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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee
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Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2020 National Reform Programme of Austria and delivering a Council opinion on the 2020 Convergence Programme of Austria

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission Proposal COM(2020) 520 final.

COUNCIL RECOMMENDATION

of ...

**on the 2020 National Reform Programme of Austria and delivering a Council opinion on the
2020 Stability Programme of Austria**

THE COUNCIL OF THE EUROPEAN UNION,

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

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

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

¹ OJ L 209, 2.8.1997, p. 1.

- (1) On 17 December 2019, the Commission adopted the Annual Sustainable Growth Strategy, marking the start of the 2020 European Semester for economic policy coordination. It took due account of the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. On 17 December 2019, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council², the Commission also adopted the Alert Mechanism Report, in which it did not identify Austria as one of the Member States for which an in-depth review would be carried out. On the same date, the Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area.
- (2) The 2020 country report for Austria was published on 26 February 2020. It assessed Austria's progress in addressing the country-specific recommendations adopted by the Council on 9 July 2019³ ('the 2019 country-specific recommendations'), the follow-up given to the country-specific recommendations adopted in previous years and Austria's progress towards its national Europe 2020 targets.
- (3) On 11 March 2020, the World Health Organization officially declared the COVID-19 outbreak a global pandemic. It is a severe public health emergency for citizens, societies and economies. It is putting national health systems under severe strain, disrupting global supply chains, causing volatility in financial markets, triggering consumer demand shocks and having negative effects across various sectors. It is threatening people's jobs and incomes as well as companies' business. It has delivered a major economic shock that is already having serious repercussions in the Union. On 13 March 2020, the Commission adopted a communication calling for a coordinated economic response to the crisis, involving all actors at national and Union level.
- (4) Several Member States have declared a state of emergency or introduced emergency measures. Any emergency measures should be strictly proportionate, necessary, limited in time, and in line with European and international standards. They should be subject to democratic oversight and independent judicial review.

² 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).

³ OJ C 301, 5.9.2019, p. 117.

- (5) On 20 March 2020, the Commission adopted a communication on the activation of the general escape clause of the Stability and Growth Pact. The general escape clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) No 1466/97 and Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97⁴, facilitates the coordination of budgetary policies in times of severe economic downturn. In its communication of 20 March 2020, the Commission considered that, given the expected severe economic downturn resulting from the COVID-19 pandemic, the conditions for the activation of the general escape clause had been met and asked the Council to endorse this conclusion. On 23 March 2020, the ministers of finance of the Member States agreed with the assessment of the Commission. They agreed that the severe economic downturn requires a resolute, ambitious and coordinated response. The activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective, provided that this does not endanger fiscal sustainability in the medium term. For the corrective arm, the Council may also decide, on a recommendation from the Commission, to adopt a revised fiscal trajectory. The general escape clause does not suspend the procedures of the Stability and Growth Pact. It allows Member States to depart from the budgetary requirements that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.
- (6) Continued action is required to limit and control the spread of the COVID-19 pandemic, strengthen the resilience of the national health systems, mitigate the socio-economic consequences of the pandemic through supportive measures for business and households, and ensure adequate health and safety conditions at the workplace with a view to resuming economic activity. The Union should fully use the various tools at its disposal to support Member States' efforts in those areas. In parallel, Member States and the Union should work together to prepare the measures necessary to bring about a return to the normal functioning of our societies and economies and to sustainable growth, integrating inter alia the green transition and the digital transformation, and drawing lessons from the crisis.

⁴ 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).

- (7) The COVID-19 crisis has highlighted the flexibility that the internal market offers to adapt to extraordinary situations. However, in order to ensure a swift and smooth transition to the recovery phase and the free movement of goods, services and workers, exceptional measures that prevent the internal market from functioning normally should be removed as soon as they are no longer indispensable. The current crisis has shown the need for strong crisis preparedness plans in the health sector in particular. Improved purchasing strategies, diversified supply chains and strategic reserves of essential supplies are among the key elements for developing broader crisis preparedness plans.
- (8) The Union legislator has already amended the relevant legislative frameworks by means of Regulations (EU) 2020/460⁵ and (EU) 2020/558⁶ of the European Parliament and of the Council to allow Member States to mobilise all unused resources from the European Structural and Investment Funds so they can address the exceptional effects of the COVID-19 pandemic. Those amendments will provide additional flexibility, as well as simplified and streamlined procedures. To alleviate cash-flow pressures, Member States can also benefit from a 100 % co-financing rate from the Union budget in the 2020-2021 accounting year. Austria is encouraged to make full use of those possibilities to help the individuals and sectors most affected.

⁵ Regulation (EU) 2020/460 of the European Parliament and of the Council of 30 March 2020 amending Regulations (EU) No 1301/2013, (EU) No 1303/2013 and (EU) No 508/2014 as regards specific measures to mobilise investments in the healthcare systems of Member States and in other sectors of their economies in response to the COVID-19 outbreak (Coronavirus Response Investment Initiative) (OJ L 99, 31.3.2020, p. 5).

⁶ Regulation (EU) 2020/558 of the European Parliament and of the Council of 23 April 2020 amending Regulations (EU) No 1301/2013 and (EU) No 1303/2013 as regards specific measures to provide exceptional flexibility for the use of the European Structural and Investments Funds in response to the COVID-19 outbreak (OJ L 130, 24.4.2020, p. 1).

- (9) The socioeconomic consequences of the COVID-19 pandemic are likely to be unevenly distributed across regions due to different specialisation patterns in particular in regions markedly relying on tourism. This entails the risk of widening regional disparities within Austria. Combined with the risk of a temporary unravelling of the convergence process between Member States, the current situation calls for targeted policy responses.
- (10) Austria submitted its 2020 National Reform Programme on 14 April 2020 and its 2020 Stability Programme on 30 April 2020. In order to take account of their interlinkages, the two programmes have been assessed at the same time.
- (11) Austria is currently in the preventive arm of the Stability and Growth Pact and subject to the debt rule.
- (12) In its technical update to the 2020 Stability Programme, the government plans the headline balance to deteriorate from a surplus of 0,7 % of gross domestic product (GDP) in 2019 to a deficit of 8,0 % of GDP in 2020. The deficit is projected to decline to 1,9 % of GDP in 2021. After decreasing to 70,4 % of GDP in 2019, the general government debt-to-GDP ratio is expected to increase to 81,4 % in 2020 according to the 2020 Stability Programme. The macroeconomic and fiscal outlook is affected by high uncertainty because of the COVID-19 pandemic.

- (13) In response to the COVID-19 pandemic, and as part of a coordinated Union approach, Austria has adopted timely budgetary measures to increase the capacity of its health system, contain the pandemic, and provide relief to those individuals and sectors that have been particularly affected. According to the 2020 Stability Programme, those budgetary measures amounted to 5,0 % of GDP. The measures include strengthening healthcare services, emergency aid for distressed companies and short-time work arrangements. In addition, Austria has announced measures that, while not having a direct budgetary impact, will contribute to providing liquidity support to businesses, which the 2020 Stability Programme estimates at 5,0 % of GDP. Those measures include tax deferrals for personal and corporate income taxes (2,6 % of GDP) and loan guarantees (2,4 % of GDP). Overall, the measures taken by Austria are in line with the guidelines set out in the Commission communication of 13 March 2020. The full implementation of the emergency measures and of supportive fiscal measures, followed by a refocusing of fiscal policies towards achieving prudent medium-term fiscal positions when economic conditions allow, will contribute to preserving fiscal sustainability in the medium term.
- (14) Based on the Commission 2020 spring forecast under unchanged policies, Austria's general government balance is forecast at -6,1 % of GDP in 2020 and -1,9 % of GDP in 2021. The general government debt ratio is projected to reach 78,8 % of GDP in 2020 and 75,8 % of GDP in 2021.
- (15) On 20 May 2020, the Commission issued a report prepared in accordance with Article 126(3) of the Treaty because of Austria's planned breach of the 3%-of-GDP deficit threshold in 2020. Overall, the Commission's analysis suggests that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/97 has not been fulfilled.

(16) The Austrian government has taken unprecedented measures to control the spread of COVID-19. It has introduced strict quarantine and social distancing rules and made substantial funds available for the health system to purchase equipment and supplies, reinforce laboratory capacity, and strengthen staffing capability. Primary healthcare has come under exceptional pressure from an unprecedented increase in the need for teleconsultations, medical appointments and requests for home visits. The rapid COVID-19 outbreak has strongly affected Austria's economy. National and international containment measures against the virus have hit both the demand and supply side, leading to a broad-based downturn. GDP is therefore projected to contract by 5,5 % in 2020, more than during the economic and financial crisis in 2008-2009. Given the relatively rapid fall in new infections, Austria was one of the first Member States to announce a relaxation of containment measures beginning in mid-April. To avoid long-lasting economic damage and to cushion the employment and social impacts of the crisis, the government has adopted a comprehensive package of measures to support the Austrian economy (approximately 10 % of GDP). The package includes a short-time work scheme (*Kurzarbeit*), where working hours can be reduced by up to 90 % on average over a given period and employers are reimbursed 80 % to 90 % of the employee's last net income, dependent on last gross income. The comprehensive set of measures for businesses and self-employed aims to prevent temporarily liquidity problems and provides direct support especially to hard-hit enterprises and industries with a particular focus on small and medium-sized enterprises (SMEs). These include transfers, liquidity support through loans, guarantees, equity injections and tax deferrals. In the process of designing and implementing these measures the resilience of the banking sector needs to be taken into account.

- (17) The Austrian health system has so far dealt successfully with the COVID-19 pandemic. Expanding primary and ambulatory care services with a focus on health promotion and disease prevention would help to further improve population health. While maintaining high quality standards, cost efficiency could be increased by more effective public procurement and generic medicines. Also, Austria's long-term care system faces structural and fiscal challenges, which have so far not been thoroughly addressed. The system delivers comparatively high-quality services, but faces staffing challenges, which become even more perceptible and evident in the current crisis. The long-term care sector relies strongly on care provided by workers from other Member States, pointing to the need to secure free flow of cross-border workers. In addition, adequate remuneration could help to make the job of nursing staff more attractive.
- (18) Tax policy is playing an important role in supporting households and businesses during the COVID-19 containment and will be key in fostering economic recovery in the aftermath of the COVID-19 crisis. Austria's tax mix is characterised by a high burden on labour, while the revenue potential of wealth-related and environmental taxes remains largely untapped and consumption taxes could be made more efficient. Tax reforms could help to shift the tax mix towards sources that are less detrimental to inclusive and sustainable growth, and provide a solid basis for recovery. In particular, insufficiently used taxes on alcohol and tobacco, pollution and resource consumption imply unused steering effects and revenue potential. The uneven, but generally low level of energy taxation undermines its efficiency and effectiveness as a policy tool to incentivise environmentally beneficial consumption. In particular, consistent taxation of CO₂ emissions would make climate-friendly energy sources more competitive and provide fiscal space for reducing more distortive taxes. Higher, CO₂-related energy taxes would help to internalise the social costs of pollution, lead consumers to rely more on renewable sources and encourage investors to invest in climate-friendly technologies. Finally, greater use of wealth-related taxes could make the tax system fairer, especially in view of Austria's persistently high wealth inequality. In particular, recurrent property and inheritance taxes have proven to be relatively growth-friendly and progressive and should not be overlooked when it comes to generating tax revenues to restore public finances.

(19) While Austria performed well on the Social Scoreboard supporting the European Pillar of Social Rights, gaps in coverage may mean a lack of income protection for vulnerable groups during the COVID-19 crisis and may require additional measures. While youth unemployment rises, the unemployed, long-term unemployed, non-standard workers and foreign-born people are particularly at risk of poverty. Active labour market policies providing lifelong learning opportunities and upskilling will remain crucially important. Disadvantaged students, including learners with disabilities, are particularly affected by circumstances that require distance learning. While some 10 % of pupils under the age of 15 have no access to a virtual learning environment, the Austrian government, in response to the COVID-19 crisis, has taken mitigating measures by providing pupils at risk with computers. Already existing inequalities in educational attainment, linked to socio-economic and migrant backgrounds, risk however to be exacerbated. A recovery strategy that improves access to inclusive, good-quality early childhood education and care which have been shown to redress social disadvantages, would produce socioeconomic benefits in the medium and long term and provide opportunities for women to fully access the labour market. The overall employment rate of women was high before the crisis but almost half of them worked part-time (linked to short opening hours of schools and childcare facilities) causing a significant unadjusted gender pay gap.

- (20) The effectiveness of COVID-19 support measures in relieving hard-pressed firms, preserving business environments, and avoiding insolvencies depends on their swift and un-bureaucratic implementation by public authorities and intermediaries. Start-ups and scale-ups may need specific support, e.g. in the form of public institutions purchasing equity stakes and incentives for venture capital funds to invest more in such firms. This is to strengthen those firms that are vital for the recovery but also to avoid fire sales of strategically important European firms. In addition to funding support, hard-pressed firms, in particular smaller ones, need a supportive business environment. Administrative burden and regulatory density impose costs that firms can now afford less than ever. Efforts to reduce unnecessary burdens and provide efficient digital public services are an effective way of providing businesses with immediate, tangible relief without burdening the taxpayer. The insolvency framework should be geared to prevention but also to speedy unwinding and allowing for a second chance. Dispute resolution networks, such as SOLVIT, help companies in times of disruption to the internal market and need adequate resources.
- (21) To foster the economic recovery, it will be important to front-load mature public investment projects and promote private investment, including through relevant reforms. This investment will be most effective when focused on innovation, digitalisation and the green transition so as to increase productivity and ensure sustainable competitiveness. Austria's research and development (R&D) intensity has been one of the highest in the Union but the country has lagged behind innovation leaders in terms of innovation outcomes. With many businesses' research budgets now under pressure, it is even more important to translate Austria's R&D efforts into excellent science and cutting-edge innovation, maintain public investment in basic and applied research, and ensure equity funding for innovative scale-ups. Digitalisation remains essential for opening up the economy and preparing for the 'new normal' after the COVID-19 lockdown. The weak diffusion of digital technologies and business models among smaller companies represents a bottleneck for productivity growth. While Austrians' digital skills are in general above the EU average, not enough students graduate in computing to fill all available positions. Higher levels of e-commerce, working from home and e-government, for example, will require more investment in infrastructure (including 5G and rural broadband), equipment and skills.

- (22) Austria's transformation to a climate neutral economy will require sizeable private and public investment over a sustained period. Austria's national energy and climate plan identifies significant challenges in reaching its 2030 target for greenhouse gas emissions not covered by the Union emissions trading system. Improving resource productivity is a key driver for future growth while minimising impacts on the environment. Reducing transport-related emissions is essential for meeting air quality standards and climate goals. Front-loading and pursuing new investments to support the green transition will help to create new green jobs and kick-start the economy as it emerges from the COVID-19 crisis management mode. Investments in eco-innovation would trigger productivity growth while reducing Austria's ecological footprint. The programming of the Just Transition Fund, which is the subject of a Commission proposal, for the period 2021-2027 could help Austria to address some of the challenges posed by the transition to a climate-neutral economy, in particular in the territories covered by Annex D to the 2020 country report. This would allow Austria to make the best use of that Fund.
- (23) While the country-specific recommendations set out in this Recommendation ('the 2020 country-specific recommendations') focus on tackling the socioeconomic impacts of the COVID-19 pandemic and facilitating the economic recovery, the 2019 country-specific recommendations also covered reforms that are essential to address medium- to long-term structural challenges. The 2019 country-specific recommendations remain pertinent and will continue to be monitored throughout next year's European Semester. That includes the 2019 country-specific recommendations regarding investment-related economic policies. All of the 2019 country-specific recommendations should be taken into account for the strategic programming of post-2020 cohesion policy funding, including for mitigating measures and exit strategies with regard to the current crisis.

- (24) The European Semester provides the framework for continuous economic and employment policy coordination in the Union, which can contribute to a sustainable economy. In their 2020 National Reform Programmes, Member States have taken stock of progress made in the implementation of the United Nations Sustainable Development Goals (SDGs). By ensuring the full implementation of the 2020 country-specific recommendations, Austria will contribute to the progress towards the SDGs and to the common effort of ensuring competitive sustainability in the Union.
- (25) Close coordination between economies in the economic and monetary union is key in achieving a swift recovery from the economic impact of the COVID-19 pandemic. As a Member State whose currency is the euro, Austria should ensure that its policies remain consistent with the 2020 euro-area recommendations and coordinated with those of the other Member States whose currency is the euro, while taking into account political guidance from the Eurogroup.
- (26) In the context of the 2020 European Semester, the Commission has carried out a comprehensive analysis of Austria's economic policy and published it in the 2020 country report. It has also assessed the 2020 Stability Programme, the 2020 National Reform Programme and the follow-up given to the country-specific recommendations addressed to Austria in previous years. The Commission has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Austria, but also their compliance with Union rules and guidance, given the need to strengthen the Union's overall economic governance by providing Union-level input into future national decisions.
- (27) In the light of this assessment, the Council has examined the 2020 Stability Programme and its opinion⁷ is reflected in particular in recommendation (1) below,

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

HEREBY RECOMMENDS that Austria take action in 2020 and 2021 to:

1. Take all necessary measures, in line with the general escape clause of the Stability and Growth Pact, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Improve the resilience of the health system by strengthening public health and primary care.
2. Ensure equal opportunities in education and increased digital learning.
3. Ensure an effective implementation of liquidity and support measures, in particular for small and medium-sized enterprises, and reduce administrative and regulatory burden. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on basic and applied research, as well as innovation, sustainable transport, clean and efficient production and use of energy.
4. Make the tax mix more efficient and more supportive to inclusive and sustainable growth.

Done at Brussels,

For the Council

The President