

COVID-19 socio-economic responses in Austria

ESPN Flash Report 2020/47

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AUGUST 2020



Description

Lockdown measures decided upon for containment of the COVID-19 pandemic have had a very substantial impact on the labour market in Austria. Various measures were taken to mitigate the socio-economic impact of these developments. A short-time work scheme substantially helped to stem the increase of unemployment and stabilise workers' incomes. However, measures to ease the situation of people actually facing unemployment appear to be much less comprehensive.

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The Austrian Federal Government enacted far-reaching lockdown measures for containment of the COVID-19 pandemic, starting from 16 March 2020. As in most other EU countries, these measures included social distancing rules, travel restrictions, closure of schools and kindergartens, closure of all shops except for those providing essentials, closure of restaurants and hotels, a ban on public gatherings, and more general restrictions on accessing public space.

In order to cushion any adverse economic and social effects, a series of measures were implemented.

The instrument with the strongest direct effect on employment and income maintenance for workers is the "Corona Short-Time Work" (CSTW) scheme, decided on 15 March and revised several times since then. In the case of "temporary, non-seasonal economic difficulties due to the coronavirus" (e.g. caused by a drop in sales), working hours for company employees may be reduced to between 10 and 90% of the level of the original working time (during the period covered by the calculation, working hours can also be reduced to 0 hours temporarily). The wage replacement rate of the short-time compensation varies between 80 and 90% of the previous net salary, with the highest replacement rate applying in cases where the previous gross salary did not exceed €1,700 per month. Employers receive a refund of close to 100% of the costs associated with hours not worked because of CSTW; social insurance contributions and pro-rata costs for Christmas and holiday pay are also covered. However, employers have to pre-finance running expenses, which are only refunded by the Public

Employment Service once short-time work comes to an end in a company or after a "calculation period" of 3 months. The maximum total CSTW period may not exceed 6 months. The CSTW scheme is currently planned to expire in September 2020, but ongoing negotiations may lead to an extension, most likely in a revised form. The total public funds earmarked for CSTW amount to €12 billion, but the actual costs will only become evident during the processing of employers' CSTW settlements by the Public Employment Service.

Political debates revolved around the question of whether, and to what extent, the generosity of unemployment insurance benefits should be increased. On 28 April, it was decided that the level of unemployment assistance (*Notstandshilfe*) will be temporarily increased to the level of the unemployment benefit, which amounts to 55% of the previous net earnings, plus possible family allowances (starting retroactively from 16 March and until September 2020). Unemployment assistance may be granted once the maximum period for unemployment benefit has been reached, but the amount received is somewhat lower. It normally amounts to between 92 and 95% of the preceding unemployment benefit and is subject to different additional caps, depending on the insurance record and the age of the beneficiary. In July, it was decided that a one-off lump sum payment of €450 will be granted to all persons who have received unemployment benefit or unemployment assistance for at least 60 days between the beginning of May 2020 and the end of August 2020. This measure was criticised by some of the opposition parties, which argued that the wage replacement rate of the unemployment insurance is not very high in Austria by international standards, and

that it should be generally increased instead of only granting one-off lump sum payments.

Additional financial transfers have also been made available for families with children. A so-called temporary "Corona Family Hardship Fund" (*Corona Familienhärtefonds*) was introduced in April 2020, with an earmarked budget of €60 million. Families with children are eligible for a payment of up to €1,200 per month (depending on the household composition) in cases where, due to the COVID-19 pandemic, at least one parent became unemployed, or is on CSTW, or is self-employed and has financial difficulties because of the pandemic. This transfer may be granted for a maximum of three months and is subject to means-testing, i.e. the total household income may not exceed specific limits. A newly introduced "Corona Family Crisis Fund" (*Corona Familienkrisenfonds*) covers families with at least one parent who was already unemployed or on minimum income before the COVID-19 pandemic. However, these families are only eligible for a one-off payment of €100 per child. In July it was decided to grant a one-off lump sum transfer of €360 for every child, paid together with the universal family benefit in September 2020.

Other major measures include public credit guarantees for companies, deferrals of tax and social insurance payments, a "Fixed Costs Subsidy" (*Fixkostenzuschuss*), partly covering fixed costs of companies, depending on losses in turnover, and a so-called "Hardship Fund" (*Härtefallfonds*), aimed at partially compensating losses of personal income for self-employed persons. The compensation amounts to 80% of income losses over a period of three months and a cap of €2000 per month applies. This means that the total compensation may not exceed €6,000.

Furthermore, in July 2020 a stimulus package to further support the economy was enacted in response to the COVID-19 pandemic. Among other things it includes a new loss carryback option which makes it possible to offset operating losses incurred in 2020 against profits from 2018 and 2019, new opportunities for higher depreciation of different kinds of investment, a temporary reduction of value added tax (VAT) for specific goods and services (including tourism), and a reduction of the first income tax/wage tax bracket from 25% to 20% (applicable to taxable income between €11,000 and €18,000) with retroactive effect from 1 January 2020.



Outlook and commentary

Quite apart from introduction of the CSTW, registered unemployment has risen very substantially in Austria during the COVID-19 pandemic. The number of registered unemployed (including unemployed people involved in training measures) increased from 373,900 on 8 March 2020 to 588,234 on 13 April, i.e. by 57%. Since then, it has decreased stepwise, to reach 432,200 on 27 July. At the same time, the number of workers registered for the CSTW scheme rose from 67,500 by the end of March to 1.347 million by the end of May. Since then this figure has also decreased stepwise, to ca. 475,000 on 27 July. Overall, this means that the COVID-19 pandemic has had an enormous impact on employment. In May 2020, ca. 45% of the workforce, not counting the self-employed, was either on CSTW or unemployed. The situation has gradually improved since then, but it appears that especially for people aged below 25, adverse effects are likely to be of a more

structural character. This group faced a substantially above-average increase in unemployment, and recent improvement of the labour market situation appears to be comparatively small.

Measures taken to mitigate adverse social consequences via social transfers have initially been temporary in nature, or have taken the form of one-off lump sum payments. They are not part of a more structural reform of, for instance, unemployment insurance or the minimum income scheme, the benefit levels of which are often insufficient to make ends meet. Furthermore, substantial problems occurred with the implementation of specific measures such as the "Hardship Fund" and "Corona Family Hardship Fund", partly due to complicated rules and a lack of facilities to process applications.

Overall, the CSTW has substantially mitigated the adverse employment and financial effects of the COVID-19 pandemic on workers. However, for those people who were not eligible for this scheme and are, or have newly become, unemployed the situation appears to be much more problematic. For them, it appears that the newly introduced temporary measures and their repeated incremental adaptation were often not sufficient to provide quick, non-bureaucratic and adequate support.

Further reading

[Information on "Corona Short-Time Work" \(CSTW\) and the "Corona Family Hardship Fund"](#)

[Information on the economic stimulus package \(July 2020\)](#)

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Quoting this report: Fink, M. (2020). *COVID-19 socio-economic responses in Austria*, ESPN Flash Report 2020/47, European Social Policy Network (ESPN), Brussels: European Commission.