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Recommendation for a

COUNCIL RECOMMENDATION

on Austria's 2013 national reform programme

and delivering a Council opinion on Austria's stability programme for 2012-2017

{SWD(2013) 370 final}

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission[2],

Having regard to the resolutions of the European Parliament[3],

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, Europe 2020, based on enhanced coordination of economic policies, which will focus on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, on the basis of the Commission's proposals, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, adopted a decision on guidelines for the employment policies of the Member States[4], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 Strategy and to implementing the country-specific recommendations.

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1 OJ L 209, 2.8.1997, p. 1.
2 COM(2013)370 final.
3 P7_TA(2013)0052 and P7_TA(2013)0053.
4 Council Decision 2013/208/EU of 22 April 2013.

(4) On 6 July 2012, the Council adopted a recommendation on Austria's national reform programme for 2012 and delivered its opinion on Austria's updated stability programme for 2011-2016.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey[5], marking the start of the 2013 European Semester of economic policy coordination. Also on 28 November 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report[6], in which it did not identify Austria as one of the Member States for which an in-depth review would be carried out.

(6) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(7) On 16 April 2013, Austria submitted its 2013 stability programme covering the period 2012-2017 and its 2013 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(8) Based on the assessment of the 2013 stability programme pursuant to Council Regulation (EC) No 1466/97, the Council is of the opinion that Austria undertook considerable consolidation efforts to bring the budget on a path to correct the excessive deficit. With regard to the 2013 programme, the macroeconomic scenario underpinning the budgetary projections is optimistic. The main objective of the budgetary strategy outlined in the programme is to gradually reduce the general government deficit to reach a balanced budget in nominal terms by 2016 and to meet the medium-term objective (MTO) by 2015. The programme confirms the previous MTO of a structural deficit of 0.45% of GDP. The MTO is in line with the requirements of the Stability and Growth Pact. Based on current projections, Austria is on track to correct its excessive deficit by 2013 given that the general government deficit is at 2.5% of GDP in 2012 and is expected to further decrease to 2.2% of GDP in 2013 and to 1.8% of GDP in 2014 respectively according to the Commission forecast. However, there are possible additional costs relating to the unwinding of a large bank which could have a significant deficit-increasing impact. After a strong improvement exceeding the adjustment path required in the EDP in 2012, the structural balance deficit is projected to increase in 2013 up to 1.8%. A slight increase of the structural deficit in 2013 is confirmed also by the Commission forecast. According to the information of the programme from 2014 onwards, the recalculated structural balance foresees a structural adjustment exceeding 0.5% in 2014 and 2015 enabling Austria to reach the MTO two years in advance in comparison to the scenario presented in the programme, i.e. in 2015 instead of 2017. As for the expenditure benchmark according to the information provided in the programme the growth rate of government expenditure, net of discretionary measures, over years 2014 and 2016 is expected to contribute to an annual structural adjustment towards the MTO by 0.5% of GDP. However, the projected significant decline in the expenditure/GDP ratio in the programme scenario is very ambitious since expenditure is estimated to attain in terms of GDP one of the lowest level in more than fifteen years. Austria can be expected to

[5] COM(2012) 750 final.
[6] COM(2012) 751 final.

be in transition period from 2014 to 2016 regarding compliance with the debt criterion and plans would ensure sufficient progress towards compliance.

The strengthening of the budgetary framework has left the fiscal relations between layers of government largely unchanged and overlapping responsibilities and inconsistencies between funding and spending responsibilities remain a challenge. The complex mechanism of continuous agreements between the national government, social insurance providers and the sub-federal level, constitute an implementation risk to measures aimed at containing health expenditure. In education, the negotiations on a 6-point proposal including the abolition of school authorities at district level are a welcome step towards streamlining of responsibilities between different layers of government, but further simplification would be needed to reduce fragmentation more substantially.

(9) The Austrian labour force potential is projected to shrink from 2020 and the economy is becoming more skills-intensive. There is scope to optimise the use of its working-age population, in particular women, migrants and older workers.

(10) Older workers have an employment rate below the EU average (43.1% v. 48.8%) and almost 30% of people spend between 1.5 and three years in unemployment or on sick leave just before retiring. The still relatively widespread use of early retirement and invalidity pension schemes as well as a relatively low statutory retirement age for women (60), which is going to increase only very gradually in the future, has a negative impact on the labour supply of older workers.

(11) Although the female employment rate in Austria is relatively high (70.3% compared to 62.4% at EU level in 2012), there is still scope for increasing it by reducing gender segmentation in the labour market. The share of women in part-time employment is among the highest in the EU and availability of childcare and long-term care services is limited. Female employment rates measured in full-time equivalents (55.6% in 2012) suggest that Austria has particular difficulties in fully tapping the potential of its female labour force. Moreover, women are found almost twice as often in marginal employment and are highly concentrated in low-wage employment. This pattern results in a gender pay gap of 24%, which is the third highest in the EU. A reduction of the tax burden for low income earners could provide higher incentives to increase labour market participation. The structure of the Austrian tax system provides the space to shift taxation towards other sources which are less detrimental to growth. In fact, property tax revenues in Austria account for 0.5% of GDP and are significantly below the EU average of 2.1% of GDP. In particular, revenues from recurrent taxes on immovable property which are considered to be the least detrimental to growth are the third lowest in the EU, representing 0.2% of GDP in 2011 (EU average: 1.3%).

(12) With 19% of the working age population in 2011 being foreign born, Austria has one of the largest shares of working-age immigrants in the OECD. Migrants often face difficulties on the labour market and have significantly higher unemployment rates (9.7% vs 3.6%) and lower employment rates (non-EU 27 nationals: 62.8% vs Austrians: 76.4%) Additionally, people with a migrant background are three times more often employed and paid below their actual qualification levels than Austrians (2008: 27.5% vs 9.7%). Also their education out comes are lower and their poverty risk is twice as high (26.6% v. 12.6%).

(13) Medium and long-term pension and health care expenditure projections pose a risk to the sustainability of public finances. Long-term care expenditure projections also point to a sustainability risk, although to a lesser extent. The recent reforms to the pension

system are likely to reduce the sustainability risks to some degree, if accompanied by improvements in labour market conditions that allow older workers to stay longer in employment. However, an accelerated harmonisation of retirement ages between men and women as well as a link of the statutory retirement age to gains in life expectancy is still missing. The issue of the fiscal sustainability of the health care and long-term care system has to be addressed, also in view of the increasing need and demand for long-term care provision. The recent policy measures taken in the health sectors are likely to go in the right direction, although careful assessment of their effectiveness has to be carried out in the coming years. There is scope to enhance prevention, rehabilitation and independent living to contain future costs of long-term care.

(14) According to comparative international studies and tests, education outcomes in Austria are below average for 10- to 15-year-olds despite the fact that Austria's spending on education is, at 6.01 % of GDP, well above the EU average of 5.41 %. More than 25 % of young people aged 15 have poor reading skills and outcomes are only slightly better in mathematics. Achievement gaps between young people with a migration background and their native peers are among the highest in the EU. In higher education increasing student numbers are putting pressure on financial and organisational systems but the share of students completing their studies successfully is low. The division of responsibilities in the management and funding of the education system is also fragmented.

(15) Austria is one of the Member States that would see most benefit (in GDP) from reduced barriers to cross-border service provision. However, there are still significant barriers to entry and effective competition in the services sector. These barriers are especially pronounced in the liberal professions and railway transport. Professional services play an important role in the business service markets, accounting for 10 % of GDP and 11 % of total employment. Restrictions on gaining access to and practising professions in the services sector, e.g. as regards legal form and shareholding requirements, persist. There is a strong case for assessing how justified these restrictions are and if the same public interest objectives cannot be reached with lighter regulatory regimes. While a recent change in competition law will strengthen the powers of the Austrian competition authority, its financial and human resources are still below the levels observed in economies of a similar or even smaller size.

(16) Austria has made progress in the cross-border home-host financial supervisory cooperation. Moreover, further headway has been made with the restructuring of nationalised or partly nationalised banks which have benefitted from restructuring aid. However, due to risks associated with a further deterioration in asset quality of these banks, there are still remaining pockets of vulnerability which need to be closely monitored.

(17) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Austria's economic policy. It has assessed the stability programme and national reform programme. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Austria but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the European Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (7) below.

(18) In the light of this assessment, the Council has examined Austria's stability programme, and its opinion[7] is reflected in particular in recommendation (1) below,

(19) In the context of the European Semester the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On this basis the Council has issued specific recommendations addressed to the Member States whose currency is the euro. Austria also should ensure the full and timely implementation of these recommendations.

HEREBY RECOMMENDS that Austria should take action within the period 2013-2014 to:

1. Implement the budget for the year 2013 as envisaged so as to correct the excessive deficit in a sustainable manner and achieve the structural adjustment effort specified in the Council recommendations under the Excessive Deficit Procedure. After correction of the excessive deficit, pursue the structural adjustment effort at an appropriate pace so as to reach the MTO by 2015. Streamline fiscal relations between layers of government, for example simplifying the organisational setting and aligning spending and funding responsibilities.

2. Bring forward the harmonisation of pensionable age for men and women, link the statutory retirement age to life expectancy, implement and monitor the recent reforms restricting access to early retirement and improve older workers' employability in order to raise the effective retirement age and the employment rate of older workers.

3. Take new measures to increase the labour market participation of women, namely by further improving child care and long-term care services and address the high gender pay and pension gaps. Fully use the labour market potential of people with a migrant background by improving the recognition of their qualifications and their education outcomes. Reduce the effective tax and social security burden on labour for low-income earners in a budget-neutral way by relying more on other sources of taxation less detrimental to growth, such as recurrent property taxes.

4. Effectively implement the recent reforms of the health care system to make sure that the expected cost efficiency gains materialise. Develop a financially sustainable model for the provision of long-term care and put a stronger focus on prevention, rehabilitation and independent living.

5. Improve educational outcomes, in particular of disadvantaged young people, including by enhancing early childhood education and reducing the negative effects of early tracking. Further improve strategic planning in higher education and enhance measures to reduce drop-outs.

6. Further strengthen the powers and resources of the federal competition authority and monitor the implementation of the competition law reform. Remove excessive barriers for service providers. This includes reviewing whether existing restrictions on entry and conduct in regulated professions are justified by general interest and fostering competition notably in the railway sector.

[7] Under Article 5(2) of Council Regulation (EC) No 1466/97.

7. With a view to maintaining financial stability continue to closely oversee the nationalised and partly nationalised banks and speed up their restructuring.

Done at Brussels,

For the Council
The President