

European Semester

2012/2677(RSP) - 30/05/2012 - Follow-up document

PURPOSE: draft recommendation for a COUNCIL RECOMMENDATION on Austria's 2012 national reform programme and delivering a Council opinion on Austria's convergence programme for 2012-2015.

BACKGROUND: the European Commission has adopted a **package of recommendations for budgetary measures and economic reforms** to enhance financial stability, boost growth and create employment across the EU.

The recommendations are **country-specific**, taking account of the individual situation of each Member State. The Commission has also issued recommendations for the euro area as a whole. The country-specific recommendations put forward by the Commission give operational guidance for Member States while preparing their budgetary policies and for economic reforms that should be enacted over the coming twelve months to boost competitiveness and facilitate job creation.

The adoption of the recommendations marks the **concluding of the second phase of the European Semester** of economic policy coordination, which was launched with the Commission's [Annual Growth Survey](#) on 23 November 2011.

The basis for these recommendations is a thorough assessment of the implementation of those adopted in 2011, combined with a detailed analysis of the national reform programmes and stability or convergence programmes that Member States submitted by 30 April 2012. The analysis underpinning the recommendations is presented in 28 Commission staff working documents.

CONTENT: on 24 April 2012, **Austria** submitted its stability programme covering the period 2012-2015 and on 13 April 2012, its 2012 national reform programme. The two programmes have been assessed at the same time.

Based on the assessment of the 2012 stability programme, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme is cautious for the years 2012 and 2013. For 2014-2016 the scenario becomes more optimistic, projecting average GDP growth of 2.1%, consistently above the current estimates of potential

growth.

The objective of the budgetary strategy outlined in the programme is to **correct the excessive deficit by 2013 and reach the medium-term budgetary objective (MTO) by 2016**. The programme envisages that the debt-to-GDP ratio, which amounted to 72.2% at the end of 2011, is going to peak at 75.3% in 2013 before gradually falling to 70.6% in 2016. Nevertheless, there are risks accompanying the fiscal targets both on the revenue and on the

expenditure side. For example, the budgetary effect of some measures is difficult to quantify because of dependence on individual uptake. Since the legislation has not yet been decided the details of the financial transaction tax are not yet known. The expenditure cuts at the sub-national level are not defined.

The measures contained in the latest fiscal consolidation package do not encompass significant streamlining in the fiscal relations between the federal, regional and local governments, widely acknowledged as a major source of potential savings

The Commission states that the **main challenges facing Austria** are as follows:

- In order to raise the effective retirement age, Austria has enacted reforms mainly aimed at restricting access to the invalidity pension scheme. Bringing forward the harmonisation of the statutory retirement age between men and women has not been addressed. Employability of older workers and active aging cultures within companies need to be further enhanced.
- The performance of the Austrian labour market has been very good. However, the country's labour force potential is projected to shrink from 2020 onwards. Therefore, Austria will have to strive to fully tap the potential of working age population by addressing the problems of the low employment rate of older workers and the widespread use of early retirement and invalidity pension schemes, the high tax and social security burden on labour income, and the relatively high concentration of women in low-wage and part-time employment.
- Steadily growing number of students, due to high incoming mobility ('mass university') and high drop-out rates (around 40 %), remain the main challenges together with a considerable gap in funding.
- Austria enjoys a favourable position in terms of competitiveness and productivity. Nevertheless, it faces relative structural weaknesses in several areas. Competition in the services sector has not been particularly supportive of domestic demand. The issues of high network access prices and the distortive behaviour of incumbent firms (hampering market entry, competition and innovation) have not been addressed. Unjustified restrictions in the liberal professions persist.
- The Austrian financial sector faces particular challenges related to the high exposure of Austrian banks to the countries of Central, Eastern and South Eastern Europe. Authorities also need to continue to closely monitor and restructure the banks which benefited from public sector support, especially the credit institutions which were nationalised.

Recommendations proposed for Austria (2012-2013):

Budgetary measures:

- implement the 2012 budget as envisaged and reinforce and rigorously implement the budgetary strategy for the year 2013 and beyond;
- sufficiently specify measures (in particular at the sub-national level), to ensure a timely correction of the excessive deficit and the achievement of the average annual structural adjustment effort specified in the Council Recommendations on the Excessive Deficit Procedure ;
- thereafter, ensure an adequate structural adjustment effort to make sufficient progress towards the medium-term budgetary objective (MTO), including meeting the expenditure benchmark ;
- take further steps to strengthen the national budgetary framework by aligning responsibilities across the federal, regional and local levels of government, in particular by implementing concrete reforms aimed at improving the organisation, financing and efficiency of healthcare and education.

Pension system:

- bring forward the harmonisation of the statutory retirement age between men and women.

Labour market:

- enhance older workers' employability and monitor closely the implementation of the recent reforms restricting access to early exit channels ;
- take steps to reduce the effective tax and social security burden on labour especially for low income earners with a view to increasing employment rates for older persons and women ;
- shift the tax burden in a budgetary neutral way, towards real estate taxes, and environmental taxes ;
- reduce the high gender pay gap and enhance full-time employment opportunities for women, notably through the provision of additional care services for dependants.

Education:

- take further measures to improve educational outcomes, especially of disadvantaged young people ;
- take measures to reduce drop-outs from higher education.

Competition:

- take further steps to foster competition, in the services sectors, by removing barriers to market entry in the communications, transport and energy retail markets ;
- remove unjustified restrictions on access to the liberal professions ;
- enhance the powers of the competition authorities and speed up the implementation of the competition law reform.

Financial system:

- step up the restructuring of banks which benefited from public support, while avoiding deleveraging ;
- further improve the cooperation and coordination of national policy decisions with financial sector supervisors in other countries.

The recommendations are to be endorsed by the European Council on 28-29 June and formally adopted by the Council in July 2012.