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Recommendation for a

**COUNCIL RECOMMENDATION**

**on the 2015 National Reform Programme of Austria**

**and delivering a Council opinion on the 2015 Stability Programme of Austria**

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## **COUNCIL RECOMMENDATION**

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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<sup>1</sup>, and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission<sup>2</sup>,

Having regard to the resolutions of the European Parliament<sup>3</sup>,

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) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, *Europe 2020*, based on enhanced coordination of economic policies. The strategy focuses on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.
- (2) On 13 July 2010, the Council, on the basis of the Commission's proposals, adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and on 21 October 2010 it adopted a decision on guidelines for the employment policies of the Member States. Together these form the 'integrated guidelines' which Member States were invited to take into account in their national economic and employment policies.
- (3) On 8 July 2014, the Council adopted a Recommendation on Austria's National Reform Programme for 2014 and delivered its opinion on Austria's updated Stability

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<sup>1</sup> OJ L 209, 2.8.1997, p. 1.

<sup>2</sup> COM(2015) 269.

<sup>3</sup> P8\_TA(2015)0067, P8\_TA(2015)0068, P8\_TA(2015)0069.

Programme for 2014. On 28 November 2014, in line with Regulation (EU) No 473/2013<sup>4</sup>, the Commission presented its opinion on Austria's draft budgetary plan for 2015<sup>5</sup>.

- (4) On 28 November 2014, the Commission adopted the Annual Growth Survey<sup>6</sup>, marking the start of the 2015 European Semester of economic policy coordination. On the same day, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report<sup>7</sup>, in which it did not identify Austria as one of the Member States for which an in-depth review would be carried out.
- (5) On 18 December 2014, the European Council endorsed the priorities for boosting investment, accelerating structural reforms and pursuing responsible growth-friendly fiscal consolidation.
- (6) On 26 February 2015, the Commission published its 2015 country report for Austria<sup>8</sup>. This assessed Austria's progress in addressing the country-specific recommendations adopted on 8 July 2014.
- (7) On 21 April 2015, Austria submitted its 2015 National Reform Programme and its 2015 Stability Programme. To take account of their interlinkages, the two programmes have been assessed at the same time.
- (8) Austria is currently in the preventive arm of the Stability and Growth Pact and subject to the transitional debt rule over 2014-2016. In its 2015 Stability Programme, the government plans to improve the headline deficit gradually to 2.2% of GDP in 2015 and further to 0.5% of GDP in 2019. According to the Stability Programme, the medium-term objective – a structural deficit not higher than 0.45% of GDP – was reached in 2014, and the government plans to meet the medium-term objective throughout the programme period. However, the recalculated structural balance points to a departure from the medium-term objective as of 2015. The government debt-to-GDP ratio is expected to peak at 86.8% in 2015 and to gradually decline to 79.7% in 2019. The macroeconomic scenario underpinning the budgetary projections in the programme is plausible. However, measures to support the planned deficit targets from 2016 onwards have not been sufficiently specified. Based on the Commission's 2015 spring forecast, the structural balance is forecast to deviate by 0.4% of GDP from the medium-term objective in 2015. The deviation is set to become significant in 2016 in view of the projected 0.6% of GDP worsening of the structural balance compared to the 0.3% of GDP structural adjustment required in order to reach the medium-term objective. This would imply a deviation of about 0.9% of GDP from the requirement of the Stability and Growth Pact. Therefore, further measures will be needed. At the same time, according to the Stability Programme and the Commission 2015 spring forecast, gross debt will remain on a downward path in line with the transitional debt rule in 2015 and 2016. Based on its assessment of the Stability Programme and taking into account the Commission's 2015 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.

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<sup>4</sup> OJ L 140, 27.5.2013, p. 11.

<sup>5</sup> C(2014) 8811 final, 28.11.2014.

<sup>6</sup> COM(2014) 902, 28.11.2014.

<sup>7</sup> COM(2014) 904 final, 28.11.2014.

<sup>8</sup> SWD(2015) 39 final, 26.2.2015.

- (9) Relations between different levels of government remain complex and cause efficiency losses in crucial sectors of public administration. Austria remains one of the countries with the lowest level of subnational own taxes in percentage of GDP. Despite this low level of tax autonomy, subnational governments have several spending and administrative responsibilities. The high level of complexity and misalignment between revenue and spending responsibilities is not conducive to implementation of broad policy reforms.
- (10) The long-term fiscal sustainability of the Austrian pension system still suffers from structural weaknesses. Austria's reforms to date do not seem sufficient to ensure the system's long-term fiscal sustainability. First, the effective retirement age remains considerably below the statutory retirement age. Secondly, the statutory retirement age of women is well below that of men and will not be raised until 2024. Thirdly, the statutory retirement age is still not coupled to continuously rising life expectancy in Austria. Austria has taken some measures to increase the effective retirement age, which is now at 59.7 years (2014), but which remains below the EU average of 63.1 years (2013). Measures have been put in place to close avenues to early retirement and invalidity schemes, thereby extending working lives. Also, the penalty per year of early retirement and the period of pensionable service needed to qualify for such schemes have been increased. It remains unclear whether the expected positive budgetary effects of these measures will materialise.
- (11) Austrian healthcare spending ranks amongst the highest in the EU. The ongoing healthcare reform (2013-2016) is aimed at stabilising it as a proportion of GDP as of 2016. However, even if the reforms are successful, the fiscal sustainability and efficiency of the healthcare system still face structural challenges. Measures should be taken now with regard to the period after 2016. For example, more patients should be treated in multidisciplinary primary outpatient care settings and the average length of stay for inpatient treatment should be lowered further.
- (12) Ensuring the long-term availability of adequately qualified labour remains a challenge for Austria. At about 5.6 %, the unemployment rate is among the lowest in the EU, but the labour market potential of certain parts of the labour force is not fully tapped. Austria has taken some measures to extend working lives, better facilitate labour market participation by women and exploit more fully the potential of labour market participants of migrant background, including through improved recognition of their qualifications. However, recent reforms must be closely monitored and more measures are necessary to utilise fully the labour market potential of these groups.
- (13) On 13 March 2015, Austria presented a comprehensive tax reform aimed at remodulating tax brackets and rates of personal income tax, in particular by reducing the entry rate for personal income tax from 36.5 % to 25 %. The tax relief is estimated to amount to EUR 4.9 billion, while EUR 300 million of additional expenditure is envisaged to support family policy and research activities. Under the proposal, the tax shift will be financed partly by fighting tax evasion, lowering public expenditure, increasing reduced VAT rates to 13 % in some areas and raising capital income tax from 25 % to 27.5 %. These reform plans are broadly in line with the Council's 2014 recommendations. They are likely to increase incentives to work for individuals with low earnings potential and second earners, and to support disposable income. However, the reform should be implemented in a budget-neutral way.
- (14) The Austrian school system is characterised by a low number of early school leavers, well below the EU average. A strong and well-functioning system of vocational

education and training provides a large pool of highly skilled workers. However, improving educational outcomes and hence the employability of young people with low socioeconomic status, in particular those from migrant backgrounds, remains a challenge. The evaluation of the implementation of a new secondary school system (*Neue Mittelschule*) has revealed weaknesses that still need to be addressed.

- (15) In the context of the European Semester, the Council has consistently recommended that Austria improve and promote competition in services, but the policy response has been limited so far. Legal form, shareholding and tariff requirements are still in place for several professions, creating regulatory barriers to market access and preventing professionals or professional companies from other Member States from setting up a business in Austria. In the context of the mutual evaluation exercise, Austria is reviewing its rules on access to professions and the performance of professional activities to assess whether they are proportionate and in the general interest. Compared with competition authorities in other Member States, the Federal Competition Authority is under-resourced and this impedes more effective action.
- (16) The Austrian banking sector has remained resilient, but still faces a number of challenges both domestically and as regards vulnerable foreign exposures. Banking sector capitalisation continued to improve in 2014, but the profitability of Austrian banks remained under pressure. Five of the six largest Austrian credit institutions passed the ECB comprehensive assessment in 2014, the exception being Österreichische Volksbanken (ÖVAG). Austria made considerable progress in restructuring ÖVAG and Hypo Group Alpe Adria (HGAA). In February 2015, however, Heta Asset Resolution, the asset management company resulting from the split of HGAA, was found to have a capital shortfall of EUR 7.6 billion. As 100 % owner of Heta Asset Resolution, the government reacted by declaring a 15-month moratorium on principal and interest payments for bonds owned by the company worth about EUR 10 billion, making use for the first time of the new tools under the Bank Recovery and Resolution Directive.
- (17) 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 2015 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 overall economic governance of the European Union by providing EU-level input into future national decisions. The recommendations under the European Semester are reflected in recommendations 1 to 4 below.
- (18) In the light of this assessment, the Council has examined Austria's Stability Programme and its opinion<sup>9</sup> is reflected in particular in recommendation 1 below.
- (19) In the context of the European Semester, the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On the basis of this analysis, the Council has issued specific recommendations for the Member States whose currency is the euro. Austria should also ensure the full and timely implementation of these recommendations,

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<sup>9</sup> Under Article 5(2) of Council Regulation (EC) No 1466/97.

HEREBY RECOMMENDS that Austria take action in 2015 and 2016 to:

1. Avoid deviating from the medium-term objective in 2015 and 2016. Ensure the budget neutrality of the tax reform aimed at reducing the tax burden on labour. Correct the misalignment between the financing and spending responsibilities of the different levels of government. Take measures to ensure the long-term sustainability of the pension system, including by earlier harmonisation of the statutory retirement age for men and women and link the statutory retirement age to life expectancy.
2. Strengthen measures to increase the labour market participation of older workers and women, including by improving the provision of childcare and long-term care services. Take steps to improve the educational achievement of disadvantaged young people.
3. Remove disproportionate barriers for service providers and impediments to setting up interdisciplinary companies.
4. Address the potential vulnerabilities of the financial sector in terms of foreign exposure and insufficient asset quality.

Done at Brussels,

*For the Council  
The President*