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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
No. Cion doc.:	9420/22 - COM(2022) 601 final
Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2022 National Reform Programme of Austria and delivering a Council opinion on the 2022 Stability Programme of Austria

Delegations will find attached the abovementioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2022) 601 final.

COUNCIL RECOMMENDATION

of …

on the 2022 National Reform Programme of Austria and delivering a Council opinion on the 2022 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,

Whereas:

1 OJ L 209, 2.8.1997, p. 1.

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[2], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It contributes to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, while strengthening the resilience and potential growth of the Member States' economies. It also helps strengthen sustainable public finances and boost growth and job creation in the medium and long term. The maximum financial contribution per Member State under the Recovery and Resilience Facility will be updated in June 2022, in line with Article 11(2) of Regulation (EU) 2021/241.

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2 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 stablishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(2) On 24 November 2021, the Commission adopted the Annual Sustainable Growth Survey, marking the start of the 2022 European Semester for economic policy coordination. It took due account of the Porto Social Commitment signed on 7 May 2021 to further implement the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The European Council endorsed the priorities of the 2022 Annual Sustainable Growth Survey on 25 March 2022. On 24 November 2021, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council[3], the Commission also adopted the 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. On the same date, the Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a proposal for the 2022 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[4] ('2022 Recommendation on the euro area') on 5 April 2022 and the Joint Employment Report on 14 March 2022.

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3 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).

4 Council Recommendation of 5 April 2022 on the economic policy of the euro area (OJ C 153, 7.4.2022, p.1).

(3) Russia's invasion of Ukraine, in the wake of the global pandemic, has significantly altered the geopolitical and economic context. The impact of the invasion on Member States' economies has been felt through, inter alia, higher prices for energy, food and raw materials, and weaker growth prospects. The higher energy prices weigh particularly heavily on the most vulnerable households experiencing or at risk of energy poverty as well as on firms most vulnerable to energy prices hikes. The Union is also seeing an unprecedented inflow of people fleeing Ukraine. The economic effects stemming from Russia's war of aggression have impacted Member States asymmetrically. In this context, on 4 March 2022, Council Directive 2001/55/EC[5] was triggered for the first time by Council Implementing Decion (EU) 2022/382[6], granting displaced persons from Ukraine the right to legally stay in the Union, as well as access to education and training, the labour market, healthcare, housing and social welfare.

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5 Council Directive 2001/55/EC of 20 July 2001 on minimum standards for giving temporary protection in the event of a mass influx of displaced persons and on measures promoting a balance of efforts between Member States in receiving such persons and bearing the consequences thereof (OJ L 212, 7.8.2001, p.12).

6 Council Implementing Decision (EU) 2022/382 of 4 March 2022 establishing the existence of a mass influx of displaced persons from Ukraine within the meaning of Article 5 of Directive 2001/55/EC, and having the effect of introducing temporary protection (OJ L 71, 4.3.2022, p. 1).

(4) Taking account of the rapidly changing economic and geopolitical situation the European Semester resumes its broad economic and employment policy coordination in 2022, while evolving in line with the implementation requirements of the Recovery and Resilience Facility, as outlined in the 2022 Annual Sustainable Growth Survey. The implementation of the adopted recovery and resilience plans is essential for the delivery of the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in the 2019 and 2020 European Semester cycles. The 2019 and 2020 country-specific recommendations remain equally relevant also for the recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241, in addition to any other country-specific recommendations issued up to the date of submission of such revised, updated or amended recovery and resilience plans.

(5) The general escape clause of the Stability and Growth Pact has been active since March 2020. In its communication of 3 March 2021 entitled “One year since the outbreak of COVID-19: fiscal policy response”, the Commission set out its view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. Heightened uncertainty and strong downside risks to the economic outlook in the context of war in Europe, unprecedented energy price hikes and continued supply-chain disturbances warrant the extension of the general escape clause of the Stability and Growth Pact through 2023.

(6) Following the approach in the Council Recommendation of 18 June 2021[7] delivering a Council opinion on the 2021 Stability Programme of Austria, the overall fiscal stance is currently best measured as the change in primary expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis) but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds, relative to medium-term potential growth[8]. Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions, attention is also paid to the evolution of nationally-financed[9] primary current expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis) and investment.

[7] Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Stability Programme of Austria (OJ C 304, 29.7.2021, p. 93).

[8] The estimates on the fiscal stance and its components in this Recommendation are Commission estimates based on the assumptions underlying the Commission's 2022 spring forecast. The Commission's estimates of medium-term potential growth do not include the positive impact of reforms that are part of the recovery and resilience plan and that can boost potential growth.

[9] Not financed by grants under the Recovery and Resilience Facility or other Union funds.

(7) On 2 March 2022, the Commission adopted a communication providing broad guidance for fiscal policy in 2023 ('the fiscal guidance') aimed at supporting the preparation of Member States' Stability and Convergence Programmes and thereby strengthening policy coordination. The Commission noted that, on the basis of the macroeconomic outlook of the 2022 winter forecast, transitioning from an aggregate supportive fiscal stance in 2020–2022 to a broadly neutral aggregate fiscal stance, while standing ready to react to the evolving economic situation, would appear appropriate in 2023. The Commission announced that the fiscal recommendations for 2023 should continue to differentiate between Member States and take into account possible cross-country spillovers. The Commission invited the Member States to reflect the guidance in their Stability and Convergence Programmes. The Commission committed to closely monitor the economic developments and adjust its policy guidance as needed and at the latest in its European Semester spring package of late May 2022.

(8) With respect to the fiscal guidance, the fiscal recommendations for 2023 take into account the worsened economic outlook, the heightened uncertainty and further downside risks, and the higher inflation compared to the Commission's 2022 winter forecast. Against these considerations, the fiscal response has to expand public investment for the green and digital transitions and energy security, and sustain the purchasing power of the most vulnerable households so as to cushion the impact of the energy price hike and help limit inflationary pressures from second-round effects via targeted and temporary measures. Fiscal policy has to remain agile so as to adjust to the rapidly evolving circumstances, including challenges that arise from Russia's war of aggression against Ukraine with regard to defence and security, and has to differentiate between Member States according to their fiscal and economic situation, including as regards their exposure to the crisis and the inflow of displaced persons from Ukraine.

(9) On 30 April 2021, Austria submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines set out in Annex V to that Regulation. On 13 July 2021, the Council adopted its Implementing Decision on the approval of the assessment of the recovery and resilience plan for Austria[10]. The release of instalments is conditional on the adoption of a decision by the Commission, in accordance with Article 24(5) of Regulation (EU) 2021/241, stating that Austria has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

(10) On 27 April 2022, Austria submitted its 2022 National Reform Programme and its 2022 Stability Programme, in line with the deadline established in Article 4 of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together. In accordance with Article 27 of Regulation (EU) 2021/241, the 2022 National Reform Programme also reflects Austria's biannual reporting on the progress made in implementing its recovery and resilience plan.

10 ST 10159/2021; ST 10159/2021 ADD 1; ST 10159/2021 COR 1.

(11) The Commission published the 2022 country report for Austria on 23 May 2022. It assessed Austria's progress in addressing the relevant country-specific recommendations adopted by the Council in 2019, 2020 and 2021, and took stock of Austria's implementation of the recovery and resilience plan, building on the recovery and resilience scoreboard. On the basis of that analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially by the recovery and resilience plan, as well as new and emerging challenges, including those emerging from Russia's invasion of Ukraine. 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 reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

(12) On 23 May 2022, the Commission issued a report under Article 126(3) of the Treaty. That report discussed the budgetary situation of Austria, as its general government deficit in 2021 exceeded the Treaty reference value of 3 % of gross domestic product (GDP). The report concluded that the deficit criterion was not fulfilled. In line with the communication of 2 March 2022, the Commission did not propose to open new excessive-deficit procedures in spring 2022 and will re-assess the possible opening of such procedures in autumn 2022.

(13) In its Recommendation of 20 July 2020[11], the Council recommended Austria to take in 2020 and 2021 all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Austria to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. In 2021, according to data validated by Eurostat, Austria's general government deficit fell from 8,0 % of GDP in 2020 to 5,9 % . The fiscal policy response by Austria supported the economic recovery in 2021, while temporary emergency measures declined from 4,8 % of GDP in 2020 to 4,3 % in 2021. The measures taken by Austria in 2021 were in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 were mostly temporary or matched by offsetting measures. At the same time, some of the discretionary measures adopted by the government over the period 2020 to 2021 were not temporary or matched by offsetting measures, mainly consisting of a significant tax relief provided to households and corporations through the 'eco-social' tax reform. According to data validated by Eurostat, general government debt fell from 83,3 % of GDP in 2020 to 82,8 % of GDP in 2021.

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11 Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Austria and delivering a Council opinion on the 2020 Stability Programme of Austria (OJ C 282, 26.8.2020, p.129).

(14) The macroeconomic scenario underpinning the budgetary projections in the 2022 Stability Programme is realistic. The government projects real GDP to grow by 3,9 % in 2022 and 2,0 % in 2023. By comparison, the Commission's 2022 spring forecast projects a real GDP growth of 3,9 % in 2022 and 1,9 % in 2023. In its 2022 Stability Programme, the government expects that the headline deficit will decrease to 3,1 % of GDP in 2022 and to 1,5 % in 2023. The decrease in 2022, mainly reflects the strong growth in economic activity and the unwinding of most emergency measures. In the absence of other measures, such as those related to elevated energy prices, the deficit would have decreased even further. According to the 2022 Stability Programme, the general government debt-to-GDP ratio is expected to decrease to 80,0 % in 2022, and to decline to 77,1 % in 2023. Based on policy measures known at the cut-off date of the forecast, the Commission's 2022 spring forecast projects a government deficit for 2022 and 2023 of 3,1 % of GDP and 1,5 % respectively. This is in line with the deficit projected in the 2022 Stability Programme. The Commission's 2022 spring forecast projects a similar general government debt-to-GDP ratio, of 80,0 % in 2022 and 77,5 % in 2023. According to the Commission's 2022 spring forecast, the medium-term (10-year average) potential output growth is estimated at 1,2 %. However, that estimate does not include the impact of the reforms that are part of the recovery and resilience plan and can boost Austria's potential growth.

(15) In 2022, the government phased out the majority of measures taken in response to the COVID-19 crisis, such that the temporary emergency measures are projected to decline from 4,3 % of GDP in 2021 to 1,1 % in 2022. The government deficit is impacted by the measures adopted to counter the economic and social impact of the increase in energy prices, which in the Commission's 2022 spring forecast are estimated at 0,4 % of GDP in 2022 and 0,2 % of GDP in 2023.[12] Those measures mainly consist of social transfers to poorer households, cuts to indirect taxes on energy consumption, and temporary relief measures for commuters in the context of personal income taxes. Those measures have been announced as temporary. However, in the event that energy prices remain elevated in 2023, some of those measures could be continued. The government deficit is also impacted by the cost of offering temporary protection to displaced persons from Ukraine, which in the Commission 2022 spring forecast is projected at 0, 3% of GDP in 2022 and 0,4 % in 2023[13].

(16) In its Recommendation of 18 June 2021, the Council recommended that in 2022 Austria maintain a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment. The Council also recommended Austria to pursue, when economic conditions allow, a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term and, at the same time, to enhance investment to boost growth potential.

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12 The figures represent the level of annual budgetary costs of those measures taken since autumn 2021, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

13 It is assumed that the total number of persons displaced from Ukraine to the Union will gradually reach 6 million by the end of 2022, and their geographical distribution is estimated on the basis of the size of the existing diaspora, the relative population of the receiving Member State, and the actual distribution of displaced persons from Ukraine across the Union as of March 2022. For budgetary costs per person, estimates are based on the Euromod microsimulation model of the Commission's Joint Research Centre, taking into account both cash transfers people may be eligible for as well as in-kind benefits such as education and healthcare.

(17) In 2022, according to the Commission's 2022 spring forecast and including the information incorporated in Austria's 2022 Stability Programme, the fiscal stance is projected to be supportive at -1,2 % of GDP as recommended by the Council[14]. Austria plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by grants under the Recovery and Resilience Facility and other Union funds is projected to increase by 0,1 percentage point of GDP in 2022 compared to 2021. Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0,3 percentage points in 2022[15]. Therefore, Austria plans to preserve nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 0,5 percentage points to the overall fiscal stance. This includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (0,4 % of GDP) as well as the costs to offer temporary protection to displaced persons from Ukraine (0,3 % of GDP).

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14 A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy.

15 Other nationally financed capital expenditure is projected to provide an expansionary contribution of 0,4 percentage points of GDP. This is mainly due to the setup of a strategic gas reserve as also set out in the 2022 Stability Programme.

(18) In 2023, the fiscal stance is projected in the Commission's 2022 spring forecast at 0,4 % of GDP on a no-policy-change assumption[16]. Austria is projected to continue using the grants under the Recovery and Resilience Facility in 2023 to finance additional investment in support of the recovery. The positive contribution to economic activity of expenditure financed by grants under the Recovery and Resilience Facility and other Union funds is projected to remain stable compared to 2022. Nationally financed investment is projected to provide a contractionary contribution to the fiscal stance of 0,4 percentage points in 2023[17]. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2023 is projected to provide a broadly neutral contribution of 0,0 percentage point to the overall fiscal stance. This includes the impact from the phasing out of the measures addressing the increased energy prices (0,2 % of GDP) and additional costs to offer temporary protection to displaced persons from Ukraine (0,1 % of GDP).

(19) In the 2022 Stability Programme, the general government deficit is expected to gradually decline to 0,7 % of GDP in 2024 and to 0,3 % by 2025. Therefore, the general government deficit is planned to remain below 3 % of GDP from 2023 onwards until the end of the Programme period. These projections assume a decrease in public expenditures for this time horizon (from 50,4 % of GDP in 2023 to 49,6 % in 2024 and 49,4 % in 2025). According to the 2022 Stability Programme, the general government debt-to-GDP ratio is expected to decrease by 2025, specifically with a decrease to 74,5 % in 2024, and a decline to 72,1 % in 2025. According to the Commission's analysis, debt sustainability risks appear medium over the medium term.

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16 A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy.

17 Other nationally financed capital expenditure is projected to provide a neutral contribution.

(20) Austria faces medium risks to fiscal sustainability in the medium and long term, which are mainly due to budgetary pressures stemming from population ageing. The ratio of the working-age population (persons aged 20 to 64) to older adults is expected to decrease from three workers to roughly two workers per person over the age of 65 in the next 50 years. Overall, according to the ageing working group risk scenario of the 2021 Ageing Report issued by the Commission, public expenditure for long-term care is expected to soar from 1.8 % of GDP in 2019 to 2.3% of GDP in 2030. In addition to demographic developments, the need for more intensive care due to old-age-related illnesses is also expected to play a role in pushing up the costs of long-term care. A comprehensive reform of the long-term care system was announced but is still pending. So far, a dedicated task force has summarised the main takeaways from a public consultation. According to the task force's report, one priority of the reform will be to set up a coordinated control of the system. This includes a clear assignment of responsibilities across levels of government and transparency about the origin and use of funds.

(21) Austria's fiscal federalism is characterised by a significant mismatch of expenditure and revenue-raising responsibilities at the subnational level. Rather than relying on tax autonomy, subnational budgets are fed by a complex system of tax sharing and intergovernmental transfers. This hampers fiscal transparency and political accountability, and provides few incentives for efficient public spending. As the need for reform persists, it should be addressed in the negotiations for the next Intergovernmental Fiscal Relations Act, which are expected to start in December 2022. Besides reforming the national fiscal framework, making better use of spending reviews can improve the effectiveness and efficiency of public expenditures as these help scrutinise financial allocations against political priorities.

(22) Austria's tax system continues to have scope to improve fairness and growth-friendliness. The tax system is characterised by a high burden on labour stemming from payroll taxes and social security contributions, with social-security contributions being borne both by employees and employers. This hinders job creation. At the same time, high marginal tax rates act as a disincentive for people to work especially at the lower end of the income distribution and for second earners in a family. The recently adopted eco-social tax reform is a step in the right direction and the introduction of a CO_2 price for sectors not covered by the emissions trading system (ETS) is an important project within Austria's recovery and resilience plan. Nevertheless, structural challenges persist. There is scope to further reduce non-wage labour costs to boost job creation and labour supply, especially for low-income earners. Making better use of more growth-friendly taxes could help create the necessary budgetary space and improve the fairness of the tax system.

(23) In accordance with Article 19(3), point (b), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments with an indicative timetable for implementation to be completed by 31 August 2026. These help address all or a significant subset of the economic and social challenges outlined in the country-specific recommendations addressed to Austria by the Council in the European Semester in 2019 and 2020, in addition to any country-specific recommendations issued up to the date of adoption of a recovery and resilience plan. In particular, the measures in the plan contribute to addressing a significant subset of the country-specific recommendations identified in recent years in the context of the European Semester. Planned changes to the tax system will help reduce greenhouse gas emissions, while contributing to shifting taxes away from labour and taking account of ecological and social aspects. The labour market participation of women may benefit from the improved availability of quality early-childcare facilities. The long-recognised challenge related to the gender pension gap is also partially addressed. The green transition will be promoted by investment in (i) energy efficiency, (ii) renewables, (iii) the decarbonisation of industry, (iv) biodiversity and (v) circular economy, accompanied by related reforms, including the overhaul of the support framework for renewables and the phase-out of oil heating systems. The plan will also help substantially increase the digital capacity of enterprises. The administrative burden for businesses will be lowered by means of digital single access points.

(24) The implementation of the recovery and resilience plan of Austria is expected to contribute to making further progress on the green and digital transitions. Measures supporting climate objectives account for 58,7 % of the recovery and resilience plan's total financial allocation, while measures supporting digital objectives account for 52,8 % of the recovery and resilience plan's total financial allocation. The fully fledged implementation of the recovery and resilience plan, in line with the relevant milestones and targets, will help Austria recover swiftly from the fallout of the COVID-19 crisis, while strengthening its resilience. The systematic involvement of social partners and other relevant stakeholders remains important for the successful implementation of the recovery and resilience plan, as well as other economic and employment policies that go beyond the recovery and resilience plan, to ensure broad ownership of the overall policy agenda.

(25) The Commission approved the Austrian Partnership Agreement, provided for in Regulation (EU) 2021/1060 of the European Parliament and of the Council[18], on 2 May 2022. Austria submitted its European Regional Development Fund (ERDF) and Just Transition Fund (JTF) programmes provided for in that Regulation on 21 October 2021, which the Commission services returned with observations on 4 January 2022. Austria has not yet submitted its European Social Fund Plus programme. In line with Regulation (EU) 2021/1060, Austria is to take into account the relevant country-specific recommendations in the programming of the 2021–2027 cohesion policy funds. This is a prerequisite for improving the effectiveness and maximising the added value of the financial support to be received from cohesion policy funds, while promoting coordination, complementarity and coherence between those cohesion policy funds and other Union instruments and funds. The successful implementation of the Recovery and Resilience Facility and cohesion policy programmes also depends on the removal of bottlenecks to investment to support the green and digital transitions and a balanced territorial development.

(26) Beyond the economic and social challenges addressed by the recovery and resilience plan, Austria faces a number of additional challenges related to its labour market. Austria's strong social protection system and extensive policy measures have limited the social impact of the COVID-19 pandemic**.** Austria performs well on most dimensions of the European Pillar of Social Rights, but some challenges remain. In particular, these challenges include the underused potential of women, low-qualified workers, older workers and people with a migrant background. This is particularly problematic in view of the shortage of skilled labour. Unlocking the underused potential of these groups could reduce the pressure on the Austrian labour market.

18 Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy (OJ L 231, 30.6.2021, p. 159).

(27) While the female employment rate stands well above the Union average, Austria ranks second highest in the Union regarding part-time employment of women. In 2021, 49,9 % of Austrian women worked part-time, compared to an Union average of 28,3 %. This leaves considerable potential for strengthening the full-time participation of women in the labour market. A limited supply of affordable, high-quality childcare makes it difficult for mothers to participate more actively in the labour market. Only 21,1 % of children under three years of age are in formal childcare, one of the lowest rates in the Union and far from the Barcelona target set by the European Council in 2002 of having 33 % of children under the age of three in formal childcare. The high share of part-time work, together with the over-representation of women in low-paying sectors, are the main contributing factors to Austria's high gender pay gap and relatively high gender pension gap. The COVID-19 pandemic has further amplified these gender-related inequalities, with a significant share of women combining work and care obligations. Increasing the supply of quality childcare by raising quality standards, offering longer opening hours for childcare and tackling disincentives to increase working hours (e.g. by improving tax incentives) are key to ensuring a better use of the labour market potential of women.

(28) Several disadvantaged groups could be better integrated into the labour market, in particular low-skilled and older workers, and workers with a migrant background. Almost half of the long-term unemployed in Austria have completed at most lower secondary school (*Pflichtschule*). The labour market participation of people with a migrant background remains low, with an employment level 12.7 percentage points lower than native-born residents in 2020. This is especially problematic since educational outcomes, job opportunities and future income levels of children in Austria tend to be particularly determined by those of their parents. The measures in Austria's recovery and resilience plan to promote re-skilling and up-skilling will address these challenges by supporting training for low-skilled workers and the long-term unemployed. At the same time, the planned measures do not fully address the underlying participation problem among people with a migrant background and low-skilled workers. Moreover, education outcomes for these groups need to be improved much earlier in life. There remains a need for additional retraining and lifelong learning opportunities for workers of all ages.

(29) The growing skills shortage (*Fachkräftemangel*) is becoming an increasing challenge for companies that rely on highly qualified professionals, such as information technology (IT) experts, as well as skilled professionals for the rapidly growing renewable energy deployment. The reasons for the skilled-labour shortages are manifold and the COVID-19 pandemic has increased them. Expanding opportunities for highly skilled talent from abroad for positions which cannot be filled by the Austrian or Union labour force could ease these shortages. Currently, the procedures in place entail a significant administrative burden on companies who wish to hire workers from outside the EU, making it hard to attract necessary foreign talent. This hinders productivity growth, especially for the services sector and most notably in the IT sector. The 2019 and 2020 reforms of Austria's 'fast-track' scheme for skilled labour from non-EU countries (*Rot-Weiß-Rot-Karte*) have not proven effective in dealing with the overall challenge. Further measures could therefore be taken to better enable companies to hire skilled labour from abroad. This includes making the procedures faster and more targeted towards companies' individual needs.

(30) In response to the mandate by the Union Heads of State or Government set out in the Versailles Declaration, the Commission's proposal for a REPowerEU plan aims to phase out the Union's dependence on fossil-fuel imports from Russia as soon as possible. For this purpose, the Commission intends to identify the most-suitable projects, investments and reforms at national, regional and Union level in dialogue with Member States. These measures aim to reduce overall reliance on fossil fuels and shift fossil-fuel imports away from Russia.

(31) The geopolitical developments triggered by Russia's invasion of Ukraine have exposed risks for Austria's security of energy supplies. Austria is highly dependent on gas imports from Russia. In 2020, Austria imported around 80 % of its total gas imports from Russia, compared to an Union average of 44 %. Gas also accounts for a significant share of Austria's energy demand (22,7 %, slightly below the Union average of 24,4 %), mostly for industrial consumption and heating. However, Austria is less dependent on Russia for oil (10 % of its crude oil comes from Russia, significantly lower than the Union average of 26 %).[19] Diversifying energy supplies and increasing flexibility and reverse-flow capacity for the already extensive interconnectivity with other Member States will be key to reducing dependency on Russian gas. However, new infrastructure and network investments related to gas are recommended to be future-proof where possible, in order to facilitate their long-term sustainability through future repurposing for sustainable fuels. Reducing dependency on Russian gas also includes investing in the production of renewable gases, (such as renewable hydrogen and sustainable bio-methane) thus making it possible to replace natural gas, in particular in sectors and regions that are most vulnerable to supply disruptions. Moreover, additional renewable energy sources, such as geothermal energy, remain underused and could be explored further.

[19] Eurostat (2020), share of Russian imports over total imports of natural gas and crude oil. The EU27 average is based on extra-EU27 imports. Since March 2022 Austria has stopped importing crude oil from Russia.

(32) In 2020, the share of renewables in Austria's final energy consumption was 37 %, above the 34 % target for the same year. The 2021 reform of support for renewables included in the recovery and resilience plan has created the necessary framework for increasing the share of renewable energy in electricity consumption. The reform will enable 27 TWh of yearly electricity generation capacity from renewables by 2030 and will thus help contribute to reaching the 100 % target by 2030 (from currently 81 % in 2020). However, investment in renewable energy is hampered by lengthy spatial planning and permitting procedures, a problem that is also partly due to a complex division of powers between the federal and regional government levels, and staffing problems in the administration. To accommodate the planned expansion of renewable power generation, Austria could consider significantly increasing investment in network infrastructure (such as storage, distribution and transmission) and ensuring the timely deployment of such infrastructure. Stepping up the level of ambition for energy efficiency in the building and industry sectors will reduce reliance on fossil fuels. Austria's long-term renovation strategy sets clear milestones for 2050 and seeks to achieve an 80 % decarbonisation of its building stock. Its recovery and resilience plan will accelerate the phasing out of fossil fuel boilers in the building sector and replace them with renewable heating technology or district heating. Yet Austria's 2030 energy efficiency targets are low in ambition and the country could accelerate investment in deep renovation of buildings, replacement of fossil fuel with renewable heating and better management of energy consumption through utility digitalisation (such as smart meters and thermostats). At the same time, further efforts to decarbonise industry processes, including through renewable gases would help reduce gas demand and protect business from price volatility. A further increase in ambition in respect of reducing greenhouse-gas emissions and increasing renewables and energy efficiency will be needed in order for Austria to be in line with the 'Fit for 55' objectives.

(33) While the acceleration of the transition towards climate neutrality and away from fossil fuels in some sectors will create significant restructuring costs in several sectors, Austria can make use of the Just Transition Mechanism in the context of cohesion to alleviate the socio-economic impact of the transition in the most-affected regions. In addition, Austria can make use of the European Social Fund Plus, established by Regulation (EU) 2021/1057 of the European Parliament and of the Council[20], to improve employment opportunities and strengthen social cohesion.

(34) In the light of the Commission's assessment, the Council has examined the 2022 Stability Programme and its opinion [21] is reflected in recommendation (1).

(35) 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, the Council recommended that the euro-area Member States take action, including through their recovery and resilience plans, to implement the recommendations set out in the 2022 Recommendation on the euro area. For Austria, this is reflected in particular in recommendations (1), (2) and (3).

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20 Regulation (EU) 2021/1057 of the European Parliament and of the Council of 24 June 2021 establishing the European Social Fund Plus (ESF+) and repealing Regulation (EU) No 1296/2013 (OJ L 231 30.6.2021, p. 21).

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

HEREBY RECOMMENDS that Austria take action in 2022 and 2023 to:

1. In 2023, ensure that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Stand ready to adjust current spending to the evolving situation. Expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds. For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions. Ensure the adequacy and fiscal sustainability of the long-term care system. Simplify and rationalise fiscal relations and responsibilities across layers of government and align financing and spending responsibilities. Improve the tax mix to support inclusive and sustainable growth.

2. Proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 13 July 2021. Swiftly finalise the negotiations with the Commission on the 2021–2027 cohesion policy programming documents with a view to starting their implementation.

3. Boost labour market participation of women, including by enhancing quality childcare services, and improve labour market outcomes for disadvantaged groups.

4. Reduce overall reliance on fossil fuels, and diversify imports of fossil fuels, by accelerating the deployment of renewable energy and of the necessary infrastructure, in particular by simplifying planning and further streamlining permitting procedures, and enhancing energy efficiency, in particular in the industry and building sectors, and diversifying energy supplies, as well as increasing the flexibility and the reverse-flow capacity of interconnections.

Done at Brussels,

For the Council

The President