reviews on green and digital transformations within its Recovery and Resilience Plan (RRP). Current reviews cover only about 5% of total government expenditure, with a recent shift toward green spending, which represents around 10% of the budget. Broader and more systematic reviews could yield greater savings, as shown by Slovakia (8% savings from reviewed spending) and the Netherlands, where rotating, targeted reviews cover a wide share of expenditures. Results from Austrian spending reviews are not yet fully integrated into the annual or multi-annual budget process. Although the inclusion of green review results in the annual climate budget supplement is a step forward, stronger links between review outcomes and fiscal decisions are needed. Examples from Australia, the UK, and New Zealand show that direct alignment of reviews with budget planning increases their fiscal impact. Transparency has improved—all completed RRP-related reviews were published immediately online—but most earlier reviews remain inaccessible. Publishing terms of reference, interim and final reports, implementation data, and disclosed savings or reallocations would further enhance accountability.

1.3.4. Rebalancing taxes from labour to more growth-friendly revenues

A more growth-friendly tax system could support medium-term fiscal consolidation and long-term sustainability. Austria's tax-to-GDP ratio is the seventh highest in the OECD, with a heavy reliance on labour taxation and relatively low revenues from corporate and property taxes (Figure 1.30). The role of property taxes is discussed in Chapter 3. The eco-social tax reform (2022–2025) slightly improved the revenue mix by introducing carbon pricing for sectors outside the EU ETS, reducing income taxes for lower and medium brackets, and gradually lowering the corporate income tax rate from 25% to eventually 23% in 2024. Additional tax credits and allowances were introduced to promote especially green investment and offset family burdens. Firms can now deduct 10% of their investments in fixed assets and a higher rate of 15% of their ecological investments, however overall limited with investments of EUR 1 million a year. For a limited period from November 2025 to December 2026, the rate of the tax allowance for investments was increased from 10% to 20% and from 15% to 22% for ecological investments. Despite these measures, the labour tax wedge declined only marginally, from 47.2% in 2023 to 46.9% in 2024, remaining among the highest in the OECD.

Figure 1.30. Government revenues rely heavily on levies on labour income

Decomposition of tax revenue, % of GDP, 2024



Note: The OECD aggregate corresponds to the unweighted average of the OECD countries. Taxes on income include taxes on profits and capital gains. Unallocated taxes on income, which are shown together with the "other taxes" category in the graph, refer to receipts that cannot be identified appropriately as income taxes from individuals and corporate enterprises. Individual income and Social Security contributions are grouped together. Data for the OECD average refer to 2023.
Source: OECD (2025), OECD Revenue Statistics (database).

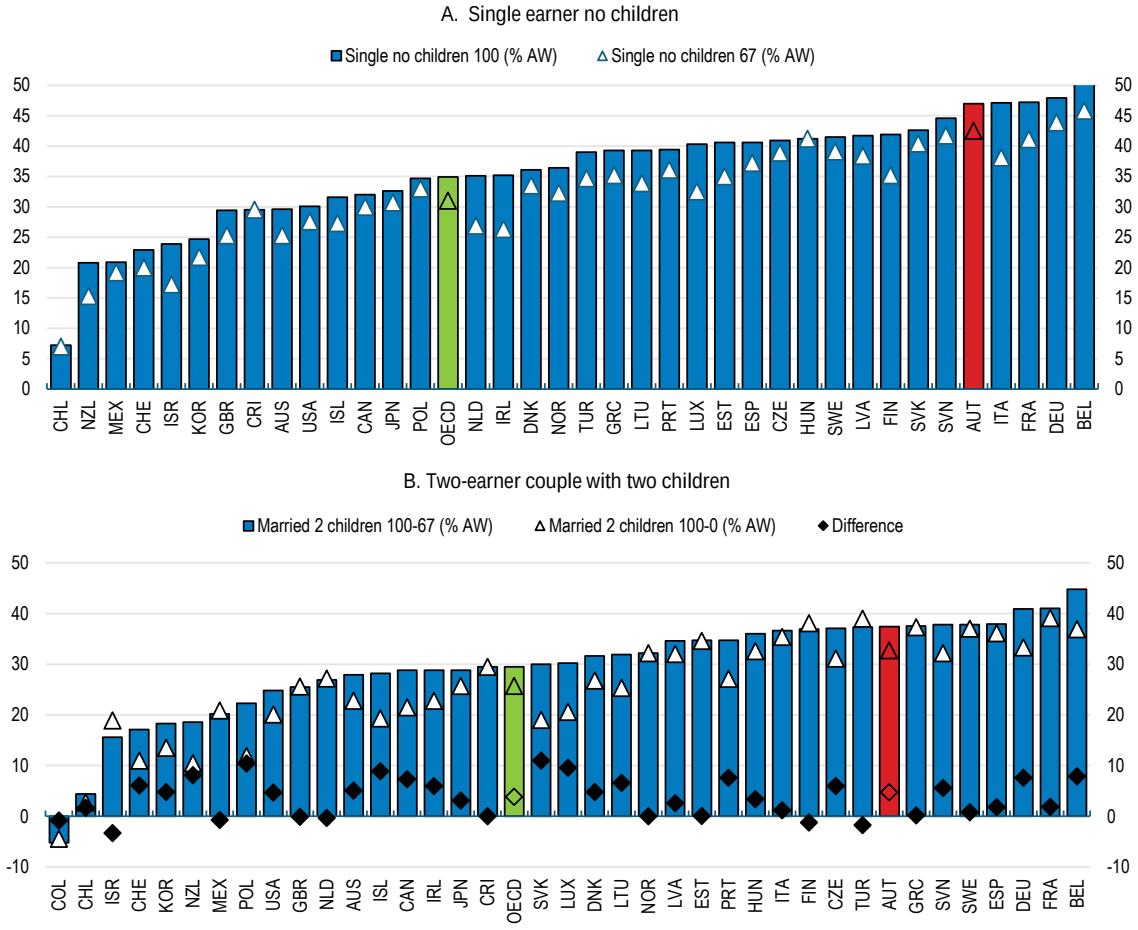
StatLink 2 https://stat.link/7d9ks8

Taxes on labour should be reduced in favour of other taxes

The labour tax wedge—among the highest in the OECD—places a heavy burden on employers and workers alike, dampening job creation and labour supply, particularly among low-income and second-earner workers (Figure 1.31). Empirical evidence shows that employment in these groups is sensitive to labour costs (L'Horty, Martin and Mayer, 2019). High effective tax rates also discourage female full-time employment and prolong unemployment among older workers (OECD, 2011). In Austria, this weighs on competitiveness, especially in export-oriented manufacturing, where rising labour and energy costs already constrain margins. While Austria's skilled workforce and strong industrial base help offset these pressures, the high labour tax wedge remains a structural impediment to participation and productivity. With rapid ageing and labour shortages, expanding labour supply—especially from women and older workers—is essential. Reducing the tax burden on labour, particularly for vulnerable and low-wage groups, and shifting taxation toward less distortionary bases, such as value added taxes, environmental taxes, recurrent property, inheritance, and gift taxes, would improve both efficiency and equity (Akgun, Cournède and Fournier, 2017). Such reforms would strengthen employment incentives, enhance competitiveness, and support inclusive growth.

Figure 1.31. Taxes on wages are high

By household type and wage level, as % of labour costs, 2024



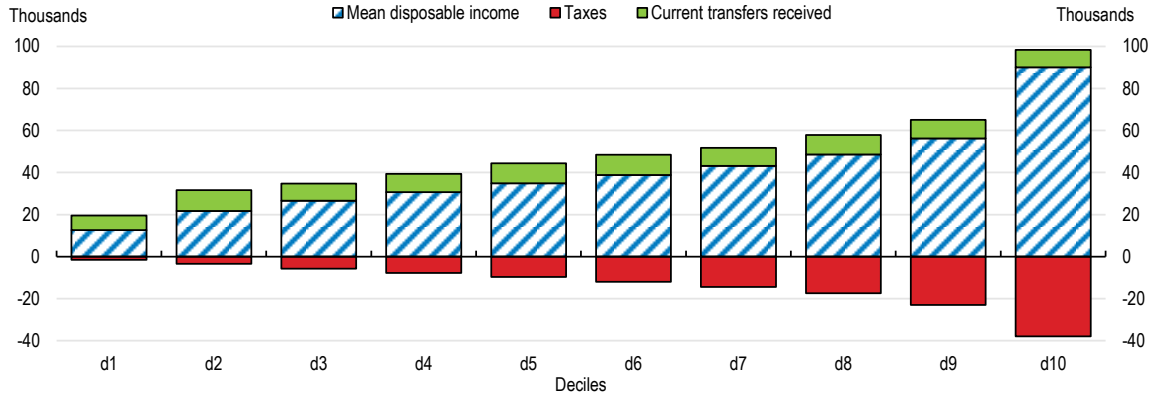
Note: The OECD aggregate corresponds to the unweighted average of the OECD countries. Data correspond to income tax plus employee and employer contributions less cash benefits. The household type 'single no child' corresponds to a wage level of 100% of average wage and 'married one earner couple 2 children' corresponds to a combined wage level of 100%-0% of average wage.
Source: OECD (2025), Taxing Wages 2025: Decomposition of Personal Income Taxes and the Role of Tax Reliefs.

StatLink 2 https://stat.link/rxskbv

The two main components of the tax wedge are social security contributions and personal income taxes. Social security contributions are relatively high and personal income tax in Austria applies at relatively low-income levels (Figure 1.32) with marginal tax rates rising steeply for low- to middle-income earners (Figure 1.33). There is room to reduce social security contributions and personal income tax rates as part of a wider reform to raise other taxes and raise the efficiency of the system overall. Reducing marginal rates for these income groups by adjusting the tax structure or using income-related tax credits for that group, could help lower the overall tax burden on labour income, as well as helping to offset the burden of social contributions.

Figure 1.32. Personal income tax starts at low levels of revenue

2022

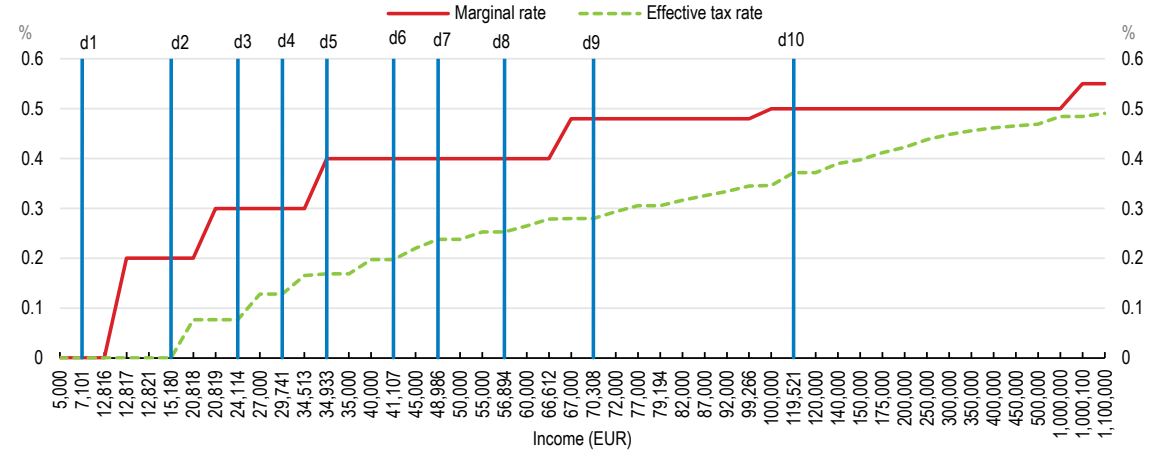


Source: OECD Income Distribution (database).

StatLink 2 https://stat.link/e8of5m

Figure 1.33. Middle income earners are exposed to high marginal tax rates

Illustrative simulation of effective tax rates for a family without children, 2024

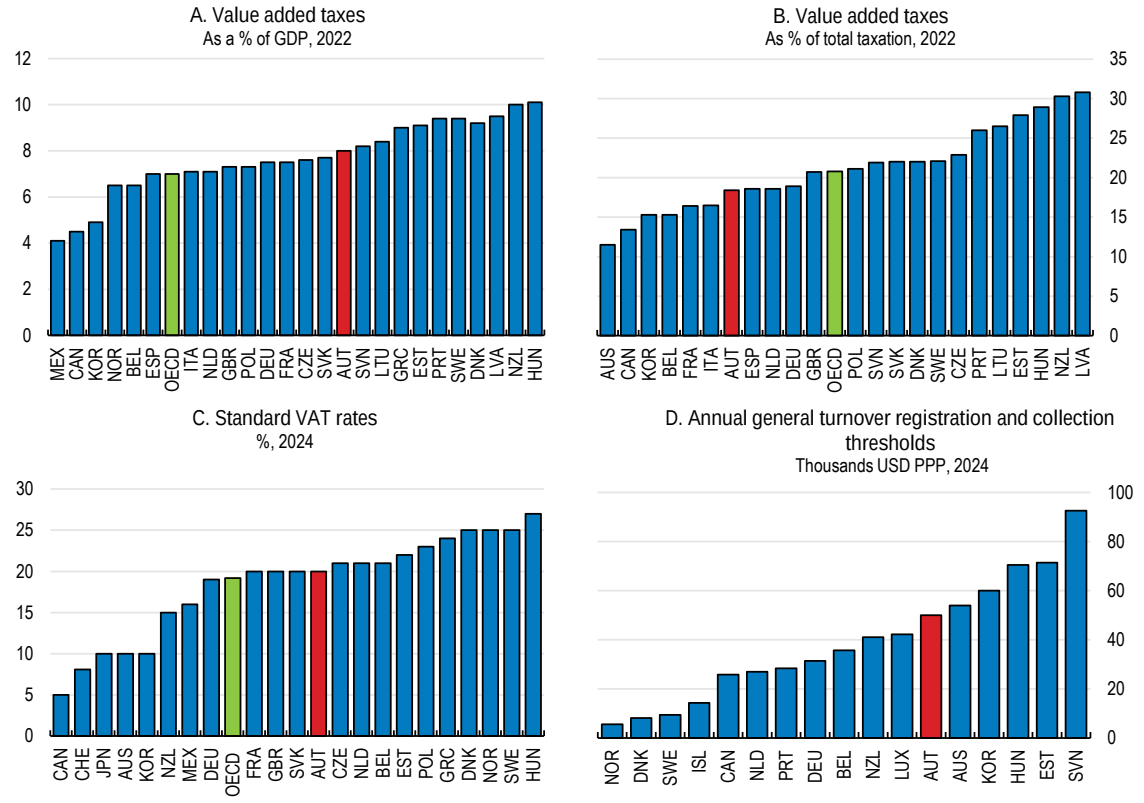


Note: Bars correspond to the mean taxable income of income deciles from d1 to d10, calculated by adding mean taxes to the mean disposable income and subtracting mean transfers. Special payments are included. Marginal rates are as of 2024.
Source: Author's calculations based on OECD Income Distribution (database).

StatLink 2 https://stat.link/392e6a

A revenue-neutral reduction in labour taxation would boost labour supply and could benefit lower income households but would require raising revenue from other sources. Consumption taxes are among the least distortive forms of taxation, and could be used extensively in Austria, although given the current high level of inflation, an appropriate timing should be considered. VAT revenues, at 8% of GDP, are slightly above the OECD average of 7%, but their share in total tax revenues remains relatively low (Figure 1.34). The standard VAT rate of 20% is also just above the OECD average of 19.2%. Nevertheless, there is room to increase VAT revenues by lowering turnover registration and collection thresholds—which are relatively high compared to peers such as Sweden, the Netherlands, and Germany—and by narrowing the range of goods and services subject to reduced rates. More revenues could also be raised from other taxes including corporate and property taxes, and energy taxes.

Figure 1.34. There is scope to increase VAT collections



Note: The OECD aggregate corresponds to the unweighted average of the OECD countries.
Source: OECD (2024), Consumption Tax Trends 2024: VAT/GST and Excise, Core Design Features and Trends.

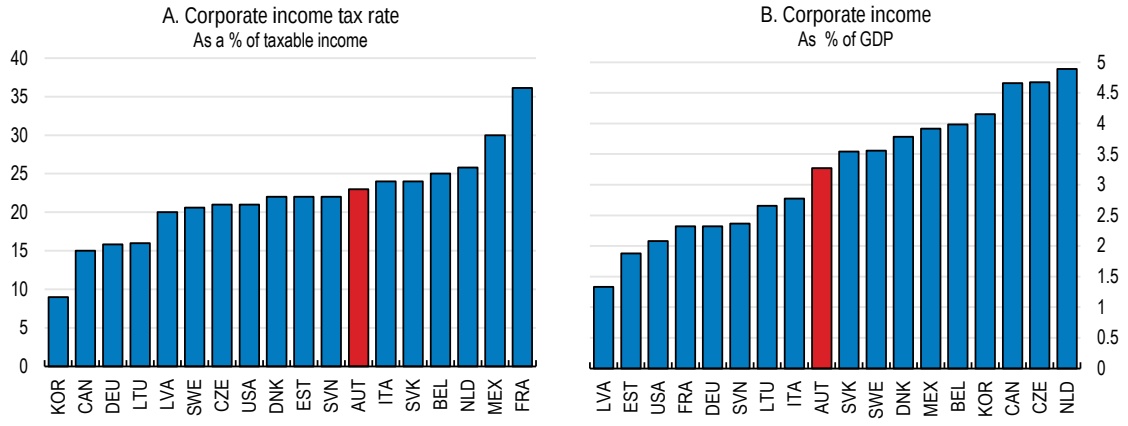
StatLink 2 https://stat.link/pcqhld

Increasing corporate tax collections

Corporate tax revenues in Austria are relatively low despite a comparatively high statutory rate (Figure 1.35). Compared with peers such as Sweden and Denmark—where corporate income tax rates are lower—Austria collects less revenue from corporates, reflecting structural and policy factors. The economy is dominated by SMEs, many of which are unincorporated and taxed under personal income tax. Certain exemptions, such as group taxation regimes, can reduce effective taxation. Non-corporate investment vehicles shift income toward capital taxation under preferential or deferred regimes. Aligning the tax treatment of these different business forms, would broaden the corporate tax base, enhance neutrality, and could create space to further reduce the statutory rate without lowering revenues.

Figure 1.35. Corporate income tax collections could be increased

Central government, 2023



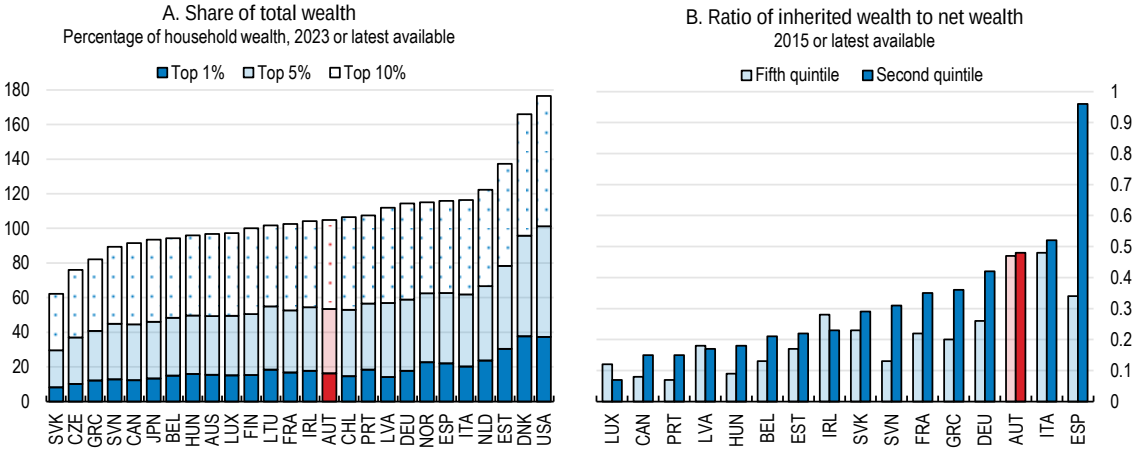
Source: OECD (2025), Corporate Tax Statistics (database).

StatLink 2 https://stat.link/6z2xtj

Introducing a tax on intergenerational transfers

Wealth in Austria is highly concentrated and largely inherited (Figure 1.36). The top 10% of households hold about 56% of total wealth, one of the highest shares in Europe, and Austria's mean-to-median wealth ratio is the fifth highest in the OECD (Eurofound, 2023; Balestra and Tonkin, 2018). Inheritances and gifts represent roughly half of average household wealth, twice the OECD average (OECD, 2024a). Both the frequency and value of inheritances are higher among the wealthiest households, reinforcing inequality and limiting social mobility. Intergenerational persistence is strong — fathers' earnings are a particularly powerful predictor of their children's income (Förster and Königs, 2020).

Figure 1.36. Austria's wealth and inheritance are highly concentrated



Note: Panel B: Data are not available for Finland and the Netherlands. Data for Poland removed due to data issues. The graph shows the ratio of inherited wealth to net wealth for households in second and fifth quintiles, as households in the first quintile had negative wealth in several countries. See Balestra and Tonkin (2018) for details on how the value of inheritances is computed.
Source: OECD Wealth Distribution Database; and OECD (2025), Inheritance Taxation in OECD Countries, OECD Tax Policy Studies, No. 28.

StatLink 2 https://stat.link/1s7rmn

Introducing a tax on intergenerational wealth transfers could enhance equity and efficiency. Unlike two-thirds of OECD countries, Austria does not levy inheritance or gift taxes, except for real estate transfer duties. A well-designed inheritance tax would improve distributional fairness with limited effects on savings and could encourage labour participation among heirs and improve growth through better capital allocation (OECD, 2021b). While such taxes generally raise modest revenues—around 0.2% of GDP on average in OECD countries—they can play an important role in curbing wealth concentration and can help ensure that capital returns are appropriately taxed over the lifetime. To be effective, implementation should ensure low administrative costs, clear valuation rules, and strong international cooperation to prevent avoidance.

Table 1.8. Past recommendations and actions on fiscal

Ensure the long-term sustainability of the pension system, e.g. by linking the retirement age to life expectancy. Reduce early retirement pathways by further reforming the access to disability pensions, improving prevention and rehabilitation measures, and enhancing incentives to continue working at an older age while ensuring good working conditions.	The early retirement paths are being reduced and access ages increased.
Implement comprehensive spending reviews and integrate the results in the annual and medium-term budget processes.	No action taken.
Shift the taxation from labour to other bases, including higher carbon taxation and the recurrent taxation of immovable property. Introduce a regular update of property values. For immovable property, reduce taxation on transactions and increase recurrent property taxation, with a gradual phase-in and designed to prevent regressivity.	Budget consolidation driven by less distortive taxes like tobacco tax, gambling tax, real estate taxes and levies for banks and energy providers. The introduction (2022) and annual increase in national carbon pricing in Austria alongside the EU ETS.
Consider a tax on intergenerational transfers based on fair valuation of assets, taxing the recipient above a lifetime threshold under a progressive tax schedule, and with limited exemptions.	No action taken.

Table 1.9. Recommendations to improve fiscal sustainability and boost growth

MAIN FINDINGS	RECOMMENDATIONS (key in bold)
Addressing key risks to macroeconomic stability and boosting potential growth	
GDP growth is projected to strengthen gradually. Ongoing fiscal consolidation plan will continue until 2028 to bring back the deficit below 3% by 2028 in line with fiscal rules.	Implement the planned multi-year fiscal adjustment plan to reduce the fiscal deficit and put the debt ratio on a downward path.
The financial sector has been resilient to past shocks, but there are risks from commercial real estate and higher non-performing loans.	Make permanent borrower-based macroprudential measures. Strengthen collateral requirements for real estate and improve credit risk assessment standards to raise loan quality and mitigate future credit risks.
High energy prices continue to hinder competitiveness and production. Continued reliance on oil and gas undermines both climate goals and energy security, leaving Austria off track for its emission reduction targets. Administrative hurdles and complex permitting procedures—split between federal and provincial levels—remain key bottlenecks.	Continue expanding renewable energy production to strengthen energy security and reduce carbon emissions. Upgrade and expand the electricity grid by setting clear investment priorities, reforming financing regulations and digitalizing the grid. Streamline permitting procedures and harmonise approval processes by creating a central coordinating authority under the Renewable Energy Expansion Act. Phase out commuter tax deductions and company car benefits and introduce targeted support for unavoidable travel. Align diesel and gasoline taxes and raise fuel taxes to match neighbouring countries.
The education system delivers good outcomes overall, but social background strongly shapes opportunities. The share of students repeating a grade in lower secondary education is high and rising. A growing minority of young people are not in education, employment, or training (NEET). Tertiary completion rates remain low by international standards.	Delay tracking and strengthen support for students from low backgrounds. Review and limit grade repetition, shifting instead toward targeted tutoring or summer programmes. Strengthen student orientation and mentoring in the first year of tertiary education. Further tighten the link between higher education institution's funding and performance to strengthen accountability and student success.
Advancing fiscal consolidation without undermining growth	
Even as the deficit is narrowed, public debt will remain high and fiscal pressures from ageing, climate change and social spending are building.	Establish a long-term fiscal reform strategy to reduce social protection expenditures to create space to accommodate spending pressures from ageing and climate costs.
Social transfers are high and there is limited use of targeted benefits.	Adjust family benefits to reflect household income to make family-linked transfers more progressive and fiscally efficient. Reduce fragmentation in social assistance, strengthen work incentives for parents and improve coordination across regions.
Around one-third (33%) of central government employees are aged 55 or above and will retire within the next decade.	Use the retirement flow of public employee to reorganise service delivery, modernise administrative structures, and gradually reduce the wage bill.
Public procurement and outsourcing are a significant share of spending, and some procedures could focus more on efficiency.	Improve procurement design, contract management, and delivery models. Strengthening competition in public procurement by increasing publication rates and improving SMEs' access to public procurement.
Population-based transfers reduce the efficiency and equity of Austria's fiscal equalisation framework and insufficiently reflect needs or performance.	Reform the fiscal equalisation formula by adjusting revenue-sharing rules to give more tax power to local governments, and by increasing performance-based allocations.
The scope of spending reviews is narrow, they lack direct integration in the budget process, and transparency is limited.	Implement comprehensive spending reviews and integrate the results in the annual and medium-term budget processes.
Austria's tax-to-GDP ratio is the fourth highest in the OECD, with a heavy reliance on labour taxation and relatively low revenues from corporate and property taxes. The labour tax wedge is among the highest in the OECD. The turnover registration and collection thresholds of the VAT are high.	Rebalance the tax system away from labour and increase other revenues by lowering social security contributions and personal income tax, while raising indirect taxes, including those on immovable property. Broaden the VAT tax base. Align the tax treatment of different business forms in the corporate income tax and reduce exemptions to broaden the corporate tax base. Consider the introduction of a tax on intergenerational wealth transfers.

References

Akgun, O., B. Cournède and J. Fournier (2017), "The effects of the tax mix on inequality and growth", OECD Economics Department Working Papers, No. 1447, OECD Publishing, Paris.

Austria Fiscal Council (2025), "2025 Fiscal sustainability report".

Balestra, C. and R. Tonkin (2018), "Inequalities in household wealth across OECD countries: Evidence from the OECD Wealth Distribution Database", OECD Statistics Working Papers, No. 2018/01, OECD Publishing, Paris.

Barnes, S., B. Cournède and F. Hanmer (2025), "Assessing government spending in OECD countries and searching for savings", OECD Economics Department Working Papers, No. 1845, OECD Publishing, Paris.

Doherty, L. and A. Sayegh (2022), "How to Design and Institutionalize Spending Reviews", IMF How To Notes 2022 (004).

Causa, O., M. Abendschein and M. Cavalleri (2021), "The laws of attraction: Economic drivers of inter-regional migration, housing costs and the role of policies", *OECD Economics Department Working Papers*, No. 1679, OECD Publishing, Paris.

Eppel, R., U. Huemer, H. Mahringer and L. Schmoig (2025), "Statistical Profiling as a Targeting Tool: Can It Enhance the Efficiency of Active Labor Market Policies?", WIFO Working Papers 694/2025.

European Commission (2024), "*2024 Ageing Report. Economic and Budgetary Projections for the EU Member States (2022-2070)", European Commission Institutional Papers 279.*

European Commission (2023), *2023 Rule of Law Report*, European Commission, Brussels.

European Commission (2023a)," *Single market and competitiveness scoreboard*".

EU Innovation Procurement Observatory (2024), "*Austria Country Report*".

EU (2025), "Eurobarometer Spring 2025".

Eurofound (2021), "*Wealth distribution and social mobility*", *Publications Office of the European Union, Luxembourg.*

Federal Ministry for Constitutional Affairs (2018), *The Austrian Judicial System.*

Federal Ministry of Finance (2025), "*Austrian Draft Budgetary Plan 2025 and 2026*".

Förster, M. and S. Königs (2020), "*Promoting social mobility in Austria*", *OECD Social, Employment and Migration Working Papers*, No. 251, OECD Publishing, Paris.

OeNB (2025a), "*Financial Stability Report 50*".

OeNB (2025b), "*Financial Stability Report 49*".

OECD (2025a), *Government at a Glance 2025*, OECD Publishing, Paris.

OECD (2025b), *Government at a Glance 2025, Austria Country fiche*, OECD Publishing, Paris.

OECD (2025c), *Education at a Glance 2025: OECD Indicators*, OECD Publishing, Paris.

OECD (2024a), *OECD Economic Surveys: Austria 2024*, OECD Publishing, Paris.

OECD (2024), *Society at a Glance 2024: OECD Social Indicators*, OECD Publishing, Paris.

OECD (2024), *Implementing the OECD Anti-Bribery Convention Phase 4 Report: Austria*, Implementing the OECD Anti-Bribery Convention, OECD Publishing, Paris.

OECD (2023), *PISA 2022 Results (Volume II): Learning During – and From – Disruption*, PISA, OECD Publishing, Paris.

OECD (2021a), *Fiscal Federalism 2022: Making Decentralisation Work*, OECD Publishing, Paris.

OECD (2021b), *Inheritance Taxation in OECD Countries*, OECD Tax Policy Studies, No. 28, OECD Publishing, Paris.

OECD (2011), *Taxation and Employment*, OECD Tax Policy Studies, No. 21, OECD Publishing, Paris.

Redonda, A., von Haldenwang, C., & Aliu, F. (2025). Global Tax Expenditures Database (GTED) (1.3.2) [Data set]. Tax Expenditures Lab.

L'Horty, Y., P. Martin and T. Mayer (2019), "*The French Policy of Payroll Tax Reductions*", *Les notes du conseil d'analyse économique.*

Moulin, L. and F. Sari (2025), "*The long-term effects of grade retention: Empirical analysis on French data*", Documents de travail, No. 301, INED, Aubervilliers, https://doi.org/10.48756/ined-dt-301.0225.

Schratzenstaller, M. (2015), "Reforming Austrian Fiscal Federalism:", in *Austrian Federalism in Comparative Perspective*, The University of New Orleans Press.

WIFO (2025), "*Österreich schleppt sich aus der Rezession Prognose für 2025 und 2026*" KONJUNKTURPROGNOSE 3/2025 WIFO.

ReferNet Austria, & Cedefop (2025, June 4). Austria: implementation of higher VET Act picks up speed. *National news on VET.*

Zucha, V., J. Engleder and K. Rieder (2023), "Studierbarkeit und Digitalisierung – Zusatzbericht der Studierenden-Sozialerhebung"*, Research Report*, Institute for Advanced Studies, Vienna.


MADE IN
AUSTRIA

2 Building economic resilience through higher business dynamism

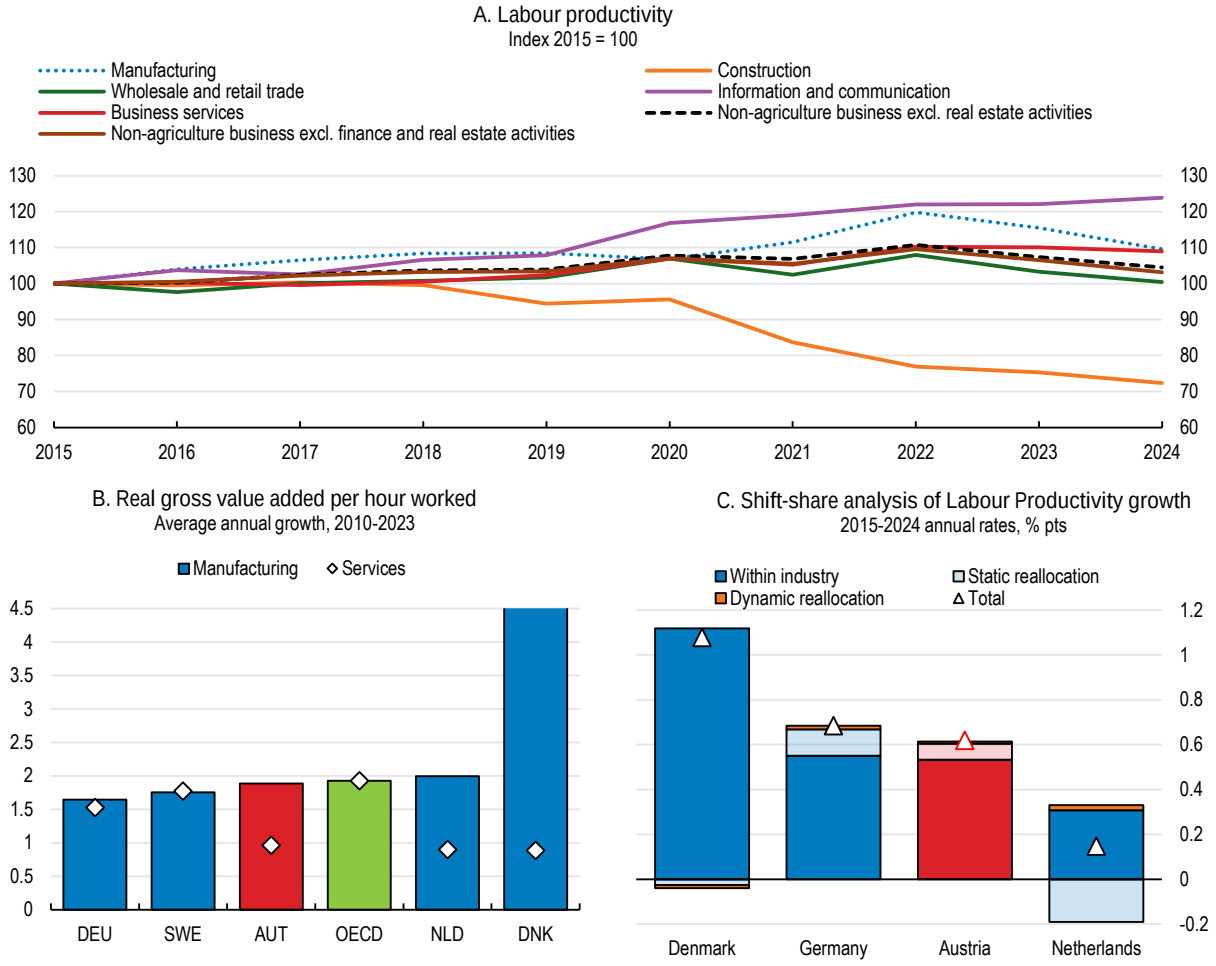
Falilou Fall

Growth of the business sector has been sluggish since 2023. Rising labour and energy costs have eroded firms' price competitiveness, while deeper structural weaknesses persist. Business dynamism has declined since 2006, with slower firm entry and exit, contributing to weak productivity growth and pointing to several challenges, including stronger competition from China. Reviving productivity growth requires a range of measures including lowering administrative burdens and reducing licensing requirements in professional services. Innovation must translate more effectively into market products, supported by risk-friendly financing. Accelerating digitalisation and strengthening competition, including in the energy sector, will be crucial to restore growth and competitiveness.

2.1. Business dynamism and productivity growth have declined

The Russian war against Ukraine has disrupted the recovery from the pandemic and set off a prolonged slowdown in the business sector and the wider economy (see Chapter 1). Growth of the business sector declined from mid-2022 to the end of 2024 and output was only 1.7% higher in 2023 than in 2019. Business sector labour productivity growth has been weak since the global financial crisis and in recent years with flat productivity in the manufacturing sector since 2019 and a slowdown in productivity growth in the wholesale and retail services sector (Figure 2.1). Weak investment has contributed to modest productivity gains. Rising employment, especially in part-time work, has contributed to dampening productivity growth. On the positive side, output and productivity in the ICT sector have continued to grow rapidly, but these sectors only account for a small share of business sector employment.

Figure 2.1. Labour productivity has been sluggish across many sectors



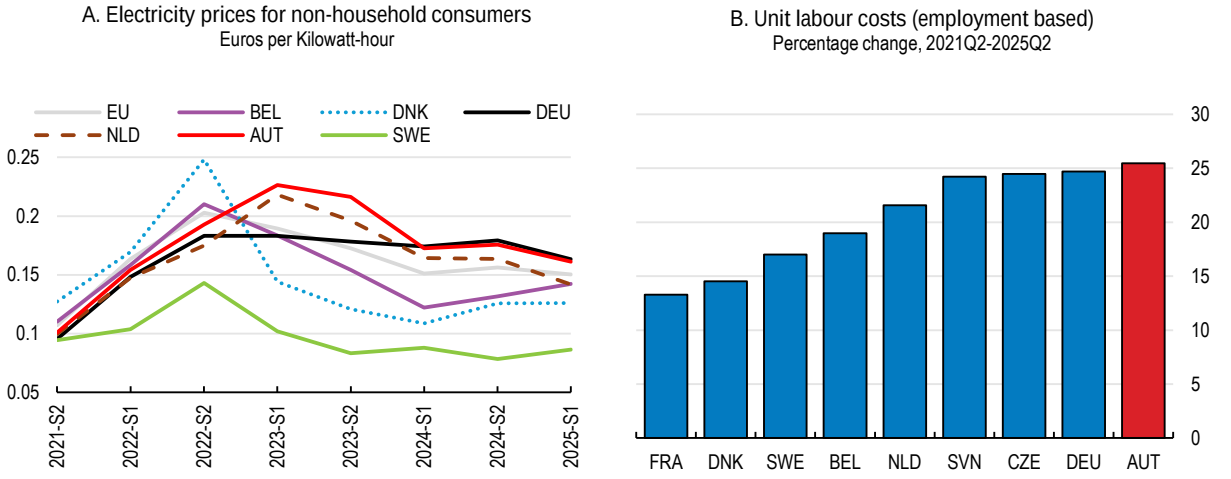
Note: Panel A: Labour productivity is defined as the ratio of real value added per hours worked, calculations are detailed here: https://www.oecd.org/sdd/productivity-stats/OECD-Compendium-of-Productivity-Indicators-2023-Methodology.pdf. Manufacturing includes other industry; Wholesale and retail trade includes transport, accommodation and food service activities. Panel B: The OECD aggregate corresponds to the unweighted average of available OECD countries.
Source: OECD Productivity database (2025).

StatLink 2 https://stat.link/hg9fet

Austrian businesses face a range of short-term and structural challenges. In the short run, rising labour and energy costs have worsened the price competitiveness of Austrian exporting firms. Since 2021, unit labour costs have risen by 24%, among the largest increases in the EU (Figure 2.2). In 2025, electricity prices for non-

household consumption were still 60% higher than in the second half of 2021, ranking fifth highest in the European Union. Austria imports 62% of its energy. Electricity prices also closely track fluctuations in natural gas and coal markets. The transition to climate neutrality in emission-intensive sectors poses a major challenge, but also presents opportunities for long-term competitiveness (see Chapter 1).

Figure 2.2. Production costs have increased substantially



Note: Panel A: Data frequency is half-yearly and refer to the consumption of KWh- all bands, excluding taxes and levies. Panel B: Data are seasonally but not calendar adjusted.
Source: Eurostat; OECD.

StatLink 2 https://stat.link/it7qxv

Austria is highly exposed to structural shifts in industry and to growing competition from new players such as China. Austria remains one of the most industrialised EU economies, with industry accounting for around 21% of total value added in 2023, of which manufacturing contributed 17% (Figure 2.3). Machinery and equipment, as well as the automotive sector—both with broad value chain linkages—represent particularly large shares of the economy compared to other countries.

Austria's industry is specialised and technology-intensive, placing it at the industry frontier but also making it vulnerable to emerging competitors. In recent years, Chinese firms have narrowed the technology gap in key sectors and entered international markets with increasingly advanced products, particularly in technology-intensive industries such as electric vehicles (Bergeaud et al., 2022). This competitive shock from emerging economies affects both the R&D investment and the productivity of domestic firms (Austrian Productivity Board, 2025). While external competition could, in theory, foster domestic productivity through the so-called "escape-competition effect," evidence points to a different pattern. The rapid technological catch-up of Chinese firms has reduced incentives for ambitious, high-risk R&D among European competitors. As returns on innovation have declined, firms have shifted from technological exploration toward exploitation (Morandi Stagni et al., 2021). Friesenbichler et al. (2023) show, that while European firms initially managed to withstand Chinese competition by improving intra-firm productivity, the longer-term effect has turned negative, leading to productivity declines.

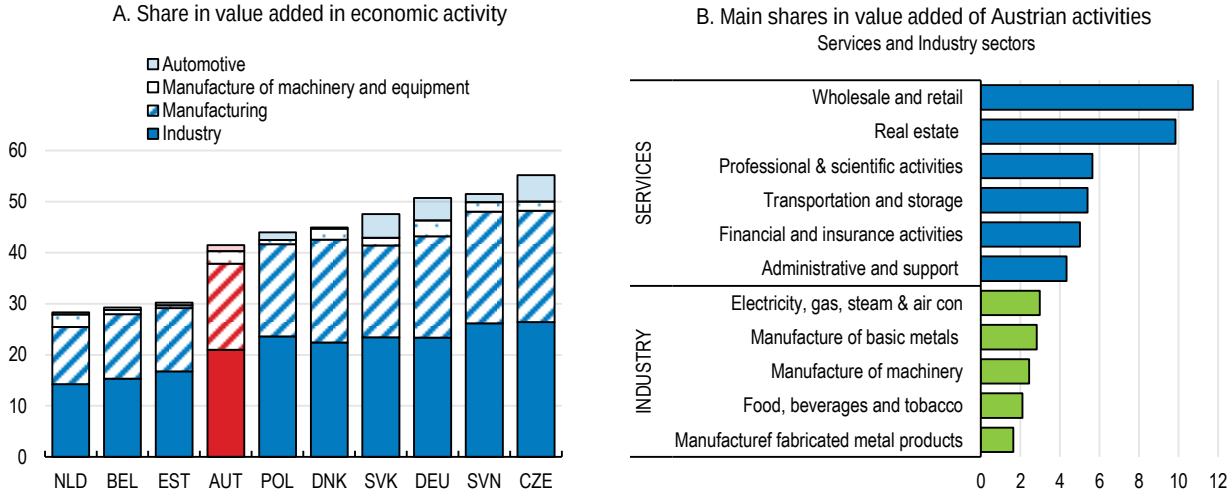
To manage these transitions, Austrian businesses will need to adapt, reallocate resources from declining to expanding activities and firms will need to reinforce their innovation base and adopt new technologies—particularly artificial intelligence—to remain competitive, raise productivity and expand activity and employment. This will require a stronger innovation system and an increase in investment in intangible capital (Friesenbichler and Kuegler, 2025).

Section 2 of this Chapter discusses the dynamism of the Austrian business sector. Section 3 analyses the vulnerabilities linked to the sourcing of inputs in a context of higher trade restrictions. Policies to boost

innovation and digitalisation are presented in section 4. Finally, section 5 assesses policies to reducing regulatory burden and enhancing competition.

Figure 2.3. Industry's share in total value added remains high

Percentage, 2024



Note: Panel A: Data correspond to gross value added and income for the following industry sectors (NACE Rev.2): Industry (except construction) [B-E], Manufacturing [C], Manufacture of machinery and equipment n.e.c. [C28], and Manufacture of motor vehicles, trailers, semi-trailers and of other transport equipment [C29_C30] corresponding to Automotive. Data for Manufacture of machinery & equipment and Automotive for Germany and Poland refer to 2023.
Source: Eurostat.

StatLink 2 https://stat.link/9j0flc

Business dynamism is the process of the exit of low productive firms, the entry of new ones and the growth of young and dynamic firms in competitive markets that incentivise investment and innovation. This drives productivity within firms and the reallocation of resources to the most successful firms and away from declining activities (see Box 2.1). If incumbent firms are less challenged by new market entries, they have lower incentives to innovate, upgrade their management skills, invest in adopting new technologies and improve productivity, particularly in high-technology sectors. Moreover, new firm entries have been found to significantly contribute to innovation, structural change and productivity growth (Gourio et al., 2016).

Box 2.1. The OECD DynEmp project

The OECD DynEmp project, led by the Directorate for Science, Technology and Innovation, offers a granular view of employment and business dynamics across countries over the past two decades. It compiles harmonised, granular data from administrative sources such as business registers and social security records to analyse firm demographics and employment growth. A common computer code, developed by the OECD, ensures consistent statistical treatment of the data across countries. National partners run the code on their data and return the results to the OECD, where they are validated and used to support policy analysis.

DynEmp indicators for Austria are based on the WIFO INDI-DV dataset based on AMDB of AMS Österreich (Austrian Labour Market Service) and BMAW (Federal Ministry for Labour and Economy). The statistical unit in the microdata refers to social security ID (companies can have several numbers). The contribution of Werner Hölzl (Senior Economist at WIFO, Austrian Institute of Economic Research) as the main contact for the DynEmp project is gratefully acknowledged.

The results presented in this chapter are based on the DynEmp3 database (September 2025) and cover the period 2004–2022. The analysis includes Austria, Belgium, Finland, France, Germany, Hungary, Italy, Portugal, Slovenia, Spain and the United Kingdom (unbalanced panel), focusing on manufacturing (ISIC Rev. 4, section C) and non-financial market services (sections G–N excluding K).

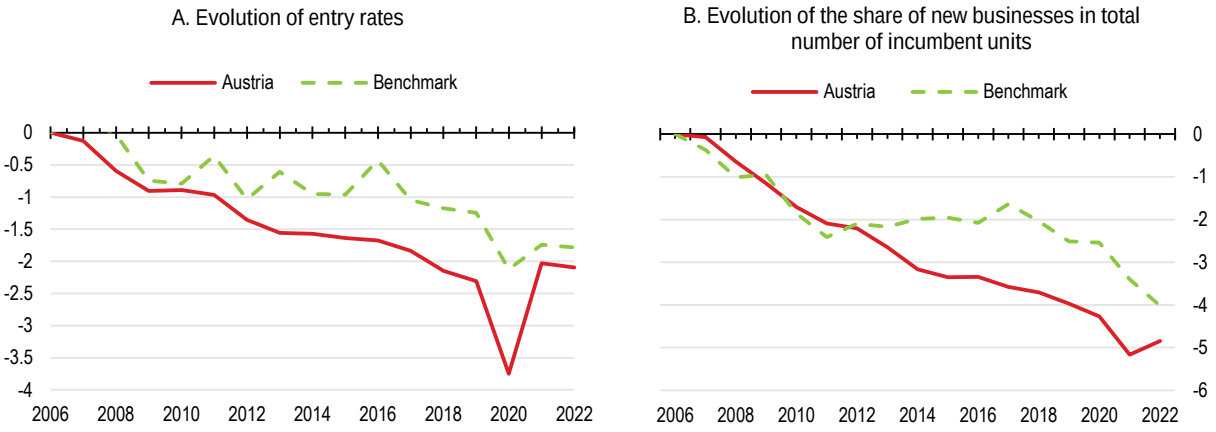
Source: Desnoyers-James, Green, Reinhard and Verlhac (forthcoming 2026) for more details on the data sources and methodology.

Austria's business dynamism has been in decline for many years as in many other OECD countries. Although entry and exit rates remain relatively high compared with many OECD countries, the pace of firm creation and destruction has slowed since 2006. In 2006, the entry rate in the manufacturing sector was at around 6.3% and at around 10.7% in the non-financial services sector. While entry and exit rates have been fairly stable in manufacturing, they have fallen significantly in services—the largest sector of the economy. Over the past two decades, Austria's entry rate declined by 2 percentage points, and the share of new businesses among incumbents fell by 4 percentage points, somewhat worse than an OECD benchmark (Figure 2.4). The weakening of business dynamics in services suggests the presence of important barriers to firm entry and growth, including administrative burdens, regulatory obstacles to competition, market power and anti-competitive practices by incumbents, as well as limited access to finance for new firms (Calvino, Criscuolo and Verlhac, 2020). Rapid population ageing has also weighed on entrepreneurial activity and reduced entry rates (Austrian Productivity Board, 2024).

Firm exit rates have been declining in Austria over the past two decades from around 10% in 2006 and firm exit has slowed substantially more than firm entry and the OECD benchmark. In contrast to benchmark countries, where exit rates rose until the COVID-19 pandemic, Austria's exit rates fell by nearly 2 percentage points (Figure 2.5). While lower exit rates may reflect stability, they can also reflect weak capital reallocation with less productive firms remaining in the market and retaining resources that could otherwise be used more efficiently. Job reallocation has also slowed, signalling reduced worker mobility. The limited dynamism of the labour market is further evidenced by low post-entry employment growth among new firms and a comparatively small share of surviving micro-entrant firms that expand to more than nine employees within three years (Desnoyers-James et al., 2025).

Figure 2.4. New firm creation has declined rapidly

All sectors, percentage points

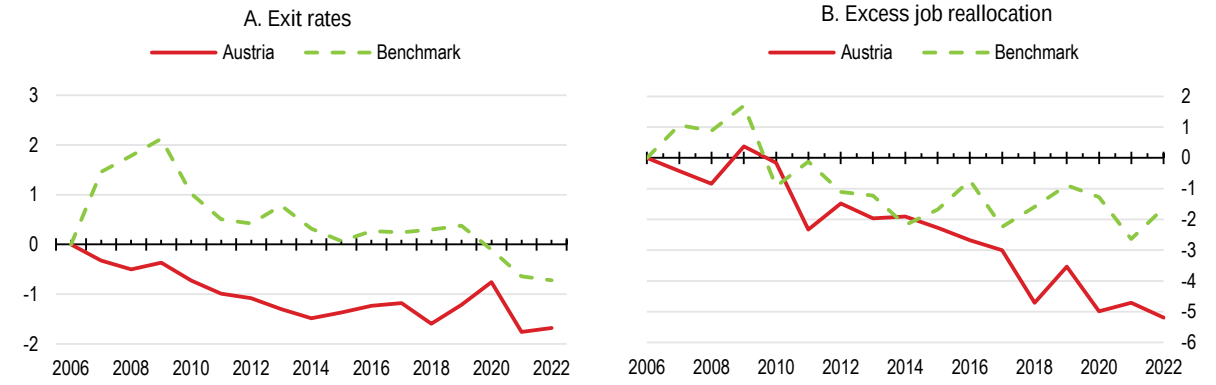


Note: Data cover manufacturing (ISIC rev. 4 section C) and non-financial market services (or "services", sections G-N excluding K) and focus on the business population of firms with two or more persons engaged. Benchmark includes Austria, Belgium, Finland, France, Germany, Hungary, Italy, Portugal, Slovenia, Spain and the United Kingdom countries (unbalanced sample). Panel A: This figure reports the evolution of entry rates focusing on cumulative changes within SNA A38 industries weighted by the sector share in the number of units. Each point represents cumulative change in percentage points since 2006. The cumulative change is computed based on the regression of entry rates on year dummies within country-industry. Panel B: This figure reports the evolution of the share of new firms in the business population, focusing on cumulative changes within SNA A38 industries weighted by the sector share in the number of units. Each point represents cumulative change in percentage points since 2006, computed regressing entry rates on year dummies within country-industry. New firms correspond to firms aged 1-2 years (excluding entrants).
Source: DynEmp3_v3 database, September 2025. Desnoyers-James, Green, Reinhard and Verlhac (forthcoming 2026).

StatLink 2 https://stat.link/nz41of

Figure 2.5. Capital and job reallocations have slowed

All sectors, percentage points



Note: Benchmark includes Austria, Belgium, Finland, France, Germany, Hungary, Italy, Portugal, Slovenia, Spain and the United Kingdom countries (unbalanced sample). Panel B: Job reallocation measures the simultaneous creation and destruction of jobs within an industry, accounting for the fact within an industry some firms shrink or exit, while others expand or enter. Job reallocation is the sum of job flows (job creation and destruction) in an industry (between t-1 and t) divided by average employment of the industry in t-1 and t. Excess reallocation is the job reallocation rate of an industry minus the absolute value of net employment growth. Excess reallocation represents that part of job reallocation over and above the amount required to accommodate the net employment change.
Source: DynEmp3_v3 database, September 2025. Desnoyers-James, Green, Reinhard and Verlhac (forthcoming 2026).

StatLink 2 https://stat.link/cogba4

Decomposing the growth of multifactor productivity (MFP) into the direct contributions of new firm entry, the average growth of incumbent firms, the reallocation of economic activity among them, and firm exits helps explain how business dynamism has driven productivity growth in Austria. On average, new entrants made a positive contribution to annual MFP growth in non-financial market services (Peneder and Unterlass, 2024). However, the impact of these new firms on productivity tends to decline over a 3- to 5-year horizon, suggesting

they face barriers to scaling up and thriving (Figure 2.6). In contrast, the average MFP growth of incumbents increases over longer time intervals (Peneder and Unterlass, 2024). The reallocation of production among incumbents grows even more strongly over time, indicating that more competitive firms attract more productive resources.

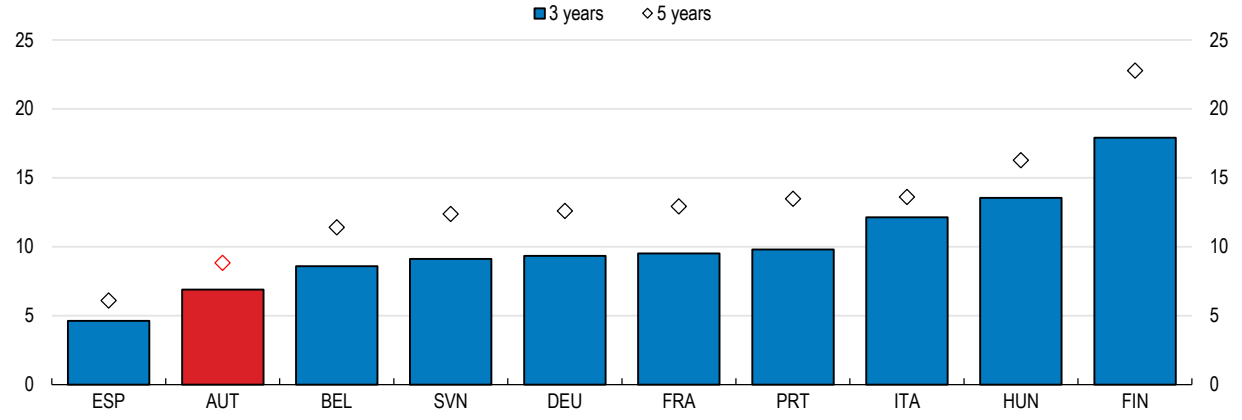
Medium to long-run challenges related to energy prices and energy vulnerabilities, higher competition from new contenders, innovation and digitalisation gaps, and trade risks will likely require a faster pace of reallocation between firms and sectors than in the past (Hoelzl et al., 2025). The slowing of business dynamism is therefore a concern, and reforms are needed to remove obstacles to the reallocation of capital and foster stronger competition and innovation.

Efficient insolvency frameworks foster business dynamism and productivity by enabling the timely restructuring or exit of non-viable firms. In Austria, the share of such low-productivity "zombie" firms—those that continue operating despite weak performance—declined before the pandemic and remains low by international standards (OECD, 2024). However, the OECD Insolvency Indicator shows that Austria's framework could be further strengthened to support resource reallocation and productivity growth (André, 2022).

Austria implemented Directive (EU) 2019/1023 through the Restructuring Regulation Act in July 2021, introducing a formal pre-insolvency restructuring option. However, uptake has been negligible—only five proceedings have occurred to date. Reorganisation plans under insolvency law and out-of-court restructurings remain the preferred tools. About one-fifth of insolvency cases end with a reorganisation plan, which sets a minimum repayment of 20–30% of the debt if approved by creditors. The process is fast, typically completed within four months, and flexible for both debtors and creditors. Out-of-court restructurings are even more common and reportedly succeed in 70% of cases (Mayr et al., 2023), thanks to their flexibility and creditor coordination. Still, the 2021 regulation could prove useful for large firms with complex creditor structures if awareness and incentives improve. Simplifying procedures and encouraging earlier restructuring could strengthen Austria's corporate resilience and make the system more efficient.

Figure 2.6. Post-entry employment growth of firms in Austria is weak

Share of entrants (2–9 workers at entry) reaching 10+ workers after 3 or 5 years



Note: This figure shows the share of surviving entrants (firms with 2–9 workers at entry) that grow to 10+ workers three or five years later. The share is calculated among firms still active in the target population at the horizon, excluding exits, those without reported employment, and (for the three-year period) those with fewer than two workers. Entry is defined as the reported start year if it predates the sample period; otherwise, as the first year with positive employment. Data are averages for the 2016, 2017 and 2019 entry cohorts (2016 and 2017 for the five-year measure) and cover manufacturing and non-financial market services (ISIC Rev. 4 sections C and G–N, excluding K).
Source: DynEmp3_v3 database, September 2025. Desnoyers-James, Green, Reinhard and Verlhac (forthcoming 2026).

StatLink 2 https://stat.link/pa4x6b

2.2. Reducing vulnerabilities and diversifying sources of intermediate inputs

As a small open economy with few natural resources, the Austrian economy is dependent on imported fossil fuels for energy and on specialised imported intermediate goods. As global trade restrictions are growing, including for strategic inputs as chips and rare earths, securing the sourcing of key inputs for the industry and the economy is crucial.

Fossil fuels still dominate Austria's energy mix, particularly in transport and industry. These sectors account for over 60% of emissions, with transport alone up 57% since 1990. Continued reliance on oil and gas undermines both climate goals and energy security, leaving Austria off track for its emission reduction targets. Industry accounts for over 20% of Austria's emissions, mainly from steelmaking. Voestalpine alone generates 15% of national CO_2 emissions, relying on coal-based blast furnaces. The firm plans to replace all blast furnaces with electric arc furnaces by 2050**,** cutting emissions by 50% by 2030 and achieving climate neutrality by mid-century. Supporting this transition through low-carbon electricity and hydrogen will be crucial. Stronger long-term policy signals and financial support for breakthrough technologies are needed. Austria's H2Future and HYFOR pilot projects show the potential of hydrogen-based steelmaking, and the new Hy4Smelt project will help scale up these innovations. Renewable gases—notably biogas and green hydrogen—can replace fossil fuels in hard-to-abate sectors. A new EUR 400 million hydrogen support scheme, launched for consultation in 2024, and plans to secure hydrogen imports from the MENA region are important steps. Supporting renewable gas deployment will help maintain industrial output while progressing toward climate neutrality.

Austria is highly integrated into regional and global value chains. The COVID-19 pandemic exposed vulnerabilities in these networks, as disruptions led to shortages of critical goods such as respirators and semiconductors (Schwellnus et al., 2023). Economies, particularly industries, including in Austria, face systemic risks from the globalization of supply chains. Private businesses often fail to account for these risks because they focus only on their own operations and lack visibility beyond their first-tier suppliers, which causes them to underestimate vulnerabilities (Schwellnus et al., 2023). Figure 2.7 shows the geographical origins of these vulnerable intermediate products. Each bar represents the share of all vulnerable products sourced from the top three suppliers. Austria sources nearly 53% of its vulnerable intermediate products from just three countries. Foreign supply shocks can have particularly severe effects on domestic production when supplier concentration—both by country and by firm—is high (Schwellnus et al., 2023). Of the 250 imported products classified as moderately vulnerable and around 50 considered highly vulnerable and around 8% of Austria's intermediate inputs are highly or moderately vulnerable (Berthou et al., 2024). Although this small share could suggest low exposure to supply chain shocks, the real vulnerability depends on how easily firms can switch suppliers. Many studies show that substitution elasticities can be very low for these products in the short run, making it difficult to find alternative suppliers quickly (Bachmann et al., 2022; Baqaee et al., 2022). When substitution is limited, a shock affecting one supplier can severely disrupt downstream production.

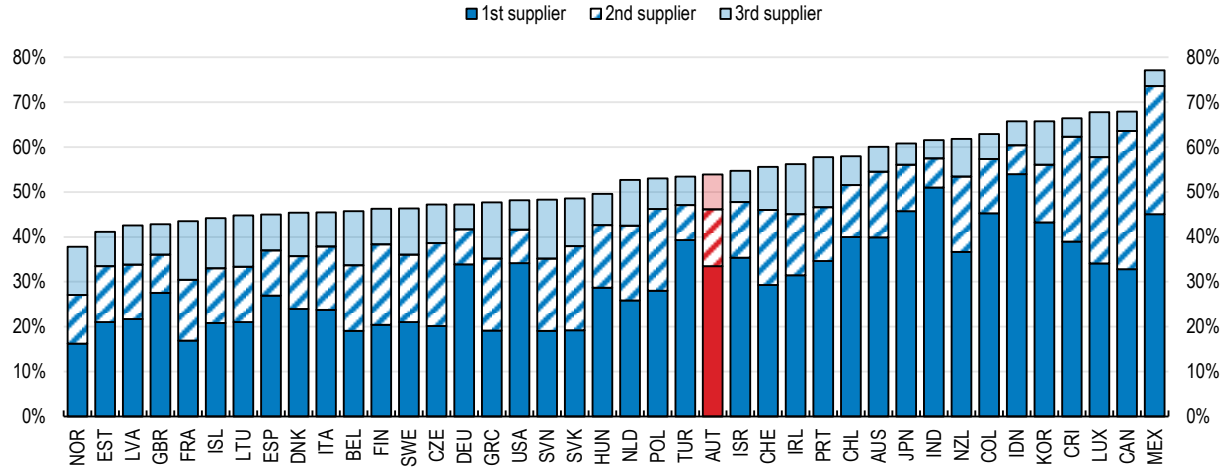
Public policies can strengthen value chain resilience by helping firms recover quickly after shocks and by reducing exposure to risks. Raising awareness among firms in vulnerable sectors can improve their readiness and resilience. Well-targeted government support—such as grants, loan guarantees, and aid for workers—has proven effective after disruptions. Building management and worker skills is crucial to enable fast restructuring. To mitigate risks, Austria can promote diversification and reduce technological dependencies. Diversifying suppliers can significantly soften the impact of supply shocks (Schwellnus et al., 2023). Technological innovation that reduces reliance on specific inputs, such as fossil fuels, can provide similar protection but often requires time to implement. Encouraging firms to monitor vulnerabilities, diversify sourcing, and lower dependence on critical technologies will help protect key industries and their downstream partners. Establishing an informal observatory that meets twice a year with representatives of key business stakeholders to monitor tensions in the sourcing of critical materials and their underlying causes would raise awareness among participants and help inform policy responses. Austria should implement the EU Critical Raw Materials Act that aims to secure the supply of critical raw materials (Box 2.2). The EU Critical Raw Materials Act facilitates shorter permitting processes for rare earths, such as lithium, and envisages joint

purchases, stockpiling and import diversification of rare earths. The EU Security Strategy also supports risk assessments related to the resilience of supply chains, critical infrastructure, technology leakage and economic coercion. The Austrian circular economy strategy should be updated to include raw materials and strategic minerals. Austria should promote the use of circular material and research in recycling or substituting of critical raw materials as it is lagging OECD countries in these areas.

Despite recent progress, EU financial, goods and services markets remain significantly fragmented and lack competitiveness, missing out on potential economies of scale and efficiency gains. Deepening the integration of the EU market would remove barriers and unlock the full potential of the EU single market (Draghi, 2024). Market integration of services in EU is also limited. The 2025 OECD Economic Survey of the EU-EA provides recommendations to deepen the integration of goods and services market of the EU, in particular, by reducing the regulatory burden, removing internal barriers in trade and easing entry in professional sevices.

Figure 2.7. The sourcing of vulnerable intermediary inputs is relatively concentrated

Share of vulnerable products by supplier rank, 2019



Note: Products are categorised based on their vulnerability using two key indicators: Global export market shares concentration (HHI-MSX) and suppliers' concentration (HHI-M). A product is deemed to be "highly vulnerable" if both the HHI-MSX and HHI-M exceed 0.5. Conversely, a product is considered "moderately vulnerable" if both indicators are above 0.3 but below 0.5. Vulnerable products have their imports exceeding the imports of the same product in each country.
Source: Comtrade data, calculation by A. Haramboure and L. Samek, (see Berthou, Haramboure and Samek, 2024).

StatLink 2 https://stat.link/j4d7bg

Box 2.2. The EU Critical Raw Materials Act and Supply Chain Resilience

The EU Critical Raw Materials Act (CRMA), adopted in 2023, aims to secure a sustainable and resilient supply of critical raw materials essential for Europe's green and digital transitions and long-term strategic autonomy. It combines internal measures to strengthen domestic capacity with external partnerships to diversify supply sources.

The CRMA sets 2030 benchmarks for strategic raw materials: at least 10% of annual consumption to be extracted, 40% processed, and 15% recycled within the EU. It promotes strategic projects in extraction, processing, and recycling through faster permitting and improved financing, both in the EU and partner countries such as Chile, Canada, and Namibia.

To improve resilience, the Act establishes a European Critical Raw Materials Board to monitor markets, conduct supply-chain stress tests, and coordinate strategic stockpiles. It also supports a Critical Raw Materials Club to strengthen global cooperation and enhance free trade in key inputs.

Finally, the CRMA promotes a circular materials economy by encouraging recycling, reuse, and waste recovery, notably for permanent magnets, through national programmes and incentives such as deposit-refund or reward schemes.

Source: European Commission, 'Establishing a framework for ensuring a secure and sustainable supply of critical raw materials and amending Regulations' (EU) 168/2013, (EU) 2018/858, 2018/1724 and (EU) 2019/1020, 2023; Dechezleprêtre, A. et al. (2024), "A comprehensive overview of the renewable energy industrial ecosystem", *OECD Science, Technology and Industry Working Papers*, No. 2024/11, OECD Publishing, Paris, https://doi.org/10.1787/94dce592-en.

2.3. Boosting innovation and digitalisation to strengthen competitiveness

Advances in new technologies and business practices, including production processes, are crucial drivers of productivity growth (OECD, 2024b; Baily, 2023). Innovation is essential for the ability of Austria's manufacturing industries, including the automotive industry, to withstand rising competition from new market entrants. Advanced digital technologies can speed up the shift toward more knowledge-intensive services and raise overall productivity. They enable process automation, the creation of new business models, and access to global markets. Expanding the use of digital technologies requires high-performance digital infrastructure and a skilled workforce.

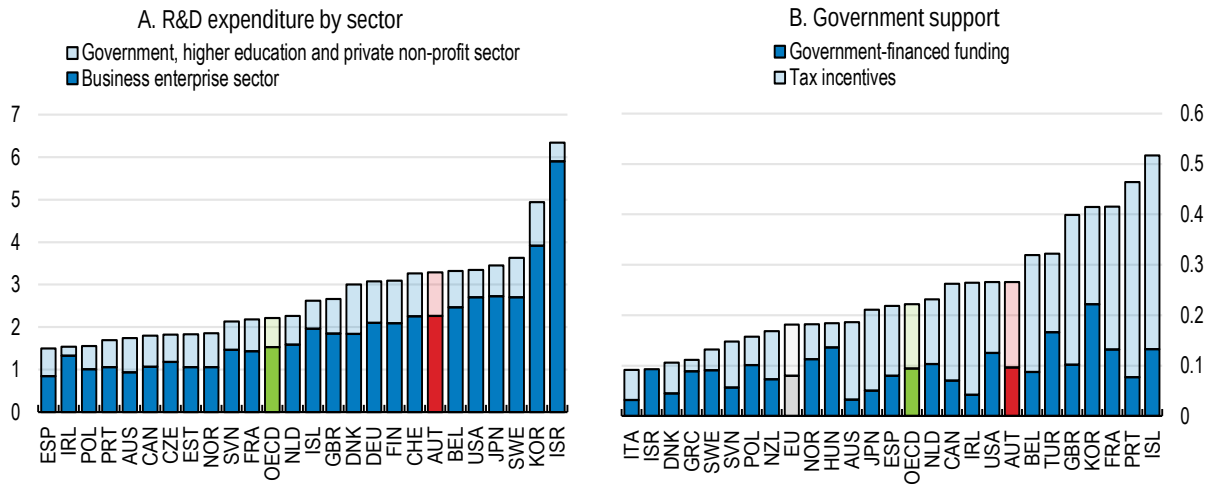
2.3.1. Innovation is key for diversification and competitiveness

Austria benefits from a strong innovation ecosystem: R&D and innovation spending reached 3.3% of GDP in 2024, exceeding the EU's 3% target and ranking among the highest internationally (Figure 2.8). About one-third of this spending is financed by federal and regional governments and 42% by enterprises (Austria Research and Technology Report, 2025). Public support includes direct funding, such as through the Austrian Research Promotion Agency's (FFG) General Programme, as well as tax incentives like the research premium—a tax credit reimbursing 14% of firms' total research expenditures. In financial terms, tax measures represent the bulk of government support (Figure 2.8, Panel B).

Strong and well-financed higher education institutions play a key role in driving R&D and innovation. Government expenditure on tertiary education is comparatively high and provides strong incentives for collaboration with businesses. Long-term science–industry cooperation in Austria is supported through several key programmes: the COMET Competence Centre Programme, which funds research centres and networks linking science and industry; the Christian Doppler Research Association, which supports industry-oriented fundamental research at universities; and the BRIDGE Programme, which finances application-oriented basic research in small consortia. Austria ranks among the top EU countries in university–business and international research collaboration (European Innovation Scoreboard, 2025). Moreover, a large share of Austrian firms with at least 10 employees engages in innovation activities (Figure 2.9). Overall, Austria is classified as a strong innovator within the EU. However, its performance has slowed in recent years and continues to lag innovation leaders, such as Sweden, Denmark, and the Netherlands (Figure 2.9).

Figure 2.8. Innovation support is strong

As % of GDP, 2023 or latest available year



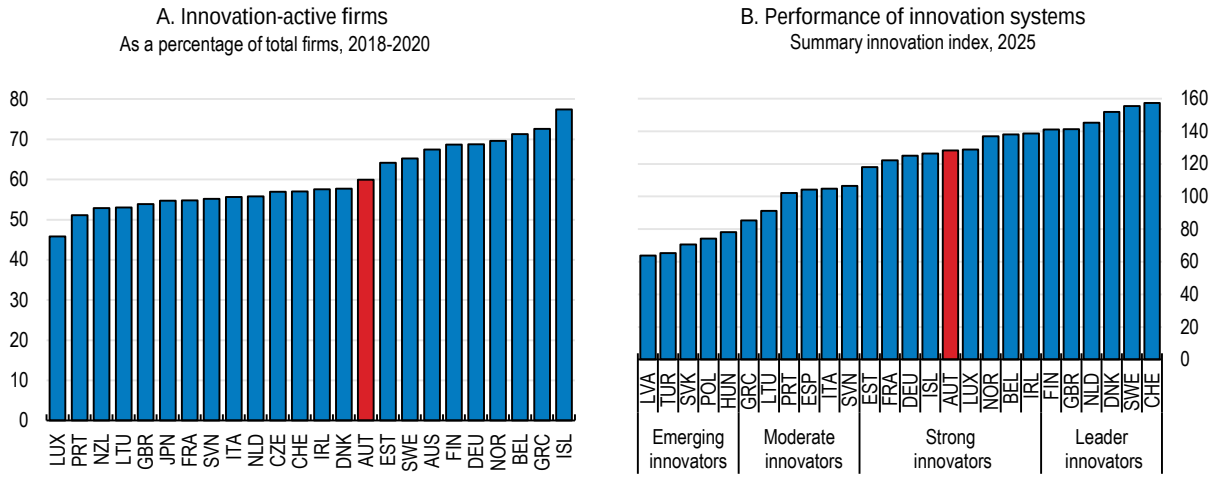
Note: The OECD aggregate corresponds to the unweighted average of available OECD countries. Panel A: Government, higher education and private non-profit sectors are summed together. Panel B: The EU corresponds to the composition of European Union as of 2020. The OECD average does not include data from indirect government support through subnational R&D tax incentives. Tax incentives include tax income support and subnational tax support, available only for Canada, Hungary and Japan.

Source: OECD R&D Expenditure (database); OECD R&D Tax Expenditure (database); Business Innovation Statistics and Indicators; EU European Innovation Scoreboard.

StatLink 2 https://stat.link/wnaq07

Despite an overall favourable environment, Austria's innovation policy could be strengthened in terms of new product and their trade impacts, as well as support for business financing. Austria ranks highly in design and patent applications. However, the transformation of these outputs into new-to-market and new-to-firm innovations is among the lowest in the EU (European Innovation Scoreboard, 2025). Risk aversion given economic uncertainty and financing barriers are among explanations for this weak conversion of research into market-ready products (Austrian Council for Sciences, Technology, and Innovation, 2025). Policies that help mitigate the risks associated with developing and introducing new products—particularly through financial incentives—have a crucial role to play.

Figure 2.9. Innovation performance has room to improve



Note: Panel A: Innovation-active firms cover firms with innovation activities that have not necessarily led to an innovation. Panel B: The Summary Innovation Index is a composite indicator of 32 indicators in 12 innovation dimensions across four types of activities: framework conditions, investments, innovation activities and impacts. Each score is indexed to the performance of the EU in 2018, regardless of the comparison year selected.

Source: OECD R&D Expenditure (database); OECD R&D Tax Expenditure (database); Business Innovation Statistics and Indicators; EU European Innovation Scoreboard.

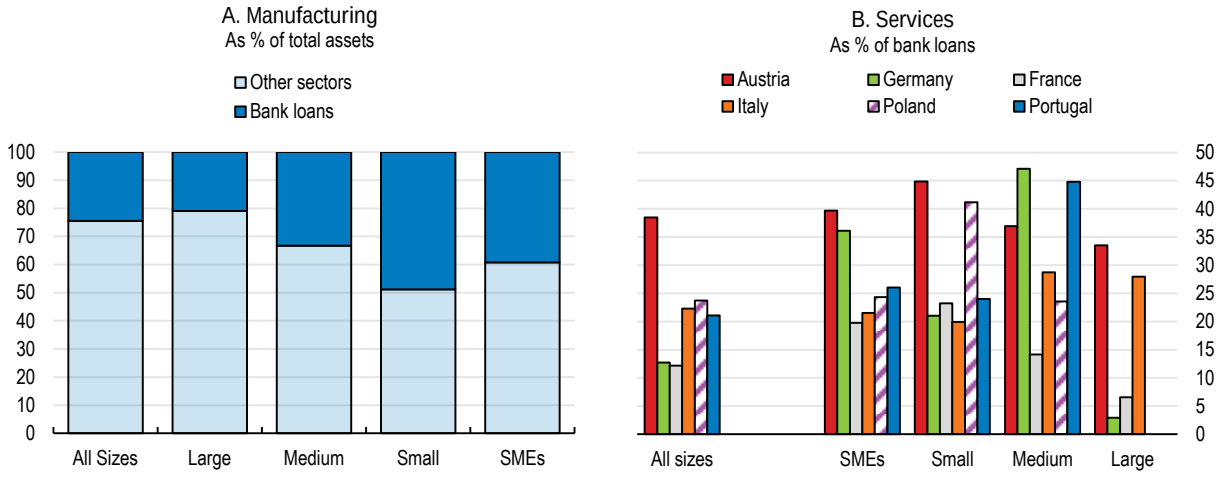
StatLink 2 https://stat.link/9nae53

Expanding access to financing for innovative firms, not only for start-ups and SMEs but also for larger companies, is essential to sustain Austria's broad industrial and manufacturing base. The financing structure of Austrian firms, particularly SMEs, is not conducive to risk-taking (Figure 2.10). Debt financing remains the dominant instrument, with SMEs' stock of loans amounting to 20% of GDP—among the highest in the OECD (OECD, 2025). By contrast, access to equity financing remains limited: venture capital investment stood at just 0.02% of GDP in 2024, well below the EU average of 0.06%. OECD research confirms that greater availability of venture capital would significantly enhance the productivity of Austrian companies (Sorbe et al., 2019).

The government has launched reforms aimed at improving equity access and financing for firms, particularly SMEs. The new Flexible Capital Company ("Flexible Kapitalgesellschaft – FlexKap"), introduced on 1 January 2024, provides start-ups and innovative SMEs with a tailored legal form. It enables flexible capital measures permitting to easily modify the distribution of capital shares, simplifies the transfer of company shares to individuals or other entities, and allows non-voting shares for employee participation. By the end of 2024, around 800 FlexCos had been founded (Ministry of Economy, 2025). In addition, the amendment to the GmbH Act reduced the minimum share capital for this legal form from EUR 35,000 to EUR 10,000. The Start-Up Promotion Act ("Start-Up-Fördergesetz") further supports financing by allowing tax deferral for employee shareholdings until shares are sold, alongside a simplified and more favourable flat-rate regulation. These measures facilitate equity sales and investment, opening new channels for innovation financing. Promoting these instruments more actively and raising awareness of their advantages could help increase uptake.

Figure 2.10. Bank instruments remain the main financing vehicles of firms

2023



Note: SMEs are firms with turnover below €50 million: small firms have turnover below €10 million, medium-sized firms between €10 million and €50 million, and large firms above €50 million. Panel A: "Other sectors" includes corporate bonds, trade payables, rest, and other creditors. Other creditors comprise intra-group debt and accounts payable (excluding trade payables and payables to other financial creditors), mainly tax and social security liabilities, staff payables, and dividends payable. Rest includes advance payments on orders and deferred liabilities. Panel B: For Portugal, data for small, medium-sized, and SME firms refer to 2022; data for large firms are unavailable.
Source: Bank for the Accounts of Companies Harmonized (BACH) database.

StatLink 2 https://stat.link/gefqtr

Strengthening venture capital financing is also essential. The authorities stimulate venture and growth capital through public subsidies and several initiatives. The public sector provides most of venture capital funding in Austria (OECD, 2021). The lack of private venture and growth capital impedes the development of an equity eco-system. In 2023, a new state-financed venture capital fund (aws Gründungsfonds II: "Startup Fund") was established with a 10-year duration and EUR 72 million in capital to invest in young, innovative start-ups and growth firms based in Austria. The fund aims to leverage up to EUR 500 million in private investment. In addition, the government intends to create a fund of funds to pool private capital with public funds to support start-ups and scale-ups through their growth phases. However, the scale of public financing remains limited. Diversifying the instruments and intervention modalities of the fund would enable it to support a larger number of firms, taking example from experience of countries as Israel (Box 2.3). Austria could further mobilise domestic and European savings for venture capital by promoting funds of funds, drawing on experiences in other European countries. Germany's *Wachstumsfonds Deutschland*, launched in 2021 as part of the *Zukunftsfonds*, illustrates how public anchor investments—combined with substantial participation by institutional investors such as insurers, pension funds, asset managers, and family offices—can strengthen the venture capital ecosystem in a manner consistent with EU state aid rules. For Austria, a similar approach, potentially in partnership with pan-European initiatives, could help overcome scale constraints in the domestic venture capital market. Public financial institutions, including the European Investment Fund, can play a catalytic role in supporting Austria's venture capital market, provided such initiatives are carefully designed to limit fiscal risks and primarily crowd in private-sector financing. Public venture capital should aim at attracting more involvement of private institutions supporting venture capital.

Attractive exit options are important for encouraging entrepreneurship and startup creation. Many founders are motivated by the possibility of selling their company once it has grown and matured, for example through a stock market listing (Initial Public Offerings, IPO) or a sale to another company via a merger or acquisition. Such exits can provide significant rewards for founders and early investors and help recycle capital and experience into new startups. In Austria, however, exit opportunities remain limited. IPO and merger and acquisition activity is relatively low compared with the United States, the United Kingdom, and the euro area.

In particular, IPO activity in Austria is very small as a lack of scale reduces investor interest and market liquidity, further constraining exit options for growing firms. The harmonisation of securities market regulation and supervision across the euro area will make European securities and IPO markets more efficient and better able to leverage economies of scale, including by fostering consolidation of exchanges. The deepening of the integration of the EU capital market would remove barriers and unlock the full potential of the EU single market for financial services (OECD, 2025b). Simplified access to capital markets reduces costs and makes the markets more appealing for investors and companies across all Member States, irrespective of size.

Box 2.3. Israel's model of venture capital funding

Israel hosts one of the strongest venture capital markets in the OECD, bolstered by significant foreign investor participation. Venture capital (VC) activity declined after the 2008 Global Financial Crisis, rebounded between 2014–2018 (averaging 1% of GDP), and reached 1.7% in 2021. Most investments targeted start-up and late-stage firms, while seed-stage funding remained limited (0.02% of GDP).

Cybersecurity and fintech dominate (69% of VC investments), followed by Internet of Things (IoT), food-tech, and automotive. Foreign investors, mainly from the United States, contributed about 71% of total high-tech VC funding (2015–2023), peaking at USD 12.2 billion in 2021.

The Israeli government played a foundational role in developing the VC industry through the Yozma Fund (1993), a public–private fund-of-funds model that successfully attracted foreign partners and nurtured local VC capabilities. Initially, the government retained 40% of the fund but by the early 2000s, Israel's VC sector was fully privatised, with no direct government participation for over two decades.

Between 2000 and 2020, public support shifted to indirect innovation programmes managed by the Israel Innovation Authority (IIA), such as Tnufa (Ideation) and Seed grants, which promoted early-stage entrepreneurship and ecosystem development.

In 2024, facing a slowdown in VC activity, reliance on foreign capital, and reduced start-up formation, the government launched a new stimulus package introducing three flagship initiatives: Yozma 2.0 Fund – A renewed fund-of-funds model to boost local capital participation, leveraging around USD 4 billion through public–private co-investments (0.3 government to 1 institutional dollar ratio); Start-up Fund – Annual NIS 500 million grant scheme supporting pre-seed to Series A rounds, co-financed with private investors; and the New Venture Creation Incubators' Fund – Up to NIS 40 million (about USD 10 million) over 5 years for entities, including foreign ones, to establish deep-tech incubators.

The Israel Innovation Authority's annual budget is about 1.5% of Israel's total R&D spending, with two-thirds directed to company-level support and one-third to R&D infrastructure such as incubators and accelerators.

Source: OECD (2025) "Benchmarking government support for venture capital – COUNTRY NOTES: ISRAEL © OECD 2025 https://www.oecd.org/content/dam/oecd/en/publications/reports/2025/06/benchmarking-government-support-for-venture-capital-country-notes_2cacbf3f/israel_e79663e4/b5c8cc2e-en.pdf

To harness new technologies and to develop new high-value activities building on existing strengths, an industrial strategy could help coordinate across different instruments, develop clusters based on innovation and skills, and mobilise the necessary resources and address relevant policy barriers. This might include a sectoral focus and be tied to regional strategies. Austria recently published a comprehensive Industrial Strategy for 2035 (Box 2.4) focussing on 9 priority areas and including a range of structural reforms and some direct support measures, including energy price subsidies. Some other countries have taken a similar approach, such as the United Kingdom. Many OECD countries engage in some forms of industrial support, although historically, experience has been mixed, and it is important to have clear objectives and to evaluate policies (OECD, 2025c). Implementing comprehensive policies encompassing energy and price competitiveness, strategic sourcing of inputs, R&D and innovation, positioning the industrial sector to benefit

from the development of artificial intelligence and face new competitors in key sectors, would help to ensure a better alignment of existing sector policies (Box 2.4).

Box 2.4. Austria's industrial strategy

Austria released in January 2026 an Industrial Strategy for 2035 setting out a long-term vision to strengthen Austria as a leading industrial and innovation hub in Europe. The overarching ambition is for Austria to become one of the world's top 10 most competitive economies by 2035, while ensuring resilience, sustainability, and high-quality jobs.

The strategy prioritises seven policy areas:

- Research, technology and innovation
- Energy and competitive electricity prices
- Education and labour market reforms
- Circular economy and bioeconomy transformation
- Infrastructure, mobility and economic resilience
- Europe and geopolitical challenges
- Administrative burden reduction and improved financing conditions

The most prominent initiatives include:

- A Frontier Technology initiative targeting nine strategic technologies (AI and data innovation, chips and semiconductors, advanced production technologies and robotics, quantum technologies and photonics, advanced materials, life sciences and biotech, energy and environmental technologies, mobility, aerospace).
- Around €2.6 billion in funding allocated through the RTI Pact until 2029.
- Introduction of an industrial electricity price from 2027 to support energy-intensive sectors.
- Expansion of hydrogen infrastructure and lifting the ban on carbon capture storage (CCS).
- A major administrative burden reduction programme and "one-stop shops" for firms.
- Measures to secure skilled labour, including new apprenticeships linked to key technologies.

Source: Ministry of Innovation, Mobility and Infrastructure, https://www.bmimi.gv.at/dam/jcr:770030c8-ded5-4ac3-8912-8651ff4ee415/260121_Industriestrategie_2035_final.pdf.

2.3.2. Expanding digital enablers and fostering the digitalisation of businesses

The spread of digital technologies can significantly boost productivity growth. Digital-intensive sectors are more dynamic, with higher average entry rates and more job reallocation among incumbent firms (Calvino and Criscuolo, 2019). Broad adoption of AI has the potential to deliver major long-term productivity gains (Filippucci et al., 2024), although impacts vary (Acemoglu, 2024). Firms that adopt AI tend to be more productive, as the highest rates of AI use are found among top performers within sectors (OECD, 2024c). Complementary assets and skills play a crucial role in translating AI adoption into productivity growth. More digital and competitive firms are more likely to adopt AI, underscoring the importance of skills, infrastructure, and digital capabilities (Noy and Zhang, 2023).

Broadband coverage in Austria has improved, but only 30% of households have internet speeds above 100 Mbps (Figure 2.11). While very high-capacity and 5G networks have expanded rapidly, rural and mountainous regions are lagging due to high deployment costs and low population density. The Broadband Austria 2030

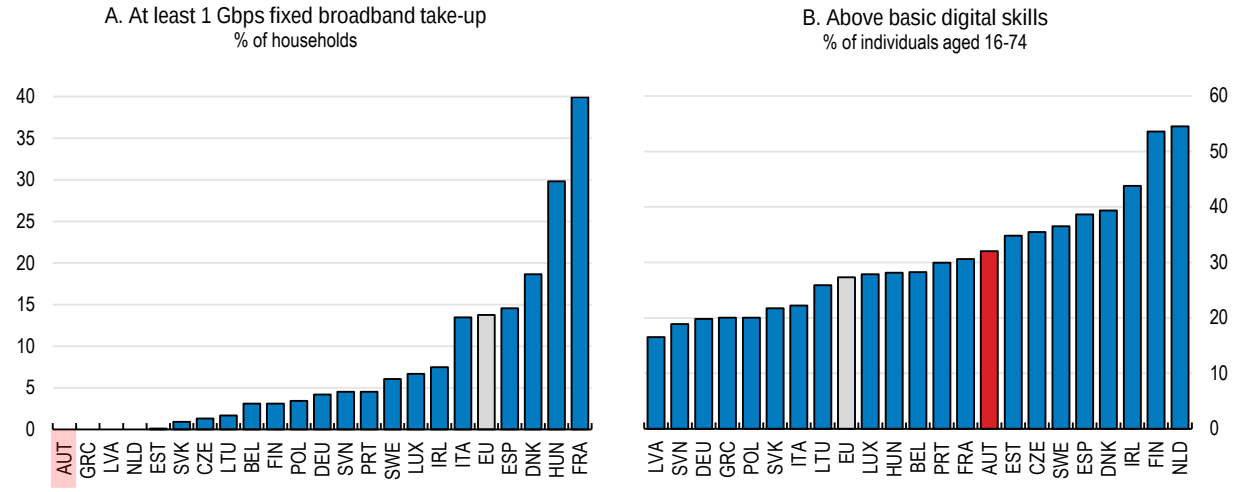
strategy, part of the EU supported Austrian Recovery and Resilience Plan, aims to close these gaps through EUR 1.4 billion in public funding and incentives for private investment, including new state-owned fibre networks in several Länder. However, regulatory barriers—notably complex, decentralised permitting—still slow deployment, and local resistance to 5G base stations persists. Streamlining infrastructure rules and promoting adoption campaigns would accelerate rollout and help scale up digital services nationwide.

Austria is slow in the adoption of digital technologies and AI due to shortages in advanced digital skills. Using digital technologies effectively requires strong and continuously updated skills. About 65% of Austrians aged 16–74 have basic digital skills, but advanced skills—such as programming and AI—remain below levels in leading countries like Denmark and the Netherlands (Figure 2.11, Panel B).

Automation and AI are transforming jobs, especially those involving routine, lower-skilled tasks, which face the highest automation risk (Georgieff & Milanez, 2021). While low-educated workers are most exposed, only 18–27% of tasks are fully automatable, implying that most jobs will evolve rather than vanish. Demand is rising for advanced cognitive and organisational skills to complement AI-driven change.

Figure 2.11. Enablers of digitalisation need to improve

2023



Note: The EU corresponds to the composition of European Union as of 2020.
Source: European Commission, Digital Decade DESI visualisation tool.

StatLink 2 https://stat.link/k0any7

Austria has launched comprehensive strategies to strengthen digital skills among students and workers. The Digital Austria 2050 Strategic Action Plan, established in 2020, set the framework for key digitisation initiatives across society and the economy. In 2021, the government published the 2030 Artificial Intelligence Mission Austria (AIM AT 2030), outlining the country's contribution to the EU's target of 75% of enterprises using Cloud Services or AI or Data Analytics. This strategy includes plans to integrate AI into education, boost technology transfer, and finance innovation across the full cycle.

Austria has introduced several policies to strengthen digital skills. Since the 2022/2023 school year, all students in grades 5 to 8 must take a compulsory digital basic education subject covering media literacy, information processing, personal data management, and data protection. In 2023, the *Digitale Kompetenzoffensive* (DKO) initiative was launched to provide quality-assured training in basic digital skills across different areas—ICT specialists, education, citizens, businesses, and the public sector. The goal is to teach everyone digital skills based on the Austrian competence model *DigComp 2.3 AT*, which defines six competence areas and 27 individual skills across eight proficiency levels. Fully implementing and expanding access to these programmes will strengthen Austria's foundation for a digital society and help workers stay resilient in the face of digital

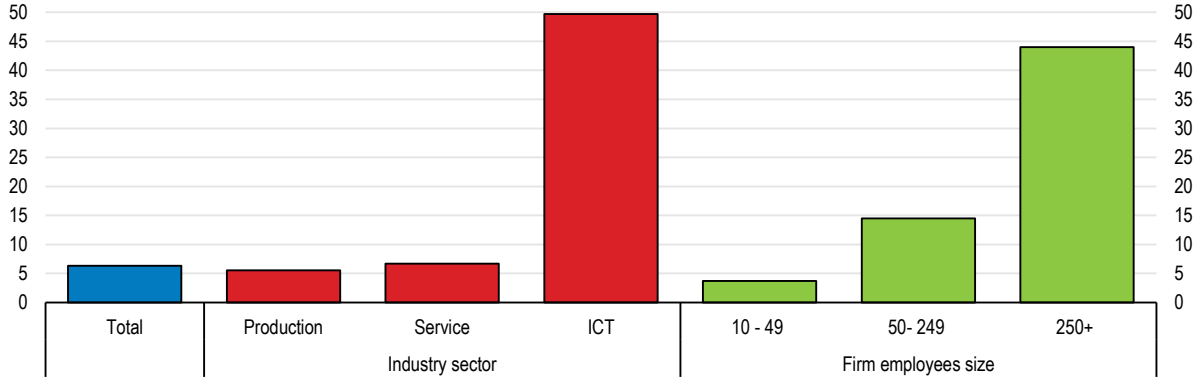
disruption. Further developing the integration of digital skills in VET programmes would prepare more workers to the digitalisation of the economy. The modernisation of apprenticeships programme by introducing digital elements or the development of new programmes like “Application Development Coding” will contribute to expanding digital skills.

Digitalisation is reshaping labour demand by driving up the need for ICT specialists, especially software engineers. Shortage of ICT professionals and hiring difficulties remain a major barrier to digitalisation (Figure 2.12). While Austria is improving, it still lags leading countries in the share of ICT graduates (5.3% compared to 9% in Estonia and Luxembourg) (European Commission, DESI, 2024). Continuing efforts to increase the share of the population with advanced digital skills and the number of ICT and STEM graduates is warranted. The new digital university set up in Linz in 2023/2024 has the potential to boost skills to support digitalisation. Austria can further grow the pool of digital experts by accelerating programmes in ICT, AI, and cybersecurity and by boosting funding for specialised training and apprenticeships. Fostering the integration of digital and green skills into newly developed and modernised training regulations will be essential.

Businesses in Austria are becoming increasingly digitalised, using ICT and AI in management, production, and sales. E-commerce has grown, with 30% of all firms and over 50% of large companies selling via digital platforms or websites (Figure 2.13, Panel A). Digital intensity is rising, with nearly 60% of SMEs achieving at least a basic level, placing Austria at the EU average, but still below the 90% EU target (Figure 2.13, Panel B). Most enterprises (around 70%) have not considered using AI technologies for their businesses. Adoption remains limited in manufacturing, production, and parts of the services sector. Only 18% of small firms with fewer than 50 employees currently use AI technologies (Figure 2.14). Several factors explain this underuse. Even among ICT firms and large companies (over 250 employees), about 40% had not considered adopting AI technologies in 2024 (Statistics Austria, 2025). Among those that did, the main barriers were lack of internal expertise, legal uncertainties, and complex data requirements. Improving access to and awareness of initiatives like the Ö-Cloud-Initiative, Gaia-X-Hub AT, Digital Innovation Hubs, and European Digital Innovation Hubs will help boost adoption.

Figure 2.12. Recruiting ICT specialists remains difficult

Enterprises with difficult-to-fill vacancies for ICT specialists, %, 2023

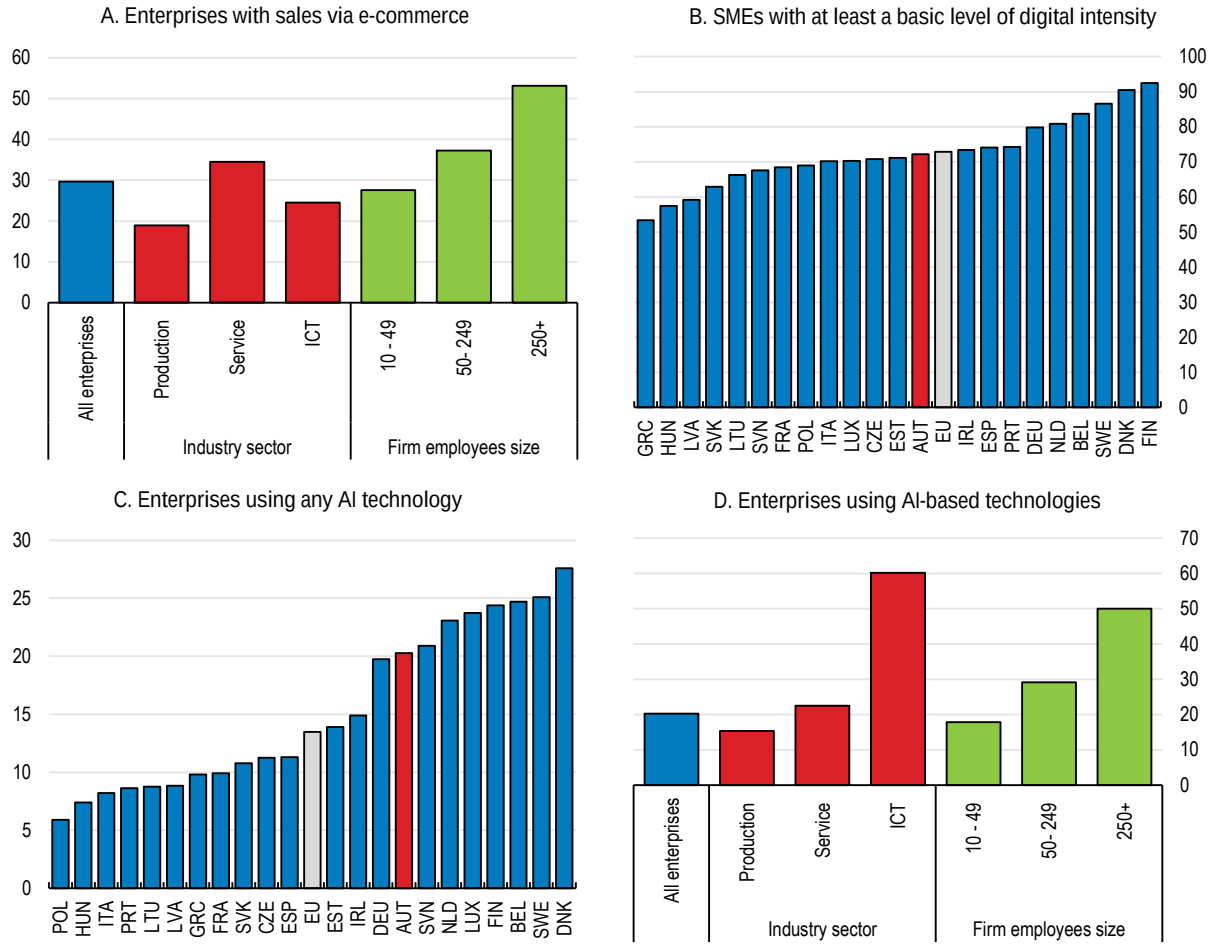


Note: ICT specialists are employees whose main job is in information and communication technology (ICT). Responsibilities include the design, development, implementation, programming, operation, evaluation, administration and maintenance of ICT systems or applications. The ICT sector includes the following industries (ÖNACE 2008): 26.1–26.4, 26.8, 46.5, 58.2, 61, 62, 63.1 and 95.1. Data refer to February - July 2024 data collection.
Source: Statistics Austria, Survey on ICT usage in enterprises 2024.

StatLink 2 https://stat.link/r04qxa

Figure 2.13. Digitalisation of businesses is progressing

Percentage of enterprises, 2024

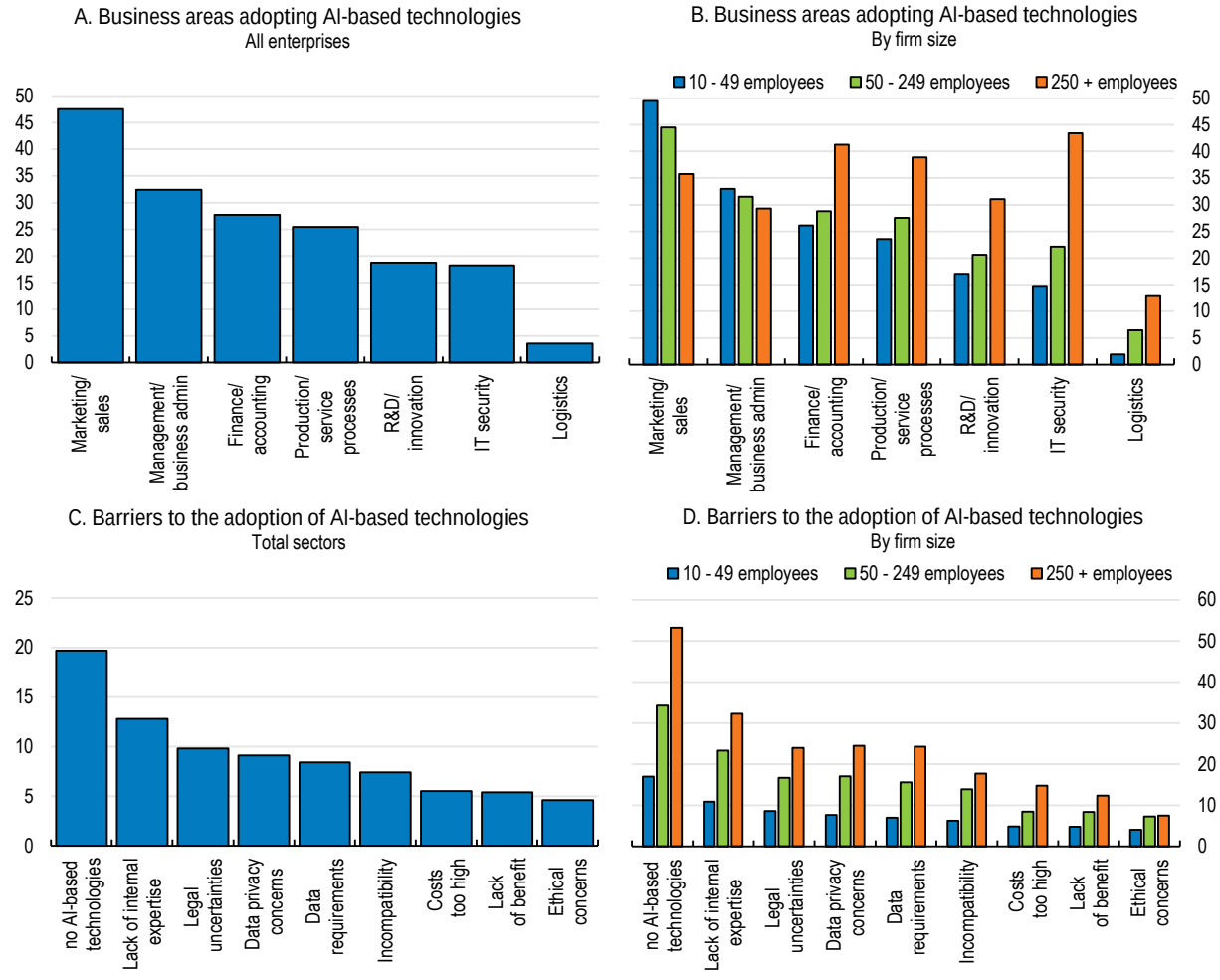


Note: Panel A: E-Commerce sales are sales via websites, apps, online marketplaces or EDI-based systems (e.g. XML, EDIFACT). Panel B: SME refers to small and medium enterprises (10-249 persons employed) without financial sector. Panel A & D: All enterprises include firms with 10 persons employed or more. The ICT sector includes the following industries (ÖNACE 2008): 26.1–26.4, 26.8, 46.5, 58.2, 61, 62, 63.1 and 95.1. Data collection refers to February to July 2025 – Reference period: 2024. Panel B & C: The EU corresponds to the composition of European Union as of 2020.
Source: European Commission, Digital Decade DESI visualisation tool and Statistics Austria, Survey on ICT usage in enterprises 2025.

StatLink 2 https://stat.link/ei5qnv

Austria has developed strong digital strategies and action plans, including the Digital Act, the National Strategic Roadmap for the Austrian Digital Decade, and programmes targeting SME digitalisation. For example, under the *aws digitization programme,* businesses investing in digitalising their products/services, processes, or e-commerce activities can receive an investment premium. Non-refundable grants up to EUR 150,000 can be received. Austria should scale up and extend this programme until it meets national and EU digital targets. *KMU.DIGITAL* offers advisory services and implementation support for digital projects. *KMU.DIGITAL* helps SMEs plan, design, and implement digital projects by funding analysis, consulting, and external services. The programme could better target SMEs that have not yet considered digital technologies. After a positive evaluation of the first phase, Austria extended *KMU.DIGITAL* for 2024-2026 with a budget of about EUR 35 million. Expanding its reach and aligning funding with demand will be essential to accelerate SME digitalisation.

Figure 2.14. AI technologies are used in core activities, but adoption barriers remain elevated



Note: AI-based technologies refer to technologies that imitate intelligent behaviour and have a degree of autonomy to perform specific tasks. Data refer to February to July 2024 data collection. Panel C & D: Data requirements category refers to difficulties with availability or quality of the necessary data. Incompatibility category refers to incompatibility with existing equipment, software or systems.
Source: Statistics Austria, Survey on ICT usage in enterprises 2024.

StatLink 2 https://stat.link/pf2euv

Table 2.1. Past OECD recommendations on increasing productivity and business dynamism

Recommendations in previous Surveys	Actions taken since previous Survey (2024)
Continue to expand high-speed broadband networks in rural and remote areas. Reduce barriers to broadband deployment to make investments easier and cheaper for private communication operators.	Roll-out is continuing.
Ease regulation of services, particularly the strict entry requirements into certain professional services.	
Remove debt bias in financing by balancing the tax treatment of debt and equity financing.	

2.4. Reducing the regulatory burden and boosting competition

Austria has made progress in reducing general administrative burdens. The "Once-only" reform, which requires businesses to report certain data only to be entered once instead of submitted to multiple authorities, is a positive step. The Grace Period Act also improves legal and planning certainty for family business transfers by easing regulations. However, Austria should go further by systematically reviewing reporting obligations to remove unnecessary or duplicative requirements. Streamlining procedures, introducing silence-is-consent rules, setting clear maximum time limits for low-risk authorisations, and fully digitalising permit applications would further reduce red tape and support business dynamism. Integrating competition assessments into regulatory reviews would further limit regulatory burden. Austria could consider making use of regulatory experimentation mechanisms (such as regulatory sandboxes) for emerging technologies to reduce frictions for innovative firms.

2.4.1. Access to many activities and professions is still highly regulated

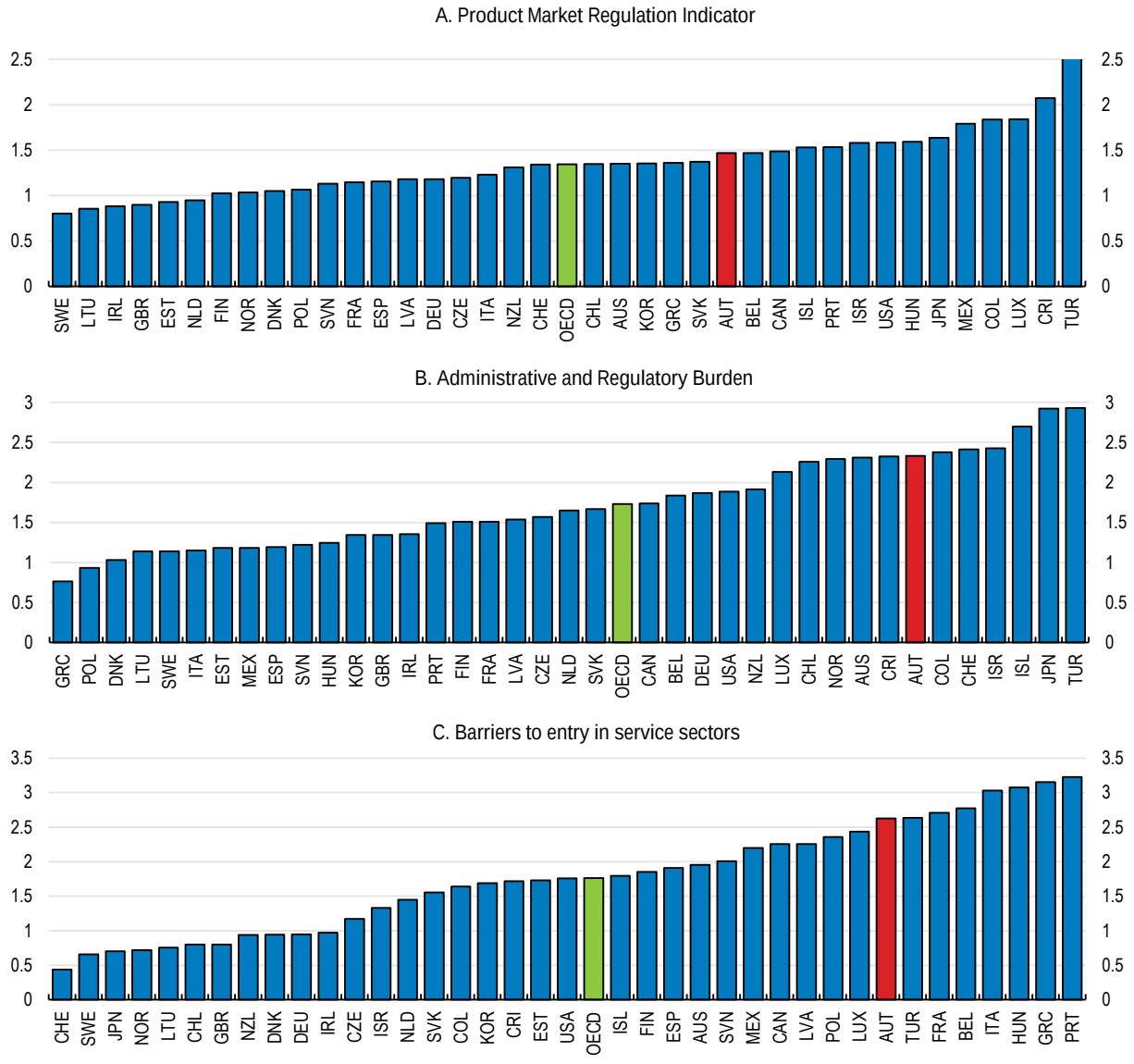
Heavy regulations can reduce business dynamism by raising barriers to entry or scaling up, reduce competitive pressures and impose costs on business or hinder business activities. The 2024 OECD Product Market Regulation (PMR) indicators show that Austria maintains somewhat high barriers to entry and burdensome administrative requirements compared to other OECD and EU countries (OECD, 2024d; Figure 2.15). Austria's overall PMR score sits above the OECD average, which is indicative of more regulations, and is significantly higher than that of Sweden, the Netherlands, or Denmark. Administrative and regulatory demands on companies remain heavy (Figure 2.15, Panel B). Barriers to entry in services are among the highest in the OECD (Figure 2.15, Panel C). Although earlier reforms increased competition in network sectors, regulation still hampers competition in rail transport, road freight, retail trade and pharmaceutical distribution.

Occupational entry regulations for professional services are among the most restrictive in the OECD. These barriers limit competition in fields like accounting, engineering, architecture, and real estate. For instance, to be admitted to the professional examination, chartered accountant candidates must hold a relevant degree from an Austrian university or university of applied sciences and have at least 1.5 years of practical experience as a trainee accountant, trainee auditor, or assistant auditor in a recognised auditing association or firm. Alternatively, applicants may qualify with a professional licence under the Public Accountant Law or at least 3.5 years of experience as a management accountant.

The profession of real estate trustees in Austria includes real estate agents, property managers, and developers, each with distinct reserved activities. Legal qualification is required only for self-employed practitioners or managers, not employees. There are four qualification pathways, most requiring a five-year training period and a qualifying examination covering legal, commercial, and professional topics. Candidates can qualify through combinations of relevant university or trade education and 1–2 years of professional experience, depending on the level of prior education. Opening the licensing system to more competition by broadening qualification pathways or reducing experience requirements, while maintaining quality standards, would improve labour allocation and overall productivity.

Figure 2.15. Regulatory burdens and barriers to entry remain elevated

Index from 0 (least restrictive) to 6 (most restrictive), 2023



Note: The OECD aggregate corresponds to the unweighted average of the OECD countries. 2023 is the year in which the majority of the data were collected. However, in some countries the data collection was completed at a later date. The latest Tariff data available for Mexico date from 2018, hence this data have been used to calculate the low-level indicator tariff Barriers for 2023 for Mexico. Panel A: The PMR corresponds to the simple average of two high- level indicators: distortions induced by state Involvement and barriers to domestic and foreign entry.
Source: OECD 2024 PMR Indicator database (2023 methodology).

StatLink 2 https://stat.link/932etp

2.4.2. Fostering competition in key markets

Low competition increases prices and reduces business dynamism. Recent evidence shows that market concentration remains high across many sectors. In 2020, the four, eight, and twenty largest firms held average output shares of 52.9%, 65.3%, and 79%, with an average Herfindahl-Hirschman index (which measures market concentration) of 0.16 (Peneder and Unterlass, 2024). Average markups across 26 sectors reached 33%, highest in non-financial market services (39.6%), followed by manufacturing (18.7%) and

construction (13%). Markups grew most in real estate and business services like legal, accounting, advertising, and administrative activities—areas also marked by high barriers to entry.

The Federal Competition Authority has stepped up market investigations to ensure fair competition. Post-COVID inflation triggered probes into groceries, retail, energy markets, and online food delivery. Digital markets with online intermediaries have emerged as new sources of competition risks. Since the war in Ukraine and the energy crisis, high energy prices, rising market concentration and weak business dynamism have become more pronounced (BWB and E-Control, 2024). The joint task force of E-Control (the independent regulator for electricity and gas) and the Competition Authority found that electricity and gas market concentration has grown since 2022. Available offers and customer switching fell sharply, and prices for new customers stayed high and detached from wholesale prices. Most regional suppliers sell mainly within their own grid areas. Only three of nine state energy suppliers offer electricity tariffs nationwide. E-Control and the Competition Authority should work to create a more integrated, competitive market, by inducing suppliers to compete on more Landers or on a national basis. Regulations should also require clearer, more comparable contracts, as varying tariff formulas make pricing unpredictable for consumers.

2.5. Promoting transparency and fighting corruption

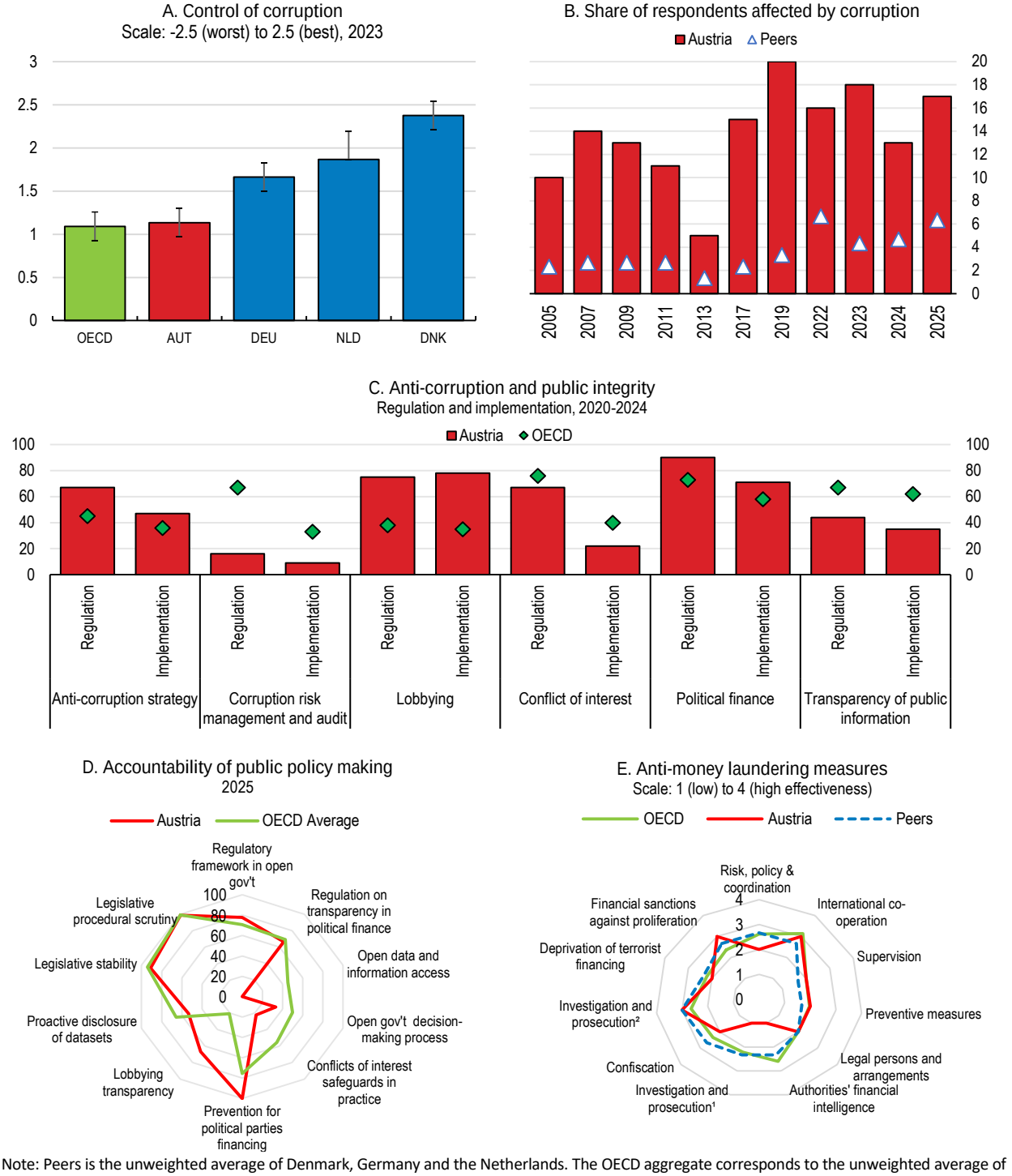
Reducing corruption can contribute to stronger and more inclusive economic performance. Corruption tends to increase uncertainty and transaction costs, which may discourage investment and reduce productivity (Wei, 2000). It can also affect public spending efficiency, potentially diverting resources away from growth-enhancing areas such as infrastructure, education, and innovation (Tanzi et al., 1997). Evidence suggests that economies with strong integrity frameworks and lower levels of corruption generally experience higher investment rates, improved productivity, and more efficient public sector outcomes (IMF, 2019).

Austria performs below leading OECD countries on corruption perception and control indicators (Figure 2.16). Public perceptions of corruption have improved recently (Eurobarometer, 2025). While domestic trust in government has risen to 54 %, trust among European peers has fallen to 36 %. Recent reforms have strengthened enforcement. The Corruption Criminal Law Amendment Act 2023 increased penalties, especially for high-value bribes. The OECD Working Group on Bribery (Phase 4 evaluation, 2024) commended Austria for expanding resources for specialised police and prosecutors and improving financial and IT expertise. The Whistleblower Protection Act (2023) introduced a general framework for whistleblower protection in line with international standards. Further measures are needed to clarify legal provisions and enhance enforcement capacity. Austria should improve detection and prosecution of foreign bribery, including faster reporting by public officials. The forthcoming anti-corruption strategy should explicitly address foreign bribery risks and integrate prevention, detection, awareness-raising, and enforcement components.

Austria's anti-money-laundering and counter-terrorist-financing (AML/CFT) framework complies with EU directives, with the Austrian Financial Intelligence Unit (A-FIU) playing a central role. However, foreign bribery and corruption risks are under-recognised: the National Risk Assessment (2021) does not explicitly cover these offences, and A-FIU reports rarely list bribery or corruption as predicate crimes (OECD, 2024). The next risk assessment should incorporate such risks, develop typologies of foreign-bribery schemes, and expand targeted training to improve detection.

The Whistleblower Protection Act implements the EU directive but has limited scope. It excludes related offences such as false accounting and money-laundering and does not fully protect whistleblowers in entities with fewer than 50 employees. Amending the law to include these cases would broaden coverage and strengthen protection. Institutional independence could also be reinforced. The public prosecution service remains hierarchically subordinate to the Minister of Justice, who may issue binding instructions in individual cases. Implementing the government's decision in July 2025 to establish an independent Federal Prosecutor's Office, as recommended by the European Commission (2023), would strengthen prosecutorial autonomy.

Figure 2.16. Control of corruption is weak compared to immediate peer countries



Note: Peers is the unweighted average of Denmark, Germany and the Netherlands. The OECD aggregate corresponds to the unweighted average of the OECD countries. Panel B: Data come from the Flash Eurobarometer survey "Citizens' attitudes toward corruption" which has run 11 times since 2005. The survey question is: "Over the last 12 months, has anyone in your country asked you, or expected you, to pay a bribe for his or her services?" up to 2013, and "Thinking about these contacts in the past 12 months, has anyone in your country asked you or expected you to give a gift, favour, or extra money for his or her services?" afterwards. Panel E: figure shows ratings from the FATF peer reviews of each member to assess levels of implementation of the FATF Recommendations. The ratings reflect the extent to which a country's measures are effective against 11 immediate outcomes. "Investigation and prosecution[1]" refers to money laundering. "Investigation and prosecution[2]" refers to terrorist financing.

Source: 2018 World Bank Worldwide Governance Indicators (WGI); Eurobarometer; OECD Public Integrity Indicators; OECD, Financial Action Task Force (FATF).

StatLink 2 https://stat.link/s9q5nm

Table 2.2. Policy recommendations

MAIN FINDINGS	RECOMMENDATIONS (Key recommendations in bold)
Boosting business dynamism	
Industrial processes produce over 20% of Austria's emissions.	Set comprehensive long-term policy frameworks and financial incentives to spur investment in breakthrough technologies and develop hydrogen production.
Increasing trade resilience	
Austria sources nearly 53% of its vulnerable intermediate products from just three countries. Around 8% of Austria's intermediate inputs are highly or moderately vulnerable.	Build management and worker skills, raise awareness among firms in vulnerable sectors.
Boosting innovation and digitalisation	
Austria ranks highly in design and patent applications but the transformation of these outputs into new-to-market and new-to-firm innovations is among the lowest in the EU.	Implement a comprehensive package of policies to improve energy and price competitiveness, productivity, strategic sourcing of inputs and R&D and innovation. Mitigate the risks associated with developing and introducing new products, using the venture capital models.
The financing structure of Austrian firms, particularly SMEs, is not conducive to risk-taking.	Promote the adoption of the Flexible Capital Company and a more active use of financing instruments in the Start-Up Promotion Act.
Debt financing remains the dominant instrument, with SMEs' stock of loans amounting to 20% of GDP. Venture capital investment is low.	Diversify the instruments and intervention modalities of the financing of start-ups to support a larger number of firms.
The share of people with advanced skills remains low. Austria has a shortage of ICT professionals, which is a major barrier to digitalisation.	Implement and expand access to digital upskilling programmes, including in vocational training.
Digital intensity is rising, with nearly 60% of SMEs achieving at least a basic level. In 2023, only about 29% of companies used cloud computing, and 11% of domestic firms used AI applications. level. Digitalisation programmes provide financing and advice: *aws digitization programme* the Ö-Cloud-Initiative, Gaia-X-Hub AT, Digital Innovation Hubs, and European Digital Innovation Hubs.	Extend the digitalisation subsidy and advice programmes until national and EU digital targets are met. Expand KMU.DIGITAL reach and align funding with demand to accelerate SME digitalization.
Reducing regulatory barriers and boosting competition	
Austria's overall PMR score sits above the OECD average. Administrative and regulatory demands on companies remain heavy. Barriers to entry in services are among the highest in the OECD.	Review reporting obligations of firms to remove unnecessary or duplicative requirements. Broaden qualification pathways and reduce experience requirements to professional services.
Market concentration remains high across many sectors. Competition in energy market is low. and fragmented at the *länders* level.	Develop a more nationally integrated and competitive energy supply market by inducing more competitors in markets. Require clearer and comparable energy supply contracts to make pricing predictable for consumers.
Austria performs below leading OECD countries on corruption perception and control indicators. The Whistleblower Protection Act excludes related offences such as false accounting and money-laundering and does not fully protect whistleblowers in entities with fewer than 50 employees.	Enhance detection and prosecution of foreign bribery by improving reporting mechanisms for public officials and further strengthen and expand the Whistleblower Protection Act.

References

Acemoglu, D. (2024), "The Simple Macroeconomics of AI", National Bureau of Economic Research, Cambridge, MA, https://doi.org/10.3386/w32487.

André, C. (2022), Enhancing insolvency frameworks to support economic renewal, OECD Publishing, Paris.

Austrian Productivity Board (2025), "Produktivitätsbericht 2025: Strukturwandel als Chance für Wettbewerbsfähigkeit und Beschäftigung", https://www.produktivitaetsrat.at/publikationen/prod-jahresberichte/2025001.html.

Austrian Productivity Board (2024), Produktivitätsbericht 2024: Strategien für nachhaltiges Wachstum, Wettbewerbsfähigkeit und Resilienz in Zeiten von Transformation und Rezession, https://www.produktivitaetsrat.at/dam/jcr:d0c2bf46-d445-403d-a0e3-0e1745747180/PROD-Bericht_2024.pdf.

Austrian Council for Sciences, Technology, and Innovation (2025), "FTI-Monitor 2025", https://zenodo.org/api/records/15178020/files/FTI%20Monitor%20-%20Rat%20f%C3%BCr%20Forschung,%20Wissenschaft,%20Innovation%20und%20Technologieentwicklung.pdf/content.

Baily, M. (2023), "Lessons from a Career in Productivity Research: Some Answers, A Glimpse of the Future, and Much Left to Learn", International Productivity Monitor, Vol. 44, pp. 120-149, http://www.csls.ca/ipm/44/IPM_44_Baily.pdf.

Bergeaud, A., C. Verluise, and others (2022), "The Rise of China's Technological Power: The Perspective from Frontier Technologies", Centre for Economic Performance, LSE and Political Discussion Paper DP1876.

Berthou, A., A. Haramboure and L. Samek (2024), "Mapping and testing product-level vulnerabilities in granular production networks", OECD Science, Technology and Industry Working Papers, No. 2024/02, OECD Publishing, Paris.

BWB und E-Control (2024), "Endbericht Taskforce Strom- und Gasmärkte", https://www.e-control.at/documents/1785851/1811582/BWB-E-Control-Abschlussbericht-Taskforce-Strom-und-Gasmaerkte-23-06-2025-Final-barrierefrei.pdf/de91f637-2b6e-8e92-0d50-a049c53c0cb6?t=1750749034668.

Calvino, F., C. Criscuolo and R. Verlhac (2020), "Declining business dynamism: Structural and policy determinants", OECD Science, Technology and Industry Policy Papers, No. 94, OECD Publishing, Paris, https://doi.org/10.1787/77b92072-en.

Calvino, F. and C. Criscuolo (2019), "Business dynamics and digitalisation", OECD Science, Technology and Industry Policy Papers, No. 62, OECD Publishing, Paris, https://doi.org/10.1787/6e0b011a-en.

Draghi, M. (2024), *The future of European competitiveness*. https://commission.europa.eu/document/download/97e481fd-2dc3-412d-be4c-f152a8232961_en

Filippucci, F. et al. (2024), "The impact of Artificial Intelligence on productivity, distribution and growth: Key mechanisms, initial evidence and policy challenges", OECD Artificial Intelligence Papers, No. 15, OECD Publishing, Paris.

Friesenbichler K. S., A. Kügler and A. Reinstaller (2023), "The Impact of Import Competition from China on Firm-level Productivity Growth in the EU", Oxford Bulletin of Economics and Statistics, https://doi.org/10.1111/obes.12574.

Friesenbichler, K. and A., Kügler (2025), "Short and medium-term effects of intangible capital on firm growth. Firm-level evidence from Austrian microdata", Empirica, https://link.springer.com/content/pdf/10.1007/s10663-025-09666-y.pdf.

Georgieff, A. and A. Milanez (2021), "What happened to jobs at high risk of automation?", OECD Social, Employment and Migration Working Papers, No. 255, OECD Publishing, Paris, https://doi.org/10.1787/10bc97f4-en.

Gourio, F., T. Messer and M. Siemer (2016), "Firm Entry and Macroeconomic Dynamics: A State-Level Analysis", American Economic Review, Vol. 106/5, pp. 214-218, https://doi.org/10.1257/aer.p20161052.

IMF (2019), Fiscal Monitor: Curbing Corruption. https://www.imf.org/en/publications/fm/issues/2019/03/18/fiscal-monitor-april-2019.

Hoelzl, W., Friesenbichler, K., Kuegler, A. and B. Meyer (2025), "Herausforderungen und Determinanten der Wettbewerbsfähigkeit in Zeiten globaler Unsicherheit. Ergebnisse der WIFO-Industriebefragung 2025," WIFO Monatsberichte (monthly reports), WIFO, vol. 98(7), pages 373-382, July.

Mayr, S., Duller, Ch., and M. Baschinger (2023), "Assessment of formal proceedings and out-of-court reorganization: results from a survey among turnaround professionals in Austria", European Journal of Law and Economics, 2023, No. 2, Vol. 56, 325-367.

Ministry of Economy, Energy and Tourism (2025), "SMES in Focus 2024", https://www.bmwet.gv.at/en/Topics/Business-Location/Small-and-medium-sized-Enterprises-SMEs/Report-situation-of-SMEs-in-Austria.html.

Morandi Stagni, R., A. Fosfuri, and J. Santaló (2021), "A Bird in the Hand Is Worth Two in the Bush: Technology Search Strategies and Competition Due to Import Penetration", Strategic Management Journal, Vol. 42, 8, p1516-1544. https://doi.org/10.1002/smj.3277.

Noy, S. and W. Zhang (2023), "Experimental evidence on the productivity effects of generative artificial intelligence", Science, Vol. 381/6654, pp. 187-192, https://doi.org/10.1126/science.adh2586.

OECD (2025a), "OECD Financing SMEs and Entrepreneurs Scoreboard: 2025 Highlights", OECD SME and Entrepreneurship Papers, No. 67, OECD Publishing, Paris, https://doi.org/10.1787/64c9063c-en.

OECD (2025b), "OECD Economic Surveys: European Union and Euro Area 2025", OECD Publishing, Paris.

OECD (2025c), "Quantifying industrial strategies 2019-2022: Trends and priorities across 11 OECD countries", OECD Science, Technology and Industry Policy Papers, No. 179, OECD Publishing, Paris, https://doi.org/10.1787/91e20a26-en.

OECD (2024a), "OECD Economic Surveys: Austria 2024", OECD Publishing, Paris, https://doi.org/10.1787/60ea1561-en.

OECD (2024b), "OECD Digital Economy Outlook 2024 (Volume 2): Strengthening Connectivity, Innovation and Trust", OECD Publishing, Paris, https://doi.org/10.1787/3adf705b-en.

OECD Policy Briefs (2024c), "Fostering an inclusive digital transformation as AI spreads among firms", https://www.oecd.org/en/publications/fostering-an-inclusive-digital-transformation-as-ai-spreads-among-firms_5876200c-en.html.

OECD (2024), "Competition Policy in Digital Markets: The Combined Effect of Ex Ante and Ex Post Instruments in G7 Jurisdictions", OECD Publishing, Paris, https://doi.org/10.1787/80552a33-en.

OECD (2021), "OECD Skills Outlook 2021: Learning for Life", OECD Publ., Paris, https://doi.org/10.1787/0ae365b4-en.

OECD (2019), "Conceptional learning framework: Skills for 2030", Future of Education and Skills 2030, OECD, https://www.oecd.org/education/2030-project/teaching-and-learning/learning/skills/Skills_for_2030_concept_note.pdf .

Peneder, M. and F. Unterlass (2024), "Industry concentration, firm-level markups and business dynamics from Austrian micro-data", WIFO Working Papers 683/2024, https://www.wifo.ac.at/publication/pid/53238660.

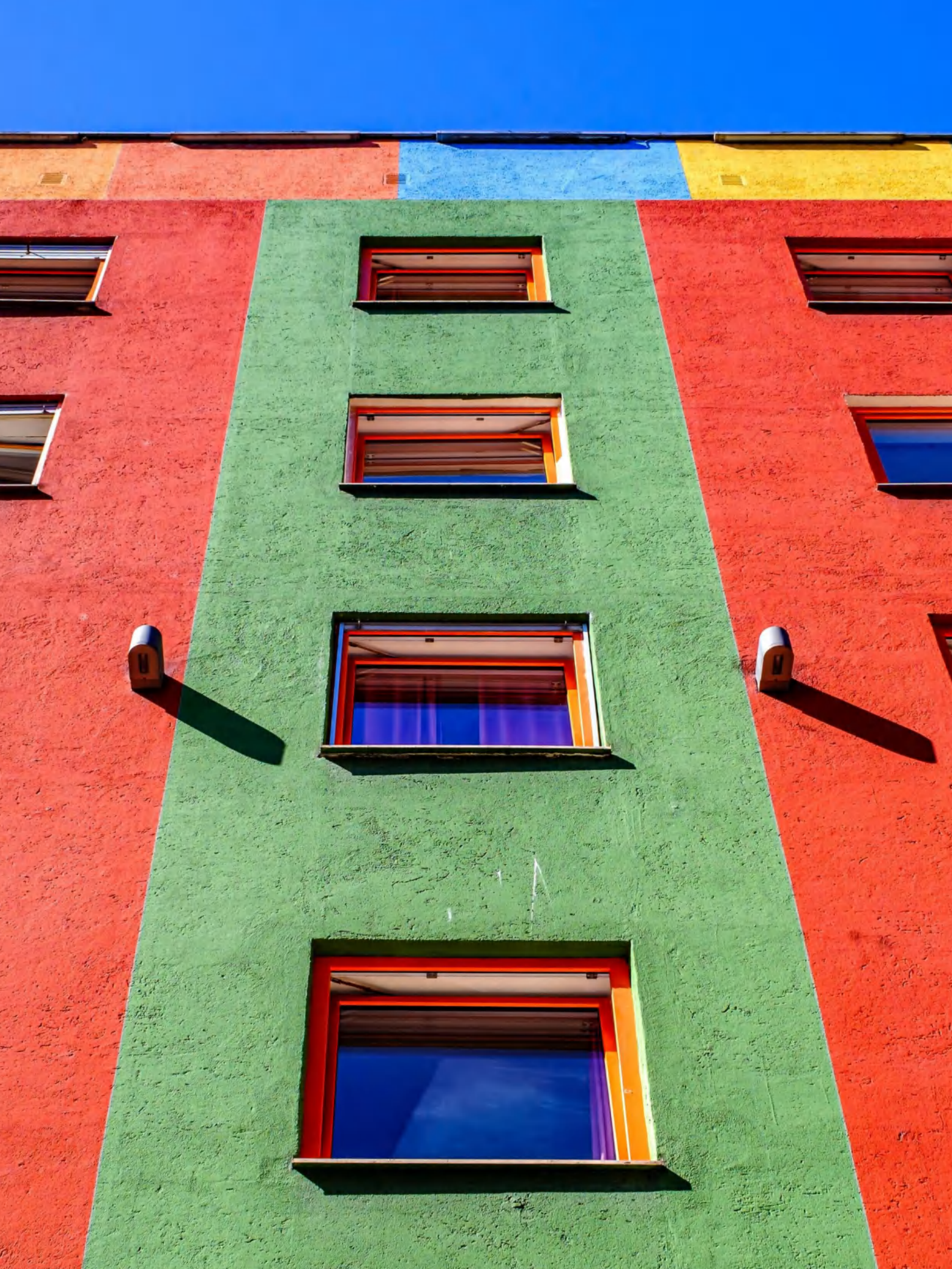
Schwellnus, C., A. Haramboure and L. Samek (2023), "Policies to strengthen the resilience of global value chains: Empirical evidence from the COVID-19 shock", OECD Science, Technology and Industry Policy Papers, No. 141, OECD Publishing, Paris.

Sorbe, S. et al. (2019), "Digital Dividend: Policies to Harness the Productivity Potential of Digital Technologies", OECD Economic Policy Papers, No. 26, OECD Publishing, Paris, https://doi.org/10.1787/273176bc-en.

Statistics Austria (2025), "Survey on ICT usage in enterprises 2025", https://www.statistik.at/fileadmin/pages/285/IKTU2025_TABELLEN_EN.ods.

Tanzi, V. and H. Davoodi (1997), "Corruption, Public Investment, and Growth," IMF Working Paper 97/139.

Wei, S.-J. (2000), "How Taxing Is Corruption on International Investors?" Review of Economics and Statistics, 82(1).



3 Restoring the affordability and improving the functioning of the housing market

Simone Romano, OECD

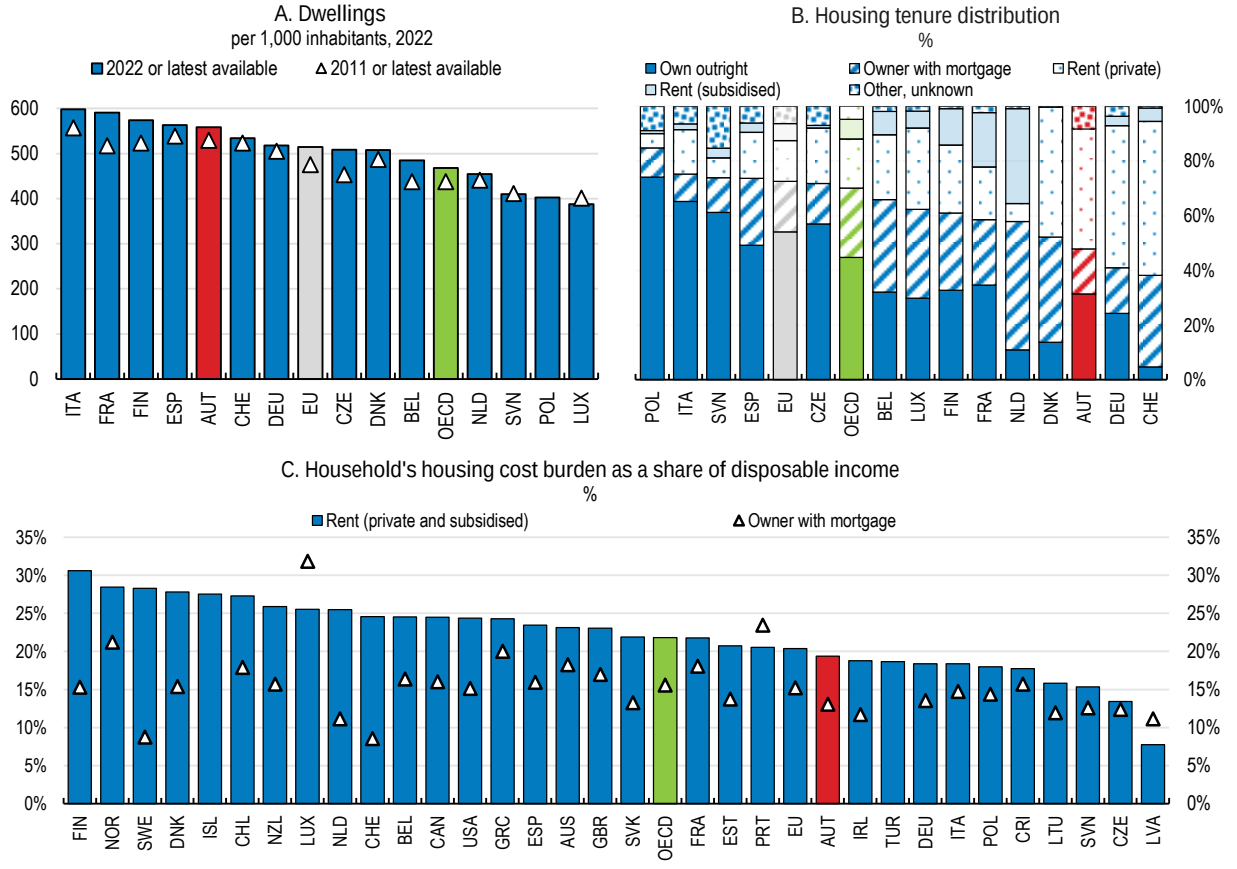
Austria's housing model has long provided affordable homes, with rented limited-profit housing playing a major role, especially in larger cities. However, price-to-income ratios and rents have risen sharply over the past two decades, particularly in Vienna. Lowering the eligibility thresholds for limited-profit and social housing would help to better allocate it to those who need it. Reassessing regularly the financial situation of tenants in limited-profit housing and increasing rents for those who no longer satisfy the eligibility criteria would help support limited-profit housing supply and its price-dampening effect. Revising the property tax base would better reflect current values and improve market efficiency, while increasing taxes on unused land and vacant properties would help mobilise total supply. Streamlining and digitalising building permits and improving land use through better coordination would enhance supply efficiency. Greater efforts are needed to enhance the energy efficiency of the housing stock, which is old and characterised by high energy intensity and direct emissions.

3.1. Austria's housing model has performed well, but mounting affordability challenges have emerged in recent years

Austria has consistently maintained a robust housing supply that compares favourably in international terms, with the dwelling-to-inhabitant ratio exceeding both EU and OECD averages and ranking among the highest within the OECD (Figure 3.1, Panel A). Renting plays a prominent role, with ownership occupation accounting for barely 50% of housing, more than 20 percentage points less than the OECD and EU averages (Figure 3.1, Panel B), and with renting reaching around 80% of tenure in Vienna (ONB, 2023), much of it in the limited-profit sector. Austria's housing model has been successful in delivering a very good average quality of dwellings (IIBW, 2016), and in safeguarding affordability until recently, with housing expenditure as a proportion of disposable income in 2022 remaining aligned with the EU average and below the OECD average (Figure 3.1, Panel C).

Figure 3.1. The Austrian housing system has performed well

2024 or latest available year



Note: The EU reflects the composition of the European Union as of 2020. The OECD aggregate is the unweighted average of OECD countries and, like the EU average, includes only countries for which all tenure types are available. In all panels, only a selection of countries is shown. Panel B: Tenants renting at subsidised rent are grouped with private renters in Austria and Denmark. Panel C: Data show the median mortgage burden (principal and interest) or rent burden (private and subsidised) as a share of household income. Housing costs include only mortgage and rental payments and are expressed as a share of household disposable income, including social transfers (e.g. housing allowances) and excluding taxes. Due to data limitations, gross income is used for Chile and the United States; net income is not adjusted for local council taxes and housing benefits in the United Kingdom, or for personal income taxes in Türkiye. Results are reported only for categories with at least 100 observations. Data refer to 2023 for Switzerland and the United States; 2022 for Canada, Chile and the United Kingdom; 2021 for Australia; 2020 for Türkiye; and 2017 for Israel and New Zealand. Data for Hungary are excluded as they are under revision.

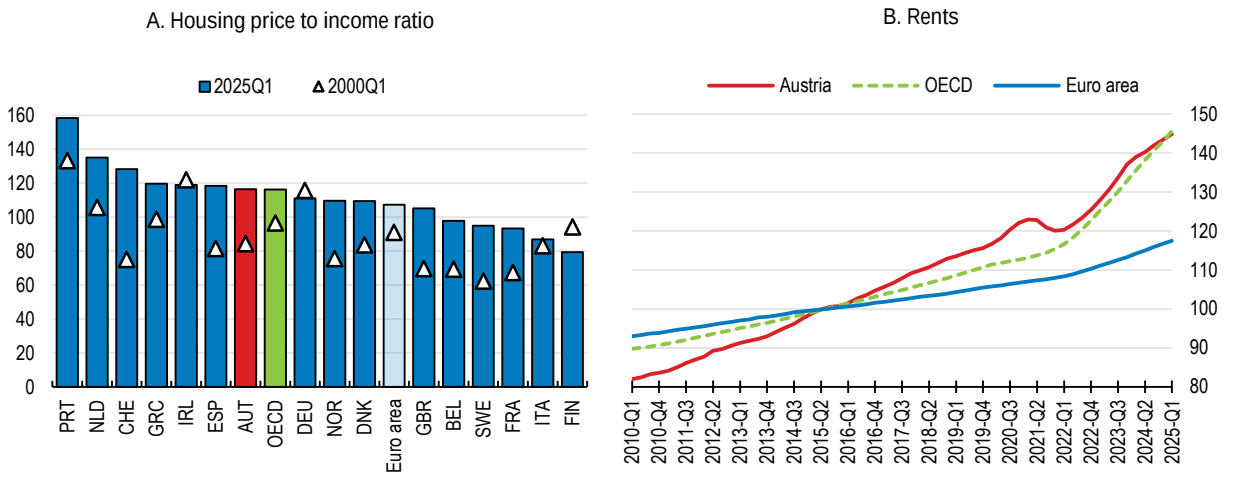
Source: OECD Affordable Housing (database).

StatLink 2 https://stat.link/87gkhy

However, over the past two decades, price pressures have intensified. Between 2005 and 2023, house prices in Austria more than doubled (+163%), an increase that was almost three times as high as that of the euro area (60%) and of Austria's Harmonised Index of Consumer Prices (HICP) (56%) (ONB, 2023), marking an increase in real terms of almost 70%. This has led the price-to-income ratio in Austria to become higher than OECD and euro area averages, with an increase over the past 25 years that has been one of the highest in the OECD (Figure 3.2, Panel A). Rents, which play a key role especially in big cities, have grown by more than 75% over the past 15 years, while in the euro area rental price increases over the same period averaged approximately 25% (Figure 3.2, Panel B). These dynamics have marked a sizeable deterioration in affordability (ONB, 2023).

Figure 3.2. Affordability challenges have emerged

Index, 2015 = 100

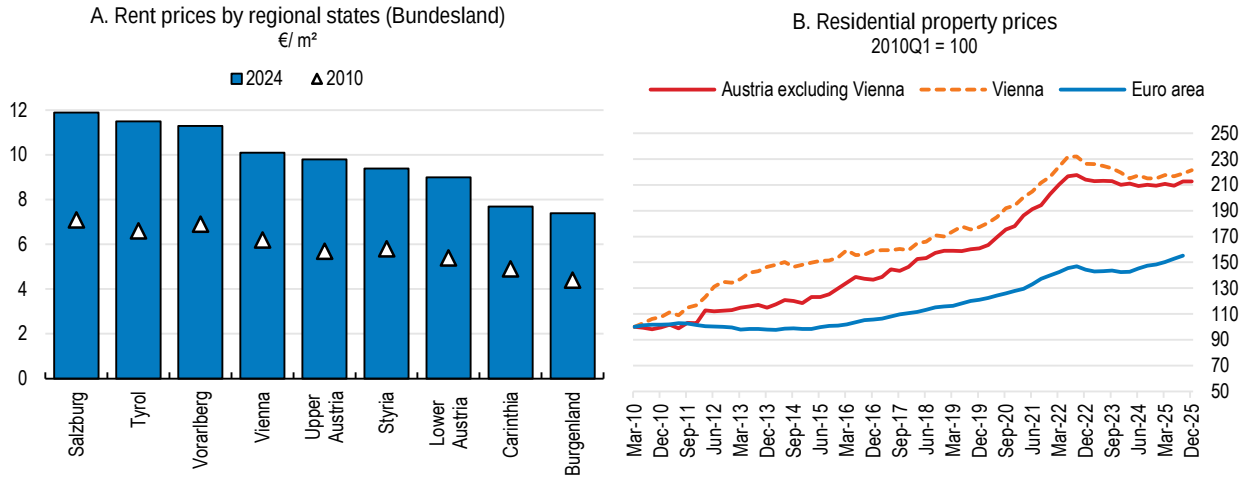


Note: Data are seasonally but not calendar adjusted. The Euro area aggregate corresponds to the 20 OECD members countries of the European Union minus Croatia, Cyprus and Malta. The OECD aggregate corresponds to the unweighted average of the OECD countries. Both averages only refer to countries with data for both periods.
Source: OECD Analytical house prices indicators (database).

StatLink 2 https://stat.link/dg8ae1

Rents have increased by more than 55% across all regions over the past 15 years (Figure 3.3, Panel A). Although the increase in average rents has been broadly similar nationwide, substantial differences in housing and rental costs persist between regions and between major cities and other areas, with price pressures concentrated in the main urban centres as happens in many OECD countries. For instance, the average rent in Salzburg, Austria's most expensive region, has consistently been around 60% higher than in the rural region of Burgenland (Figure 3.3, Panel A). The impact of higher demand on rental costs has partly been mitigated by the high share of rents that are not market-determined, with private rentals leading the increase in overall rental prices, especially those for new tenants, which have risen faster in the big cities amidst constraints on the supply of limited-profit and social housing. Residential property prices in Vienna have remained well above the national average throughout the past 15 years (Figure 3.3, Panel B).

Figure 3.3. Housing cost pressures are widespread



Note: The Euro area aggregate corresponds to the OECD countries of the euro area.
Source: Statistics Austria: Microcensus Housing 2024; Austrian National Bank, ECB.

StatLink 2 https://stat.link/d1nh0y

The progressive erosion of housing affordability imposes burdens on households, constraining disposable income available for consumption and saving and lowering the quality of life. It also increases inequality and undermines social cohesion, as these price pressures disproportionately affect lower-income households, as it happens in many other OECD countries, while access to limited-profit housing is supply-constrained, with long waiting lists. While fewer than 5% of Austrian households spent over 40% of their disposable income on housing in 2024 (compared to an OECD average of above 9%), this proportion quadruples to 20% amongst households in the bottom income quintile (compared to an OECD average of around 29%) (OECD, 2024b).

This chapter examines how Austria can address the mounting challenge of declining housing affordability and increase the efficiency of its housing market. Section 3.2 investigates the obstacles that have increasingly restricted the supply of new limited-profit and social housing in recent years. Section 3.3 proposes reforms to the immovable property tax system, such as updating the tax base and increasing levies on unused land, aimed at enhancing supply and market efficiency. Section 3.4 explores policies to increase the total housing supply elasticity and efficiency, while favouring a better match between demand and supply, such as streamlining building permit procedures and improving land use. Section 3.5 assesses the challenge of improving energy efficiency.

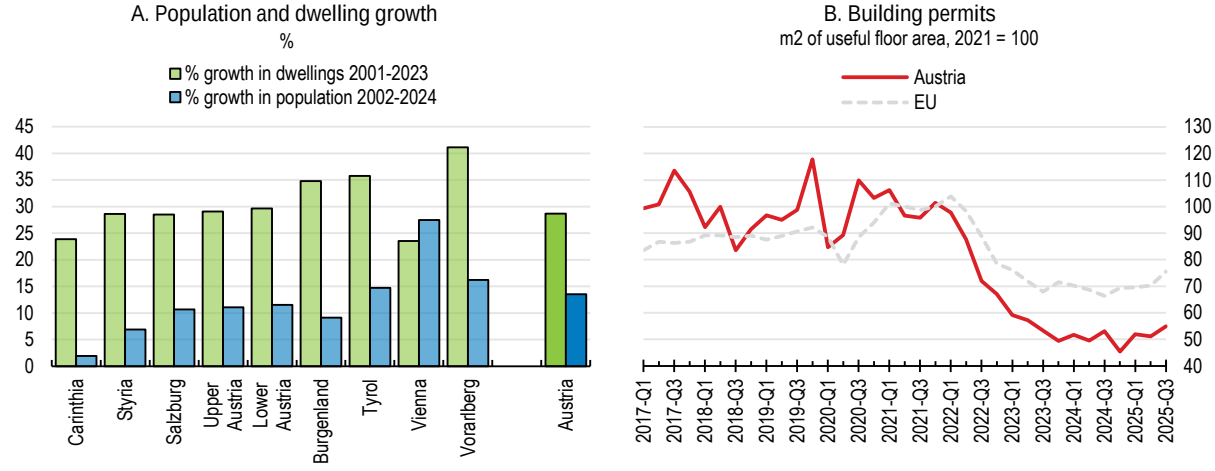
3.2. Helping limited-profit housing supply to keep pace with rising demand

Since 2002, Austria's population has grown by around 13%, driven partly by net migration, including refugee influxes during the Syrian crisis in 2015 and Russia's war against Ukraine since 2022. The total number of dwellings increased by 30% since 2001, primarily due to a construction cycle that began in 2017 and peaked in 2021 (Figure 3.4, Panel A). This growth in total supply helped reduce the housing shortage, although the number of households increasing faster than the population with declining average household size and rising numbers of single-person households (Schneider, 2019). However, this construction cycle came to an abrupt halt since 2021 (Figure 3.4, Panel B).

Austria's distinctive housing model relies heavily on the limited-profit and social housing sectors to maintain affordability and meet social objectives (Figure 3.5,Panel A), particularly in large cities. This approach has some similarities to the models in Denmark and the Netherlands. Dwellings delivered through this model have historically made an important contribution to overall increases in the housing stock and its quality. Most of

these dwellings have been delivered through the limited-profit sector (LPHAs, see Box 3.1), which constitutes a distinctive third sector positioned between for-profit enterprises and public (municipal) housing provision (Figure 3.5, Panel B). This limited-profit sector has deep historical roots in Austria, tracing back to the 19th century and emerging from the broader cooperative movement.

Figure 3.4. Beyond regional imbalances, total dwelling supply kept pace with demand

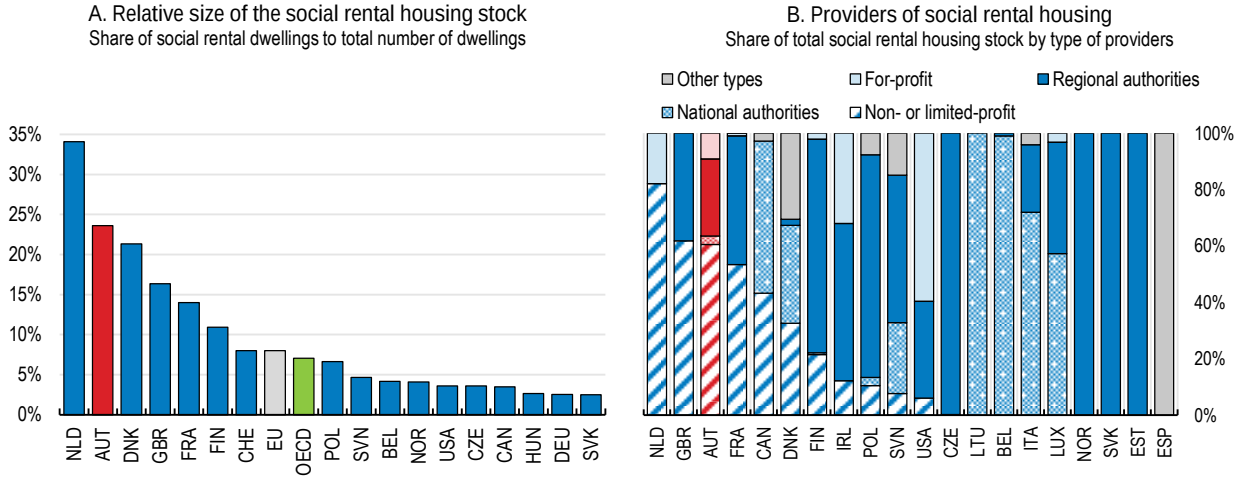


Note: Panel B: The EU corresponds to the composition of European Union as of 2020. Data are seasonally and calendar adjusted.
Source: Statistics Austria; Eurostat.

StatLink 2 https://stat.link/nkotyd

Figure 3.5. Social housing provided by non-profit operators has played a key role

Percentage, 2022 or latest year available



Note: The OECD aggregate is the unweighted average of OECD countries; the EU reflects the composition of the European Union as of 2020. A selection of countries is shown. Panel A: For the Netherlands, social housing is estimated from rent levels reported by the Ministry of the Interior and Kingdom Relations and includes below-market private rentals and housing association units, excluding market-rate units. For Norway, data cover only municipal dwellings (about 75% of total social housing). For the United States, social housing includes public housing, section 202 and 811 units, and income-restricted LIHTC units; figures are adjusted to avoid double-counting following OECD–HUD correspondence. Data are preliminary. Panel B: For Belgium, Canada, Denmark, France, Ireland, Luxembourg, Norway, Spain, and the United Kingdom (England), responses are based on previous QuASH rounds. Data for Germany are unavailable; social housing is mainly provided by municipalities, public institutions, and housing cooperatives, with private providers significant in some Länder. Data for Italy are under verification. Regional authorities include regional and municipal authorities and public agencies; national authorities include public agencies; for-profit refers to individual providers.
Source: OECD Affordable Housing (database).

StatLink 2 https://stat.link/1894rj

Box 3.1. The Austrian Model of Limited-Profit Housing Associations (LPHAs)

Austria's system of limited-profit housing associations (LPHAs) represents a key institutional mechanism in the country's social housing policy, with LPHAs growing in importance from 1950s and accounting for more than two-thirds of the social and affordable housing stock.

LPHAs are private, not-for-profit entities mandated to provide a long-term social housing stock at below-market cost rents. They comprise cooperatives and limited companies, with ownership structures including public authorities, charities, financial institutions, and private actors. They are subject to rigorous oversight through internal supervisory boards, a national audit association and also regional regulatory authorities. LPHAs are regulated by the Limited-Profit Housing Act of 1979 and operate according to some core principles:

- Cost coverage: rents are calculated on a cost-recovery basis, including financing, maintenance, and refurbishment costs, and must not exceed nor be less than these costs.
- Profit limitation: housing associations should make profits, but these profits must be reinvested in the purchase of land, new construction or refurbishment of existing building stock. Only a very limited part of the profit may be distributed to shareholders.
- Asset tie-up: Assets are locked into the social housing system. Sale of enterprises does not yield capital gains for owners.
- Restricted scope of activity: LPHAs are limited to housing development, refurbishment, and management.
- Obligation to build: any interruption in approved building activity requires the expressed permission of the respective regional government.

LPHAs' financing model usually foresees that for each new project they need to cover 100% of land costs and around 10-20% of construction costs, meaning the increases in these prices pose a substantial challenge for LPHAs.

Most of the funding comes from both public and commercial loans, with public and commercial bank loans representing respectively around 36% and 39% of the funding sources. Tenants contribute to the financing of LPHAs' activities (3-7% on average) by granting a quasi-loan to the association, in the form of a down payment, which does not exceed 12.5% of the total construction costs and may also cover a share of land costs. This amount is given back to tenants at the time of moving out depreciated by 1% for each year of occupation of the dwelling. Low-income households who cannot afford to pay such amount can get a public loan with 1% interest.

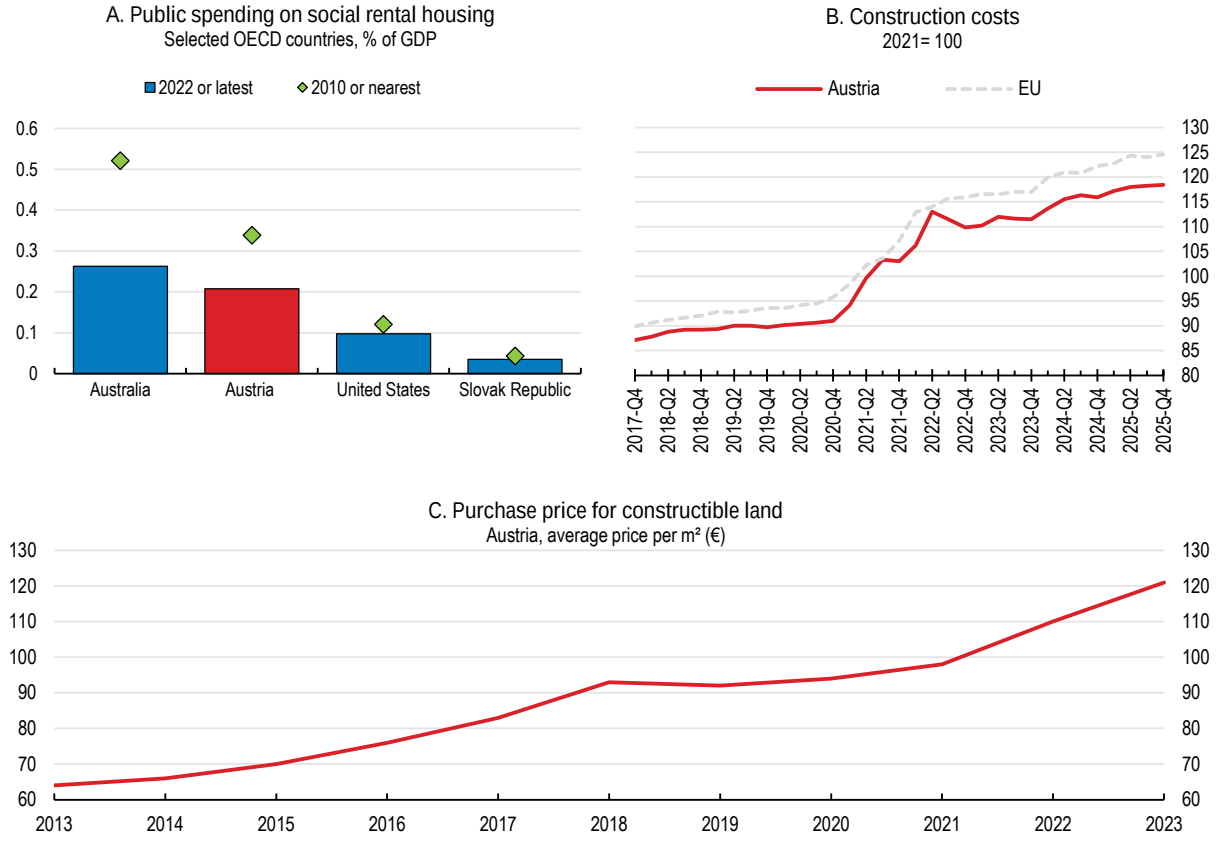
The Austrian social housing model of LPHA is designed as universalist, wherein access to subsidised housing is not confined to low-income households. Income thresholds for eligibility are set relatively high, effectively encompassing a broad segment of the population (in most provinces, LPHAs' supply covers housing needs from very low income to around the 8th income decile). Moreover, income reassessments after allocation are generally not carried out, allowing households to remain in their homes as their financial situation improves. This is intended to avoid socio-economic segregation, geographic concentration of poverty and the stigmatisation of social housing tenants.

This approach also generates a significant overlap between the social and private rental sectors, leading to direct competition in terms of both rent levels and housing quality and allowing to strengthen the price-moderating effects of the social housing stock and extend it to private rental accommodations as well.

Source: (IIBW, 2016) (OECD, 2023).

Austria's system of limited-profit and social housing has come under considerable strain in recent years, struggling to keep pace with demand, especially in main urban areas, mainly due to financing constraints. Public expenditure on social housing almost halved as a share of GDP between 2010 and 2022 (Figure 3.6, Panel A), while the costs of initiating and executing building development projects have substantially increased. Construction costs have risen in line with headline inflation and the European Union (EU) average, but more than GDP, growing by around 22% since the end of 2020 (Figure 3.6, Panel B). Average purchase prices for constructable land have grown much faster than inflation, increasing by roughly 90% between 2013 and 2023, meaning an increase in real terms that overcomes 40% (Figure 3.6, Panel C).

Figure 3.6. Limited-profit and social housing supply faces increasing difficulties



Note: Panel B: EU average data for 2024-25 is computed on available OECD-EU countries. Data are unadjusted (i.e. neither seasonally nor calendar adjusted). Panel B: The EU corresponds to the composition of European Union as of 2020.
Source: OECD Affordable housing (database), Statistics Austria, Eurostat.

StatLink 2 https://stat.link/8hy9cn

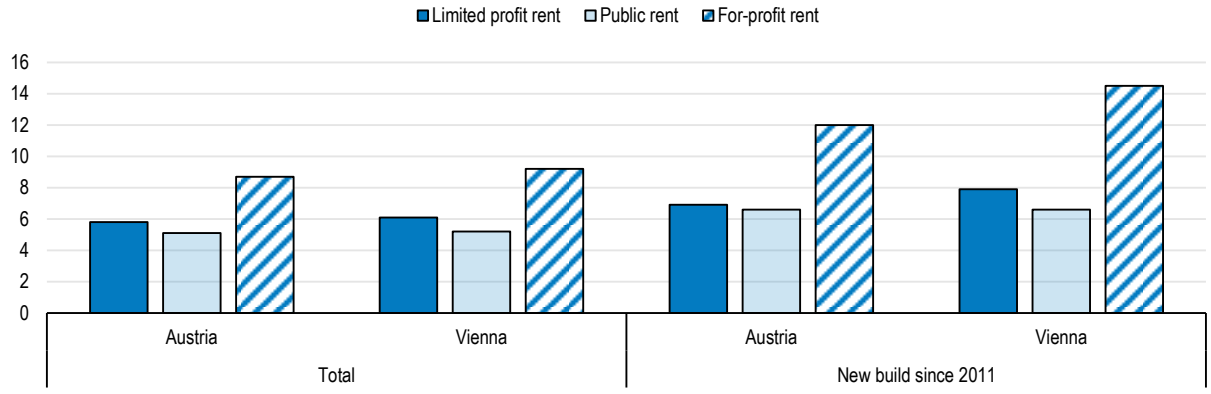
These dynamics, combined with the increase in interest rates since 2022, have posed a key financing challenge to the limited-profit sector. The increasing difficulties to find the means to pre-finance the land and construction costs have contributed to shrinking the share of new housing developed by the limited-profit sector since 2021. In the 20 years preceding the pandemic, limited-profit associations accounted for most of the new housing production, expanding the limited-profit rental housing from 9% of Austria's total housing stock in 1971 to 17% by 2020 (WIFO, 2023). However, since 2021 this share has substantially decreased, reaching less than 30% in 2024 (GBV, 2025; Statistics Austria, 2025).

The progressive reduction of the share of supply developed by limited-profit associations has negatively affected overall affordability, especially in large cities. The for-profit segment has been leading the increase in rental prices registered in the past 15 years. In housing constructed newly from 2011 onwards, for-profit rents are 74 % above those of limited-profit dwellings, with the gap reaching 91% in Vienna; while for housing built

before 2011, rents in the for-profit sector had been on average 49 % above the rents in the limited-profit sector (53 % in Vienna) (Figure 3.7). Empirical evidence confirms that limited-profit housing supply has historically generated a downward pressure on non-regulated rental prices, with these price-moderating effects extending beyond direct beneficiaries to encompass residents of private rental accommodation as well (WIFO, 2023).

Figure 3.7. The for-profit segment has led the increase in rents

Average net rent per sqm in Austria and Vienna for total market and new build since 2011, 2023



Note: Average net rent excludes service charges and up-front renters' contributions (*Finanzierungsbeitrag)* for limited profit rent. Public rent refers to social housing directly provided by public authorities, mainly municipalities.
Source: Statistik Austria, Microcensus 2023.

StatLink 2 https://stat.link/io3kdf

Helping the limited-profit sector keeping pace with the overshooting demand would help to boost housing supply and protect overall affordability. In 2024, the Austrian federal government adopted a comprehensive housing package totalling around EUR 2.5 billion over the period 2024 to 2026 (0.4% of annual GDP) designed to restore housing affordability (Austrian Parliament, 2024). The allocation designates EUR 1 billion for constructing approximately 10 000 new rental and owner-occupied units in the limited-profit sector. An additional EUR 500 million provides federal states with resources to offer subsidised loans (up to EUR 200 thousand per application) to limited-profit developers at maximum interest rates of 1.5%. The remaining funds support energy renovation initiatives through subsidies and tax concessions, alongside demand-side interventions to lower the ancillary costs of purchasing a home for first-time homebuyers, such as waiving registry fees for ownership rights and lien fees in the case of loan financing.

However, more structural measures are needed to preserve the well-functioning of the housing model based on the limited- profit housing sector, allowing the latter to sustainably boost supply in contexts of heightened fiscal pressures (Chapter 1). Until the late 2000s, earmarked tax revenues transferred from the Federal government to Länder played an important role in financing housing subsidies. With the Financial Equalisation Act of 2007, the earmarking of these tax revenues was abolished and they became unconditional transfers from the federal government, making the financing of the housing subsidy schemes the full responsibility of the Länder (IIBW, 2024). Since then, despite revenues from outstanding loans to limited-profit developers having grown, local governments have faced difficulties in providing the same level of subsidies in real terms, negatively affecting the supply of social housing. The reintroduction of the earmarking of the federal transfers, which is in the programme of the government, would help secure a more stable financial support for the supply of affordable lodging.

Better targeting of publicly subsidised cost-based rental housing would allow to make more effective use of this housing stock in areas of high price pressure. On average, approximately 80% of the Austrian population is eligible for publicly subsidised cost-based rental housing, with the percentage being even higher in some

municipalities (Housing Europe, 2021). A measured lowering of the income thresholds for eligibility, for example excluding those above the 7th income decils in areas experiencing the strongest price pressures, could help to prioritse the avaiable housing stock. This would align the model more closely with that of the Netherlands, where the threshold is slightly above the median income (OECD, 2025c), without substantially jeopardising the universalistic nature of the system, allowing the preservation of social mix and the limited-profit segment's price-dampening effect.

Regularly reassessing the financial situation of tenants in limited-profit housing and increasing rents for those who no longer satisfy the eligibility criteria would help to sustainably finance LPHAs in the long run, allowing their supply to keep pace with rising demand despite increases in construction costs. Eligibility for non-market rentals is currently only assessed at the time the rental contract is signed, and therefore income improvements thereafter are not considered, allowing people to remain in publicly subsidised cost-based rental housing even if their income has risen well above the threshold. An increase in rent that maintains it below that of for-profit units would marginally increase the average rent in the short term, but would help LPHAs to continue providing an adequate share of total supply without further burdening the public finances, ultimately providing a structural dampening effect on rent prices. Considering rents in the for-profit sector have been on average around 50% above the rents in the limited-profit sector, there is space to make people with an income above the eligibility threshold contribute more to finance LPHAs' supply while also maintaining for them the convenience to remain in limited-profit dwellings.

Many OECD countries, such as Ireland and France, revise rents of publicly subsidised cost-based rental housing for those whose financial situation has improved (OECD, 2024b). In the Austrian case, applying this approach to already-built limited-profit housing would also help to improve fairness. Rents in the limited-profit sector are calculated on a cost-recovery basis, creating a substantial inequality between old and new limited-profit housing tenants, as construction and land costs have increased significantly over the past 20 years. Allowing for a modest upward revision of rents for people whose financial situation has improved and live in older limited-profit buildings would contribute to intergenerational fairness without compromising social mix, as tenants would not be forced to leave their accommodation, as occurs for example in Belgium (OECD, 2024b), and this would preserve place-based social capital.

Revising the rules for limited-profit rent indexation could further contribute to reducing distortions in the housing market and generating additional income for the limited-profit sector. Currently, only a portion of limited-profit rents is indexed to general inflation through the consumer price index (CPI), specifically, the so-called "maintenance and improvement contribution" (*Erhaltungs- und Verbesserungsbeitrag* - EVB) (Housing Europe, 2021). While the maintenance and improvement contribution increases with the age of the building, from EUR 0.53 per square metre for new builds to EUR 2.13 per square metre for buildings older than 30 years (Housing Europe, 2021), this increase is offset by the a provision whereby, once the initial loans taken out by the LPHA have been fully repaid (usually after 30-40 years), LPHAs charge only a "base rent" of approximately EUR 2 per square metre (VOWG, 2025). Extending indexation to the entire rent would help LPHAs maintain their investment capacity in real terms over time without substantially worsening affordability, given that nominal salaries in Austria closely follow headline inflation, although this may require additional social support for low earners.

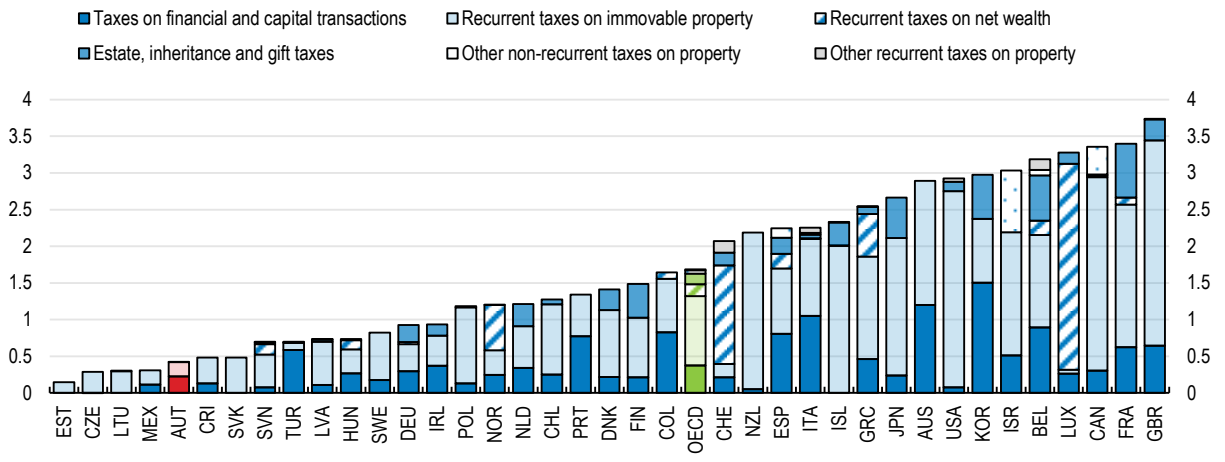
3.3. Better-designed property taxation would raise revenues, help moderate prices and improve efficiency

Austria imposes one of the lowest rates of recurrent immovable property tax within the OECD, and the tax base does not reflect the current market value of immovable properties (OECD, 2024c). Revenues from immovable property taxation in Austria were equivalent to approximately 0.6% of GDP in 2022, substantially below the OECD average of 1.8% of GDP (Figure 3.8). Real estate transaction taxes, with a progressive structure that reaches the 3.5% rate, are close to the OECD average (OECD, 2024c) (Business Service Portal,

2025). While a modest transaction tax may prevent speculation, this kind of levy is distortive and reduces housing market liquidity and efficiency, making it more costly to move and adding to price volatility (OECD, 2022a). The favourable tax treatment of housing due to the very low recurrent immovable property tax may encourage people to boost housing consumption and to invest their money in immovable property rather than other assets, boosting housing demand and thus inflating prices. This is regressive, given that wealthier households are more likely to own their homes and the undervaluation resulting from the current tax base can be expected to be particularly large for high-value properties (Böheim et al., 2010). Research has found that favourable tax treatment of immovable properties raises property prices and contributes to the instability of the housing market (Poghosyan, 2016).

Figure 3.8. Tax on immovable property is low

Decomposition of tax revenue on property, Percentage of GDP, 2024 or latest year available



Note: The OECD aggregate is the unweighted average of the OECD countries. Data for OECD average, Australia and Greece refer to 2023.
Source: OECD Tax Revenue (database).

StatLink 2 https://stat.link/bipq67

As recommended by the previous OECD Economic Survey of Austria (Table 3.1), transitioning the tax base for recurrent taxation from outdated cadastral housing values, which have remained unchanged for nearly five decades, to the market value of the property would improve the fairness and effectiveness of Austria's immovable property taxation system, enabling higher revenue collection (OECD, 2024c). An increase of the low tax rate could also be envisaged in the future. These additional revenues could potentially be used to financing limited-profit building projects. Implementation of this reform would require establishing regular property value updates consistent with practices in other OECD countries, such as Japan, Korea, New Zealand and the Netherlands, leveraging digital technologies to extract current market information from property advertising platforms or employing computer-assisted mass appraisal methodologies (OECD, 2024c). An amendment to tenancy law designed to prevent landlords from passing increased taxation fully onto tenants could be considered to ensure the reform does not worsen housing affordability.

Such a reform would have the additional benefit of addressing the root cause that brought the Austrian Constitutional Court to rule the inheritance tax to be unconstitutional in March 2007. The decision was due to the unequal treatment of financial and real estate assets that violated the constitutional principle of tax equality, as taxpayers with similar wealth faced different tax burdens depending on whether their assets were real estate or financial instruments. This was caused by the valuation of real estate assets being based on outdated values assessed decades ago while financial assets were being assessed more contemporaneously. The proposed reform would establish a greater alignment between the valuation of the two types of assets, solving the problem and enhancing the fairness and constitutionality of the system.

Table 3.1. Past OECD recommendations on housing

RECOMMENDATION	ACTION TAKEN
Making the tax system more growth friendly	
Introduce a regular update of property values. For immovable property, reduce taxation on transactions and increase recurrent property taxation, with a gradual phase-in and designed to prevent regressivity.	No action taken.
Ensuring decarbonisation in building sector	
At the subnational level, gradually set tighter requirements for heat generators in buildings, and identify and expand the set of trigger points for buildings renovation and efficiency requirements.	The Renewable Heat Act, which came into force from 1 January 2024, prohibits the installation of fossil-fuel heating systems in new buildings nationwide, including regional and municipal codes.
Target renovation grants to vulnerable households and provide on bill financing instruments for other households and SMEs. Extend targeting for switching heating system to low-income tenants.	No action taken.
Adjust the incidence of the new carbon tax on building emissions depending on the emission performance of the building. Expand the coverage and publication of building efficiency standards and provide a long-term trajectory for building efficiency requirements.	No action taken.

The introduction of recurrent taxes on vacant dwellings, together with the deep revision of the existing levy on constructable land, could further foster affordability. This is now possible because of the constitutional amendment enacted through the 2024 housing package which extended the opportunities for Landers to impose recurrent levies on vacant dwellings. Taxes of this kind rank among the least distortionary and growth-inhibiting fiscal instruments (OECD, 2022a; Akgun et al., 2017)), and would enhance supply efficiency by creating disincentives against land and property hoarding, effectively stimulating and mobilising total supply. Moreover, although modest, the revenues generated by these new levies could potentially contribute to the limited-profit and municipal housing development.

Empirical evidence suggests that increasing levies on vacant land tends to have a positive effect on total supply and housing density, whilst being progressive as they particularly impact higher-income households (Wassmer, 2016). The existing “Building land mobilisation levy” (*Bodenwertabgabe*) is very low, with many exceptions and geographical limitations, and with total revenue in 2024 barely reaching EUR 7 million in 2024. Its revision could follow the example of Ireland or Korea. Ireland’s Residential Zoned Land Tax (RZLT) targets owners of undeveloped land that is zoned for residential use and applies an annual rate of 3% on the market value of such land. In Korea, the tax rate on vacant land increases progressively over the period a zoned plot remains vacant, starting from 2% and reaching 10% in the tenth year (Haas and Kopanyi, 2017). Pursuing such a reform would necessitate establishing a national registry of unused or underutilised land and assessing housing density relative to densities permitted under official urban planning frameworks, similarly to what Luxembourg is currently implementing (OECD, 2025). For this approach to be effective, it requires ensuring that urban density regulations align with national housing policy objectives.

Similarly, a tax on vacant dwellings would promote more efficient utilisation of the housing stock in selected areas. With a share of vacant dwellings and seasonaly residences of around 15% of the total housing supply, Austria ranks high amongst OECD countries. The share is lower than OECD countries where seasonal holiday homes are widespread, such as Portugal and Spain, but still higher than other European countries such as Germany (8.2%), UK (6%) or The Nethrlands (below 3%) (OECD, 2024b). However, often these vacant dwellings in Austria tend to be in areas of low housing demand.

Recurrent taxes on vacant dwellings are conventionally structured as annual levies on residential properties that remain unoccupied for minimum durations within specified periods. Successful precedents, including Vancouver's "Empty Homes Tax" and the "*Taxe sur les logements vacants*" implemented by numerous French municipalities, demonstrate that well-designed recurrent taxes on vacant dwellings incentivise property owners to return these units to rental or housing markets, thereby enhancing supply efficiency (OECD, 2022a).

The French "*Taxe sur les logements vacants*" applies only to municipalities with more than 50,000 inhabitants or with difficult access to lodging, allowing exemption of properties in areas where housing supply clearly exceeds demand and ensuring to better target vacant dwellings in high-cost pressure areas. Levies of this kind exhibit strong progressive characteristics, as they target owners of secondary real estate properties, who are typically concentrated within upper income and wealth distributions. However, the implementation of such a tax would require the availability for the federal government of reliable nationwide data on actual vacancy rates.

3.3. Improving housing supply and land use

While overall housing supply in Austria has been adequate, the balance of supply and demand has deteriorated recently, and substantial regional disparities persist. Vienna and other Austrian cities have experienced substantial increases in housing prices and rents over the past decade due to strong demand and constrained supply, whilst many rural regions face population stagnation or decline, resulting in a housing stock that exceeds demand and difficulties maintaining local services and infrastructure (Schneider, 2019). Allowing supply to better respond to demand across regions and zones would be beneficial for affordability, as would creating the condition for demand to move away from high price pressure areas. To this end, a more responsive and flexible permitting system, more coherent and effective land use decisions and a strategic infrastructure development would help.

3.3.1 Enhancing land use

Land-use decisions directly impact housing supply and, consequently, house prices and rental costs (Buchler et al., 2024). Decision-making responsibility is shared across all three government levels (national, state, and municipal), with Austria scoring worse than the OECD average in the land-use governance indicator, reflecting fragmented decision-making and overlapping responsibilities between government levels (OECD, 2019). Despite Austrian municipalities being among the OECD's smallest, with an average population of around 4,000 inhabitants (compared to the OECD average of more than 10,000) (OECD, 2025d), they hold substantial responsibilities for land-use plan preparation within their territories (OECD, 2017a). This structure means that poor coordination between municipalities and not-in-my-backyard attitudes may create conflicting objectives and regional imbalances. While these dynamics have not significantly constrained total housing supply so far, coherent and sustainable land development strategies that transcend municipal boundaries, and are coordinated at higher levels of government, are also essential to addressing growing urban-rural imbalances, as is the concerted development of infrastructure and services.

Regarding spatial planning, the Austrian Conference on Spatial Planning (*Österreichische Raumordnungskonferenz*, ÖROK) was set up in 1971 with the aim of coordinating spatial planning policies amongst the three levels of government. While ÖROK has enhanced coordination and improved spatial planning effectiveness, its recommendations lack legal enforceability and constitute only voluntary agreements. Strengthening ÖROK's monitoring and enforcement powers would reinforce higher-level oversight and increase effectiveness by ensuring different government levels implement agreed decisions, thereby improving land planning efficiency. Making ÖROK's decisions fully binding in a way that overrides Länder/municipal autonomy would require a constitutional change. However, conditioning federal or EU grants and financing to the conformity and timely implementation of decision jointly agreed within the OROK framework could represent a viable solution and create incentives for local authorities to act in alignment with national priorities and common objectives. Additionally, establishing clear, universal time limits for land development following zoning designation would enhance supply responsiveness (OECD, 2017b).

Ensuring the conformity of land use decisions with national priorities would favour better and more balanced development across different geographical areas beyond eventual contrasting local objectives. Higher density in areas proximate to public transport infrastructure, if environmentally sustainable, should be pursued

despite the possible existence of local resistance, as this allows more efficient use of land. Similarly, transport links should be enhanced through expanded public transport networks and improved road infrastructure. This would better connect rural and peri-urban areas with urban centres, thereby reducing commuting burdens and lowering the opportunity cost of living outside cities, ultimately reducing price pressures in major urban centres.

International experience confirms that well-designed inter-regional development projects, such as efficient transport links, have the potential to increase commuter numbers and balance house prices, raising them in lower-cost areas while reducing pressure in higher-cost locations. The opening in 2000 of the *Øresund* bridge connecting the southern, more rural Swedish region of *Skåne* to the Danish Capital Region through both railway and motorway provides a concrete example. It has rapidly brought commuters to rise roughly seven-fold and fuelled a housing boom on the Swedish side, where property prices were far lower, while lowering excessive demand in the region around Copenhagen, demonstrating the importance of shared land and infrastructure development (OECD, 2016).

The Vienna Urban Mobility Plan provides a further example of the importance of coordinating action beyond municipality's boundaries. It contains measures pertaining to both spatial planning and infrastructure development to better handle and distribute the overshooting housing demand in the capital. Some of the key measures are: stepping up rail transport services in the near environs, extending cycling routes crossing the city limits, strategically developing multi-modal transportations through the right collocation of hubs, parking and new lines and discouraging dispersed settlement. However, effectively implementing all these measures cannot be done without a close cooperation within the entire Eastern Region, comprising the provinces of Burgenland and Lower Austria (Vienna City Administration, 2025).

3.3.2 Streamlining building permit procedures

A complicated permitting system constrains housing supply and drives up costs, for both private and limited-profit developers. Building permit processes in Austria are primarily regulated at the regional level but implemented by municipal councils, creating substantial disparities in operational efficiency and digitalisation across the country's 2000+ municipalities. This fragmentation generates considerable complexity, with varying requirements, procedures and documentation standards between municipalities that slow project implementation and prevent developers from achieving economies of scale. Austrian developers typically face ten procedures spanning 215 days at a cost of 0.9% of project value to secure construction permits, compared to top-performing countries like Denmark, where the same process takes one-third of the time (World Bank, 2023).

Digitalising the entire permitting process through advanced technology is key for improving effectiveness, as it typically delivers significant efficiency gains and reduces approval times (World Bank, 2020). However, whilst some Austrian municipalities already process submissions digitally, comprehensive end-to-end digital procedures remain rare exceptions. International experience demonstrates the transformative potential of digitalisation. Estonia's fully digitalised building permit system has reduced average waiting times to 100 days, half of Austria's duration (OECD, 2024a). Vienna's pioneering "Building Regulations Information for Submission Envolvement" (BRISE) project offers a potentially scalable solution for creating digital one-stop shops and improving building permit effectiveness nationwide (Box 3.2).

Introducing clear national statutory deadlines for building permits and implementing tacit approval mechanisms for simpler, lower-risk projects - which would be automatically approved if regulatory agencies do not respond within deadlines - could further enhance supply responsiveness. Bavaria's differentiated permitting approach, introduced in 1994, reserves full regulatory review for high-risk, complex projects, while allowing low-risk developments to proceed based solely on architect liability assumptions. This reform generated substantial cost savings for both developers and local authorities (World Bank, 2012). While streamlining permit procedures would allow to enhance supply efficiency and responsiveness, it is important this is pursued in a way that safeguards ecological standards, safety and individual rights.

Box 3.2. The BRISE project in Vienna

The Building Regulations Information for Submission Envolvement (BRISE) project combined Building Information Modelling (BIM), artificial intelligence (AI), and augmented reality (AR) to create a comprehensive digital approval process.

BIM enables automated submission checks using three-dimensional models, while AI facilitates automated verification of legal compliance, document validation, and digital construction supervision support. AR provides intuitive project visualisation, allowing citizens to view three-dimensional models of proposed buildings virtually rather than deciphering traditional construction plans.

Prior to BRISE's implementation, building approvals required multi-stage, paper-based processes that generated approximately 200 tonnes of archived documents and averaged one year per application. The project's holistic digital approach has accelerated procedures by up to 50% while enhancing transparency, delivering time and cost savings for both applicants and city administration.

Source: OPSI, BRISE Vienna; Piloting the BRISE-Vienna results.

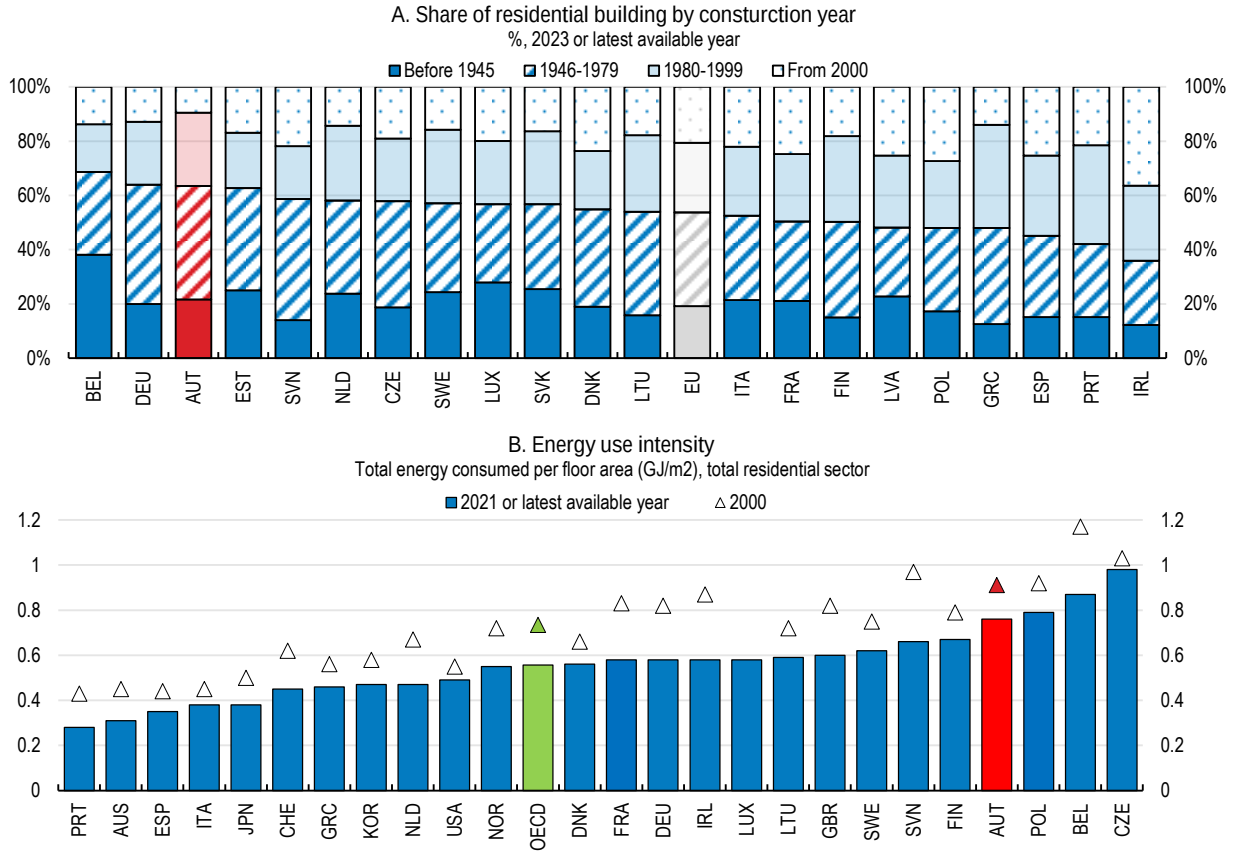
3.4. Enhancing the energy efficiency of the building stock

Austria has one of the OECD's oldest housing stocks, with over 60% constructed before 1979 (Figure 3.9, Panel A). This contributes to high energy intensity of the residential sector, which exceeds the OECD average and ranks amongst the highest in the OECD (Figure 3.9, Panel B). Combined with the use of fossil-fuel heating systems (heating oil and natural gas), which is declining but still widespread, this results in direct emissions from the residential sector that are above the OECD average. Indirect emissions instead remain below the OECD average due to Austria's increasing renewable energy share in the total energy mix (OECD, 2025b).

Residential heating in Austria is already subject to carbon pricing under the national emissions trading system (NEHG). Nonetheless, the forthcoming introduction of the EU Emissions Trading System for buildings and road transport (ETS2), scheduled now for 2028, is expected to influence emission dynamics significantly. While the NEHG has so far provided mainly price-based signals, the ETS2 will operate under a binding emissions cap with a linear reduction factor. This implies a shift from a price-based to a quantity-based framework, which will require emissions to fall at a predetermined rate, imposing a structural constraint on aggregate emissions. Consequently, emissions from the residential sector are expected to decline more rapidly once the ETS2 enters into force.

Various incentives and programmes have been implemented during the years through the Renovation Offensive (*Sanierungsoffensive*), a comprehensive policy package launched in 2009 to accelerate energy efficiency renovations for private individuals, businesses and associations. The "Away from Oil and Gas" (*Raus aus Öl und Gas*) programme, active in 2023-2024, combined federal and state funding to subsidise up to 75% of investment costs for switching to renewable heating, with support reaching 100% for low-income households. The programme processed more than 50,000 applications during the two years it was active, achieving an estimated 1.2 million tonnes of CO_2 emissions savings calculated over the lifecycle of the replaced heating systems (EEÖ, 2024). This was coupled with the Renewable Heat Act, which banned fossil fuel heating in new buildings and mandated replacement of broken oil and coal systems with renewables from 2023. The Renovation Offensive (*Sanierungsoffensive*) has been renewed in 2025, and it will be active in the period 2026-2030. It will provide EUR 360 million each year for two instruments: the incentive for boiler replacement with climate-friendly heating systems and the renovation bonus for thermal-energetic renovation (Austrian Government, 2025).

Figure 3.9. Energy efficiency of building stock needs to be enhanced



Note: Panel A: The EU corresponds to the composition of European Union as of 2020. Data for Slovenia refer to 2021. Panel B: The OECD aggregate corresponds to the unweighted average of the OECD countries shown in figure.
Source: EU Building Stock Observatory database; EU Commission and International Energy Agency (IEA).

StatLink 2 https://stat.link/84m2nf

Despite incentives, the percentage of residential buildings renovated annually in Austria stands at about 1.5% per year, half the 3% that would be needed to upgrade all thermally deficient housing by 2040 (Amann, 2021). Beyond re-introducing well-targeted incentives at a federal level, as partially happened in 2025, addressing this shortfall on the demand side requires avoiding multiple and uncoordinated schemes at different government levels (federal, regional, local), which can end up confusing beneficiaries and diluting their impact. Consolidating the different programmes and creating a digital, clear, user-friendly one-stop shop for applicants would increase the effectiveness of these programmes. New incentive schemes should prioritise deep renovations, which represent only a tiny fraction of current interventions and are declining over time (E3G and Renovate Europe, 2022). France's Energy Efficiency Passport (*Passeport Efficacité Énergétique*) had positive effect on the rate and the depth of building renovation by providing a digital tool to guide homeowners through renovation processes, while helping them navigate financial incentives and identify optimal interventions. Moreover, Austria's incentives programmes may have created barriers by requiring upfront payments, with grants paid only after completion. This particularly deters costly deep renovations and low-income households. Providing interest-free loans, following France's *Éco-prêt à taux zéro* model, could overcome upfront payment obstacles.

On the supply side, construction industry capacity must expand to achieve Austria's energy renovation and decarbonisation targets. Beyond obstacles like building product scarcity and supply chain bottlenecks, the shortage of well-trained workers for energy enhancing renovation represents a key barrier (BMIMI, 2021). The Ministry of Climate Action published the "Just Transition Action Plan on Training and Reskilling" in 2023 to

meet skilled workforce demand in the context of a just transition by 2030. The plan distinguishes between short-, medium-, and long-term measures across four thematic fields (education, companies, framework conditions and communication), each containing concrete actions (OECD, 2024e). While this represents a significant, well-structured step requiring full implementation, further actions may be needed to address unfilled vacancies. The pace and breadth of upskilling could be expanded through strengthened communication campaigns raising awareness of green jobs, particularly for youth, and updated vocational training curricula to better align worker skills with growing demand (OECD, 2024e).

Table 3.2. Policy Recommendations to enhance housing affordability and sustainability

Main findings	Key recommendations
Helping limited-profit housing supply to keep pace with rising demand	
A large share of the Austrian population is eligible for publicly subsidised cost-based rental housing.	Modestly lower the income thresholds for eligibility for limited-profit housing in areas experiencing the strongest price pressures.
Eligibility for non-market rentals is currently only assessed at the time the rental contract is signed, not considering any income improvements during the tenancy.	Regularly reassess the financial situation of tenants of limited-profit housing, and increase rents for those who no longer satisfy the eligibility criteria.
Only a portion of limited-profit rents is indexed to general inflation.	Revise the rules for limited-profit rent indexation, extending it beyond the "maintenance and improvement contribution" component, to the whole rent, while compensating low earners with housing allowances.
Better design property taxation and sustain social housing	
Austria imposes low rates of recurrent immovable property tax, and the tax base does not reflect current market values, with this favourable tax treatment risking to raises property prices.	Transition the tax base from outdated cadastral values to contemporary market valuations.
Average purchase prices for constructable land have increased substantially. Austria ranks high amongst OECD countries for vacant dwellings and seasonal residences as proportions of total housing stock.	Revise and increase the recurrent taxation on unused land and introduce recurrent taxes on dwellings that remain unoccupied in high-cost pressure areas.
Public expenditure on social housing declined substantially between 2010 and 2022 and social housing share of total supply has declined.	Consider drawing on novel revenues stemming from the proposed revision of property taxation to contribute to finance limited-profit and social housing development.
Improve housing supply and land use	
The building permit process varies between municipalities in terms of requirements and digitalisation, creating complexity, slowing down project implementation and prevent economies of scale.	Digitalise the building permit process through the uptake of most advanced technology and streamline it by consolidating legislation, requirements and administrative steps at federal level. Introducing clear national statutory deadlines for building permits and implement tacit approval mechanisms for simpler, lower-risk projects, automatically approving them if regulatory agencies do not respond within the established statutory deadlines.
Land-use decision making process is shared by all the three level of government (national level, the states and the municipalities), with no formal hierarchical structure and no linear process, making difficult to create synergies.	Strengthen the role and powers in terms of monitoring and enforcing of the Austrian Conference on Spatial Planning (ÖROK) through conditioning EU and federal grants and financing to the conformity and implementation of decision jointly agreed within the OROK framework.
Vienna and other big cities face strong housing demand while many rural and peri-urban areas face population stagnation or decline.	Increase density in peri-urban areas close to transport infrastructure. Expand and improve public transport networks and infrastructure to better connect rural and peri-urban areas with urban centres.
Enhancing the energy efficiency of the building stock	
Austria's building stock is old and is characterized by high energy intensity and direct emissions. Renovation rates progress slowly despite incentives.	Consolidate all incentives for home energy efficiency to avoid dispersion and duplication. Create a digital, user-friendly one-stop shop helping citizens to identify the most impactful energy upgrades and the available financial incentives.
The shortage of well-trained skilled workers needed for energy-efficient building renovation represents a bottleneck.	Continue to implement the "Just Transition Action Plan on Training and Reskilling" and step up the pace and breadth of upskilling and reskilling.

References

Akgun, Cournede et Fournier (2017), The effects of the tax mix on inequality and growth.
Amann (2021), Increasing the renovation rate.
Austrian Government (2025), Sanierungsoffensive 2026.
BMIMI (2021), Increasing the renovation rate. Challenges for the construction industry.
E3G and Renovate Europe (2022), Renovate2Recover one-year on: What progress on buildings renovation?
ONB (2023), Property Market Review.
Böheim et al. (2010), Options for Revenue-based Fiscal Consolidation.
Buchler et al. (2024), The Amplifying Effect of Spatial Planning Restrictions on House Prices and Rents.
Business Service Portal (2025), Real estate transfer tax.
EEÖ (2024), Förderung für den Heizungstausch wirkt und ist kosteneffizient.
Haas and Kopanyi (2017), Taxation of Vacant Urban Land: from Theory to Practice.
Housing Europe (2021), Cost-Based social rental housing in Europe. The cases of Austria, Denmark and Finland.
IIBW (2024), The Austrian Mode of Affordable Housing.
IIBW (2016), The Austrian System of Social Housing.
OECD (2025), OECD Economic Surveys: Luxembourg 2025.
OECD (2025b), Environment at a Glance: Austria.
OECD (2025c), OECD Economic Surveys: Netherlands 2025.
OECD (2025d), Subnational governments structure and finance in OECD countries: key data.
OECD (2024a), Enhancing efficiency, inclusiveness, and environmental sustainability of housing in the Slovak Republic.
OECD (2024b), OECD Affordable Housing Database.
OECD (2024c), OECD Economic Surveys: Austria 2024.
OECD (2024e), Supporting a just transition through upskilling and reskilling initiatives in Austria.
OECD (2023), Strengthening Latvia's Housing Affordability Fund.
OECD (2022a), Housing Taxation in OECD Countries.
OECD (2019), OECD Questionnaire on Affordable and Social Housing.
OECD (2017a), Land use Planning Systems in the OECD.
OECD (2017b), The Governance of Land Use in OECD Countries: Policy Analysis and Recommendations.
OECD (2016), OECD Territorial Reviews: Japan 2016.
Poghosyan (2016), Can Property Taxes Reduce House Price Volatility? Evidence from U.S. Regions".
Schneider, M. (2019), Exploring supply and demand-driven imbalances in Austria's housing market.
Statistics Austria (2025), Building permits at record-low in 2024.
Vienna City Administration (2025), STEP 2025, Urban Development Plan Vienna.
VOWG (2025), Strengthening EU Housing Policy: Lessons from Austria's Limited-Profit Housing Model and Vienna's Subsidy Conditionality and Zoning.
Wassmer, R. (2016), Further empirical evidence on residential property taxation and the occurrence of urban sprawl.
WIFO (2023), The Price Dampening Effect of Non-profit Housing.
World Bank (2023), Doing Business in Austria 2021.
World Bank (2020), From Paper to the Cloud: Improving Building Control through E-permitting.
World Bank (2012), Dealing with constructions permits.

4 Addressing demographic challenges requires a bold set of reforms

Simone Romano, OECD

Falilou Fall, OECD

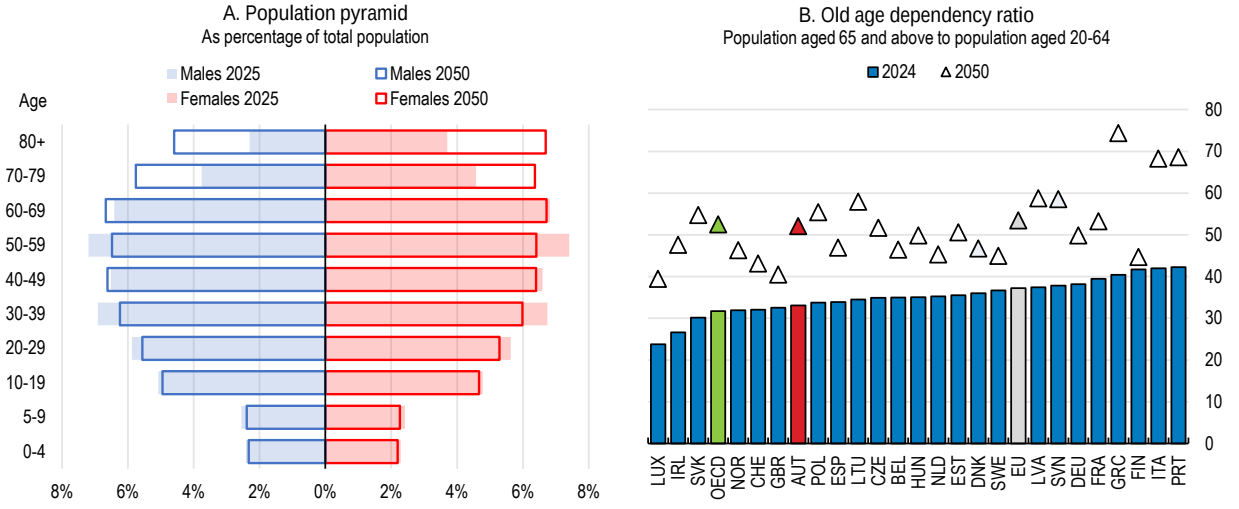
The ageing of the Austrian population is projected to intensify, reducing the number of prime-age workers while increasing the share of older people and retirees. This risks negatively affecting economic growth and productivity, threatening the sustainability of the pension system and challenging the health system and long-term care (LTC) provision. Enhancing the employment of women and older workers would help address labour shortages. Linking the statutory retirement age to life expectancy and continuing to restrict access to early retirement would contribute to make the most of the silver economy, while helping to secure the sustainability of the pension system for future generations. Further strengthening primary care to reduce excessive reliance on hospitals, advancing the digitalisation of the health system, and promoting healthier lifestyles will benefit both the financial and operational sustainability of the health system, while improving its outcomes. Enhancing the working conditions of LTC workers and attracting more male workers in sector would help bolster the supply of care, while better targeting of the LTC allowance would help to sustain the overall care system.

4.1. The ageing of Austria's population will intensify

Following a trend shared by many advanced economies, Austria's population is ageing rapidly. In 2025, the population aged 25-64 represented 52% of the total, while those aged 75 and above accounted for approximately 9.3% (Figure 4.1, Panel A). The old age dependency ratio, defined as the ratio of the population aged 65 and above to population aged 20-64, stood at 33% (2024), a figure lower than that of the most rapidly ageing countries such as Japan or Italy, but somewhat higher than the OECD average of 31.7% (Figure 4.1, Panel B). In the coming decades the ageing of the population is projected to intensify, fundamentally altering the demographic structure of Austria's population. By 2050, the 25-64 age cohort is expected to shrink to 50% of the total, while the share of those aged 75 and above will nearly double to reach 16% (Figure 4.1, Panel A). Consequently, the old age dependency ratio is projected to increase to 52% in 2050 (Figure 4.1, Panel B), almost as the same level as Japan today (53.6%).

Figure 4.1. Austria's population is projected to age quickly

2024 and 2050

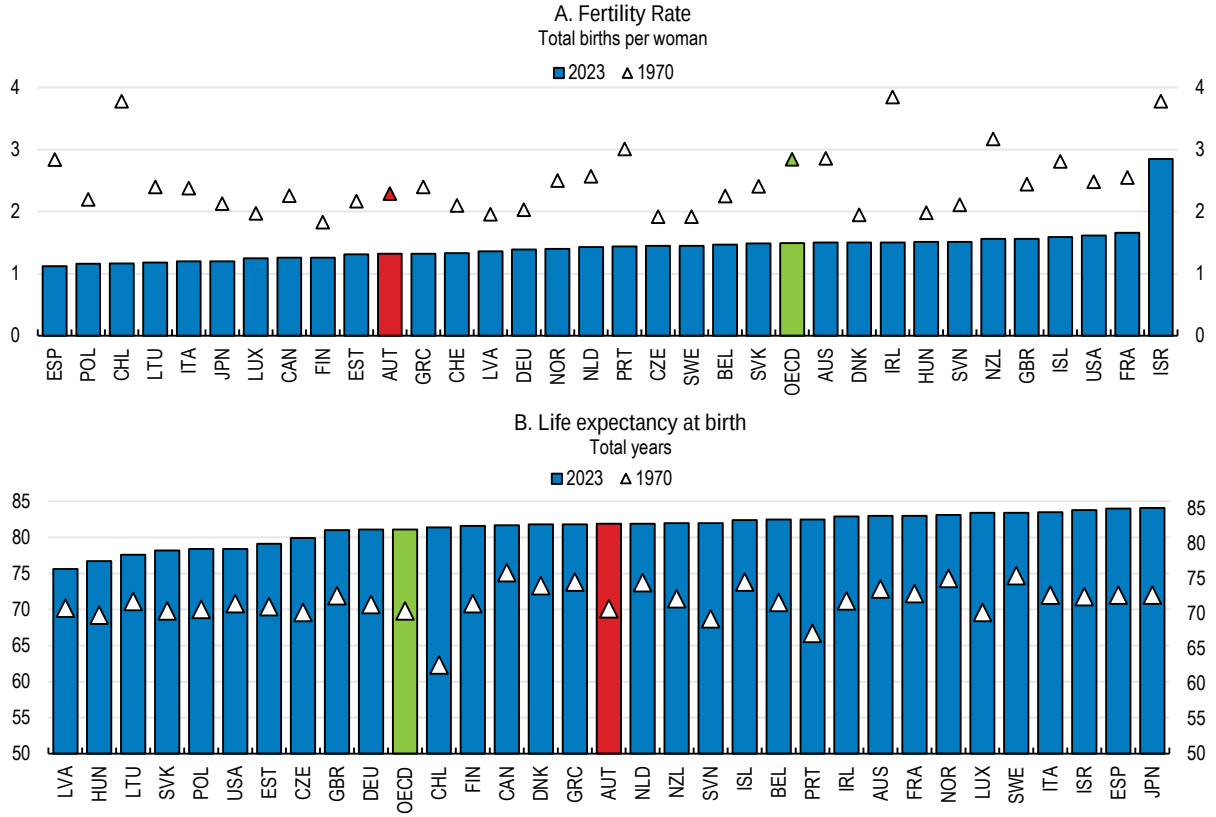


Note: Panel A: Population refers to 1st of January. 2050 data are baseline projections. Panel B: Ratio of population aged 65 and above to population aged 20-64. Projections are based on medium fertility variant. The OECD aggregate corresponds to the unweighted average of the OECD countries. The EU aggregate corresponds to the composition of European Union as of 2020. A selection of countries is shown.
Source: Eurostat Population projection; OECD Demography and Population Statistics (database).

StatLink 2 https://stat.link/nm7zy4

These demographic dynamics are primarily driven by two key factors: low and declining fertility rates and the extension of life expectancy, together with a cohort effect from Austria's babyboomers born around 1960. In 2023, Austria's fertility rate stood at 1.32, lower than both the EU (1.38) and OECD (1.49) averages (Figure 4.2, Panel A). Although the fertility rate exceeded the replacement level of approximately 2.1 during the 1960s, it began declining already in the latter half of the 1970s, stabilising at around 1.5 from the mid-1980s onward. While fertility has been declining over the last 50 years, life expectancy at birth has increased substantially. In 1970 life expectancy at birth was 70 years, and it has grown since then to reach 82.2 years by 2023, a level that is lower than in top performing EU countries, such as Italy or Spain, but slightly higher than the OECD average (Figure 4.2, Panel B).

Figure 4.2. Fertility is declining, and life expectancy is increasing



Note: Panel B: Data reference years differ by country: Australia's 1970 data to 1976; Canada's 1970 data to 1980; Latvia's 1970 data correspond to 2002; and the 1970 data for Luxembourg, Israel, and Italy correspond to 1971. Panel A & B: The OECD aggregate corresponds to the unweighted average of the OECD countries. A selection of countries is shown.
Source: World Bank: World Development Indicators; OECD.

StatLink 2 https://stat.link/zqxw42

Net immigration has helped sustain population growth, rejuvenate the age structure, and marginally lift fertility rates, thus helping to counteract rapid population ageing and reducing the old-age dependency ratio (OeNB, 2025). The proportion of the population with a migrant background rose considerably in the past 25 years, increasing from around 12% in 2000, to about 20% in 2014 and reaching 27.8% in 2024 (OIF, 2025) (Kraler and Sohler, 2005). Refugee inflows coming mainly from Syria (since 2015) and Ukraine (since 2022) added to the long-standing economic migration coming from neighbouring countries and Eastern Europe (Holler and Schuster, 2018) (Poledna et al., 2024). This has made international immigration the sole driver of population growth in Austria in recent years (Statistics Austria, 2025a). Austria also ranks among the EU countries with the highest share of children born to foreign-born mothers (around one-third) (Eurostat, 2025), providing a positive albeit marginal (0.1 on average) contribution to lifting the fertility rate.

Population ageing presents multiple risks and challenges, including to economic growth and productivity, fiscal sustainability, and the provision of health and long-term care. First, population ageing increases the risks of labour shortages as the working-age population declines (WIFO, 2025b). Second, the stock of skills risks becoming increasingly outdated and health issues increasingly frequent as the average age of workforce participants rises. Third, an ageing population tends to lower the overall propensity for investment, innovation, and entrepreneurial activity, thereby constraining potential growth (Gardo et al., 2025). Fourth, in pay-as-you-go health and social security systems, fiscal stress will result from increases in the ratios of older people and retirees, who are recipients of social spending, to prime-age workers, who finance the system. Fifth, beyond financial sustainability, health systems will face growing operational pressure as population ageing increases the demand for health care, while increasing longevity escalates the complexity of required

care and extends the duration over which such care is needed (Bloom, 2022). Finally, the rise in both longevity and the number of older people will increase the demand for long-term care, while the shrinking number of family members will reduce the supply of informal care and labour shortages will constrain the availability of formal care.

This chapter focusses on three of the main challenges related to demographic challenges that Austria will need to address: first, mitigating the decline in labour force, primarily by increasing the employment of women and older workers; second, ensuring the sustainability and intergenerational fairness of the pension system in the long term; and third, making sure health and long-term care systems are equipped to meet the growing challenges they will face in terms of both financial sustainability and operational capacity.

4.2. Addressing the decrease in the labour force as the population ages

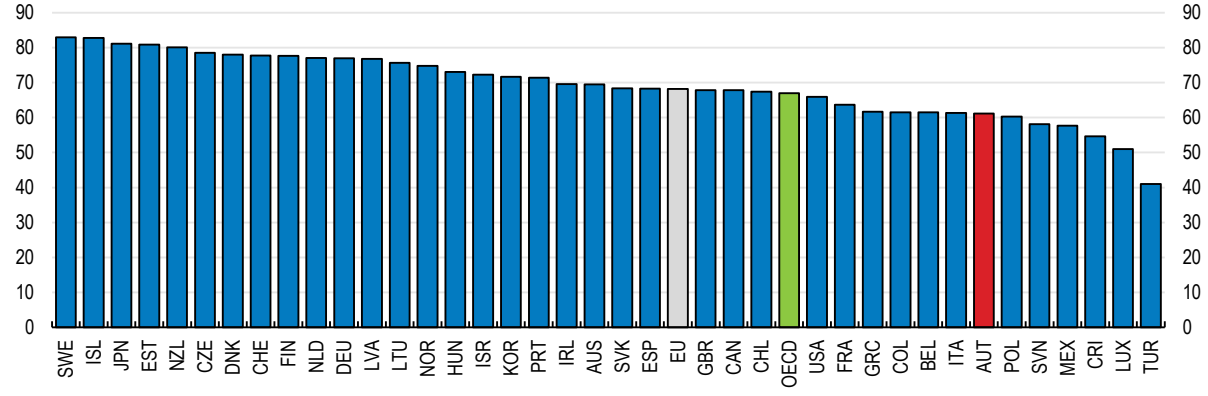
4.2.1 There is room to raise the employment of female and older workers

Population ageing is anticipated to lead to a decrease in the working age population and a smaller share of working age people in the overall population, which will drag on growth and could lead to labour shortages in the absence of measures to raise labour force participation, employment and productivity. However, labour market participation in Austria, while having increased over past decades and being now around the OECD average, remains lower than in several OECD countries and could be raised by removing obstacles to work (WIFO, 2024b).

Austria's participation rate of people aged 55 and above remains below both EU and OECD averages and ranks among the lowest in the OECD (Figure 4.3), standing approximately 20 percentage points below that of top performing countries such as Sweden or Japan. However, it has been steadily increasing over time, rising from barely 30% in 2000 to around 42% in 2010, and reaching nearly 60% in 2023. Employment of older workers has been recently increasing as well. However older workers face a higher risk of long-term unemployment. Austria's prevalence of long-term unemployment in the age group 55-64, meaning the share of all unemployed persons in that age group who have been unemployed for 12 months or more, is lower than the EU average but still reaches nearly 50%, roughly double that of the 25-54 age group (Eurofound, 2025). Rising longevity and improvements in the health of each cohort provide opportunities for people to remain longer in the labour force.

Figure 4.3. Older workers participation rate is low

Labour force participation rate, percentage of 55-64 years old population, 2024



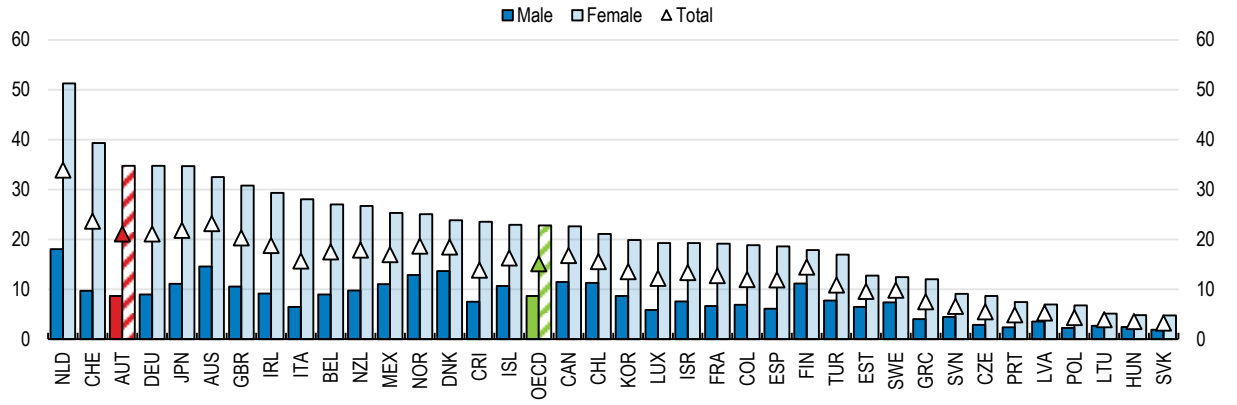
Note: The EU aggregate corresponds to the composition of European Union as of 2020. The OECD aggregate corresponds to the unweighted average of the OECD countries.
Source: OECD.

StatLink 2 https://stat.link/g0jirq

Austria also has one of the highest shares of part-time work in total employment among OECD countries, notably driven by part-time work by women. While part-time work may represent a choice and offer flexibility, it is important to reduce barriers that lead to involuntary part-time employment. Part-time employment in Austria is characterised by a substantial gender imbalance: although the gap between female and male part-time employment has been shrinking over the past 25 years, it still ranks third highest among OECD countries (Figure 4.4). This part-time work of women is often involuntary. Caregiving responsibilities for children, the elderly and adults with disabilities are listed as the main reasons for part-time employment among women, reaching 40.1% (against only 7.2% among men), while less than 25% of women working part-time declare that full-time employment is not desired (Statistic Austria, 2025). This has negative consequences for overall economic performance, long-term fiscal sustainability and women's financial security and pension entitlements (Berghammer and Riederer, 2018).

Figure 4.4. Many women work part-time

Percentage of 15-64 years old population, 2024



Note: The OECD aggregate corresponds to the simple average of the OECD countries.
Source: OECD.

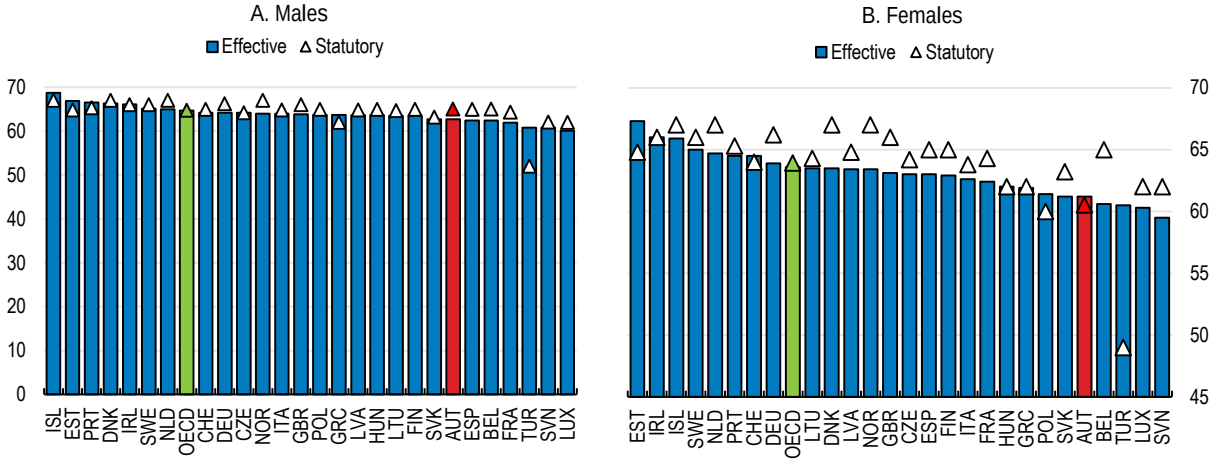
StatLink 2 https://stat.link/vacwmp

4.2.2 Enhancing the employment of older workers

Eliminating the obstacles to older workers' employability and increase their attractiveness for employers is key to increase their employment. A first obstacle that hinders longer career is a low effective retirement age. In 2022, Austria ranked below the OECD average in terms of the average effective age of labour market exit, while ranking among the OECD countries with the highest differences between the effective and statutory retirement ages for men and the widest difference in the statutory retirement age between men and women (Figure 4.5). Early retirement pathways have played a determining role, as confirmed by the difference between female and male retention rates due to differing statutory retirement ages for men and women. Up until 2023, the statutory retirement age for men was 65 years, while for women working in the private sector and born before 31 December 1963 was 60 years. Starting in 2024 with women born on or after 1 January 1964, the statutory retirement of women is gradually increasing by six months a year to reach 65 years in 2033 (BMSGPK, 2025).

Figure 4.5. The effective retirement age is low

Average effective age of labour-market exit and statutory retirement age, 2024



Note: The OECD aggregate corresponds to the unweighted average of the OECD countries. Normal retirement age is shown for individuals retiring in 2024 after a full career from labour market entry at age 22. a selection of OECD countries is shown.
Source: OECD (2025) Pensions at a Glance.

StatLink 2 https://stat.link/4b0uih

Gradually increasing the statutory retirement age of women contributes to expanding the workforce. However, measures to raise the statutory retirement age should be accompanied by efforts to ensure that older workers remain active in the labour market and do not exit prematurely. In Austria, voluntary job separations, motivated mainly by retirement and disability, are particularly high, suggesting scope for further activation of older workers (OECD, 2024).

In line with recommendations from past Economic Surveys, Austria has made progress in narrowing early retirement pathways, including the abolition of deduction-free early retirement pensions in 2022. However, beyond specific schemes that allow early retirement for long or heavy careers (Table 4.1), a part-time scheme (*Altersteilzeit*) and an early retirement scheme (*Korridorpension*) are still in place. The *Altersteilzeit* is apart-time scheme for older workers that allows for a reduction of normal working hours in the last years preceding retirement. This reduction, which needs to be agreed between the worker and their employer, is subsidised and workers receive wage compensation for part of the lost income, and they continue paying social security contributions. The corridor pension scheme (*Korridorpension*) provides the possibility to claim early old-age pension benefits, with corresponding deductions, before reaching the statutory retirement age.

Table 4.1. Early retirement pension schemes as of end 2024

Pension Scheme	Minimum retirement age (years)		Required insurance/ contribution (years)		Penalties for early retirement (% per year)
	women	men	women	men	
Corridor pension (*"Korridorpension"*)	62[1]	62	40	40	5.1
Early old-age pension for long-term contributors (*"Hacklerregelung"*)	62[2]	62 [3]	45	45	4.2
Heavy worker regulation (*"Schwerarbeitspension"*)	60[4]	60	45[5]	45[5]	1.8

Note: 1: This gets relevant only by 2028. 2: Born as of 1966. 3: Born as of 1954. 4: This gets relevant only by 2024. 5: At least 10 years of "hard labour" within 20 years before retirement.
Source: Federal Ministry of Finance and European Commission, 2024 Ageing Report – Austria Country Fiche.

In June 2025, the parliament approved a reform that strengthened the requirements to claim the corridor pension scheme, gradually bringing from 2026 the number of insurance years from 40 to 42 and the minimum

entry age from 62 to 63 (increasing both by 2 months each quarter) for persons born on or after January 1, 1964. This is expected to push 0.3% of the workforce to retire later, with a positive cumulated effect on GDP of around 0.15 percentage points and estimated direct fiscal savings amounting to 0.19 % of GDP in the long term (BFM, 2025). Another reform has introduced the semi-retirement scheme *Teilpension*, a new early retirement pathway for older workers who can continue to work part-time and draw part of the pension before the final date of retirement (Box 4.1). At the same time, the reform restricted the length (from 5 to 3 years) and the eligibility criteria of the existing part-time scheme for older worker *(Altersteilzeit*) (Austrian Parliament, 2025).

Box 4.1. The semi-retirement scheme (*Teilpension*)

The new partial pension schemes starting in 2026 is designed to allow insured persons who are already entitled to an early old age pension (according to one of the schemes described in Table 4.1) to reduce their working hours, continue working and claim part of their pension benefit on the basis of the reduction.

The amount of previous working hours can be reduced by at least 25% and at most 75%, whereby there must still be an activity that justifies compulsory pension insurance, so participants continue to pay into their pension account. An agreement with the employer on the reduction in working hours is also necessary.

As a compensation for the reduced income, the insured person can take up a partial pension ("*Teilpension*") from the individual pension account at 3 levels of the total pension account credit (25%, 50% or 75%), depending on the reduction of working hours. The savings achieved in the corridor early retirement scheme through the uptake of this new semi-retirement option, together with the additional social insurance revenue generated from extended employment durations, are expected to offset the associated public expenditure.

Source: (BMSGPK, 2025).

Bridging programmes that allow participants to receive partial wage replacement or to combine salary and pension have the potential to extend individuals' participation in the labour market, as evidenced by Germany's *Altersteilzeit* (Berg et al., 2015). However, careful design is essential to prevent unintended consequences that might instead facilitate early labour market exit. Empirical findings indicate that partial retirement does not necessarily delay withdrawal from employment (Baumann and Madero-Cabib, 2019). It can, nevertheless, be effective when targeted at those who would otherwise retire early or leave the labour market through unemployment (Haan and Tolan, 2019). This highlights the importance of restricting even more costly subsidised old age part-time programmes, such as the *Altersteilzeit*, and strongly focusing them on groups at risk of early exit to achieve the intended objective of prolonging, albeit partially, active employment, while minimising the risk of prompting full-time workers to reduce working hours prematurely (OECD, 2025a).

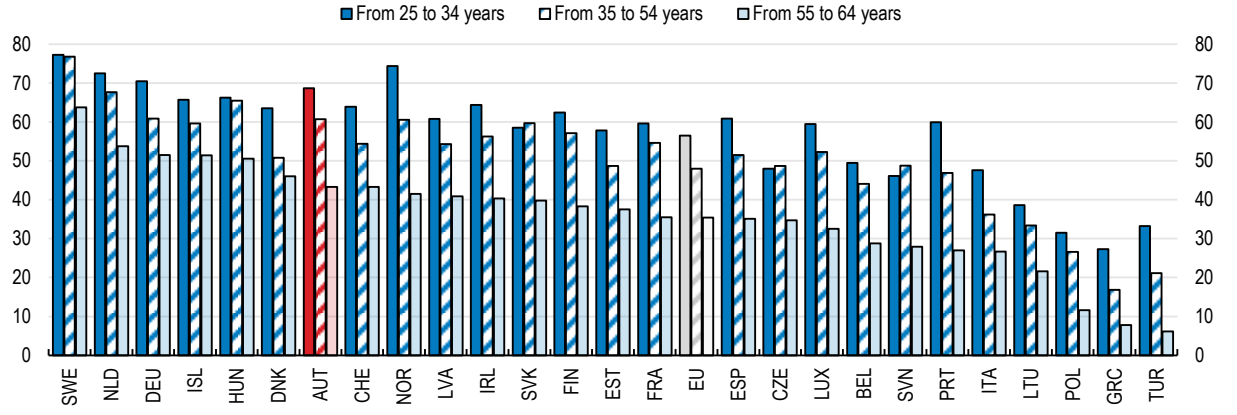
As of January 2024, Austria increased its deferral bonus, which is meant to encourage insured persons to work beyond the statutory retirement age if they meet the eligibility criteria, extending their working career. The new higher bonus increases workers' pension benefits by 5.1% per year (previously it was 4.2%), with a maximum bonus of 15.3% for 3 years of deferral (BMSGPK, 2025). The recent reform also introduced the exception, active in 2024 and 2025, from paying social pension contributions for working pensioneers above the statutory retirement age on the first EUR 1037 of monthly earnings, while employers still need to pay contributions in full. Such a scheme has the benefit to provide an effective incentive to work beyond the statutory retirement age and extend the active labour participation of older workers. However, its implications for the long-term fiscal sustainability of the pension system need to be carefully addressed, as increased pension entitlements accrued under such schemes could place upward pressure on future pension expenditures.

Age discrimination represents a further obstacle to increase older workers' employment rates (Austrian Ombud for Equal Treatment (OET), 2021). Employers often assume that older workers have outdated skills, are less adaptable to new technologies and are more likely to have health issues, therefore threatening their productivity. At the same time, seniority-based salaries are widespread, contributing to a wage-productivity mismatch that often discourages employers from retaining or hiring older workers (OECD, 2025a). Aligning wages more closely with productivity, performances or tasks rather than age or seniority in collective bargaining agreements could increase demand for older workers, as it would better reflect the actual contributions of workers rather than their length of service (OECD, 2025a). Evidence from countries, such as Germany, where firms increasingly adopt performance-related or task-based salary scales and collective bargaining agreements no longer feature binding clauses on seniority-based wage progression, shows that moving away from automatic seniority pay has contributed to improve employment outcomes for older workers. However, to be effective, performance-related pay must be carefully designed. Evidence suggests that both financial incentives and non-financial recognition need to be perceived as fair and linked to clear standards and supportive management to be effective in improving motivation and performance (OECD, 2025a).

Lifelong learning, upskilling and reskilling are key instruments to promote longer working lives and increase the employability of senior workers, endowing them with the skills that are searched by businesses (Vickerstaff and van der Horst, 2022). Participation of older workers in formal and non-formal education and training in Austria is among the highest in Europe, but it still does not reach 50%, and it is around 20 percentage points lower than for younger workers, indicating room for improvement (Figure 4.6). The drop in participation in training activities with age is due to both employer- and employee-specific factors. Employers may be less willing to invest in training older staff, focusing resources on younger employees, while older workers may perceive less return on investment in training as they approach retirement. Structural and cultural barriers, such as insufficient adaptation of training content to older learners' needs, may play a role as well.

Figure 4.6. Participation of older workers to training can be enhanced

Percentage of formal and non-formal education and training, 2022



Note: The EU aggregate corresponds to the composition of European Union as of 2020.
Source: Eurostat: Participation rate in education and training by age.

StatLink 2 https://stat.link/l2mxha

After abolishing the "educational leave" (*Bildungskarenz*) programme as part of budget consolidation measure in April 2025, the Austrian government introduced a new programme titled "training period" (*Weiterbildungszeit*), which will be effective from June 2026. In comparison with the former education leave, the new programme features stricter eligibility criteria and limits on types of training, excluding for example recreational courses. This addresses the criticism made by the Austrian Court of Audit (Austrian Court of Audit,

2023), and should better align adult formation with market needs, preventing wasting resources (OECD, 2024a).

However, a better and more targeted design is needed to enhance enrolment of older workers, as they were insufficiently covered by the previous programme (WIFO, 2023). Germany's *WeGebAU* programme provides an example (OECD, 2019a). *WeGebAU* supports training of low-skilled and older workers in SMEs, which receive a 75% subsidy to the training costs of workers aged 45 and older, while micro-enterprises receive a 100% subsidy. Evaluations of the programme have found that it has helped participants to increase their time spend in employment, with no effect on wages (OECD, 2019a).

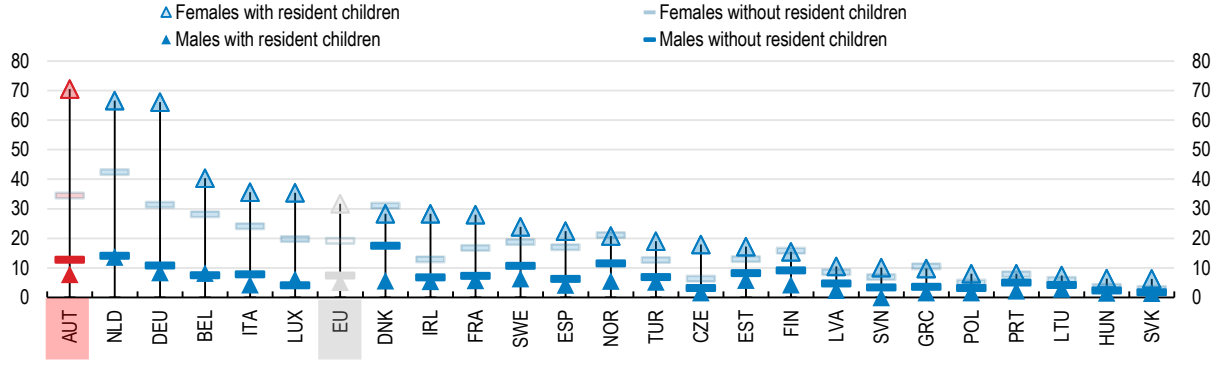
Introducing tailored career services may provide a contribution as well. While Austria has a broad range of career guidance and placement provisions, structured systems for career guidance targeted at mid-career and older workers do not yet exist (OECD, 2025b). In 2019, the Netherlands launched the *Ontwikkeladvies* programme providing workers aged 45 and above with subsidised career development guidance. The programme, which was widely used during the Covid-19 crisis before being ended, helped many mid-career and older workers to develop a personal plan that encompassed actions to be taken to secure employment until retirement age based on insights on the future prospects of their current jobs (OECD, 2019a). Another successful example is Australia's Career Transition Assistance programme, which combines tailored career assistance and functional digital literacy training for job-seekers aged 45 and above. The programme helps workers identify how their skills can transfer to a new job, improve their understanding of job opportunities and how to tailor job applications (OECD, 2025a).

4.2.3 Tackling unvoluntary part-time work among women

Increasing full-time employment among women would raise overall employment. It could be achieved by tackling the obstacles that lead women to opt for part-time work against their preferences and despite the negative consequences for their career and wealth in the long term. In Austria, use of part-time work by women is linked to children and elderly care duties. In 2023, Austria had the highest share in the EU of mothers with children working part-time (69.2%) and the largest difference between mothers and fathers being employed part-time (Figure 4.7). This suggests that root causes of female unvoluntary part-time working are linked to family stereotypes and an uneven sharing of care responsibilities between men and women.

Figure 4.7. The share of mothers with children working part time is very high

Percentage of part-time employed 25-54 years old by household composition, 2024



Note: Categories refer to private households composed by adults with or without resident children. Data for the United Kingdom are not available. Definitions may differ for France and Spain.
Source: Eurostat.

StatLink 2 https://stat.link/x7vesm

The lack of available and affordable early childhood education and care (ECEC) facilities discourages full-time work by those with family responsibilities (OECD, 2018b). In the kindergarten year 2024/25, around 94% of three- to five-year-olds attended an education facility, but the share drops to around 35% for under-threes. Moreover, only around 60% of all these children were cared for in a facility that allows parents to work full-time (Statistics Austria, 2025d). The governance and the financing of childcare facilities are highly decentralised in Austria, with the main responsibility falling on state-governments and municipalities. This creates substantial regional and municipal differences in the availability, opening hours, admission criteria, and cost structures of facilities (Federal Chancellery, 2025) (European Commission / EACEA / Eurydice, 2025).

In 2024, the federal government gave an impulse to expand childcare and make it more widely available through an earmarked investment of EUR 4.5 billion by 2030, with a specific focus on children aged 1-3. Furthermore, this investment was linked to more detailed monitoring of local situations, with the aim of reducing local disparities (Federal Chancellery, 2024). While this initiative is welcome, other issues remain to be tackled. Although the number of childcare personnel increased and the teacher-child ratio improved in recent years thanks to this enhanced public investment, general staff shortages continue to be a problem. Official estimates point to between 6200 and 20000 new ECEC staff needed in the period 2023-2030, posing a challenge to the availability and quality of provision of early childcare services (UNICEF, 2023).

These shortages are the result of several underlying causes. First, salaries are often not appealing enough to attract adequate numbers of professionals. Second, working conditions are often challenging, which holds particularly true for those who work with vulnerable children (Federal Ministry of Social Affairs, Health, Care and Consumer Protection, 2023). Third, the sector's career attractiveness remains limited, partly reflecting that, unlike in most EU countries, ECEC teaching does not require a university degree. Introducing a system with alternative pathways according to different levels of qualification, and where professionalisation is continuously encouraged through further incentives, would respond to these issues. Such a system may feature additional salary top ups for personnel with higher qualifications or link them to career progression pathways and enhancing perception of careers in the sector (UNICEF, 2023).

Promoting workplace flexibility and remote working would help as well. Encouraging results-oriented work models over presenteeism would allow to successfully combine work, family commitments and personal life without having to resort to part time working. The government can help to address the issue by encouraging supportive and flexible working practices, making it easier for parents to strike a better balance between work and home life (OECD, 2024b). However, it is important to avoid that flexible work ends up fostering existing stereotypes further, with women that are more likely, or even expected, to carry out more domestic responsibilities whilst working flexibly, while men are not doing the same (Chung, 2024).

Cultural norms and stereotypes about family roles play a crucial role. The male breadwinner model and a rather negative attitude towards full-time working mothers with a child below the age of three have been quite widespread in Austria (Berghammer and Riederer, 2018). This is confirmed by a substantial motherhood penalty, with Austrian mothers suffering a 50% earnings drop relative to fathers ten years after the birth of the first child (Kleven et al., 2024). The tax system should not create tax-induced disincentives that discourage the full employment of mothers and may therefore end up nurturing these stereotypes and cultural norms.

Austria's *Alleinverdienerabsetzbetrag* (single-earner tax credit) is a tax credit available to parents who are married or live in a cohabitation, and where only one has an annual income above the threshold of around EUR 7000 (Oesterreich.gv.at, 2025). Such provisions may contribute to influence labour supply decisions and incentivize single-earner family structures, where the male is very often the main breadwinner, providing a disincentive for female workers to take up full-time jobs. Measures such *Alleinverdienerabsetzbetrag* should therefore be gradually phased out, foreseeing adjustment to mitigate the impact on low earning couples.

Recent reforms that introduced the "Dad Month" and linked the extension from 22 to 24 months of parental leave to the prerequisite that both parents take at least two months each go in the right direction. However, the mechanism put in place with the "Dad Month" should be strengthened further to tackle entrenched stereotypes and reduce motherhood penalty (Fontenay et Gonzalez, 2024), also considering that maternal

leave extending beyond one-year risks having negative effects on mothers' health, in addition to causing human capital depreciation (Chuard, 2023). The standard parental leave could be gradually reduced to 12 months with the required period to be taken by fathers increased, aiming at a more equal sharing of parental leave between the two parents. If the prerequisite is period met, parental leave could be extended to 20 months.

Holistic and well-structured media and educational campaigns might provide an effective tool against discrimination and biased norms, albeit they require time. Sweden's whole-school approach to challenge gender stereotypes that engage curriculum, language use, play, textbooks and technology provide a useful example (Box 4.2). At a later stage in the education path, initiatives such as Italy's "Girls Code It Better" would be useful to challenge gender stereotypes about careers. This project was carried out in lower and upper secondary schools in Italy to promote educational and career pathways for girls in STEM, a field that has long been male dominated (OECD, 2022a).

Box 4.2. Sweden's multipronged approach to eradicate gender bias in school education

Sweden has implemented different policy actions to achieve the eradication of gender stereotypes and biases in schools. It starts with gender-neutral pre-schools, where children are encouraged to freely choose from toys that are traditionally designated as girls' or boys' toys, and children are not criticised for exhibiting behaviours that are typically attributed to the other gender. Some initial studies indicated that children who attend these pre-schools are less likely to take up gender-stereotype as compared to children in typical pre-schools. Moving along the educational path, teachers and educators are provided with training on gender-awareness, and female gender is more frequently represented in books, particularly in terms of representation of women in non-traditional and non-domestic roles, such as politicians and activists.

Source: OECD (2022a), Gender stereotypes in education.

4.2.4 Increasing the labour force and skills pool through tailored migration

Migration inflows have helped mitigate population ageing and labour and skills shortages, as immigration in Austria tends to be concentrated in the younger segment of the working-age population (OeNB, 2025). Allowing migration inflows to limit the negative effects of population ageing means anyway continuing to attract migrants possessing skills that are scarce and then successfully integrating them into the labour market. Economic migrants coming from neighbouring countries of Eastern Europe have historically integrated well in the economy, contributing to enhance Austria's economic performance. However, attracting them has become more difficult, as the salary differential between Austria and their countries of origin has shrunk, skills in shortage often coincide, and the population of these countries, albeit at a slower pace, is ageing as well.

Since 2011, Austria has replaced its work permit framework with the Red-White-Red (RWR) Card system to manage immigration of qualified third-country workers who wish to settle permanently in Austria. There are different kinds of RWR cards, each targeting a specific category, from graduates to start-up founders. The RWR card for skilled workers in shortage occupations aim at attracting third-country nationals who have a job offer and training in one of the professions listed in the labour shortage ordinance issued annually by the Federal Ministry of Labour, Social Affairs, Health, Care and Consumer Protection. The RWR system also provides the possibility for highly qualified workers without a job offer to receive a six-month job-search visa. Immigrants who are recipients of RWR cards, thanks also to the various minimum salary and qualification requirements, tend to have positive labour market outcomes.

Over time governments have amended the RWR card system to ease access, as, for example, by making some requirements (such as language requirements and duration of work experience) less stringent (European Parliament, 2025). The programme also features the possibility to bring accompanying family members by

applying for a RWR card plus at the same time as the main applicant. This allows family members to have free access the Austrian labour market, aligning with the OECD best practices.

The number of cards issued, initially limited, has increased as eligibility was expanded and with increased demand. The number grew almost fivefold in the 10 years between 2012 and 2022, passing from around 1500 cards issued in 2012 to more than 7500 issued in 2022 and reaching almost 10000 in 2024 (Court of Audit Austria, 2024). However, there is room to improve further and strengthen its effectiveness. Its structure and application rules could be made more flexible. Applicants may find it challenging to discern between the five types of RWR cards because there are many overlaps regarding the requirements for qualification and skills, as well as the target groups. This makes it difficult to decide which card to apply for and the lack of flexibility in the system makes this a key decision, as applications can only be made for one particular type of RWR card. Moreover, these overlaps may result in incomplete applications, which have to be rectified by means of a request for improvement, delaying the process. A positive step to address these issues was taken with the 2022 RWR card reform, which introduced the Austrian Business Agency (ABA) Unit 'Work in Austria', an advisory centre that provides free assistance throughout the entire RWR card application process.

The RWR card application and approval procedures could be enhanced in terms of efficiency. Applications are processed by both immigration offices and the Public Employment Service (AMS), but in separate IT systems with no common interface. Creating a joint IT processing and controlling system for all state agencies concerned would improve the efficiency of the system and make the revision process swifter, as the legally prescribed duration of eight weeks is exceeded in more than 40% of all cases (Court of Audit Austria, 2024).

The inflow of refugees in Austria has been strong in recent years. Since 2015, over 125 000 asylum applications have been lodged from Syrians, with more than 24 000 applications in 2015 alone. More recently, in the first year following the illegal war of aggression on Ukraine, 464 000 Ukrainian nationals entered Austria, but 384900 have since left, leaving approximately 78,000 Ukrainian nationals under temporary protection status in Austria as of January 2025 (ECRE, 2025) (AIDA, 2024). Labour market integration of refugees and asylum seekers in general tend to be challenging, in Austria as in many other OECD countries. While recognized refugees, holders of subsidiary protection and displaced Ukrainian nationals have free access to Austrian labour market, the same does not apply to asylum seekers during the phase of clarification of legal under which their access to labour market is limited. Moreover, often asylum seekers cannot provide proper documentation of education or skills, hampering skills recognition and job placement. Language barriers, often related to a new and different writing system, add to the challenge (AIDA, 2025). As a result, many refugees risk remaining idle and many work in occupations that are below their qualification level or in unrelated fields.

Austria has responded positively to these challenges. The public budget for free-of-charge language courses has been increased and, in most federal provinces, language courses are already offered free of charge during the asylum procedures, with more than 65000 German course places available throughout Austria in 2023. The recognition of qualifications has been improved through the 2016 Act on Recognition and Evaluation, which allows, for example, asylum applicants to apply for recognition even if they cannot provide documentary proof. However, additional reforms could enhance the integration of refugees into the labour market and Austrian society.

Accelerating the integration of asylum seekers while application is pending facilitates social integration. Evidence points to the advantages of allowing refugees to enter the labour market quickly (Jestl and Tverdostup, 2023). Germany's job turbo initiative may provide an example of a multipronged strategy aimed at speeding up labour market integration (Box 4.3). Moreover, new evidence stresses the importance of social ties with Austrians in improving employment prospects for refugees (Landesmann and Leitner, 2025). Austria has recognised the importance of fostering social bonding to better integrate refugees through instruments such as the 2017 Federal Sports Promotion Act. However, it is important that such programmes do not offer parallel participation but involve Austrian citizens, effectively building social ties that enhance the social and labour integration of refugees (ISCA, 2018).

Both migrants and refugees tend to settle in Vienna, creating geographical and skills mismatches and posing a further challenge to their successful and rapid integration into the labour market. The widespread tendency to settle in the capital is due to existing social networks and family ties, greater availability of support structures, and accessible public services. However, job opportunities, especially in sectors such as manufacturing, tourism, agriculture, and care work, tend to be more concentrated in industrial and peripheral regions (AIDA, 2025) (Jestl et al., 2022).

A more effective whole-of-government approach that avoids coordination gaps between federal, regional, and local governments is key to reducing geographical mismatch. The dispersal formula applied to asylum applicants is one example. This formula is used to distribute refugees throughout the country and requires federal provinces to provide reception places according to their population share (ICMPD, 2023). Asylum seekers cannot choose where to be located and cannot move until their asylum status has been granted, making it essential to take into account the education and professional background they claim to have in order to place them in a region where employment prospects are higher, whilst creating the necessary enabling conditions for their integration (OECD, 2018). This necessitates efficient interinstitutional collaboration and coordination, and the same applies when promoting relocation incentives for migrants to move from cities to areas where their skills are needed. Conditioning federal and EU funding destined to develop reception and basic integration services to their effective implementation may contribute to foster effective collaboration between different areas and levels of government towards the achievement of national objectives (Konle-Seidl, 2018).

Box 4.3. Germany's Job-Turbo initiative

In late 2023, Germany launched the "Job-Turbo" initiative to accelerate Ukrainian refugees' integration into the labour market. The programme adopts a multi-phase approach that prioritises immediate employment over waiting for full language proficiency.

The first phase focuses on arrival, orientation, and basic language acquisition through integration courses. Refugees can begin working immediately in positions that don't require strong German language skills.

The second phase emphasises the need of quickly and more stable entering training and/or employment, recognising that prolonged unemployment creates barriers to re-entering work. Job centres connect course graduates with suitable employers while documenting refugees' skills and establishing integration agreements with mandatory compliance to maintain benefits.

The third phase concentrates on skill development and career consolidation for sustainable employment, encouraging companies to hire refugees with limited German proficiency (below B2 level) and providing state-supported upskilling opportunities.

This framework transforms refugee integration into a more flexible pathway that allows immediate economic participation while striving to promote long-term career prospects.

Source: (OECD, 2024c).

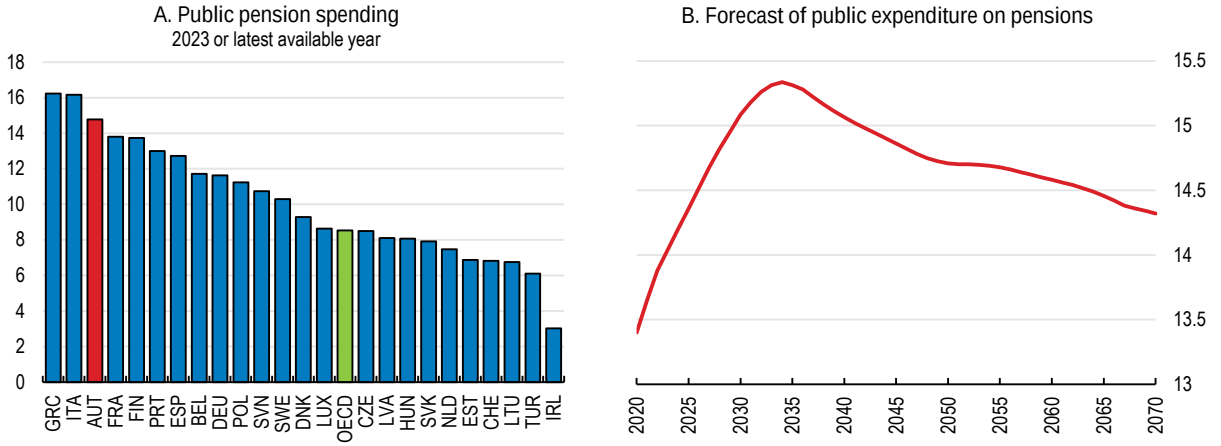
4.2. Improving the sustainability and fairness of the pension system

Public pension expenditure in Austria is high, amounting to 14.8% of GDP - one of the highest levels in the OECD (Figure 4.8). According to European Commission projections and considering the impact of past reforms, public pension spending will rise further to about 15.4% of GDP by 2035, before gradually declining to stabilise at 14% by 2070 (European Commission, 2024). However, projections of the increase of pension spending from the Austrian Fiscal Council, the Austrian Pensions Commission and the OECD are higher than the EU's projections (see chapter 1). Austria has undertaken several reforms to strengthen the financial sustainability

and transparency of its pension system. The 2005 reform, which harmonized pension schemes and reduced the accrual rate, was a major milestone. A 2023 federal law implemented the framework established by the 1992 constitutional reform and is gradually increasing the statutory retirement age for women, bringing it from 60 to 65 between 2024 and 2033, thus aligning it with that of men. Nonetheless, pension spending is set to continue growing before receding from 2035. Moreover, the deficit in public pension schemes already amounted to 2.18% of GDP in 2022 (European Commission, 2024) and is projected to continue increasing until 2030 (Austrian Pensions Commission, 2025).

Figure 4.8. Pension expenditure is high but set to stabilise

Percentage of GDP



Note: Panel A: The OECD aggregate corresponds to the unweighted average of the OECD countries of which a selection is shown. Panel B: A 5- year moving average is applied to interpolated data for smoothing purposes.
Source: OECD; Institute for Economic Research EcoAustria and OECD calculations.

StatLink 2 https://stat.link/gis5j6

Further adjustments are needed to ensure the long-term financial sustainability of Austria's public pension system. The scheme is a defined-benefit, pay-as-you-go system financed mainly through compulsory contributions (up to a maximum contribution base). The current uniform contribution rate of 22.8% for employees' forms part of Austria's labour tax wedge, which is among the highest in the OECD. Self-employed and farmers pay lower contribution rates, but this is compensated by the federal government. Given the already high tax burden, there is limited scope to further increase contribution rates. Reducing pension spending is key for the overall sustainability of public finances and capacity to cope with new challenges as climate costs (see Chapter 1).

Raising retirement ages would help to safeguard sustainability of the pension system, as well as help to maintain people in work. For instance, an increase in life expectancy at birth of two years by 2070 would, in the absence of reform, raise pension spending by an additional 0.7% of GDP (European Commission, 2024). Reducing early retirement pathways, as discussed in section 4.2, would help to raise the effective retirement age, while raising the statutory retirement age would strengthen financial sustainability, both by lowering spending and increasing contributions. Adjusting the retirement age with life expectancy gains would help contain fiscal costs while also supporting labour supply and economic growth. Nine OECD countries already link retirement ages to life expectancy gains - either partially, by increasing the retirement age by two-thirds of the gains (Finland, Netherlands, Portugal, Sweden), or fully, by matching the increases one-to-one (Denmark, Estonia, Greece, Italy, Slovak Republic) (OECD, 2023a).

An important issue in raising effective retirement ages is to ensure fairness for those with unhealthy occupations who may have lower life expectancy or those who started work at a younger age, who have contributed for a long period. However, arduous or hazardous jobs are primarily a labour-market issue and

should be treated during the career and with labour market policy instruments (OECD, 2023c). In particular, measures which can provide the most efficient response should primarily combine: health and safety regulations to limit the risks, informing about the remaining risks, lifelong learning and reskilling to allow job mobility into healthier jobs and, disability insurance. However, as delayed health impacts of some job characteristics (e.g. physical strain, noise or uncommon working-time patterns) are typically not covered by disability insurance, some special pension provisions can complement disability insurance. The objective is to compensate workers in these jobs for the potential long-term consequences, which occurrence should be backed by solid evidence, through well-targeted early retirement options (OECD, 2023). Aligning the minimum retirement age for employees in heavy work with that of long-term contributors at 62 years would harmonize rules across groups. This reform would establish a universal minimum retirement age of 62, reduce the maximum early retirement period to three years for all workers, lower total pension penalties, and decrease the risk of old-age poverty (Table 4.2).

Table 4.2. Qualifying conditions for retirement as of end 2024

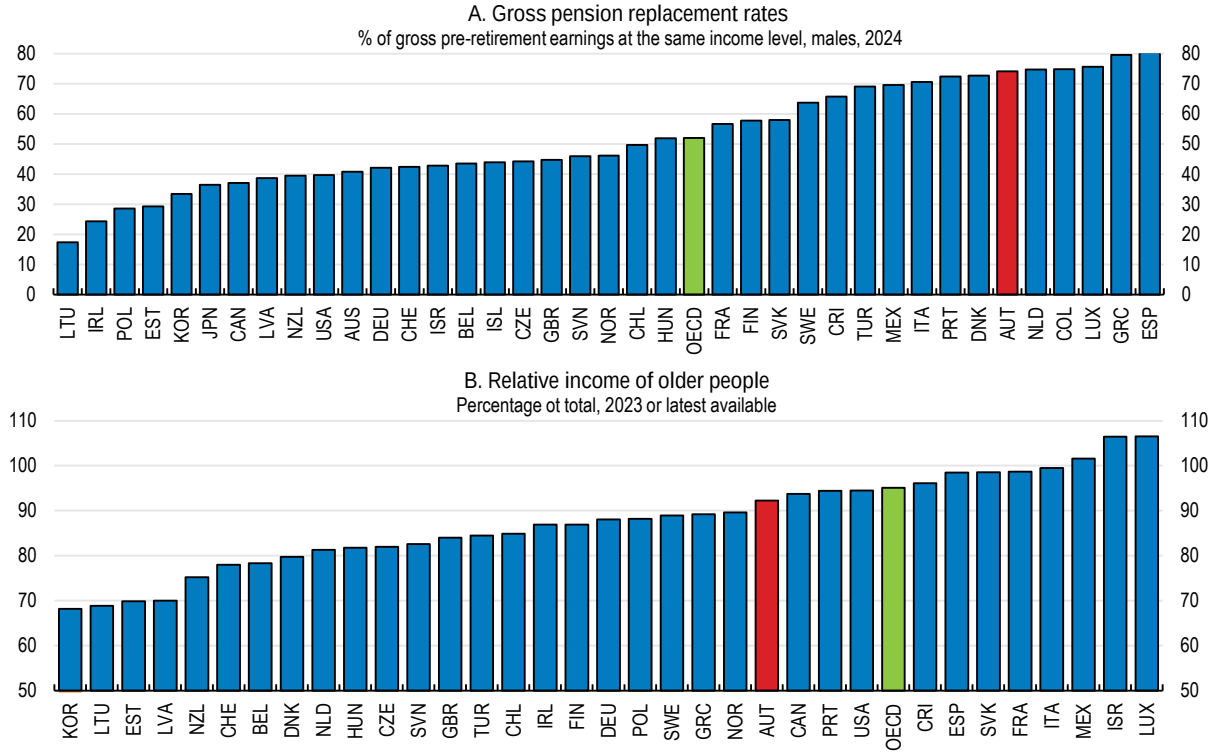
			2022	2030	2040	2050	2060	2070
Qualifying conditions for retiring *with* a full pension	Statutory retirement age-men		65	65	65	65	65	65
	Statutory retirement age-women		60	63.5	65	65	65	65
	Minimum requirements	Contributory period-men	15	15	15	15	15	15
		Retirement age-men	65	65	65	65	65	65
		Contributory period-women	15	15	15	15	15	15
		Retirement age-women	60	63.5	65	65	65	65
Qualifying conditions for retiring *without* a full pension	Early retirement age -men		60	60	60	60	60	60
	Early retirement age -women		55	60	60	60	60	60

Source: Federal Ministry of Finance and European Commission, 2024 Ageing Report – Austria Country Fiche.

The pension replacement rate is generous (Figure 4.9). Slightly reducing the accrual rate - the parameter that converts one year of work into a fraction of earnings used to calculate pension benefits - could help ease future pension spending pressures. Austria's accrual rate is currently the third highest in the OECD. Austria combines high replacement rates and relatively high average pensioner incomes with a comparatively high incidence of poverty among the older people. The gross replacement rate averages 74%, while the income of older people stands at 91% of that of the total population (Figure 4.9). Yet, the poverty rate among the older people exceeds that of the overall population, and the depth of poverty is among the highest in the OECD (OECD, 2021). Early retirement schemes with penalties and relatively short contribution requirements for a full pension help explain the prevalence of low pensions, particularly for women (Mayrhuber, 2025). Increasing female labour force participation and the alignment of women's retirement age with men's should contribute to higher women's pensions.

In addition, the pension indexation mechanism could be reconsidered. In 2026, the government will apply the new pension indexation of the first year in pension by increasing it by 50 % of the pension increase for those already in retirement (*Aliquotierungsreform*). Austria has often differentiated pension indexations depending on their level on a discretionary basis with the thresholds changing (OECD, 2023c). Establishing a rule to differentiate indexation between low and high pensions, particularly during periods of high inflation and weak growth, as experienced recently, could further contribute to enhance sustainability of the system. For instance, pensions up to a certain reference level (median income) could be indexed to inflation and the part of pensions above that level would be increased at a lower level than inflation.

Figure 4.9. The pension system is generous



Note: The OECD aggregate corresponds to the unweighted average of the OECD countries. Panel A: The gross replacement rate at 100% of average wage is defined as gross pension entitlement divided by gross pre-retirement earnings. Panel B: Relative income of older people is defined as the average income of people above age 65 relative to the average income of the total population and it follows the income definition since 2012. Income of older people encompasses income from public transfers, employment, self-employment capital and public transfers. In Luxembourg, public transfers account for the overwhelming part of income of older people (83.1%).
Source: 2025 OECD Pensions at a Glance (database); OECD Income Distribution Database.

StatLink 2 https://stat.link/mj9v18

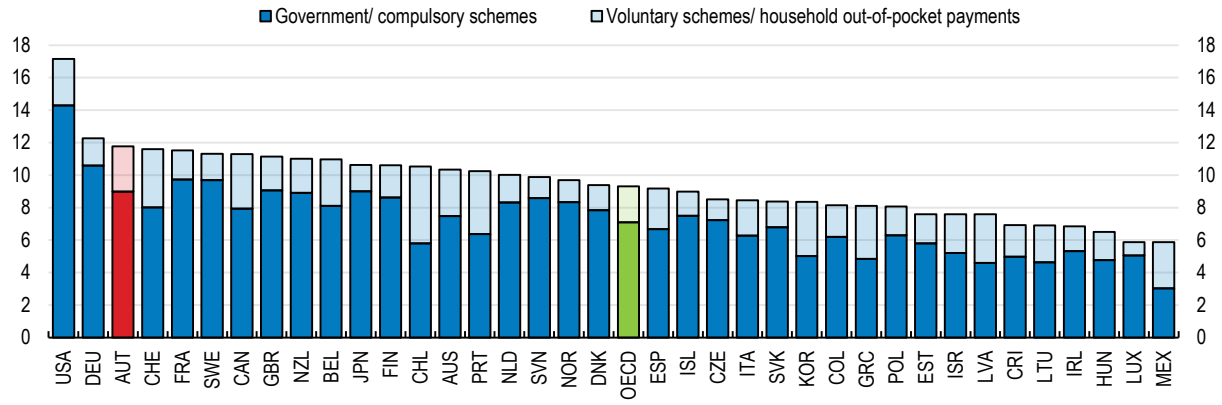
4.4. Adjusting health and long-term care systems to new challenges

4.4.1 Population ageing intensifies pressures on the health and long-term care systems

Austria ranks high among OECD countries for public health expenditure as a share of GDP (Figure 4.10). This makes Austria's health care system one of the most expensive in the EU (OECD, 2023a). Long-term care expenditure also plays a role, as it is largely financed by public money and total expenditure reached almost 1.2% of GDP in 2023 (Statistics Austria, 2025b).

Figure 4.10. Health expenditure is high

Percentage of GDP, 2024



Note: The OECD aggregate corresponds to the simple average of the OECD countries.
Source: OECD Health Expenditure Statistics (database).

StatLink 2 https://stat.link/3687cb

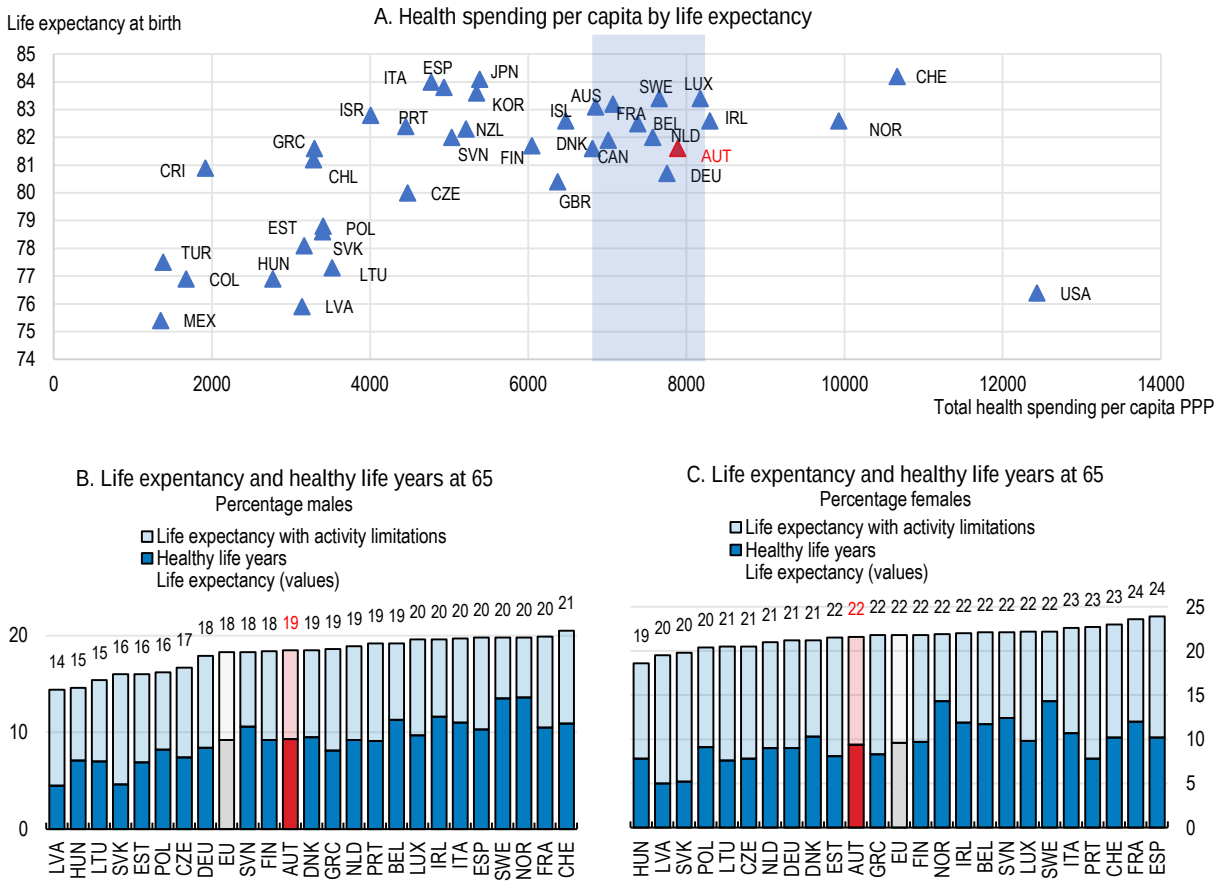
Healthcare expenditure has been on an upward trend in recent years, with a yearly average increase between 2017 and 2023 that amounted to 6.1%, and with the increasing costs of better and more complex treatments that are expected to continue to fuel this trend (Statistic Austria, 2025c). Population ageing is projected to intensify this growth further, with the increase in the old-age dependency ratio putting the financial sustainability of the healthcare system at risk. Increased longevity, without an improvement in health status, leads to increased demand for health treatments over a longer period. As a result, long-term projections forecast health expenditure to continue to rise both as a share of GDP and in per capita terms, with long-term care contributing substantially to this increase, as it is projected to more than double and reach 3.1% of GDP by 2070 (European Commission, 2024).

Older populations use hospitals and outpatient care much more intensively, increasing occupancy rates and leading to potential bottlenecks, longer waiting lists, and challenges in maintaining service quality and access. While these dynamics increase demand for healthcare staff, retiring health professionals will outpace new entrants, risking staff gaps. Long-term care follows a similar path, with the growing demand for care being confronted by a declining supply of informal care due to the decrease in the number of family members (WIFO, 2025a).

Enhancing the efficiency of the health and long-term care system is key to assuring its sustainability in the long run, both operationally and financially. Life expectancy in Austria is lower than in France or Sweden for similar or higher spending, loosely indicating lower performance of the health system (Figure 4.11, Panel A). Moreover, increasing longevity needs to be coupled with physical and mental robustness to translate into a longer healthy life, and limiting the negative impact of ageing on the economy and public finances. However, the projected share of additional years in bad heath is higher than the OECD average and that of countries, such as Ireland and Finland, which have a lower health expenditure per capita (Figure 4.11, Panel B), indicating scope for improving the efficiency and outcomes of the health system.

Figure 4.11. Health outcomes and efficiency can be improved

2023



Note: Panel A: The shaded area highlights countries with levels of health spending per capita that are relatively close to Austria's spending levels. Panel B&C: The EU aggregate corresponds to the composition of European Union as of 2020. United Kingdom data are missing from source. Figures at the end of the bars correspond to life expectancy.
Source: OECD Health Statistics (database), WDI: World Bank; Eurostat.

StatLink 2 https://stat.link/ta4cvy

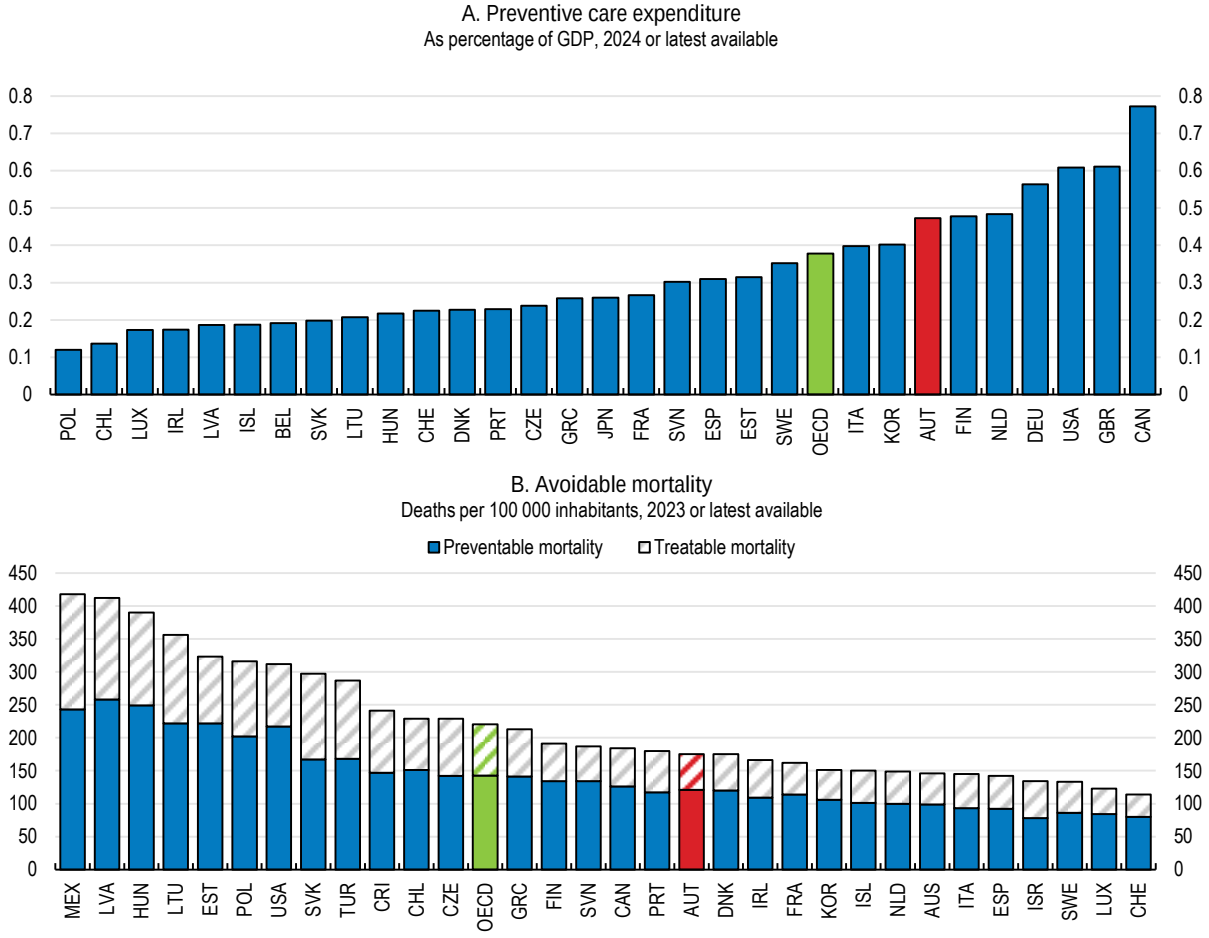
Fostering efficiency and safeguarding the sustainability of the healthcare system requires a multipronged approach, which would allow to better face the challenges embodied by population ageing. This section discusses, first, how to promote healthier lifestyles in order to reduce the pressure on the system and allow people to age in better health conditions, then how to reduce the high reliance on hospital services and release pressure on inpatient care. The section will therefore look into enhancing governance effectiveness, reducing fragmentation of the system and promoting its digitalisation, and finally discuss policies to strengthen the long-term care system.

4.4.2 Promoting healthier lifestyles

Prevention is key to allow healthier ageing and so to boost employment among older workers. Austria ranks high among OECD and EU countries for financial resources allocated to prevention (Figure 4.12, Panel A). This is welcome, as evidence points out that across the OECD returns to prevention policies have been estimated to be over five times higher than their cost (OECD, 2019). This investment has helped Austria to reach preventable mortality rates that are below the OECD average (Figure 4.12, Panel B). However, they remain

higher than many best-performing countries such as Italy, Switzerland or France, indicating room for further improvement (OECD, 2023b).

Figure 4.12. Preventive care performance is above average, but can be improved



Note: The OECD aggregate corresponds to the simple average of the available OECD countries. Panel A: Data for New Zealand and Türkiye are missing from source. Panel B: The indicator refers to premature mortality (under age 75). Preventable mortality is defined as causes of death that can be mainly avoided through effective public health and primary prevention interventions (i.e. before the onset of diseases/injuries, to reduce incidence). Treatable (or amenable) mortality is defined as causes of death that can be mainly avoided through timely and effective healthcare interventions, including secondary prevention such as screening, and treatment (i.e. after the onset of diseases, to reduce case-fatality). Avoidable mortality covers both treatable and preventable mortality. Data for Belgium, Colombia, Germany, Japan, New Zealand, Norway and United Kingdom are missing from source.

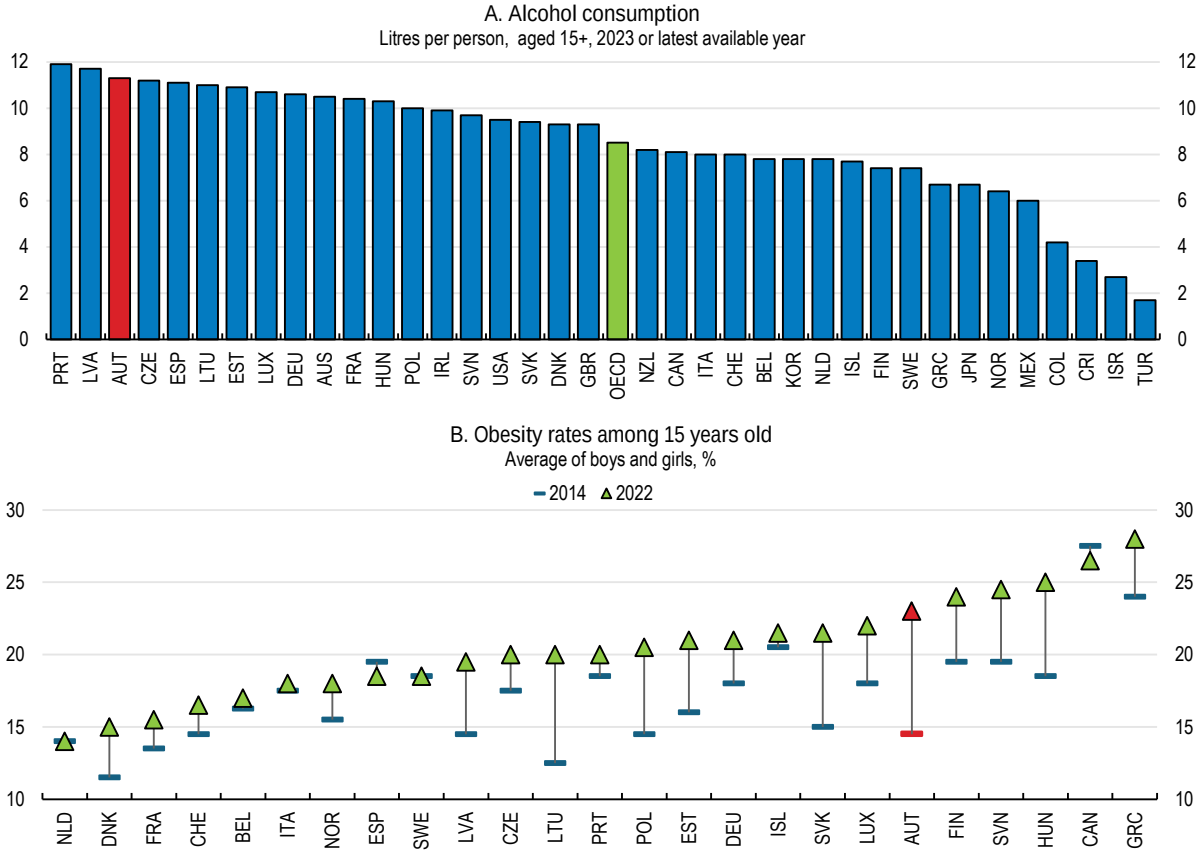
Source: OECD Health Statistics (database).

StatLink 2 https://stat.link/d3qon1

Behavioural risks significantly influence both healthy life expectancy and the risk of disability or chronic diseases in older people (Zaninotto et al., 2020), both through behaviours at older ages and for the young whose behaviour can affect their longer-term health prospects. Some of these risks remain high in Austria, with around 36% of all deaths recorded in 2019 attributable to them (OECD, 2023a). Alcohol consumption is among the highest in the OECD, both among adults (Figure 4.13, Panel A) and adolescents, with one third of 15-year-olds reporting having been drunk at least twice in their lives, one of the highest proportions among EU countries (OECD, 2023a). Obesity rates are on the rise: among adolescents they have increased considerably in the last 10 years, reaching 23% (Figure 4.13, Panel B), but also among adults the rate has reached 17%, slightly exceeding the EU average of 16% (OECD, 2023a). Alcohol consumption together with dietary risks are estimated to be responsible for 21% of all deaths and for poor health conditions in the

population segment aged 55+, reducing the possibility of working and increasing the potential health costs related to long-term conditions (OECD, 2023a). Tobacco consumption continues to be elevated as well, with the percentage of daily smokers among adults (20.6%) being considerably higher than the OECD average (14.8%), and the same happening with teenagers (15 years old) OECD (2025c).

Figure 4.13. Some behavioural risks factors remain high



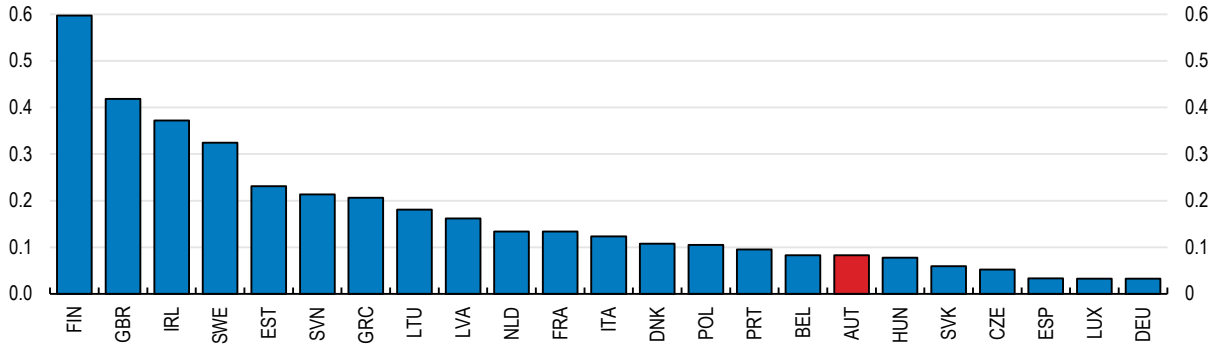
Note: Panel A: The OECD aggregate corresponds to the unweighted average of the available OECD countries. Data for Chile are missing from source. Panel B: Data refer to schooled 15-years old who are overweight or obese (based on WHO growth reference). Young people were asked to give their height (without shoes) and weight (without clothes). Body mass index (BMI) was calculated from this information and cut-offs for overweight and obesity allocated based on the WHO growth reference for age. Findings presented here show the proportions who were overweight or obese. Data for Belgium correspond to the average of the Flemish and the French part.
Source: OECD, Health Behaviour in Schooled-aged Children Study (HBSC).

StatLink 2 https://stat.link/ysoe4f

Higher taxation on alcoholic beverages can help reduce their consumption and promote a healthier diet. While Austria rightly levies a mixed excise on cigarettes in line with EU tobacco tax directives, with total taxes accounting for around three-quarters of the retail price of a standard pack in recent years, it is among the 13 OECD countries that do not impose any excise tax on wine (OECD, 2024d), and imposes one of the lowest excise duties on beer (Figure 4.14). The same applies to alcoholic beverages other than beer and wine (OECD, 2024d). Moreover, in line with best practices these excise duties are fixed per unit of alcohol, but they are not linked to price nor adjusted for inflation, weakening their impact over time. While continuing to increase the existing duties on tobacco and nicotine products, excise duties should be applied to all alcoholic beverages as well, and they should be regularly adjusted for inflation or wage growth to remain effective in curbing consumption. As shown by the case of Lithuania, increasing excise duties on alcohol across the board can effectively reduce consumption and improve public health outcomes (Box 4.4).

Figure 4.14. Excise duties on alcohol can be increased to reduce consumption

Excise Duty per 330 ml beer bottle at 5% alcohol by volume (ABV), 2025, Euros



Note: Excise duties can be levied per alcohol content (ABV), per degree Plato (°P), or as a fixed amount for defined ABV/°P brackets. To make these excise duties comparable, degrees Plato were converted into alcohol content (1°P generates approximately 0.4 ABV).
Source: European Commission Taxation and Customs Union; UK HM Revenue & Customs.

StatLink 2 https://stat.link/onrwvz

Sugar-sweetened beverage (SSB) taxes can be an effective tool to reduce sugar consumption and improve health outcomes, including lowering obesity prevalence. Empirical evidence shows that introducing a 20% taxation on SSBs could lead to a reduction in consumption of around 20% and a decrease in the prevalence of overweight and obesity by around 10% (Itria et al., 2021) (WHO, 2017). Austria does not have any SSB taxes and should consider their introduction, following the successful examples of the UK, Mexico and other countries (Box 4.4).

Box 4.4. Effective sugar and alcohol taxes in Mexico, the UK and Lithuania

Mexico introduced a 1 peso per litre excise tax on any non-alcoholic beverage with added sugar (powder, concentrates or ready-to-drink) in January 2014, and since then it has increased over time. The tax is paid by producers, but its pass-through effect swiftly resulted in a 10% increase in the final consumers' price. In the first two years following implementation, purchases of taxed sugary beverages declined by 7.6%. The reduction was even greater among low-income households, where average purchases fell by 11.7%, while purchases of untaxed beverages, particularly bottled water, increased by 2.1%.

The United Kingdom introduced the Soft Drinks Industry Levy (SDIL) in April 2018. This measure employs a two-tiered structure that taxes producers according to the sugar concentration of their products: drinks containing between 5 and 8 grams of sugar per 100 millilitres are taxed at GBP 0.18 per litre, whereas those containing more than 8 grams per 100 millilitres are subject to a tax of GBP 0.24 per litre. This has led manufacturers to reduce the sugar levels in their products, resulting in the removal of approximately 45 million kilograms of sugar from soft drinks each year and contributing to measurable declines in daily free sugar intake among both adults and adolescents, thereby generating significant public health benefits.

In 2017, Lithuania enacted sharp excise tax increases on alcoholic beverages: 112% for beer, 111% for wine, and 23% for spirits, leading to average price rises of 26%, 7%, and 6% respectively. After one year, tax revenue increased by 20%, productivity losses decreased by approximately 7% and healthcare costs decreased by approximately 5%. These positive results have continued and extended beyond the first year, and alcohol consumption reached a 10-year low in 2023. Complementary measures, such as a comprehensive ban on alcohol advertising and stricter limits on the sale of alcohol, have contributed to achieving these positive results.

Source: (Itria et al., 2021); Countries that have implemented taxes on sugar-sweetened beverages (SSBs)and A return on investment analysis for the 2017 increase in alcohol excise taxation in Lithuania.

In Austria, as in many OECD countries, behavioural risk factors are more prevalent among people with lower educational attainment and socio-economic status (OECD, 2023a). Measures designed to help consumer embrace healthier habits and consumption choices are useful to address the problem and reduce inequalities. While Austria complies with the EU Regulation that requires prepacked foods to display key nutrition information, it lags other EU and OECD countries in adopting a nationally standardised, front-of-pack interpretive labelling scheme such as France's Nutri-Score which offers clear, easily comprehensible information across diverse population groups, and has demonstrated effectiveness in improving dietary decisions and health outcomes (OECD, 2022).

Advertising exerts a powerful influence on consumer choices, particularly among children and adolescents. Austria currently maintains only limited restrictions on the marketing of unhealthy foods to children and lacks a comprehensive statutory ban on the advertising of high-fat, sugar, or salt (HFSS) products across major channels such as television, online platforms, and outdoor media. The Austrian National Nutrition Commission developed in 2021 the "Austrian Nutritional Profile", which establish thresholds or fat, saturated fat, total sugars, added sugars, salt, and energy that determine whether marketing should be allowed in audiovisual media. However, these thresholds and the recommendations issued in the nutritional profile are not mandatory. Empirical evidence shows instead that comprehensive and well-designed mandatory market regulation, such as the one introduced by Chile in 2016, may have the potential to substantially decrease the obesity prevalence among adolescents (Dillman Carpentier et al., 2019).

4.4.3 Continuing to enhance the efficiency of the health system

The efficiency of Austria's health system continues to be hindered by structural and financial fragmentation (Box 4.5). Over the past decade, Austria has undertaken a series of reforms to address this fragmentation, but progress remains slow. The introduction of two Federal Target-Based Governance Agreements, in 2013 and 2017, sought to respond to the challenge by establishing the Target-Based Governance Commission: a multi-stakeholder decision-making body empowered to define financial targets for health care structures, processes, and outcomes, and to negotiate formal agreements among institutional actors. The 2020 social health insurance (SHI) reform represented another significant intervention, consolidating the eighteen existing SHI funds into five, of which three are exclusively health insurance funding, with the aim of improving efficiency and reducing service inequalities nationwide.

Box 4.5. The functioning of Austria's health system

The governance of Austria's health system is characterised by a complex division of responsibilities among the federal government, the *Länders*, and the social health insurance (SHI) funds.

The federal government holds primary responsibility for overarching legislation and national health policy, legislating on social health insurance, health professions, pharmaceuticals, and the framework for hospital law. The Länder are responsible for implementing these laws, managing hospital operations, and overseeing long-term care services.

The SHI funds are responsible, on the basis of federal legislation, for the implementation of the health insurance system, which includes the provision of contract services in the extra-mural sector, the provision of medicines and medical goods, as well as inpatient and outpatient rehabilitation.

This division often leads to resource misallocation, regional disparities, discontinuities in patient care, challenges in health workforce planning, and insufficient coordination, particularly at the interface between health and long-term care (OECD, 2023a).

Funding for the Austrian health system comes from a mix of compulsory SHI contributions, general taxation, and out-of-pocket payments. SHI funds cover the largest share of health expenditure (approximately 45%), primarily financed by contributions from employees and employers. Out-of-pocket

payments account for around 16–18%, mainly covering pharmaceuticals, outpatient care, long-term care, and dental services.

Hospital funding is based on standardised case flat rates that group inpatient stays by diagnosis, procedures, age, and treatment complexity. Each case is assigned points reflecting resource use; hospitals are reimbursed according to the points accrued per case rather than bed numbers or length of stay, although length of stay influences case grouping and additional payments. General practitioners (GPs) in Austria are mostly private practitioners contracted by SHI funds to provide ambulatory primary care. They are reimbursed mainly on a fee-for-service basis, receiving fixed payments for each consultation or treatment rendered, regulated by negotiated fee schedules with the SHI funds.

Source: The Austrian Federal Ministry of Social Affairs, Health, Care and Consumer Protection (2019): The Austrian Health Care System: Key Facts.

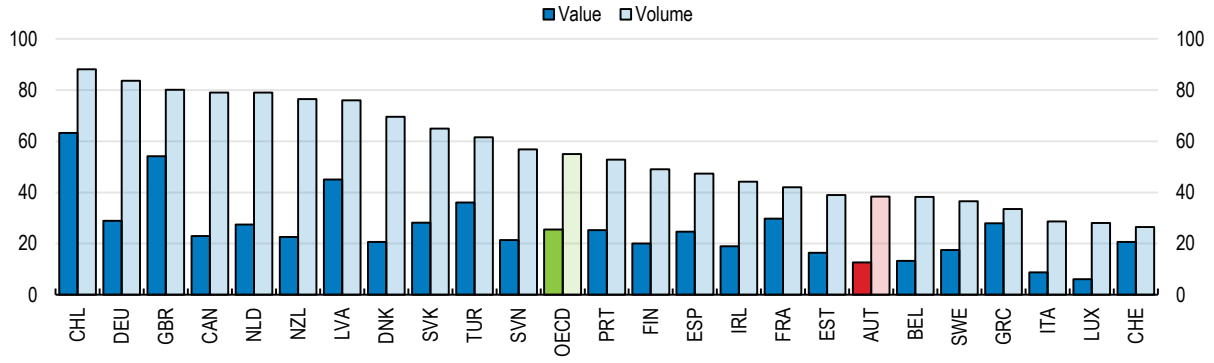
The recent reforms are substantive steps forward. Efforts to enhance and harmonise the functioning of the health system across different states should continue in order to increase its efficiency. However, the positive impact of reforms depends heavily on their complete and timely implementation, as partial execution may hinder the attainment of agreed objectives. The recent SHI funds reform provides a concrete example. While the reform successfully consolidated SHI funds into three, the foreseen harmonisation of the national legal framework for contracts and negotiations between SHI funds and healthcare provider representatives at the Länder level has not been fully implemented, resulting in missing the savings targets originally envisioned by the reform (Bachner et al., 2024).

Pharmaceutical spending has potential for efficiency gains. Expenditure on outpatient pharmaceutical products alone accounts for more than 15% of total health spending, and per capita expenditure on retail pharmaceuticals is higher than the OECD average and that of many EU countries (OECD, 2023b). Austria has very few regulations in place to incentivise the use of generic medicines, and the practice of generic substitution by pharmacists is generally not allowed, marking a difference with many other EU states. As a result, in 2021 generic medicines accounted for only about 36% of the total volume of medicines in Austria, compared with 79% in the Netherlands and 83% in Germany (Figure 4.15) (Bachner et al., 2024).

Introducing well-designed incentives to increase the uptake of generic medicines could substantially reduce pharmaceutical expenditure. Austria should enable pharmacists to substitute branded drugs with generics without requiring prior physician approval, following the example of the Netherlands where the substitution is pharmacist-driven with the consent of the patient, while the prescriber can only explicitly forbid substitution (OECD, 2025c). Financial incentives for both prescribers and patients to choose lower-cost generics could also be adopted by setting the maximum reimbursement level at the price of the least expensive generic or, as in the Netherland's case, setting for pharmacists a fixed reimbursement fee per prescription rather than being paid as a percentage of the drug's price, removing the bias toward dispensing higher-priced branded drugs, and adopting for doctors pay-for-performance schemes that offer GPs additional income (about 5 to 10%) as incentives for prescribing cost-effective options like generics (OECD, 2025d) In addition, public information campaigns highlighting the safety and efficacy of generics could further improve value for money in the outpatient pharmaceutical expenditure.

Figure 4.15. The use of generic pharmaceuticals is low

Percentage, 2024 or latest available year



Note: The OECD aggregate corresponds to the unweighted average of the OECD countries. Data for Chile, France, Slovenia, United Kingdom are community pharmacy market. Data for Austria, Denmark, Germany, Greece, Ireland, Luxembourg, Netherlands, New Zealand and Spain are reimbursed pharmaceutical markets, referring to the sub-market in which a third-party payer reimburses medicines.
Source: OECD Health Statistics 2025.

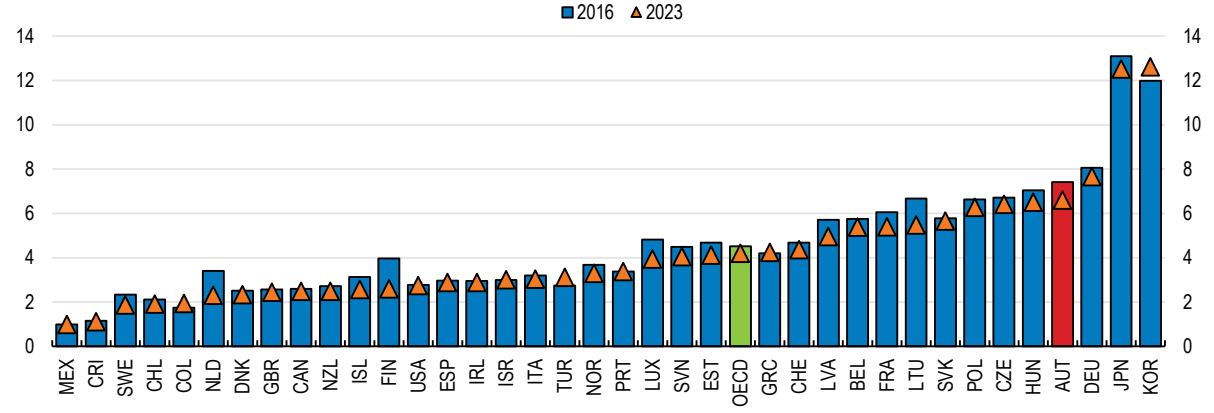
StatLink 2 https://stat.link/3sxmc9

4.4.4 Further strengthening primary care to reduce high reliance on hospitals

Austria's high reliance on inpatient care remains a key driver of elevated health expenditure. Although the proportion of spending allocated to inpatient services has shown a gradual decline, it was still 29.5% of total health expenditure in 2021, significantly above the EU average of 24.7% (The European Observatory on Health Systems and Policies, 2024). Austria ranks high among OECD members for hospital beds density (Figure 4.16) and hospitalisation rates. The high number of hospital beds can be partly explained by longer-than-OECD-average lengths of stay in hospitals and by the high number of avoidable hospitalisations resulting from chronic conditions (OECD, 2024).

Figure 4.16. The number of beds in the Austrian hospital sector is high

Hospital beds per 1000 inhabitants



Note: The OECD aggregate corresponds to the simple average of the available OECD countries. The indicator corresponds to the number of total hospitals beds in the healthcare sector covering both somatic and psychiatric type of care). Total hospital beds are all hospital beds which are regularly maintained and staffed and immediately available for the care of admitted patients. 2023 data for Costa Rica and United States refer to 2022.
Source: OECD Health Statistics (database).

StatLink 2 https://stat.link/ax3e2p

A well-functioning and easily accessible primary care sector reduces the demand for costly and resource-intensive facilities such as hospital wards and emergency department (OECD, 2020). Unnecessary referrals to specialists and avoidable hospital admissions substantially increase system costs, as specialist and inpatient care are far more expensive than primary care services. Furthermore, the management of minor or non-urgent health issues in hospitals can lead to congestion, longer waiting times, and the inefficient use of specialist capacity, ultimately undermining the overall effectiveness of the system.

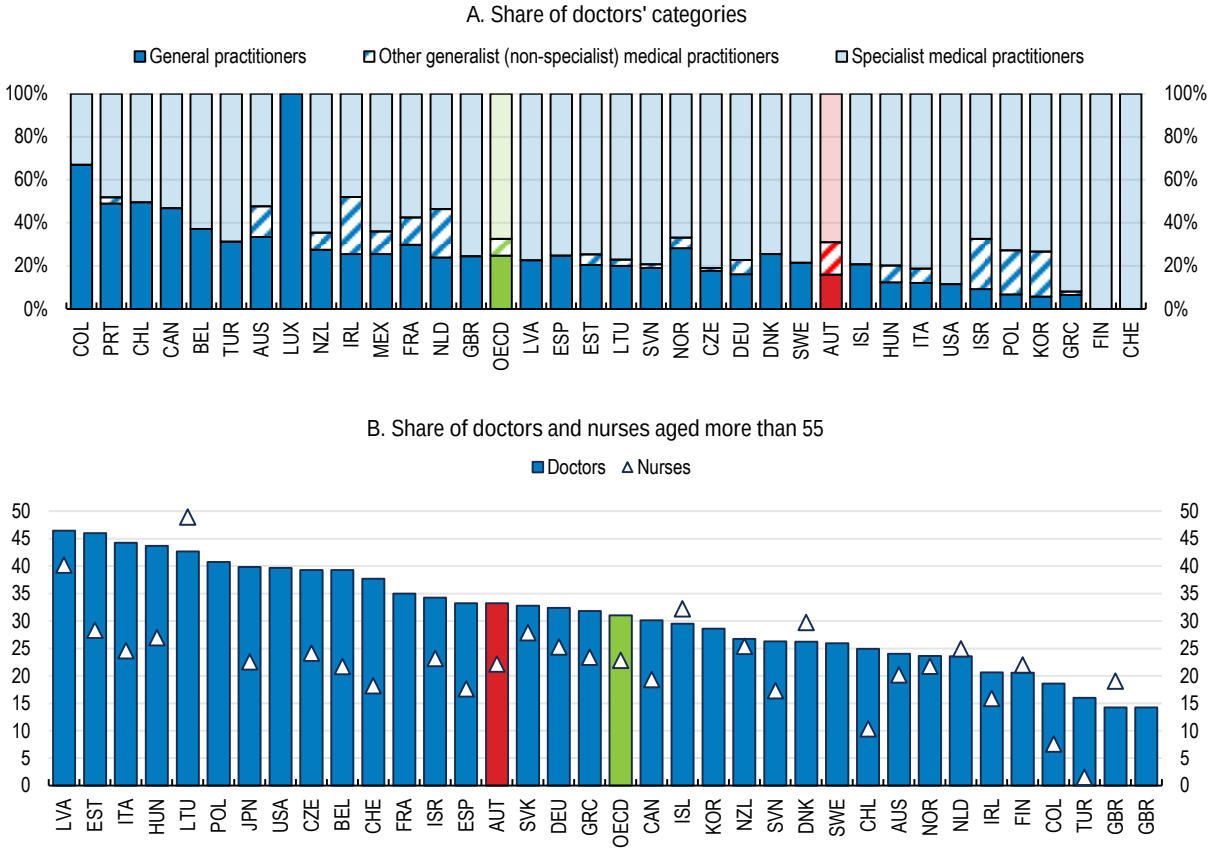
Austria is undertaking reforms to strengthen primary care and take-over activity from hospital care. The Primary Health Care Act, which entered into force in 2017 and was then amended in 2023, has strengthened primary and ambulatory care provision by enabling the establishment of multiprofessional and interdisciplinary primary health care units, whose development has been financed also through EU Recovery and Resilience Fund grants. These units are multidisciplinary primary health care centres run by at least two GPs who employ other health professionals (such as nurses or psychotherapists). Moreover, the 2024 - 2028 health care reform allocated around EUR 300 million per year to strengthen the public outpatient sector outside hospitals and reinforced ambulatory settings through the hiring of more doctors; and increasing the number of primary health care units; while also simplifying and streamlining authorization of group practices and outpatient clinics (Bachner et al., 2024). While these reforms are welcome, their implementation has been slow and needs to be coupled with a progressive reduction in hospital supply, effectively shifting care from inpatient to outpatient facilities In 2023, the number of primary healthcare units had increased to 40, far from the target of 75 initially set for 2021 and subsequently extended to the end of 2023 (OECD, 2023a). In 2025, the total number reached 107. However, only 10% of the population could currently receive primary care from such units.

Effective planning of the healthcare workforce, especially of GPs, is needed to ensure a better operability of primary care but also a more equal access to healthcare across the country. While urban centres such as Vienna have a relative high density of GPs, many rural districts present the opposite situation, marking regional inequalities that risk worsening with the ageing of the physician workforce (Bachner et al., 2024). Austria has a high overall density of doctors, however the proportion GPs over the total number of doctors has steadily declined from 16% in 2010 to below 14% today, making it one of the lowest shares among EU member states (Figure 4.17, Panel A). This decline has reduced Austria's number of GPs per 1,000 inhabitants to below the OECD average (OECD, 2023a). In addition, a significant proportion of practising GPs are approaching retirement age (Figure 4.17, Panel B), and many work in solo practice settings (Bachner et al., 2024). These factors limit the capacity of primary care to perform an effective gatekeeping role through assessing patient needs, managing common conditions, and preventing unnecessary access to hospital and specialist services (OECD, 2024).

The average remuneration of GPs in Austria has risen more rapidly than that of specialists since 2011, and the current GP salary level aligns broadly with the OECD average (OECD, 2023b). Nevertheless, further efforts are needed to enhance the attractiveness of general practice as a career choice, particularly in rural and underserved areas. The two recent initiatives introduced by Austria's largest social health insurance (SHI) fund, the ÖGK, represent useful solutions that may be worth scaling up if evaluations show positive results. First, since the summer of 2023, 50 scholarships have been awarded to medical students who commit to working as SHI-contracted physicians in underserved regions for at least five years after completing their training. Second, a pilot project has been introduced to provide a professional support package that allows physicians to outsource organisational and managerial tasks, allowing them to focus on medical tasks (Bachner et al., 2024).

Figure 4.17. General practitioners are few and rapidly ageing

Percentage of workers in the same health profession, 2024 or latest available



Note: The OECD aggregate corresponds to the unweighted average of the OECD countries.
Source: OECD Health Statistics (database).

StatLink 2 https://stat.link/89phs4

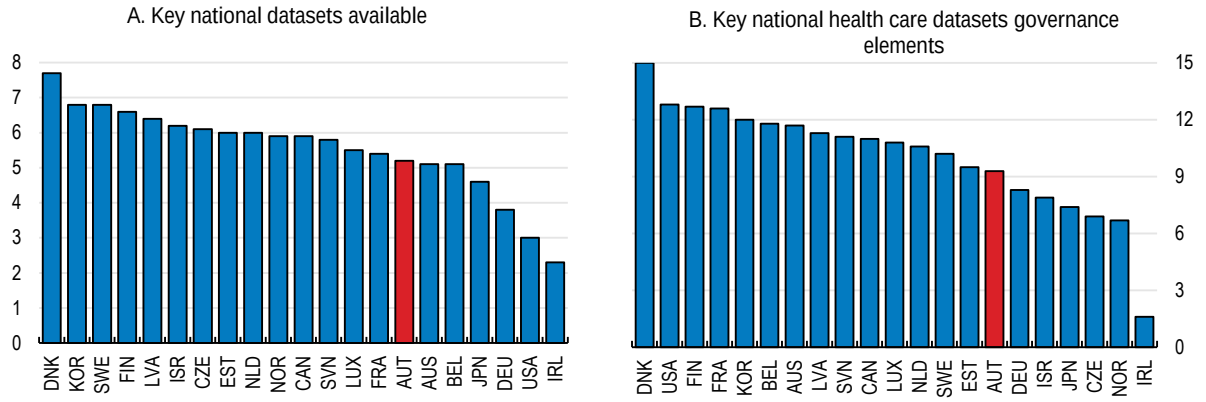
4.4.5 Enhancing digitalisation and effective data collection and usage

The digitalisation of the health system has an important role to play in improving effectiveness, in terms of cost-efficiency, governance and health outputs. Improved data collection is essential not only for monitoring performance and identifying inefficiencies, but also for improving diagnostic accuracy and enabling personalised treatments, thereby better supporting patients and improving health outcomes. Although some progress has been achieved in reinforcing governance and performance monitoring, data flows remain fragmented, particularly between health and long-term care. The fragmentation hinders the ability to assess performance and outcomes at the system-wide level, indicating scope for improvement in integrating and standardising data flows (OECD, 2023a).

The creation of meaningful health analytics and their effective application depend on timely access to high-quality data and the capacity to link information across multiple datasets. A composite OECD indicator incorporating measures such as timely access to population-wide data and the use of interoperable clinical data standards places Austria well below the OECD's top-performing countries (Figure 4.18, Panel A). A similar pattern is observed in the dataset governance score composite indicator, which incorporates criteria including data-sharing arrangements, data catalogues, and the implementation of training and operational controls to ensure privacy and security (Figure 4.18, Panel B).

Figure 4.18. Digital readiness in healthcare may be improved

Score, 2019-2020



Note: Panel A: The score is the sum of the proportion of health datasets meeting 8 key elements of dataset availability, maturity and use in this survey. The maximum score is 8. Lithuania and Spain have reported this capability, but no data were available in the survey when it was conducted. Panel B: The score is the sum of the proportion of national health care datasets meeting 15 governance elements. The maximum score is 15.
Source: OECD Health Working Papers No. 127, Survey results: national health data infrastructure and governance, https://dx.doi.org/10.1787/55d24b5d-en.

StatLink 2 https://stat.link/06y7sk

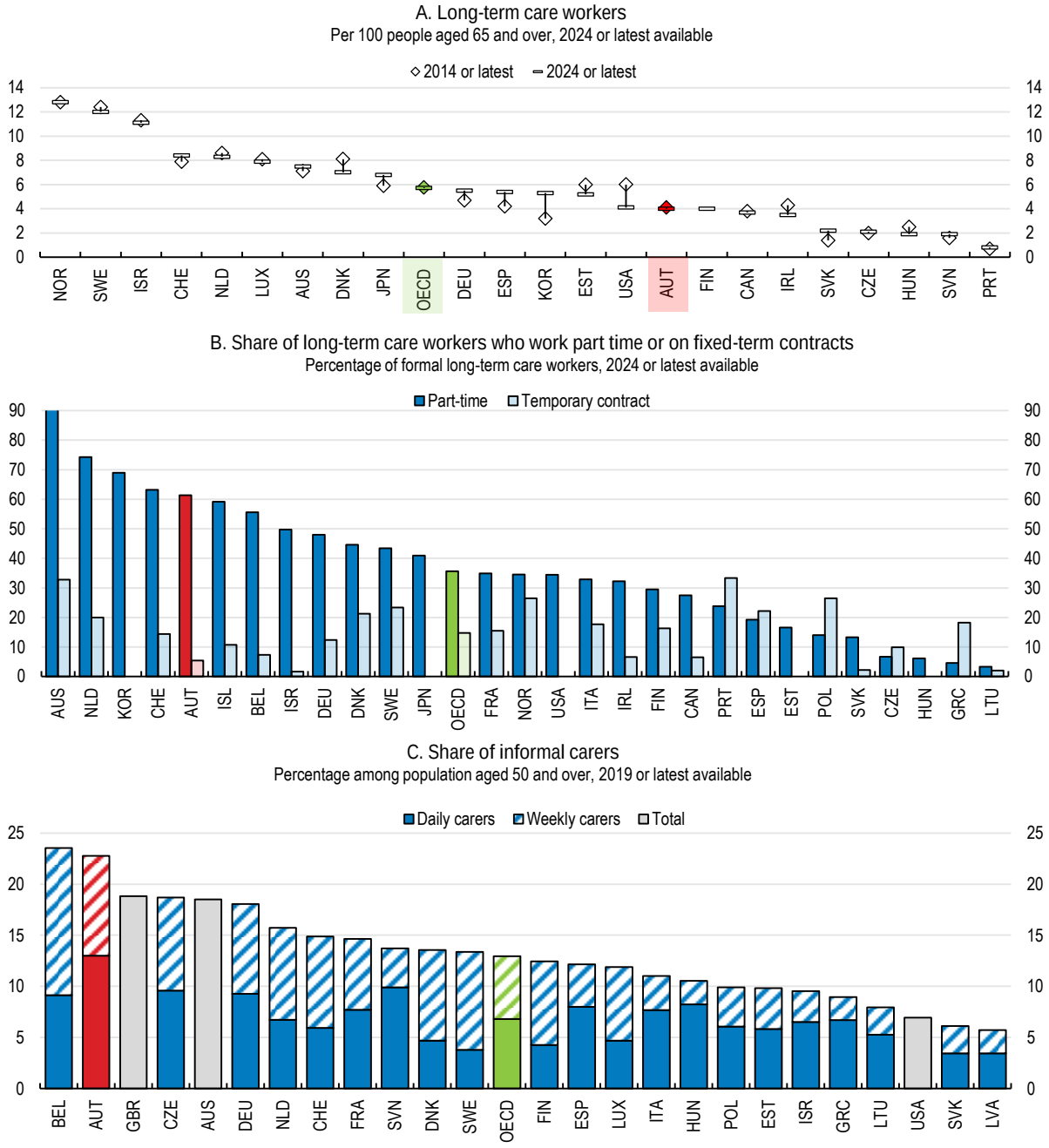
Austria is actively pursuing the digital transformation of its health system. The comprehensive healthcare reform package 2024-2028 seek to alleviate pressure on hospitals under the guiding principle of "digital before outpatient before inpatient". This approach emphasises the prioritisation of digital health solutions as the first point of contact for patients, particularly through the expansion of teleconsultation services and the broader use of electronic health records, with tele-medicine being now formally included as a reimbursable service. The action is welcome, as the uptake of telemedicine started from a low level before the pandemic and also the increase during the pandemic (+6.4%) was slower than the EU average (+9.9%), widening the gap with best performing countries such as Slovenia and Poland (OECD, 2023a). Around EUR 51 million per year have been allocated to enhance the digitalisation along these lines (Bachner et al., 2024).

Despite promising developments and Austria's robust e-health infrastructure developed over the past decade, further progress is necessary to fully realise the potential of digitalisation, with underutilisation of health data remaining a major challenge. Although the universal electronic health record system (*Elektronische Gesundheitsakte* – ELGA) is now used in the vast majority of hospitals, pharmacies and physicians' offices, the secondary use of these data, which is central to improve governance, medical research and prevention, is heavily restricted by legislation and a lack of interoperability standards between different dataset (OECD, 2023a).

4.4.6 Strengthening formal long-term care

The demand for long-term care (LTC) is high and will continue to grow due to population ageing. However, the supply of formal LTC is struggling to keep up. The ratio between LTC formal workers and people aged 65+ in Austria is lower than the OECD average and less than half the share in best performing countries such as Sweden or Switzerland (Figure 4.19, Panel A). Moreover, half of LTC formal workers work part-time, a share that is above the OECD average (Figure 4.19, Panel B). As a result, the share of informal LTC workers in Austria is among the highest in the OECD (Figure 4.19, Panel C). More than 10% of the Austrian population, i.e. around 950,000 people, dedicate themselves to the care and support of a family member. Many of these caregiving relatives are over 60 years old and predominantly female (BMSGPK, 2024).

Figure 4.19. The number of long-term care workers in Austria is relatively low



Note: The OECD aggregate corresponds to the unweighted average of the OECD countries. Panel A: 2014 data for Finland are missing from source. Panel C: The definition of informal carers differs between surveys. United Kingdom data refer to England only.
Source: OECD Health Statistics (database); SHARE, wave 8 (2019-20); SDAC (2018) for Australia; ELSA, wave 9 (2018-19) for the United Kingdom; HRS, wave 14 (2018-19) for the United States.

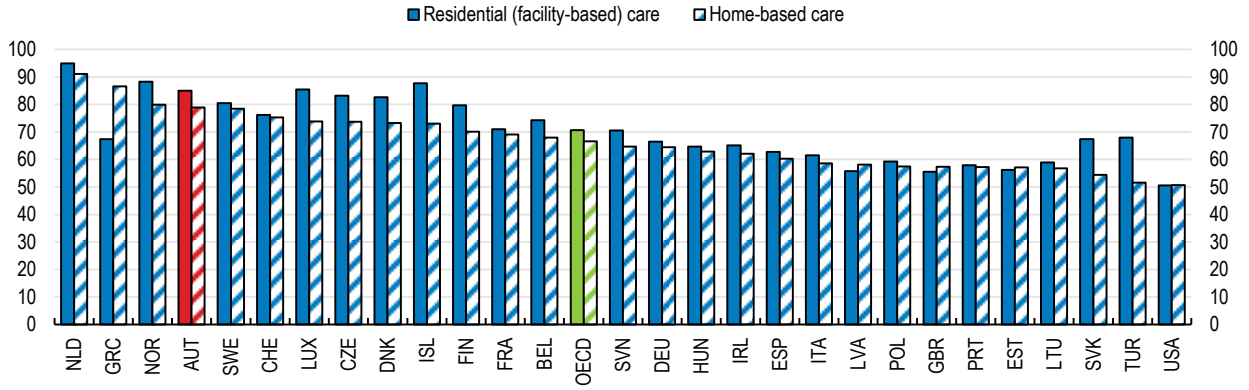
StatLink 2 https://stat.link/09gzke

Attracting more formal workers to the sector remains key to meet rising demand, and Austria has implemented many policies going in the right direction. The Act on the Special-Purpose Subsidy for Salary Increases aimed at ensuring better pay for nursing and care staff, with the federal government providing the federal states responsible for nursing and care staff with EUR 570 million. Moreover, the amendment to the Long-Term Care Fund Act seeks to secure long-term salary increases for nursing and care staff, while

professionals in long-term care are now entitled to an additional week of leave starting at age 43. This has led salaries of LTC workers in Austria to be on average higher than in many other OECD countries, albeit they remain lower than the Austrian average salary (Figure 4.20).

Figure 4.20. Salaries of LTC workers are above the OECD average but lower than the Austrian average wage

Average hourly wages of personal care workers as a share of economy-wide average wage, 2018



Note: The OECD aggregate corresponds to the simple average of the OECD countries. Personal care workers are those included in ISCO-08 53 ISCO category 53, which groups together personal care workers and childcare workers.
Source: OECD calculations based on 2018 EU-SES data, and 2021 OEWS Survey data for the United States.

StatLink 2 https://stat.link/68kj59

Beyond remuneration, working conditions are a crucial factor influencing the attractiveness of long-term care professions. Care workers throughout OECD countries are highly exposed to both physical and mental health risks and are around 2.5. times as likely to work at night as the average employee (OECD, 2023). Additionally, there is a widespread negative perception of the skills required in LTC roles, as the emotional and psychological competences required to care for vulnerable people are often overlooked (OECD, 2023).

Austria has actively sought to improve the public image of LTC professions through targeted information campaigns, including television advertisements depicting the daily realities of care workers. These initiatives have aimed both to enhance societal recognition of LTC work and to encourage young people to pursue careers in the sector (OECD, 2023). However, whilst initiatives of this kind are welcome, their impact could be enhanced by portraying care workers as skilled professionals, showcasing both their training and their role in safeguarding the dignity and autonomy of care recipients. Such an approach is key to improving the perception of their role in society. Coupling these campaigns with the issuance of official quality certification for care agencies and live-in care workers may further help to signal their professionalism.

Institutional LTC in hospitals or nursing homes is generally more expensive than home care for people with low to mild needs, and most individuals prefer having LTC provided within their own home settings. Expanding the provision of formal home LTC services is therefore the most effective way to respond to the increasing demand. This would also help to respond to the reduction in family members number, which will reduce the supply of informal care, and to limit the risk of exacerbating gender inequalities and allocating inefficiencies that informal care usually entails. However, even though Austria has been successful in formalising live-in care workers, most of them are registered as self-employed, allowing to circumvent labour regulations (OECD, 2023). This might result in an increase of labour, physical and psychological burden for them, diminishing the appeal of a role already marked by shortages. Switzerland addressed the problem by requiring that live-in care workers must be employed either by the household or an intermediary (Sagmeister, 2023) and by providing incentives to families to formally hire live-in workers, such as simplified procedures, the option to pay a flat

contribution covering both withholding taxes and social contributions, and the deductibility of social insurance contributions from taxable income.

Recruitment of LTC professionals from abroad, both EU and third country nationals, remains a key strategy to address workforce shortages. Even though the sector already employs a comparatively high share of foreign-born workers, 33% compared with 22% across the general Austrian labour market (Famira-Mühlberger and Österle, 2024), Austria continues to rightly favour the immigration of workers in this sector. Nursing assistants, specialist nursing assistants and qualified nurses have been on the annual shortage occupation list of the Skilled Labour Ordinance since 2019, and they can more easily obtain a working visa and the recognition of their diplomas thanks to the aforementioned reform of the Red-White-Red (RWR) card in 2022. However, beyond increasing overall workforce numbers in the LTC sector, a specific effort is needed to attract male students and workers, as Austria faces a pronounced gender imbalance in LTC occupations Women constitute 87% of formal carers and 73% of informal carers, reflecting deep-seated gender stereotypes within the sector (Famira-Mühlberger and Österle, 2024). Targeted initiatives to challenge prevailing stereotypes and attract more men into care roles, as was done in the UK or Norway, would help (Box 4.6).

Box 4.6. The success of Norwegian's "Menn I Helse" in increase male participation in LTC professions

The "*Menn i Helse*" programme was launched in Norway in 2011 as a targeted initiative to address labour shortages and gender imbalances within the health and long-term care sectors. The programme specifically targets male jobseekers registered with the Norwegian Labour and Welfare Administration (NAV), the majority of whom come from diverse backgrounds.

Participants follow a condensed educational pathway leading to a nationally recognised vocational qualification as healthcare workers, combining theoretical instruction with practical internships. During the programme, participants alternate between receiving unemployment or social welfare benefits from NAV and earning a salary paid by the municipality for their work placements.

The initiative has proven successful in increasing male participation in care professions, as more than 1400 men have graduated since its inception, and about 90% of them have secured relevant jobs in health and care services.

Source: About Men in Health - Men in Health; What we can learn from Norway's approach to recruiting men in social care.

Assuring the effective functioning of long-term care (LTC) systems also requires enabling people to access the care they need. Since 1993, Austria has offered a universal LTC allowance (*Pflegegeld*) designed to provide financial support to individuals who require long-term care due to physical, mental, psychological, or sensory impairments lasting at least six months, with a minimum monthly care need of 65 hours, including older people but also those with special needs. This allowance is not means-tested and has no age limits, but eligibility requires a medical assessment conducted by qualified personnel. The benefit is paid according to seven graded levels proportional to the assessed care hours needed, ranging approximately from EUR 200 to over EUR 2000 per month, with annual adjustments linked to inflation since 2020. In 2024, around 490 000 people received the LTC allowance, with a total cost amounting to 0,7% of GDP (Statistic Austria, 2025e). The system is tax-financed, with the federal government responsible for cash benefits and regional governments delivering care services (Federal Ministry of Labour, Social Affairs, Health, Care and Consumer Protection, 2025).

The LTC allowance represents a key pillar of Austria's care system, enabling equitable access to care; however, major issues remain. Despite its universal nature, uptake is marked by substantial regional and social inequalities beyond differences in health status and age structure. Improving information dissemination and simplifying application procedures would help reduce uptake disparities and non-take-up among vulnerable groups (Pennerstorfer and Österle, 2025).

Preserving the financial sustainability of the LTC allowance in the face of growing demand driven by population ageing is another key challenge. The number of people receiving the LTC allowance is estimated to increase by 57% between 2021 and 2050, and the public costs associated with the LTC allowance are projected to increase from EUR 2.74 billion to EUR 9.17 billion in real terms, taking into account the annual indexation of the LTC allowance (WIFO, 2024). Although introducing means-testing for the LTC allowance would add administrative complexity and undermine the system's universal ethos, it is essential to manage expenditure growth and improve spending efficiency, targeting support to those who need it most. Means testing should consider both income (pension) and wealth of the receiver as in some other OECD countries. New and alternative source of fundings may be explored as well. In Germany, for example, starting in 2015, 0.1 percentage points of the contribution rate paid by Germans for statutory long-term care insurance has flowed into a fund intended to finance the expected growing burden of long-term care from 2035 onwards (Hougaard Jensen et al., 2025). Private insurance is another option, which is available in some OECD countries, such as the United States and Japan, and is used to cover a fraction of the costs.

Table 4.3. Policy Recommendations to address demographic challenges

Main findings	Key recommendations
Raising employment of older workers	
Austria has a low, although gradually rising, average effective age of labour market exit.	Tighten the access to early retirement schemes and make sure the old-age subsidised part-time scheme (*Altersteilzeit*) closely targets those at risk of early labour market exit.
Employers are often reluctant to hire older workers because of a wage-productivity mismatch due to widespread seniority-based wages, outdated skills and a lack of adaptation to new technologies.	Align wages more closely with productivity, performances or tasks rather than age or seniority.
Participation of older workers in formal and non-formal education and training is 20 percentage points lower than for younger workers.	Better target training programmes, providing incentive to employers to invest in training older staff. Introduce career services tailored for mid-career and older worker to help them develop a personal plan to ensure employment until retirement age.
Austria recently increased it deferral bonus to encourage insured persons to work beyond the statutory retirement age.	Ensure that the retirement deferral bonus balances extending working participation with long-term fiscal costs.
Remove obstacles to labour participation	
The offer of childcare services that would favour mothers' labour participation is limited by substantial childcare personnel vacancies.	Introduce a system with alternative career pathways in childcare according to different levels of qualification, and where professionalisation is continually encouraged through further incentives in order to improve perception of careers in the sector.
The male breadwinner model and a negative attitude towards full-time working mothers with a child below the age of three are quite widespread.	Extend the leave that fathers need to take within the overall parental leave period. Gradually phase out the single-earner tax credit to reduce tax-induced distortions in work incentives. Introduce holistic education and media campaign to eradicate family norms based on gender stereotypes.
Immigration in Austria is concentrated in the younger segment of working-age population, but labour integration faces challenges.	Simplify further the application procedure to the Red-white-red card and create a joint IT system. Foster a quicker integration of refugees and asylum seekers with good prospects to receive the status of recognised refugee in the labour market while their asylum application is assessed, especially in jobs that do not require strong language skills.
Improving the sustainability and fairness of the pension system	
Pension expenditure as a share of GDP in Austria is one of the highest in the OECD and will rise further up to 2035.	Ensure the long-term sustainability of the pensions system, for example by linking the retirement age to life expectancy gains.
Austria combines high replacement rates and relatively high average pensioner incomes, and the accrual rate is one of the highest in the OECD.	Allow a modest reduction in the accrual rate of pensions and set a rule to differentiate adjustments between low and high pensions.
Promoting healthier lifestyles	
Behavioural risk factors and alcohol consumption are high, while obesity rates are on the rise.	Introduce a sugar-sweetened beverage tax and apply excise duties to all alcoholic beverages, regularly adjusting them for inflation or wage growth and increase the existing duties on tobacco and nicotine products.
Behavioural risk factors are more prevalent among people with lower education or socio-economic status.	Apply a national scale front-of-pack interpretive nutrition labels and a comprehensive ban on advertising of high-fat, sugar, or salt (HFSS) foods across media.

Making sure health and long-term care systems are fit for the challenges	
Efficiency of Austria's health system remains hampered by its structural and financial fragmentation.	Implement rapidly recent reforms and continue to optimise and harmonise the functioning and the governance of the health system.
The share of general practitioners (GPs) has declined, many of them are approaching retirement age and the regional disparities are high.	Increase the attractiveness of GPs' career, especially in rural areas.
The health system is currently too reliant on expensive impatient care and primary care does not exercise a formal gate-keeping function.	Strengthen further primary health care to reduce high reliance on hospitals, particularly through further deploying multidisciplinary primary health care units.
Expenditure on outpatient pharmaceutical products accounts for more than 15% of total health spending and the share of generic medicine prescribed is substantially lower than in other OECD countries.	Enable pharmacists to substitute branded drugs with generics without requiring prior physician approval and set the maximum reimbursement level at the price of the least expensive generic medicine.
Performance in dataset availability and governance are far from OECD top performers.	Remove obstacles in legislation and interoperability standards between different dataset to enhance secondary use of health data, which is central to improve governance, medical research and prevention.
LTC expenditure is projected to more than double and reach 3.1% of GDP by 2070, while the number of people receiving the LTC allowance is estimated to increase by 57% between 2021 and 2050.	Improve the resilience of the LTC system by linking the allowance to beneficiaries' income and wealth.
The ratio between long-term care formal workers and people age 65+ in Austria is lower than the OECD average and half of them work part-time.	Improve further the working condition of LTC workers, extending legal protections, and implement targeted strategies to attract more male students and workers in the LTC sector.

References

AIDA (2025), Access to the labour market.

AIDA (2024), Temporary Protection Austria.

Austrian Court of Audit (2023), Educational leave reform needed.

Austrian Ombud for Equal Treatment (OET) (2021), Report on ageism and age discrimination in Austria.

Austrian Parliament (2025), New in the Social Affairs Committee.

Austrian Pensions Commission (2025), Voraussichtliche Gebarung der gesetzlichen Pensionsversicherung in den Jahren 2025 bis 2030.

Bachner et al. (2024), Austria: Health System Summary, 2024.

Baumann and Madero-Cabib (2019), Retirement Trajectories in Countries with Flexible Retirement Policies but Different Welfare Regimes.

Berg et al. (2015), Can Policy Facilitate Partial Retirement? Evidence from Germany.

Berghammer and Riederer (2018), The Part-Time Revolution: Changes in the Parenthood Effect on Women's Employment in Austria.

BFM (2025), Austrian Fiscal Structural Plan for the years 2025-2029.

Bloom, D. (2022), Healthy ageing for a healthy economy.

BMSGPK (2025), The Pensions System in Austria – an Overview.

BMSGPK (2024), Implementation report on the "Council Recommendation on access to affordable high-quality long-term care.

Burkert et Freidl (2019), "Pronounced social inequality in health-related factors and quality of life in women and men from Austria who are overweight or obese".

Chuard, C. (2023), Negative effects of long parental leave on maternal health: Evidence from a substantial policy change in Austria.

Chung (2024), Flexible working arrangements and gender equality in Europe.

Court of Audit Austria (2024), ACA sees potential for simplification in Red-White-Red Card.

Dillman Carpentier et al. (2019), Evaluating the impact of Chile's marketing regulation of unhealthy foods and beverages: pre-school and adolescent children's changes in exposure to food advertising on television.

ECRE (2025), AIDA Country Report on Austria – 2024 update.

Eurofound (2025), Keeping older workers in the labour force.

European Commission (2024), Ageing Report 2024.

European Commission / EACEA / Eurydice (2025), Key data on early childhood education and care in Europe.

European Parliament (2025), Demographic changes and labour migration within the EU.

Eurostat (2025), Fertility statistics.

Famira-Mühlberger and Österle (2024), Long-term care system profile: Austria.

Federal Chancellery (2025), Early childhood education in Austria.

Federal Chancellery (2024), Family Minister Raab and Statistics Austria present first monitoring report on childcare.

Federal Ministry of Labour, Social Affairs, Health, Care and Consumer Protection (2025), Care and Support.

Federal Ministry of Social Affairs, Health, Care and Consumer Protection (2023), European Child Guarantee - Austria's National Action Plan.

Fontenay et Gonzalez (2024), Can Public Policies Break the Gender Mold? Evidence from Paternity Leave Reforms in Six Countries.

Gardo et al. (2025), Navigating financial stability in an ageing world.

Haan and Tolan (2019), Labor supply and fiscal effects of partial retirement – The role of entry age and the timing of pension benefits.

Holler and Schuster (2018), Long-run fiscal consequences of refugee migration - The case of Austria.

Hougaard Jensen et al. (2025), Prepare now: Europe must get ready for the coming long-term care surge.

ICMPD (2023), Asylum seeker dispersal policies – Setting the stage for successful integration?

ISCA (2018), Implementation Guide for Integration of Refugees Through Sport (IRTS).

Itria et al. (2021), Taxing sugar-sweetened beverages as a policy to reduce overweight and obesity in countries of different income classifications: a systematic review.

Jestl and Tverdostup (2023), The Labour Market Entry and Integration of Refugees and Other Migrants in Austria.

Jestl et al. (2022), Trajectories of Employment Gaps of Refugees and Other Migrants: Evidence from Austria.

Kleven et al. (2024), Do Family Policies Reduce Gender Inequality? Evidence from 60 Years of Policy Experimentation.

Konle-Seidl, R. (2018), Integration of Refugees in Austria, Germany and Sweden: Comparative Analysis.

Kraler and Sohler (2005), Active Civic Participation of Immigrants in Austria.

Landesmann and Leitner (2025), Various Domains of Integration of Refugees and Their Interrelationships: A Study of Recent Middle Eastern Refugee Inflows in Austria.

Mayrhuber, C. (2025), The Gender Gap in Pensions as the Tip of the Iceberg.

OECD (2025a), OECD Employment Outlook 2025.

OECD (2025b), Promoting Better Career Mobility for Longer Working Lives in Austria.

OECD (2025c), Health at Glance 2025.

OECD (2025d), State of Health in the EU, The Netherlands.

OECD (2024), OECD Economic Surveys: Austria 2024.

OECD (2024a), Quality Matters: Strengthening the Quality Assurance of Adult Education and Training.

OECD (2024b), Work-Life Balance.

OECD (2024c), International Migration Outlook.

OECD (2024d), Consumption Tax Trends 2024: VAT/GST and Excise, Core Design Features and Trends.

OECD (2023), Beyond Applause? Improving Working Conditions in Long-Term Care.

OECD (2023a), State of Health in the EU – Austria.

OECD (2023b), Health at Glance 2023.

OECD (2023c), Pensions at a Glance 2023: OECD and G20 Indicators.

OECD (2022a), Gender stereotypes in education.

OECD (2022), Healthy Eating and Active Lifestyles: Best Practices in Public Health.

OECD (2020), Realising the Potential of Primary Health Care.

OECD (2019), The Heavy Burden of Obesity: The Economics of Prevention.

OECD (2019a), Working better with Age.

OECD (2018), Integration of Migrants, Refugees and Asylum Seekers in Remote Areas with Declining Population.

OECD (2018b), How does access to early childhood services affect the participation of women in the labour market?

OeNB (2025), Changing migration patterns and their relevance to population aging and monetary policy in Europe.

Oesterreich.gv.at (2025), Deductions and allowances for families.

OIF (2025), Migration & Integration.

Pennerstorfer and Österle (2025), Take-up and distribution of a universal cash benefit: The case of the Austrian long-term care allowance.

Poledna et al. (2024), Economic and labour market impacts of migration in Austria: an agent-based modelling approach.

Sagmeister, M. (2023), Promising Practices for the Employment of Live-In Care Workers in Europe.

Statistics Austria (2025), Employment.

Statistics Austria (2025a), Population growth in Austria in 2024 lower than in previous year.

Statistics Austria (2025b), Above-average increase in Austria's healthcare expenditure in 2023.

Statistics Austria (2025c), Healthcare expenditure rose to 57 billion in 2024.

Statistics Austria (2025d), Day-care centres, childcare.

Statistics Austria (2025e), Long-term care allowance.

Statistics Austria (2024), 60% of children in day care aligned to full-time jobs.

The European Observatory on Health Systems and Policies (2024), Austria - Health system summary 2024.

UNICEF (2023), Report on European Good Practice on strengthening ECEC workforce conditions.

Vickerstaff and van der Horst (2022), Embodied ageism: "I don't know if you do get to an age where you're too old to learn".

WHO (2017), Taxes on sugary drinks: Why do it?

WIFO (2025a), Demographic Change and the Future of Austria's Long-Term Care Allowance: A Dynamic Microsimulation Study.

WIFO (2025b): Effects of (Non)Action: the Potential Costs of Age-related Retirement of Skilled Workers.

WIFO (2024), A Projection of Public Long-term Care Expenditure and Care Workers Required up to 2050.

WIFO (2024b), Utilisation of Labour Force Potential.

WIFO (2023), Evaluation of Educational Leave and Educational Part-time Leave.

Zaninotto et al. (2020), Behavioural risk factors and healthy life expectancy: evidence from two longitudinal studies of ageing in England and the US.

Ziegler and Bamieh (2025), Does a flexible parental leave system stimulate maternal employment?

OECD Economic Surveys: Austria 2026

March 2026

Volume 2026/9

Austria enjoys high living standards, supported by strong institutions and a well-educated workforce. However, following the energy price shock in 2022, a prolonged recession disrupted the post-pandemic recovery. A substantial fiscal deficit has emerged, even as growth begins to pick up. Rising labour and energy costs have eroded firms' price competitiveness, while deeper structural weaknesses persist alongside stronger competition from new contenders. Ambitious fiscal consolidation is needed to restore fiscal space to cope with mounting spending pressures stemming from ageing, defence and climate challenges. There is scope to reduce social spending while improving the efficiency of health and long-term care service delivery. Bold structural reforms to boost business dynamism and raise productivity include easing regulation, accelerating digitalisation and strengthening competition in key markets. Restoring the affordability and improving the functioning of the housing market require streamlining and digitalising building permits and improving land use, revising property taxation and updating rents with income in the limited-profit housing sector.

SPECIAL FEATURES: RAISING BUSINESS DYNAMISM, ADDRESSING DEMOGRAPHIC CHALLENGES, RESTORING HOUSING AFFORDABILITY

PRINT ISBN 978-92-64-85887-9
PDF ISBN 978-92-64-64459-5