

3.20 Austria

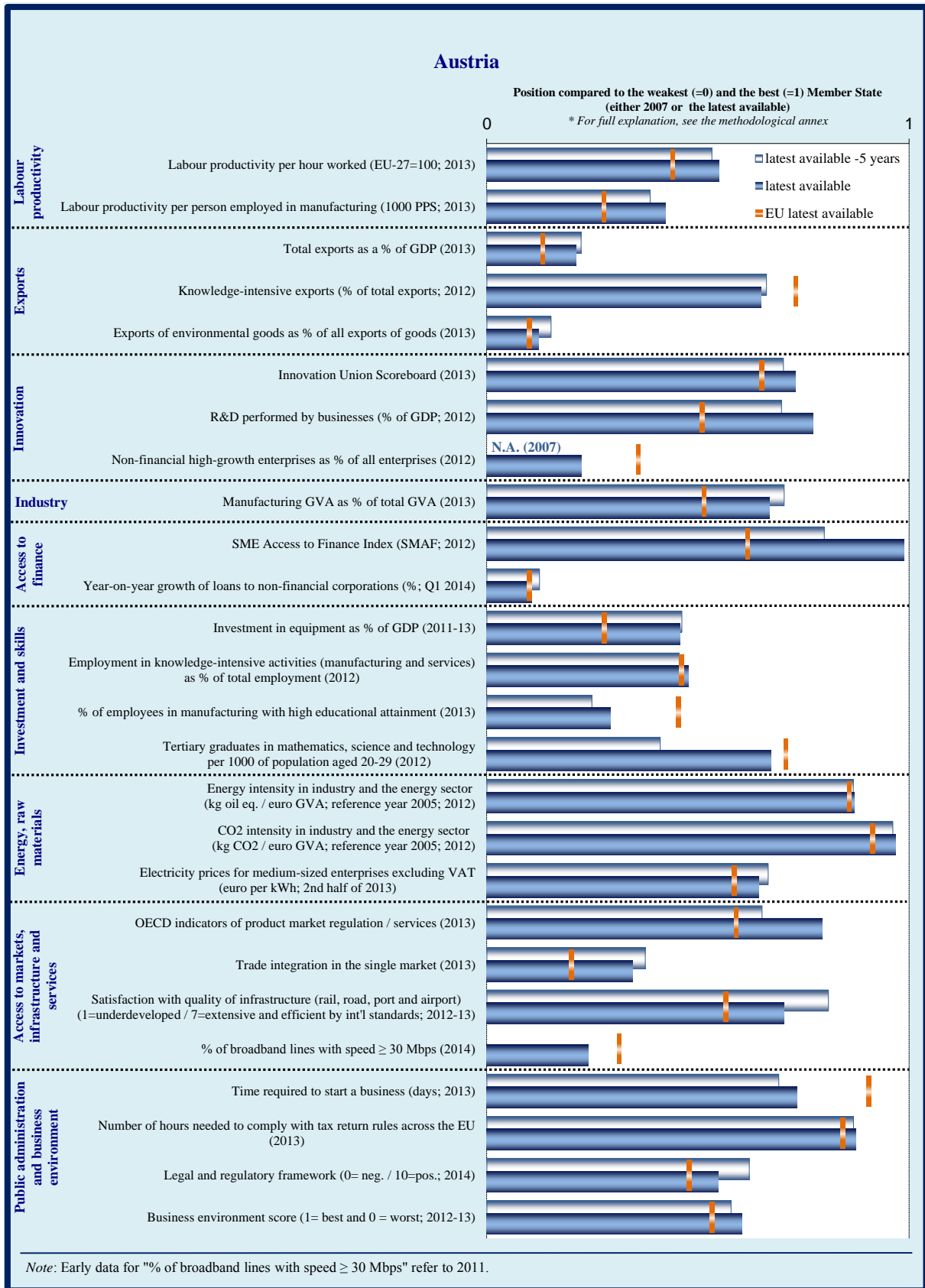
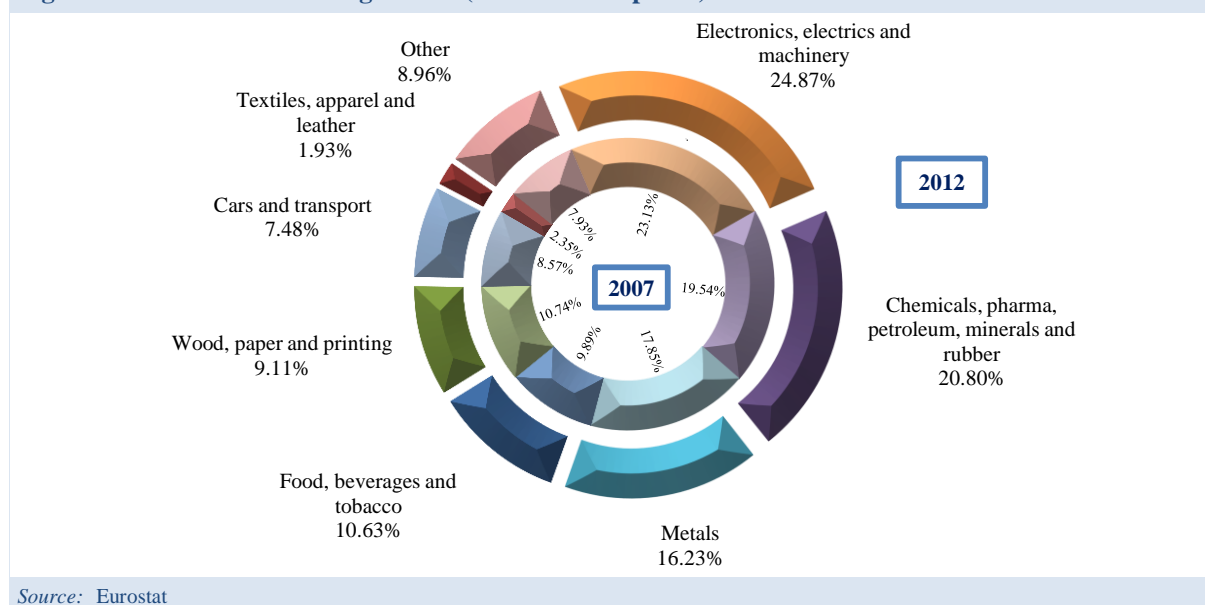


Figure 3.20.1: Manufacturing sectors (GVA at basic prices) - Austria

3.20.1 Introduction and performance

While the Austrian economy in general and particularly its manufacturing sector have weathered the crisis years well, it faced in 2013 an environment of perceived uncertainty, leading to slow foreign and stagnating domestic demand. Economic growth decelerated further to 0.3 % with the manufacturing sector acting as its major contributor (real growth of 1.3 %). This growth was enabled by solid labour productivity growth (real GDP per hour worked: plus 1.1 %). Exports also grew with a real annual increase of 2.7 %, which more than compensated for stagnating domestic consumption. The proportion of knowledge-intensive exports is still slightly above the (weighted) EU average (25.5 % of GDP compared to 23.6 %), but the trend is not all positive as this figure decreased for Austria in recent years while it increased in the EU as a whole.

Manufacturing continues to substantially contribute to the economy's total value added with 18.3 %, against an average of 15.1 % in the EU as a whole. If construction is included, this becomes 25 %, also above the EU average. There have been no major changes in the breakdown across manufacturing sectors in recent years.

3.20.2 Access to finance and investment

Access to finance

Austria continues to fare better than the EU average in most aspects of access to finance. In the current market environment, the diversified and overall stable banking system provides companies with sufficient debt financing. This includes SMEs, who, however, continue to report some restrictions in terms of availability of loans and provision of collateral. Therefore, although there is no credit crunch, there is still a question on how Austrian enterprises will be able to contribute to growth and job creation once the economic recovery picks up speed and more loans will be needed.

In this context, it is positive that enterprises' reliance on debt financing continues to decrease. Political measures taken in 2013 and prepared for 2014, including better support for start-ups and first (albeit limited) regulatory improvements to facilitate crowdfunding, help companies to strengthen their equity base. For SMEs and start-ups especially, however, further progress hinges on better incentives for investors, improved SME access to financial markets, and more effective state support. Parts of the financial sphere remain underdeveloped, and the main challenge is still to develop more alternatives to bank lending. The key bottleneck here is small-scale equity and mezzanine financing, which goes beyond the lack of venture capital. It is therefore necessary to focus

on accompanying measures that aim at improving the legislative framework for new forms of finance (crowdfunding) and a holistic approach to better match supply and demand for risk finance. An online calculator of creditworthiness (KMU Bonitätsrechner⁽¹⁾) was launched in 2013 and is an innovative support tool for SMEs looking for financing. It enables them to obtain an approximate picture of their current creditworthiness.

Investment

Total gross fixed capital formation in Austria decreased by 0.7 % in real terms in 2013.⁽²⁾ There was strong variation across investment types. Whereas investments in construction grew by 1.2 % in real terms, the demand for machinery (-3.2 % in real terms) and transport equipment (-3.8 % in real terms) were significantly below the 2012 level.

3.20.3 Innovation and skills

Innovation

Overall R&D spending in Austria is among the highest (5th) in the EU; Austria's total R&D intensity stands at 2.84 % of GDP (2012). Comparatively speaking it has increased well over the last 10 years. Notwithstanding on-going improvements,⁽³⁾ innovation outputs and related economic effects are weaker compared to Europe's 'innovation leaders'.⁽⁴⁾ One structural factor behind this is the increasing but still comparatively low tertiary attainment rate (27 % in 2013 against an EU average of 36.6 %, excluding ISCED 4a⁽⁵⁾). If ISCED 4a graduates, mainly from higher technical schools (Höhere Technische Lehranstalten), are included this difference is less pronounced. Moreover, a well-functioning dual education system provides skilled labour for rapid technical implementation in the context of innovation. Although business R&D

intensity is also above EU average, the start-up and growth dynamics of innovative firms (the percentage of employees in fast-growing firms, 4 % in 2010) are below it (6 %).

Governance of the research and innovation system has been streamlined under the new federal government, by merging the portfolios for research, science and economy in one ministry. This means that one entity will deal with research and innovation at all stages from fundamental to close-to-market.

Through a 2013 amendment to the federal public procurement law (Bundesvergabegesetz), innovation has been introduced as a secondary criterion in public tendering. A specific service was set up within the federal public procurement agency⁽⁶⁾ that offers information, training and fora for exchanging information with other public bodies in charge of promoting innovation, research and technology, procuring administrations and potential bidders.

Within its very differentiated system of research and innovation promotion programmes Austria has two particularly successful instruments for promoting research cooperation and co-financing of industry and public research institutions: the Competence Centres for Excellent Technologies (COMET) and the Christian Doppler Labs. Both entail cooperation on basic and application-oriented research and development using public research infrastructure. A funding programme launched in 2013 with a budget of EUR 20 million promotes the development of prototypes created in projects where Austrian state universities and research institutes work together. It gives an incentive to set up strategic partnerships within the framework of the regional and thematic knowledge transfer centres.

The Markt.Start scheme provides the payment of up to EUR 1 million for newly developed products are developed as a result of publicly-funded⁽⁷⁾ research projects.

Skills gaps

The proportion of university students and graduates in mathematics, engineering and science aged 25 to

⁽¹⁾ <http://kmu-bonitaet.wkoratgeber.at/>

⁽²⁾ Statistik Austria

⁽³⁾ Innovation Output Indicator

⁽⁴⁾ Innovation Union Scoreboard; The gap between Austria and the group of innovation leaders is smaller when corrected for structural effects resulting from Austria's geographical situation and sectorial structure (see e.g. Österreichischer Forschungs- und Technologiebericht 2014).

⁽⁵⁾ The International Standard Classification of Education (ISCED) is a classification scheme developed by the UNESCO to make it easier to compare education statistics and indicators across countries based on uniform and internationally-agreed definitions. It defines six levels of

education from pre-primary up to the second stage of tertiary education (e.g. PhD).

⁽⁶⁾ Bundesbeschaffungsgesellschaft

⁽⁷⁾ through the Forschungsförderungsgesellschaft

34 has increased in recent years but is still considered a potential skills bottleneck by companies and research institutions.

Austria's education system still has weaknesses that limit the optimal build-up and use of available skills, in particular those of women and citizens with migrant backgrounds. This is confirmed by recent OECD studies and continued high dropout rates for higher education. ⁽⁸⁾

In order to promote lifelong learning a 2013 amendment to the labour law makes it possible for people to work part time for to participate in professional training measures.

The 'red-white-red card card' labour immigration management tool continues to help filling certain skills shortages in sectors with bottlenecks. These sectors are identified annually, through a decree. Almost 2000 cards were issued in 2013, taking the total to some 4600 since the scheme was launched in July 2011. Around 480 were given to third-country graduates of Austrian universities. Only about 17 % of these graduates stay in Austria, even though 31 % of them declare the intention to stay. ⁽⁹⁾ In order to facilitate the recognition of professional qualifications acquired abroad, free-of-charge consulting services on recognition procedures have been introduced at regional level in 2013. Demand for them has been substantial.

3.20.4 Energy, raw materials and sustainability

Energy use and prices

Austria continues to develop and implement ambitious policies in the area of energy and sustainability. As at EU level, the challenge is to avoid negative effects on industrial competitiveness. Austria's energy strategy from 2010 is a core policy document and includes targets and objectives for renewables, energy efficiency and energy security. About 70 % of the strategy's measures have been partially- or fully implemented. In terms of its energy

and CO2 intensity, Austrian industry has performed consistently well since 2005 compared to other EU Member States.

Programmes for thermal insulation of both residential and industrial buildings remain successful funding instruments at federal and state level. The federal programme has an annual budget of EUR 100 million over several years, and state-level programmes together have an average annual budget of EUR 2.6 billion. Their combined impact on energy savings is estimated at 3 700 TJ. Austria is on track to achieving its target of a renewable energy production share of 34 %. This progress is driven partly by its high usage of biomass, its traditional strong potential and usage of water power, and the impacts of the 2012 Green Electricity Act.

Electricity prices for industry have risen slightly and have remained below EU-wide trends in the last few years. Medium-sized enterprises paid 11.1 cents per kWh in 2013 compared to 10.7 cents five years before. ⁽¹⁰⁾ This increase is partly explained by subsidies for green electricity, at around EUR 360 million in 2012 – about 17 % more than in 2011. Most of them are paid for by industry. This development is partly caused by falling before-tax market prices.

Resource efficiency

Even though Austria is currently on track to reaching its energy efficiency target of stabilising its final energy consumption at 2005 levels (1 118 PJ), according to projections this figure will rise to 1 162 PJ by 2020, ⁽¹¹⁾ indicating a need for further efforts. Greenhouse gas emissions in non-ETS sectors seem to be on track, having decreased by 12 % (2011) compared to the 2005 baseline. However, this development might be partly due to the moderate economic growth seen in recent years. A law on energy efficiency has been recently adopted. It includes a comprehensive mix of measures such as an obligation for energy suppliers to put in place energy efficiency measures for end consumers; penalties for missing energy efficiency targets; a target for public building renovation and energy demand; obligations for energy audits and energy management systems for

⁽⁸⁾ For further analysis, see Commission's Staff Working Document 'Assessment of the 2014 National Reform Programme and Stability Programme for Austria'.

⁽⁹⁾ OECD (2011) International Migration Outlook 2011 based on Institut für Höhere Studien (2010): Internationale Studierende - Zusatzbericht der Studierenden-Sozialerhebung 2009.

⁽¹⁰⁾ Source: Eurostat; prices excluding VAT and recoverable taxes and levies.

⁽¹¹⁾ Source: Reference scenario "EU Energy, transport and GHG emissions trends to 2050".

large companies and quality standards for energy service providers.

Other sustainability issues

The car registration tax was modified in spring 2014, and further strengthened incentives for using vehicles with low CO₂ emissions. It also introduced progressive tax increases for high emission vehicles. In addition the motor vehicle insurance tax was reformed, linking the tax level to motor power and creating incentives for using weaker engines.

A recent preliminary evaluation of the green public procurement action plan from 2010 shows an increase in awareness and in the use of sustainability criteria for public procurement, as compared to 2008 at all levels of government. The downside is that procurement procedures have become increasingly complex because there are now more criteria (see also section above on innovative procurement), resulting in higher administrative burdens.

3.20.5 Access to markets, infrastructure and services

Internationalisation

The ‘go-international’ initiative was launched in 2003 and since then has helped Austrian companies interested in exporting to access international markets. The companies receive information, advice and financial support for market entry costs such as events, trade fairs and missions. Since the initiative’s launch, the number of exporting firms has more than doubled.

Two recent projects run by the Economic Chamber – called Webshopoffensive and Websitecheck – aim to promote and professionalise the development of e-commerce as a way of accessing new markets.

Infrastructure

There are important investments to improve the Austrian rail infrastructure (partly co-funded by the EU), in particular along the TEN-T network, including the construction of the Semmering- and Koralmtunnel along the Baltic-Adriatic corridor, upgrading of the cross border section between Vienna and Bratislava and of parts of the Rhine-Danube corridor. Further efforts to promote competition

would allow generating additional benefits from the already existing high quality infrastructure. ⁽¹²⁾

Business services and network industries

In the Austrian professional services sector, there is room to further promote competition by reducing barriers to entry and conduct requirements. In particular, requirements relating to legal form, shareholding and professional qualifications make it very difficult to set up interdisciplinary services companies. Intentions to address this, announced both by the previous and the current government, have so far not been followed by concrete action. ⁽¹³⁾

3.20.6 Public administration and business environment

Public administration

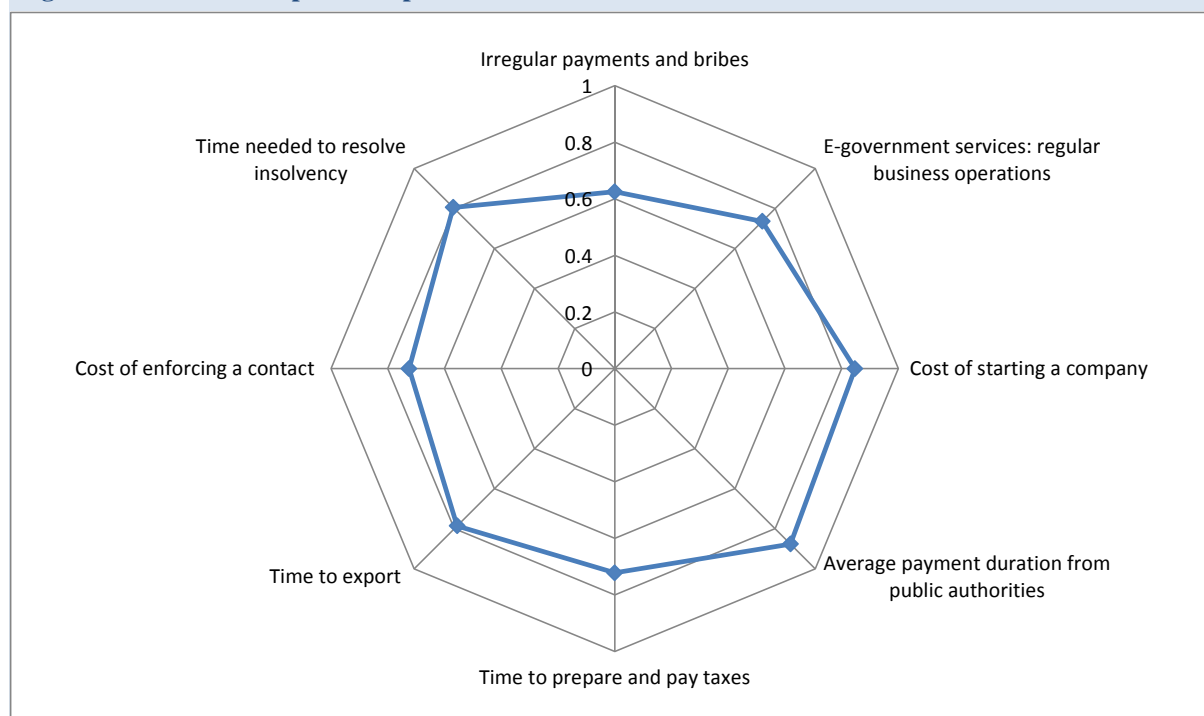
Austria continues to perform well across a number of indicators of the quality of its public administration including the World Bank’s government effectiveness indicator or the World Economic Forum’s ‘perception of burden of government regulation’.

E-government services are being further developed and mainstreamed, in particular through the flagship project business service portal. At present, 20 services are offered and accessible through a single sign-on for registered users. Further services are expected to be added in 2014, for instance the administration of social insurance rights. Newly registered companies automatically have full access to these services after they complete the registration process. A complementary measure is the obligatory introduction of e-invoicing for contractors of federal administrations in January 2014. Its launch has been successful and is expected to generate savings of some EUR 4.6 million for the administrations and EUR 14 million for companies.

Another on-going major project related to administrative modernisation is the switch from the current system of 14 trade registers at three levels of government to one central system based on

⁽¹²⁾ For further analysis, see Commission Staff Working Document ‘Assessment of the 2014 National Reform Programme and Stability Programme for Austria’.

⁽¹³⁾ For further analysis, see Commission Staff Working Document ‘Assessment of the 2014 National Reform Programme and Stability Programme for Austria’.

Figure 3.20.2: Overall profile of public administration - Austria

Note: Values have been scaled so that the best observation (Member State) gets 1 and the worst gets 0.

Source: World Bank Doing Business Report; Intrum Justitia; OECD; World Economic Forum; European Commission

centralised information. It will streamline procedures for registering trade activities and data exchange between public administrations and facilitate e-government services. Its full launch is planned for 2015.

An IT-based impact assessment system was launched in 2013. It consists of a number of modules corresponding to different types of impacts (budgetary, administrative burden, SMEs, gender equality, etc.). These are analysed depending on the content of the specific initiative and on the expected surpassing of pre-defined threshold values. A significant limitation of the system is that it does not envisage analysis of alternative policy options to the baseline and the planned proposal. It remains to be evaluated if the filtering based on threshold values and the closed questionnaire type of analysis leads to overall thorough and relevant assessments.

Business environment

Austria has further strengthened its favourable business environment, especially for SMEs. In 2013, it made further progress in several key areas of the Small Business Act, including entrepreneurship, responsive administration, state aid and public procurement, and skills & innovation. As a result,

Austria's SME sector remains among the top performers in the EU and continues to grow.

Within the spectrum of measures adopted in the above-mentioned areas, it is particularly noteworthy that the federal public procurement agency revised its internal manuals in 2013 and is offers training on making procurement practices more SME-friendly. An important element of the respective 'SME strategy' is the division of tenders into lots. ⁽¹⁴⁾

Moreover, Austria has taken steps in 2013 to improve start-up conditions through a reform of the limited liability company. It reduced the needed start-up capital and related costs for notaries and lawyers and dropped the requirement for announcement in paper form. The reform has led to a boost in the rate of limited liability company start-ups, but has also had some adverse effects, as established companies merely changed legal form to reduce their equity base and save on taxes. An amendment that tackles these adverse effects entered into force in March 2014. It leaves the improved start-up conditions for this legal

⁽¹⁴⁾ For further analysis about the efficiency of exploitation of the public procurement system, see Commission Staff Working Document 'Assessment of the 2014 National Reform Programme and Stability Programme for Austria'.

form unchanged for the first ten business years, including a reduced minimum corporate tax.

3.20.7 Conclusions

Overall, Austria has a strong and competitive economy that is driven by a dynamic manufacturing sector. High labour productivity and high exports are key pillars of this and key contributors to total value added and employment. The already favourable business environment and efficient public administration continue to be modernised. In the short term, there are no obvious bottlenecks that could put this performance into question.

However, certain structural weaknesses limit Austria's long-term potential to become an even more high-tech, high value-added economy. The catching-up process to becoming an 'innovation leader' has slowed down in spite of on-going efforts to implement the 2011 research and innovation strategy. The availability of highly skilled labour has improved, but there is further potential through increasing the number of tertiary education graduates, improving labour immigration and using more fully available skills including those of women and migrants. This would help the economy move up the innovation and high-value-added ladders. Pursuing ambitious energy and climate policies creates challenges for maintaining competitiveness in energy-intensive industries.

The limited availability of non-banking financing as well as question marks over banks' potential to provide more loans, in particular to SMEs, could limit their growth potential and ability to fully contribute to a stronger economic recovery.