Council of the European Union

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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
Subject:	COUNCIL RECOMMENDATION on the economic, social, employment, structural and budgetary policies of Austria

Delegations will find attached the above-mentioned draft Council Recommendation, as revised and agreed by various Council committees and finalised by the Economic and Financial Committee, based on the Commission Proposal COM(2026) 220 final.

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Austria

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) 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,

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,

1 Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 (OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj).

Whereas:

(1) Regulation (EU) 2024/1263 specifies the objectives of the economic governance framework, which aims at promoting sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments, as well as preventing excessive government deficits. The Regulation stipulates that the Council and the Commission conduct multilateral surveillance in the context of the European Semester in accordance with the objectives and requirements set out in the Treaty on the Functioning of the European Union (TFEU). The European Semester includes, in particular, the formulation and the surveillance of the implementation of country-specific recommendations.

(2) On 25 November 2025, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the 2026 Alert Mechanism Report, in which it did not identify Austria as one of the Member States for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, a recommendation for a Council recommendation on human capital in the European Union, and a proposal for the 2026 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area[2] on 21 April 2026, and the Joint Employment Report, and the Recommendation on human capital on 9 March 2026.

(3) On 29 January 2025, the Commission published the Competitiveness Compass, a strategic framework that aims to boost the Union's global competitiveness over the next five years. It identifies the three transformational imperatives of innovation, decarbonisation and competitiveness, and security as critical pillars for sustainable economic growth. Since its publication, the Competitiveness Compass has informed the work of the European Semester, ensuring that EU Member States' economic policies are consistent with the EU's strategic objectives, creating a unified approach to economic governance that fosters sustainable growth, innovation and resilience across the Union.

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2 OJ C, C/2026/2434, 28.4.2026, ELI: http://data.europa.eu/eli/C/2026/2434/oj.

(4) In 2026, the European Semester for economic policy coordination continues to develop alongside the final stage of Recovery and Resilience Facility (RRF) implementation[3]. Recovery and resilience plans (RRPs), along with cohesion policy funding, have been essential for delivering on the policy priorities under the European Semester, as the plans were required to effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent cycles, and programmes funded by the European cohesion policy were required to take country-specific recommendations into account. As the RRF approaches the end of its lifetime, it remains essential to sustain and build on the reforms and investments supported and implemented under the RRF, in particular those that contribute to addressing challenges identified in the country-specific recommendations.

(5) On 3 June 2026, the Commission published the 2026 country report for Austria. It assessed Austria's progress in addressing the 2025 country-specific recommendations and took stock of Austria's implementation of the RRP. On the basis of that analysis, the country report identified the most pressing challenges Austria is facing. It also assessed Austria's progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty and social exclusion reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

[3] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17, ELI: http://data.europa.eu/eli/reg/2021/241/oj).

(6) On 8 July 2025, the Council, upon the assessment and recommendation of the Commission, adopted a Recommendation endorsing the national medium-term fiscal-structural plan of Austria[4]. The plan covers the period from 2025 until 2029 and presents a fiscal adjustment spread over seven years. The Council recommended the following maximum growth rates of net expenditure: 2.6% in 2025, 2.2% in 2026, 2.2% in 2027, 2.0% in 2028 and 2.3% in 2029, which correspond to the maximum cumulative growth rates calculated by reference to the base year of 2024 of 2.6% in 2025, 4.8% in 2026, 7.2% in 2027, 9.4% in 2028 and 11.9% in 2029. For the years 2025-2028, these maximum growth rates of net expenditure coincide with the corrective path, as recommended by the Council under Article 126(7) TFEU on 8 July 2025, with a view to bringing an end to the situation of an excessive deficit[5]. Based on the Commission's assessment on effective action of 3 June 2026[6], the excessive deficit procedure for Austria is held in abeyance.

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4 Council Recommendation of 8 July 2025 endorsing the national medium-term fiscal-structural plan of Austria (OJ C, C/2025/ 3958, 20.08.2025, ELI: http://data.europa.eu/eli/C/2025/3958/oj).

5 Council Recommendation with a view to bringing an end to the situation of an excessive deficit in Austria adopted on 8 July 2025. All documents related to the excessive deficit procedure of Austria can be found at: https://economy-finance.ec.europa.eu/economic-governance-framework/stability-and-growth-pact/corrective-arm-excessive-deficit-procedure/excessive-deficit-procedures-overview/Austria_en.

6 Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of Regions and the European Investment Bank, 2026 European Semester – Spring Package, COM(2026) 200 final.

(7) Russia's war of aggression against Ukraine and its repercussions constitute an existential challenge for the European Union. The Commission has invited Member States to request the activation of the national escape clause of the Stability and Growth Pact in a coordinated manner to support the EU efforts to achieve a rapid and significant increase in defence spending[7] and this proposal was welcomed by the European Council of 6 March 2025. Following the request of Austria, on 17 February 2026 the Council, upon a recommendation from the Commission, adopted a Recommendation allowing Austria to deviate from the recommended maximum growth rates of net expenditure[8]. The period when the national escape clause is activated (2025-2028) allows Austria to reprioritise government expenditure or increase government revenue so that lastingly higher defence expenditure would not endanger fiscal sustainability in the medium term.

(8) On 29 April 2026, Austria submitted its 2026 Annual Progress Report[9] on adherence to the recommended maximum growth rates of net expenditure, the implementation of the set of reforms and investments underpinning the extension of the adjustment period and the implementation of reforms and investments responding to the main challenges identified in the European Semester country-specific recommendations. The Annual Progress Report also reflects Austria's biannual reporting on the progress made in implementing its recovery and resilience plan in accordance with Article 27 of Regulation (EU) 2021/241. The report on action taken under the excessive deficit procedure is integrated in the Annual Progress Report.

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7 Communication from the Commission, 'Accommodating increased defence expenditure within the Stability and Growth Pact', Brussels, 19.03.2025, C(2025)2000 final.

8 Council Recommendation of 17 February 2026 allowing Austria to deviate from the maximum growth rates of net expenditure as set by the Council under Regulation (EU) 2024/1263 (Activation of the national escape clause), (OJ C, C/2026/1158, 04.03.2026, ELI: http://data.europa.eu/eli/C/2026/1158/oj).

9 The 2026 Annual Progress Reports are available on: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/annual-progress-reports_en.

(9) Real GDP growth in 2025 was 0.6% and HICP inflation stood at 3.6%. The Commission Spring 2026 Forecast projects real GDP to grow by 0.6% in 2026 and 0.9% in 2027, and HICP inflation to stand at 3.0% in 2026 and 2.5% in 2027.

(10) Based on data provided by Eurostat[10], Austria's general government deficit decreased from 4.6% of GDP in 2024 to 4.2% of GDP in 2025. The decrease in the deficit in 2025 mainly reflects the implementation of a consolidation package. Based on policy measures known by the cut-off date of the forecast, the Commission Spring 2026 Forecast projects a deficit of 4.1% of GDP in 2026 and 2027.

(11) Based on the Commission's estimates, the fiscal stance[11], which includes both nationally and EU financed expenditure, was contractionary, by 1.1% of GDP, in 2025. It is projected to be contractionary in both 2026 and 2027, by 0.4% of GDP in each year.

(12) Based on data provided by Eurostat[12], Austria's general government debt increased from 80.0% of GDP at the end of 2024 to 81.5% of GDP at the end of 2025. The increase in the debt ratio in 2025 mainly reflects the fiscal deficit, modest GDP growth and credit financed investments in infrastructure projects by some extrabudgetary units in the central government sector. Based on policy measures known at the cut-off date of the forecast, the Commission Spring 2026 Forecast projects the debt-to-GDP ratio to increase to 83.4% by the end of 2026 and to further increase to 84.9% by the end of 2027.

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10 Eurostat-Euro Indicators, 22 April 2026.

11 The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

12 Eurostat-Euro Indicators, 22 May 2026.

(13) Based on Eurostat data[13], total general government defence expenditure in Austria amounted to 0.7% of GDP in 2025, corresponding to an increase of 0.1 percentage points compared to the reference year 2021. According to the Commission Spring 2026 Forecast, it is projected at 0.9% of GDP in 2026**,** corresponding to an increase of 0.3 percentage points of GDP compared to 2021.

(14) The Union continues to face risks of energy supply disruptions and elevated price volatility, exacerbated by geopolitical tensions which affect global oil and gas markets. Experience from the 2022–2023 energy crisis has shown that broad and untargeted measures entail large fiscal costs and are socially and economically inefficient. Since the outbreak of the war in the Middle East in February 2026, Austria adopted a fiscal policy measure to mitigate the impact of high energy prices on households and firms[14], namely, an untargeted reduction in excise duties (which include regulatory restrictions on margins) for petrol and diesel in April and May 2026. According to the Commission Spring 2026 Forecast, the fiscal cost of this measure is projected to amount to less than 0.1% of GDP in 2026, also if it were to be extended until the end of the year.

(15) Based on the Commission's calculations, net expenditure in Austria grew by 2.0% in 2025. The net expenditure growth in 2025 is below the recommended maximum growth rate.

(16) Based on the Commission's calculations, net expenditure in Austria is projected to grow by 2.1% in 2026, and 4.1% cumulatively over 2025 and 2026. The projected net expenditure growth in 2026 is below the recommended maximum growth rate. When considering 2025 and 2026 together, the projected cumulative growth rate of net expenditure is also below the recommended maximum growth rate.

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13 Eurostat, government expenditure by classification of functions of government (COFOG).

14 This reflects the situation at the cut-off date of the Commission's Spring 2026 Forecast (4 May 2026).

(17) The recommendation endorsing the medium-term plan of Austria specifies the set of reforms and investments underpinning the extension of the adjustment period, together with a timeline for their implementation. Taking into account the information provided by Austria in its Annual Progress Report, the Commission finds that the implementation of the key steps of these reforms and investments that were due by 30 April 2026 seems to be broadly on track. The Commission considers that, overall, Austria has complied with its commitments in a satisfactory manner[15].

(18) Demographic ageing poses a significant challenge for the fiscal sustainability of the pension system. Public pension expenditure is among the highest in the Union, at 14.5% of GDP in 2025, reflecting also low effective retirement age. Despite recent and past measures, including stricter eligibility rules for early retirement schemes as of 2026, and the convergence in male and female retirement age until 2033, effective and statutory retirement ages are projected to remain low compared to other Member States. Federal transfers to the pension system are projected to remain significant. In contrast, supplementary pension schemes remain underdeveloped, with low coverage and limited financial depth.

[15] Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of Regions and the European Investment Bank, 2026 European Semester – Spring Package, COM(2026) 200 final.

(19) Besides demographic ageing, fragmentation and cost-inefficiencies contribute to elevated levels of healthcare and long-term care expenditure, thereby weighing on public finances. Spending remains skewed towards in-patient hospital care and weak adherence to expenditure targets continues to undermine budgetary control. Reforms, including the establishment of a healthcare reform fund in 2026, aim to strengthen primary care and digitalisation, but their impact is limited by insufficient regulatory support e.g. weak coordination of patient pathways. The digitalisation of the healthcare system remains incomplete, limiting efficiency gains. Despite relatively high spending on disease prevention, there is scope to increase efforts in the management of behavioural risk factors and prevention of non-communicable diseases. In long-term care, governance weaknesses persist, including the absence of binding expenditure targets and limited integration with healthcare services. The relatively high share of residential care and regional disparities in provision, point to scope for improving cost-effectiveness and ensuring more uniform quality of care.

(20) Austria's fiscal framework is marked by a complex system of intergovernmental transfers between federal and regional authorities, which constrains the efficiency of public spending. With a low level of tax autonomy, federal states rely heavily on shared revenues rather than their own sources – only a small share of total public revenue in 2025 came from subnational sources. At the same time, the financing of essential services such as healthcare, childcare and public transport depends partially on expenditure provided by the federal states and municipalities. Austria revised the Austrian Stability Pact 2025 in April 2026 with retroactive effect from 1 January 2024 to set debt and deficit targets for federal, regional and local governments and to introduce monthly reporting requirements at the regional level, but concrete changes to expenditure assignments and accountability mechanisms were modest. The pact largely builds on existing arrangements and does not fundamentally alter the complex distribution of competencies across levels of government. Moreover, current inter-municipal cooperation is uneven. Linking municipal data into an interoperable data exchange platform and promoting multi-purpose service partnerships (*Mehrzweckverbände*) at the functional level could boost efficiency, service quality, and cost savings.

(21) The tax mix continues to rely heavily on labour income and consumption. In 2025, Austria had the fifth-highest tax-to-GDP ratio in the EU with a significant average tax wedge on labour[16]. Since 2023, personal income tax brackets have been indexed to inflation, preventing a further increase of the tax wedge through bracket creep. However, several long-standing structural challenges in the tax mix remain unaddressed. Making better use of more growth- and employment-friendly taxes could help create the necessary budgetary space and improve the overall tax structure.

(22) The systematic, meaningful and timely involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential in order to ensure broad ownership for the successful implementation of the Union's funding instruments, as well as in the context of the European Semester.

(23) The implementation of cohesion policy programmes, which encompass support from the European Regional Development Fund (ERDF), the Just Transition Fund (JTF), and the European Social Fund Plus (ESF+) in Austria, is above the average pace at EU level, both in terms of project selection and payments. It is important to keep current momentum, while maximising the impact of investments on the ground. Austria is already taking action under its cohesion policy programmes to boost competitiveness and growth. Nevertheless, some areas may require further strengthening in implementation, including those relating to energy efficiency and integrated territorial and urban development. It is essential to ensure that the new investments identified by Austria in its mid-term review of the cohesion policy funds, notably those linked to the five priorities identified in the Mid-Term Review Regulation[17], are deployed rapidly and effectively.

(24) Austria faces several challenges related to the sustainability of its public finances, the labour market and skills development, business dynamism and competitiveness, its persistent reliance on fossil fuels and high energy prices.

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16 OECD (2026), Taxing Wages 2026.

17 Regulation (EU) 2025/1914 of the European Parliament and of the Council of 18 September 2025 amending Regulations (EU) 2021/1058 and (EU) 2021/1056 as regards specific measures to address strategic challenges in the context of the mid-term review.

(25) Despite steps to simplify business creation and to expand the range of funding instruments, a lack of risk financing continues hampering the scaling of innovative firms. Local venture and growth capital markets remain underdeveloped compared to leading EU peers, whereas start-up funding dropped by 56% in 2025 to the lowest level since 2019. Gaps in venture capital financing could be mitigated by planned establishment of the Start-up and Scale-up Fund-of-Funds, and by addressing the remaining barriers hindering institutional investors like pension funds and insurers, to invest in long term equity instruments. Strengthening the supplementary pension pillar could also contribute to deepening Austria's equity market and mobilising additional capital for innovative companies.

(26) Despite the high level of R&D investment (among the top three EU Member States), the translation into marketable products and disruptive innovation remains limited.
The European Innovation Scoreboard 2025 shows Austria's relative underperformance in SMEs introducing product innovations. To address this, the government announced measures to improve R&D capabilities in its Industrial Strategy 2035 and adopted the third Research, Technology and Innovation Pact for 2027 to 2029, with a total funding envelope of around EUR 5.5 billion. Thorough implementation of these measures, including through a further strengthened coordination of competencies across ministries and impact-oriented monitoring is needed to ensure that Austria's high R&D spending achieves marketable innovation outcomes comparable to leading member states.

(27) Lagging adoption of advanced digital technologies by companies remains a further challenge for growth and productivity. Progress in digitalising Austria's economy remains uneven. SMEs demonstrate a slightly above-EU-average level of basic digital intensity, and AI adoption among companies has a strong momentum. Nevertheless, companies' uptake of other advanced digital technologies, notably cloud computing and data analytics, continues to be below the EU average. Targeted measures are still needed to address this gap, including financial incentives, stronger support for business uptake of cloud and data solutions, and investment in digital skills.

(28) Administrative and regulatory burden weighs on the business environment in Austria, slowing down permitting procedures and requiring firms to commit significant resources to administrative tasks. Progress was made by enabling a fully digital business registration process, but significant further action is needed. The proposed reform of the Trade Code has the potential to accelerate business permitting and reduce administrative burden, but full implementation requires effective cooperation across local, provincial and federal levels.

(29) Austrian consumers are negatively affected by a lack of competition in certain sectors, which contributes to higher prices. Territorial supply constraints are having negative impacts on Austrian consumers, due to significantly higher prices for identical food and personal care products. This is further exacerbated by barriers to market entry. Regulatory restrictiveness for certain professions and service providers, such as within civil engineering, further limits competition and creates obstacles including for the cross-border provision of services.

(30) Housing affordability challenges emerged due to, among other factors, rising construction costs and waning supply of new housing, putting new entrants into the housing market at a disadvantage. A review of complex technical standards known as "established commercial practice" with a view to reducing requirements that are not strictly necessary for safety or energy efficiency could pave the way for smart simplification that lowers costs.

(31) Austria took several measures in 2025 to tackle high energy prices. In addition to short-term measures aimed at lowering energy prices for energy-intensive industry and lowering the electricity levy for the year 2026, the Electricity Market Act was adopted. This new Act represents an important shift in the regulatory framework of the Austrian electricity market and will help increase the flexibility of the energy and enables power purchase agreements. However, full and timely implementation of the Electricity Market Act is essential to achieve sustainably and structurally lower prices. Moreover, the country's reliance on natural gas for electricity generation in combination with limited non-fossil flexibility and partly limited interconnection capacity continues to drive up energy prices, which stand significantly above the EU-average. While this reliance on natural gas persists, Austria has taken actions to improve energy security by diversifying the sources of its gas supply.

(32) Austria continues to progress in its clean energy transition pathway, but fossil fuels still accounted for more than half of its energy mix in 2024. To meet its 2030 targets, Austria will have to accelerate the pace of renewables capacity and infrastructure expansion, in particular for wind energy, where only 0.2 GW of new capacity was added in 2025. Renewable energy accounted for 83.9% of electricity generation in 2025, with a high share of hydro power. Given the seasonal variability of hydropower and photovoltaics, wind energy, which represented 11.8 % of the renewables' generation in 2024, is a cost-efficient complement to reduce the need for electricity imports, especially in winter. Shortening permitting times and designating sufficient acceleration areas, in particular for wind energy will be essential to match the targets set out in the Renewables Expansion Act and the National Energy and Climate Plan (NECP). Accelerating the upgrade and extension of the electricity grid, including cross-border, and increasing storage remain key to drive the clean energy transition. This requires both more investments and speed, including in permitting, so that additional renewable energy generation can be integrated into the system.

(33) The current pace of decarbonisation remains insufficient for Austria to meet its 2030 climate targets and 2040 climate neutrality goal. In 2024, greenhouse gas emissions fell by 3%, significantly slower than in 2023, with preliminary estimates indicating an emission increase in 2025. Industrial emissions declined recently, yet the sector remains energy- and emission-intensive. Measures supporting industry decarbonisation and the development of clean industrial infrastructure, including its physical expansion and regulatory frameworks, should be further developed, with a focus on regions with high emission intensity. Transport emissions fell in 2024, primarily due to lower freight traffic, but policy progress remains limited. Phasing out fossil-fuel subsidies and accelerating transport electrification, including road freight transport, will be important. Further reducing emissions will also depend on improving energy efficiency in industry, transport and buildings, including through regulatory reforms of rental and property regulations to facilitate building renovation.

(34) The labour market faces challenges to meet labour demand against a background of demographic ageing and relatively high labour taxation and social contributions which are among the highest in the EU. Employment continued to expand gradually, driven mainly by the increase in the statutory retirement age for women. The average number of usual weekly hours worked remained low at 35.8 hours (vs. 37.3 at EU level). Women's activity and employment rates in 2025 were high at 75.1% and 74.2% respectively, and above the respective EU averages, but below those of men (82.7% and 81%, respectively). At the same time, however, Austria also has one of the widest gender gaps in part-time employment in the EU, at 37.1 pps. in 2025, with almost half of all women (49.6%) working part-time. The high tax wedge on labour discourages moving from part-time to full-time work, contributing to labour shortages and limiting economic potential. Despite improvements in expanding early childhood education and care, coverage and access remain uneven across the federal states. The main drivers are the fragmentation of the governance system, financing and staff shortages. A compulsory quality framework with clear quality standards could help address uneven quality at the local level.

(35) In light of the crucial role of human capital in enhancing the Union's competitiveness and strategic autonomy, in 2026 the Council recommended that Member States take action to urgently address human capital related structural challenges in the areas of skills, education and training, which hamper competitiveness. The 2026 country-specific recommendations addressed to Austria can contribute to the implementation of the Council Recommendation on human capital in the Union.

(36) Labour shortages started to decline, yet they still remain at a comparatively high level. Skills shortages and regional mismatches continue to hamper the recruitment of skilled tradespeople, for jobs requiring medium-level qualifications. High vacancy rates in some regions contrast with relatively high unemployment in others. Barriers to regional labour mobility include differences in rental prices, social housing availability and disparities in the availability of early childhood education and care for children under the age of three.
The vocational education and training system, despite being well developed, faces growing challenges. Around 24 500 aspiring apprentices were unable to find placements in 2025, with small- and medium-sized enterprises (SMEs) facing greater challenges. Training quality is also a concern, including the use of digital tools.

(37) Employment outcomes remain weak compared to the EU average for older people, low-qualified workers, and people with a migrant background. Recent reforms to increase employment include support for the re-employment of older long-term unemployed, tighter access to early retirement, the introduction of a partial pension and the announcement of tax incentives for work after the statutory retirement age. However, labour market integration policies for people with a migrant background and low-qualified jobseekers remain insufficient. Strengthened upskilling and reskilling efforts, together with a strengthened coordination of the future 'lifelong learning 2040 strategy' between the federal states and the federal level, could further improve basic skills and increase the labour market integration of both groups.

(38) Austria's social situation worsened in 2025, with a rise in the share of people at risk of poverty or social exclusion. Low incomes grew at a slower pace than average incomes and the impact of social transfers in reducing poverty became less effective. Children were disproportionately affected, with one in four at risk of poverty or social exclusion an increase by 3.5 pps from 2024 and surpassing the EU average. AROPE levels also increased among those with low qualifications, and among people born outside the EU. Despite recent reforms, there remains a need to improve the accessibility and adequacy of training courses for people with a migrant background and low-qualified people. In particular, sufficient German language courses would improve employability. In addition, many non-EU workers are overqualified (45.4% in 2025) compared to Austrians (23%) and other EU nationals (32.2%), as Austria currently does not have a standardised national system for recognising foreign qualifications. Faster and more uniform recognition of qualifications could mobilise underused potential in the labour market, further the integration of migrants, and contribute to reducing their poverty risks.

(39) Austria continues to face challenges to increase the level of basic skills. About 1 in 4 students lack basic skills and this share is significantly higher among students from disadvantaged and migrant backgrounds. Austria is off-track to reach the European Education Area target of less than 15% underachievement by 2030, with wide socio-economic and regional disparities. Early school leaving is increasing, particularly among native born disadvantaged learners, and those with a migrant background. Educational outcomes remain uneven across federal states and persistent teacher and staff shortages constrain the capacity to improve learning outcomes. Keeping young people in general education with systematic follow up systems, targeted support combining basic skills, language learning, addressing teacher and staff shortages and promoting inclusive teacher training and flexible second-chance pathways could improve integration, employability and social cohesion. To address these challenges, the Austrian government set important measures, such as the "Chancenbonus" programme.

(40) In view of the close interlinkages between the economies of euro-area Member States and their collective contribution to the functioning of the economic and monetary union, in 2026, the Council recommended that the euro-area Member States take action, including through their RRPs, to implement the 2026 Recommendation on the economic policy of the euro area. For Austria, the recommendation (1) helps implement the first, second, third and fifth recommendations on the euro area, recommendation (2) helps implement the fourth recommendation on the euro area, recommendation (3) helps implement the seventh, ninth and eleventh recommendations on the euro area, recommendation (4) helps implement the seventh recommendation on the euro area and the recommendation (5) helps implement the fifth recommendation on the euro area.

HEREBY RECOMMENDS that Austria take action in 2026 and 2027 to:

1. Continue adhering to the maximum growth rates of net expenditure recommended by the Council on 8 July 2025, with a view to bringing an end to the situation of an excessive deficit, while making use of the flexibility under the national escape clause activated by the Council. Reinforce overall defence and security spending and readiness, in line with paragraph 53 of the European Council conclusions of 19 March 2026, while ensuring debt sustainability and spending efficiency, as well as gradually adapting the budget to sustain structurally higher defence spending. Ensure that measures taken to mitigate the impact of the hike in energy prices are temporary, targeted at protecting vulnerable households or at addressing the needs of energy-intensive firms, preserve incentives for energy savings and that their fiscal cost is compatible with the commitments under the EU fiscal framework. Continue to implement the set of reforms and investments underpinning the extended adjustment period as recommended by the Council on 8 July 2025. Take decisive action to safeguard the sustainability of public finances, including by improving the fiscal sustainability of the healthcare, long-term care and pension systems, by, among other things, streamlining hospital infrastructure, improving the cost-effectiveness of healthcare and long-term care, strengthening digitalisation and disease prevention to foster expenditure control, and significantly increasing the effective retirement age. Simplify and rationalise fiscal relationships and responsibilities across layers of government and ensure financing and spending responsibilities are clearly aligned. Improve the tax mix in a fiscally neutral manner to reduce the high tax wedge on labour.

2. Ensure continuity of reforms and investments implemented under the Recovery and Resilience Facility. Sustain implementation momentum under cohesion policy programmes building, where appropriate, on the reallocation to strategic priorities and flexibilities agreed in the context of the mid-term review of the cohesion policy framework.

3. Promote business dynamism, and the creation and growth of young companies, including by providing better access to venture and growth capital and by facilitating equity investment by institutional investors and strengthening supplementary pension schemes. Improve the translation of the high levels of R&D investment into marketable solutions and step up the use of advanced digital technologies by companies. Simplify regulation and reduce administrative burden, particularly for SMEs, including by accelerating permitting procedures. Address regulatory barriers in the services sector and strengthen competition to lower prices. Address high construction costs.

4. Implement the Electricity Act, improve the flexibility of the energy system and incentivise power purchase agreements. Improve energy efficiency, reduce overall reliance on fossil fuels, and accelerate the roll-out of renewable energy and the required infrastructure, particularly by simplifying permitting procedures and putting in place dedicated acceleration areas. Further reduce emissions, particularly in the transport sector and by advancing industrial decarbonisation, especially in regions with high emission intensity.

5. Create incentives to boost the number of hours worked overall and the full-time labour market participation of women, including by improving framework conditions and notably the quality and availability of childcare services. Tackle the shortage of skilled workers and address regional mismatches including by improving labour market outcomes for older workers and for disadvantaged groups such as people with a migrant background including through the recognition of their qualifications. Raise the levels of basic skills from an early age.

Done at Brussels,

For the Council
The president