COUNCIL RECOMMENDATION

of 12 July 2011

on the national reform programme 2011 of Austria and delivering a Council opinion on the updated stability programme of Austria, 2011-2014

(2011/C 210/03)

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 policies [1], and in particular Article 5(3) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which will focus on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, adopted a decision on guidelines for the employment policies of the Member States [2], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 12 January 2011, the Commission adopted the first Annual Growth Survey, marking the start of a new cycle of economic governance in the EU and the first European semester of *ex-ante* and integrated policy coordination, which is anchored in the Europe 2020 strategy.

(4) On 25 March 2011, the European Council endorsed the priorities for fiscal consolidation and structural reform (in line with the Council's conclusions of 15 February and 7 March 2011 and further to the Commission's Annual Growth Survey). It underscored the need to give priority to restoring sound budgets and fiscal sustainability, reducing unemployment through labour market reforms and making new efforts to enhance growth. It requested Member States to translate these priorities into concrete measures to be included in their stability or convergence programmes and national reform programmes.

(5) On 25 March 2011, the European Council also invited the Member States participating in the Euro Plus Pact to present their commitments on time for their inclusion in their stability or convergence programmes and their national reform programmes.

(6) On 27 April 2011, Austria submitted its 2011 stability programme update covering the period 2011-2014 and on 2 May 2011 its 2011 national reform programme. In order to take account of the interlinkages, the two programmes have been assessed at the same time.

(7) The Austrian economy entered the crisis on sound fundamentals, without having suffered from any major imbalances or distortions in the period preceding it. In spite of that, the financial and economic crisis has pushed the economy into the deepest recession for decades. Overall, real GDP contracted by almost 4 % in 2009. As a result of the crisis, employment fell by about 1 % in 2009, lifting unemployment to 4,8 % (from 3,8 % a year earlier). The crisis halted the previous continuous growth of current account surplus. The economic and financial crisis took its toll on public finances. As a result of the adoption of the stimulus packages and automatic stabilisers operating fully, the general government deficit reached 4,1 % and 4,6 % of GDP in 2009 and 2010 respectively. Public debt went up to 69,6 % and 72,3 % of GDP in 2009 and 2010 respectively. Since most of the stimulus measures were of a permanent nature, there was a need for fiscal consolidation as soon as economic conditions had improved. A consolidation package, amounting to close to 1 % of GDP, has been adopted in the budget law for 2011. Since the third quarter of 2009, the economy has been steadily recovering from the crisis on the back of improved foreign demand and in particular of stronger economic activity in Germany. Overall, real GDP growth reached 2 % in 2010.

(1) OJ L 209, 2.8.1997, p. 1.

(2) Maintained for 2011 by Council Decision 2011/308/EU of 19 May 2011 on guidelines for the employment policies of the Member States (OJ L 138, 26.5.2011, p. 56).

(8) Based on the assessment of the updated stability programme pursuant to Article 5(1) of Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections is plausible, and too favourable towards the end of the stability programme period. The main goal of the medium-term budgetary strategy, presented in the latest update of the stability programme, is to gradually reduce the general government deficit from 4,6 % of GDP in 2010 to 2,4 % of GDP in 2014, chiefly by expenditure restraint. There are mainly downside risks to these targets due to the fact that the measures to underpin the consolidation path at the subnational level are unspecified and the fact that savings from some of the measures adopted at the federal level will not materialise, e.g. gains from the anti-tax-fraud campaign, the predicted impact of which seems to be highly speculative. On the other hand, a positive risk factor is the multi-annual expenditure framework introduced for the federal government in 2009, which seems to have contributed to enhancing predictability of the budgetary process in the medium term, albeit only at the federal level. The stability programme stipulates that the debt-to-GDP ratio will grow from 72,3 % in 2010 to 75,5 % in 2013 before declining to 75,1 % in 2014. However, there are some risks attached to this projection, which relate to the growing debt of state-owned companies classified outside the government sector and potential further burden stemming from support measures to the banking sector. At the same time, however, the debt ratio might turn out lower, as it is probable that the banks which received the public support during the crisis will pay it back ahead of the schedule that is assumed in the stability programme.

(9) According to the stability programme, the general government deficit is expected to fall below the 3 % reference value in 2013, which is in line with the deadline set by the Council. However, the annual average fiscal effort of 0,2 % of GDP envisaged by the stability programme in the period 2011-2013 is well below the 0,75 % of GDP effort that the Council invited Austria to provide. According to the Commission’s latest assessment, the risks with regards to long-term sustainability of public finances appear to be medium.

(10) While Austria has a developed National Stability Pact in place, further reforming the fiscal relations between various layers of government would bring in substantial savings, support fiscal consolidation and free up resources for growth-enhancing investment in areas such as R&D and education. It is widely acknowledged that current relations are complex: not only are revenues from most individual taxes shared among the different territorial levels in fixed proportions, but also decision-making in many areas is divided among various levels of authority. For a number of activities, revenue-raising and spending responsibilities do not reside within the same level of government. Notable examples of inefficiencies stemming from the current form of these fiscal relations are found in the health care and education sectors.

(11) The average tax wedge in Austria is among the highest in the EU. Compared with other EU countries, the social security contributions of employees are very high. The reduction of unemployment insurance contributions of low-wage earners in 2008 and the income tax reform of 2009 helped reduce the labour tax burden, but could not prevent the tax wedge from increasing slightly for both low- and average-income earners as compared with the start of the last decade. This wedge has a negative impact on employment, in particular of low-paid and low-skilled workers.

(12) The employment rate of older workers in Austria is still well below the EU average in spite of a sharp rise in the last decade. Early retirement schemes and disability pensions are still widely used. Altogether 72 % of all new pensions in 2010 were granted before the statutory retirement age was reached. Another factor contributing to the low employment rate of older workers is the still relatively low statutory retirement age for women (60). Given the demographic developments in Austria, raising the effective retirement age and improving the framework enabling older workers to stay longer in the labour market are important in the context both of ensuring sustainability of public finances and of boosting the labour supply, which is forecast to start shrinking from 2020 onwards.

(13) The female employment rate in Austria is relatively high, associated with one of the highest rates of part-time work. Women’s jobs are highly concentrated in low-wage employment. These patterns result in a gender pay gap of 25,4 % which is the second highest in the EU and one of the factors leading to a relatively high poverty risk for women. A reason for female part-time work is the uneven distribution between women and men of care obligations for children and the elderly and the lack of child care and long-term care services.

(14) The education system is characterised by ‘early tracking’, whereby pupils have to decide at the age of 10 about their future education path with limited permeability between paths, and widespread half-day schooling. This can result in suboptimal educational outcomes for vulnerable youth, in particular those with a migrant background. Early choices predetermine to a large

extent future education paths, making it more difficult to reach higher education levels at a later stage. A common school for all 10 to 14-year-olds would help increase equality of opportunities in the education system and help tackle school drop-out rates.

(15) Competition in the services sector, in particular network services such as telecommunications, transport, utilities, as well as retail trade and professional services, is not sufficiently developed. Productivity growth has been sluggish and the market structure has not fostered purchasing power and consumer demand. Promoting competition through facilitating market entry, reducing the statutory regulation of professions and ensuring competitive pricing would expand consumer choice and affordability. Austria has accumulated lengthy delays in implementing the Services Directive; addressing these could contribute to unlocking growth. In particular the 'horizontal law', a federal law implementing the main principles of the Directive, is still pending.

(16) Austria has made a number of commitments under the Euro Plus Pact. The commitments refer to the three of the four areas of the Pact. On the fiscal side, the measures address the need to raise the effective retirement age as well as control public expenditure more effectively at the various levels of government. For employment, the focus is on combating youth unemployment, and for competitiveness, on investing further in research and technical education, as well as on developing models for all-day schools. The initiatives presented under the Pact are in line with the national reform programme and are in compliance with the Federal Budgetary Framework Law and the stability programme. However, while the measures address some of the main socio-economic issues facing the country, there are outstanding challenges that could usefully have been covered in the commitments, including in the areas of fiscal policy, education, competition and innovation. The Euro Plus Pact commitments have been assessed and taken into account in the recommendations.

(17) The Commission has assessed the stability programme and national reform programme, and the Euro Plus Pact commitments for Austria. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Austria, but also their observance of EU rules and guidance, given the need to reinforce the overall economic governance of the EU by providing EU-level input into future national decisions. It considers that, given the favourable economic conditions, the fiscal consolidation effort should be stepped up, in particular in 2012, and that the fiscal relations between the various layers of government should be reformed further. Reducing the tax wedge, improving educational outcomes and combating gender segmentation would be beneficial to the dynamism of the labour market, while enhancing competition and fostering innovation would increase competitiveness.

(18) In light of this assessment, also taking into account the Council Recommendation under Article 126(7) of the Treaty on the Functioning of the European Union of 2 December 2009, the Council has examined the 2011 update of the stability programme of Austria and its opinion [1] is reflected in particular in its recommendations (1) and (2) below,

HEREBY RECOMMENDS that Austria take action within the period 2011-2012 to:

1. Accelerate the correction of the excessive deficit, which is planned mainly on the expenditure side, thus bringing the high public debt ratio on a downward path, taking advantage of the ongoing economic recovery, in order to ensure an average annual fiscal effort of 0,75 % of GDP over the period 2011-2013 in line with the Council recommendations under the EDP. To this end, adopt and implement the necessary measures, including at the subnational level. Specify measures as needed to ensure adequate progress towards the medium-term objective in line with the Stability and Growth Pact (SGP) after correction of the excessive deficit.

2. Take steps to further strengthen the national budgetary framework by aligning legislative, administrative, revenue-raising and spending responsibilities across the different levels of government, in particular in the area of health care.

3. In consultation with the social partners and according to national practices, take steps to further limit access to the current early retirement scheme for people with long insurance periods and take steps to reduce the transition period for harmonisation of the statutory retirement age between men and women to ensure the sustainability and adequacy of the pension system. Apply strictly the conditions for access to the invalidity pension scheme.

4. Take measures to enhance participation in the labour market, including the following: reduce, in a budgetary neutral way, the effective tax and social security burden on labour, especially for low- and medium-income earners; implement the National Action Plan on the equal treatment of women and men in the labour

(1) Foreseen in Article 5(3) of Regulation (EC) No 1466/97.

market, including improvements in the availability of care services and of all-day school places to increase the options for women to work full-time and in the high gender pay gap; take steps to improve educational outcomes and prevent school drop-out.

5. Take further steps to foster competition, in particular in the services sectors, by relaxing barriers to entry, removing unjustified restrictions on some professions, as well as enhancing the powers of the competition authority. Accelerate the adoption of the outstanding 'horizontal law' implementing the Services Directive.

Done at Brussels, 12 July 2011.

For the Council

The President

J. VINCENT-ROSTOWSKI