

IZA COVID-19 Crisis Response Monitoring

## Austria (December 2021)

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## ABSTRACT

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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

The impact of the COVID-19 pandemic on the labor market is closely linked to the lockdowns and related restrictions on economic activity imposed by the Austrian government and by regional authorities in response to the different waves of the pandemic.

### Overview of lockdowns and major restrictions on economic activity

The Austrian government imposed a first lockdown on March 16, 2020. The measure included school closures, a curfew and a ban on the opening of shops, with the exemption of shops selling food, drugs or medical supplies; restaurants could sell take-out meals. The restrictions were gradually relaxed in sub-sectors of retail trade (opening of shops with less than 400 square meters of sales area, but also larger DIY stores, garden centers, timber shops) after mid-April (Easter holiday) and further at the beginning of May (other retail trade, personal services, outdoor sports). In mid-May 2020, restaurants, museums, and certain schools were allowed to open for business, the reopening of the hotel sector and relaxations in the arts and culture sector and in sports, and all remaining schools followed at the end of the month. Over the summer, the situation largely normalized, and most pandemic measures were lifted.

A second COVID-19 wave started to mount in autumn, however, and after attempts to address the surge in infections with limited measures (“lockdown light”), a second hard lockdown was imposed from mid-November to early December. For restaurants and hotels, sport facilities, events, leisure and cultural facilities these restrictions remained in place until 18 May 2021; see e.g., Bock-Schappelwein, Huemer, and Hyll (2021). From immediately after Christmas Day to early February 2021, a third lockdown was imposed.

In the following period, new virus mutations started to spread in Austria, leading to wide regional differences in infections and a partial shift in pandemic policy response from the national to the regional level. Tyrol, a province with intense tourism in the West of the country, was temporarily isolated from the rest of the country in an attempt to combat the spreading of virus mutations. The three eastern provinces of Lower Austria, Burgenland, and Vienna entered a new hard lockdown with curfews at the start of April 2021. The hard lockdowns ended in mid-April in Burgenland and on May 3, 2021 in Vienna and Lower Austria. Restaurants and touristic activities were allowed to re-open nationwide, albeit with restrictions, on May 19. In the following weeks, the Austrian government implemented successive steps to normalize economic and social life. Access to restaurants and numerous other activities and services, including hotels, cinemas and personal service providers, started however to be governed by the so-called “3-G”-rule. The 3-G rule requires people to show upon entry that they are either vaccinated, have recovered from an infection within the previous six months or were negatively tested for Covid during the last 48 hours.

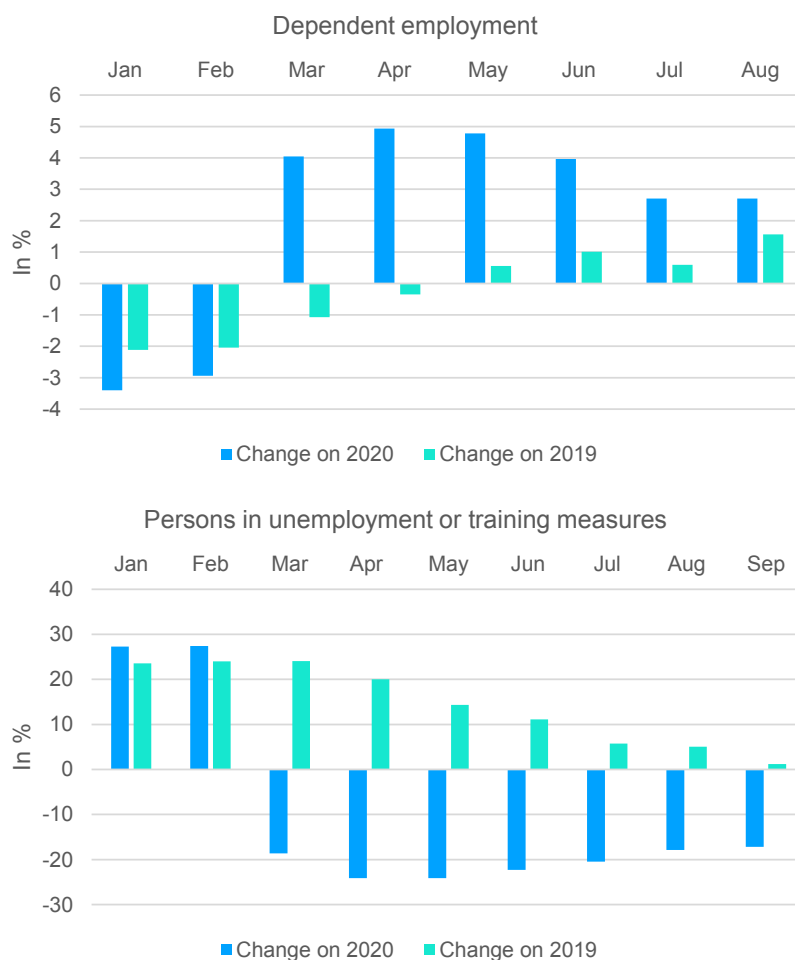
### Developments during and immediately after the lockdown

The COVID-19 pandemic and the measures to contain it had a dramatic impact on the labor market (Figure 1). As a result of the first lockdown, the number of employees in active employment plummeted in spring 2020 (March -4.9 percent, April -5.0 percent year-on-year). As the economy rebounded and summer tourism picked up, the gap in the number of employees in active employment gradually narrowed to 1.0 percent year-on-year by September, but grew again to 3.3 percent by the end of the year due to the second lockdown in November and the loss of the winter tourism season. On average for 2020 – including the months before the first lockdown – the number of employees in active employment was 2.0 percent (76,108 jobs) lower. The Corona short-time work prevented an even greater loss in employment.

Unemployment rose within a few days in mid-March 2020 to its highest level since 1945. The rise only eased somewhat with the gradual restart of the affected economic sectors and

the start of the summer tourist season. Towards the end of the year, however, it increased again due to the discontinuation of the winter season. While unemployment had risen in spring primarily because many people became unemployed, it increased in winter because exits from unemployment fell drastically due to the discontinuation of the winter season. In contrast, entries into unemployment in winter 2020 were only slightly above the previous year's level. The lockdowns in autumn 2020 and winter 2020 had a less dramatic impact on the labor market than the first lockdown in spring 2020. On average, the number of unemployed registered with the Public Employment Service (PES) rose by 108,312 or 35.9 percent to 409,639 (men +34.4 percent, women +37.8 percent) in 2020. The unemployment rate (national calculation method) increased to 9.9 percent, reaching the highest level since 1945 (Bock-Schappelwein et al., 2021).

**Figure 1:** Dependent employment in Austria and number of registered unemployed (persons in unemployment or training) in 2021, changes on 2020 and 2019



Source: DVSV, AMS, own calculations.

### Developments since the end of the lockdowns

On 19 May 2021, restaurants (indoor and outdoor), sports, leisure and the cultural sector, hotels as well as public baths were allowed to reopen under special safety precautions after more than half a year. For a meaningful year-on-year comparison, data for 2021 are compared to the corresponding pre-crisis months of 2019 (Bock-Schappelwein et al., 2021). In May 2021, employment returned to pre-crisis level and in August 2021, employment was 1.6% above the pre-crisis level. However, not all sectors were able to recover to pre-crisis levels. The contact-intensive sectors, i.e., hotels and restaurants, sports, leisure and the cultural sector, transport and personal services, which were particularly affected by the crisis, remained below the pre-crisis levels.

From March 2021 onwards, unemployment did fall year-on-year, and in September 2021 unemployment was 22.4% below the previous year's level (including people in PES training measures -17.2%); however, pre-crisis level was not quite reached (+1.2% compared to September 2019, including people in PES training measures). Bock-Schappelwein et al. (2021) stress that despite the recovery in employment, the situation on the labor market is still tense. The dynamics in the city hotel industry (business travel, tour operators) and in transport (land and air transport) are likely to remain subdued.

Unlike dependent employment, which was characterized by massive employment losses at the beginning of the crisis, self-employment remained almost unchanged. Only in the case of 24-hour care workers from abroad was there a noticeable decline (Mayrhuber et al., 2020). According to Bock-Schappelwein, Fink, Mayrhuber, and Rocha-Akis (2021), the impact of the crisis on the self-employed is however only partially reflected in employment data. The actual impact on this group of workers is still largely unknown, as it unclear how much the incomes of the self-employed have fallen in 2020. The analysis by Bock-Schappelwein et al. (2021) suggests that households with several self-employed were particularly hard-hit by the COVID-19 crisis and that the crisis appear to have increased the polarization of self-employment income. It is likely that the inequalities that already existed within the group of self-employed will become even more pronounced.

## Orientation and targeting of adopted measures

To soften the impact of the pandemic on the labor market, the government introduced several initiatives. Loretz, Pitlik, and Schratzenstaller (2021) provide a comprehensive overview of the COVID-19 assistance measures and the targeted groups. They show that a large part of the COVID-19 assistance measures were aimed at firms (a subsidy for fixed costs ("Fixkostenzuschuss"), a compensation for loss of revenue ("Lockdown-Umsatzersatz"), a Corona short-time work scheme, guarantees and liabilities, and other measures (a refund for continued wage payments for workers who required time-off for the care of family members, a bonus for apprentices, and a compensation for wage payments of workers who belong to a high risk group). The self-employed, freelancers, and small enterprises could apply for additional financial resources from a "hardship" fund, an artists' support fund or a start-up and recovery support fund. A credit moratorium was also foreseen. Social transfers were granted in particular for families and unemployed people. Tax measures primarily relieved companies, however, some tax measures were directed at households.

The framework for COVID-19 assistance measures by the federal government comprised, as shown by Loretz, Pitlik, and Schratzenstaller (2021), about €50 billion, corresponding to 12.5% of GDP. The largest items are the Corona short-time work (€13.5 billion), fixed-cost subsidy (€12 billion), guarantees and liabilities (€11 billion), and tax reliefs (€10 billion). This framework represents a budgetary ceiling that does not necessarily have to be fully utilized. According to the BMF (2021), the payments from the federal budget for the COVID 19 crisis amounted to a cumulative total of € 25.9 billion in 2020/21 by mid-August 2021 (11.5 billion in 2021). Of this, €8.9 billion (2020/21) were paid for Corona short-time work, €8.7 billion for the fixed-cost subsidy and the compensation for loss of revenue, and € 2.2 billion for the hardship fund.

## Immediate liquidity support to businesses

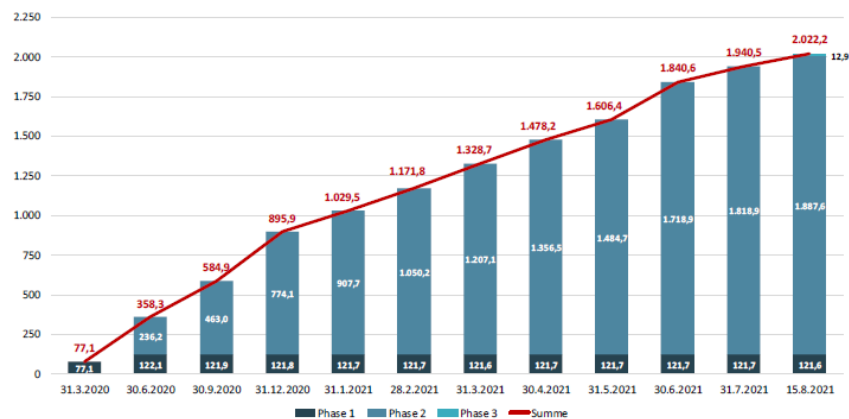
In the course of the last one and a half years, a number of different measures were implemented to support firms, freelancers, and the self-employed.

At the start of the pandemic, 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. In June 2021, the fund's budget was increased to €3 billion. A Corona-support fund, which also received more budget, also provides partial support for fixed costs such as rent or interest payments.

In a first phase (from March 27, 2020), 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 in April 2020 and was successively extended to July 2021. The fund now provided up to €2,000 per month for up to three months. Further adjustments to the hardship fund were aimed at increasing its flexibility and the accessibility for specific groups. For instance, applicants could claim support for three months within a six-month window. A third phase of the scheme was introduced thereafter and is in place until the end of October 2021. In total, over the three phases of the scheme about €2 billion were paid out (Figure 2).

**Figure 2:** Financial support through the hardship fund (in mio. €)



Source: BMF (2021).

At the beginning of the pandemic, 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 aimed to relieve temporarily the liquidity situation.

Businesses experiencing a significant drop in revenues may apply for a payment towards the fixed costs, such as rent, interest payments, license fees, et cetera ("Fixkostenzuschuss"). The application for grants to cover fixed costs started in May 2020 and entrepreneurs had to have a loss in revenue of at least 40% due to the pandemic to be

eligible for support. For a drop of revenues between 40 to 60%, businesses could receive 25% of their fixed costs, for a drop between 60 and 80% they could receive 50% of their fixed costs, and they could receive 75% of their fixed costs if they experienced 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). In November 2020, a new, additional variant of the fixed costs refund scheme was implemented (“Fixkostenzuschuss 800.000”), with the specific aim to support firms that were hit by the new wave of restrictions set in place because of the autumn resurgence of the pandemic. The major novelties consisted in a reduction of the minimal loss of revenue required to apply for the scheme (30% instead of 40%) and in an expansion of the fixed costs categories eligible for refund.

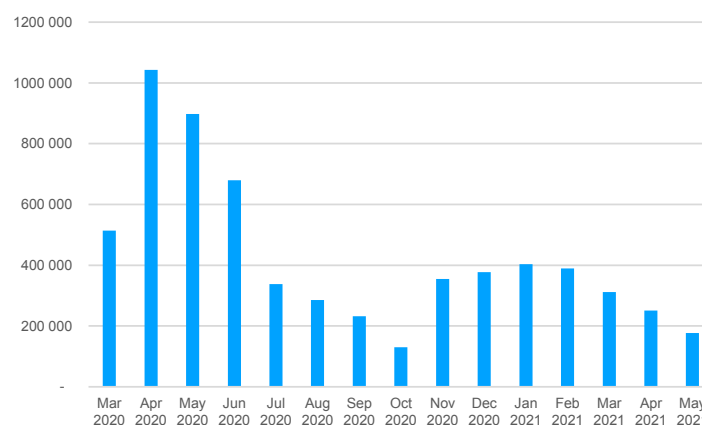
By August 15, 2021, close to 100,000 companies had received support through the first fixed costs support scheme, for a total expenditure of €1.1 billion (BMF, 2021). The vast majority of the approved applications (83.6%) came from small companies with a grant amount of less than €10,000. Another €450 million were disbursed through the “Fixkostenzuschuss 800.000” scheme, covering about 18.000 firms and average grants of about €30,000.

## Support of dependent workers

### The short-time work scheme

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 was increased in several steps to €12 billion by mid-May 2020 and currently amounts to €13.5 billion. According to the latest figures, the short-time work scheme resulted in costs of about €5.5 billion in 2020 and another €3.4 billion were paid out by mid-August 2021, for a total of €8.9 billion (BMF, 2021).

**Figure 3:** Number of workers on short-time work (realized values)



Source: Bundesministerium für Arbeit, <https://www.bma.gv.at/Services/News/Aktuelle-Arbeitsmarktzahlen.html>. The values of March, April and May 2021 will increase after accounting for all lost hours is completed.

Figure 3 shows that the number of workers on short-time work was highest during the first lock-down, topping 1 million workers in April 2020. The numbers decreased in the following months and reached their lowest level in autumn. The second and third lockdowns resulted in a new spike in short-time work, with about 400.000 workers (more than 10% of the dependent workforce) benefitting from the scheme between November 2020 and February 2021. The end of the lockdown and the gradual relaxation of restrictions led to a reduction in short-time work, but in May the scheme still covered over 177.000 workers. This number



is likely to increase once accounting for all lost hours will be completed. The PES approved applications covering 330.000 workers in May and close to 300.000 workers in June, but firms do not necessarily have to actually use all the approved resources.

The share of people in COVID-19 short-time work averaged close to 12% of active employment between March 2020 to March 2021 (AMS, 2021a). Short-time work was used with particularly high intensity in tourism, where 45% of all employees were covered by the scheme, and entertainment, with a share of 35%. In retail and in the manufacturing sector, respectively about 18% and 15% of active employees were on short-time work on average between March 2020 and March 2021.

In terms of policy design, we can differentiate between five different phases of the scheme.<sup>1</sup> Throughout the time, the social partners played a central role in shaping and adapting the policy. In March 2020, the COVID-19 short-time work was introduced as an adaptation of the previously existing short-time work arrangement, with the intention to keep employees employed even if there is little or no work. It was limited to a maximum of 6 months (divided in two periods of three months each); employees' wages were paid by the PES with a replacement rate varying between 80% and 90% (depending on the wage level). Firms' social security contributions for their employees were refunded in full. The average working time over the period had to be between 10% and 90% of the regular working time, allowing for shorter periods of 0% working time. It was thus more generous than the existing short-time work program. Firms had, however, to pay their workers in advance and were refunded later, which could lead to liquidity problems for some firms.

The first three-month phase 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 2020, a new phase with adapted regulations begun, with the possibility to extend short-time work to March 2021. The most important difference with respect to the first two phases concerned the extent of the reduction of working hours. The reduction was restricted to a minimum of 30% and a maximum of 80% (previously at least 10% and max. 90%). This new requirement was 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 were to be created in cooperation with the PES. The linking of short-time work with further training was also aimed at the reduction of deadweight and displacement effects. However, this training requirement was not binding and it remains to be seen to what extent further training is taken up. The agreement on which the short-time work scheme is based was renewed by the social partners for a third time, covering the period April to June 2021 (phase 4). The scheme essentially corresponded to the previous, third phase.

With the gradual improvement of labor market indicators and the normalization of economic activity, calls for further restricting the use of short-time work grew louder. As of July, 1 a fifth phase begun and currently two different COVID-19 short-time work models are in place. An unchanged variant for companies facing particular hardship and a transitional model with reduced funding levels applying to all other firms. For the latter, the aid is reduced by 15% compared to phase 4 and will thus amount to 85% of the aid previously

<sup>1</sup> Detailed information on the different phases of the COVID-19 short-time arrangements can be retrieved from documentation provided online by the Austrian Economic Chambers (<https://www.wko.at/service/corona-kurzarbeit.html>).



paid out. In addition, in these firms short-time work is restricted to at least 50% (previously 30%) of normal working hours (with the possibility of exceptions). This model will be in place until the end of June 2022. Firms facing particular hardship have been defined as those with a drop of at least 50% in revenues in Q3 2020 compared to Q3 2019, or establishments that must remain closed due to pandemic measures taken by authorities. For this second category of firms, the rules of the scheme continue to remain broadly the same as before. This more generous variant of short-time work is set to phase out with the end of this year.

### **Other labor market policies**

During the first lockdown period, activating labor market policies (ALMP) and especially training activities carried out by the PES came to a halt. Training measures for unemployed persons started again in mid-May 2020 and attendance of further education started from the end of that month. In the following months, the absolute number of persons in training reached pre-crisis levels, but ALMP was still lower than in the previous year relative to the number of workers registered with the PES. To expand training and re-qualification, towards the end of the year the government announced a new initiative (“Corona Job Offensive”), funded with about €700 million up to the year 2022.<sup>2</sup> The bulk of these funds (485 million euros) were allocated to qualification measures and job search assistance (100 million euros).

With respect to passive labor market policies, the most important change implemented in response to the pandemic 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 2020, the unemployment assistance benefit was increased to the level of unemployment benefit, with retroactive effect from mid-March. This temporary measure was originally scheduled to expire at the end of September 2020 but has been successively extended and was valid until the end of September 2021.<sup>3</sup>

Moreover, all persons receiving transfers related to unemployment (i.e. unemployment benefit, unemployment assistance or “bridging” benefits) were entitled to receive additional one-off lump-sum transfers at two different points in time in 2020. The first lump-sum transfer amounted to €450 and was paid out to those unemployed during summer 2020, the second transfer varied between €150 and €450 (depending on unemployment duration), and was paid out to persons unemployed between September and November. In total, these lump-sum payments resulted in expenditures of €365 million.

## **Working conditions and work organization**

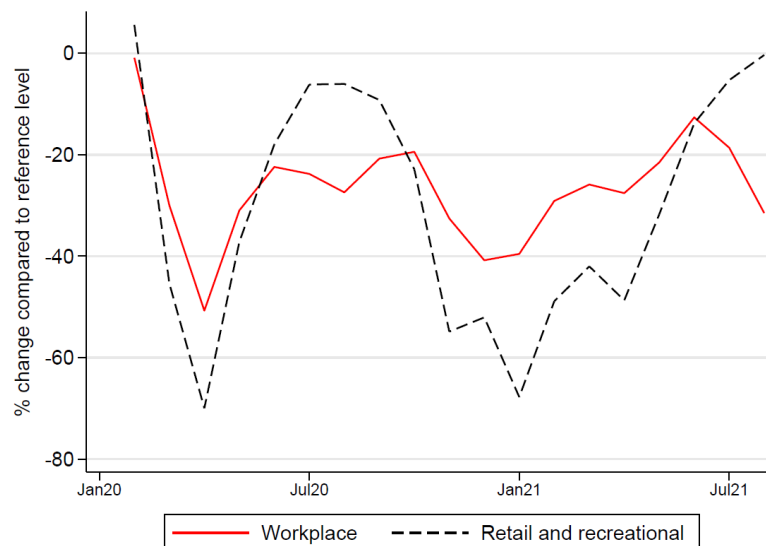
The lockdowns resulted in momentous changes in work organization, and their effects are still reverberating. The most important effect of the pandemic was to increase widely the use of home-office work, which until then was very limited in Austria. Figure 4 displays data collected by Google and provides information on the visits and lengths of stay in different categories of places. As can be seen in the graph, there is a strong correspondence between the pattern of visits to workplaces and retail/recreational places and the lockdowns. The first lockdown immediately reduced workplace activity and, even more so, visits to places such as shopping malls, restaurants, cafes, museums and cinemas. In summer 2020 and particularly in summer 2021, when the lockdowns ended and (most) mobility restrictions were lifted, activity in retail and recreational places returned to a “normal” level. Workplace activity, on the other hand, has consistently remained below the pre-pandemic

<sup>2</sup> See <https://www.ams.at/regionen/osterreichweit/news/2020/11/corona-joboffensive-laeuft-an-13112020>.

<sup>3</sup> See [https://www.parlament.gv.at/PAKT/PR/JAHR\\_2021/PK0693/index.shtml](https://www.parlament.gv.at/PAKT/PR/JAHR_2021/PK0693/index.shtml).

reference level throughout the period. Although the end of the lockdown periods is clearly visible in the data, with a rapid increase in workplace visits, workplace activity has not yet reached the pre-pandemic level. This can be seen as a clear sign that home-office work has attained a more permanent status.

**Figure 4:** Mobility trends in Austria during the Covid-19 pandemic



Source: Google LLC "Google COVID-19 Community Mobility Reports"; authors' calculations. The data are available under [www.google.com/covid19/mobility](https://www.google.com/covid19/mobility) and were accessed on August 10, 2021. 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. Retail and recreational places include restaurants, cafes, shopping malls, amusement parks, museums, libraries and cinemas.

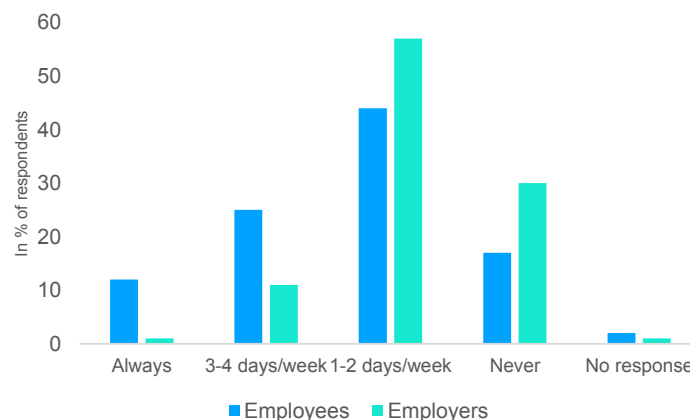
This pattern is confirmed by survey data indicating that working from home was widely adopted. According to a study commissioned by the Ministry of Labor, 39% of all employed persons, or 1.5 million Austrians, worked in a home office at least some of the time in 2020 (Bundesministerium für Arbeit, 2021). Restricting the analysis to those who were able to work from home, this share increases to over 50%, in the private as well as in the public sector. For the majority of the employees it was their first time working from home. The large majority of employees who did not work from home during the pandemic stated that home-office was not possible because of the type of their job. A company survey from the early phase of the pandemic indicates that, in addition to implementing short-time work and allowing their workers to work from home, numerous companies also strived for a reduction of saved vacation days and time credits accumulated by employees in previous periods (Hölzl, 2020).

The crisis impacted the working conditions and working arrangements of 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 2020 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. This is confirmed by more recent data covering the whole year 2020, showing a home-office diffusion of about 65% percent among workers with tertiary education, but only about 25% among workers with compulsory education (Bundesministerium für Arbeit, 2021). While close to 60% of white-collar workers used home-office, this was the case for less than 10% of blue-collar workers. The available data also indicate a clear gradient by firm size: Virtually all large firms, but only about 80% of medium-sized firms and about

60% of small firms implemented (additional) forms of mobile working. Not surprisingly, a sectoral disaggregation shows that home-office was less common in the construction industry, in retail and in tourism (with about 50% of firms reporting an (increased) use of this instrument) than in other industries (Hölzl, 2020; Bundesministerium für Arbeit, 2021).

These data refer to the past year, but currently many firms still allow workers to work from home. In some cases, such as larger firms where workplaces are organized in open-plan offices, this can be motivated by the fact that workplace organization makes it difficult to apply hygiene rules. To a larger extent however, the lower level of workplace visits shown in Figure 5 likely reflects the positive experiences made with home-office during the lockdowns and the wish of employees but also employers to use this instrument for flexible work on a permanent basis. Survey data indicate that work from home has functioned well in the majority of cases from the point of view of both employees and employers (Bundesministerium für Arbeit, 2021). Positive effects were reported in relation to productivity and work outcomes such as the acquisition of new skills and smooth maintenance of work operations, as well as high employee satisfaction with the impact of home-office on the quality of life. For a significant share of employers (45% of surveyed companies), home office has resulted in reduced operating costs. The effects of home-office work on communication, cooperation, working atmosphere and social aspects were assessed much more critically.

**Figure 5:** How much home-office should be possible (if home-office work is a viable option)?



Source: Bundesministerium für Arbeit (2021).

The likely scenario for the future is one in which home-office work will become a standard for many employees in Austria. However, this will be less of a general shift toward mobile work and more of a coexistence between the traditional workplace and the home office (Bundesministerium für Arbeit, 2021). As we can see in Figure 5, four out of five employees wish to be able to work from home, with a relative majority wanting one or two home-office days per week. Employers are less keen than employees on allowing home-office for three, four or five days a week and the share of those who do not want home office at all is higher than among workers (about 30% vs. 17%). Close to 60% of employers have a favorable view of one or two home-office days per week.

The enhanced importance of home-office has led the Austrian government to implement (moderate) tax benefits to support this form of work.<sup>4</sup> Employees will be able to deduct costs of up to 300 euros for ergonomically suitable furniture (e.g. swivel chair, desk or lighting), under condition that they work from home at least 26 days per year. In addition, payments by employers to compensate employees for additional costs incurred in

<sup>4</sup> See [https://www.oesterreich.gv.at/themen/steuern\\_und\\_finanzen/arbeitnehmerveranlagung/Steuerliche-Homeoffice-Regelungen.html](https://www.oesterreich.gv.at/themen/steuern_und_finanzen/arbeitnehmerveranlagung/Steuerliche-Homeoffice-Regelungen.html).

the home office will not be taxed from 2021 onwards up to 300 euros per year – a maximum of 3 euros per day for a maximum of 100 home office days.

Although less visible and more difficult to quantify with data, the pandemic has most likely provided a further boost to digitization trends in the Austrian economy.

## New labor market entrants

Bock-Schappelwein, Famira-Mühlberger, Huemer, and Hyll (2021) show that although the consequences of the COVID-19 crisis affected all age groups, they hit young workers particularly hard, especially, within the group of young workers, the age group 20 to 24 (see Table 1). They are not only relatively often employed in particularly affected sectors, but due to their short labor market integration they are also among those that lose their jobs first in the event of a crisis. The reluctance of companies to hire new staff also reduces the labor market opportunities of young people and young adults. By far the highest employment losses were recorded by young workers at the beginning of the crisis in March and April 2020 and in the second lock-down, when winter tourism was cancelled. In addition to young adults, young people up to the age of 19 were hard hit by the crisis until the summer, as the supply of short-term summer jobs was significantly below the previous year. Youth employment did not return to pre-crisis levels until summer 2021.<sup>5</sup>

**Table 1:** Extended unemployment rate by personal characteristics

	2019 Percent	2020 Percent	Change 2019/20 Percentage points
<b>Total</b>	<b>8.7</b>	<b>11.2</b>	<b>+2.4</b>
<b>Gender</b>			
Men	8.8	11.2	+2.4
Women	8.7	11.1	+2.5
<b>Age groups</b>			
Until 19 years	12.2	12.7	+0.5
20 to 24 years	10.8	14.2	+3.4
25 to 54 years	8.0	10.5	+2.5
From 55 years	10.1	12.1	+1.9
<b>Highest level of education completed<sup>1)</sup></b>			
Compulsory education	27.0	32.3	+5.3
Apprenticeship	6.8	9.1	+2.3
Secondary technical and vocational schools	4.0	5.2	+1.1
Academic secondary school, colleges for higher vocational education	5.4	7.3	+1.9
Tertiary education	3.7	4.4	+0.7

Source: Public Employment Service Austria, Federation of Austrian Social Insurance Institutes, Statistics Austria, WIFO calculations. Extended unemployment rate ... Unemployed and persons in training as a percentage of extended labor supply. - 1) Qualification structure of employed persons according to the Labor Force Survey 2019 and 2020, based on persons with a normal working week of at least 12 hours.

<sup>5</sup> The demographic framework must however be taken into account: the age group of 15 to 19 year-olds declined by -0.6 percent between the beginning of the year 2020 and 2021, according to the population statistics (Statistics Austria, 2021). Between 2019 and 2021, the decline was -0.9 percent. The group of 20 to 24 year-olds declined by -2.1 percent (2019/21: -4.5 percent).

The Corona crisis also left clear traces on the Austrian apprenticeship system. According to Endel, Gamper, and Schwingsmehl (2021), the number of people who started an apprenticeship fell by 7.2% in 2019/20, and the number of apprenticeships fell by 2.4%. Companies that employed a new apprentice between 16 March and 31 October 2020 received a bonus of €2,000, and eligible small firms received an additional bonus of €1,000 or €500.<sup>6</sup> Support for apprentices in COVID-19 short-time work has been extended until 30 June 2022. In addition, firms that train an apprentice from an insolvent or a closed company receive a bonus of €1,000.<sup>7</sup> The disruption of teaching led fewer young people to continue formal education beyond compulsory education. In 2020, about 8.1% of people aged 18 to 24 had no further formal education beyond compulsory education (AMS, 2021b). In 2019, this number was 7.8%. The number of young people between 15 and 24 who are neither in employment nor in education (NEET) increased during 2020, this increase was driven by a higher number of male NEETs, while the number of young women declined (AMS, 2021b).

The labor market situation for young people, aged 15 to 24, improved over the first half of 2021 (AMS, 2021b). Since May 2021, the unemployment rate of young people has been below the unemployment rate of 2019. Despite this decrease and an increase in employment, the employment rate of young people in July 2021 was still below pre-crisis levels. The recovery for young persons is also evident in the number of apprenticeships, in August 2021, there were about 9,270 vacant apprenticeships, roughly 21% more than in August 2020.

## Next steps and fiscal viability

The economic situation in Austria improved after May 2021 and the Austrian Institute for Economic Research (WIFO, 2021) estimates that, conditional on keeping the pandemic under control in the coming months, the economy will grow by about 4.4% in 2021. Next year, GDP growth is expected to be 4.8%. The outlook might deteriorate in a more pessimistic scenario, according to which the pandemic is not contained in the coming months and continues to severely disrupt the economy. However, the recovery is not evenly distributed across sectors: In manufacturing, the strong recovery led to problems with the supply of raw materials; in the service industry, restrictions such as masks and 3G-testing might affect productivity. Tourism recovered during 2021, but the outlook for the winter season 2021/22 is cautious.

The deficit will be about -6.3% of GDP in 2021 (after -8.3% in 2020). For the year 2022, WIFO predicts a deficit of -1.9% of GDP. In addition to the initial 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% in 2021 and by 3% in 2022. These adjustments are well above the inflation rate for the reference periods (1.5% and 1.8%). These measures, coupled with a comprehensive tax reform that the government proposed in October 2021 and new financial incentives for firms to invest in infrastructure, are set to support aggregate demand.

The upswing is leading to an unprecedented recovery on the labor market: The number of job vacancies rose sharply in the first three quarters of 2021, while unemployment fell by one fifth (WIFO, 2021). The unemployment rate is expected to decline from almost 10% in 2020 to about 8.2% in 2021 and 7.4% in 2022 (according to the national definition and compared to 7.4% in 2019). The favorable development since spring 2021 should however

<sup>6</sup> <https://www.wko.at/service/bildung-lehre/lehrlingsbonus-neu-aufgenommene-lehranfaenger.html>

<sup>7</sup> <https://www.wko.at/service/bildung-lehre/foerderungen-lehre.html>

not hide the fact that the crisis on the labor market has not yet been overcome: Particularly in the severely crisis-ridden sectors of hotels and restaurants, arts, entertainment and recreation, transportation and other personal service activities, employment remains below pre-crisis levels, whereas unemployment is significantly elevated.

Employment levels in 2021 are estimated to surpass pre-crisis levels. Nevertheless, even in a favorable scenario where there is no further Covid-19 wave, there is a risk that unemployed people who have slim chances of re-employment will remain unemployed for a long period. Persons who have health problems or the long-term unemployed had already lower chances of re-employment before the pandemic and their situation may worsen over the coming months. There is a risk that even during the upswing, 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 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 by the PES, in August 2021 long-term unemployment was up 14.4% relative to the previous year, and by 57.5% relative to the same month in 2019 (AMS, 2019; 2020; 2021c). These numbers refer 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).

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 and the situation of self-employed workers.



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