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COVER NOTE

From: Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director

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To: Ms Thérèse BLANCHET, Secretary-General of the Council of the European Union

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Subject: Recommendation for a COUNCIL RECOMMENDATION on the 2023 National Reform Programme of Austria and delivering a Council opinion on the 2023 Stability Programme of Austria

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Brussels, 24.5.2023
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Recommendation for a
COUNCIL RECOMMENDATION
**on the 2023 National Reform Programme of Austria and delivering a Council opinion on
the 2023 Stability Programme of Austria**

{SWD(2023) 620 final}

Recommendation for a

COUNCIL RECOMMENDATION

on the 2023 National Reform Programme of Austria and delivering a Council opinion on the 2023 Stability Programme of Austria

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies¹, and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

- (1) Regulation (EU) 2021/241 of the European Parliament and of the Council², which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support to the Member States for the implementation of reforms and investments, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it contributes to economic and social recovery and to the implementation of sustainable reforms and investments, in particular to promote the green and digital transition and make the Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the EU and support the continued implementation of the European Pillar of Social Rights. The maximum financial contribution per Member State under the Recovery and Resilience Facility was updated on 30 June 2022, in accordance with Article 11(2) of Regulation (EU) 2021/241.
- (2) On 22 November 2022, the Commission adopted the 2023 Annual Sustainable Growth Survey³, marking the start of the 2023 European Semester for economic policy

¹ OJ L 209, 2.8.1997, p. 1.

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

³ COM(2022) 780 final.

coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 23 March 2023. On 22 November 2022, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2023 Alert Mechanism Report, in which it did not identify Austria as one of the Member States that may be affected or may be at risk of being affected by imbalances, and for which an in-depth review would be needed. On the same date, the Commission also adopted an opinion on Austria's 2023 draft budgetary plan. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 16 May 2023, as well as the proposal for the 2023 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which the Council adopted on 13 March 2023.

- (3) While the EU is showing remarkable resilience, the geopolitical context continues to have a negative impact. As the EU stands firmly with Ukraine, the EU economic and social policy agenda is focused on reducing the negative impact of energy shocks on both vulnerable households and companies in the short term, and on keeping up efforts to deliver on the green and digital transition, support sustainable and inclusive growth, safeguard macroeconomic stability and increase resilience in the medium term. It also focuses heavily on increasing the EU's competitiveness and productivity.
- (4) On 1 February 2023, the Commission issued the Communication on *A Green Deal Industrial Plan for the Net-Zero Age*⁴ to boost the competitiveness of the EU's net-zero industry and support the fast transition to climate neutrality. The plan complements ongoing efforts under the European Green Deal and REPowerEU. It aims to provide a more supportive environment for scaling up the EU's manufacturing capacity for the net-zero technologies and products required to meet the EU's ambitious climate targets, as well as ensuring access to relevant critical raw materials, including by diversifying sourcing, properly exploiting geological resources in Member States and maximising the recycling of raw materials. The Plan is based on four pillars: a predictable and simplified regulatory environment, speeding up access to finance, enhancing skills, and open trade for resilient supply chains. On 16 March 2023, the Commission also issued the Communication *Long-term competitiveness of the EU: looking beyond 2030*⁵, structured along nine mutually reinforcing drivers with the objective to work towards a growth enhancing regulatory framework. It sets policy priorities aimed at actively ensuring structural improvements, well focused investments and regulatory measures for the long-term competitiveness of the EU and its Member States. The recommendations below help addressing those priorities.
- (5) In 2023, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. Fully implementing the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in recent years. The 2019, 2020 and 2022 country-specific recommendations remain equally relevant also for recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

⁴ COM(2023) 62 final.

⁵ COM(2023) 168 final.

- (6) The REPowerEU Regulation⁶ adopted on 27 February 2023 aims to rapidly phase out the EU's dependence on Russian fossil fuel imports. This will contribute towards energy security and the diversification of the EU's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. The Regulation enables Member States to add a new REPowerEU chapter to their national recovery and resilience plans in order to finance key reforms and investments that will help achieve the REPowerEU objectives. They will also help boost the competitiveness of the EU's net-zero industry as outlined in the Green Deal Industrial Plan for the Net-Zero Age and address the energy-related country-specific recommendations issued to the Member States in 2022 and, where applicable, in 2023. The REPowerEU Regulation introduces a new category of non-repayable financial support, made available to Member States to finance new energy-related reforms and investments under their recovery and resilience plans.
- (7) On 8 March 2023, the Commission adopted a Communication providing fiscal policy guidance in 2024. It aims to support the preparation of Member States' stability and convergence programmes and thereby strengthen policy coordination⁷. The Commission recalled that the general escape clause of the Stability and Growth Pact will be deactivated at the end of 2023. It called for fiscal policies in 2023-2024 that ensure medium-term debt sustainability as well as raise potential growth in a sustainable manner. Member States were invited to set out in their 2023 stability and convergence programmes how their fiscal plans will ensure that the 3% of GDP deficit reference value is adhered to as well as plausible and continuous debt reduction, or for debt to be kept at prudent levels in the medium term. The Commission invited Member States to phase out national fiscal measures introduced to protect households and firms from the energy price shock, starting with the least targeted ones. It indicated that, if support measures needed to be extended because of renewed energy price pressures, Member States should target such measures much better than in the past towards vulnerable households and firms. The Commission proposed that the fiscal recommendations would be quantified and differentiated and be formulated on the basis of net primary expenditure, as proposed in its Communication on orientations for a reform of the EU economic governance framework⁸. It recommended that all Member States should continue to protect nationally financed investment and ensure the effective use of the Recovery and Resilience Facility and other EU funds, in particular in light of the green and digital transition and resilience objectives. The Commission indicated that it will propose to the Council to open deficit-based excessive deficit procedures in spring 2024 on the basis of the outturn data for 2023, in line with existing legal provisions.
- (8) On 26 April 2023, the Commission presented legislative proposals to implement a comprehensive reform of the EU's economic governance rules. The central objective of the proposals is to strengthen public debt sustainability and promote sustainable and inclusive growth in all Member States through reforms and investments. The proposals aim at providing Member States with more control over the design of their medium-

⁶ Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1).

⁷ Communication from the Commission to the Council: Fiscal policy guidance for 2024, 8.3.2023, COM(2023) 141 final.

⁸ COM(2022) 583 final.

term plans, while putting in place a more stringent enforcement regime to ensure that Member States deliver on the commitments undertaken in their medium-term fiscal-structural plans. The objective is to conclude the legislative work in 2023.

- (9) On 30 April 2021, Austria submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines of Annex V to that Regulation. On 13 July 2021, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for Austria⁹. The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, that Austria has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.
- (10) On 26 April 2023, Austria submitted its 2023 National Reform Programme and its 2023 Stability Programme, in line with Article 4(1) of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together. In accordance with Article 27 of Regulation (EU) 2021/241, the 2023 National Reform Programme also reflects Austria's biannual reporting on the progress made in achieving its recovery and resilience plan.
- (11) The Commission published the 2023 country report for Austria¹⁰ on 24 May 2023. It assessed Austria's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2022 and took stock of Austria's implementation of the recovery and resilience plan. Based on this analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges. It also assessed Austria's progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.
- (12) Based on data validated by Eurostat,¹¹ Austria's general government deficit decreased from 5.8% of GDP in 2021 to 3.2% in 2022, while general government debt fell from 82.3% of GDP at the end of 2021 to 78.4% at the end of 2022. On 24 May 2023, the Commission published a report under Article 126(3) TFEU;¹² the report discussed the budgetary situation of Austria, as its general government deficit in 2022 exceeded the 3% of GDP Treaty reference value. The report concluded that that the deficit criterion was fulfilled. In line with the Communication of 8 March 2023,¹³ the Commission did not propose to open new excessive deficit procedures in spring 2023; in turn, the Commission stated that it would propose to the Council to open deficit-based

⁹ Council Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for Austria (ST 10159/2021; ST 10159/2021 ADD 1; ST 10159/2021 COR 1).

¹⁰ SWD(2023) 620 final.

¹¹ Eurostat-Euro Indicators, 47/2023, 21.4.2023

¹² COM(2023) 631 final, 24.5.2023.

¹³ COM(2023) 141 final, 8.3.2023.

excessive deficit procedures in spring 2024, on the basis of the outturn data for 2023. Austria should take account of this in the execution of its 2023 budget and in preparing the Draft Budgetary Plan for 2024.

- (13) The general government balance has been impacted by the fiscal policy measures adopted to mitigate the economic and social impact of the increase in energy prices. In 2022, such revenue-decreasing measures included the postponement of the introduction of a CO₂-price, reduction of levies on energy, and tax allowances for commuters; while such expenditure-increasing measures included energy cost subsidies to companies, lump-sum transfers to households, and direct payments to pensioners. The cost of these measures was partly offset by new taxes on windfall profits of energy producers and suppliers. The Commission estimates the net budgetary cost of these measures at 1.5% of GDP in 2022. The general government balance has also been impacted by the budgetary cost of temporary protection to displaced persons from Ukraine, which is estimated at 0.2% of GDP in 2022. At the same time, the estimated cost of COVID-19 temporary emergency measures dropped to 0.8% of GDP in 2022, from 4.3% in 2021.
- (14) On 18 June 2021, the Council recommended that in 2022 Austria¹⁴ maintain a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.
- (15) According to the Commission estimates, the fiscal stance¹⁵ in 2022 was supportive, at - 2.8% of GDP, as recommended by the Council. Also as recommended by the Council, Austria continued to support the recovery with investments financed by the Recovery and Resilience Facility. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.2% of GDP in 2022 (0.2% of GDP in 2021). Nationally financed investment provided a contractionary contribution of 0.1 percentage point to the fiscal stance.¹⁶ Austria therefore did not preserve nationally financed investment which is not in line with the Council recommendation. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided an expansionary contribution of 1.8 percentage points to the fiscal stance. This significant expansionary contribution included the additional impact of measures to mitigate the economic and social impact of the increase in energy prices (additional net budgetary cost of 1.5% of GDP), as well as the costs to offer temporary protection to displaced persons from Ukraine (0.2% of GDP). Austria therefore sufficiently kept under control the growth in nationally financed current expenditure.
- (16) The macroeconomic scenario underpinning the budgetary projections in the Stability Programme is realistic. The government projects real GDP to grow by 0.3% in 2023

¹⁴ Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Stability Programme of Austria, OJ C 304, 29.7.2021, p. 93–97.

¹⁵ The fiscal stance is measured as the change in primary expenditure (net of discretionary revenue measures), excluding Covid-19 crisis-related temporary emergency measures but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term potential growth. For more details see Box 1 in the Fiscal Statistical Tables.

¹⁶ Other nationally financed capital expenditure is projected to provide an expansionary contribution of 0.9 percentage points of GDP. This expansionary contribution is largely driven by the purchase of a strategic gas reserve of about 0.8% of GDP.

and by 1.8% in 2024. By comparison, the Commission 2023 spring forecast projects a higher real GDP growth of 0.4% in 2023 and a lower real GDP growth rate of 1.6% in 2024, mainly due to higher growth contribution from private consumption in 2023 and a lower growth contribution from public consumption in 2024.

- (17) In its 2023 Stability Programme, the government expects that the general government deficit ratio will remain at 3.2% of GDP in 2023. According to the Programme, the general government debt-to-GDP ratio is expected to decrease from 78.4% at the end of 2022 to 77.0% at the end of 2023. The Commission 2023 spring forecast projects a government deficit of 2.4% of GDP for 2023. This is lower than the deficit projected in the Stability Programme, mainly due to differences in the expectations of the budgetary impact of some energy-related measures, especially regarding energy subsidies to companies. The Commission 2023 spring forecast projects a lower general government debt-to-GDP ratio, of 75.4% at the end of 2023. The difference is due to the difference in the expected government deficit.
- (18) The government balance in 2023 is expected to continue to be impacted by the measures adopted to mitigate the economic and social impact of the increase in energy prices. They consist of measures extended from 2022 (in particular: an electricity price brake) and new measures such as a new scheme for energy cost subsidies to companies. The cost of these measures continues to be partly offset by taxes on windfall profits of energy suppliers. Taking these revenues into account the net budgetary cost of the support measures is projected in the Commission 2023 spring forecast at 1.8% of GDP in 2023¹⁷. Most measures in 2023 do not appear targeted to the most vulnerable households or firms, and do not fully preserve the price signal to reduce energy demand and increase energy efficiency. As a result, the amount of targeted support measures, to be taken into account in the assessment of compliance with the fiscal recommendation for 2023, is estimated in the Commission 2023 spring forecast at 0.4% of GDP in 2023 (compared to 0.2% of GDP in 2022). Finally, the 2023 government balance is expected to benefit from the phasing out of COVID-19 temporary emergency measures of 0.8% of GDP.
- (19) On 12 July 2022, the Council recommended¹⁸ that Austria take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance¹⁹, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Austria should stand ready to adjust current spending to the evolving situation. Austria was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds.
- (20) In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be contractionary (+ 1.0% of GDP), in a context of high inflation. This follows an expansionary fiscal stance in 2022 (- 2.8% of GDP). The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is

¹⁷ The figure represents the level of annual budgetary cost of those measures, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

¹⁸ Council Recommendation of 12 July 2022 on the National Reform Programme of Austria and delivering a Council opinion on the 2022 Stability Programme of Austria, OJ C 334, 1.9.2022, p. 162.

¹⁹ Based on the Commission spring 2023 forecast, the medium-term (10-year average) potential output growth of Austria, which is used to measure the fiscal stance, is estimated at 8.6% in nominal terms.

projected to provide a contractionary contribution of 0.3 percentage points to the fiscal stance. This includes the increased cost of the targeted support measures to households and firms most vulnerable to energy price hikes by 0.2% of GDP. In sum, the projected growth of nationally financed primary current expenditure is in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to amount to 0.3% of GDP in 2023, while nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.1 percentage points. Therefore, Austria plans to finance additional investment through the Recovery and Resilience Facility and other EU funds, and it is projected to preserve nationally financed investment.²⁰ It plans to finance public investment for the green and digital transitions, and for energy security, such as the participation in the international project of common European interest Microelectronics and Connectivity, digitalization of SMEs and the public administration as well as replacement of heating systems, which are partly funded by the Recovery and Resilience Facility and other EU funds.

- (21) According to the Stability Programme the general government deficit is expected to decline to 1.6% of GDP in 2024. The decrease in 2024 mainly reflects the phase-out of energy-related measures. The programme expects the general government debt-to-GDP ratio to decrease to 75.1% at the end of 2024. Based on policy measures known at the cut-off date of the forecast, the Commission 2023 spring forecast projects a government deficit of 1.3% of GDP in 2024. This is similar to the deficit projected in the programme. The Commission 2023 spring forecast projects a lower general government debt-to-GDP ratio, of 73.3% at the end of 2024.
- (22) The Stability Programme envisages the phasing out of almost all of the energy support measures in 2024 assuming that energy prices remain on a downward path. The Commission also assumes almost full phasing out of energy support measures (net cost at 0.1% of GDP in 2024). These estimates hinge upon the assumption of no renewed energy price increases.
- (23) Council Regulation (EC) No 1466/97 calls for an annual improvement in the structural budget balance toward the medium-term objective by 0.5% of GDP as a benchmark.²¹ Taking into account fiscal sustainability considerations,²² an improvement in the structural balance of at least 0.3% of GDP for 2024 would be appropriate. To ensure such an improvement, the growth in net nationally financed primary expenditure²³ in 2024 should not exceed 4.6%, as reflected in this recommendation.

At the same time, the remaining energy support measures (currently estimated by the Commission at 1.8% of GDP in 2023) should be phased out, contingent on energy

²⁰ Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0.9 percentage points of GDP. This contractionary contribution is a result of the purchase of a strategic gas reserve in 2022.

²¹ Cf. Article 5 of Council Regulation (EC) No 1466/97, which also requires an adjustment of more than 0.5% of GDP for Member States with a government debt exceeding 60% of GDP, or with more pronounced debt sustainability risks.

²² The Commission estimated that Austria would need an average annual increase in the structural primary balance as a share of GDP of 0.15 percentage points to achieve a plausible debt reduction or ensure that government debt is kept at prudent levels in the medium term. This estimate was based on the Commission autumn 2022 forecast. The starting point for this estimate was the projected government deficit and debt for 2024 which assumed the withdrawal of energy support measures in 2024.

²³ Net primary expenditure is defined as nationally financed expenditure net of discretionary revenues measures and excluding interest expenditure as well as cyclical unemployment expenditure.

market developments and starting from the least targeted ones, and the related savings should be used to reduce the government deficit. Based on Commission estimates, this would lead to a growth in net primary expenditure below the recommended maximum growth rate for 2024.

- (24) Assuming unchanged policies, the Commission 2023 spring forecast projects net nationally financed primary expenditure to grow at 4.0% in 2024, which is below the recommended growth rate. The adjustment projected in the Commission forecast is less than the savings from the full phasing out of energy support measures, due to expenditures that are dependent on inflation developments in 2023, for example pension expenditures, compensation of employees, and some social benefits as well as due to some not yet phased-out energy measures.
- (25) According to the programme, government investment is expected to decrease from 3.5% of GDP in 2023 to 3.4% of GDP in 2024. The lower investment reflects lower nationally financed investment.
- (26) The Stability Programme outlines a medium-term fiscal path until 2026. According to the programme, the general government deficit is expected to gradually decline to 1.4% of GDP in 2025 and to 1.3% by 2026. The general government deficit is therefore planned to remain below 3% of GDP over the programme horizon. According to the programme, the general government debt-to-GDP ratio is expected to decrease from 75.1% at the end of 2024 to 71.4% by the end of 2026.

Austria faces medium risks to fiscal sustainability in the long term, which are mainly due to budget pressures related to population ageing (in particular, this includes rising expenditure for long-term care and healthcare), and increased debt due to measures to tackle the economic and social consequences of the COVID-19 and energy crises. The long-term care and healthcare sectors are also facing labour shortages, which are in part linked to the attractiveness of working in these sectors. A care reform package recently implemented to address labour shortages, which raises wages and provides transfers to caregivers in the short term, is a good step in making the profession more attractive but will also raise fiscal costs. In 2021, a task force on long-term care proposed measures to improve the adequacy of care while preserving fiscal sustainability. These measures include establishing a coordinated control mechanism with clear responsibilities assigned across various levels of government, which would help to raise the quality and comparability of public spending, for example, by defining uniform principles for tariffs. The ongoing negotiations on the federal fiscal framework provide an opportunity to support the implementation of such a mechanism.

- (27) The healthcare system proved resilient during the COVID-19 pandemic. However, healthcare spending is projected to increase by 1.2 percentage points of GDP by 2070. Additionally, preventive measures and outpatient primary healthcare remain underused, while many healthcare services are still provided by hospitals, which is a costly and inefficient way to provide care. The recovery and resilience plan will help to strengthen primary healthcare, in particular by supporting new and existing primary healthcare centres in local areas. However, in view of fiscal sustainability concerns, it will be crucial to ensure that patients are guided through the health system in a consistent way, including through making sure that the increased availability of primary care services will translate into lower utilisation of existing hospital or ambulatory specialist care services.

- (28) Austria's fiscal framework currently relies on a complex system of intergovernmental transfers between federal and regional authorities, providing limited incentives for efficient public spending. The lack of tax autonomy makes funding of expenditure across federal levels highly dependent on this system. In 2018, only 5.4% of all public revenues were own source revenues of the federal states. At the same time, essential services such as healthcare, childcare and public transport investment depend partially on expenditure by the federal states and municipalities. Demographic change and the green transition further exacerbate the cost pressure on these bodies, while own source revenues are not linked to expenditure dynamics. The current fiscal framework is prone to inefficiencies and a lack of transparency, as it blurs the link between the tax burden and government expenditure. Better aligning own-source revenues with sub-central spending and strengthening transparency and coordination are crucial for improving the overall quality of public spending. Facilitating regional tax autonomy by reforming the property tax system could be used to improve fiscal federalism and the overall tax system. The ongoing negotiations, which started in late 2022, provide an opportunity to make progress.
- (29) There is still scope for shifting the tax burden away from labour to more growth-friendly and inclusive revenue sources. The tax system is characterised by a high burden on labour, stemming from payroll taxes and social security contributions, with social security contributions being borne by both employees and employers. This creates a drag on job creation and participation in the labour market, especially for low-wage and second earners. At the same time, other sources of revenues that are less detrimental to fair and sustainable growth, such as environmental or property taxes, remain underutilised, even after taking recent reforms into account. Environmentally harmful subsidies hamper the green transition. The recent eco-social tax reform provides tax relief to households and businesses and lays the foundation for pricing CO₂ emissions. Furthermore, the automatic indexation of personal income tax with inflation is a notable reform that reduces the increase in taxpayers' personal income tax burden through inflation pushing salaries into higher tax brackets. Nevertheless, structural challenges persist and there is scope for further reducing the burden on labour, to boost job creation and labour supply, especially for low-income earners. Making better use of more growth-friendly taxes could also help create the necessary budget space and improve the fairness of the tax system.
- (30) In accordance with Article 19(3), point (b) and Annex V, criterion 2.2 of Regulation (EU) 2021/241, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. Proceeding swiftly with the implementation of the plan is essential due to the temporary nature of the Recovery and Resilience Facility in place until 2026. The implementation of Austria's recovery and resilience plan is well underway. Austria submitted 1 payment request, corresponding to 44 milestones and targets in the plan and resulting in an overall disbursement of EUR 700 million on 20 April 2023. Beyond the first payment request, the implementation of the plan is on track. Austria is expected to submit a request to modify a few measures due to objective circumstances, such as price increases and supply chain shortages. The preparation of a new REPowerEU chapter is also underway and the authorities are working closely with the Commission services to submit it shortly. The swift inclusion of the new REPowerEU chapter in the recovery and resilience plan will allow additional reforms and investments to be financed in support of Austria's strategic objectives in the field of energy and the green transition. The systematic and effective involvement of local and regional authorities, social partners and other relevant stakeholders remains important for the successful

implementation of the recovery and resilience plan, as well as other economic and employment policies going beyond the plan, to ensure broad ownership of the overall policy agenda.

- (31) The Commission approved all of Austria's cohesion policy programming documents in 2022. Proceeding with the swift implementation of the cohesion policy programmes in complementarity and synergy with the recovery and resilience plan, including the REPowerEU chapter, is key to achieving the green and digital transition, increasing economic and social resilience as well as achieving balanced territorial development in Austria.
- (32) Beyond the economic and social challenges addressed by the recovery and resilience plan, Austria faces a number of additional challenges related to the labour market. Austria's strong social protection system and extensive policy measures limited the social impact of the COVID-19 pandemic. Austria performs well on most dimensions of the European Pillar of Social Rights, but some challenges remain. In particular, these include the under-used labour market potential of women, low-qualified workers, older workers and people from a migrant background. This is particularly problematic given the shortage of skilled labour. Unlocking the unused potential of these groups could reduce the pressure on the Austrian labour market, which is faced with shortages.
- (33) Although the female employment rate in Austria is higher than the EU average, the country has the second highest rate of part-time employment of women. More than half of Austrian women worked part-time in 2022 and women are overrepresented in low-paying sectors. This indicates a significant opportunity for increasing their full-time participation in the labour market. However, the insufficient provision of affordable and high-quality childcare, in particular in rural areas, makes it challenging for mothers to participate more actively. Austria has one of the lowest rates of formal childcare for children under three years of age in the EU, with only 28% of children in formal childcare. To address these issues, it is crucial to increase the supply of quality childcare by improving quality standards, extending availability and encouraging full-time employment, e.g. through tax incentives. Bringing more women into full-time work could also help close Austria's persistently high gender pay gap, as well as the high gender pension gap, while addressing labour market shortages.
- (34) There is still potential to improve the integration of several disadvantaged groups into the labour market, particularly low-skilled workers and those with a migrant background. Around 45% of the long-term unemployed in Austria have completed at most lower secondary school. People with a migrant background have a significantly lower labour market participation than native-born residents, and future income levels for children in Austria are often determined by those of their parents. Although Austria's recovery and resilience plan includes measures to promote reskilling and upskilling for low-skilled workers and the long-term unemployed, these measures do not fully address the underlying participation problem for people with a migrant background and low-skilled workers. In order to break Austria's persistent intergenerational link between educational outcomes of parents and their children, it will be particularly crucial to increase the availability of high-quality early childhood education, all-day schooling and improved digital infrastructure. To integrate recent migrants and other disadvantaged groups, schools could provide better individual mentoring, language courses could be made more accessible and Austria's apprenticeship system could be used more effectively. At the same time, it is essential

to provide sufficient opportunities for lifelong learning, to target disadvantaged groups in all age groups.

- (35) There is scope to improve the labour market participation of older workers, i.e. people aged 55-64. Recently, the long-term trend of increasing labour market participation of older workers has slowed significantly, while the overall activity rate of older workers is below the EU average. Adapting employees' tasks to their work-life cycle and accommodating the needs of ageing individuals will become increasingly important for keeping the ageing population in the workforce longer. Better incentives to increase the effective retirement age, such as lower labour taxation or non-wage labour costs for those working for longer, would help alleviate shortages in the Austrian labour market.
- (36) Russia's invasion of Ukraine has exposed the vulnerability of Austria's energy supply security. Although Austria managed to somewhat reduce its reliance on gas imports from Russia, which were down to 57% of its total gas imports in 2022 compared to 80% in 2021, they remain significantly above the EU average. To diversify its energy sources, the government introduced financial incentives for companies to import gas from non-Russian sources and established a strategic gas reserve in 2022. Nevertheless, Austria still faces significant challenges in ensuring energy security. The country still lacks a clearly defined near-term path to fully decouple from Russian gas imports. Moreover, there remains underused potential in the production and transmission of renewable gases such as hydrogen, especially for sectors and regions vulnerable to supply disruptions.
- (37) In 2021, the share of renewable energy in Austria stood at 37%, which is significantly above the EU average. To achieve Austria's climate objectives, which include reaching climate neutrality by 2040, the country needs to further expand this share. The 2021 Renewables Expansion Act, a reform included in the recovery and resilience plan, has created a framework that will help increase the share of renewable energy in electricity consumption. The reform aims to achieve a yearly electricity generation capacity of 27 TWh from renewables by 2030, which will contribute to the country's target of reaching 100% renewable electricity consumption by that year, up from the current 81% in 2020. However, further expansion of renewables still faces challenges, such as the length of spatial planning and permitting procedures, a complex division of powers between the federal and regional governments and staffing issues in the administration. Austria has taken a first step in introducing a more streamlined environmental impact assessment for renewable energy projects. In addition, Austria could better align spatial zoning with its green transition goals, fix issues with staffing and increase investment in network infrastructure such as storage, distribution, and transmission. Renewables expansion would also benefit from putting in place dedicated acceleration areas for renewables (in particular for wind) with particularly short and simple permitting procedures, and the recognition of renewable energy as an overriding public interest, in line with the more ambitious renewable energy targets in the 'Fit for 55' package and the REPowerEU plan. Furthermore, additional sources of renewable energy, such as geothermal energy, could be further explored.
- (38) Austria's consumption of natural gas has dropped by 19% in the period between August 2022 and March 2023, compared with the average gas consumption over the same period in the preceding 5 years, beyond the 15% reduction target. Austria could

keep pursuing efforts to temporarily reduce gas demand until 31 March 2024²⁴. In addition, increasing the level of ambition for energy efficiency in the building and manufacturing sectors would reduce reliance on fossil fuels. Austria's long-term renovation strategy sets clear milestones for 2050 and aims to achieve an 80% decarbonisation of its building stock. The recovery and resilience plan also aims to phase out fossil fuel boilers in the building sector and replace them with renewable heating technology or district heating. However, Austria's 2030 energy efficiency targets are not ambitious enough to meet the objectives of the 'Fit for 55' package and the REPowerEU plan. A new Energy Efficiency Law, which is expected in 2023 and aims to reduce final energy consumption by 18% by 2030, should address this issue. Overall, it will be essential for Austria to accelerate investment in the deep renovation of buildings, replace fossil fuels with renewables in heating, and better manage energy consumption through utility digitalisation (such as smart meters and thermostats). Furthermore, it will be crucial that the current slow pace at which buildings are undergoing thermal renovation is speeded up. The timely implementation of the Renewable Heating Law, a flagship reform in the Austrian recovery and resilience plan, will be key to tackling the issue.

- (39) Embarking on the green transition will also include reducing emissions in some sectors, especially those stemming from transport, a sector with significant potential for emissions reductions. Austria currently serves as a significant transit country for transalpine road freight. Despite a number of sustainable transport investments under the Austrian recovery and resilience plan, reducing transport-related emissions further, while simultaneously addressing transport poverty, will be essential for achieving carbon neutrality. Developing additional transport solutions, such as connecting the 'last mile', and alternatives to car use, will also be key, especially in rural areas.

Labour and skills shortages in sectors and occupations key for the green transition, including manufacturing, deployment and maintenance of net-zero technologies, are creating bottlenecks in the transition to a net-zero economy. High-quality education and training systems that respond to changing labour market needs and targeted upskilling and reskilling measures are key to reducing skills shortages and promoting labour inclusion and reallocation. To unlock untapped labour supply, these measures need to be accessible, in particular for individuals and in sectors and regions most affected by the green transition. In 2022, labour shortages were reported in Austria for 17 occupations that required specific skills or knowledge for the green transition, including civil engineering technicians, roofers and mechanical engineers. Under its 'Green jobs masterplan', Austria has introduced a green job platform to help match labour demand and supply in the environmental sector and implementing the plan will be key to ensuring a timely transition to the green economy.

- (40) In light of the Commission's assessment, the Council has examined the 2023 Stability Programme and its opinion²⁵ is reflected in recommendation (1) below.
- (41) In view of the close interlinkages between the economies of euro area Member States and their collective contribution to the functioning of the Economic and Monetary Union, the Council recommended that euro area Member States take action, including through their recovery and resilience plans, to (i) preserve debt sustainability and refrain from broad-based support to aggregate demand in 2023, better target fiscal

²⁴ [Council Regulation \(EU\) 2022/1369](#) and [Council Regulation \(EU\) 2023/706](#)

²⁵ Under Articles 5(2) and 9(2) of Council Regulation (EC) No 1466/97.

measures taken to mitigate the impact of high energy prices and reflect on appropriate ways to wind down support as energy price pressures diminish; (ii) sustain high public investment and promote private investment to support the green and digital transition; (iii) support wage developments that mitigate the loss in purchasing power while limiting second-round effects on inflation, further improve active labour market policies and address skills shortages; (iv) improve the business environment and ensure that energy support to companies is cost-effective, temporary, targeted to viable firms and that it maintains incentives for the green transition; and (v) preserve macro-financial stability and monitor risks while continuing to work on completing the Banking Union. For Austria, recommendations (1), (2), (3) and (4) contribute to the implementation of the first, second and third euro area recommendations.

HEREBY RECOMMENDS that Austria take action in 2023 and 2024 to:

1. Wind down the energy support measures in force by the end of 2023 using the related savings to reduce the government deficit. Should renewed energy price increases necessitate support measures, ensure that these are targeted at protecting vulnerable households and firms, fiscally affordable and preserve incentives for energy savings.

Ensure prudent fiscal policy, in particular by limiting the nominal increase in nationally-financed net primary expenditure in 2024 to not more than 4.6%.

Preserve nationally-financed public investment and ensure the effective absorption of RRF grants and other EU funds, in particular to foster the green and digital transitions. For the period beyond 2024, continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, to achieve a prudent medium-term fiscal position.

Ensure the adequacy and fiscal sustainability of the long-term care system and the fiscal sustainability of the health care system. Simplify and rationalise fiscal relationships and responsibilities across layers of government and align financing and spending responsibilities. Improve the tax mix to support inclusive and sustainable growth.

2. Continue the steady implementation of its recovery and resilience plan and swiftly finalise the REPowerEU chapter with a view to rapidly starting its implementation. Proceed with the speedy implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.
3. Boost labour market participation of women, including by enhancing quality childcare services, and of older workers, and improve labour market outcomes for disadvantaged groups, such as low-skilled jobseekers and people with a migrant background, including by raising their levels of basic skills.

4. Reduce overall reliance on fossil fuels and diversify gas supply sources to significantly decrease dependence on Russia. Accelerate the deployment of renewable energy and the necessary infrastructure, in particular by simplifying permitting procedures and putting in place dedicated acceleration areas. Improve energy efficiency. Reduce emissions, in particular in the transport sector. Step up policy efforts aimed at the provision and acquisition of the skills needed for the green transition.

Done at Brussels,

*For the Council
The President*