Business perspective and policy recommendations

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Old assets on the books?

**Austria: declining net investment ratio**
Gross investment ratio minus depreciation, in relation to the gross production value of non-financial corporations, in %

Significant drop in the net investment ratio since the year 2000: more than 60 %

Source: Statistics Austria
Business perspective

Expectations regarding the next 12 months according to firm size, Net balance between positive and negative answers

<table>
<thead>
<tr>
<th>Category</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic climate</td>
<td>-16</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>New orders</td>
<td>0</td>
<td>0</td>
<td>11</td>
</tr>
<tr>
<td>Overall revenue</td>
<td>24</td>
<td>16</td>
<td>32</td>
</tr>
<tr>
<td>Investment volume</td>
<td>13</td>
<td>11</td>
<td>24</td>
</tr>
<tr>
<td>Number of employees</td>
<td>3</td>
<td>3</td>
<td>18</td>
</tr>
</tbody>
</table>

Hard facts:

1,077 large corporates
- represent 0.4 % of Austrian businesses
- account for 41 % of overall investments

SMEs
- represent 99.6 % of Austrian businesses
- 60 % of capital formation

Source: WKÖ, WBA

Geht’s der Wirtschaft gut, geht’s uns allen gut.
Maintenance vs. new investment

- Investment mainly serves maintenance (57%) and only rarely comprises new investment projects (39%).
- 21% have no investment plans
- Companies in manufacturing show more positive expectations for the next 12 months than those in services.
- Reasons against new investments: no investment needed, uncertainty
- Only 7% of companies invest abroad

<table>
<thead>
<tr>
<th>Reasons for new investment</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Market Outlook</td>
<td>58 %</td>
</tr>
<tr>
<td>Innovation und Digitalization</td>
<td>55 %</td>
</tr>
<tr>
<td>Capacity Utilization</td>
<td>38 %</td>
</tr>
<tr>
<td>Profit expectations</td>
<td>36 %</td>
</tr>
</tbody>
</table>

Source: WKÖ, WBA
Framework conditions for investments

"In your opinion, which framework conditions would be necessary as incentive for investments?“

<table>
<thead>
<tr>
<th>Condition</th>
<th>Total</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
</tr>
</thead>
<tbody>
<tr>
<td>Further reduction in non-wage labor costs</td>
<td>77 %</td>
<td>83 %</td>
<td>80 %</td>
<td>71 %</td>
</tr>
<tr>
<td>Less business taxation, i.e. corporate tax</td>
<td>53 %</td>
<td>59 %</td>
<td>53 %</td>
<td>49 %</td>
</tr>
<tr>
<td>Cutting red-tape</td>
<td>52 %</td>
<td>51 %</td>
<td>58 %</td>
<td>50 %</td>
</tr>
<tr>
<td>Incentives for investment (i.e. introduce the declining-balance method of depreciation allowance, introduce an investment tax credit)</td>
<td>49 %</td>
<td>54 %</td>
<td>41 %</td>
<td>51 %</td>
</tr>
<tr>
<td>Lower administrative expenses</td>
<td>38 %</td>
<td>41 %</td>
<td>38 %</td>
<td>35 %</td>
</tr>
<tr>
<td>Direct subsidies</td>
<td>29 %</td>
<td>36 %</td>
<td>27 %</td>
<td>24 %</td>
</tr>
</tbody>
</table>

(multiple answers are possible)

Source: WKÖ, WBA, 3,200 responses
WKO‘s area of focus

Improving framework conditions

- lowering the effective average tax rate by 2 percentage points to 21% (the average comparable EU tax rate) would free large amounts of additional investments:
  - Secondary sector: EUR 120 million
  - Tertiary sector: EUR 470 million
- Include flexible depreciation methods in the Austrian tax code
- With the ongoing digitalization of the economy, investments in intangibles are clearly on the rise.
WKO’s area of focus - intangibles

- Completely new to many policymakers (in addition, intangibles involve many areas of public policy)
- Intangible-intensive firms are more productive than their counterparts
- Question on how to finance these specific investments
  - In this respect, the United States is far ahead of the European Union
  - World Bank has developed a set of criteria which should make the financing of intangibles easier
- WKO did a survey regarding investments of Austrian companies into intangibles (2015, n=1,177). Statistical projections of survey results: approximately 6.1% of GDP (2015)
Framework conditions: The view of Entrepreneurs and Employees

„How would you classify the framework conditions for private-sector investments in Austria?“
(in percent, n=508/1,505)

Source: Institut für Strategieanalysen
Stimuli for more private sector investments

Targeted investment incentives
- Tax credit
- Depreciation methods
- Raising the limit on low-value fixed assets from 400 to 1,500 Euro
- Utilize the chances presented by digitalization - accelerate the broadband internet access
- Implement measures to encourage venture capital
- Continue and expand EFSI and European/national guarantee instruments

Less financial burden
- Further reduction of non-wage labor costs in the medium-term
- Cut corporate taxes to 20% (or below)
- Abolish taxes that generate only minimal revenues

Cutting red tape
- Anchor the principle “advise rather than penalise” in all laws and prevent cumulative penalties
- Flexibilize working hours
- Simplify and accelerate applications for production facilities
- Easier processes for environmental impact studies
Questions & Discussion

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