Council of the European Union

Brussels, 27 September 2024
(OR. en)

13560/24

ECOFIN 1019
UEM 312
SOC 681
EMPL 462
COMPET 933
ENV 912
EDUC 350
ENER 447
JAI 1379
GENDER 218
JEUN 238
SAN 543

NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
No. prev. doc.:	11712/24
Subject:	COUNCIL RECOMMENDATION on economic, budgetary, employment and structural policies of Austria

Delegations will find attached the above-mentioned draft Council Recommendation, as approved by the Council and revised by legal-linguistic experts, based on the Commission Recommendation COM(2024) 620 final.

COUNCIL RECOMMENDATION

of …

on economic, budgetary, employment and structural policies 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 Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) 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,

[1] OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

Whereas:

(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 for economic policy coordination, the Facility helps achieve the economic and social recovery and implement sustainable 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 Unionand support the continued implementation of the European Pillar of Social Rights.

(2) Regulation (EU) 2023/435 of the European Parliament and of the Council[3] ('the 'REPowerEU Regulation'), which was adopted on 27 February 2023, aims to phase out the Union's dependence on Russian fossil-fuel imports. This would help achieve energy security and diversify the Union's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. Austria added a new REPowerEU chapter to its national recovery and resilience plan in order to finance key reforms and investments that will help achieve the REPowerEU objectives.

[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), ELI: http://data.europa.eu/eli/reg/2021/241/oj.

[3] 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), ELI: http://data.europa.eu/eli/reg/2023/435/oj.

(3) On 16 March 2023, the Commission issued a communication entitled 'Long-term competitiveness of the EU: looking beyond 2030', in order to inform policy decisions and create the framework conditions for increasing growth. The communication frames competitiveness in terms of nine mutually reinforcing drivers. Among those drivers, access to private capital, research and innovation, education and skills, and a functioning single market emerge as paramount policy priorities for reforms and investments to address current productivity challenges as well as to build up the long-term competitiveness of the Unionand its Member States. On 14 February 2024, the Commission issued a communication entitled 'The 2024 Annual Single Market and Competitiveness Report'. That communication details the competitive strengths and challenges of the European single market, tracking yearly developments according to the nine competitiveness drivers identified.

(4) On 21 November 2023, the Commission adopted the 2024 Annual Sustainable Growth Survey, marking the start of the 2024 European Semester. On 22 March 2024 the European Council endorsed the priorities of the 2024 Annual Sustainable Growth Survey, which are cetred around the four dimensions of competitive sustainability. On 21 November 2023, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council[4], the Commission also adopted the 2024 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 the 2024 draft budgetary plan of Austria. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a proposal for the 2024 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[5] ('the 2024 Recommendation on the euro area') on 12 April 2024 and the Joint Employment Report on 11 March 2024.

4 Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25, ELI: http://data.europa.eu/eli/reg/2011/1176/oj).

5 Council Recommendation of 12 April 2024 on the economic policy of the euro area (OJ C, C/2024/2807, 23.4.2024, ELI: http://data.europa.eu/eli/C/2024/2807/oj).

(5) On 30 April 2024, the Union's new economic governance framework entered into force. The framework includes the new Regulation (EU) 2024/1263 on the effective coordination of economic policies and multilateral budgetary surveillance, the amended Council Regulation (EC) No 1467/97[6] on speeding up and clarifying the implementation of the excessive deficit procedure, and the amended Council Directive 2011/85/EU[7] on requirements for the budgetary frameworks of Member States. The objectives of the new economic governance framework are to promote sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments, and prevent excessive government deficits. The new economic governance framework also promotes national ownership and has a greater medium-term focus, combined with more effective and coherent enforcement. Each Member State has to submit to the Council and to the Commission a national medium-term fiscal-structural plan. A national medium-term fiscal-structural plan contains the fiscal, reform and investment commitments of a Member State, covering a planning horizon of 4 or 5 years, depending on the regular length of the national legislative term. The net expenditure[8] path in the national medium-term fiscal-structural plans has to comply with the requirements of Regulation (EU) 2024/1263, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period, or for it to remain at prudent levels below 60 % of gross domestic product (GDP), and to bring and/or maintain the general government deficit below the 3%-of-GDP Treaty reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in Regulation (EU) 2024/1263, the adjustment period can be extended by up to 3 years. For the purpose of supporting the preparation of those national medium-term fiscal-structural plans, on 21 June 2024, the Commission published guidance on the information to be provided by Member

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6 Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6, ELI: http://data.europa.eu/eli/reg/1997/1467/oj).

7 Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States (OJ L 306, 23.11.2011, p. 41, ELI: http://data.europa.eu/eli/dir/2011/85/oj).

8 Net expenditure as defined in Article 2, point (2), of Regulation (EU) 2024/1263: ‘net expenditure’ means government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by revenue from Union funds, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure, and (vi) one-offs and other temporary measures.

States in their plans and in their national medium-term fiscal-structural annual progress reports. In accordance with Articles 5 and 36 of Regulation (EU) 2024/1263, the Commission transmitted to the Member States reference trajectories and technical information, where applicable. Member States have to submit their national medium-term fiscal-structural plans by 20 September 2024, unless the Member State and the Commission agree to extend the deadline by a reasonable period of time. In accordance with their national legal frameworks, Member States may debate their draft medium-term plans with their national parliaments, may ask the independent fiscal institutions to issue an opinion, and may conduct a consultation of social partners and other national stakeholders.

(6) In 2024, 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 help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. The 2019, 2020, 2022 and 2023 country-specific recommendations remain equally relevant for the recovery and resilience plans which have been revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(7) 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 in Annex 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[9], which was amended on 9 November 2023 in accordance with Article 21(1) of Regulation (EU) 2021/241 on the grounds that the recovery and resilience plan is partially no longer achievable because of objective circumstances, as well as to include the REPowerEU chapter[10]. 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

[9] ST 10159/21; ST 10159/21 ADD 1.

[10] Council Implementing Decision of 9 November 2023 amending Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for Austria (ST 14472/23; ST 14472/23 ADD 1).

targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

(8) On 19 June 2024, the Commission published the 2024 country report for Austria. It assessed Austria's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2023 and took stock of Austria's implementation of the recovery and resilience plan. On the basis of that analysis, 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.

(9) According to data validated by Eurostat, Austria's general government deficit decreased from 3,3 % of GDP in 2022 to 2,7 % in 2023, while the general government debt fell from 78,4 % of GDP at the end of 2022 to 77,8 % at the end of 2023.

(10) On 12 July 2022, the Council recommended[11] that Austria take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral fiscal policy stance[12], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Austria was recommended to 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. In 2023, according to the Commission's estimates, the fiscal stance[13] was contractionary, by 0,9 % of GDP, in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided a contractionary contribution to the fiscal stance of 0,5 % of GDP. This includes the 0,2 %-of-GDP increase in the cost of the targeted emergency support measures for households and firms most vulnerable to energy price hikes. The growth of nationally financed primary current expenditure in 2023 was in line with the Council Recommendation of 12 July 2022. Expenditure financed by grants under the Facility and other Union funds amounted to 0,2 % of GDP in 2023. Nationally financed investment amounted to 3,5 % of GDP in 2023, representing a decrease of 0,1 percentage point as compared to 2022. Austria financed additional investment through the Facility and other Union funds. It financed public investment for the green and digital transitions and for energy security, such as creating better broadband access in rural and remote areas and supporting households in replacing fossil-fuelled heating systems with renewable heating technology. That public investment is partly funded by the Facility and other Union funds.

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[11] Council Recommendation of 12 July 2022 on the 2022 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).

[12] On the basis of the Commission's 2024 spring forecast, the medium-term potential output growth of Austria in 2023 is estimated at 8,7 % in nominal terms, based on the 10-year average real potential growth rate and the 2023 GDP deflator.

[13] The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the Unionbudget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures (and excluding temporary emergency measures related to the COVID-19 crisis) and including expenditure financed by non-repayable support (grants) under the Facility and other Union funds.

(11) The macroeconomic scenario underpinning Austria's economic and budgetary projections projects real GDP growth at 0,2 % in 2024 and 1,8 % in 2025, while projecting inflation measured by the consumer price index (CPI) at 3,8 % in 2024 and 2,7 % in 2025. The general government deficit is expected to increase to 2,9 % of GDP in 2024 and to stand at 2,8 % of GDP in 2025, while the general government debt-to-GDP ratio is set to decrease to 77,5 % by the end of 2024 and 77,4 % by the end of 2025. After 2025, the general government deficit is projected to decrease gradually to 2,8 % of GDP in 2026, and 2,7 % in 2027. Therefore, the general government balance is planned to remain below the 3%-of-GDP Treaty reference value over the programme horizon. In turn, after 2025, the general government debt-to-GDP ratio is projected to remain stable at 77,4 % in 2026 and 2027. The Commission's 2024 spring forecast projects real GDP to grow by 0,3 % in 2024 and 1,6 % in 2025, and inflation measured by the harmonised index of consumer prices (HICP) to stand at 3,6 % in 2024 and 2,8 % in 2025.

(12) The Commission's 2024 spring forecast projects a government deficit of 3,1 % of GDP in 2024, while the general government debt-to-GDP ratio is set to decrease to 77,7 % by the end of 2024. The increase in the deficit in 2024 mainly reflects the delayed effects of inflation on the expenditure side (salaries, pensions, indexed social benefits), and additional spending under the national fiscal framework in the areas of childcare, housing and climate, as well as the recently adopted housing and construction package. In addition to this, several energy-related emergency support measures, such as the electricity price brake, have been extended until the end of 2024. According to the Commission's estimates, the fiscal stance is projected to be expansionary by 0,4 % of GDP in 2024.

(13) Expenditure amounting to 0,1 % of GDP is expected to be financed by non-repayable support ("grants") under the Facility in 2024, compared to 0,2 % of GDP in 2023, according to the Commission's 2024 spring forecast. Expenditure financed by grants under the Facility will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance or debt of Austria.

(14) On 14 July 2023, the Council recommended[14] that Austria ensure prudent fiscal policy, in particular by limiting the nominal increase in netnationally financed primary expenditure[15] in 2024 to not more than 4,6 %. When executing their 2023 budgets and preparing their draft budgetary plans for 2024, Member States were invited to take into account that the Commission would propose to the Council the opening of deficit-based excessive deficit procedures on the basis of the outturn data for 2023. According to the Commission's 2024 spring forecast, Austria's net nationally financed primary expenditure is projected to increase by 5,9 % in 2024, which is above the recommended maximum growth rate. This excess spending over the recommended maximum growth rate in net nationally financed primary expenditure corresponds to 0,6 % of GDP in 2024. There is a risk that this will not be in line with what was recommended by the Council.

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14 Council Recommendation of 14 July 2023 on the 2023 National Reform Programme of Austria and delivering a Council opinion on the 2023 Stability Programme of Austria, (OJ C 312, 1.9.2023, p. 186).

15 Net primary expenditure is defined as nationally financed expenditure net of (i) discretionary revenue measures, (ii) interest expenditure, (iii) cyclical unemployment expenditure, and (iv) one-offs and other temporary measures.

(15) Moreover, the Council recommended that Austria take action to 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. The Council further recommended that, if renewed energy price increases necessitate new or continued support measures, Austria ensure that such support measures are targeted at protecting vulnerable households and firms, are fiscally affordable, and preserve incentives for energy savings. According to the Commission's 2024 spring forecast, the net budgetary cost[16] of emergency energy support measures is estimated at 1,4 % of GDP in 2023 and projected at 0,4 % of GDP in 2024, and 0,1% in 2025. In particular, the electricity price brake for households and the reduction of the energy levy are assumed to remain in force in 2024, albeit with a minor impact[17]. If the related savings were used to reduce the government deficit, as recommended by the Council, those projections would imply a fiscal adjustment of 1,0 % of GDP in 2024, whereas net nationally financed primary expenditure[18] provides an expansionary contribution to the fiscal stance of 0,4 % of GDP in that year. The emergency energy support measures are not projected to be wound down as soon as possible in 2023 and 2024. There is a risk that this will not be in line with what was recommended by the Council. Moreover, the related savings are not projected to be fully used to reduce the government deficit. There is a risk that this will not be in line with the Council recommendation. The budgetary cost of emergency energy support measures targeted at protecting vulnerable households and firms is estimated at less than 0,1 % of GDP in 2024 (compared to 0,4 % in 2023), of which less than 0,1 % of GDP preserve the price signal to reduce energy demand and increase energy efficiency (compared to 0,4 % in 2023).

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[16] The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

[17] Measures that, according to Austria, remain in place until the end of 2024 are, in principle, assumed in the Commission's 2024 spring forecast as having a budgetary impact also in 2025.

[18] This contribution is measured as the change in general government primary expenditure, net of (i) the incremental budgetary impact of discretionary revenue measures, (ii) one-offs, (iii) cyclical unemployment expenditure and (iv) expenditure financed by non-repayable support (grants) under the Facility and other Union funds, relative to the medium-term (10-year) average potential nominal GDP growth rate, expressed as a ratio to nominal GDP.

(16) In addition, the Council also recommended that Austria 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. According to the Commission's 2024 spring forecast, nationally financed public investment is projected to decrease from 3,5 % of GDP in 2023 to 3,3 % of GDP in 2024. This is due to exceptionally high investment in 2023, partly driven by the municipal investment law. Taking these additional factors into account , public investment in 2024 is considered to be in line with the Council recommendation. In turn, public expenditure financed from revenues from Union funds, including grants under the Facility, is expected to remain stable at 0,2 % of GDP in 2024.

(17) On the basis of the policy measures known at the cut-off date of the forecast and on a no-policy-change assumption, the Commission's 2024 spring forecast projects a government deficit of 2,9 % of GDP in 2025. The decrease in the deficit in 2025 mainly reflects a more moderate increase in salaries, pensions and other social benefits due to decreasing inflation and the phase-out of measures to mitigate the impact of high energy prices. The general government debt-to-GDP ratio is set to increase to 77,8 % by the end of 2025. The increase in the debt-to-GDP ratio in 2025 mainly reflects higher interest rate expenditure in 2024 and lower nominal GDP growth rates.

(18) Austria's fiscal framework 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 2023, only a small percentage of all public revenues were own-source revenues of the federal States. At the same time, the financing of essential services such as healthcare, childcare and public transport depends 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 results in inefficiencies and a lack of transparency, as it blurs the link between the tax burden and public expenditure. Better aligning own-source revenues with subcentral government spending and strengthening transparency and coordination are important for improving the overall quality of public spending. Reforming the property tax system could be used to improve fiscal federalism and the overall tax system.

(19) The tax mix continues to rely heavily on labour income (payroll taxes and social security contributions) and consumption. In 2022, Austria had the third-highest tax-to-GDP ratio in the Union and a very high tax wedge. Since 2023, personal income tax brackets have been indexed to inflation, preventing a further increase in the tax wedge through bracket creep. At the same time, the eco-social tax reform of 2022 provided relief measures in the area of taxes and social security, and introduced CO_2 pricing in the transport and heating sectors, improving the tax mix. However, several long-standing structural challenges in the tax mix remain unaddressed. Making better use of more growth-friendly taxes could also help create the necessary budgetary space and improve the fairness of the tax system.

(20) Healthcare spending is among the highest in the Union, with many healthcare services still provided by hospitals, which is a costly and less efficient way to provide care. Public expenditure on healthcare is projected to increase from 7,8 % of GDP in 2022 to 8,8 % GDP in 2050. In addition, a growing and ageing population is expected to lead to an increase in the utilisation of healthcare services, further aggravating fiscal sustainability concerns. The healthcare reform initiated in 2023 includes significant investments in primary care, ambulatory care, digitalisation and prevention that could help contain costs in the long term, if accompanied by structural reforms. 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. Austria's recovery and resilience plan will help to strengthen outpatient primary healthcare, in particular by supporting existing and new primary healthcare units in local areas. However, the reform package initiated in 2023 lacks structural reforms addressing legal competences that would realign financing and spending responsibilities to increase efficiency. Therefore, strengthening coordination and governance is of high importance.

(21) The long-term care reform of 2023 improved the adequacy of the provision of services in the context of an ageing population. At the same time, increasing female labour market participation and changing family structures call for strengthened formal care structures. While the long-term care reform helped improve the training opportunities, working conditions and pay of long-term care staff, further efforts are also needed to improve the situation of self-employed live-in carers. Moreover, the reform did not address structural fiscal sustainability. Long-term care expenditure is projected to almost double from 1,6 % of GDP in 2022 to 3,1 % in 2070. The long-term care system is characterised by split competences for cash benefits (federal level) and service provision (federal States). It would be desirable to increase the harmonisation of financing and services, coordinate between the different sectors, and put in place common performance standards across regions. The newly created Pflege-Entwicklungs-Kommission could accelerate such discussions. Asset testing is applied for home- and community-based care but not for residential care, leading to a financial incentive to use the relatively more expensive residential care.

(22) In accordance with Article 19(3), point (b), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, the Austrian recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. Those reforms and investments are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, proceeding swiftly with the effective implementation of the recovery and resilience plan, including the REPowerEU chapter, is essential to boost Austria's long-term competitiveness through the green and digital transitions, while ensuring social fairness. To deliver on the commitments of the recovery and resilience plan by August 2026, it is essential for Austria to continue the implementation of reforms and investments by addressing relevant challenges. In particular, it is essential to proceed with the preparation of the second and third payment requests. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential in order to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(23) As part of the mid-term review of the cohesion policy funds, in accordance with Article 18 of Regulation (EU) 2021/1060 of the European Parliament and of the Council[19], Austria is required to review each programme supported by the European Regional Development Fund (ERDF), the European Social Fund Plus (ESF+), the Cohesion Fund and the Just Transition Fund (JTF) by March 2025, taking into account, among other things, the challenges identified in the 2024 country-specific recommendations, as well as its national energy and climate plan. That review forms the basis for the definitive allocation of the Union funding included in each programme. Austria has made progress in implementing cohesion policy programmes and the European Pillar of Social Rights, but challenges remain. Regional disparities in Austria are among the smallest in the Union, but the existing ones are at risk of being reinforced in the future, partially because of demographic challenges and depopulation in certain remote rural territories. It is important to accelerate the implementation of the cohesion policy programmes, and the priorities agreed in those programmes continue to be relevant. It is particularly important to improve the efficiency of the research and innovation system, in line with the national and regional smart specialisation strategies, and to use science-business links. It is also necessary to continue green investments, in particular in promoting energy efficiency and reducing the carbon footprint, including through emerging green technologies. Integrated territorial development approaches to support inclusive and sustainable local development are key. Fostering the quality and inclusiveness of education, training and lifelong learning, particularly for disadvantaged groups, remains pertinent; and investments supporting active inclusion and employability should also continue. Austria could also leverage the Strategic Technologies for Europe Platform, established by Regulation (EU) 2024/795 of the European Parliament and of the Council[20], to support the

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[19] Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy (OJ L 231, 30.6.2021, p. 159, ELI: http://data.europa.eu/eli/reg/2021/1060/oj).

[20] Regulation (EU) 2024/795 of the European Parliament and of the Council of 29 February 2024 establishing the Strategic Technologies for Europe Platform (STEP), and amending Directive 2003/87/EC and Regulations (EU) 2021/1058, (EU) 2021/1056, (EU) 2021/1057, (EU) No 1303/2013, (EU) No 223/2014, (EU) 2021/1060, (EU) 2021/523, (EU) 2021/695, (EU) 2021/697 and (EU) 2021/241 (OJ L, 2024/795, 29.2.2024, ELI: *http://data.europa.eu/eli/reg/2024/795/oj).*

development or manufacturing of critical technologies, including clean and resource-efficient technologies.

(24) Beyond the economic and social challenges addressed by the recovery and resilience plan and other Union funds, Austria faces several additional challenges related to the labour market, business dynamism and access to risk capital as well as persistent dependence on gas imports from Russia and relatively high emissions in the transport sector.

(25) The employment rate of women when considering full-time equivalent employment is below the Union average, although an upward trend can be observed. Austria ranks second highest in the Union in terms of part-time employment of women. The insufficient provision of quality early childhood education and care facilities, together with strong regional differences, plays a key role in the high share of women in part-time employment. In 2023, only 24,1 % of children under 3 years old participated in formal childcare, thus the participation rate in early childhood education and care remains overall below the Union average of 34,9 %. The double burden of paid-work and care obligations affects women significantly more than men. While steps are being taken to increase the availability and quality of early childhood education and care, the current opening hours of childcare facilities limit the possibility for parents with caring responsibilities, primarily women, to work longer hours. Furthermore, introducing compulsory quality standards in early childhood education and care could better ensure the provision of quality care across the country.

(26) Austria is experiencing a decline in its business dynamism, with enterprise birth and death rates among the lowest in the Union. The share of start-ups and young enterprises is declining, having a negative impact on productivity (while in 2013 the share of young enterprises was 5,4 %, in 2020 this percentage fell to 3,8 %, below the Union average). The share of high-growth enterprises is also significantly below the Union average (in 2021, 8,21 % in number of enterprises and 7,29 % in number of employees, compared to 9,18 % and 12,40 %, respectively, in the Union). Equity financing is low by international standards. The limited supply of private risk capital is a constraint for innovative companies and technology diffusion. Supply and demand of risk capital are not particularly high in Austria, which could hamper the creation and growth of new technology-intensive or innovative enterprises. Limitations on access to venture capital finance are especially affecting innovative small and medium-sized enterprises (SMEs) and start-ups. Risk capital financing is underdeveloped, with private equity at only 0,14 % of GDP in 2022, significantly below the Union average of 0,64 %, and venture capital at 0,041 % of GDP (compared to Union average of 0,09 %).

(27) Skills shortages and mismatches are among Austria's most pressing challenges, and demographic ageing is set to further exacerbate the situation. Austria's job vacancy rate remains one of the highest in the Union and has remained over 4 % since the end of 2021. Although the employment rate of older workers has increased continuously over the last decade and reached 57,7 % in 2023, it remains well below the Union average of 63,8 %. With more limited digital skills and often facing discriminatory practices because of their age, older workers have difficulties in reintegrating into the labour market. Low-qualified people with only the compulsory level of school education are particularly vulnerable and represent the highest share of the unemployed in Austria. Similarly, people with a migrant background and people with a disadvantaged socio-economic background have lower labour market attainment and face particular labour market barriers due to, inter alia, challenges regarding the school-to-work transition. According to the 2022 Programme for International Student Assessment (PISA) survey, around one in four 15-year-old Austrian pupils lacked a minimum level of proficiency in mathematics, reading and science; and the share for those with a disadvantaged or migrant background increased to 45 % in mathematics. Furthermore, young people born outside the Union are nearly two times more likely to leave school early, negatively impacting their labour market integration. The measures in Austria's recovery and resilience plan to improve skills supply as well as the educational outcomes of disadvantaged pupils are being implemented, but additional measures are needed to reduce existing labour and skills shortages. These could include promoting labour market access for older, low-skilled workers and people with a migrant background, preventing young people with a migrant background from leaving school early, and improving the basic skills of disadvantaged pupils and pupils with a migrant background.

(28) Despite some diversification efforts, Austria continues to be heavily dependent on Russian gas. Although gas supplies from Norway, and to a lesser extent from North Africa and Central Asia, increased in 2023, imports from Russia dominated the gas supply, in particular during winter (98 % of total imports in December 2023). To expand transport capacity from neighbouring countries such as Germany and Italy, Austria supported targeted investments to upgrade its gas pipeline infrastructure. At the same time, measures under Austria's recovery and resilience plan, such as the investment in energy efficiency and in the replacement of fossil fuel heaters, help to reduce gas demand and speed up the green transition. A decoupling from the long-term supply contract between the Austrian partially State-owned energy company OMV and Russia's Gazprom would make it possible to quickly facilitate further efforts to diversify gas energy sources. In spite of some measures aimed at gas diversification adopted recently, the strategy to decouple from Russian gas will need to be further strengthened as it leaves Austria's energy supply vulnerable.

(29) Austria's installed renewable energy capacity grew by 6 % in 2022. While solar energy, in particular photovoltaics, continued to expand strongly, wind energy did not match the expansion speed of solar energy. Upgrading and expanding electricity storage as well as the transmission and distribution grids, especially between the east and west of Austria, has become a matter of urgency in view of Austria’s target of using 100 % renewable electricity by 2030. This requires both more investments and speed in integrating additional renewable power generation into the system as set out in the first integrated net infrastructure plan published in April 2024. Austria has presented further measures to accelerate the energy transition, but the revised Electricity Market Act and the Renewable Gases Act are still awaiting adoption by national parliament.

(30) Austria’s measures to reduce greenhouse gas emissions over the last few years are starting to show results. Greenhouse gas emissions not covered by the Union emissions trading system declined by 5 % in 2022. Nevertheless, current policies leave a gap of 21 percentage points between Austria's current performance and its agreed effort-sharing target of 48 % under Regulation (EU) 2018/842 of the European Parliament and of the Council[21] by 2030 compared to 2005 levels. Austria still needs to submit to the Commission a draft update of its national energy and climate plan, which was due in June 2023, setting out how it aims to close this gap. Austria introduced a CO_2 price for non-ETS sectors, which is a step in the right direction; but transport emissions per capita remain above the Union average, inter alia due to relatively low tax rate for diesel, causing so-called 'fuel tank tourism'. The Austrian recovery and resilience plan contains a number of sustainable transport reforms and investments, but there is scope for further emission reduction measures, including strengthening public transport in rural areas.

(31) 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, in 2024 the Council recommended that euro-area Member States take action, including through their recovery and resilience plans, to implement the 2024 Recommendation on the euro area. For Austria, recommendations (1), (2), (3) and (4) help implement the first, second, third and fourth recommendations set out in the 2024 Recommendation on the euro area.

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21 Regulation (EU) 2018/842 of the European Parliament and of the Council of 30 May 2018 on binding annual greenhouse gas emission reductions by Member States from 2021 to 2030 contributing to climate action to meet commitments under the Paris Agreement and amending Regulation (EU) No 525/2013 (OJ L 156, 19.6.2018, p. 26, ELI: http://data.europa.eu/eli/reg/2018/842/oj).

HEREBY RECOMMENDS that Austria take action in 2024 and 2025 to:

1. Submit the medium-term fiscal-structural plan in a timely manner. In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure[22] in 2025 to a rate consistent with, inter alia, putting the general government debt on a plausibly downward trajectory over the medium term and respecting the 3%-of-GDP Treaty reference value. Improve the fiscal sustainability of the healthcare system and the long-term care system. Simplify and rationalise fiscal relationships and responsibilities across layers of government and align financing and spending responsibilities. Further improve the tax mix to reduce the tax wedge and support inclusive and sustainable growth.

2. Address relevant challenges to allow for the continued, swift and effective implementation of the recovery and resilience plan, including the REPowerEU chapter, ensuring the completion of reforms and investments by August 2026. Accelerate the implementation of cohesion policy programmes. In the context of the mid-term review of those programmes, continue focusing on the agreed priorities, while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness.

3. Boost the labour market participation of women, including by improving the quality and availability of childcare services, and of older workers. Improve labour market outcomes for disadvantaged groups, such as low-skilled jobseekers and people with a migrant background, and raise the levels of basic skills, starting from an early age, in particular at school level. Promote business dynamism, and the creation and growth of young companies, including through better access to risk capital.

[22] According to Article 2, point (2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

4. Improve energy security by accelerating the diversification of gas supply towards non-Russian sources. Further reduce emissions, in particular in the transport sector.

Done at Brussels,

For the Council

The President