COUNCIL OF
THE EUROPEAN UNION

Brussels, 16 June 2014

10799/14

UEM 251
ECOFIN 639
SOC 490
COMPET 392
ENV 591
EDUC 228
RECH 287
ENER 295
JAI 489

NOTE

from:	The General Secretariat
to:	Permanent Representatives Committee/Council
No. Cion prop.:	10502/14 UEM 177 ECOFIN 555 SOC 425 COMPET 331 ENV 519 EDUC 169 RECH 227 ENER 229 JAI 409 - COM(2014) 421 final
Subject:	Recommendation for a COUNCIL RECOMMENDATION on Austria's 2014 national reform programme and delivering a Council opinion on Austria's 2014 stability programme

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2014) 421 final.

COUNCIL RECOMMENDATION

of

on the National Reform Programme 2014 of Austria and delivering a Council opinion on the Stability Programme of Austria, 2014

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,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

[1] OJ L 209, 2.8.1997, p. 1.

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy 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 focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council, on the basis of the Commission's proposals, 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, it adopted a decision on guidelines for the employment policies of the Member States[2], 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 Member States´ 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.

[2] Maintained for 2014 by Council Decision 2014/322/EU of 6 May 2014 on guidelines for the employment policies of the Member States for 2014 (OJ L 165, 4.6.2014, p. 49).

(4) On 9 July 2013, the Council adopted a Recommendation[3] on Austria's National Reform Programme for 2013 and delivered its opinion on Austria's updated Stability Programme for 2012-2017. On 15 November 2013, in line with Regulation (EU) No 473/2013 of the European Parliament and of the Council[4], the Commission presented its opinion on Austria's draft budgetary plan for 2014.

(5) On 13 November 2013, the Commission adopted the Annual Growth Survey, marking the start of the 2014 European Semester for economic policy coordination. Also, on 13 November 2013, the Commission, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council[5], adopted the Alert Mechanism Report, in which Austria was not identified as one of the Member States for which an in-depth review would be carried out.

(6) On 20 December 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.

---

3 OJ C 217, 30.7.2013, p. 1.

4 Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area (OJ L 140, 27.5.2013, p.11).

5 Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).

(7) On 8 April 2014, Austria submitted its 2014 National Reform Programme and, on 29 April 2014, its 2014 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(8) The objective of the budgetary strategy outlined in the 2014 Stability Programme is to meet the medium-term objective of a structural deficit of no more than 0.45 % of GDP by 2016, which reflects the requirements of the Stability and Growth Pact. The general government deficit has been sustainably brought below 3 % of GDP in 2013. The (recalculated) structural balance was planned to remain constant in 2014 and to improve by 0,3 percentage points of GDP in 2015, falling significantly short of the required adjustment in both years. Expenditure growth will also deviate significantly from the expenditure benchmark over 2014-15. On 12 May 2014, Austria announced a set of additional revenue and expenditure measures. Provided that these measures are strictly and timely implemented, Austria's budgetary strategy no longer implies a planned significant deviation from the adjustment path towards the medium-term objective in 2014. At the same time, the planned adjustment path towards the medium-term objective still presents risks with respect to compliance with the requirements of the Stability and Growth Pact. According to the Stability Programme, general government gross debt will significantly increase from close to 74,5 % of GDP in 2013 to 79 % of GDP in 2014, due to the impact of the establishment of a Liquidation Entity for the assets of Hypo Alpe Adria, while the debt will start decreasing from 2015 onwards.

The macroeconomic scenario underpinning the budgetary projections in the Stability Programme is plausible and was prepared by an independent body, the Austrian Institute of Economic Research (WIFO). The Commission services 2014 Spring forecast expects that the deficit will remain below 3 % in 2014 and 2015. However, it projects a deterioration of the structural balance in 2014 and an improvement by only 0,1 % of GDP in 2015. Based on its assessment of the Stability Programme and the Commission forecast as well as its assessment of the additional measures announced on 12 May, pursuant to Regulation (EC) No 1466/97, the Council is of the opinion that Austria has sustainably corrected its excessive deficit, but that a risk of significant deviation from the adjustment path towards the medium-term objective in 2014 and 2015 remains.

(9) In line with the Treaty on Stability Coordination and Governance, Austria has strengthened its fiscal framework in 2012 through a reform of the Austrian Internal Stability Pact. The mandate of the Austrian Fiscal Council was expanded as from November 2013 in response to the requirements of the Fiscal Compact. The need for a thorough reform of the relations of different levels of government to better streamline their respective responsibilities, remains, however, as recognised in the coalition agreement.

(10) Medium and long-term pension and healthcare expenditures and to a lesser degree those for long-term care pose a risk to the sustainability of public finances. In 2014, some measures to limit access to early retirement schemes and to increase incentives for staying longer in employment have entered into force. Still, the effective retirement age of 58,4 years in 2012 is well below the EU average. It remains considerably below the statutory retirement age (by 5,6 years for men and by 2,6 years for women in 2012). The National Reform Programme contains relatively ambitious short-term targets to raise the effective retirement age by 1,6 years between 2012 and 2018, and their implementation will have to be closely monitored. 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. There are however no plans to introduce measures with a more structural and long-term effect, such as accelerating the harmonisation of the statutory retirement age for men and women and aligning the retirement age with changes in life expectancy, which would additionally contribute to longer working lives and the financial sustainability of the pension system.

(11) Efficient allocation of resources in the Austrian health system is hampered by a complex governance structure and a relatively strong focus on the large and costly hospital sector. Some measures have been taken to implement healthcare reform and to increase the cost-effectiveness of public spending. However, they may not be sufficient to address structural weaknesses in the sector and there remains a need to set more ambitious targets for shifting from inpatient to outpatient care and to reinforce preventive healthcare, for which public spending is below the EU average. The measures announced to strengthen primary care provision and to develop integrated care programmes for chronic diseases are welcomed. The long-term care fund, which was extended to 2016 with an additional EUR 650 million and is planned to be further extended to 2018 with an extra EUR 700 million, provides an interim solution for the financing of care services. The financial sustainability of long-term care will require attention also beyond this timeline.

(12) Austria's tax system continues to be characterised by a high tax and social security burden on labour, in particular for low-income earners. Labour taxes account for 24,7 % of GDP in 2012, one of the highest in the Union. The tax wedge amounts to almost 50 % of labour costs. High social contributions and entry income taxes are likely to lower incentives to work for individuals with low earnings potential and for second earners.

The recently adopted tax package includes limited measures to reduce the tax burden on labour but does not exploit the potential for a tax shift towards taxes less detrimental to growth, such as recurrent taxes on immovable property, where estimates of taxable values are outdated.

(13) The Austrian labour market continues to perform well with the lowest unemployment rate in the Union (2013: 4,9 %). However, the future challenges resulting from population ageing and a potentially shrinking work force call for a better use of the underutilised labour market potential of older workers, women and migrants. The employment rate of older workers remains below the EU average (44,9 % as against 50,3 %), although this rate has increased substantially since 2000, by almost 15 percentage points to 44,9 % in 2013. Measures to curb early retirement are becoming effective in 2014 and further measures to strengthen incentives for exiting the labour market later are in preparation. Nevertheless, difficulties for older workers to stay in or re-enter employment remain. Migrants continue to face obstacles to full integration in the labour market and significantly higher unemployment rates, partly due to remaining barriers to the recognition of their qualifications, while they constitute an increasing part of the labour force. While the female employment rate of 70,8 % in 2013 is relatively high, it is far less favourable in full-time equivalents (55,6 % in 2012). Austria has one of the highest percentages of women in part-time employment and a high concentration of women in low-pay employment. As a consequence, the gender pay and pension gap is one of the highest in the Union. Although some measures have been taken to improve childcare and long-term care services, availability is still limited.

(14) Austria has improved educational outcomes in all categories as measured by the OECD's 2012 students' skills survey, but reading achievements still remain below the EU average and the socio-economic background continues to have significant influence on educational achievements. While overall the early school leaving target has been met, the rate for foreign born pupils, who constitute a growing number of pupils, was more than three times higher than for those born in Austria (18,5 % as against 5,7 % in 2012). Insufficient emphasis is put on prevention of early school leaving and a nationwide strategic approach for high-quality early childhood education still needs to be developed. Some reforms to various aspects of the school system, in particular the roll-out of the New Middle School programme, are ongoing or have just been adopted. The potential of New Middle School to mitigate the negative effects of early assignment of pupils to different school types after four years of elementary school ('early tracking') for the socially disadvantaged and to improve learning outcomes has to be monitored closely. In higher education, increasing numbers of enrolled students put pressure on finances and organisation, while the percentage of students completing their programmes remains below the EU average. Improving educational outcomes remains highly important in order to facilitate the pathway from education to employment.

(15) There are still significant regulatory barriers which hamper companies and individual professionals in offering their services in Austria. Legislation regulating specific professions limits company forms and imposes shareholding requirements, while at the same time access to individual professions is subject to specific professional qualifications and the establishment of interdisciplinary service companies remains difficult. The combination of these requirements creates barriers to entering the market and exercising professional services which limits competition. With respect to professional qualification requirements, Austria is participating in the EU-wide mutual evaluation exercise and has updated its database of regulated professions as a first step to assessing the justification and proportionality of professional qualification requirements.

(16) Publication requirements in EU procurement legislation aim at ensuring competition and equal-treatment through better information about contract opportunity, which is a key condition for market access. A higher degree of competition among bidders generally results in more favourable offerings for procuring entities including substantial cutting of prices. However, the value of calls for tenders published by Austrian authorities and entities under EU procurement legislation was 1,5 % of GDP and 6,6 % of total public expenditure on works, goods and services in 2012, well below the EU averages of 3,4 % and 17,7 %, respectively. This situation creates considerable costs for the Austrian taxpayer and for businesses in terms of foregone business opportunities.

(17) Despite increases in the budget of the Austrian Federal Competition Authority, it remains significantly understaffed in comparison with the authorities of other Member States of a similar or smaller size. The Austrian freight and passenger railway markets would benefit from further efforts to foster competition, as recommended by the Council in 2013.

(18) While overall banking sector capitalisation continued to improve in 2013, further efforts to strengthen capital buffers appear warranted considering the risk profile of banks. The Council recommended in 2013 that Austria speed up the restructuring of nationalised and partly nationalised banks. Currently, the legal framework for the wind-down of Hypo Alpe Adria is to be presented for adoption by Parliament by summer. The organisational preparation of setting up the respective asset management company (AMC) is in progress. The AMC is expected to become operational in autumn. Österreichische Volksbanken AG and the bad bank of Kommunalkredit, KA Finanz, continue their restructuring or their wind down, respectively, in line with EU state aid decisions. Transparent and decisive steps to complete the restructuring of nationalised banks would be essential to safeguard financial stability and to minimise the negative effects on public finances.

(19) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Austria's economic policy. It has assessed the National Reform Programme and the Stability 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 Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (5) below.

(20) In the light of this assessment, the Council has examined the Stability Programme, and its opinion[6] is reflected in particular in recommendation (1) below.

(21) 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[7*]. As a country whose currency is the euro, Austria should also ensure the full and timely implementation of those recommendations,

HEREBY RECOMMENDS that Austria take action within the period 2014-2015 to:

[6] Under Article 5(2) of Regulation (EC) No 1466/97.
[7] OJ C …
[*] OJ: please insert reference for st10676/14.

1. Following the correction of the excessive deficit, reinforce the budgetary measures for 2014 in the light of the emerging gap of 0,5 % of GDP based on the Commission services 2014 Spring forecast and after taking into account additional consolidation measures announced by Austria, pointing to a risk of significant deviation relative to the preventive arm of the Stability and Growth Pact requirements. In 2015, significantly strengthen the budgetary strategy to ensure that the medium-term objective is reached and, thereafter, maintained, and ensure that the debt rule is met in order to keep the general government debt ratio on a sustained downward path. Further streamline fiscal relations between layers of government, for example by simplifying the organisational setting and aligning spending and funding responsibilities.

2. Improve the long-term sustainability of the pension system, in particular by bringing forward the harmonisation of the statutory retirement age for men and women, by increasing the effective retirement age and by aligning the retirement age to changes in life expectancy. Monitor the implementation of recent reforms restricting access to early retirement. Further improve the cost effectiveness and sustainability of healthcare and long-term care services.

3. Reduce the high tax wedge on labour for low-income earners by shifting taxation to sources less detrimental to growth, such as recurrent taxes on immovable property, including by updating the tax base. Reinforce measures to improve labour market prospects of people with a migrant background, women and older workers. This includes further improving childcare and long-term care services and the recognition of migrants' qualifications. Improve educational outcomes in particular for disadvantaged young people including those with a migrant background, 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 dropouts.

4. Remove excessive barriers for services providers, including as regards legal form and shareholding requirements and with respect to setting up interdisciplinary services companies. Review whether restrictions on entry into and conduct in regulated professions are proportionate and justified by general interest. Identify the reasons behind the low value of public contracts open to procurement under EU legislation. Substantially strengthen the resources of the Federal Competition Authority.

5. Continue to closely oversee and advance effectively the orderly restructuring of the nationalised and partly nationalised banks.

Done at Brussels,

For the Council
The President