IZA Institute of Labor Economics
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IZA COVID-19 Crisis Response Monitoring

Austria (October 2020)

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ABSTRACT

In Austria, the number of persons who registered as unemployed with the Public Employment Services (PES) rose to record levels in March and April. Since the end of the lockdown in May, the employment situation improved gradually. In September, unemployment was about 22% higher compared to the same month in the previous year (down from almost 60% in April). The number of workers registered with the short-time working scheme declined by 70% from the peak in spring. Since the start of autumn, however, the number of new Covid-19 infections has been rising again and the federal government as well as regional authorities have re-imposed more restrictions that will impact the recovery negatively. In November 2020, there will be a partial lockdown with a closure of restaurants and theaters.

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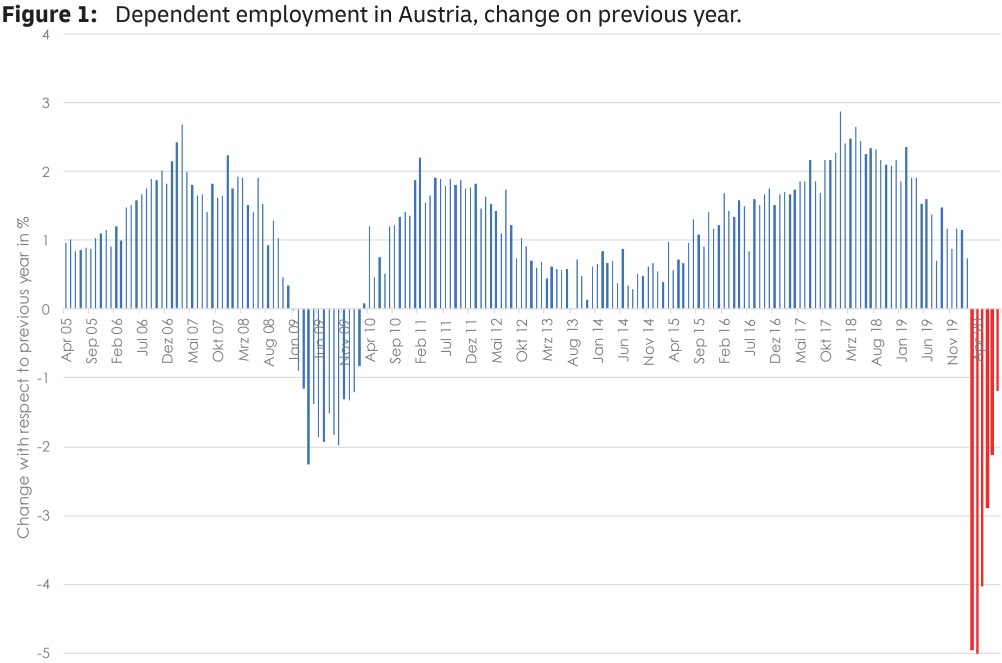
Labor market impact of COVID-19

First measures to lower the spread of the virus were announced by the Austrian government on March 11, 2020 and introduced in the following week. The Austrian economy went into lockdown on March 16. The measures included a ban the opening of shops, with the exemption of shops selling food, drugs or medical supplies; restaurants could sell take-out meals. After mid-April (Easter holidays), several types of shops were allowed to re-open conditional on increased safety measures, such as the wearing of facial masks. Further restrictions were lifted at the beginning of May and in mid-May restaurants, personal service providers (such as hairdressers) and, partially, even schools re-opened, subject to specific safety measures. Over the summer, the situation largely normalized, and most pandemic measures were lifted. Restrictions applied to events and gatherings of larger numbers of people, as well as to workplaces, which limited the allowed number of persons. Since the start of autumn, however, the number of new infections has been rising and the federal government as well as regional authorities re-imposed restrictions.

The strict measures during the lockdown and the ensuing economic crisis had a dramatic impact on the labor market. The number of unemployed increased, the number of employed decreased, and there was a massive inflow into short-time work. (See Figures 1 to 3.) The number of persons who registered as unemployed with the Public Employment Services (PES) rose to a record level by the end of March and continued to rise until mid-April. Since then, the rise has been halted. At the end of April 2020, a total of 571,500 persons were registered with the PES (including persons in training), which is an increase of 210,000 persons or 58% compared to April of the previous year. While the number of persons in training was less by a quarter due to the discontinuation of training courses, the number of persons registered as unemployed was greater by about two thirds. The unemployment rate (based on persons registered with the PES, excluding persons in training) reached 12.7%. This is the largest unemployment rate for April since the early 1950s and it was only exceeded by the unemployment in the winter of 1953/54.

Figure 1: Dependent employment in Austria, change on previous year.



Source: Dachverband der Sozialversicherungsträger; Hauptverband der österreichischen Sozialversicherungsträger, WIFO.

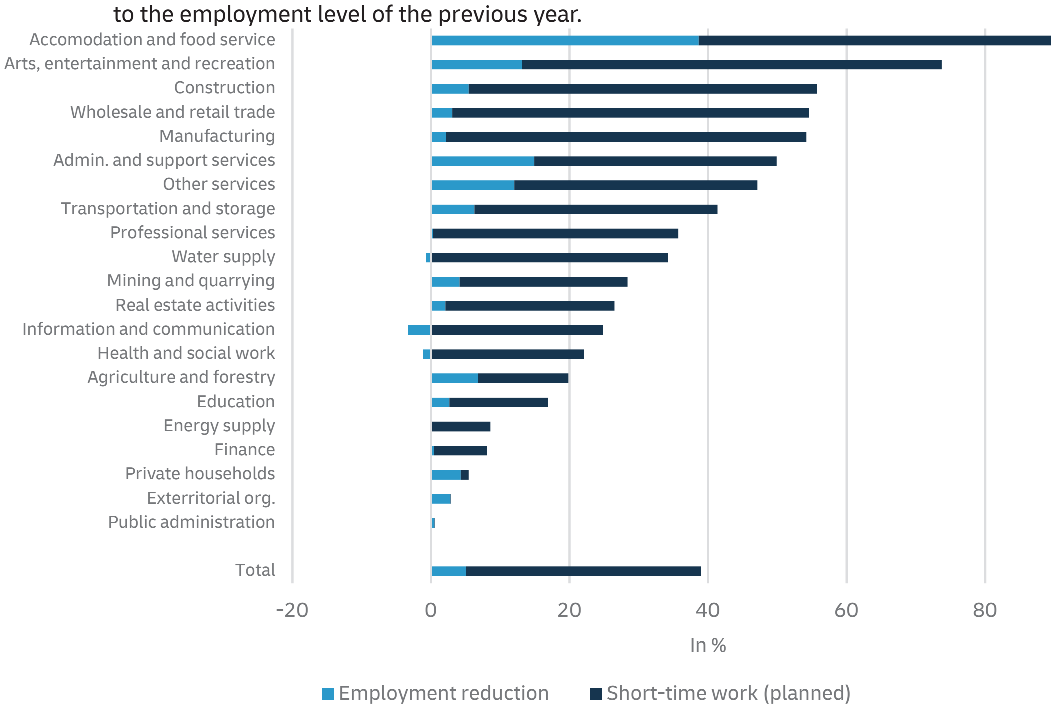
The rise in unemployment was mirrored by a strong decline in employment. In comparison to March and April of 2019, total employment was lower by about 5%, corresponding to a loss of 185,000 jobs. In May, however, the labor market situation improved slightly. The number of unemployed fell by almost 10% compared to April and employment rose by 1.6%. Compared to the same month in the previous year, unemployment was still up by 50% and employment down by 4%, but the downward spiral halted.

Bock-Schappelwein, Huemer, and Hyll (2020) and Bock-Schappelwein, Eppel, Huemer, Hyll, and Mahringer (2020) provide a more detailed overview of the developments until the end of April, which we summarize here. The labor market effects of the crisis were asymmetric across industries and worker groups. Most jobs losses occurred in the accommodation and food service industry, as employment in hotels and restaurants fell by almost 40%. Because of its size, this industry also recorded the largest drop in employment in absolute terms, with a loss of almost 75,000 jobs. Other industries that were hit particularly hard by the crisis include the arts, entertainment, and recreation culture; personal services; and the provision of other business services (which also includes temporary work agencies). In these industries, employment fell by 12% to 15%.

Although certain businesses in the retail industry were allowed to open from mid-April and the initial drop in employment was comparatively mild (-3%), the large size of the retail industry resulted in a sizable loss of about 17,000 jobs. The decline in the transportation and storage industry was about 13,000 jobs (-6%). In the construction industry, the decline in employment was strong in March (-10 %), but this was partially offset by the development in April when many construction sites were able to resume work. In contrast, both the health and social work sector and the information and communication technology industry recorded a rise in employment of about 3,000 jobs compared to April 2019, corresponding to an increase of 1.1% and 3.3%.

While in March men were slightly more affected by the decline in employment than women (men -5.6%, women -4.1%; Bock-Schappelwein, Famira-Mühlberger, and Mayrhuber, 2020), by the end of April the losses were almost balanced across the genders. Compared to the previous year, employment was 5.1% (about 103,000 jobs) lower for men and 4.9% (about 83,000 jobs) lower for women.

Figure 2: Short-time work and change in employment by industry, change in April 2020 with respect to the employment level of the previous year.



Source: Bock-Schappelwein et al. (2020); Arbeitsmarktservice, Dachverband der Sozialversicherungsträger, WIFO. Short-time work applications as of 03.05.2020. NB: Negative value indicates an increase in employment.

Gaps between other worker groups are much more pronounced. The number of workers with Austrian citizenship fell by 4% (114,000 workers), but for workers with foreign citizenship the job loss was more than twice as large (-9.2%, corresponding to 72,000 workers). This difference reflects the different distribution of workers across industries, the segmentation in terms of occupations and employment forms, and the fact that many cross-border commuters (particularly in the East of the country) were unable to reach their jobs due to mobility restrictions.

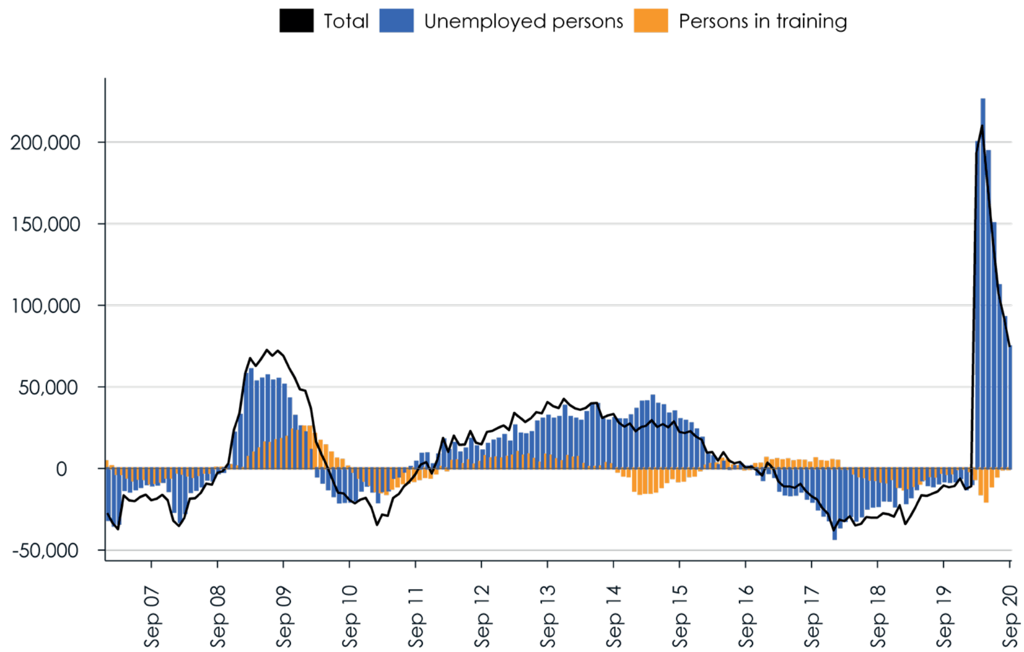
Blue-collar workers were disproportionately more affected by job cuts than white-collar workers. In April, the decline in employment among blue-collar workers amounted to -12.0% (compared to April 2019), while there were hardly any job losses among white-collar workers or civil servants (-0.8%). In other words, 9 out of 10 lost jobs lost were from manual workers. The strong concentration of jobs losses on blue-collar workers is partially due to their, compared to white-collar workers, weaker employment protection. The period of notice for salaried employees varies from six weeks (for less than two years of service) to five months (for 25 years or more), depending on the number of years of service, while for manual workers it is only 14 days, although this period might by extended by collective agreement. Young workers (under the age of 25) were also affected more than proportionally in terms of the employment decline, although in terms of rising unemployment the effect has been strongest among prime-age workers. (See also point 6 below.)

It is important to stress that the most important labor market measure in reaction to the crisis, the COVID-19 short-time work scheme, prevented an even steeper fall in employment. (See also point 4 below.) By early May 2020, the PES approved almost 100,000 applications from firms applying for the scheme, covering almost one third of the workforce. Figure 2 shows the impact that this measure had on employment across industries. Although these numbers do not show to what extent the short-time periods were used – firms do not need to use their approved applications – it is safe to say that the scheme prevented much greater job losses.

Depending on the industry, we see a large variation in the level of short-time utilization as well as in the combination of short-time work and labor shedding. In total, 90% of the workforce in the tourism industry were affected by the COVID-19 pandemic. In arts, entertainment, and recreation, about three quarters of workers were affected, and in manufacturing, construction, and the retail industry the share was above 50%.

With the beginning of the summer, the employment situation started to improve. In July, the employment level was 2.1% lower than in July of the previous year, while in August it was 1.1% lower (Figure 1). Unemployment has also been declining (Figure 3). In August, registered unemployment was up by one third with respect to the same month in the previous year and the number of those in training, which had dropped during the lockdown, returned almost to the level of 2019. The most recent data released by the PES indicate that this positive trend continued in September. Registered unemployment plus training were up by 75,000 persons compared to the numbers of the previous year's September. The year-on-year comparison thus shows an increase of 22% in September, compared to a peak of 58% in April. These developments were accompanied by a steady reduction in the number of workers registered for short-time work. This number peaked in April and May, involving up to1.3 million workers, but it has been declining since then and stood at about 400,000 workers at the beginning of September. It must be noted that not all workers registered for the scheme end up working short-time, as firms can decide flexibly to what extent they want to use this instrument once their application has been approved.

Figure 3: Number of registered unemployed in Austria, change on previous year.



Source: Arbeitsmarktservice, WIFO.

Despite these overall positive trends, the labor market situation remains difficult, particularly for vulnerable groups of workers who face an increased risk of long-term unemployment and labor market exit. Moreover, the impact of the crisis continues to be asymmetric across industries (Bock-Schappelwein, Fritz, Huemer and Hyll, 2020). In addition to the accommodation services (-8.3% employed persons in August, compared to the previous year) and food services (-12.2%), there are several sectors in which lost employment due to the pandemic did not rebound. These include personal services, such as hairdressing and beauty salons; leisure and cultural services, such as libraries, museums, betting offices, theaters, and sports facilities and fitness centers; and the creative, artistic, and entertainment activities. In the arts and culture sector, large numbers of workers are self-employed and thus the loss in dependent employment reflects the decline in economic activity only incompletely. Employment losses are recorded also for temporary agency employment and other economic services (-6.7%) as well as in the large manufacturing sector, where employment in August was 1.6% lower than in August of the previous year.

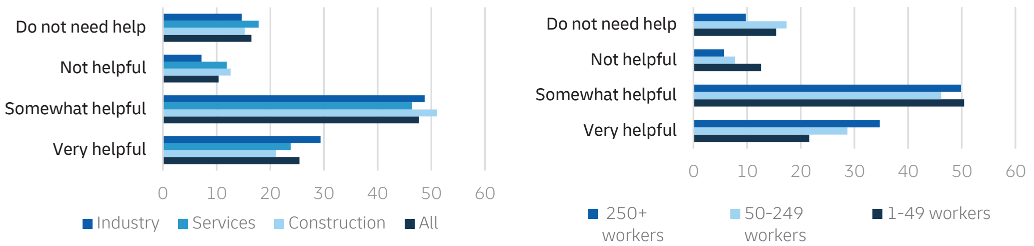
Some industries – agriculture and forestry, energy and water supply, information and communication, and public services (education, health care) – were, on the other hand, able to stabilize or even expand their workforce. A remarkable development took place in the construction sector, where employment in August, compared to previous year's August, was up by almost 6,000 workers (+2.1%). However, at the same time the number of registered unemployed from the construction sector was also up by about 6,000 workers, which corresponds to an increase of about one third.

Orientation and targeting of adopted measures

To soften the impact on the labor market, the government introduced several initiatives targeted at businesses. The main components can be summarized as follows: (i) a "Corona support fund" of €15 billion, targeted at all firms, (ii) a "hardship fund" of €2 billion, targeted at self-employed, freelancers, and small enterprises, (iii) guarantees and the postponement of tax liabilities for businesses, and (iv) the "COVID-19 short-time work scheme" with an initial budget of about €12 billion.[1] Measures (i)-(iii) are targeted at businesses which have little or no revenues due to the crisis. All measures were announced as methods for keeping business operational and able to provide employment. Several measures received additional funds since May 2020, for example, state guarantees for exporting firms were extended from €2 billion to €3 billion.

COVID-19 short-time work is an adaptation (effective from March 1st) of the existing short-time work arrangement and intended to keep employees employed even if there is little or no work. It is limited to a maximum of 6 months (divided in two periods of three months each); employees' wages are paid by the PES with a replacement rate that varies between 80% and 95% (depending on the wage level); and firms' social security contributions for their employees are refunded in full. The average working time over the period must be between 10% and 90% of the regular working time, which allows for shorter periods of 0% working time. It is more generous than the existing short-time work program. Firms have, however, to pay their workers in advance and are refunded later, which could lead to liquidity problems for some firms.

Figure 4: Do firms consider state support measures to be helpful for surviving the period of economic restrictions caused by the pandemic measures (in %)?



Source: Hölzl (2020); business survey data collected between April 1 and April 23, 2020. N=1,354. Firms were asked which measures they had already implemented or where about to implement with respect to their operative business.

A survey of businesses carried out in April indicates that these measures were seen as "helpful" (48%) or "very helpful" (25%) (Hölzl, 2020). Only about 10% of businesses said that the measures did not help. About 16% of businesses stated that they do not need government support during the crisis. We observe significant variation across firm size, however, and small firms were twice as likely as large firms to report that support measures are not helpful (Figure 4).

Measures were targeted at "standard" businesses and were initially not available for NGOs, artists, and certain groups of self-employed. The government extended and adapted

1 Self-employed persons in Austria are not automatically insured against unemployment. Self-employed who started their self-employment after 2008 keep an entitlement to unemployment benefits for a maximum of five years if they worked less than five years before their self-employment spell. They keep their entitlement for an unlimited period if they worked for five years or more as a dependent worker before their self-employment spell. Self-employed who started before 2009 also keep their entitlement indefinitely. The self-employed may voluntarily insure themselves with the social security within 6 months of their self-employment start. The opt-in is binding for 8 years. However, to be able to claim benefits, the business has to be (temporarily) closed. Only a minority of self-employed choose to opt-in, between January 2009 and August 2018 there were a total of 2,342 applications (Hartinger-Klein, 2018). In 2019, there were on average 529,600 self-employed persons in Austria (Statistik Austria, 2020).

the program in several steps, with the aim to close gaps and to increase their coverage of vulnerable categories. By mid-May, steps have been taken to improve the situation of artists and persons working in the cultural and entertainment sector, who are in a particularly difficult situation because cultural activities and mass events are still largely banned or subject to very restrictive rules.

Although labor market indicators such as employment and unemployment currently show similar developments, in several respects the crisis affected women harder than men, as more women than men work in the health sector, in education, or in retail. In addition, both men and women have been working more in the home, but evidence indicates that the additional burden due to care and household work has not been shared equally. Berghammer (2020) states that 16% of women and 9% of men report that they spend much more time on housework (47% of women and 43% of men spend more or slightly more time on housework). The increase is most marked among families with children, but couples without children and people living alone also report increased time spent on domestic work. Gender-specific responsibilities for childcare increased and it is mainly mothers who look after their children and learn with them: 47% of women and 29% of men spend much more time on school-related activities. Survey data collected by the University of Vienna (Austrian Corona Panel Data, 2020) indicate a marked drop in life satisfaction during the pandemic crisis for the Austrian population as a whole. The decline was however steeper for women than for men (Haindorfer, 2020).

A survey among businesses in August 2020 suggests that about two thirds of these businesses used short-time work (Hölzl et al., 2020). There was little change over time, in March some 64% of businesses used short-time work and in August it was about 66%. Financial support to ensure financial liquidity was used by 18% of businesses in August.

Immediate liquidity support to businesses

A dedicated hardship fund of €2 billion was established for freelancers, one-person companies, professionals, and other small entrepreneurs, meant to cover personal living costs. A larger Corona-support fund also provides partial support for fixed costs such as rent or interest payments. The application for grants to cover fixed costs started on May 20 and entrepreneurs must have had a loss in revenue of at least 40% due to the pandemic to be eligible for support.

In a first phase (from March 27), the hardship fund provided rapid financial support of up to €1,000, where eligibility was based on previous income and other criteria. In this first phase there were 144,000 applications and €121 million were distributed (i.e., an average payment of €840 which indicates that virtually all applications were approved). The measure was criticized for excluding specific categories of persons and entrepreneurs and the government subsequently adjusted the eligibility criteria.

A second phase with less strict eligibility criteria (particularly the income ceiling) started on April 16. The fund now provides up to €2,000 per month for up to three months. Further adjustments to the hardship fund were announced in early May, aimed at increasing its flexibility and the accessibility for specific groups. For instance, applicants can now claim support for three months within a six-month window. Until the 15th of August, about €458 million were paid out. On October 7, the government announced that the hardship fund will be extended until mid-March 2021.

In addition, on April 3, the termination of rental agreements due to outstanding rent in April, May or June 2020 was temporarily suspended. For micro-enterprises with credit debts (as well as for private households), repayment and interest payments were automatically suspended for three months and the credit period extended by three months free of charge (Parliamentary Correspondence No 306 of 3 April 2020). The federal government agreed with the energy utilities and the regulator to secure the supply of electricity, gas, and district heating for private households, one-person companies, and small enterprises even in the event of late payment. These deferrals aim to relieve temporarily the liquidity situation.

Businesses that experience a significant drop in revenues may apply for a payment towards the fixed costs, such as rent, interest payments, license fees, et cet. For a drop of revenues between 40 to 60%, businesses may receive 25% of their fixed costs, for a drop between 60 and 80% they may receive 50% of their fixed costs, and they may receive 75% of their fixed costs if they experience a drop of 80% or more. In August 2020, about 7% of businesses stated that they received payments towards their fixed costs (Hölzl et al, 2020).

Support of dependent workers

The adapted short-time work scheme ("COVID-19 short-time work") is the main measure aimed at labor market stabilization and it eclipses all other measures in terms of financial resources. The scheme was originally estimated to cost €400 million in mid-March, but the budget has been increased in several steps to €12 billion by mid-May. By early May, the unemployment office had received about 104,000 applications for short-time work for about 1.25 million workers. Currently, about 400,000 workers are registered for the scheme. However, it is important to stress that the budgeted €12 billion represent a maximum limit that is only called up if companies actually reduce their workers' working hours. By mid-August, €4.25 billion had been paid out in short-time working allowances (at a time when applications up to €9.14 billion had been approved). Although these numbers are still provisional, and will continue to rise, they indicate that the costs of the scheme are likely to remain below the maximum budget.

The first three-month period of the short-time work scheme ended in June and firms were allowed to re-apply for a second three-month period. Several rules of the scheme were revised for this second phase. For instance, companies were granted additional flexibility in the adaptation of working hours after approval of their short-time work application. However, the key points of the short-time working regulations remained unchanged from the first phase. As of October 1, a new phase with adapted regulations applies, with the possibility to extend short-time work to March 2021. The most important difference with respect to the first two phases concerns the extent of the reduction of working hours. The reduction has been restricted to a minimum of 30% and a maximum of 80% (previously at least 10% and max. 90%). This new requirement is meant to improve the targeting of the measure and to counteract deadweight losses associated with the scheme. Employees must also be prepared to take part in training during the short-time working period, provided that such training is offered by the firm. In small companies, new training opportunities are to be created in cooperation with the PES. The linking of short-time work with further training is also aimed at the reduction of deadweight and displacement effects. However, the training requirement is not binding and it remains to be seen to what extent further training is taken up.

In the early phases of the lockdown, the PES was overwhelmed by applications which led to a large backlog in the processing of applications. This increased the uncertainty for firms, although almost 100% of applications were approved. The backlog of applications played arguably only a secondary role for liquidity concerns, because firms must pay their workers in advance and are refunded later. The large number of applications and the favorable conditions for short-time work led to concerns that firms could abuse the subsidy by allowing employees on short-time to work for more hours than stipulated under the short-time agreement. To allay these fears, the government announced controls to ascertain the correct utilization of the scheme.

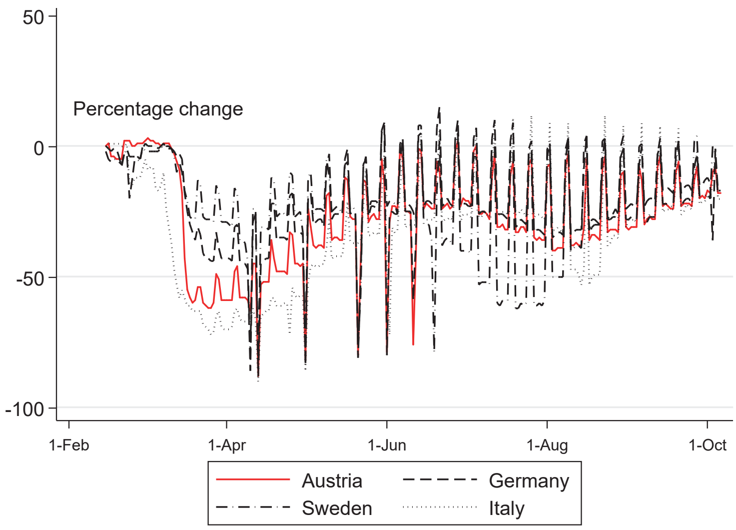
During the acute lockdown period, ALMP and especially training activities carried out by the PES came to a halt. Training measures for unemployed persons started again on May 15 and attendance of further education started from May 29. In recent months, the absolute number of persons in training has reached pre-crisis levels, but ALMP is still lower than in the previous year relative to the number of workers registered with the PES. To expand training and re-qualification, the government has announced a new initiative, funded with about €650 million. The specific details of this plan have still to be defined.

With respect to passive labor market policies, the most important change concerns the unemployment assistance. This is a social transfer that can be claimed by unemployed persons upon exhaustion of the entitlement to unemployment benefits, with a lower replacement rate. At the end of April, the unemployment assistance benefit was increased to the level of unemployment benefit, with retroactive effect from mid-March. This measure expired at the end of September.

Working conditions and work organization

The lockdown resulted in momentous changes in work organization, and its effects are still reverberating. As can be seen in Figure 5, the lockdown, which began on March 16, immediately reduced workplace visits. Italy's earlier lockdown, by comparison, lowered workplace visits only moderately during the first week. In Germany and – much more so – in Sweden, the reduction was less pronounced than in Austria. With the gradually lifting of restrictions from mid-April, workplace activity increased. The most recent data suggest that workplace visits rapidly increased after the lockdown, experienced a slight decline over the summer, and have been slowly increasing since then.

Figure 5: Mobility trends during the Covid-19 pandemic. Change in visits to the workplace, daily data compared to the baseline for selected countries.

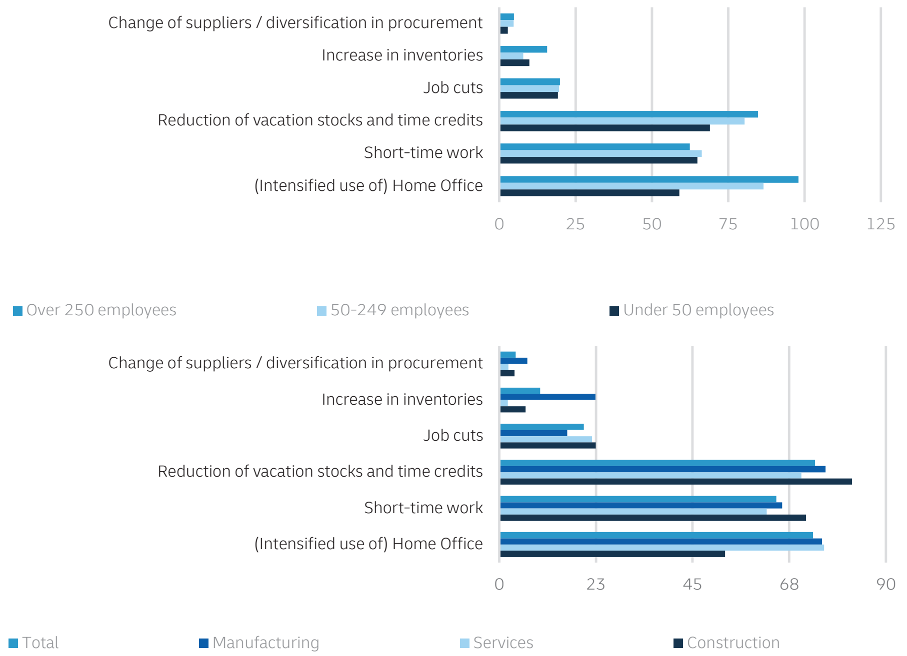


Source: Google LLC "Google COVID-19 Community Mobility Reports"; authors' calculations. The data are available under www.google.com/covid19/mobility and were accessed on October 12, 2020. The data show how visits and length of stay change compared to a baseline the median value for the corresponding day of the week, during the five-week period 3 Jan – 6 Feb 2020.

After the lockdown, schools reopened, but pupils were attending classes on alternate days. Although child care arrangements were provided for children who could not be cared for at home, only a small fraction of children spent the “regular” number of hours at school. In addition, special working arrangements were (and are) still in place in many firms because the workplace organization makes it difficult to apply the hygiene rules prescribed by the government. This is the case, for instance, in many larger firms where workplaces are organized in open-plan offices. In many firms, workers rotate between working from home or in the office or groups of workers attend the workplace while other groups work from home.

This pattern is confirmed by company survey data that indicate that working from home was widely adopted. (See Figure 6.) Virtually all larger firms implemented (additional) forms of mobile working. About 80% of medium-sized firms and close to 60% of smaller firms used some form of working from home. A sectoral disaggregation shows that home-office was less common in the construction industry (with about 50% of firms reporting an (increased) use of this instrument) than in other industries. In both the service industries and in manufacturing, however, about three quarters of firms implemented mobile working in response to the crisis (Hölzl, 2020). Another wide-spread measure concerned the reduction of saved vacation and time credits accumulated by employees in previous periods. (Employees may save part of their entitlement to paid vacation for another year.) These data refer to the lockdown period, but currently many firms still allow workers, especially workers who have care responsibilities or who belong to at-risk-groups because of their age or pre-existing health conditions, to work from home. This situation is reflected in the data presented in Figure 5, according to which workplace attendance is still about 20% below the baseline level.

Figure 6: Measures implemented by firms as consequence of the pandemic (in %).



Source: Hölzl (2020); business survey data collected between April 1 and April 23, 2020. N=1,354. Firms were asked which measures they had already implemented or where about to implement with respect to their operative business.

The impact of the crisis on working conditions and working arrangements hit different segments of the workforce asymmetrically. Panel survey data collected by the University of Vienna (Austrian Corona Panel Data, 2020) show that in early April about one third of male workers and close to 40% of female workers were working from home. However, the share varied greatly across skill-levels and occupations. Only 14% of workers with compulsory education and 26% of those with a dual education were working remotely, whereas half of the workers with upper secondary education and almost two thirds of those with tertiary education did so (Pichler et al., 2020). A similar picture emerged in a disaggregation by income level, highlighting the social gradient of the pandemic's labor market impact.

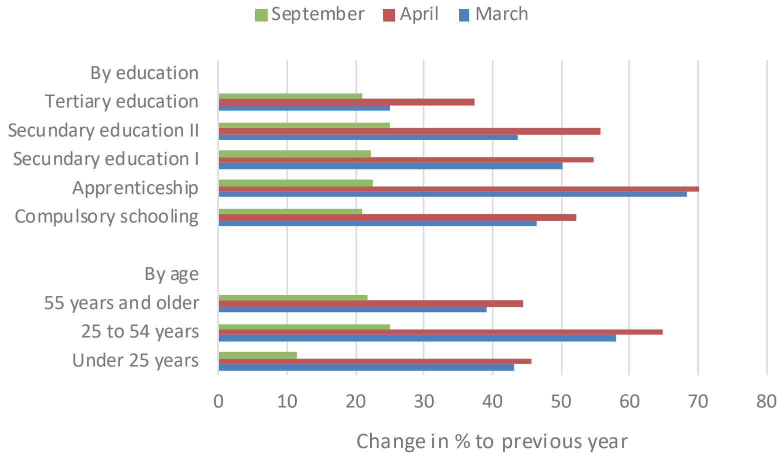
New labor market entrants

There were about 21% fewer training jobs for apprentices in May 2020 than in May 2019. By the end of May 2020, about 8,835 persons were looking for an apprenticeship (about 71% more than in May 2019) and there were about 4,585 open apprenticeship posts (AMS, 2020). Applicants who cannot find a training post or whose firm folded will have access to an apprenticeship training through the PES.

The government ruled that the training period for apprentices can be reduced during short-time work, this is currently possible until August 2020. Accordingly, the duration of an apprenticeship can be shortened by up to four months if the apprentice was subject to short-time work. The training durations cannot be extended if the apprentice missed training time due to short-time work.

Journeyman's exams were suspended until May and were re-instated after May 4th. The government provides financial support for apprentices who could not take their final exams due to the crisis and suffer income losses (some 3,700 apprentices of about 7,300 who could not take their exams).

Figure 7: Unemployment, by age and education, change on previous year.



Source: Arbeitsmarktservice Österreich, WIFO.

The government announced in early June 2020 that it plans to subsidize firms for each apprenticeship that started between March and October 2020 with €2,000.[2] Firms will also receive the subsidy if they train an apprentice who is currently in the first year of training with the PES, for starts up to March 2021. Small firms with up to 9 employees will receive an additional bonus of €1,000 per apprentice; medium-sized firms with 10 to 49 receive an additional bonus of €500 per apprentice.

The increase in persons claiming unemployment benefits, including ALMP training, for people under 25 years of age was less than for workers between 25 and 64 years of

2 An apprentice's gross wage depends on the industry's collective bargaining agreement and ranges between €550 and €900 gross per month (WKO, 2020).

age and was initially about as strong as for people aged 55 and over (Figure 7). In recent months, the unemployment figures developed somewhat more favorably for the young than for the other age groups. In September, registered unemployment was up by 11.4% in the age group under 25 years, against +25.1% and +21.7% in the other two age groups displayed in the graph.

The reduction in employment did however affect the youngest cohorts more strongly than the other age groups. The decline in employment recorded in April amounted to close to 9% for young workers (under-25s: -36,997 or -8.8%) and it was less pronounced for the 25-54 age group (-153,287 or 5.6%). In contrast, the number of persons employed in the 55+ age group rose slightly (+4,360 or +0.8%) (Bock-Schappelwein et al., 2020). In August, employment of the young was still 3% below the previous year, compared to a reduction by 1.7% for those in prime working age and an increase by 3.2% for older workers. The situation of apprentices continues to be dire, the number of available training posts in September 2020 is 18% lower than in September 2019, while the number of persons who are looking for a training post is almost 5% greater. In an international comparison, however, the seasonally adjusted unemployment rate for youth is with 10% well below the EU27's average of 17%.

Policy innovations and labor market trends

The extensive use of short-time work prevented many redundancies and an even greater rise in unemployment. As in the 2009 financial crisis, the negative effects of an economic crisis can be significantly mitigated by reducing working hours.

In the medium-term, however, employment will depend strongly on how the international demand for goods and services will develop. The Austrian Institute for Economic Research (WIFO) estimates that, conditional on keeping the pandemic under control in the coming months, the economy will shrink by close to 7% in the current year. Next year, expected growth of GDP will be 4.4% which only partially compensates for this year's losses. The unemployment rate is expected to rise to almost 10% (according to the national definition and compared to 7.4% in 2019) and only slowly improve to close to 9% next year.[3] The outlook might deteriorate considerably in a more pessimistic scenario, according to which the pandemic is not contained in the coming months and continues to severely disrupt the economy.

Nevertheless, even in a favorable scenario there is a risk that unemployed people who have slim chances of re-employment will remain unemployed for a long period. For example, persons who have health problems or the long-term unemployed had already lower chances of re-employment and their situation may worsen over the coming months. There is a risk that even during an upswing phase, they will feel the effects of increased competition in the labor market. The same can be said of the youngest cohorts, and of labor market entrants in general, who based on the evidence from previous crises are expected to experience long-lasting scarring effects. These fears are compounded by data on the number of long-term unemployed. According to recent data released by the PES, in September long-term unemployment was up 44.5% (compared to 22% for all registered unemployed and training participants) relative to the previous year (AMS 2020b). This number refers to workers who have been registered as unemployed for more than a year (interruptions of up to four weeks are not counted to this effect).

3 The unemployment rate according to the labor-force concept is expected to increase to 5.4% in 2020 (from 4.5% last year) and then decline to 5% in 2021.

Next steps and fiscal viability

Policy measures in Austria since the start of the pandemic aimed to help businesses survive and to cushion employment losses. However, uncertainty about the future development of the infections lowers demand and global supply chains are disrupted. With the start of autumn, infection numbers have been on the rise, with negative consequences for the recovery. The touristic sector, which had partially compensated the losses of the lockdown period during the summer months (at least outside the cities), was hit severely by travel restrictions on Austrian regions with high infection rates imposed by Germany and other countries. As the increasing concentration of short-time work on manufacturing jobs and some instances of mass-layoffs show, the outlook is dire for parts of the manufacturing industry, too. There is concern that a substantial number of businesses will have to fold towards the end of this year and in early 2021. This will undoubtedly have implications for employment levels.

Policies so far have focused primarily on minimizing job destruction, with little or no measures to foster job creation. As the extensions of the short-time work scheme and of the hardship fund indicate, these policies will continue to play an important role in the coming months. Future policies will however have to focus more strongly on job creation, for instance through government investment and spending on infrastructure such as public transport or the renovation of schools. Substantial efforts will have to be made to address the situation of vulnerable labor market groups and their households, who risk to face long-lasting negative consequences from the pandemic in terms of employment and income perspectives. To this end, close monitoring and scrutiny of socioeconomic indicators will be important, with focus on the development of different dimensions of inequality, including gender gaps.

The fiscal impact of the crisis and of the costs resulting from the crisis response measures is still difficult to gauge, but is certainly going to lead to a record budget deficit. The most recent WIFO forecast predicts that the deficit will reach -9.4% of GDP in 2020 and -4.7% of GDP in 2021. In addition to the initial €38 bn. rescue package, the government implemented a reform of the income tax, which lowered the entry tax rate from 25% to 20%. This reform was applied retroactively to January 2020 with the goal to support household incomes. In addition, the government decided to boost low pensions (up to €1.000), with an increase by 3.5%. This adjustment is well above the inflation rate for the reference period (1.5%). On average, pension incomes will increase by 1.8%. Other measures to support employment, fight the recession, and stimulate aggregate demand are being discussed.

The yields on government bonds rose slightly during the first weeks of the pandemic lockdown, but they declined again thereafter and are currently negative. Against this backdrop, sustainability of the Austrian public debt is currently not a primary concern.

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