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Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2016 national reform programme of Austria and delivering a Council opinion on the 2016 stability programme of Austria

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2016) 340 final.

COUNCIL RECOMMENDATION

of…

on the 2016 National Reform Programme of Austria

and delivering a Council opinion on the 2016 Stability Programme of Austria

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,

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] OJ L 209, 2.8.1997, p. 1.

Whereas:

(1) On 26 November 2015, the Commission adopted the Annual Growth Survey, marking the start of the 2016 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 17-18 March 2016. On 26 November 2015, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council[2], the Commission adopted the Alert Mechanism Report, in which it identified Austria as one of the Member States for which an in-depth review would be carried out. On the same day, the Commission also adopted a recommendation for a Council Recommendation on the economic policy of the euro area. This Recommendation was endorsed by the European Council on 18-19 February 2016 and adopted by the Council on 8 March 2016[3]. As a country whose currency is the euro and in view of the close interlinkages between the economies of the economic and monetary union, Austria should ensure the full and timely implementation of the Recommendation.

(2) The 2016 country report for Austria was published on 26 February 2016. It assessed Austria's progress in addressing the country-specific recommendations adopted by the Council on 14 July 2015 and Austria's progress towards its national Europe 2020 targets. It also included the in-depth review under Article 5 of Regulation (EU) No 1176/2011. On 8 March 2016, the Commission presented the results of the in-depth review. The Commission's analysis leads it to conclude that Austria is not experiencing macroeconomic imbalances.

(3) On 26 April 2016, Austria submitted its 2016 National Reform Programme and on 27 April 2016 it submitted its 2016 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

[2] 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).

[3] OJ C 96, 11.3.2016, p. 1

(4) Relevant country-specific recommendations have been addressed in the programming of the European Structural and Investment Funds for the 2014-2020 period. As foreseen in Article 23 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council[4], where it is necessary to support the implementation of relevant Council recommendations, the Commission may request a Member State to review and propose amendments to its Partnership Agreement and relevant programmes. The Commission has provided further details on how it would make use of this provision in guidelines on the application of the measures linking effectiveness of the European Structural and Investment Funds to sound economic governance.

(5) The Stability Programme indicates that the budgetary impact of the exceptional inflow of refugees is significant and provides adequate evidence of the scope and nature of these additional budgetary costs. According to the Commission, the eligible additional expenditure amounted to 0,09 % of GDP in 2015 and is currently estimated at 0,26 % of GDP in 2016. These amounts represent an upward revision with respect to the estimates provided by the 2016 draft budgetary plan, which expected additional expenditure at around 0,08 % of GDP and 0,16 % of GDP in 2015 and 2016 respectively. The provisions set out in Article 5(1) and Article 6(3) of Regulation (EC) No 1466/97 cater for this additional expenditure, in that the inflow of refugees is an exceptional event, its impact on Austria`s public finances is significant and sustainability would not be compromised by allowing for a deviation from the adjustment path towards the medium-term budgetary objective. In 2015, as Austria was at its medium-term budgetary objective, it did not make use of the possible temporary deviation. However, in order to ensure that Austria is allowed the same temporary deviation as countries not yet at their medium-term budgetary objective, Austria will be allowed to deviate from its medium-term budgetary objective in 2016 and 2017 by the amount considered eligible for 2015. Regarding possible additional deviation in 2016, a final assessment, including on the eligible amounts, will be made in spring 2017 on the basis of observed data as provided by the Austrian authorities.

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4 Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (OJ L 347, 20.12.2013, p. 320).

(6) Austria is currently in the preventive arm of the Stability and Growth Pact and subject to the transitional debt rule. In its 2016 Stability Programme, the Government expects that the headline deficit will deteriorate to 1,6 % of GDP in 2016 and then gradually improve to 0,4 % of GDP in 2020. The medium-term budgetary objective — a structural deficit of 0,45 % of GDP until 2016 and revised to become a structural deficit of 0,5 % of GDP as from 2017 — is foreseen to be met from 2018 onwards. However, based on the recalculated structural balance, the medium-term budgetary objective would only be met as from 2019. According to the Stability Programme, the government debt-to-GDP ratio is expected to have peaked at 86,2 % in 2015 and to gradually decline to 76,6 % in 2020. The macroeconomic scenario underpinning these budgetary projections is plausible. At the same time, the measures needed to support the planned deficit targets from 2017 onwards have not been sufficiently specified. Based on the Commission 2016 spring forecast, there is a risk of some deviation in 2016. However, if the additional impact of the exceptional inflow of refugees currently projected for 2016 is also excluded from the assessment, Austria would be expected to comply with the provisions of the Stability and Growth Pact in 2016. Under unchanged policies, there is a risk of a significant deviation from the recommended adjustment in 2017. However, the projected deviation in 2017 would no longer be significant after considering the further allowance linked to the budgetary impact of the exceptional inflow of refugees possibly granted for 2016. Austria is forecast to comply with the transitional debt rule in 2016 and, following the end of the transition period, the debt reduction benchmark in 2017. Based on its assessment of the Stability Programme and taking into account the Commission 2016 spring forecast, the Council is of the opinion that there is a risk that Austria will not comply with the provisions of the Stability and Growth Pact. Therefore further measures will be needed to ensure compliance in 2016 and 2017.

(7) The budgetary effect of the recent tax reform still represents an element of uncertainty. When taking measures to ensure fiscal sustainability, account should be taken of the fact that, despite recent reforms, the tax burden on labour remains high and Austria has a high tax wedge in comparison with other European countries. Meanwhile, more growth-friendly taxation sources which allow the reduction of the tax burden on labour are under-utilised. Taking steps to reduce the tax burden on labour by shifting the tax burden to other sources less detrimental to growth would help to address this problem.

(8) In 2015 the employment rate of people aged between 55 and 64 was 46,3 % (EU-average: 53,3 %) and ranked 19th in comparison with other Member States. Additional measures to increase the effective retirement age have been in force since 2014 and have had some effect. It remains to be seen whether these measures will reverse a trend whereby the effective retirement age in Austria lags behind the average in the Union in the medium term. In addition, the duration of retirement is increasing, due to higher life expectancy. The statutory retirement age for women will be increased and aligned only gradually with that of men, starting in 2024 and ending in 2033. In Austria, the statutory retirement age is not linked to increasing life expectancy. The Commission estimates that, in 2040, pension expenditure will increase by 0,8 % of GDP compared with 2013. In the long run (2060), pension expenditure is expected to increase by 0.5 % of GDP. Similarly, healthcare expenditure is expected to increase between 2013 and 2040 by 1 % of GDP, and by 1,3 % of GDP in 2060. This, together with the projected increase in expenditure on long-term care, qualifies as a medium risk for Austria's fiscal sustainability.

(9) The fiscal arrangements across the various layers of government (federal, state and local levels) are complex and revenue and expenditure responsibilities are not aligned in many policy areas, such as health care. While, according to 2014 OECD data, sub-national governments have policy responsibilities amounting to general government spending of 16 % of GDP, the share of sub-national taxes is only at around 2 % of GDP. These complexities are costly and may decrease budgetary discipline. The allocation of revenues between the three levels of government is currently being negotiated for the period starting in 2017, thus providing an opportunity to address this matter.

(10) Austria has traditionally one of the lowest unemployment rates in the Union. However, it has been increasing since 2011 and reached 5,7 % in 2015. The youth unemployment rate is also low: 10,6 % of active 15-24 year olds in 2015. Austria also has a high employment rate. However, while the female employment rate is, at 70,2 %, above the EU average, a comparatively large proportion of women works part-time, because of childcare obligations or care for the elderly. This contributes to one of the highest gender pay gaps in the Union and a high gender pension gap. For older workers (aged 55 to 64), the employment rate is below the EU average.

(11) Austria has already exceeded its national Europe 2020 targets for education. In 2015, the early school leaving rate was 7,3 % and the tertiary attainment rate was 38,7 %. However, education outcomes depend heavily on socio-economic background. Inter-generational mobility in education is among the lowest of all OECD countries for which data is available. The drop-out rate of pupils with a migrant background is more than three times higher than that of those without a migrant background and there is an additional challenge to integrate young refugees and migrants of compulsory school age and above into the education and training system.

(12) While there are challenges for Austrian banks on both domestic and foreign markets, supervisory action at national and European level has helped to address risks from deteriorating asset quality in central, eastern, and south-eastern Europe. Regarding the restructuring and winding-down of distressed financial institutions, the fiscal risks have already been factored into government accounts. While further risks cannot be excluded, they seem to be limited to legacy issues for a few specific institutions.

(13) Austria has a higher investment rate than the EU average for all components of GDP, except dwellings. However, investment in Austria has been weak since 2012, despite solid corporate liquidity and favourable financing conditions. In order to stimulate investment and growth, administrative complexities and hurdles should be removed. For example, regulatory barriers and administrative burden in the area of provision of services are not conducive to opening new businesses. Regarding barriers to the setting-up of interdisciplinary companies, as referred to in the 2015 country-specific recommendations, Austria has started to consider improvements, but no decisions have yet been taken. In business services, particular challenges stem from the restrictive authorisation requirements and, as regards certain professions, from restrictions on legal form and shareholding resulting in low market dynamics and negative productivity growth. The action plan submitted by Austria as a result of the mutual evaluation on access to and practice of regulated professions proposes only a limited number of actions, whereas there is clear scope for more ambitious proposals.

(14) The high influx of refugees experienced in the past year has a number of social and economic consequences for Austria. While in the short run, the inflow of refugees is set to increase public expenditure and to create additional domestic demand, thereby raising GDP, the medium-term effect on employment and growth hinges on refugees' successful labour market and social integration, including via educational support. This issue is high on the political agenda both at the Union and Member State level and will be monitored and analysed closely, including in the 2017 country report.

(15) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Austria's economic policy and published it in the 2016 country report. It has also assessed the Stability Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Austria in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Austria but also their compliance with EU rules and guidance, given the need to strengthen the EU's overall economic governance by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations (1) to (3) below.

(16) In the light of this assessment, the Council has examined the Stability Programme, and its opinion[5] is reflected in particular in recommendation (1) below.

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

HEREBY RECOMMENDS that Austria take action in 2016 and 2017 to:

1. Ensure that the deviation from the medium-term budgetary objective in 2016 and in 2017 is limited to the allowance linked to the budgetary impact of the exceptional inflow of refugees in 2015, and to that effect achieve an annual fiscal adjustment of 0,3 % of GDP in 2017 unless the medium-term budgetary objective is respected with a lower effort. Ensure the sustainability of the healthcare system, and of the pension system by linking the statutory pension age to life expectancy. Simplify, rationalise and streamline fiscal relations and responsibilities across the various layers of government.

2. Improve the labour market participation of women. Take steps to improve the educational achievements of disadvantaged young people, in particular those from a migrant background.

3. Reduce, in the area of services, administrative and regulatory barriers for investments, such as restrictive authorisation requirements and restrictions on legal form and shareholding, and impediments to setting up interdisciplinary companies.

Done at Brussels,

For the Council
The President