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Country Report Austria 2015

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CONTENTS

LIST OF TABLES

LIST OF GRAPHS

EXECUTIVE SUMMARY

The Austrian economy has stagnated since the second quarter of 2012. Export growth declined significantly and domestic demand, in particular investment, has been weak despite a robust labour market and favourable financing conditions. GDP growth is expected to resume and improve in 2015-16, assuming that international trade picks up and investment responds more vigorously to supportive financing conditions, also in light of recent quantitative easing by the European Central Bank. Employment growth has remained positive despite weakening growth dynamics, a trend that is expected to continue in the medium term. The quality of jobs created may give cause for concern, as the role of part-time and low-paid jobs in strengthening employment has been considerable in recent years. Also, despite positive employment growth, unemployment may be slow to decline to pre-crisis levels, as the labour supply is likely to keep increasing, not least through immigration. Despite a solid, but moderate external surplus, Austria has suffered a pronounced loss in world trade market shares. Medium-term trends in foreign demand are expected to present opportunities to Austrian exporters. Still, the last 2-3 years of weak investment may pose downside risks, limiting the extent to which exports can benefit from such a recovery. Fiscal consolidation has slowed down in 2014 due to the cost borne by the government for the financial support of Hypo Alpe Adria Group, which translated into higher deficit and debt ratio.

This Country Report assesses Austria's economy against the background of the Commission's Annual Growth Survey which recommends three main pillars for the EU's economic and social policy in 2015: investment, structural reforms, and fiscal responsibility. In line with the Investment Plan for Europe, it also explores ways to maximise the impact of public resources and unlock private investment. The main observations and findings of the analysis are:

- Despite tangible progress in the restructuring of nationalised banks, the financial sector remains subject to risks, which could have adverse implications for public finances and financial stability.

- The Austrian taxation system and the fiscal framework present weaknesses arising from a high tax wedge, low tax autonomy for subnational governments and a complex system of fiscal relations between the different layers of government.

- A number of reforms are being implemented in the fields of pensions and healthcare. However their ability to improve the long-term sustainability of these systems is uncertain.

- The main labour market indicators are much more favourable than those of most other EU countries, but labour market participation and educations achievements are low for particular groups of the Austrian population.

- Entry and conduct restrictions for service providers and insufficient competition do not favour a dynamic business environment, investment and an efficient resource allocation. Mismatched skills of university graduates compared to labour market demand are also a drag on business innovation.

Overall this Country Report finds that Austria has made some progress in addressing the country-specific recommendations issued by the Council in 2014. Significant headway was made in restructuring the nationalized Hypo Alpe Adria Group in the second half of 2014. Over the past year, Austria has continued to implement the reforms already adopted in the pension and in the healthcare sector. Political consultations on a tax reform to reduce the tax wedge as recommended to Austria in 2014 were stepped up, although the financing alternatives of this reform still appear to be controversial at this stage. Some progress has been made to improve the employability of migrants and older workers. There has been limited progress in improving women's labour market prospects and in tackling the challenges faced by the education system. Some country-specific recommendations have remained largely unaddressed. Specifically, no efforts have been made to streamline fiscal relations or to reconsider restrictions and regulations in order to boost competition in services.

The Country Report also reveals the following policy challenges:

- **The financial system requires close monitoring as latent vulnerabilities are resurfacing**. The asset quality of Austrian banks' central, eastern and south-eastern European subsidiaries has remained under pressure. Notwithstanding several supervisory measures adopted in the last couple of years, the stock of foreign currency (mostly Swiss franc) loans warrants close monitoring, especially following the Swiss National Bank's withdrawal of the cap on the rate of the Swiss franc. Against the backdrop of recent geopolitical developments, the exposure of Austrian banks to Ukraine and Russia needs close monitoring.

- **The budgetary impact of population ageing may pose a challenge to long-term fiscal sustainability**. The general government debt has increased significantly during the crisis and reached high level. In addition, population ageing poses risks which, without further structural action in the pension and health care sectors, threaten long-term sustainability of public finances.

- **The current organisational relations between levels of government are complex and inefficient.** The institutional set-up of public administration, with overlapping responsibilities and mismatch between funding and spending responsibilities, remains a drag on reform design and implementation.

- **Ensuring long-term labour supply, given demographic changes remains a challenge.** The low labour market participation of older workers, women and migrants risks eroding Austria's growth potential and living standards.

- **Austria's education system still features disadvantaged youth underachievement and insufficient market relevance of qualifications.** The strong link between education performance and socio-economic background continues to give cause for concern. The dropout rate in higher education is still high and a gap remains between graduates' qualifications and market demand.

- **More competition would benefit enterprise and innovation.** Market entry and conduct restrictions for providers of especially, but not only, professional services, are still largely in place. This may result in insufficient competition and costly and inadequate business and consumer services.

- **Maintaining a healthy investment rate is essential to growth prospects.** The Austrian economy's growth momentum has stalled and investment growth has been muted in recent years. Traditional investment may not be sufficient to avoid a further fall in world market shares going forward. Innovation and start-ups have a significant role to play in reinvigorating investment and boosting the competitiveness of the economy. Enabling factors such as competitive and responsive business services and diversified financing sources would be key to promoting entrepreneurial dynamism.

1. SCENE SETTER: ECONOMIC SITUATION AND OUTLOOK

The Austrian economy has stagnated since the second quarter of 2012. The dynamics of economic activity have been weak and unsteady across all sectors. Export growth slowed down significantly compared with the situation before and early after the 2009 recession amid moderating foreign demand. Domestic demand has been characterised by weak consumption and investment growth, despite a robust labour market and favourable financing conditions. GDP growth is expected to resume and improve in 2015-16, conditional on a pick-up in international trade and a more vigorous response of investment to supportive financing conditions, which will be supported by the ECB's recent quantitative easing.

Energy prices have helped lower inflation, but core inflation is stable. Consumer price inflation turned at 1.5% in 2014, reflecting a disinflationary impact from energy prices. The momentum in the remaining components, in particular hospitality and recreation services, has continued thanks to unabated demand in these sectors, keeping core inflation at 1.9%. These trends are expected to remain in place over the medium term, especially as demand rises. Energy prices are expected to bottom out in 2015 and regain some ground in 2016.

The labour market has performed strongly, but challenges lie ahead. Employment growth has remained positive despite weakening growth dynamics, a trend that is expected to continue in the medium term. Unemployment may, however, be slow to decline to pre-crisis levels, as the labour supply is likely to keep increasing in the short-to-medium run on account of immigration and the closing of avenues for early retirement. The quality of job growth may be a concern, as the role of part-time and low-paid jobs in strengthening employment has been considerable in recent years.

While the economy is free of major imbalances, maintaining competitiveness and long term growth prospects requires constant attention and consistent policy efforts. Despite a solid, but moderate external surplus, Austria has suffered a pronounced loss in world trade market shares. Medium term trends in foreign demand are expected to present opportunities to Austrian exporters, which have broadly maintained productivity growth and benefit from their strong integration in international production chains. Still, the last 2-3 years of weak investment may pose downside risks, limiting the extent to which exports can benefit from such a recovery.

Between 2010 and 2013, Austria reduced the deficit to below the 3% threshold relying on a mix of discretionary saving and tax measures. Tax revenue also benefitted from the adoption of several one-off measures and from dynamic personal income tax revenue given the robust rise in employment, particularly between 2011 and 2013. At the same time, public finances suffered from public financial support to a number of banks that experienced losses and capital shortfalls arising from the financial crisis.

The cost of the financial support to Hypo Alpe Adria Group together with the deterioration of the economic growth rate led to a widening of the general government deficit in 2014, which is expected to reach 2.9% in 2014, according to the Commission Winter Forecast. Beside the cost of public financial sector support, the deterioration of the 2014 deficit seems also reflect the low rate of growth rate of the Austrian economy in 2014.

In 2015, the headline deficit is expected to fall to 2% of GDP, given that support to the Hypo Alpe Adria Group is a one-off cost. The general government deficit will continue to suffer from the impact of weak cyclical conditions.

The debt ratio is relatively high and has increased significantly in recent years. The government debt, after rising by roughly 5.5 percentage points to 86.8% of GDP in 2014 (64.8% of GDP in 2007) owing to the transfer of Hypo Alpe Adria assets under the general government account, is expected to fall to 86.4% of GDP in 2015.

The budgetary impact of population ageing may pose a challenge to long-term fiscal sustainability in the area of pensions and health policies. Based on the long-term sustainability gap indicator (S2 indicator) ([1]), Austria was identified as a medium-risk country. Austria's pension

([1]) The S2 indicator shows the immediate and permanent adjustment required to ensure that the deb-to-GDP ratio is not on an ever-increasing path system is characterised by an effective retirement age that remains considerably below the statutory retirement age. This is mainly due to the use of early retirement and invalidity pensions. The lower pensionable age and early retirement of women, beyond translating into high cost for the pension system in the medium-term, results in insufficient pension entitlements, a large gender pension gap, and an increased risk of poverty for women in old age. Total healthcare and long-term care cost for Austria are elevated and are projected to further increase in the medium-term.

As detailed further in the report, various challenges, if unaddressed, may constrain Austria's growth potential in the future:

- Despite significant progress as regards to the banks' restructuring, close monitoring of the banking system is needed, notably related to possible deterioration of assets quality due to high exposure to Russia, Ukraine, and the Swiss franc.

- Low labour market participation of older workers, women and people with migrant background may act as a drag on long-term labour supply.

- Education underachievement remains significant among disadvantaged youth and there are still gaps between graduates' qualifications and market demand.

- Restrictive regulation of professional services limits competition and may be affecting overall business dynamics, investment and innovation.

Box 1: Economic surveillance process

The Commission's Annual Growth Survey, adopted in November 2014, started the 2015 European Semester, proposing that the EU pursue an integrated approach to economic policy built around three main pillars: boosting investment, accelerating structural reforms and pursuing responsible growth-friendly fiscal consolidation. The Annual Growth Survey also presented the process of streamlining the European Semester to increase the effectiveness of economic policy coordination at the EU level through greater accountability and by encouraging greater ownership by all actors.

This Country Report includes an assessment of progress towards the implementation of the 2014 Country-Specific Recommendations adopted by the Council in July 2014. The Country-Specific Recommendations for Austria concerned public finances and taxation, pensions, health and long-term care, labour market participation, education, competition in services and the banking sector.

Table 1.1: **Key economic, financial and social indicators - Austria**

	2008	2009	2010	2011	2012	2013	Forecast 2014	2015	2016
Real GDP (y-o-y)	1.5	-3.8	1.9	3.1	0.9	0.2	0.2	0.8	1.5
Private consumption (y-o-y)	0.8	0.6	1.5	0.7	0.6	-0.1	0.4	0.6	0.8
Public consumption (y-o-y)	3.7	2.5	0.5	0.1	0.4	0.7	0.9	0.9	0.8
Gross fixed capital formation (y-o-y)	1.4	-7.3	-2.4	6.8	0.5	-1.5	1.0	1.0	3.2
Exports of goods and services (y-o-y)	2.3	-15.0	12.8	6.6	1.3	1.4	0.1	2.0	4.7
Imports of goods and services (y-o-y)	0.9	-12.0	11.3	6.4	0.7	-0.3	1.0	2.0	4.7
Output gap	1.9	-3.0	-2.0	0.1	0.1	-0.5	-1.2	-1.2	-0.7
Contribution to GDP growth:									
Domestic demand (y-o-y)	1.5	-0.9	0.3	1.9	0.5	-0.3	0.7	0.7	1.3
Inventories (y-o-y)	-0.5	-0.8	0.5	0.6	-0.2	-0.7	0.0	0.0	0.0
Net exports (y-o-y)	0.7	-2.1	1.0	0.3	0.3	0.9	-0.5	0.1	0.2
Current account balance (% of GDP), balance of payments	4.5	2.6	2.9	1.6	1.5	1.0	.	.	.
Trade balance (% of GDP), balance of payments	4.7	3.6	3.0	2.3	2.4	2.7	.	.	.
Terms of trade of goods and services (y-o-y)	-1.3	2.2	-1.8	-1.8	-0.5	0.3	1.3	0.0	-0.1
Net international investment position (% of GDP)	-10.1	-5.1	-5.2	-1.9	-3.1	-0.2	.	.	.
Net external debt (% of GDP)	29.0*	22.9*	28.6*	24.3*	25.6*	19.4*	.	.	.
Gross external debt (% of GDP)	206.89	203.87	205.13	199.9	195.9	185.1	.	.	.
Export performance vs advanced countries (% change over 5 years)	6.7*	0.1*	-6.9*	-4.5	-12.3	-11.0	.	.	.
Export market share, goods and services (%)	1.2	1.2	1.1	1.0	1.0	1.0	.	.	.
Savings rate of households (net saving as percentage of net disposable income)	11.9	11.3	9.4	7.8	9.0	7.3	.	.	.
Private credit flow, consolidated, (% of GDP)	5.7	1.3	1.0	3.1	0.5	0.2	.	.	.
Private sector debt, consolidated (% of GDP)	130.3	132.9	133.3	130.4	128.4	125.5	.	.	.
Deflated house price index (y-o-y)	.	0.8	-1.1	-7.8	.	.	.	.	.
Residential investment (% of GDP)	4.3	4.4	4.4	4.4	4.3	4.3	.	.	.
Total financial sector liabilities, non-consolidated (y-o-y)	1.8	0.1	1.5	1.4	1.6	-1.8	.	.	.
Tier 1 ratio[1]	.	.	.	.	.	.	.	.	.
Overall solvency ratio[2]	.	.	.	.	.	.	.	.	.
Gross total doubtful and non-performing loans (% of total debt instruments and total loans and advances)[2]	.	.	.	.	.	.	.	.	.
Change in employment (number of people, y-o-y)	1.8	-0.5	0.8	1.4	1.1	0.7	0.9	0.6	1.0
Unemployment rate	3.8	4.8	4.4	4.2	4.3	4.9	5.0	5.2	5.0
Long-term unemployment rate (% of active population)	0.9	1.0	1.1	1.1	1.1	1.2	.	.	.
Youth unemployment rate (% of active population in the same age group)	8.0	10.0	8.8	8.3	8.7	9.2	.	.	.
Activity rate (15-64 year-olds)	75.0	75.3	75.1	75.3	75.9	76.1	.	.	.
Young people not in employment, education or training (%)	7.1	7.8	7.1	6.9	6.5	7.1	.	.	.
People at risk of poverty or social exclusion (% of total population)	20.6	19.1	18.9	19.2	18.5	18.8	19.1	.	.
At-risk-of-poverty rate (% of total population)	15.2	14.5	14.7	14.5	14.4	14.4	14.1	.	.
Severe material deprivation rate (% of total population)	5.9	4.6	4.3	4.0	4.0	4.2	4.0	.	.
Number of people living in households with very low work-intensity (% of total population aged below 60)	7.4	7.1	7.8	8.6	7.7	7.8	9.0	.	.
GDP deflator (y-o-y)	1.8	1.9	0.9	1.8	1.9	1.5	2.0	1.3	1.8
Harmonised index of consumer prices (HICP) (y-o-y)	3.2	0.4	1.7	3.6	2.6	2.1	1.5	1.1	2.2
Nominal compensation per employee (y-o-y)	3.1	2.5	1.1	2.4	2.6	2.1	2.0	2.1	2.0
Labour productivity (real, person employed, y-o-y)	-0.4	-3.4	0.9	1.4	-0.3	-0.5	.	.	.
Unit labour costs (ULC) (whole economy, y-o-y)	3.4	5.0	-0.2	0.8	3.1	2.6	2.7	1.9	1.5
Real unit labour costs (y-o-y)	1.6	3.0	-1.1	-1.0	1.2	1.1	0.7	0.6	-0.3
REER[3)] (ULC, y-o-y)	0.4	2.0	-2.3	0.0	-0.6	3.2	2.0	-0.7	0.6
REER[3)] (HICP, y-o-y)	-0.9	1.1	-3.2	0.5	-1.4	1.6	2.4	1.3	0.3
General government balance (% of GDP)	-1.5	-5.3	-4.5	-2.6	-2.3	-1.5	-2.9	-2.0	-1.4
Structural budget balance (% of GDP)	.	.	-3.0	-2.5	-1.9	-1.4	-1.1	-1.0	-1.0
General government gross debt (% of GDP)	68.5	79.7	82.4	82.1	81.7	81.2	86.8	86.4	84.5

[1] Domestic banking groups and stand-alone banks.
[2] Domestic banking groups and stand-alone banks, foreign-controlled (EU and non-EU) subsidiaries and branches.
[3] Real effective exchange rate
(*) Indicates BPM5 and/or ESA95

Source: Eurostat, ECB, AMECO

Table 1.2: **Macroeconomic Imbalances Procedure indicators**

			Thresholds	2008	2009	2010	2011	2012	2013
External imbalances and competitiveness	Current Account Balance (% of GDP)	3 year average	-4%/6%	3.9	3.7	3.3	2.4	2.0	1.4
		p.m.: level year	-	4.5	2.6	2.9	1.6	1.5	1.0
	Net international investment position (% of GDP)		-35%	-10.1	-5.1	-5.2	-1.9	-3.1	-0.2
	Real effective exchange rate (REER) (42 industrial countries - HICP deflator)	% change (3 years)	±5% & ±11%	-0.1	2.0	-2.1	-1.9	-4.7	0.7
		p.m.: % y-o-y change	-	0.3	1.1	-3.4	0.4	-1.8	2.1
	Export Market shares	% change (5 years)	-6%	*-5.6*	*-8.3*	*-14.7*	-12.8	-20.6	-17.0
		p.m.: % y-o-y change	-	-2.7	-1.0	-10.7	-2.0	-5.9	1.8
	Nominal unit labour costs (ULC)	% change (3 years)	9% & 12%	6.4	10.3	9.2	6.0	3.9	6.4
		p.m.: % y-o-y change	-	3.7	5.2	0.1	0.7	3.0	2.6
Internal imbalances	Deflated House Prices (% y-o-y change)		6%	-1.1e	3.4e	4.4e	0.9e	9.7e	2.5e
	Private Sector Credit Flow as % of GDP, consolidated		14%	5.7	1.3	1.0	3.1	0.5	0.2
	Private Sector Debt as % of GDP, consolidated		133%	130.3	132.9	133.4	130.3	128.3	125.5
	General Government Sector Debt as % of GDP		60%	68.5	79.7	82.4	82.1	81.7	81.2
	Unemployment Rate	3-year average	10%	4.3	4.3	4.3	4.5	4.3	4.5
		p.m.: level year	-	3.8	4.8	4.4	4.2	4.3	4.9
	Total Financial Sector Liabilities (% y-o-y change)		16.5%	11.0	-0.9	-1.9	1.3	0.0	-3.6

Flags: e: estimated.

"Note: Figures highlighted are the ones falling outside the threshold established by EC Alert Mechanism Report. For REER and ULC, the first threshold concerns Euro Area Member States. (1) Figures in italic are according to the old standards (ESA95/BPM5). (2) Export market shares data: the total world export is based on the 5th edition of the Balance of Payments Manual (BPM5). (3) Unemployment rate i=Eurostat back calculation to include Population Census 2011 results. (4) House Price indicator: source National Central Bank.

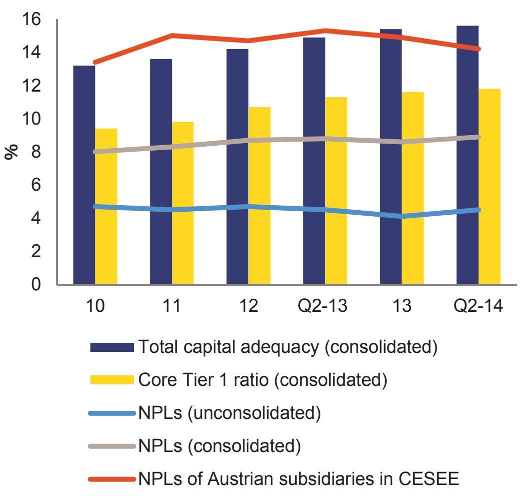
Source: European Commission"

2. STRUCTURAL ISSUES

2.1. ENHANCING FINANCIAL SECTOR RESILIENCE

The banking sector has remained resilient, but continues to face a challenging domestic and international environment. Domestic lending activity has been rather depressed in recent years given the limited corporate appetite for investment. Foreign exposures have increasingly had a negative impact on profitability, as asset quality in several countries in central, eastern and south-eastern Europe (CESEE) has remained under strain. Previously reliable sources of revenue (for instance, from Russia) for several banks with international operations are likely to become less so as a result of mounting geopolitical risks, combined with deteriorating economic activity in several host countries. Furthermore, latent vulnerability concerns have come to the fore in the light of recent policy withdrawal of the cap on the rate of the Swiss franc by the Swiss National Bank.

Graph 2.1.1: **Capitalisation and asset quality of Austrian banks**

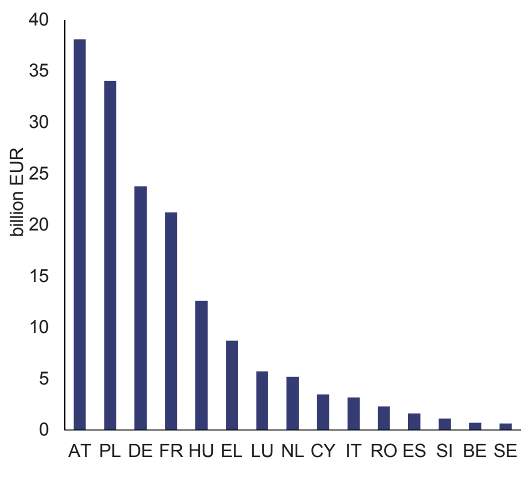


Source: Austrian National Bank

Banking sector capitalisation has continued to improve in 2014, whereas the asset quality of the central eastern and south-eastern European subsidiaries of Austrian banks has remained under pressure. Capital adequacy at system level reached 15.6% at the end of June 2014 compared with 15.4% by end of 2013, while the core Tier 1 capital (at consolidated level) increased marginally to 11.8% in mid-2014 compared to 11.6% at the end of 2013([2]). Asset quality has further deteriorated in several CESEE countries where Austrian banks operate, but overall the CESEE subsidiaries' non-performing loans declined to 14.2% by the end of June 2014, compared with 15.3% by the end of June 2013. Non-performing loans at consolidated level stood at 8.9% in mid-June 2014 compared with 8.6% at the end of 2013, whereas the unconsolidated non-performing loan stood at 4.5%.

The profitability of Austrian banks remained under pressure in 2014. The lower profitability of the CESEE subsidiaries and the low interest rate environment in Austria coupled with the limited credit activity is weighing on banking sector profitability. Whereas the Austrian market has continued to remain competitive, the high cost-to-income ratio due to still rigid cost structures and the increase in loan-loss provisions have continued to negatively impact profitability.

Graph 2.1.2: **Outstanding bank loans to nonbanks in CHF, Q3 2014**



Source: European Central Bank

Swiss franc lending to households continues to warrant close oversight following the recent policy action of the Swiss National Bank. Swiss franc (CHF) denominated loans (which account for roughly 90% of foreign currency loans) were extremely popular in Austria before the outbreak

([2]) Data on capitalisation as of 2014 are based on the Basel III requirements introduced through CRD IV/CRR.

of the financial crisis due to the lower interest rates, low volatility of the CHF and the demand for CHF denominated products from Austrians with income in CHF. Austria has the largest stock of foreign currency lending in CHF (Graph 2.1.2). Roughly 70% of the total foreign currency loans granted by Austrian banks to households have been bullet loans, most of them linked to repayment vehicles which are sensitive to financial market developments. However, foreign exchange loans to households and nonfinancial corporations, in particular CHF loans, have decreased significantly since autumn 2008 (i.e. by roughly 43%), reflecting *inter alia* initiatives of the Austrian banking supervisors on risk management and new lending in foreign currency, and the 2011 European Systemic Risk Board recommendations aimed at curbing foreign exchange lending to unhedged borrowers. At the end of September 2014, outstanding foreign currency loans of Austrian banks to domestic non-banks amounted to roughly EUR 37.4 billion (11.6% of total loans), compared to EUR 55.5 billion (18% of loans) in 2008. The Swiss franc appreciation is expected to have a contained impact on the asset quality([3]) of Austrian banks as regards their operations on the Austrian market, due to largely solvent borrowers and adequate collateralisation. However, considering that Austrian banks with international operations have exported the business model based on CHF lending to the CESEE countries, where borrowers tend to be unhedged and their debt servicing capacity is highly heterogeneous, further pressures on asset quality are expected from these exposures.

Five out of the six largest Austrian credit institutions passed the ECB comprehensive assessment.([4]) With the exception of Österreichische Volksbanken (OEVAG), all Austrian banks passed the ECB comprehensive assessment. All Austrian banks met the Common Equity Tier 1 ratio of 8% after the Asset Quality Review. However, OEVAG has failed the stress test both in the baseline and adverse scenario, revealing a capital shortfall of EUR 865 million. The latter has been addressed in the new restructuring measures announced by OEVAG, which include inter alia the winding-down of a part of its operations. The Asset Quality Review had a higher impact on Austrian banks as compared with the euro area average, mainly owing to the higher risk profiles of the Austrian banks' CESEE portfolios. In the stress test, the Austrian banks were more strongly affected than their euro area peers by the cost of funding shock, credit risk costs and the Basel III phase-in effects.

Against the backdrop of the recent geopolitical developments, the exposure of Austrian banks to Ukraine and Russia needs close monitoring. The international exposure of Austrian banks has been concentrated in the CESEE region with total exposure to the region amounting to EUR 198 billion at the end of June 2014. Austrian banks have significant exposure to both Ukraine and Russia, larger than all their European peers. Raiffeisen International, the Austrian bank most active in eastern Europe, had an exposure of EUR 14.7 billion to Russia and EUR 2.9 billion to Ukraine at the end of September 2014. The relations between Ukraine and Russia have put a drag on the asset quality of these subsidiaries, but also on their earning capacity. Erste Bank Group is not present in Russia, but has residual exposures of EUR 435 million in Ukraine, after having sold its Ukrainian subsidiary in 2013. Therefore, a further deterioration in the economic situation in Russia and Ukraine could further negatively impact Austrian banks.

Restructuring of nationalised banks

In line with the recommendations of the 2014 CSR, the authorities have made significant progress on restructuring of nationalised/partially nationalised banks. Österreichische Volksbanken AG (OEVAG) has proceeded with the implementation of the restructuring plan approved by the Commission, but its low profitability and deteriorating asset quality has complicated the restructuring process. The Maltese subsidiary of OEVAG was sold in September 2014. Furthermore, a sale and purchase agreement for OEVAG's Romanian subsidiary was

([3]) The Ministry of Labour, Social Affairs and Consumer Protection negotiated an agreement with the banks, and the Austrian Chamber of Commerce to reverse the financial losses to consumers which arose in a limited number of cases due to the triggering of "stop-loss" clauses in loan contracts.

([4]) The Austrian banks included in the ECB comprehensive assessment are: BAWAG P.S.K, Erste Group, Raiffeisenlandesbank Oberösterreich, Raiffeisenlandesbank Niederösterreich-Wien, Raiffeisen Zentralbank Österreich and Österreichische Volksbanken AG.

signed in December 2014. Before the publication of the results of the ECB comprehensive assessment, OEVAG announced further restructuring and reorganisation measures, subject to state aid and regulatory approval. These include splitting OEVAG and transforming 44 regional Volksbanken and seven special institutions into nine strong regional banks by merging small and medium-sized banks. The original OEVAG would be left with non-core assets, which would be wound down. In the first half of 2015, OEVAG intends to give up its banking licence to become a non-regulated vehicle and leave the joint liability scheme.

The restructuring of Hypo Alpe Adria Group made consistently progress in 2014. The Austrian Government decided in March 2014 to set up an asset management company (AMC) for Hypo Alpe Adria Group in the second half of 2014 with the aim to take over the impaired assets of the Hypo Alpe Adria Group from both its operations in Austria and South Eastern Europe. The law on setting-up an AMC for the Hypo Alpe Adria Group (i.e. "Hypo-Sondergesetz") was approved by Parliament in July 2014. The law allows *inter alia* the full write down of all subordinated debt maturing on or before 30 June 2019, notwithstanding the existence of a deficiency guarantee issued by the State of Carinthia, which the law declares null and void. The decision to bail-in subordinated debt backed by state guarantee has cast doubts about the value of such guarantees and triggered rating actions against the Hypo Alpe Adria Group and other Austrian banks. In line with the provisions of the Hypo-Sondergesetz, the operations of the Hypo Alpe Adria Group are split into a "bad bank" (i.e. the AMC) and a "good bank" consisting of Hypo Alpe Adria's subsidiaries in South Eastern Europe, to be subsequently sold.

The AMC for the impaired legacy assets of Hypo Alpe Adria Bank International was formally established at the beginning of November 2014. The banking licence of Hypo Alpe Adria was terminated at the end of October 2014. Heta Asset Resolution, the AMC resulting from the split of Hypo Alpe Adria, has an asset perimeter of roughly EUR 18 billion, does no longer take up deposits and does not hold any participation in other financial institutions. The assets transferred to Heta Asset Resolution are currently subject to a due diligence process, which may trigger further impairments and pressure on the capital of this vehicle. In case the due diligence reveals higher-than-expected impairments, options discarded so far (for instance, a potential bankruptcy) may gain renewed momentum. The AMC, which is currently owned by the Austrian state, appears to have attracted the interest of foreign investors, although no concrete details of potential offers are known so far. The South Eastern Europe network of Hypo Alpe Adria Bank International was sold in December 2014 to a consortium composed of an American investment fund and the European Bank for Reconstruction and Development.

KA Finanz, the bad bank of Kommunalkredit continued to downsize its assets in 2014 through portfolio divestment measures. KA Finanz, which operates in a winding down mode, holds the securities and credit default swaps portfolio remaining after the 2009 demerger of the former Kommunalkredit which was split up into a "good bank" and a "bad bank" following its nationalisation in November 2008. Benefiting from more favourable market conditions, KA Finanz has further reduced its total assets, which went down to EUR 7.7 billion at the end of June 2014 compared with EUR 8.1 billion at the end of 2013. The operational income has not been sufficient to cover the net expenses incurred through the portfolio run-down measures and the pressures on funding costs. KA Finanz therefore recorded a loss at the end of June 2014. Despite challenges associated with the introduction of Basel III, KA Finanz had a total capital adequacy ratio of 19.9% and a CET 1 ratio of 13.6% at the end of June 2014. It received capital support of EUR 350 million in 2013 to help it meet the more stringent capital requirements under Basel III, but no additional support was needed in 2014. A sales process has been started for roughly 33% of the assets of Kommunalkredit (i.e. the "good" bank resulting from the splitting of Kommunalkredit old in 2009). The remaining assets will be put into wind-down.

Summing up, despite tangible progress in the restructuring of nationalised banks, the financial sector remains subject to risks, which could have adverse implications for public finances and financial stability. Several domestic and foreign vulnerabilities seem to have worsened rather than faded away requiring a consistent and proactive policy response.

2.2. TAXATION AND FISCAL FRAMEWORK

The Austrian taxation system and the fiscal framework present weaknesses arising from a high tax wedge, low tax autonomy for subnational government and a complex system of fiscal relations between the different layers of government.

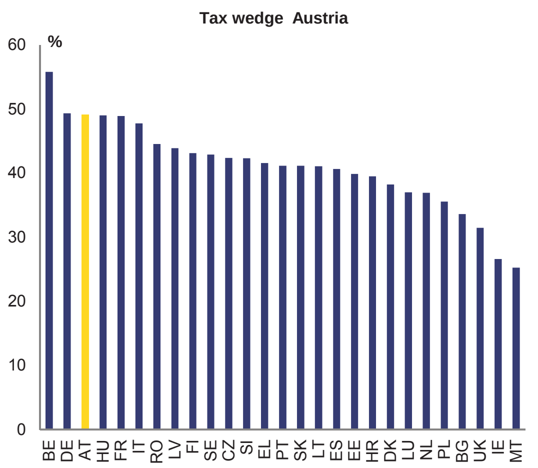
Taxation

Different indicators rank Austria significantly above the EU average on labour taxation. The combination of personal income tax, social security contribution rate and payroll taxes (in particular contributions to the family burden equalisation fund and municipal taxes) lead to a high tax burden on labour in Austria as indicated by the share of labour taxes in percentage of GDP, the large tax wedge and the high implicit tax rate on labour([5]).

Reducing the tax wedge is likely to boost labour market participation. Employment performance is on average good in Austria, with an employment rate of 75.7% in the first three quarters of 2014. However, reducing the tax burden on labour, in particular for low-income earners, is likely to boost labour market participation and would also make the Austrian labour market more resilient to downside-risks. Such a measure could also contribute to reducing in-work poverty in the country. Austria is one of the countries with the biggest low-wage trap([6]) for second earners and the inactivity trap is relatively high at low income levels. This is likely to be one of the reasons why the employment rate of low-skilled people was 19.6 percentage points lower than the general employment rate in 2013 (EU-average: 16.3 percentage points).

There is potential for shifting the taxation of labour to other sources of taxation less detrimental to growth. The 2014 country-specific recommendations refer in particular to exploiting the revenue potential of the immovable property tax. Immovable property tax revenue, amounting to 0.6% of GDP in Austria, is the fifth lowest in the EU far below the EU 28 average of 2.3%. Other sources of taxation such as the inheritance tax, gift tax and environmental taxes, could also contribute to the tax shift. In particular, environmental taxes, despite showing a revenue/GDP ratio in line with the EU average, could encourage progress towards achieving the Europe 2020 targets for reducing greenhouse gas, which Austria is currently expected to miss by a gap of 7 percentage points.

Graph 2.2.1: **Tax wedge Austria 2013**



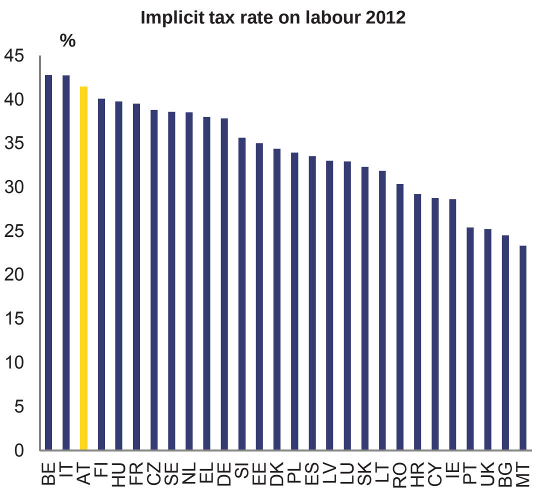
Single person 100% average wage
Source: OECD, European Commission, Tax-Benefit Database

No progress has been made so far on reducing the tax burden on labour, but the Government is currently working on a proposal for a major tax reform. In 2014, it set up an expert group to put forward proposals for a tax reform, which resulted in a comprehensive report submitted in December 2014. There seems to be consensus on reducing the first bracket rate of personal income tax, currently set at a high entry rate (36%), and to provide a tax relief of about EUR 5 billion (1.5% of GDP). Discussions are being held on how to finance this significant tax reduction. The ExpertInnenkommission presented its report to a political steering committee. This Committee will assess the proposals in the first quarter of 2015 and prepare a political decision by the Ministerrat no later than 18 March 2015. Given the high public debt level, it is crucial to ensure that the reform is

([5]) OECD (2014): Taxing wages.
([6]) The low-wage trap is defined as the share of additional earnings arising from an increase in work productivity/working hours which are wiped out by the relative increase in taxes and withdrawn of benefits. The low-wage trap is particularly high in Austria for principal earners at 100% of average wage and second-earners moving from 33% to 67% of average wage.

fully financed and does not impact public finances negatively. Initial proposals could be challenging in that regard, as some appear to rely on doubtful sources of financing.

Graph 2.2.2: **Implicit tax rate on labour 2012**



Source: European Commission

Fiscal Framework

The current organisational 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 share of subnational own taxes(7) in percentage of GDP, in particular regarding the tax-raising powers of subnational governments. Despite this low level of tax autonomy, subnational levels of government have several spending and administrative responsibilities, which in many cases are shared between levels of government and are financed mainly by intergovernmental transfers and shared taxes. The high level of complexity and the misalignment between revenue and spending responsibilities are not conducive to comprehensive policy reforms. It leads to efficiency losses in crucial public administration functions, including healthcare, education systems and spending on social transfers. Furthermore, as a result of complex interactions between national and subnational policy strategies key policy areas (e.g. innovation and research policy) suffer from coordination costs and efficiency losses. This may prevent the exploitation of cross-regional synergies.

The reform of the Austrian Stability Pact, which entered into force in 2012, has strengthened Austria's fiscal framework. The reform introduced a set of fiscal rules and has also translated the Council Directive 2011/85/EU on budgetary frameworks in the Member States and the Fiscal Compact into national legislation. The new Austrian Stability Pact has also strengthened fiscal rules at subnational level.

However, the current institutional set-up is likely to continue to complicate the achievement of these targets, especially when fiscal consolidation needs will be less pressing. Targets at subnational level have indeed been missed very frequently between 2000 and 2009 also due to the mismatch between the tax raising power and spending responsibilities at subnational level. The full achievement of fiscal targets in 2012-2013 was in part due to higher positive revenue developments at the central level translated in higher shared tax revenue also for subnational governments, while fiscal consolidation efforts led to effective expenditure control at subnational level. However, fiscal targets have proved pro-cyclical in the past given that the enforcement of subnational fiscal targets is lower in time of favourable cyclical conditions. Thus, fiscal targets are unlikely to be met if the institutional set-up will not be reformed to ensure a more efficient cost-financing structure.

No comprehensive measures have been adopted to address the long-standing issue of streamlining relations between levels of government. An administration and deregulation commission (*Aufgabenreform- und Deregulierungskommission*) was established in June 2014, in order to suggest different options for decreasing administrative burden and to increase efficiency of administrations thereby achieving savings also at subnational level. Other actions taken in 2014 relate to the reduction of the number of hierarchical layers in educational administration. However, these measures appear to have limited scope to enhance the organisation and division of powers between layers of government.

(7) Subnational own taxes are defined as taxes which subnational government have the power to introduce, or alternatively modify the tax rate and/or the tax base.

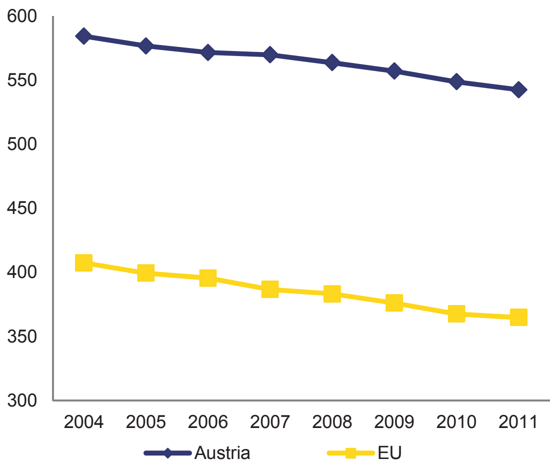
2.3. PENSION, HEALTH AND LONG-TERM CARE SYSTEMS

The 2014 country-specific recommendations identified the long-term sustainability of pensions, healthcare and long-term care as a major medium-term challenge to Austrian public finances, **given projected trends in age-related expenditure.** The Commission, in cooperation with the Member States, is currently preparing updated data on the budgetary impact on pension and healthcare spending, which will be published in the first half of 2015. Preliminary results indicate that the better demographic outlook and improved macroeconomic assumptions underlying the revised projections may lead to some moderation of long-term sustainability risk. Nevertheless, the main trend of an increasing old-age dependency ratio remains intact, although it may be less pronounced than in earlier projections. Current projections seem to confirm expectations of a steady increase in health care and long-term care expenditure in the long-term.

The effective retirement age remains considerably below the statutory retirement age, while the statutory retirement age of women is well below that of man. The low effective retirement age is largely due to the use of early retirement and invalidity pensions, which negatively affects long-term sustainability of the pension system. Women's low statutory retirement age, besides putting pressure on fiscal sustainability in the medium-term, also results in low pension entitlements, partially contributing to a large gender pension gap which has widened from 35% in 2008 to 42% in 2012([8]). Against this background, Austria was advised in 2014 to monitor the recent reforms in restricting early retirement. In addition, further structural measures aimed at bringing forward the harmonisation of the statutory retirement age for man and women, increasing the effective retirement age and aligning the retirement age to changes in life expectancy were deemed necessary to improve the long term sustainability of the pension system.

Austria's health care system relies on hospital-based care, signalling potential cost efficiency gains from shifting care towards outpatient services. The number of acute care beds per capita is among the highest in Europe and is declining at a lower rate than in the EU([9]) on average. The complex governance structure with many responsibilities divided among the different layers of government is not conducive to reorganising the system notably by adjusting current cost-sharing among administrations to encourage better use of more effective and cost-effective services.

Graph 2.3.1: **Hospital beds**



(1) Curative care hospital beds per 100 thousand residents
Source: European Commission

Different elements suggest that the current design of the long-term care system consisting of cash benefits and publicly organised long-term care services can be improved. Cash benefits provision is not means-tested, while the magnitude of the benefits varies according to an evaluation of the care requirements of the person in need of assistance. In addition, the quality and the availability of public formal care services differ across the *Länder*. These factors may potentially explain the large reliance on informal care, mostly provided by dependents' relatives.

Austria continued to implement a number of measures in the pension sector related to reforms approved in recent years. The government made changes to the pension system to encourage people to remain in employment

([8]) As women are more likely to take breaks in their careers due to care, and also have shorter working lives than men, their pension levels could have been negatively impacted.

([9]) Between 2003 and 2011 an annual decline rate of 1.1% was observed for Austria, compared to 1.8% on average in EU Member States.

longer. The main measures entered into force on 1 January 2014. They restricted access to early retirement and invalidity schemes and barred people under 50 from temporary invalidity pensions. The government also raised the annual increment for late retirement from 4.2% to 5.1% which should provide an incentive for later retirement. Additional reforms to raise the effective retirement age were taken in 2013, such as increasing the penalty per year of early retirement and the years of pensionable service needed to qualify for this scheme. With these reforms, the government sought to raise the effective retirement age from 58.4 years to 60 years between 2012 and 2018. No measures have been taken to link statutory retirement age to life expectancy, or to harmonise the statutory pensionable age of women and men at an earlier date: the process is scheduled to run from 2024 to 2033.

The pension reforms adopted so far may not translate into significant expenditure savings. Steps taken by the government in 2013 and in 2014 to restrict conditions for early retirement, and, particularly, for invalidity pensions have already resulted in fewer applications. Since the adoption of these reforms, the average retirement age has risen from 58.4 to 59.7 years, according to preliminary government estimates([10]). However, although it is too early to assess the actual budgetary effect of these reforms, their savings potential is unclear, in particular compared with ex-ante government estimates. Excluding the size of the savings arising from moderate increase in existing pensions in 2013 and 2014, the 2012 Stability Programme estimated the overall amount of savings expected from the implementation of the different pension reforms at slightly above EUR 4 billion up to 2016 (of which EUR 520 million from 2013, additional 267 million from 2014, further 420 million from 2015 and additional 430 million from 2016). While all recent budget documents have confirmed the amount of savings in 2013 and 2014, the latest Draft Budgetary Plan reports only EUR 60 million savings expected in 2015 from the rise in the effective retirement age. The reasons for this apparent revision in the estimates are unclear, especially as it does not seem consistent with the good progress reported on the increase in the effective retirement age, raising questions about the reliability of the ex-ante estimate of these reforms' savings potential. The first monitoring report presented in April 2014 does not address this issue. Moreover, despite the government's announced plans to introduce a binding monitoring mechanism, which would trigger an adjustment to policies should there be a deviation from the path towards the target, this was not launched as scheduled in July 2014 and has been postponed to an unspecified date.

Healthcare reform is on track. The Austrian health system reform plan (2013-2016) is based on stabilising healthcare spending as a share of GDP as of 2016. Between 2013 and 2016, the reform establishes expenditure savings targets which the government has been able to achieve in 2013. This cost containment strategy is supported by the introduction of a tailored monitoring mechanism, setting concrete operational targets, to improve the organisation of the system. A further key component of the current reform plan is the full roll-out of the Electronic Health Record system, a process meriting close follow-up at national level.

However there are doubts as to whether this reform can bring about decisive action to reorganise the healthcare and long-term care systems in a cost-effective and sustainable manner. The lack of ambition of the stated reform principles([11]), which is in some cases reflected in the operational targets, might limit the extent to which the reform can improve the sustainability of the system, also beyond the current 2016 time horizon of the reform. Weak targets may not translate into decisive actions to strengthen and rationalise primary care by controlling more effectively the use of specialist and hospital care; improving the cost-efficiency within hospitals; ensuring that care is provided in the most clinically appropriate and cost-effective way; and using more

([10])https://www.bmask.gv.at/site/Startseite/News/Hundstorfer_Pensionsantrittsalter_2014_um_13_Monate_gestiegen_Pensionsreformen_wirken.

([11]))In particular this would concern the principles of "Providing patient care at the right time, in the right place, and with optimal medical and nursing quality." and "Accelerating the establishment of multi-professional and integrated forms of care at all levels."
http://www.bmg.gv.at/home/EN/Topics/Health_reform)

primary care rather than hospital-based care([12]). In this respect, the targeted percentage of patients of 1% for whom outpatient multidisciplinary primary care settings should be available by end of 2016 does not appear ambitious([13]). Another case concerns the in-patient hospital consolidation targets (overall discharge rates, number of bed days per resident and length of stay), which seem to merely extend time trends already observed, both in Austria and internationally. In addition, looking beyond the 2016 time horizon, important enablers to reduce the focus of the system on acute inpatient care such as an overhaul of the long-term allocation of resources between the regional authorities and insurance funds, or a clear consolidation of the current high availability of hospital acute care beds, are not clearly addressed in current reform measures.

Austria has taken some steps towards improving the financing and provision of long-term care services. Steps include the extension of the Long-Term Care Fund up to 2018, as well as efforts to streamline the administration of cash benefits. A positive feature of the reform is its stronger focus on health rehabilitation, preventive care and independent living. However, it remains a challenge to effectively meet the increasing demand for these services without putting further pressure on the long-term sustainability of the system.

Summing up the analysis leads to the conclusion that overall, **Austria has made some progress in improving the long-term sustainability of the pensions system.** However, the potential of the measures adopted so far to achieve significant savings remains highly uncertain. **The reform of healthcare and long term care services is progressing** although doubts persists on whether decisive actions will be undertaken to address a number of structural weaknesses undermining the cost-effectiveness of these systems.

([12]) For more information see "Joint Report on Health System" by European Commission and Economic Policy Committee. http://ec.europa.eu/economy_finance/publications/occasional_paper/2010/pdf/ocp74_fiches_en.pdf

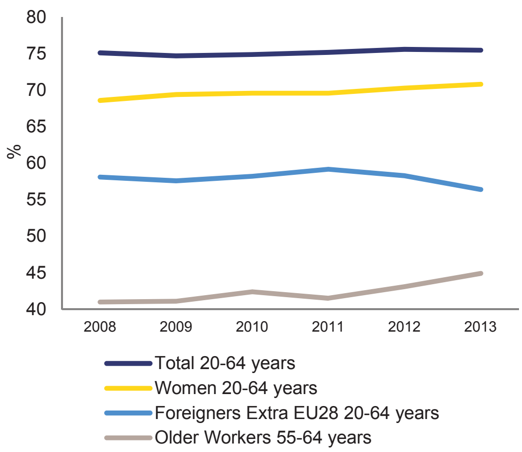
([13]) E.g. only a fraction of diabetes patients in Austria (8.9% of the population) could be covered, possibly avoiding hospital admissions for uncontrolled diabetes, which are particularly elevated in Austria, also when correcting for prevalence. http://ec.europa.eu/health/reports/docs/health_glance_2012_en.pdf.

2.4. REINFORCING LONG TERM LABOUR SUPPLY

Austria's labour market performs very well, despite a recent increase in the unemployment rate. Although the labour market situation deteriorated somewhat as the country's economic recovery lost pace, unemployment affects only about 5% of the active population and 9% of young people, while 75.7% of the working-age population (aged 20-64 years) was in employment in 2014. The country's main labour market parameters are much more favourable than those of most other EU countries.

However, Austria's main challenge remains to address long-term labour supply in view of demographic changes. The 1% trend employment-growth recorded over more than a decade([14]) may not be sustained in the long run unless further progress is made to 'activate' sections of the working-age population that have so far remained underutilised or outside employment, notably older workers, women and people with migrant background.

Graph 2.4.1: **Employment rate of selected age, nationality and gender groups**



Source: European Commission

Extending working lives

Although the employment rate of older workers has increased recently, it remains low. While the employment rate for men aged 55-64 is not far below the EU average, the employment rate for female older workers is considerably lower, even taking the lower statutory pensionable age into account([15]). Moreover, the employment rate for workers aged 60-64 is only 23%, 10.4 percentage points below the EU average. In addition, early exit pathways (see section on pensions) contributed to an increase in the employment and unemployment of elderly workers. While the increase of unemployment is so far limited in absolute numbers, it signals the need for policy action([16]). The latest available data indicate that at least one third of the retired would have liked to stay longer on the labour market, which is 16 percentage points above the EU 28 average([17]). Apart from the options for leaving the labour market early, continuing barriers to longer working lives are: the lack of age-friendly working environments, health related issues, high employment costs, inappropriate qualifications and dependent/ partner care responsibilities (especially for older women).

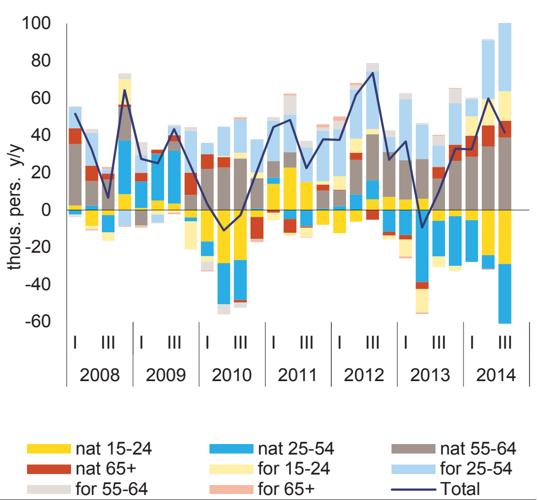
([14]) ECFIN AMECO database.

([15]) In 2013, the male employment rate for 55-64-year-olds was 54.3% (3.2% below the EU average), while the employment rate for women of the same age range was 36.0% (7.3% below the EU average).

([16]) In 2010, there were about 9 thousand elderly unemployed aged 55 – 64 years old, while in 2012 close to 14 thousand and in 2013 over 16 thousand. In 2013, 7.6% of all unemployed (aged 15-64) were elderly unemployed.

([17]) LFS 2012 ad hoc module: "Transition from work to retirement".

Graph 2.4.2: **Active population growth by citizenship and age**



(1) nat=national; for=foreign
Source: European Commission Calculations

The ageing of the labour force cannot be fully offset by immigration. Recent immigration flows have helped maintain the growth of the active population and replenish the prime-age cohorts. However, they have only slowed down rather than reversed the ageing of the national labour force. Thus, immigration is not a substitute for working environments that can accommodate ageing and are compatible with family responsibility – not even in the short term, let alone in the long run.

In recent years, older workers became a central target group of active labour market policy. The 2013-2018 government programme sets specific employment targets for older workers([18]). Efforts aimed at increasing employability, helping people to return to work after long periods of sick leave, providing training and opportunities for qualifications in new fields of work, and providing age-friendly working environments have been stepped up considerably. Such efforts support the goal of longer working lives and help promote participation in the labour market for people with disabilities([19]). In 2014, an agreement was reached on an additional labour market package for older employees, which included wage subsidies, health promotion programmes and enhanced retraining to update skills. Moreover, there are plans to introduce a system rewarding later retirement.

Women's labour market participation

Women's labour market potential remains under-utilised, partly because women are more often involved in caring for dependents. While the female employment rate of 70.8% in 2013 is above the EU28 average, it is far less favourable in full-time equivalents (56.2% in 2013)([20]), as a high proportion of women work in part-time employment (45.9% in 2013, as compared with 31.6% for the EU28 average)([21]). The limited availability of childcare and long-term care services restricts full-time employment opportunities. Together, these factors contribute to a persistent gender pay gap that is one of the highest in the EU (23.4% in 2012) and a high gender earnings gap.

The provision of early childcare education and training is increasing, but major shortages and coordination issues still need to be resolved. The childcare ratio([22]) for the 0-2-year-olds rose substantially between 2007/8 (11.8%) and 2013/14 (23.0%), but it is still below the Barcelona target of 33%. With a childcare ratio of 90.8% for the 3-5-year-olds in 2013/2014, Austria has already met the Barcelona target for this age group, but the services provided are not fully compatible with

([18]) The employment rate for men in the age bracket 55-59 should increase from 68.1% 2012 to 74.6% 2018, the employment rate for men in the age bracket 60-64 should increase from 21.6% in 2012 to 35.3% in 2018 and the employment rate for women in the age bracket 55-59, should increase from 47.9% in 2012 to 62.9% in 2018.

([19]) Based on SILC 2012 data, the employment rate for persons with disabilities in the age group 20-64 was 49.6% (EU: 47.9%). This represents a gap of 24.8 percentage points compared with the employment rate for persons without disabilities (74.4%). EU-SILC is based on different methodology than the Labour Force Survey, it refers to self-reported employment/unemployment, etc. and thus these two surveys are not comparable.

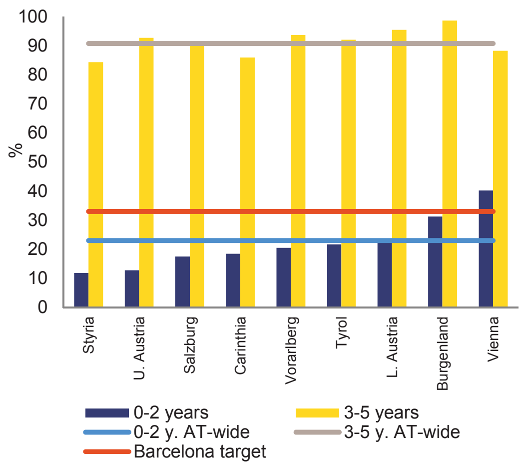
([20]) OECD projections show that if the full-time equivalent rate of women reached the 2010 full-time equivalent rate of men by 2030, then the total labour force would increase by 17.4% over the period 2011 to 2030. (OECD (2012), 'Closing the Gender Gap').

([21]) A large percentage (38.7%) of the women working part-time in Austria 2013 highlighted care responsibilities for children or elderly people as one of the main reasons for working part-time. This compares to only 3.8% of men in the same circumstances.

([22]) The share of children in the respective age group for whom a place in a childcare facility has been secured.

full-time employment of the parents. Financing of increased provision of all-day school places and long-term care services has been ensured since 2011/12. An agreement on increasing child care support was reached in 2014. There are plans to bring in further increases in the run-up to 2018. However, there is no coherent strategy addressing regional differences in availability of childcare and the alignment of service hours and parents' working hours. Overall, despite some progress, the provision of childcare and long-term care places compatible with full-time employment remains inadequate.

Graph 2.4.3: **Child care ratios by age group and province 2013/2014**



Source: Statistics Austria

Labour market participation of immigrants

People with a migrant background make up an increasing share of the Austrian population, but their labour market potential remains underutilised. The number of people with a migrant background([23]) rose from 1.4 million in 2008 to 1.6 million in 2013. Yet, they continue to face serious disadvantages on the labour market - in the application process and in salary levels, barriers due to sometimes complex legal requirements – with particularly difficult challenges for third country citizens([24]). The employment rate of people with a non-EU nationality was 60.7% in 2013, 16.1 percentage points below that of Austrian nationals. Even if in employment, highly qualified recent immigrants often work in low skilled occupations. In 2011, the over-qualification rate of people from non-EU-28 countries was 41% in Austria, above the EU-27 average of 37%. On the other hand, the share of low-qualified non-EU nationals is also relatively high (44% non-EU nationals as compared with 15% Austrian nationals in 2013)([25]); this is often linked with the fact that socio-economic background has a major impact on education outcomes. A sub-group of particular concern comprises the 15-24-year-olds born outside the EU-28, whose employment and unemployment rates are much worse than other groups([26]).

Immigration has helped boost and rejuvenate the labour force in recent years and has diversified the skill structure. Despite some heterogeneity, recent immigration flows have helped maintain the growth of the active population and replenish the prime-age cohorts and have contributed positively to the skills pool (Table 3.4.1).

Table 3.4.1: **Share of population with tertiary education**

	2008	2009	2010	2011	2012	2013
National	14.1	14.8	15.0	15.1	15.5	16.0
Foreign	16.2	18.3	19.1	18.3	19.7	20.3

Source: European Commission

The 2013 government programme announced that a comprehensive welcome culture([27]) and an overall strategy to improve migrants' access

([23]) This includes first-generation immigrants and children of immigrants. In Austria, about ¾ of people with a migrant background are first generation migrants, while 1/4 is second generation migrants, with the share of second generation slowly increasing in the total. (Statistik Austria).

([24]) In 2013, out of the 1.6 million people with a migrant background, 566 thousand came from another EU country, 533 thousand from parts of the former Yugoslavia that are outside the EU, and 522 thousand from other non-EU countries. (Statistics Austria) 329 thousand people of working age (15-64 years old), were non-EU nationals (Eurostat, Labour Force Survey).

([25]) Eurostat, Labour Force Survey 2013.

([26]) Their employment rate (43.9%) and unemployment rate (17.9%) compared to: respectively 63.9% and 10.5% for 20-64 year olds born outside EU28 and 55.1% and 8.4% for 15 -24 year olds born in Austria.

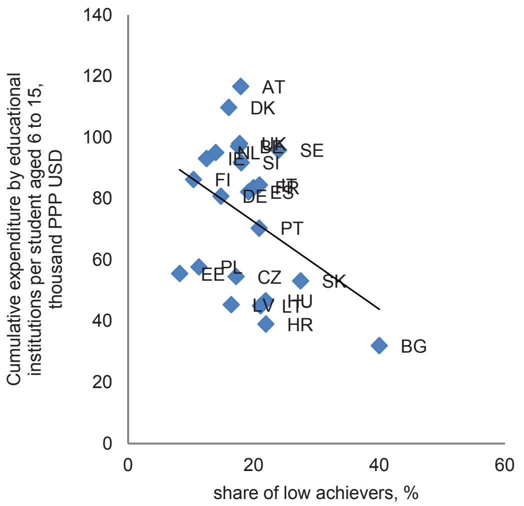
([27]) Since summer 2013 so called "Welcome Desks" have been established. In the first year of work around 25 500 consultations were held.

to the labour market would be developed. Work on both is under way. Some measures accompanying the labour market integration of people with migrant background are already in place (e.g. mentoring programmes, diversity management). To improve the process by which migrants can obtain official recognition of their qualifications, service centers have been set up at regional level. Discussions have started on a legislative proposal for a comprehensive Recognition Act (*Anerkennungsgesetz*). It will be important to closely monitor the progress of these reforms in order to assess whether further measures might be necessary.

2.5. TOWARDS A MORE EFFECTIVE AND INCLUSIVE EDUCATION SYSTEM

Austria's education system is still characterised by low achievement of disadvantaged youth and insufficient market relevance of qualifications. A large proportion of young people, particularly those with a migrant background, lack adequate basic skills and there is a strong link between educational performance and socio-economic background. At the same time the higher education sector is confronting strategic and financial challenges.

Graph 2.5.1: **Resources and performance of secondary education**



Average achievement in Mathematics, Reading and Science
Source: OECD PISA 2012, European Commission calculations

Educational Inequalities

While average educational outcomes have improved, there remains an achievement gap of pupils with a low socio-economic status and young people with a migrant background. Educational outcomes in terms of basic skills attainment improved in PISA 2012, and the share of low-achievers remains low, even though the performance is less impressive when compared to the elevated spending on education (Graph 2.5.1). Furthermore, performance in reading is somewhat below the EU average(28). Poorer performance appears to be influenced by the socio-economic background. OECD regression analysis notably shows that the improvement in education outcomes associated with a better economic, social and cultural status (ESCS) is one of the highest in the EU(29). On the other hand the observed difference between the outcome of the highest and lowest quartile of the ESCS indicator is in the range of the EU average(30). Also, young migrants, including the children of migrants, who constitute a large and growing share of the pupils, score less well(31)(32). Foreign-born students are three times more likely (20.3%) than native-born (5.6%) to leave school early(33). Not enough attention is given to prevention of early school leaving at an early stage, and beyond individual initiatives, a nationwide strategic approach to high-quality early childhood education and care is still outstanding.

During 2014, Austria continued to implement measures in early childhood education and care and compulsory education aiming to improve educational outcomes. Recently, additional public funding has been provided for early childhood education and care (ECEC) and for language training for this age group. But some of the measures announced have yet to be implemented, such as the national quality framework for ECEC, the introduction of an additional compulsory year in ECEC, and a new transitional phase between early-childhood education and primary school. The government also announced that by 2018/19, a total of EUR 800 million will be invested in expanding of all-day school places at schools that stay open all day and measures to improve the quality of the activities they provide, which do not meet demand at the moment. An evaluation of the new secondary school system is expected in mid-2015, including information on the extent to which it has mitigated the traditionally strong impact of

(28) 19.5% compared with an EU average of 17.8%. In mathematics and science, the share of low achievers is lower than the EU average (18.7 and 15.8% in Austria compared with an EU average of 22.1% and 16.6%).

(29) OECD PISA 2012.
(30) OECD PISA 2012.
(31) See European Commission, Education and Training Monitor 2014, p. 27, and Fessler/Mooslechner/Schürz (2012): Intergenerational transmission of education attainment in Austria, in Empirica 39: 65-86.
(32) Austria has the third highest rate in the EU of children aged 0-5 with foreign citizenship (14.7%) and the share of school-age students with a migrant background is expected to rise from the current figure of about 22% to 30% by 2030. Source: Key Data on Early Childhood Education and Care in Europe (2014), Eurydice and Eurostat Report.
(33) Rates also vary between regions from 5.5 % in Lower Austria to 11.4 % in Vienna.

socio-economic background on educational outcomes. In this context, the key question will be whether this new type of school provides substantially different education outcomes in comparison with the previous "Hauptschule".

Higher education and labour market needs

Pressure on higher education continues. The skill forecast contained in the Education and Training Monitor 2014([34]) expects an increase of 20% in Austrian jobs requiring high level qualification, compared to an EU average increase of 12.4% in this group, thereby indicating growing needs from the higher education sector. In addition, while Austria's tertiary attainment rate (ISCED levels 5 and 6) has been growing in recent years, 35% of students in Austria pursuing a university degree do not complete their studies as compared to an EU average of 31%([35]). There seems to be growing mismatch between graduates' qualifications and demand. For example, demand is rising in particular for high level qualifications, particularly in ICT, engineering, management and health([36]), yet the percentage of graduates in mathematics, science and technology fell from a peak of 32.2% in 2006 to 25.6 % in 2012([37]). However, despite growing demand for higher education, most jobs will continue to require medium qualifications. Due to the specific role of vocational education and training (VET) in Austrian education, a large proportion of Austria's higher-skilled labour force is traditionally recruited from among graduates of VET colleges which award ISCED 4a level qualifications, which will also mitigate the pressure on higher education.

([34]) European Commission Education and Training Monitor 2014, Volume 2: Country analysis, Austria, (http://ec.europa.eu/education/tools/et-monitor_en.htm#country-reports).

([35]) Source: OECD. Education at a Glance 2013, table A4.1. A recent study attributes the high figure to double counting and adding in exchange students. However, as these statistical problems also exist in other EU countries, comparison with the lower figures of other EU or neighbouring countries show that dropping out is a challenge in Austria. See Thaler, Bianca/Unger Martin (2014)/ Dropouts ≠ Dropouts. Wege nach dem Abgang von der Universität, Studie im Auftrag der Österreichischen Universitätenkonferenz, Wien.

([36]) IHS/WIFO Studie zum künftigen Qualifikationsangebot und –bedarf in Österreich im Auftrag der Arbeiterkammer Wien, April 2013.

([37]) EU average: 22.8 % (2012).

Austria is implementing with some delay the measures in its higher education plan, that focus on cooperation processes, infrastructure developments, a new scheme for financing universities (capacity-based financing) and a new target system for research, teaching, students and knowledge transfer([38]). Basic funding is secured until 2018, including a more rapid extension of universities of applied sciences, whose programmes and teaching are traditionally closer to labour market needs. But due to lack of additional funding the implementation of reforms has been delayed. In addition, the new induction and orientation stage at the start of studies suffers from a lack of clarity and patchy implementation across the country([39]). The introduction of the new capacity-based university funding system has been postponed and it is not clear when it will be implemented.

([38]) ET 2020 National Report Austria 2014, http://www.hochschulplan.at.

([39]) Bericht des Rechnungshofs: Studienvoranmeldung sowie Studien und Orientierungsphase (8/2013), Österreichischer Wissenschaftsrat: Zur Studieneingangs- und Orientierungsphase (StEOP) an Österreichs Universitäten. Stellungnahme und Empfehlungen. Wien, November 2014.

2.6. PROMOTING A COMPETITIVE AND INNOVATIVE BUSINESS ENVIRONMENT

The Austrian economy continues to benefit from macroeconomic stability but the growth performance has been weakening in recent years. After a vigorous recovery in 2010-2011, exports growth slowed down significantly. While Austria's external surplus remains solid, Austrian exporters have been losing global market shares, failing to take full advantage of partner economies' import demand that is still growing, although slowing down. Along with slowing exports, investment has essentially stagnated since 2012. Companies are struggling to accommodate labour cost pressures as stable employment and slowing output have raised unit labour costs. Thus, the potential for job creation may be close to exhaustion, unless companies improve their capacity to adapt to and benefit from changing demand patterns, i.e. to innovate. Increasingly evident reluctance to invest – despite generally comfortable corporate liquidity and favourable financing conditions – gives no ground for optimism in this regard.

The high level of public research and development funding does not lead to corresponding innovation outcome. Austria ranks fifth in the EU 28 in terms of R&D spending as a percentage of GDP, and the share of the government sector in financing research and development is clearly above the EU average. However, the relatively high level of public R&D investment does not translate into corresponding innovation outputs and related economic effects, partly because of the relatively low level of cooperation between publicly funded research and business. There is scope for increasing the private sector's participation in R&D, for stepping up knowledge transfer and efficiency in the supporting innovation. Public spending on R&D co-financed by private companies accounted for only 0.041% of Austria's GDP in 2011, compared with an EU average of 0.051%. While the intensity of R&D undertaken by businesses is above the EU average, the growth of innovative firms in their start-up phase is below the EU average (fast-growing firms in 2012 represented only about 6% of employment in the business economy, compared with an EU average of about 9%).

Austria is addressing the underperformance of its research and innovation system in a national research, technological development and innovation strategy adopted in 2011 ('Der Weg zum Innovation Leader'). In 2014, Austria presented an overview of its smart specialisation strategy as part of the ex-ante conditionality, necessary to benefit from co-financing from the European structural and investment funds between the 2014 and 2020. The strategy is based on a small number of priorities. It provides information on the policy mix, explaining in particular how measures are tailored to the needs of small and medium-sized enterprises, and encourages private investment in R&D. A monitoring system (including the necessary coordination between regional and federal levels) is to be set up in order to assess indicators and how stakeholders are to be involved. To be deemed successful in boosting innovation performance, the smart specialisation strategy needs above all to promote investment by private business in research and innovation technology as well as in knowledge-intensive sectors and technology transfer.

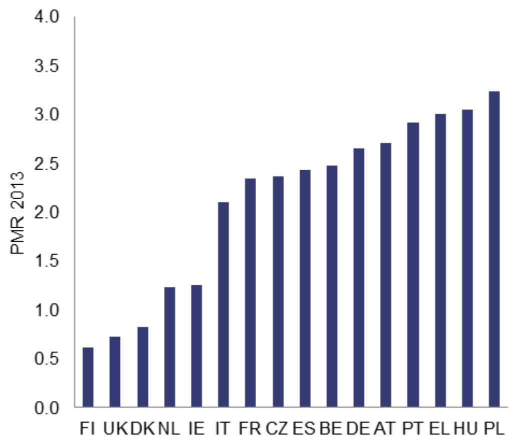
Although particularly important to innovative firms, the markets for small-scale equity finance (notably venture capital) and those mobilising retail investors, such as crowdfunding, are still underdeveloped by comparison with other Member States. Availability of finance remains satisfactory overall. There exists a comparatively high volume of enterprises' internal funds and there are no quantitative constraints on bank lending. On the other hand, while interest rates remain low, the non-interest costs of bank financing and collateral requirements have both increased, which particularly affects risky start-ups and new firms without a credit history. Facilitating a wider range of sources of finance would help firms strengthen their equity base, avoid looming future bottlenecks and enable SMEs to invest and contribute to growth and job creation once the economic recovery picks up speed. However, such actions lost momentum in 2014, and announced reforms (such as a new legal framework for crowdfunding) due in 2014 have not materialised, and are still at a very early preparatory stage.

Austria fully recognises the importance of sustainable use of resources for competitive business, but further effort is needed. It has amended the Climate Protection Act and the Environmental Law Adjustment Act and introduced a wide range of new policies and measures to further reduce greenhouse emissions, promote deployment of renewables and meet its commitment to reducing GHG emissions in sectors not covered by the Emissions Trading System (ETS) by 16% between 2005 and 2020. Additional efforts would also be needed to reach the long-term resource productivity target stated in the Austrian Resource Efficiency Action Plan approved in 2012 (improving productivity by 50% by 2020 compared with 2008). Active regional cooperation and appropriate regulatory incentives remain critical for the development and operation of the electricity and gas networks. The high-tension 380-kV ring in Austria is yet to be completed and cross-border capacities at Austria's borders with Italy, Slovenia, Switzerland and Germany require improvement. The development of gas networks must also be closely coordinated with neighbouring countries. For these projects, there is still a need to provide incentives to transmission system operators so as to encourage investment, and to further streamline the process for granting permits. There are indicators pointing to some degree of underinvestment in the energy sector, especially in the period prior to the crisis[40].

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. Product market regulation indicators in services sectors, even if subject to some limitations[41], indicate that there is still ample room for improving the regulatory framework, especially in professional services (Graph 2.6.1.). Differences in regulatory requirements between *Länder* continue to complicate the provision of services and the mobility of services providers. Fixed tariffs prevent service providers from competing on the basis of price and quality. Austria has started reviewing existing rules on access to professions and the performance of professional activities, to assess whether they are proportionate and justified by general interest. It has not taken any measures on the basis of this review.

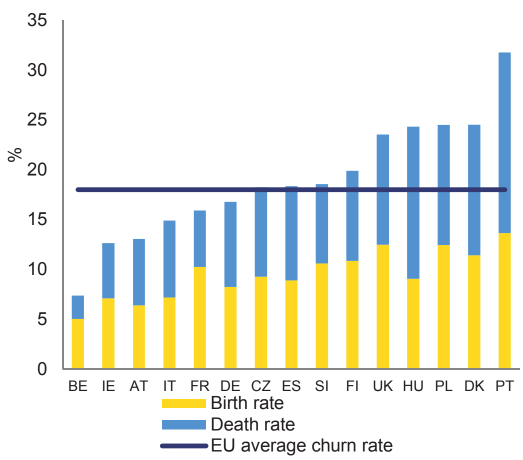
(40) "Infrastructure in the EU: developments and impacts on growth", ECFIN Occasional Paper 203/December 2014
(41) Source: OECD.

Graph 2.6.1: **Product market regulation in professional services**



A higher PMR index value indicates more restrictive regulation
Source: OECD Product Market Regulation Indicators

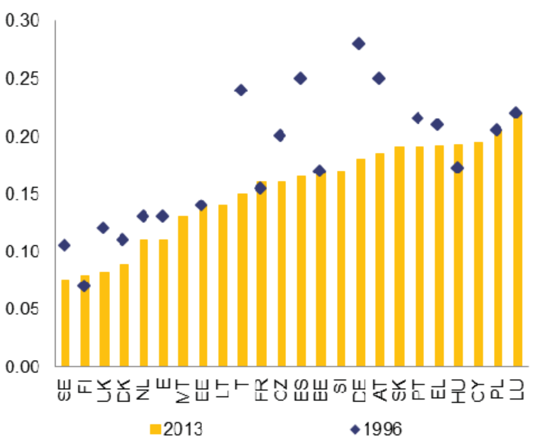
Graph 2.6.2: **Business dynamics in market services 2012: entry, exit, churn**



Source: European Commission calculations

Business dynamics in market services, including professional services, are weak, possibly affecting price competition and allocative efficiency. Business churn, the sum of the birth and death rate of firms, is relatively low (13.4%) compared with the EU average (19.1%), indicating relatively low business dynamics (Graph 2.6.2.). The significance of more intense business dynamics is that they result in more intense competition, which, at least from a static perspective, is expected to drive prices down and reduce mark-ups. The relatively high estimated mark-ups in Austrian professional services could therefore partly reflect less intense business dynamics (Graph 2.6.3.). Although shortage of data makes it difficult to establish a causal link between a country's reform efforts and its performance, recent estimates suggest that the potential impact of regulatory reforms in professional services is substantial: between 2008 and 2011 a one point reduction in the professional services regulation could have increased the churn rate in the sector by 1.75 percentage points, leading to a substantial improvement in the sector's capacity to allocate resources more efficiently and to a 5.3 percentage points fall in sectorial profit rates([42]).

Graph 2.6.3: **Mark-ups estimate in professional services**



Source: European Commission calculations

The provision of cost effective integrated business services has further improvement potential. Austria's network of Points of Single Contact would benefit from better linkage with other business-related e-services. The recent reform of the trade register system could contribute to a standardization and facilitation of (online) registration of companies in the central trade register (GISA) throughout Austria. Still, the access to websites for public e-services for businesses remains to be improved for users based abroad, inter alia by increasing the number of procedures for users based abroad. It remains difficult to set up of interdisciplinary services companies/ consultancies because of regulatory hurdles (see above) and no action has been taken to tackle this, despite announcements in the coalition agreement and pronounced demand for integrated services, especially among start-ups.

The publication rate of public contracts open to procurement under EU legislation remains low in Austria. In 2013 the value of calls for tenders published by the Austrian authorities and other organisations under EU procurement legislation was 1.9% of GDP and 11.82% of total public expenditure on works, goods and services in 2013, well below the EU averages of 3.23% and 19.07%. Publication of public calls for tenders has consistently been among the lowest in the EU. This cannot be explained by Austria's federal structure, as comparisons with other Member States show. Moreover, in 2013 only 57.2% of contract award notices contained information about the value of the contracts awarded, a value significantly lower than the corresponding one in 2011 (67.9%), indicating that the overall quality and transparency of information provided to bidders is declining.

In the context of the European Semester, the Council has consistently advised Austria to improve and promote the competition in services, but policy response has been limited so far. Country-specific recommendations have called for the justification and proportionality of entry and conduct barriers to service providers to be reviewed, and/or for such barriers to be removed, to investigate the reasons for the low publication rate of public procurement contracts and strengthen the resources of the Federal Competition Authority. The latter is of particular importance since with its current resources, the Federal Competition Authority is unable to apply competition law effectively (no forensic IT; no parallel inspections at multiple locations). Decisive tangible measures have been largely absent.

([42]) See E.Canton, D.Ciriaci, I.Solera (2014): "The Economic Impact of Professional Services Liberalisation". European Economy, Economic papers 533.

ANNEX A
Overview Table

Commitments	Summary assessment[43]
2014 country-specific recommendations (CSRs)	
CSR 1: Following the correction of the excessive deficit, reinforce the budgetary measures for 2014 in the light of the emerging gap of 0,5 % of GDP based on the Commission services 2014 Spring forecast and after taking into account additional consolidation measures announced by Austria, pointing to a risk of significant deviation relative to the preventive arm of the Stability and Growth Pact requirements. In 2015, significantly strengthen the budgetary strategy to ensure that the medium-term objective is reached and, thereafter, maintained, and ensure that the debt rule is met in order to keep the general government debt ratio on a sustained downward path. Further streamline fiscal relations between layers of government, for example by simplifying the organisational setting and aligning spending and funding responsibilities.	Austria has made **limited progress** in addressing CSR 1 (this overall assessment of CSR 1 excludes an assessment of compliance with the Stability and Growth Pact). • **Some progress** has been made to reinforce the budgetary measures for 2014. • **Limited progress** on strengthening the budgetary strategy for 2015. • **No progress** on streamlining fiscal relations between layers of government.
CSR 2: Improve the long-term sustainability of the pension system, in particular by bringing forward the harmonisation of the statutory retirement age for men and women, by increasing the effective retirement age and by aligning the retirement age to changes in life expectancy. Monitor the implementation of recent reforms restricting access to early retirement. Further improve the cost effectiveness and sustainability of healthcare and long-term care services.	Austria has made **some progress** in addressing CSR 2. • **Some progress** has been made on increasing the effective retirement age, through recent reforms restricting access to early retirement. However, other measures to make the pension system more sustainable in the long term are lacking. • **Some progress** on improving the cost-effectiveness and sustainability of healthcare and long-term care services by continuing to implement healthcare reform.
CSR 3: Reduce the high tax wedge on labour for low-income earners by shifting taxation to sources less detrimental to growth, such as	Austria has made **limited progress** in addressing CSR 3.

([43]) The following categories are used to assess progress in implementing the 2014 CSRs of the Council Recommendation: No progress: The Member State has neither announced nor adopted any measures to address the CSR. This category also applies if a Member State has commissioned a study group to evaluate possible measures. Limited progress: The Member State has announced some measures to address the CSR, but these measures appear insufficient and/or their adoption/implementation is at risk. Some progress: The Member State has announced or adopted measures to address the CSR. These measures are promising, but not all of them have been implemented yet and implementation is not certain in all cases. Substantial progress: The Member State has adopted measures, most of which have been implemented. These measures go a long way towards addressing the CSR. Fully addressed: The Member State has adopted and implemented measures that address the CSR appropriately.

recurrent taxes on immovable property, including by updating the tax base. Reinforce measures to improve labour market prospects of people with a migrant background, women and older workers. This includes further improving childcare and long-term care services and the recognition of migrants' qualifications. Improve educational outcomes in particular for disadvantaged young people including those with a migrant background, by enhancing early childhood education and reducing the negative effects of early tracking. Further improve strategic planning in higher education and enhance measures to reduce dropouts.	• **No progress** on reducing the tax wedge on labour, although a forthcoming reform has been announced for next spring. • **Some progress** on older workers' labour market participation. Austria has made some progress, especially on improving measures to make individual older workers more employable. • **Some progress** on improving the labour market prospects of people with a migrant background, through improvements in the recognition progress and efforts to make the Austrian labour market more attractive to highly qualified migrants. • **Limited progress** on increase of labour market prospects of women. • **Some progress** on increasing provision of childcare facilities and long-term care services. • **Limited progress** on further raising the educational achievement of disadvantaged people by improving education and higher education and reducing the negative impact of early tracking. • **Limited progress** on further improving strategic planning in higher education and on cutting the drop-out rate.
CSR 4: Remove excessive barriers for services providers, including as regards legal form and shareholding requirements and with respect to setting up interdisciplinary services companies. Review whether restrictions on entry into and conduct in regulated professions are proportionate and justified by general interest. Identify the reasons behind the low value of public contracts open to procurement under EU legislation. Substantially strengthen the resources of the Federal Competition Authority.	Austria has made **limited progress** in addressing CSR 4. • **No progress:** Austria has not made reform progress over the reporting period, including as regards legal form and shareholding requirements and interdisciplinary service activities. Still no broad review of the existing restrictions. • **Limited progress:** Austria is playing an active part in the mutual evaluation for which the Directive amending the Professional Qualifications Directive provides. However, no major changes can be expected before the evaluation is completed in January 2016. More generally, there seems to be limited political

	will to implement substantive reforms in this area. • **No progress:** Austria has not yet taken any action to strengthen the resources of the Federal Competition Authority. Owing to budgetary constraints and a lack of political will, no future actions are planned.
CSR 5 Continue to closely oversee and advance effectively the orderly restructuring of the nationalised and partly nationalised banks.	Austria has made **substantial progress** in addressing CSR 5. The bad bank of Hypo Alpe-Adria, Heta Asset Resolution, was formally set up at the beginning of November 2014. The sale of SEE subsidiaries of Hypo Alpe Adria to Advent International and EBRD was finalised on 23 December 2014. As part of its restructuring plan, OEVAG sold its largest subsidiary (Volksbanken Romania) to Banca Transilvania in December 2014.
Europe 2020 (national targets and progress)	
Employment rate target:	Employment rate for working age population 20-64: 75.2% in 2011, 75.6% in 2012, 75.5% in 2013. The Austrian employment must rise further increase to meet the national target of 77-78 % by 2020.
R&D target: 3.76% of GDP	2000 (1.89 %) and 2008 (2.59 %, nearly 0.1 pp increase per year) progress in increasing R&D intensity slowed down after 2008. R&D intensity reached 2.74 % in 2010, 2.81 % in 2012 and 2.81 % in 2013 (of which about 1.6 % from private sources and 1.2 % from public sources, 0.9 % being from the public sector). Estimates by Statistics Austria (May 2014) stated that R&D intensity would fall somewhat in 2014 by comparison with 2013. Both private and public R&D spending has stagnated as a percentage of GDP in recent years. This implies that Austria is currently not on track ro meet its ambitious 3.76 % spending target. Without additional efforts and faster progress, the

	target cannot be met.
-National Greenhouse gas (GHG) emissions target: -16 % in 2020 compared with 2005 (in sectors not included in the Emissions Trading Scheme).	Change in greenhouse gas emissions from sectors not included in the Emissions Trading Scheme between 2005 and 2013: -11 %. According to the latest national projections submitted to the Commission in 2013, and taking into account existing measures, it is expected that the target will be missed: -9% in 2020 as compared with 2005 (i.e. a projected shortfall of 7 pp).
2020 Renewable energy target: 34%	Austria continued to make good progress in promoting use of renewable energy. Energy from renewable sources represented 32.6 % of Austria's energy consumption in 2013 (Eur'Observ'ER), and the country is on track for meeting its 2020 target of 34 %.
Energy Efficiency target. AT's 2020 Energy Efficiency target is 31.5 Mtoe expressed in primary energy consumption (26.3 Mtoe expressed in final energy consumption).	Although primary and final energy consumption in Austria has been decreasing in 2005-2012, Austria is not on track in meeting its national energy efficiency target for final energy consumption. More effort is needed to further decrease AT's current primary energy consumption (31.8 Mtoe in 2012) and to keep it at this level so as to reach AT's 2020 target. The adoption of a new energy efficiency law on 9 July 2014, transposing the Energy Efficiency Directive, is a step in this direction.
Early school leaving target:	Austria is already outperforming the Europe 2020 and its national target for reducing early school leaving (2006: 9.8 %, 2012: 7.6 %, 2013: 7.3%), but efforts to reduce the early school leaving rate amongst people with a migrant background must be maintained.
Tertiary education target:	Austria is making progress in this area (2006: 21.2 %, 2011: 23.8 %, 2012: 26.3 %, 2013: 27.3 %). If qualifications classified as level 4a in the international standard classification of education are also included, the rate of tertiary education attainment was 38.3 % in 2012. So the national target of 38 % has already been met, but it is significantly lower than the EU target of 40 %. 2014 data still not available.

Risk of poverty or social exclusion target:	The number of people at risk of poverty or social exclusion fell by 127 000, reaching 1.572.000 in 2013, compared with the base line year 2008, when the number of people at risk of poverty and social exclusion was 1,699,000. This suggests that Austria will meet more than half the planned target of 235 000 by 2020. However, it should be mentioned that there was a break in series in 2008.

ANNEX B
Standard Tables

Table B.1: **Macroeconomic indicators**

	1996-2000	2001-2005	2006-2010	2011	2012	2013	2014	2015	2016
Core indicators									
GDP growth rate	3.0	1.7	1.3	3.1	0.9	0.2	0.2	0.8	1.5
Output gap [1]	0.3	-0.5	-0.1	0.1	0.1	-0.5	-1.2	-1.2	-0.7
HICP (annual % change)	1.2	1.9	1.8	3.6	2.6	2.1	1.5	1.1	2.2
Domestic demand (annual % change) [2]	2.3	1.3	1.0	2.6	0.3	-1.0	0.7	0.7	1.4
Unemployment rate (% of labour force) [3]	4.1	4.4	4.4	4.2	4.3	4.9	5.0	5.2	5.0
Gross fixed capital formation (% of GDP)	25.6	23.9	22.6	22.6	22.6	22.2	22.2	22.3	22.6
Gross national saving (% of GDP)	24.3	25.5	26.7	26.2	26.6	25.0	25.3	25.5	25.8
General government (% of GDP)									
Net lending (+) or net borrowing (-)	-2.8	-2.2	-3.0	-2.6	-2.3	-1.5	-2.9	-2.0	-1.4
Gross debt	65.4	66.3	72.5	82.1	81.7	81.2	86.8	86.4	84.5
Net financial assets	-36.0	-35.9	-35.6	-43.4	-47.9	n.a.	n.a.	n.a.	n.a.
Total revenue	49.4	49.2	48.2	48.2	48.7	49.5	49.9	50.1	50.1
Total expenditure	52.3	51.4	51.2	50.9	51.0	50.9	52.7	52.1	51.5
of which: Interest	3.6	3.3	3.1	2.8	2.7	2.6	2.5	2.5	2.5
Corporations (% of GDP)									
Net lending (+) or net borrowing (-)	-3.8	-1.0	0.7	2.2	1.4	1.5	2.8	1.7	1.4
Net financial assets; non-financial corporations	-70.3	-77.9	-88.5	-78.9	-77.5	n.a.	n.a.	n.a.	n.a.
Net financial assets; financial corporations	-3.7	-0.4	4.4	10.4	11.7	n.a.	n.a.	n.a.	n.a.
Gross capital formation	15.7	15.8	14.8	15.0	15.1	13.9	13.9	14.0	14.3
Gross operating surplus	22.9	25.4	26.2	25.1	24.3	23.5	23.1	22.7	22.9
Households and NPISH (% of GDP)									
Net lending (+) or net borrowing (-)	4.6	4.3	5.3	2.4	3.3	2.1	2.5	3.0	2.8
Net financial assets	95.3	97.8	109.8	111.2	113.8	n.a.	n.a.	n.a.	n.a.
Gross wages and salaries	40.7	39.0	38.5	38.7	39.2	39.6	39.8	40.1	40.0
Net property income	9.8	9.7	10.4	8.0	8.4	6.9	6.8	6.7	6.5
Current transfers received	22.8	22.8	22.2	22.4	22.6	23.1	23.5	23.8	23.7
Gross saving	10.5	9.3	10.3	8.2	9.0	7.9	8.2	8.7	8.5
Rest of the world (% of GDP)									
Net lending (+) or net borrowing (-)	-2.0	1.2	2.9	2.0	2.4	2.2	2.4	2.7	2.7
Net financial assets	16.4	18.0	12.4	4.9	4.1	n.a.	n.a.	n.a.	n.a.
Net exports of goods and services	-0.1	2.8	3.6	2.5	2.5	3.6	3.7	3.7	3.7
Net primary income from the rest of the world	-0.6	-0.5	0.3	0.4	0.9	-0.1	0.0	0.0	0.0
Net capital transactions	-0.1	-0.1	-0.1	-0.1	-0.2	-0.1	-0.2	0.0	0.0
Tradable sector	46.3	46.2	45.3	45.0	45.0	44.4	n.a.	n.a.	n.a.
Non-tradable sector	42.8	43.0	43.9	44.0	44.0	44.7	n.a.	n.a.	n.a.
of which: Building and construction sector	7.1	6.4	6.1	5.7	5.6	5.6	n.a.	n.a.	n.a.

Notes:
1 The output gap constitutes the gap between the actual and potential gross domestic product at 2010 market prices.
2 The indicator of domestic demand includes stocks.
3 Unemployed persons are all those who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source: European Commission 2015 winter forecast; Commission calculations.

Table B.2: **Financial market indicators**

	2009	2010	2011	2012	2013	2014
Total assets of the banking sector (% of GDP) 1)	372.9	343.2	337.6	317.6	291.8	279.1
Share of assets of the five largest banks (% of total assets)	37.2	35.9	38.4	36.5	36.7	n.a.
Foreign ownership of banking system (% of total assets)	19.5	19.5	20.9	22.2	23.1	n.a.
Financial soundness indicators:						
- non-performing loans (% of total loans) 2)	2.3	2.8	2.7	2.8	2.9	4.1
- capital adequacy ratio (%)	15.0	15.4	15.8	17.0	18.0	18.0
- return on equity (%)	1.5	7.9	1.4	5.5	1.2	1.2
Bank loans to the private sector (year-on-year % change) 1)	-0.8	0.3	2.0	0.8	-1.0	0.2
Lending for house purchase (year-on-year % change) 1)	2.2	2.6	3.8	2.6	2.2	3.0
Loan to deposit ratio 1)	107.9	110.9	108.8	107.4	103.4	102.5
Central Bank liquidity as % of liabilities 3)	2.4	1.5	1.7	2.1	1.0	1.5
Private debt (% of GDP)	132.9	133.3	130.4	128.4	125.5	n.a.
Gross external debt (% of GDP) 4) - public	55.7	58.7	59.1	63.2	68.7	70.5
- private	42.4	42.2	38.7	41.4	34.2	33.8
Long-term interest rate spread versus Bund (basis points)*	71.4	48.2	71.1	87.8	44.0	32.4
Credit default swap spreads for sovereign securities (5-year)*	n.a.	60.6	76.8	78.9	19.8	13.3

Notes:
1) Latest data November 2014.
2) Latest data Q2 2014.
3) Latest data September 2014.
4) Latest data June 2014. Monetary authorities, monetary and financial institutions are not included.
* Measured in basis points.

Source: IMF (financial soundness indicators); European Commission (long-term interest rates); World Bank (gross external debt); ECB (all other indicators).

Table B.3: **Taxation indicators**

	2002	2006	2008	2010	2011	2012
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	43.6	41.5	42.7	42.1	42.2	43.1
Breakdown by economic function (% of GDP)[1]						
Consumption	12.4	11.6	11.6	11.8	11.8	11.9
of which:						
- VAT	8.1	7.6	7.8	8.0	7.8	8.0
- excise duties on tobacco and alcohol	0.7	0.7	0.6	0.6	0.6	0.6
- energy	1.7	1.6	1.6	1.6	1.7	1.6
- other (residual)	1.8	1.7	1.6	1.6	1.6	1.6
Labour employed	21.5	20.8	21.3	21.4	21.3	22.0
Labour non-employed	2.5	2.4	2.5	2.6	2.6	2.7
Capital and business income	6.1	5.7	6.3	5.4	5.7	5.6
Stocks of capital/wealth	1.1	1.0	1.0	1.0	0.9	1.0
p.m. Environmental taxes[2]	2.7	2.5	2.4	2.4	2.5	2.4
VAT efficiency[3]						
Actual VAT revenues as % of theoretical revenues at standard rate	63	58.8	60.9	59.9	59.4	60.6

(1) Tax revenues are broken down by economic function, i.e. according to whether taxes are raised on consumption, labour or capital. See European Commission (2014), 'Taxation trends in the European Union', for a more detailed explanation.
(2) This category comprises taxes on energy, transport and pollution and resources included in taxes on consumption and capital.
(3) VAT efficiency is measured via the VAT revenue ratio. It is defined as the ratio between the actual VAT revenue collected and the revenue that would be raised if VAT was applied at the standard rate to all final (domestic) consumption expenditures, which is an imperfect measure of the theoretical pure VAT base. A low ratio can indicate a reduction of the tax base due to large exemptions or the application of reduced rates to a wide range of goods and services ('policy gap') or a failure to collect all tax due to e.g. fraud ('collection gap'). It should be noted that the relative scale of cross-border shopping (including trade in financial services) compared to domestic consumption also influences the value of the ratio, notably for smaller economies. For a more detailed discussion, see European Commission (2012), 'Tax Reforms in EU Member States', and OECD (2014), 'Consumption tax trends'.

Source: European Commission

	2008	2009	2010	2011	2012	2013	2014
Employment rate (% of population aged 20-64)	73.0	71.9	70.3	68.4	68.3	67.2	67.7
Employment growth (% change from previous year)	2.6	-1.8	-2.2	-1.6	-0.8	-1.5	0.6
Employment rate of women (% of female population aged 20-64)	68.5	67.9	66.5	64.8	64.6	63.0	63.8
Employment rate of men (% of male population aged 20-64)	77.4	75.6	74.0	71.8	71.8	71.2	71.4
Employment rate of older workers (% of population aged 55-64)	32.8	35.6	35.0	31.2	32.9	33.5	35.3
Part-time employment (% of total employment, age 15 years and over)	9.0	10.6	11.4	10.4	9.8	10.1	11.0
Part-time employment of women (% of women employment, age 15 years and over)	11.4	13.2	14.7	13.3	13.1	13.5	14.5
Part-time employment of men (% of men employment, age 15 years and over)	7.1	8.4	8.6	7.9	7.0	7.3	8.1
Fixed term employment (% of employees with a fixed term contract, age 15 years and over)	17.4	16.4	17.3	18.2	17.1	16.5	16.8
Transitions from temporary to permanent employment	38.7	40.7	31.8	37.9	36.6	36.9	n.a.
Unemployment rate[1] (% of labour force, age group 15-74)	4.4	5.9	7.3	8.2	8.9	10.1	9.8
Long-term unemployment rate[2] (% of labour force)	1.9	1.8	3.2	3.6	4.3	5.2	5.3
Youth unemployment rate (% of youth labour force aged 15-24)	10.4	13.6	14.7	15.7	20.6	21.6	21.7
Youth NEET rate (% of population aged 15-24)	6.5	7.5	7.1	7.1	9.3	9.2	n.a.
Early leavers from education and training (% of pop. aged 18-24 with at most lower sec. educ. and not in further education or training)	5.1	5.3	5.0	4.2	4.4	3.9	n.a.
Tertiary educational attainment (% of population aged 30-34 having successfully completed tertiary education)	30.9	31.6	34.8	37.9	39.2	40.1	n.a.
Formal childcare (from 1 to 29 hours; % over the population aged less than 3 years)	4.0	4.0	4.0	3.0	2.0	n.a.	n.a.
Formal childcare (30 hours or over; % over the population aged less than 3 years)	27.0	27.0	33.0	34.0	36.0	n.a.	n.a.
Labour productivity per person employed (annual % change)	0.7	-6.1	3.5	2.3	-1.8	0.5	2.2
Hours worked per person employed (annual % change)	1.0	0.2	0.7	-1.5	-1.3	0.8	0.2
Labour productivity per hour worked (annual % change; constant prices)	-0.3	-6.3	2.8	3.8	-0.5	-0.4	2.0
Compensation per employee (annual % change; constant prices)	2.6	-1.5	5.1	0.4	-1.5	0.5	0.5
Nominal unit labour cost growth (annual % change)	6.4	8.6	0.4	-0.7	0.8	-0.8	n.a.
Real unit labour cost growth (annual % change)	2.1	5.1	1.5	-1.9	0.5	-1.8	n.a.

(1) Unemployed persons are all those who were not employed, but had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. Data on the unemployment rate of 2014 includes the last release by Eurostat in early February 2015

Table B.4: **Labour market and social indicators**

(Continued on the next page)

(2) Long-term unemployed are persons who have been unemployed for at least 12 months.

Source: European Commission (EU Labour Force Survey and European National Accounts).

Table (continued)

	2007	2008	2009	2010	2011	2012
Sickness/healthcare	7.0	7.3	7.7	7.6	7.4	7.5
Invalidity	2.1	2.1	2.2	2.2	2.2	2.2
Old age and survivors	13.3	13.6	14.7	14.8	14.5	14.9
Family/children	2.7	2.8	3.0	3.1	2.8	2.8
Unemployment	1.4	1.4	1.7	1.7	1.5	1.5
Housing and social exclusion n.e.c.	0.1	0.2	0.2	0.2	0.1	0.1
Total	27.0	27.7	29.8	29.8	29.0	29.3
of which: means-tested benefits	1.9	2.0	2.2	2.3	2.3	2.3
Social inclusion indicators	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
People at risk of poverty or social exclusion[1] (% of total population)	20.6	19.1	18.9	19.2	18.5	18.8
Children at risk of poverty or social exclusion (% of people aged 0-17)	22.9	20.8	22.4	22.1	20.9	22.9
Elderly at risk of poverty or social exclusion (% of people aged 65+)	21.2	18.6	17.4	17.4	16.2	16.2
At-risk-of-poverty rate[2] (% of total population)	15.2	14.5	14.7	14.5	14.4	14.4
Severe material deprivation rate[3] (% of total population)	5.9	4.6	4.3	4.0	4.0	4.2
Proportion of people living in low work intensity households[4] (% of people aged 0-59)	7.4	7.1	7.8	8.6	7.7	7.8
In-work at-risk-of-poverty rate (% of persons employed)	8.5	8.2	7.5	7.6	8.1	7.9
Impact of social transfers (excluding pensions) on reducing poverty	41.3	42.7	43.5	46.5	44.2	44.4
Poverty thresholds, expressed in national currency at constant prices[5]	11397.0	11641.1	11928.8	11956.2	11730.8	11576.3
Gross disposable income (households)	178056.0	179076.0	181492.0	185742.0	192712.0	n.a.
Relative median poverty risk gap (60% of median equivalised income, age: total)	19.9	19.2	21.8	19.1	20.1	21.3
Inequality of income distribution (S80/S20 income quintile share ratio)	4.2	4.2	4.3	4.1	4.2	4.1

(1) People at risk of poverty or social exclusion (AROPE): individuals who are at risk of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in households with zero or very low work intensity (LWI).
(2) At-risk-of-poverty rate (AROP): proportion of people with an equivalised disposable income below 60 % of the national equivalised median income.
(3) Proportion of people who experience at least four of the following forms of deprivation: not being able to afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour TV, or ix) have a telephone.
(4) People living in households with very low work intensity: proportion of people aged 0-59 living in households where the adults (excluding dependent children) worked less than 20 % of their total work-time potential in the previous 12 months.
(5) For EE, CY, MT, SI and SK, thresholds in nominal values in euros; harmonised index of consumer prices (HICP) = 100 in 2006 (2007 survey refers to 2006 incomes).
(6) 2014 data refer to the average of the first three quarters.

Source: European Commission (EU Labour Force Survey and European National Accounts)
For expenditure for social protection benefits ESSPROS; for social inclusion EU-SILC.

Table B.5: **Product market performance and policy indicators**

	2004-08	2009	2010	2011	2012	2013	2014
Labour productivity1 in total economy (annual growth in %)	1.4	-3.8	1.0	1.7	-0.5	-0.3	n.a.
Labour productivity[1] in manufacturing (annual growth in %)	4.3	-11.2	9.9	6.9	-0.3	0.8	n.a.
Labour productivity[1] in electricity, gas (annual growth in %)	-4.6	6.2	-5.5	-11.5	12.3	7.8	n.a.
Labour productivity[1] in the construction sector (annual growth in %)	-0.8	-9.8	-5.0	-2.8	-4.0	-0.3	n.a.
Labour productivity[1] in the wholesale and retail sector (annual growth in %)	0.2	1.8	1.2	1.4	-1.6	-2.4	n.a.
Labour productivity[1] in the information and communication sector (annual growth in %)	2.9	-4.5	-3.2	2.0	-6.4	-4.1	n.a.
Patent intensity in manufacturing[2] (EPO patent applications divided by gross value added of the sector)	0.0	0.0	0.0	0.0	n.a.	n.a.	n.a.
Policy indicators	**2004-08**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Enforcing contracts[3] (days)	397	397	397	397	397	397	397
Time to start a business[3] (days)	25.0	25	25	25	25	25	22
R&D expenditure (% of GDP)	2.4	2.6	2.7	2.7	2.8	2.8	n.a.
Total public expenditure on education (% of GDP)	5.4	6.0	5.9	5.8	n.a.	n.a.	n.a.
(Index: 0=not regulated; 6=most regulated)	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Product market regulation[4], overall	1.37	n.a.	n.a.	n.a.	n.a.	1.19	n.a.
Product market regulation[4], retail	3.30	n.a.	n.a.	n.a.	n.a.	2.40	n.a.
Product market regulation[4], professional services	3.08	n.a.	n.a.	n.a.	n.a.	2.71	n.a.
Product market regulation[4], network industries[5]	1.84	1.67	1.66	1.65	1.60	1.55	n.a.

Notes:

[1] Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.

[2] Patent data refer to applications to the European Patent Office (EPO). They are counted according to the year in which they were filed at the EPO. They are broken down according to the inventor's place of residence, using fractional counting if multiple inventors or IPC classes are provided to avoid double counting.

[3] The methodologies, including the assumptions, for this indicator are presented in detail here: http://www.doingbusiness.org/methodology.

[4] Index: 0 = not regulated; 6 = most regulated. The methodologies of the OECD product market regulation indicators are presented in detail here: http://www.oecd.org/competition/reform/indicatorsofproductmarketregulationhomepage.htm

[5] Aggregate OECD indicators of regulation in energy, transport and communications (ETCR).

Source: European Commission; World Bank — Doing Business (for enforcing contracts and time to start a business); OECD (for the product market regulation indicators)

Table B.6: **Green Growth**

Green growth performance		**2003-2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Macroeconomic							
Energy intensity	kgoe / €	0.14	0.13	0.13	0.13	0.13	0.12
Carbon intensity	kg / €	0.37	0.32	0.31	0.32	0.31	0.29
Resource intensity (reciprocal of resource productivity)	kg / €	0.80	0.71	0.71	0.69	0.70	n.a.
Waste intensity	kg / €	n.a.	0.21	n.a.	0.13	n.a.	0.13
Energy balance of trade	% GDP	-2.7	-3.6	-2.5	-3.0	-3.8	-4.1
Energy weight in HICP	%	7.7	9.0	7.8	7.9	8.9	9.1
Difference between energy price change and inflation	%	3.6	2.5	-2.8	1.4	2.2	1.1
Ratio of environmental taxes to labour taxes	ratio	11.0%	10.1%	10.0%	10.0%	10.2%	9.9%
Ratio of environmental taxes to total taxes	ratio	6.1%	5.6%	5.7%	5.6%	5.8%	5.6%
Sectoral							
Industry energy intensity	kgoe / €	0.17	0.16	0.16	0.17	0.16	0.15
Share of energy-intensive industries in the economy	% GDP	11.7	11.8	13.5	10.9	11.3	11.4
Electricity prices for medium-sized industrial users**	€ / kWh	n.a.	0.11	0.12	0.11	0.11	0.11
Gas prices for medium-sized industrial users***	€ / kWh	n.a.	n.a.	0.03	0.04	0.04	0.04
Public R&D for energy	% GDP	n.a.	0.01	0.01	0.01	0.01	0.02
Public R&D for the environment	% GDP	n.a.	0.01	0.01	0.01	0.02	0.02
Recycling rate of municipal waste	ratio	85.4%	90.4%	91.1%	92.6%	92.5%	92.5%
Share of GHG emissions covered by ETS*	%	n.a.	36.9	34.1	36.4	36.9	35.4
Transport energy intensity	kgoe / €	0.80	0.75	0.79	0.84	0.81	0.81
Transport carbon intensity	kg / €	2.21	1.93	2.04	2.17	2.06	2.07
Security of energy supply							
Energy import dependency	%	70.7	68.7	65.1	62.2	70.1	63.6
Diversification of oil import sources	HHI	0.11	0.11	0.13	0.13	0.11	0.10
Diversification of energy mix	HHI	n.a.	0.27	0.28	0.28	0.26	0.27
Renewable energy share of energy mix	%	20.8	24.8	27.6	27.0	26.3	30.1

Country-specific notes:
2013 is not included in the table due to lack of data.
General explanation of the table items:
All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2000 prices)
Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)
Carbon intensity: Greenhouse gas emissions (in kg CO2 equivalents) divided by GDP (in EUR)
Resource intensity: Domestic material consumption (in kg) divided by GDP (in EUR)
Waste intensity: waste (in kg) divided by GDP (in EUR)
Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP
Energy weight in HICP: the proportion of "energy" items in the consumption basket used for the construction of the HICP
Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual % change)
Environmental taxes over labour or total taxes: from DG TAXUD's database 'Taxation trends in the European Union'
Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in 2005 EUR)
Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP
Electricity and gas prices for medium-sized industrial users: consumption band 500–2000MWh and 10000–100000 GJ; figures excl. VAT.
Recycling rate of municipal waste: ratio of recycled municipal waste to total municipal waste
Public R&D for energy or for the environment: government spending on R&D (GBAORD) for these categories as % of GDP
"Proportion of GHG emissions covered by ETS: based on greenhouse gas emissions (excl LULUCF) as reported by Member States to the European Environment Agency "
Transport energy intensity: final energy consumption of transport activity (kgoe) divided by transport industry gross value added (in 2005 EUR)
Transport carbon intensity: greenhouse gas emissions in transport activity divided by gross value added of the transport sector
Energy import dependency: net energy imports divided by gross inland energy consumption incl. consumption of international bunker fuels
Diversification of oil import sources: Herfindahl index (HHI), calculated as the sum of the squared market shares of countries of origin
Diversification of the energy mix: Herfindahl index over natural gas, total petrol products, nuclear heat, renewable energies and solid fuels
Renewable energy share of energy mix: %-share of gross inland energy consumption, expressed in tonne oil equivalents
* European Commission and European Environment Agency
** For 2007 average of S1 & S2 for DE, HR, LU, NL, FI, SE & UK. Other countries only have S2.
*** For 2007 average of S1 & S2 for HR, IT, NL, FI, SE & UK. Other countries only have S2.

Source: European Commission unless indicated otherwise; European Commission elaborations indicated below