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NOTE

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To:	Permanent Representatives Committee/Council
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Subject:	COUNCIL RECOMMENDATION on the 2023 National Reform Programme of Austria and delivering a Council opinion on the 2023 Stability Programme of Austria

Delegations will find attached the above-mentioned draft Council Recommendation, as discussed by the Council and European Council, based on the Commission Recommendation COM(2023) 620 final.

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COUNCIL RECOMMENDATION

of …

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 Article 121(2) and Article 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

[1] OJ L 209, 2.8.1997, p. 1.

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(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[2], which established the Recovery and Resilience Facility ('the Facility'), entered into force on 19 February 2021. The Facility provides financial support to the Member States for the implementation of reforms and investments, entailing a fiscal impulse financed by the Union. In line with the priorities of the European Semester, the Facility contributes to economic and inclusive recovery and to the implementation of sustainable and growth-enhancing reforms and investments, in particular reforms and investments to promote the green and digital transitions and to 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 Union and support the continued implementation of the European Pillar of Social Rights. The maximum financial contribution per Member State under the Facility was updated on 30 June 2022, in accordance with Article 11(2) of Regulation (EU) 2021/241.

[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).

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(2) On 22 November 2022, the Commission adopted the 2023 Annual Sustainable Growth Survey, marking the start of the 2023 European Semester for economic policy coordination. On 23 March 2023, the European Council endorsed the priorities of the 2023 Annual Sustainable Growth Survey, which are centred around the four dimensions of competitive sustainability. 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. As such, an in-depth review would not 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 and a proposal for the 2023 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area[3] ('2023 Recommendation on the euro area') on 16 May 2023 and the Joint Employment Report on 13 March 2023.

(3) While the Union's enonomies are showing remarkable resilience, the geopolitical context continues to have a negative impact. As the Union stands firmly with Ukraine, the Union's economic and social policy agenda is focused on reducing the negative impact of energy shocks on both vulnerable households and firms in the short term, and on keeping up efforts to deliver on the green and digital transitions, support sustainable and inclusive growth, safeguard macroeconomic stability and increase resilience in the medium term. It also focuses heavily on increasing the Union's competitiveness and productivity.

[3] Council Recommendation of 16 May 2023 on the economic policy of the euro area (OJ C 180, 23.5.2023, p. 1).

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(4) On 1 February 2023, the Commission issued a communication entitled 'A Green Deal Industrial Plan for the Net-Zero Age' ('the Green Deal Industrial Plan'). The aim of the Green Deal Industrial Plan is to boost the competitiveness of the Union's net-zero industry and support the fast transition to climate neutrality. It complements ongoing efforts under the European Green Deal and REPowerEU. It also aims to provide a more supportive environment for scaling up the Union's manufacturing capacity for the net-zero technologies and products required to meet the Union's ambitious climate targets, and to ensure 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 Green Deal Industrial Plan is based on four pillars: a predictable and simplified regulatory environment, faster access to finance, the enhancement of skills, and open trade for resilient supply chains. On 16 March 2023, the Commission issued a further communication entitled 'Long-term competitiveness of the EU: looking beyond 2030', structured along nine mutually reinforcing drivers with the objective of working towards a growth-enhancing regulatory framework. It sets policy priorities aimed at actively ensuring structural improvements, well-focused investment and regulatory measures for the long-term competitiveness of the Union and its Member States. The recommendations below help address those priorities.

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(5) In 2023, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Facility. The full implementation of 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 for the recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(6) Regulation (EU) 2023/435 of the European Parliament and of the Council[4] (the 'REPowerEU Regulation'), which was adopted on 27 February 2023 aims to rapidly phase out the Union's dependence on Russian fossil-fuel imports. This will contribute to energy security and the diversification of the Union's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. The REPowerEU 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. Those reforms and investments will also help boost the competitiveness of the Union's net-zero industry as outlined in the Green Deal Industrial Plan 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 in order to finance new energy-related reforms and investments under their recovery and resilience plans.

[4] 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) On 8 March 2023, the Commission adopted a communication providing fiscal policy guidance for 2024 ('the communication of 8 March 2023'). It aims to support the preparation of Member States' stability and convergence programmes and thereby strengthen policy coordination. 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 and raise potential growth in a sustainable manner and invited Member States to set out in their 2023 stability and convergence programmes how their fiscal plans will ensure that the Treaty reference value of 3 % of gross domestic product (GDP) is adhered to and ensure plausible and continuous debt reduction, or for debt to be kept at prudent levels, in the medium term. The Commission also 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 better target such measures at vulnerable households and firms. The Commission stated that the fiscal recommendations would be quantified and differentiated and be formulated on the basis of net primary expenditure, as proposed in its communication of 9 November 2022 on orientations for a reform of the EU economic governance framework. It recommended that all Member States should continue to protect nationally financed investment and ensure the effective use of the Facility and other Union funds, in particular in light of the green and digital transitions 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.

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(8) On 26 April 2023, the Commission presented legislative proposals to implement a comprehensive reform of the Union'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. In its proposals, the Commission aims to improve national ownership, simplify the framework and move towards a greater medium-term focus, in combination with effective and more coherent enforcement. According to the Council conclusions of 14 March 2023 on orientations for a reform of the EU economic governance framework, 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 set out inAnnex V to that Regulation. On 13 July 2021, the Council adopted its Implementing Decision on the approval of the assessment of the recovery and resilience plan for Austria[5]. The release of instalments is conditional on the adoption of a decision by the Commission, in accordance with Article 24(5) of Regulation (EU) 2021/241, stating 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.

[5] ST 10159/2021 INIT; ST 10159/2021 COR 1; ST 10159/2021 ADD 1.

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(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) On 24 May 2023, the Commission published the 2023 country report for Austria. 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. On the basis of thatanalysis, the country report identified gaps with regard 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 in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

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(12) According to data validated by Eurostat, 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 issued a report under Article 126(3) of the Treaty. That 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 the deficit criterion was fulfilled. In line with the communication of 8 March 2023, the Commission did not propose to open new excessive deficit procedures in spring 2023. The Commission subsequently stated that it would propose to the Council to open deficit-based 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 its draft budgetary plan for 2024.

(13) The general government balance has been impacted by the fiscal policy measures taken to mitigate the economic and social impact of the increase in energy prices. In 2022, such fiscal policy revenue-decreasing measures included the postponement of the introduction of a CO_2-price, reduction of levies on energy, and tax allowances for commuters; while such fiscal policy expenditure-increasing measures included energy cost subsidies to companies, lump-sum transfers to households, and direct payments to pensioners. The cost of those measures was partly offset by new taxes on windfall profits of energy producers and suppliers. The Commission estimates the net budgetary cost of those measures at 1,5 % of GDP in 2022. The general government balance has also been impacted by the budgetary cost of offering 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 temporary emergency measures related to the COVID-19 crisis dropped to 0,8 % of GDP in 2022, from 4,3 % in 2021.

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(14) On 18 June 2021, the Council recommended that in 2022 Austria[6] maintain a supportive fiscal stance, including from the impulse provided by the Facility, and preserve nationally financed investment.

(15) According to the Commission estimates, the fiscal stance[7] 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 Facility. Expenditure financed by grants under the Facility and other Union 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.[8] 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. That significant expansionary contribution included the additional impact of measures taken 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 cost of offering temporary protection to displaced persons from Ukraine (0,2 % of GDP). Austria therefore kept the growth in nationally financed current expenditure sufficiently under control.

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6 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).

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

8 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.

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(16) The macroeconomic scenario underpinning the budgetary projections in the 2023 Stability Programme is in line with the Commission's 2023 spring forecast. The government projects real GDP to grow by 0,3 % in 2023 and by 1,8 % in 2024. By comparison, the Commission's 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 will remain at 3,2 % of GDP in 2023. According to the 2023 Stability 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's 2023 spring forecast projects a government deficit of 2,4 % of GDP for 2023. This is lower than the deficit projected in the 2023 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's 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.

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(18) The general government balance in 2023 is expected to continue to be impacted by the measures taken 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 those measures continues to be partly offset by taxes on windfall profits of energy suppliers. Taking those revenues into account the net budgetary cost of the support measures is projected in the Commission's 2023 spring forecast at 1,8 % of GDP in 2023[9]. Most measures in 2023 do not appear to be targeted at 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 Council Recommendation of 12 July 2022[10], is estimated in the Commission's 2023 spring forecast at 0,4 % of GDP in 2023 (compared to 0,2 % of GDP in 2022). Finally, the general government balance in 2023 is expected to benefit from the phasing-out of temporary emergency measures related to the COVID-19 crisis, which have been estimated at 0,8 % of GDP.

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9 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.

10 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).

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(19) In its Recommendation of 12 July 2022, the Council recommended 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 stance[11], 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 Facility and other Union funds.

[11] Based on the Commission's 2023 spring forecast, potential output growth of Austria, which is used to measure the fiscal stance, in the medium-term (10-year average), is estimated at 8,6 % in nominal terms.

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(20) In 2023, the fiscal stance is projected in the Commission's 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 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 of 12 July 2022. Expenditure financed by grants under the Facility and other Union 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 point. Therefore, Austria plans to finance additional investment through the Facility and other Union funds, and it is projected to preserve nationally financed investment.[12] It plans to finance public investment for the green and digital transitions, and for energy security, such as the participation in the important project of common European interest on Microelectronics and Connectivity, digitalisation of small and medium-sized enterprises and the public administration as well as replacement of heating systems, which are partly funded by the Facility and other Union funds.

(21) According to the 2023 Stability Programme the general government deficit is expected to decline to 1,6 % of GDP in 2024. The decrease in 2024 mainly reflects the phasing-out of energy-related measures. According to the 2023 Stability Programme, the general government debt-to-GDP ratio is expected to decrease to 75,1 % at the end of 2024. On the basis of the policy measures known at the cut-off date of the forecast, the Commission's 2023 spring forecast projects a government deficit of 1,3 % of GDP in 2024. This is similar to the deficit projected in the 2023 Stability Programme. The Commission's 2023 spring forecast projects a lower general government debt-to-GDP ratio, of 73,3 % at the end of 2024.

[12] 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.

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(22) The 2023 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). Those estimates are based on the assumption of no renewed energy price increases.

(23) Regulation (EC) No 1466/97 calls for an annual improvement in the structural budget balance toward the medium-term budgetary objective, with 0,5 % of GDP as a benchmark[13]. Taking into account fiscal sustainability considerations, an improvement in the structural balance of at least 0,3 % of GDP for 2024 would be appropriate, according to the Commission. To ensure such an improvement, and in accordance with the Commission's methodology, the growth in net nationally financed primary expenditure[14] 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, if energy-market developments so permit and starting with the least targeted measures, and the related savings should be used to reduce the government deficit. According to 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's 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.

[13] Article 5 of Regulation (EC) No 1466/97 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.

[14] Net primary expenditure is defined as nationally financed expenditure net of discretionary revenue measures and excluding interest expenditure and cyclical unemployment expenditure.

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(25) According to the 2023 Stability 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 2023 Stability Programme outlines a medium-term fiscal path until 2026. According to the 2023 Stability Programme, the general government deficit is expected to gradually decline to 1,4 % of GDP in 2025 and to 1,3 % by 2026. Therefore, the general government deficit is planned to remain below 3 % of GDP over the Programme horizon. According to the 2023 Stability 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 unattractiveness 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 for long-term care services. The ongoing negotiations on the federal fiscal framework provide an opportunity to support the implementation of such a mechanism.

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(27) The healthcare system proved to be 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 outpatient 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 by making sure that the increased availability of primary healthcare services will translate into lower utilisation of existing hospital or ambulatory specialist healthcare 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 2022, only 7,2 % of all public revenues were own-source revenues of the federal States[15]. 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 the federal States and municipalities, 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 government 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.

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15 This figure refers to subsector 1312 in the European System of Accounts 2010 (ESA).

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(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 CO_2 emissions outside of the scope of the EU emissions trading system (EU ETS). Furthermore, the automatic indexation of personal income tax with inflation is a notable reform that strongly reduces the increase in the personal income tax burden for taxpayers through tax bracket creep. 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.

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(30) In accordance with Article 19(3), point (b), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, 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 Facility in place until 2026. The implementation of Austria's recovery and resilience plan is well underway. Austria submitted one 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 Austrian 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 that plan, in order to ensure broad ownership of the overall policy agenda.

(31) The Commission approved all 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, and achieving balanced territorial development in Austria.

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(32) Beyond the economic and social challenges addressed by the recovery and resilience plan and cohesion policy programmes, 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 underused labour market potential of women, low-qualified workers, older workers and people with 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.

(33) Although the female employment rate in Austria is higher than the Union 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 the full-time participation of women 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 in the labour market. Austria has one of the lowest rates of formal childcare for children under three years of age in the Union, with only 28 % of children under the age of three in formal childcare. To address these issues, it is crucial to increase the supply of quality childcare by improving quality standards and extending availability, and to encourage full-time employment, for example, through tax incentives. Bringing more women into full-time work could also help close Austria's persistently high gender pay gap, as well the high gender pension gap, while addressing labour market shortages.

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(34) There is still potential to improve the integration of several disadvantaged groups into the labour market, in particular low-skilled workers and people 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 generally 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[16], it is 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 Union average. Adapting the tasks of employees 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.

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16 Education and Training Monitor 2022 of the European Commission – country report on Austria.

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(36) Russia's invasion of Ukraine has exposed the vulnerability of Austria's energy supply security. Although Austria managed to 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 Union 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 36 % of final energy consumption, which is significantly above the Union 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. The expansion of renewable energy would also benefit from putting in place dedicated acceleration areas for renewables (in particular for wind) with short and simple permitting procedures, and from recognising 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.

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(38) Austria's consumption of natural gas dropped by 19 % in the period between August 2022 and March 2023, compared to the average gas consumption over the same period in the preceding five years, beyond the 15 % reduction target. Austria could keep pursuing efforts to temporarily reduce gas demand until 31 March 2024 accordance with Council Regulation (EU) 2022/1369[17]. 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.

[17] Council Regulation (EU) 2022/1369 of 5 August 2022 on coordinated demand-reduction measures for gas (OJ L 206, 8.8.2022, p. 1).

(39) Embarking on the green transition will also include the reduction of emissions in several sectors, especially those stemming from transport, as those sectors have 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, a further reduction of transport-related emissions, while simultaneously addressing transport poverty, will be essential for achieving climate neutrality. Developing additional transport solutions, such as connecting the 'last mile', and alternatives to car use, will also be key, especially in rural areas.

(40) 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, those 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 require specific skills or knowledge for the green transition, including civil engineering technicians, roofers and mechanical engineers. Under its Green Jobs Master Plan, Austria has introduced a green job platform to help match labour demand and supply. The implementation of that Master Plan will be key to ensuring a timely transition to the green economy. In its Just Transition Action Plan on training and re-skilling, Austria has laid out measures to enhance skilled labour supply in the renewable energy sector, incentivise up-skilling of the labour force and improve educational standards.

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(41) In the light of the Commission's assessment, the Council has examined the 2023 Stability Programme and its opinion[18] is reflected in recommendation (1).

(42) 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 the 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 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 a high level of public investment and promote private investments to support the green and digital transitions; (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 and 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 recommendations set out in the 2023 Recommendation on the euro area,

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

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

1. Wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. Should renewed energy price increases necessitate new or continued support measures, ensure that such support measures are targeted at protecting vulnerable households and firms, are 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 %[19].

   Preserve nationally financed public investment and ensure the effective absorption of grants under the Facility and of other Union 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, in order 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.

[19] Which is estimated to correspond to an annual improvement in the structural budget balance of at least 0,3 % of GDP for 2024, as described in recital 23.

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3. Boost the labour market participation of women, including by enhancing quality childcare services, and of older workers. 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 in order 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 skills and competences needed for the green transition.

Done at Brussels,

For the Council
The President

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