COUNCIL RECOMMENDATION

of 13 July 2018

on the 2018 National Reform Programme of Austria and delivering a Council opinion on the 2018 Stability Programme of Austria

(2018/C 320/19)

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(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) On 22 November 2017, the Commission adopted the Annual Growth Survey, marking the start of the 2018 European Semester of 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. The priorities of the Annual Growth Survey were endorsed by the European Council on 22 March 2018. On 22 November 2017, on the basis of Regulation (EU) No 1176/2011, 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, which was endorsed by the European Council on 22 March 2018. On 14 May 2018, the Council adopted the recommendation on the economic policy of the euro area [2] ('recommendation for the euro area').

(2) As a Member State whose currency is the euro and in view of the close interlinkages between the economies in the economic and monetary union, Austria should ensure the full and timely implementation of the Recommendation for the euro area, as reflected in recommendations (1) to (2) below.

(3) The 2018 country report for Austria was published on 7 March 2018. It assessed Austria's progress in addressing the country-specific recommendations adopted by the Council on 11 July 2017 [3], the follow-up given to the country-specific recommendations adopted in previous years and Austria's progress towards its national Europe 2020 targets.

(4) Austria submitted its 2018 National Reform Programme on 25 April 2018, and its 2018 Stability Programme on 21 March 2018. To take account of their interlinkages, the two programmes have been assessed at the same time.

[1] OJ L 209, 2.8.1997, p. 1.
[2] OJ C 179, 25.5.2018, p. 1.
[3] OJ C 261, 9.8.2017, p. 1.

(5) Relevant country-specific recommendations have been addressed in the programming of the European Structural and Investment Funds ('ESI Funds') for the 2014-2020 period. As provided for in Article 23 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council ([1]), where it is necessary to support the implementation of relevant Council recommendations, the Commission may request a Member State to review and propose amendments to its Partnership Agreement and relevant programmes. The Commission has provided further details on how it would make use of that provision in guidelines on the application of the measures linking the effectiveness of the ESI Funds to sound economic governance.

(6) Austria is currently in the preventive arm of the Stability and Growth Pact and subject to the debt rule. In its 2018 Stability Programme, the Government expects that the headline balance will improve from a deficit of 0,7 % of GDP in 2017 to a surplus of 0,4 % of GDP in 2022. The medium-term budgetary objective — a structural deficit of 0,5 % of GDP as of 2017 — is projected to be met in 2019. According to the Stability Programme, the general government debt-to-GDP ratio is expected to gradually decline from 78,1 % of GDP in 2017 to 62,2 % of GDP in 2022. The macroeconomic scenario underpinning those budgetary projections is favourable for 2018 and plausible afterwards. The main risks underlying the medium-term budgetary planning are discretionary policy measures envisaged as of 2020, such as the announced reform of the personal income tax, whose net budgetary effects are not yet fully specified.

(7) The Stability Programme indicates that the budgetary impact of the exceptional inflow of refugees and security-related measures is significant and provides adequate evidence of the scope and nature of these additional budgetary costs. According to the Commission, the eligible additional expenditure in 2017 amounted to 0,03 % of GDP for the exceptional inflow of refugees while no further cost was incurred for security-related measures. The provisions set out in Articles 5(1) and 6(3) of Regulation (EC) No 1466/97 cater for this additional expenditure, in that the inflow of refugees as well as the severity of the terrorist threat are unusual events, their impact on Austria's public finances is significant and sustainability would not be compromised by allowing for a temporary deviation from the adjustment path towards the medium-term budgetary objective. Therefore, the required adjustment towards the medium-term budgetary objective for 2017 has been reduced to take into account additional refugee-related costs.

(8) On 11 July 2017, the Council recommended Austria to ensure that the deviation from the medium-term budgetary objective in 2018 is limited to the allowance linked to the budgetary impact of the exceptional inflow of refugees and security-related measures. This is consistent with a maximum nominal growth rate of net primary government expenditure of 3,3 % in 2018, corresponding to an allowed deterioration in the structural balance by 0,2 % of GDP. Taking into account the granted allowances, the Commission 2018 spring forecast points to a risk of some deviation from that requirement in 2018 and over 2017 and 2018 taken together.

(9) In 2019, Austria should achieve its medium-term budgetary objective, taking into account the allowance linked to unusual events for which a temporary deviation is granted. This is consistent with a maximum nominal growth rate of net primary government expenditure of 2,9 %, corresponding to an improvement in the structural balance by 0,3 % of GDP. Based on the Commission 2018 spring forecast, under unchanged policies, Austria would be at risk of a significant deviation from the requirement in 2019, due to the deviation over 2018 and 2019 taken together. At the same time, Austria is projected to be within a distance of 0,1 % of GDP from its medium-term objective in 2019. In addition, Austria is forecast to comply with the debt rule in 2018 and 2019. Overall, the Council is of the opinion that Austria needs to stand ready to take further measures to ensure compliance in 2018 and that the necessary measures should be taken in 2019 to comply with the provisions of the Stability and Growth Pact.

(10) According to the 2018 Ageing Report, the projected increase in pension, healthcare and long-term care expenditures points to a medium risk to fiscal sustainability in the medium and long term. Austria's public expenditure on pensions is above the Union average (13,8 % compared to 11,2 % of GDP in 2016) and expected to increase further by 2070 (0,5 % compared to -0,2 % of GDP). Recent reforms have successfully provided incentives to retire later. However, without an increase in the statutory retirement age, the further accumulation

([1]) Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 (OJ L 347, 20.12.2013, p. 320).

of benefit entitlements during the extended working lifetime does not improve long-term sustainability. At 60, the statutory retirement age of women is among the lowest in the Union. The statutory retirement age of women will only gradually adjust as of 2024, achieving harmonisation with the male statutory retirement age only as of 2033. Overall, increasing the statutory retirement age and restricting early retirement would contribute to pension sustainability in an ageing demographic context.

(11) Public healthcare expenditure is above the Union average (7 % compared to 6,8 % of GDP in 2016) and expected to increase more than the Union average (1,3 % versus 0,9 % of GDP), which would raise public healthcare expenditure to 8,3 % of GDP by 2070. Expenditure on long-term care is projected to double from 1,9 % to 3,8 % of GDP by 2070. The introduction of expenditure ceilings through the 2017 Financial Equalisation Law and the reform strengthening primary healthcare and reducing the reliance on the hospital sector have started to address the sustainability issue. The persistently high number of health insurance agencies provides an indication of potential further savings in governance and administrative costs. In addition, more effective public procurement (e.g. Union-wide tendering, the use of award criteria other than price and cross-regional tender aggregation) would help improve quality and cost-efficiency. In the area of long-term care, recent policy measures such as the decision to abolish the recourse to private assets of people to finance inpatient long-term care are expected to increase, rather than contain, expenditure.

(12) The 2017 Financial Equalisation Law has contributed to streamlining the fiscal relations among the different levels of government by initiating task-oriented financing, simplifying the distribution of intergovernmental transfers, and assigning an own source of revenue to the States. However, despite these reform efforts, the fiscal framework continues to be opaque and the significant mismatch between expenditure and revenue-raising responsibilities persists, providing weak incentives for increasing efficiency at subnational level.

(13) Despite the 2016 tax reform, the tax burden on labour remains high and is set to gradually increase over time if tax brackets are not indexed to inflation. Higher income earners saw a relatively large benefit from the reform compared to lower income earners, and the tax burden for low-income earners remains high. The tax reform also benefited men more than women. Sources of revenue deemed less detrimental to growth, such as recurrent property taxes, appear to be underutilised, mainly because of a largely outdated tax base. Revenues from recurrent property taxes in Austria are low, amounting to 0,2 % of GDP compared to the Union average of 1,6 % of GDP in 2016. Shifting the tax burden from labour to less detrimental sources of revenue could help address this problem.

(14) The labour market performs well, however challenges for specific groups (e.g. women and people with a migrant background) remain. Despite an overall high employment rate for women, labour market outcomes in terms of full-time employment remain rather poor. The rate of female part-time employment (age 20-64), at 47,9 % in 2017, remains one of the highest in the Union (Union average: 31,1 %). The issues related to access to formal childcare, including in particular outside the urban area, contribute to this outcome. The high share of women in part-time work, which is largely the result of women performing important unpaid tasks such as caring for children and relatives, as well as lower hourly earnings, contribute to a persistently high gender pay gap. The latter has a direct impact on women's accumulation of pension rights, resulting in a large pension gap.

(15) Learning outcomes for disadvantaged students have not improved. A wide performance gap remains between students with and without a migrant background. National testing in 2016 confirmed that around one-quarter of 8th grade pupils do not or only partially meet educational standards in German. Recent international testing also confirmed a widening gap in reading for those from a lower socioeconomic or migrant background. Comparing the 2012 and 2015 results of the Programme for International Student Assessment (PISA), the proportion of low achievers increased in all three core areas surveyed, i.e. mathematics, reading and science. Austrian-born pupils outperform first generation migrants by a level equivalent to almost three years of schooling.

(16) While productivity is high in Austria, productivity growth has been lacklustre over recent years despite Austria's considerable efforts, such as by investing in R&D and improving the framework for start-ups. The remaining levers to support productivity growth relate to the digitalisation of businesses, company growth and competition in services. Austria has significant access barriers and restrictive rules on the exercise of business services and

regulated professions. These include specific shareholding requirements, extensive reserved activities and interdisciplinary restrictions. Continued efforts to reduce burdens and the planned evaluation of Austria's Trade Licence Act (*Gewerbeordnung*) are important instruments to address this issue.

(17) More competition in the service sector would help address Austria's challenges in spreading digital technologies and business models, in particular among micro, small and medium-sized enterprises. Digitalisation of these enterprises is particularly important in Austria as they form the backbone of the Austrian economy. Initiatives such as 'KMU Digital' and 'AT: net' and the implementation of the Digital Roadmap Austria are key. A further issue concerns the scaling-up of companies and in particular of highly innovative companies. Later stage funding, such as in the forms of venture capital and access to public capital markets for scale-ups, is a bottleneck. High-growth companies are crucial for the diffusion of new technologies and business models, including digital ones, and thus for productivity growth.

(18) In the context of the 2018 European Semester, the Commission has carried out a comprehensive analysis of Austria's economic policy and published it in the 2018 country report. It has also assessed the 2018 Stability Programme, the 2018 National Reform Programme and the follow-up given to the recommendations addressed to Austria in previous years. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Austria but also the extent to which they comply 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.

(19) In the light of this assessment, the Council has examined the 2018 Stability Programme and its opinion ([1]) is reflected in particular in recommendation (1) below,

HEREBY RECOMMENDS that Austria take action in 2018 and 2019 to:

1. Achieve the medium-term budgetary objective in 2019, taking into account the allowance linked to unusual events for which a temporary deviation is granted. Ensure the sustainability of the health and long-term care and the pension systems, including by increasing the statutory retirement age and by restricting early retirement. Make public services more efficient, including through aligning financing and spending responsibilities.

2. Reduce the tax wedge, especially for low-income earners, by shifting the tax burden to sources of revenue less detrimental to growth. Improve labour market outcomes of women. Improve basic skills for disadvantaged young people and people with a migrant background. Support productivity growth by stimulating digitalisation of businesses and company growth and by reducing regulatory barriers in the service sector.

Done at Brussels, 13 July 2018.

For the Council

The President

H. LÖGER

([1]) Under Article 5(2) of Regulation (EC) No 1466/97.