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Subject: Recommendation for a COUNCIL RECOMMENDATION on the 2017
National Reform Programme of Austria and delivering a Council opinion on
the 2017 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(2017) 519 final.

COUNCIL RECOMMENDATION

of ...

on the 2017 National Reform Programme of Austria

and delivering a Council opinion on the 2017 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 16 November 2016, the Commission adopted the Annual Growth Survey, marking the start of the 2017 European Semester for economic policy coordination. The priorities of the Annual Growth Survey were endorsed by the European Council on 9-10 March 2017. On 16 November 2016, 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 did not identify Austria as one of the Member States for which an in-depth review would be carried out. On the same date, the Commission also adopted a recommendation for a Council Recommendation on the economic policy of the euro area, which was endorsed by the European Council on 9-10 March 2017. On 21 March 2017, the Council adopted the Recommendation on the economic policy of the euro area ('Recommendation for the euro area').³
- (2) As a Member State whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, Austria should ensure the full and timely implementation of the Recommendation for the euro area, as reflected in recommendation (1) below.
- (3) The 2017 country report for Austria was published on 22 February 2017. It assessed Austria's progress in addressing the country-specific recommendations adopted by the Council on 12 July 2016, the follow-up given to the country-specific recommendations adopted in previous years and Austria's progress towards its national Europe 2020 targets.
- (4) Austria submitted its 2017 National Reform Programme on 21 April 2017 and its 2017 Stability Programme on 2 May 2017. 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 92, 24.3.2017, p. 1.

- (5) Relevant country-specific recommendations have been addressed in the programming of the European Structural and Investment Funds (ESI Funds) for the 2014-2020 period. As provided for 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 that provision in guidelines on the application of the measures linking effectiveness of the ESI Funds to sound economic governance.
- (6) Austria is currently in the preventive arm of the Stability and Growth Pact and subject to the debt rule. In its 2017 Stability Programme, the Government expects that the headline deficit will improve to 1,0 % of GDP in 2017 and then reach 0,3 % of GDP in 2021. The medium-term budgetary objective — a structural deficit of 0,45 % of GDP until 2016 and 0,5 % of GDP thereafter — is foreseen to be met in 2019. According to the Stability Programme, the general government debt-to-GDP ratio is expected to gradually decline to 71,0 % in 2021 from 84,6 % in 2016. The macroeconomic scenario underpinning those budgetary projections is favourable, assuming buoyant growth of investment and exports in 2017 and 2018.

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).

- (7) The Stability Programme indicates that the budgetary impact of the exceptional inflow of refugees and security-related measures is significant and provides adequate evidence of the scope and nature of these additional budgetary costs. According to the Commission, the eligible additional expenditure in 2016 amounted to 0,25 % of GDP for the exceptional inflow of refugees and 0,04 % of GDP concerning security-related measures. In 2017, the additional impact compared to 2016 of the security-related measures is currently estimated at 0,01 % of GDP. The provisions set out in Articles 5(1) and 6(3) of Regulation (EC) No 1466/97 cater for this additional expenditure, in that the inflow of refugees as well as the severity of the terrorist threat are unusual events, their impact on Austria's public finances is significant and sustainability would not be compromised by allowing for a temporary deviation from the adjustment path towards the medium-term budgetary objective. Therefore, the required adjustment towards the medium-term budgetary objective for 2016 has been reduced to take into account additional refugee-related and security-related costs. Regarding 2017, a final assessment, including on eligible amounts, will be made in spring 2018 on the basis of observed data as provided by the Austrian authorities.

(8) On 12 July 2016, the Council recommended Austria to ensure that the deviation from the medium-term budgetary objective is limited to the allowance linked to the budgetary impact of the exceptional inflow of refugees,⁵ 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. Based on the Commission 2017 spring forecast, the structural balance is required to remain stable in 2017, taking into account the granted allowances. The Commission forecast points to a risk of some deviation from that requirement in 2017. In 2018, based on the Commission 2017 spring forecast, Austria should ensure that the nominal growth rate of net primary government expenditure⁶ does not exceed 2,2 %, corresponding to an improvement in the structural balance by 0,3 % of GDP.⁷ Under unchanged policies, Austria would be at risk of some deviation from the requirement in 2018. At the same time, Austria is forecast to comply with the debt rule in 2017 and 2018. Overall, the Council is of the opinion that Austria needs to stand ready to take further measures to ensure compliance in 2017 and 2018.

⁵ Austria is allowed to deviate from its medium-term budgetary objective up to 2017 and 2018 by the additional budgetary impact related to the exceptional inflow of refugees and security-related measures incurred in 2015 and 2016 respectively, as temporary deviations are carried forward in each case for a total period of three years.

⁶ Net government expenditure comprises total government expenditure excluding interest expenditure, expenditure on Union programmes fully matched by Union funds revenue and non-discretionary changes in unemployment benefit expenditure. Nationally financed gross fixed capital formation is smoothed over a 4-year period. Discretionary revenue measures or revenue increases mandated by law are factored in. One-off measures on both the revenue and expenditure sides are netted out.

⁷ For Austria the adjustment requirement in 2018 takes into account the allowance linked to the unusual events granted for 2016, as temporary deviations are carried forward for a period of three years.

- (9) Pension spending and healthcare spending pose a medium risk to fiscal sustainability in the medium and long term, due to a rapidly ageing population. Austria's public expenditure on pensions is relatively high compared to other Member States and is expected to increase by 0,5 percentage points of GDP by 2060. This compares to the Union average which is expected to decrease by 0,2 percentage points of GDP over the same period. The effective retirement age remains low despite recent reforms and is one of the main drivers of higher pension expenditure. Expressed as the average exit age from the labour market it is 62 years and 6 months for men and 61 years for women, which is below the Union average of 63 years and 7 months for men and 62 years and 7 months for women (2014). Furthermore, the current statutory retirement age for women of 60 years is among the lowest in the Union, and it will only start to be harmonised with that of men in 2024. Linking the statutory retirement age to changes in life expectancy would help to ensure pension sustainability in an ageing demographic context, also by contributing to raising the effective retirement age.
- (10) For healthcare, public expenditure is expected to rise significantly in the medium and long term from already high levels, namely by 1,3 percentage points of GDP by 2060 compared to the Union average of 0,9 percentage points. The main driver of the high healthcare spending is the large hospital sector, while the less costly outpatient care is underutilised. The proportion of hospital expenditure in overall healthcare costs is one of the highest in the Union. The recent initiatives aimed at strengthening the provision of primary care therefore need to be thoroughly implemented, including by supporting new financial agreements between healthcare providers and social security funds. Furthermore, Austria's hospital sector makes insufficient use of effective public procurement such as Union-wide tendering (0,23 % of GDP compared to 0,62 % Union average), procurement aggregation and non-price award criteria.
- (11) The 2017 financial equalisation law has helped to simplify the financial relations between the different layers of government in Austria. Nevertheless, the fiscal framework in Austria remains overly complex in terms of competencies and financial arrangements, and still suffers from misalignments between limited revenue-raising powers and broader spending responsibilities of local and federal state governments.

- (12) While the 2016 tax reform has reduced the tax wedge from 49,5 % to 46,7 %, it remains relatively high compared to the Union average of 40,6 % (figures refer to a single average income earner without children). In the absence of an indexation of tax brackets to inflation, the tax wedge will again gradually increase as an effect of the yearly fiscal drag. By contrast, more growth-friendly sources of revenue, such as recurrent property taxes, are underutilised, mainly because the tax base is outdated. Revenues from recurrent property taxes in Austria are very low, amounting to 0,2 % of GDP compared to the Union average of 1,6 % of GDP in 2014. Similarly, the implicit tax rate on energy in Austria is relatively low, pointing to unexploited potential for environmental taxes, which also include positive behavioural incentives.
- (13) While the labour market performs better in Austria than in most Member States, challenges remain. In particular, women's labour market potential is underused, as reflected in the high gender pay gap, resulting, *inter alia*, from a high share of part-time employment. In 2015, the gender pay gap was 21,7 %, compared to the Union average of 16,3 %. The high and above-average proportion of women working part-time is largely driven by care responsibilities for children and the elderly. The number of early childcare places for children under 3 years of age was at 25,5 % in 2015, still significantly below the Barcelona target of 33 %.
- (14) Austria has already exceeded its national Europe 2020 targets for education. However, education outcomes depend considerably on the socioeconomic background as confirmed by the 2015 OECD Programme for International Student Assessment (PISA) results. Furthermore, the education results of pupils with a migrant background are considerably worse than those of pupils without one. In 2016, foreign-born pupils were 2,7 times more likely to leave school before completing upper secondary education than native-born pupils. The integration challenge also affects Austrian-born children of immigrants. Furthermore, Austria faces challenges in integrating a large number of asylum seekers and refugees into its education system.

- (15) Banking-sector developments point towards a steady, albeit slow improvement. The capitalisation of Austrian banks remains below that of its Union peers and their ability to generate profits in the domestic market has been under pressure. Regarding international operations, asset quality and profitability have improved further in several markets in Central, Eastern and South-Eastern Europe, but pockets of vulnerability still remain. Meanwhile, the increase in real estate prices and the revival of mortgage lending underscores the importance of macro-prudential measures.
- (16) Investment growth in Austria returned in 2016 but investment by SMEs and in the service sector continued to show weaknesses. Austria has recognised the role that business creation and firm growth play for new investments (i.e. going beyond replacement investments) and for the corresponding job creation. Austria has therefore set itself ambitious targets to facilitate digital transformation as well as to tackle its traditionally low rate of business creation (7,4 % compared to 10,8 % Union average) and company growth (7,3 % share of high-growth firms compared to 9,2 % Union average). Some specific measures which combine the reduction of investment barriers with improved framework conditions for equity capital funding, entrepreneurship promotion and taxation incentives have already been announced.

- (17) High regulatory barriers remain in the business services sector and regulated professions with the level of restrictions being higher than the Union average in particular for architects and engineers. In addition, for these professions, as well as for lawyers, accountants/tax advisers, patent agents, real estate agents and tourist guides, the business churn rate is significantly lower than the Union average, which seems to indicate relatively low dynamism and competition in professional services in Austria. These barriers include, *inter alia*, (1) shareholding and company form restrictions for architects, engineers and patent attorneys, (2) multidisciplinary restrictions for architects and engineers, as well as (3) particularly wide scopes of reserved activities for architects, engineers and tourist guides. The reduction of such barriers could generate more intense competition, resulting in more firms entering the market, and leading to benefits for consumers in terms of lower prices. Recommendations to address this issue were made in January 2017 in a Communication from the Commission, as part of a package of measures to tackle barriers in services markets.
- (18) Austria has made considerable efforts in receiving asylum seekers and in integrating refugees as well as other immigrants. Nevertheless, labour market integration of people with a migrant background, in particular women born outside the Union and jobseeking refugees, remains a challenge.
- (19) In the context of the 2017 European Semester, the Commission has carried out a comprehensive analysis of Austria's economic policy and published it in the 2017 country report. It has also assessed the 2017 Stability Programme, the 2017 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 Union rules and guidance, given the need to strengthen the Union's overall economic governance by providing Union-level input into future national decisions.
- (20) In the light of this assessment, the Council has examined the 2017 Stability Programme and its opinion⁸ is reflected in particular in recommendation (1) below,

⁸ Under Article 5(2) of Regulation (EC) No 1466/97.

HEREBY RECOMMENDS that Austria take action in 2017 and 2018 to:

1. Pursue its fiscal policy in line with the requirements of the preventive arm of the Stability and Growth Pact, which entails achieving its medium-term budgetary objective in 2018, taking into account the allowance linked to unusual events. Ensure the sustainability of the healthcare system and of the pension system. Rationalise and streamline competencies across the various layers of government and align their financing and spending responsibilities.
2. Improve labour market outcomes for women through, *inter alia*, the provision of full-time care services. Improve the educational achievements of disadvantaged young people, in particular those from a migrant background. Foster investment in the services sector by reducing administrative and regulatory barriers, easing market entry and facilitating company growth.

Done at Brussels,

*For the Council
The President*
