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Recommendation for a

COUNCIL RECOMMENDATION

on Austria's 2012 national reform programme

and delivering a Council opinion on Austria's stability programme for 2011-2016

{SWD(2012) 306 final}

Recommendation for a

COUNCIL RECOMMENDATION

on Austria's 2012 national reform programme

and delivering a Council opinion on Austria's stability programme for 2011-2016

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[2],

Having regard to the resolutions of the European Parliament,[3]

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the European Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which will focus 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 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, adopted a decision on guidelines for the employment policies of the Member States[4], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

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1 OJ L 209, 02.08.1997, p. 1
2 COM(2012)306 final
3 P7_TA(2012)0048 and P7_TA(2012)0047
4 Council Decision 2012/238/EU of 26 April 2012

(3) On 12 July 2011, the Council adopted a recommendation on Austria's national reform programme for 2011 and delivered its opinion on Austria's updated stability programme for 2011-2014.

(4) On 23 November 2011, the Commission adopted the second Annual Growth Survey, marking the start of the second European Semester of ex-ante and integrated policy coordination, which is anchored in the Europe 2020 strategy. On 14 February 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report[5], 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 2 March 2012, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(6) On 2 March 2012, the European Council also invited the Member States participating in the Euro Plus Pact to present their commitments in time for their inclusion in their stability or convergence programmes and their national reform programmes.

(7) On 24 April 2012, Austria submitted its 2012 stability programme covering the period 2011-2016 and, on 25 April 2012, its 2012 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(8) Based on the assessment of the 2012 stability programme pursuant to Council Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme is cautious for the years 2012 and 2013. For 2014-2016 the scenario becomes more optimistic, projecting average GDP growth of 2.1%, consistently above the current estimates of potential growth. The objective of the budgetary strategy outlined in the programme is to correct the excessive deficit by 2013 and reach the medium-term budgetary objective (MTO) by 2016. The programme has changed the MTO from the target of a balanced budget over the business cycle to a structural deficit of 0.45% of GDP, adequately reflecting the requirements of the Stability and Growth Pact. The foreseen correction of the excessive deficit is in line with the deadline set by the Council recommendation issued in the context of the Excessive Deficit Procedure in December 2009. However, based on the (recalculated) structural budget balance,[6] the average annual fiscal effort planned at 0.5% of GDP for the period 2011-2013 is lower than the 0.75% of GDP recommended by the Council. The envisaged structural progress towards the MTO is sufficient in 2015, but lower than 0.5% of GDP per year benchmark of the Stability and Growth Pact in 2014 and 2016. However, in 2014-2015 the projected growth rate of government expenditure, taking into account discretionary revenue measures, respects the expenditure benchmark of the Stability and Growth Pact. Nevertheless,

[5] COM(2012) 68 final

[6] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the programme, using the commonly agreed methodology.

there are risks accompanying the fiscal targets both on the revenue and on the expenditure side. For example, the budgetary effect of some measures is difficult to quantify because of dependence on individual uptake. Since the legislation has not yet been decided the details of the financial transaction tax are not yet known. The envisaged expenditure cuts at the sub-national level are not defined. The programme foresees that the debt-to-GDP ratio, which amounted to 72.2% at the end of 2011, is going to peak at 75.3% in 2013 before gradually falling to 70.6% in 2016. In terms of the debt reduction benchmark of the Stability and Growth Pact, Austria will be in a transition period in the years 2014-2016 and the plans presented in the programme would ensure sufficient progress towards compliance with the debt reduction benchmark. However, there are risks attached to this projection because of the growing debt of state-owned companies classified outside the general government sector and potential further burden due to the banking sector government support.

(9) With the adoption of the latest fiscal consolidation package, Austria is set on a path leading to more sustainable public finances. However, the measures contained in the package do not encompass significant streamlining in the fiscal relations between the federal, regional and local governments, widely acknowledged as a major source of potential savings. An agreement in principle was reached between the federal and regional governments on the centralisation of health care financing, but details still need to be negotiated.

(10) In order to raise the effective retirement age, Austria has enacted reforms mainly aimed at restricting access to the invalidity pension scheme. Bringing forward the harmonisation of the statutory retirement age between men and women, currently foreseen for 2024-2033, has not been addressed. Employability of older workers and active aging cultures within companies need to be further enhanced. The proposed measures might not be far-reaching enough to substantially raise the effective retirement age.

(11) The performance of the Austrian labour market has been very good, as witnessed by the lowest unemployment rate in the EU in 2010 and 2011. However, the country's labour force potential is projected to shrink from 2020 onwards. Therefore, Austria will have to strive to fully tap the potential of working age population by addressing the problems of the low employment rate of older workers and the widespread use of early retirement and invalidity pension schemes, the high tax and social security burden on labour income, and the relatively high concentration of women in low-wage and part-time employment. Furthermore, the potential of people with a migration background is not fully used due to low education achievements or difficulties with the recognition of skills acquired abroad. Education outcomes as reflected in PISA results are below EU average and the influence of socio-economic background on education achievements is particularly high. Steadily growing number of students, due to high incoming mobility (‘mass university’) and high drop-out rates (around 40 %), remain the main challenges together with a considerable gap in funding.

(12) Austria enjoys a favourable position in terms of competitiveness and productivity. Nevertheless, it faces relative structural weaknesses in several areas, which may harm its long-term growth potential. Competition in the services sector has not been particularly supportive of domestic demand. The issues of high network access prices and the distortive behaviour of incumbent firms (hampering market entry, competition and innovation) have not been addressed. Unjustified restrictions in the liberal

professions persist: the number of regulated professions notified by Austria to the Commission is far above the EU average. There is a need to assess the justification and proportionality of regulation in these professions. There has been no tangible progress on Austria's commitment to strengthen the federal competition authority. The Services Directive has finally been implemented through the adoption of a 'horizontal' law and through changes in legislation at province level, as recommended by the Council in 2011.

(13) The Austrian financial sector faces particular challenges related to the high exposure of Austrian banks to the countries of Central, Eastern and South Eastern Europe, as in several of these economies asset quality deterioration may still be ongoing. Policy decisions with cross-border impact need to be preceded by information exchange and coordination with host country supervisors. Authorities also need to continue to closely monitor and restructure the banks which benefited from public sector support, especially the credit institutions which were nationalised.

(14) Austria has made a number of commitments under the Euro Plus Pact. These commitments, and the implementation of the commitments presented in 2011, relate to fostering employment, improving competitiveness, and enhancing sustainability of public finances. The Commission has assessed the implementation of the Euro Plus Pact commitments. The results of this assessment have been taken into account in the recommendations.

(15) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Austria's economic policy. It has assessed the stability programme and national reform programme. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Austria but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the European Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (7) below.

(16) In the light of this assessment, the Council has examined Austria's stability programme, and its opinion[7] is reflected in particular in recommendation (1) below,

HEREBY RECOMMENDS that Austria should take action within the period 2012-2013 to:

1. Implement the 2012 budget as envisaged and reinforce and rigorously implement the budgetary strategy for the year 2013 and beyond; sufficiently specify measures (in particular at the sub-national level), to ensure a timely correction of the excessive deficit and the achievement of the average annual structural adjustment effort specified in the Council Recommendations under the Excessive Deficit Procedure . Thereafter, ensure an adequate structural adjustment effort to make sufficient progress towards the medium-term budgetary objective (MTO), including meeting the expenditure benchmark.

2. Take further steps to strengthen the national budgetary framework by aligning responsibilities across the federal, regional and local levels of government, in

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

particular by implementing concrete reforms aimed at improving the organisation, financing and efficiency of healthcare and education.

3. Bring forward the harmonisation of the statutory retirement age between men and women; enhance older workers' employability and monitor closely the implementation of the recent reforms restricting access to early exit channels in order to ensure that the statutory and effective retirement age is rising in line with life expectancy.

4. Take steps to reduce the effective tax and social security burden on labour especially for low income earners with a view to increasing employment rates for older persons and women given the need to counteract the impact of demographic change on the working population. Shift the tax burden in a budgetary neutral way, towards real estate taxes, and environmental taxes. Reduce the high gender pay gap and enhance full-time employment opportunities for women, notably through the provision of additional care services for dependants.

5. Take further measures to improve educational outcomes, especially of disadvantaged young people. Take measures to reduce drop-outs from higher education.

6. Take further steps to foster competition, in the services sectors, by removing barriers to market entry in the communications, transport and energy retail markets. Remove unjustified restrictions on access to the liberal professions. Enhance the powers of the competition authorities and speed up the implementation of the competition law reform.

7. Step up the restructuring of banks which benefited from public support, while avoiding deleveraging. Further improve the cooperation and coordination of national policy decisions with financial sector supervisors in other countries.

Done at Brussels,

For the Council
The President