

National Reform Programme

Austria
Federal Chancellery



2016

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1. Introduction

In April 2015, Austria conveyed its National Reform Programme and Stability Programme to the European Commission, which subjected the two documents to an in-depth assessment. On the basis of that analysis, the Commission proposed a total of four country-specific recommendations for Austria; these were discussed extensively in the committees and Councils of Ministers and approved by the Council of the European Union on 25th/26th June, after which the recommendations were formally adopted by the Council on 14 July 2015. On 26th February 2016, the European Commission published an extensive country report that assesses implementation progress and provides an interim summary of results with regard to Austria's national Europe 2020 targets. In its analysis, the Commission comes to the conclusion that Austria has made only limited progress in implementing the country-specific recommendations from the year 2015. On 8th March 2016, the European Commission published an overview of reform progress in all Member States as well as the results of its in-depth analysis of excessive imbalances in the course of the procedure. Those 18 Member States which had been flagged for an in-depth review in the Commission's Alert Mechanism Report in November 2015 were assigned to four categories on the basis of the analysis results: (i) no imbalances, (ii) imbalances, (iii) excessive imbalances and (iv) excessive imbalances with corrective action. For all Member States identified as exhibiting imbalances, a specific monitoring procedure was activated and carried out with varying degrees of intensity depending on the severity of the underlying challenges. In Austria's case, no imbalances were detected.

Last year, the process involved in the European semester was improved substantially by the early publication of country reports. Since that time, the Member States have had the opportunity to respond to the European Commission's analyses and conclusions in their respective National Reform Programmes and Stability and Convergence Programmes. The Austrian National Reform Programme 2016 follows the structure defined in the guidelines of December 2015 and addresses the core messages in the European Commission's country analysis from February 2016. The National Reform Programme is also accompanied by two annexes that provide a tabular overview of the reform measures taken to implement the country-specific recommendations as well as the attainment of the national Europe 2020 targets at the level of the federal government, provincial governments, municipalities and towns/cities as well as the social partners.

2. Overall economic environment

2.1 Overall economic development

In the year 2015, the Austrian economy grew by 0.9%, which was significantly lower than the euro area average (+1.6%). For the year 2016, the Austrian Institute of Economic Research (WIFO) forecasts a moderate increase in growth to 1.6%, while the Institute for Advanced Studies (IHS) projects growth of 1.5%.¹ This growth will be driven by the latest tax reform, which went into effect in January 2016 (0.4 percentage points), by spending on recognised refugees and asylum seekers (0.3 percentage points), which will contribute to an increase in nominal household income through transfer payments, and by the housing construction initiative (0.1 percentage points).

The drastic increase in the labour supply will also have an effect on the labour market situation. The number of employed persons will continue to increase in the coming months, especially in the service sector. At the same time, the increase in employment is not expected to match the growth in the labour supply, meaning that the currently increasing level of unemployment will persist in the year 2016. In addition to the larger number of workers from countries that acceded to the EU in 2004 and 2007, the increasing labour market participation of older persons and women have contributed to this increase in the labour supply.

Thanks to the 2016 tax reform, households' disposable income will increase, and real consumer spending will rise by 1.7% in 2016 (WIFO estimate; IHS projection: 1.5%; OeNB: 1.6%). This means that domestic consumption will make a contribution to Austrian economic growth for the first time in four years.

Another positive development can be observed in the investment activities of businesses, where growth turned positive at the beginning of 2015. Austria's exports also showed dynamic developments in 2015. After the slump following the sanctions imposed on the Russian Federation, Austrian exporters succeeded in generating additional revenues from exports to the US, Eastern Europe and the EU, thus compensating for the decline in exports observed in recent years. The improvement in the current account balance in 2015 can also be attributed to the outstanding development of the Austrian tourism industry.

Although the rate of inflation over the year 2015 (0.9%) was substantially lower than the previous year's figure (1.7%), it remained markedly higher than the euro zone average. By the end of the year 2016, the dampening effect of lower crude oil prices is likely to diminish. Subsequently, an increase in inflation is expected, mainly due to external cost factors.

2.2 In-depth analysis in the Macroeconomic Imbalances Procedure

This year, Austria was for the first time subjected to an in-depth analysis focusing on the banking sector. After a detailed analysis, the European Commission came to the conclusion²

¹ A detailed depiction of the country's overall economic situation can be found in the Austrian Stability Programme: Update for the period 2014 to 2019. Vienna: Federal Ministry of Finance, April 2016.

² cf. Country Report Austria 2016 including an In-Depth Review on the prevention and correction of macroeconomic imbalances, Commission Staff Working Document, Brussels: SWD(2016) 88 final; 2016 European Semester: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011,

that Austria does not exhibit any macroeconomic imbalances. The restructuring measures taken in the financial sector did place a burden on public finances, but from the Commission's perspective, Austria has made satisfactory progress, and it is not expected that additional public funds will be required. The risk-bearing capacity and resilience of the Austrian banking sector have been reinforced by the supervisory measures taken in recent years, and for exposures outside of Austria, the local funding basis and the quality of assets have been improved. The Commission's analysis of developments on the export market confirmed that Austria is experiencing no macroeconomic imbalances.

3. Country-specific recommendations

Within the framework of the European semester, the European Commission conducted extensive analyses of Member States' economic policies and issued specific recommendations for each Member State on the basis of those analyses. The European Council approved these recommendations during its session on 25th/26th June 2015 and called upon the Member States to implement them accordingly. In 2015, Austria received four country-specific recommendations.

Country-Specific Recommendation No. 1

"Avoid deviating from the medium-term budgetary objective in 2015 and 2016. Ensure the budget neutrality of the tax reform aimed at reducing the tax burden on labour. Correct the misalignment between the financing and spending responsibilities of the different levels of government. Take measures to ensure the long-term sustainability of the pension system, including by earlier harmonisation of the statutory retirement age for men and women, and link the statutory retirement age to life expectancy."

Adherence to medium-term budgetary objective, budget neutrality of tax reform, and reduction of the tax burden on labour³

On 20th May 2015, the Austrian National Council adopted the budgetary framework for the years 2016-2019, thus defining how Austria will adhere to the medium-term budgetary objective for that period. In order to ensure the budget neutrality of the tax reform which was adopted in March 2015 and entered into force on 1st January 2016, a large number of offsetting measures have been implemented (cf. Federal Law Gazette I No. 118/2015). Half of the tax reform is financed through measures against tax and social security fraud, while structural measures and a "solidarity package" will contribute a volume of about EUR 1.3 billion. In addition, public finances will add EUR 1.1 billion through cost-cutting measures in administration and subsidies. Positive stimuli are expected from the tax reform 2015/16, which, in addition to a slight export stimulus, is also expected to boost domestic demand, thus creating positive feedback effects on labour market dynamics. An ex-ante evaluation of the 2015/16 tax reform⁴ (see also table 1) show that a vast majority of employed persons (91.8%) will benefit from Austria's 2015/16 tax reform, which will increase their annual simulated net income from employment by an average of EUR 997.00, or 3.8%. The lower income brackets have been provided with relief through the increase in the negative tax (which, for the first time, also applies to retirees); in addition, social transfers play a more significant role in the lower deciles.

³ A detailed depiction of Austria's budget development can be found in the Austrian Stability Programme: Update for the period 2014 to 2019. Vienna: Federal Ministry of Finance, April 2016

⁴ cf. Rocha-Akis, Silvia (2015). *Verteilungseffekte der Einkommensteuerreform 2015/16*, in: WIFO-Monatsberichte 88(5), pp. 387-398

Table 1: Distribution effects of 2015/16 tax reform on employees and self-employed persons

| Decile | Annual income and social security contributions | | | | | Persons affected ⁽¹⁾ |
|-------------------------|---|-----------------------------------|-------------|-------------|-------------|---------------------------------|
| | Baseline scenario | Changes due to 2015/16 tax reform | | Age | Men | Shares in % |
| | in EUR | in EUR | in % | Years | in % | |
| 1 | 6,118 | +163 | +2.4 | 35.2 | 34.9 | 55.8 |
| 2 | 11,705 | +233 | +2.0 | 37.6 | 38.8 | 79.7 |
| 3 | 15,389 | +423 | +2.7 | 39.8 | 34.5 | 97.4 |
| 4 | 17,989 | +740 | +4.1 | 37.6 | 46.2 | 99.9 |
| 5 | 20,715 | +958 | +4.6 | 39.2 | 57.9 | 100.0 |
| 6 | 23,609 | +1,016 | +4.3 | 39.1 | 61.2 | 100.0 |
| 7 | 26,640 | +1,239 | +4.6 | 41.8 | 65.1 | 100.0 |
| 8 | 30,304 | +1,546 | +5.1 | 42.3 | 68.0 | 100.0 |
| 9 | 36,476 | +1,701 | +4.7 | 45.2 | 73.6 | 100.0 |
| 10 | 61,685 | +1,957 | +3.4 | 48.4 | 82.1 | 99.8 |
| Total | 25,054 | +997 | +3.8 | 40.6 | 55.8 | 91.8 |
| Women | 19,966 | +778 | +3.6 | 41.3 | 0.0 | 88.7 |
| Men | 29,015 | +1,168 | +4.0 | 40.0 | 100 | 94.2 |
| <40 age group | 20,584 | +836 | +3.7 | 28.8 | 59.2 | 91.1 |
| 40+ age group | 28,255 | +1,113 | +3.9 | 49.1 | 53.3 | 92.2 |

(1) Defined as those persons whose net income is set to increase by at least 1% due to the 2015/16 tax reform.

Source: Rocha-Akis, 2015, p. 391

With the exception of the two lowest deciles (1.3% and 1.9% relief), disposable income will rise by 2.9% to 3.8% in all income deciles.⁵

Table 2: Distribution effects of 2015/16 tax reform on all households

| Decile | Relief due to reform | Relief due to reform | Average change in disposable household income | Average change in equivalent disposable household income | Share of relief |
|--------------|----------------------|----------------------|---|--|-----------------|
| | in EUR thousands | in % | in EUR | in EUR | in % |
| 1 | 74,415 | 1.3 | 161 | 109 | 1.6 |
| 2 | 152,752 | 1.9 | 432 | 268 | 3.2 |
| 3 | 290,018 | 2.9 | 778 | 507 | 6.1 |
| 4 | 343,870 | 3.2 | 1,004 | 638 | 7.2 |
| 5 | 402,217 | 3.3 | 1,146 | 730 | 8.5 |
| 6 | 472,344 | 3.4 | 1,333 | 867 | 9.9 |
| 7 | 557,574 | 3.6 | 1,626 | 1,028 | 11.7 |
| 8 | 664,060 | 3.8 | 1,876 | 1,192 | 14.0 |
| 9 | 782,023 | 3.7 | 2,153 | 1,386 | 16.5 |
| 10 | 1,008,864 | 3.1 | 2,712 | 1,744 | 21.2 |
| Total | 4,748,140 | 3.2 | 1,294 | 829 | 100.0 |

Source: Hofer et al. (2015), p. 7

In its 2016 country report on Austria,⁶ the European Commission confirms that the 2015/16 tax reform is in line with the relevant country-specific recommendation and also

⁵ cf. Hofer et al. (2015), *Ex Ante Evaluation der Steuerreform 2015/16. Wirkungen auf Einkommensverteilung, Arbeitsangebot und makroökonomische Größen*, Vienna: Institute for Advanced Studies, Project Report, p. 7

⁶ cf. Country Report Austria 2016 including an In-Depth Review on the prevention and correction of macroeconomic imbalances, Commission Staff Working Document, Brussels: SWD(2016) 88 final, p. 52 et seq.

corresponds to the recommendations in the Annual Growth Survey 2016. The reform substantially reduces the tax burden on labour. In addition, the studies conducted by WIFO, IHS and the Commission also confirm the reform's positive effects on the labour market. The reduction of the tax burden on labour also creates incentives to work, which will increase employment by 0.8% or 0.9% (i.e. 25,000 to 29,000 jobs) in the medium to long term. In the long-term perspective, the unemployment rate will be decreased by 0.3 percentage points and the tax wedge will be reduced substantially. Increasing employment and higher incomes will lead to higher spending, thus also funding part of the tax reform. In addition, the IHS concludes that the reform will also have positive effects on employment opportunities for low-wage earners.⁷

During the government summit on the labour market and the economy⁸ on 30th October 2015, another gradual decrease in non-wage labour costs was agreed upon. As of 1st January 2016, the contribution to the Insolvency Remuneration Fund was decreased by 0.1 percentage points (cf. Federal Law Gazette II No. 375/2015). The contribution to the Family Burdens Equalisation Fund (FLAF) will be reduced by 0.4 percentage points in 2017 and by another 0.2 percentage points in 2018. Under the planned bonus/malus system, contributions will be reduced by an additional 0.1 percentage points from 1st January 2018 (see also Country-Specific Recommendation No. 2). Overall, these measures will decrease non-wage labour costs to companies by up to EUR 1 billion per year by 2018, which is expected to create additional stimuli for the labour market. When the reductions in non-wage labour costs as of 1st July 2014 (0.1 percentage point accident insurance contribution) as well as 1st January 2015 (0.1 percentage point decrease of the employers' contribution to the IESG [Insolvency Remuneration Fund]) are also included, the total amount is considerably higher than EUR 1 billion per year.⁹

As for the greater consideration of ecological aspects in the Austrian tax system, the rules regarding the private use of company cars were tightened in connection with the tax reform. From the year 2016 onward, the amount of taxable income calculated for a company car will be linked to the vehicle's CO₂ emissions; for example, the use of company vehicles with zero CO₂ emissions is exempted from income tax.

Incongruities at various levels of government

The reform of accounting standards for federal provinces and municipalities was completed in October 2015, and the corresponding standards were adopted (cf. Federal Law Gazette II No. 313/2015). The 2015 Ordinance on Budget Projections and Accounts (*Voranschlags- und Rechnungsabschlussverordnung – VRV 2015*), harmonises the form and structure of budget projections and accounts for all public budgets in accordance with the principles of transparency, efficiency and comparability. The provisions of the new regulation are to be implemented by the federal provinces and municipalities with more than 10,000 inhabitants at the latest from the fiscal year 2019 onward, while municipalities with fewer than 10,000 inhabitants will be required to implement the new standards from the fiscal year 2020.

With regard to administration in the school system, the establishment of Education Departments (*Bildungsdirektionen*)¹⁰ as joint federal-provincial authorities will contribute to

⁷ cf. Hofer et.al. (2015), p. 31 et seq.

⁸ cf. *Arbeitsmarkt- und Konjunktur Gipfel. Wachstum und Arbeitsplätze durch gezielte Investitionen*, Vienna, 30th October 2015

⁹ cf. National Reform Programme 2014, p. 9.

¹⁰ cf. Education Reform Commission (2015). Presentation to the Austrian Council of Ministers on 17th November 2015 (<https://www.bmbf.gv.at/ministerium/vp/2015/20151117.pdf?55kaz6>).

creating a leaner administrative structure. These departments will take on the powers previously entrusted to the Provincial School Boards (which are federal authorities) and the provincial school departments. In the course of negotiations on the sharing of expenses among the federal, provincial and local governments (financial burden equalisation), which will be concluded by summer 2016, one key objective is to work towards greater tax autonomy for the federal provinces and higher task orientation.¹¹

Long-term sustainability of the pension system

As for the federal budget for pension benefits, the amounts actually paid out in the year 2015 were lower than the budgeted figures. This can be attributed to the positive development of contributions as well as lower pension expenditure.

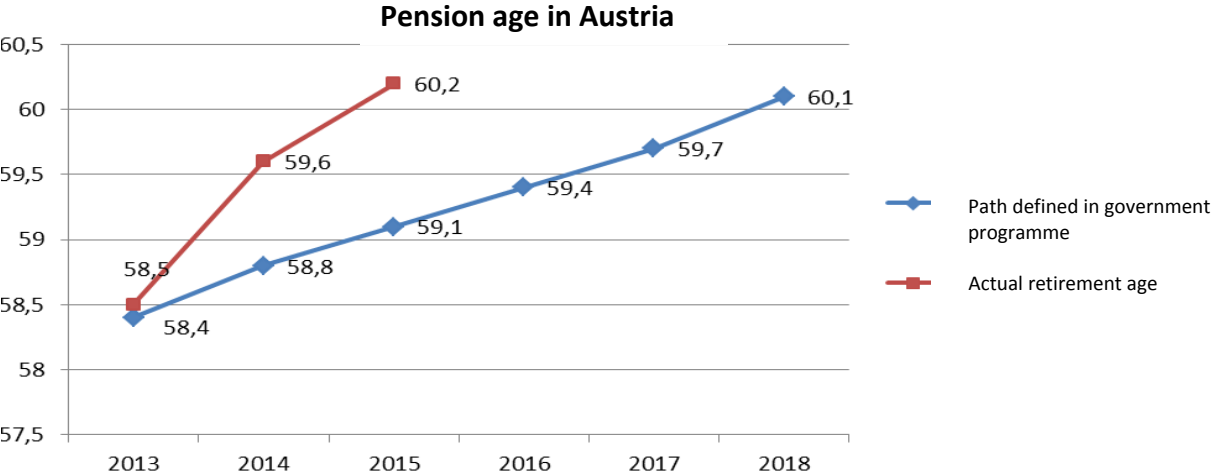
Table 3: Development of actual retirement age

| Pension type | Age each year | | | | | | | | | | | | | | |
|---------------------------------------|---------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| Disability pension | 52.4 | 52.8 | 53.4 | 53.4 | 52.9 | 52.8 | 52.7 | 52.5 | 52.4 | 52.3 | 52.4 | 52.5 | 52.1 | 54.7 | 54.9 |
| Old-age pension | 60.7 | 60.8 | 60.5 | 60.7 | 61.3 | 61.0 | 61.0 | 60.9 | 60.8 | 60.8 | 60.8 | 60.8 | 60.8 | 61.2 | 61.6 |
| Direct pension (disability + old-age) | 58.0 | 58.2 | 58.2 | 57.7 | 58.1 | 58.0 | 58.1 | 58.1 | 58.2 | 58.1 | 58.3 | 58.4 | 58.5 | 59.6 | 60.2 |

Source: Austrian Federal Ministry of Social Affairs, OPIS (Online Pension Information System)

A substantial part of this increase can be put down to the introduction of rehabilitation benefits in connection with Austria's new disability pension scheme (*Invaliditätspension Neu – IP-Neu*).

Chart 1: Retirement age



Source: Austrian Federal Ministry of Social Affairs

In addition to linking the pensionable age to changes in average life expectancy, the European Commission recommends that Austria should harmonise the legal pensionable age for men and women more quickly. In the interest of securing the legally defined pay-as-you-go pension system in the long term, the Austrian federal government highlighted during its

¹¹ Further details on these negotiations can be found in the Austrian Stability Programme: Update for the period 2014 to 2019. Vienna: Federal Ministry of Finance, April 2016

summit on the pension system¹² on 29th February that it is still a high priority to continue increasing the actual retirement age towards the legal pensionable age.

The "rehabilitation before retirement" principle continues to play a central role in this context, and targeted measures will be taken to ensure that people remain in employment longer. Specifically, in addition to improving cooperation between the institutions involved, the focus will be placed on early intervention in the case of sick leave, reintegration after long illness-related absences, improving rehabilitation processes and new, high-quality rehabilitation methods.

In order to create an incentive for workers to continue working beyond the legal pensionable age and not to draw pensions immediately, a reduction of pension contributions by as much as half will be introduced in addition to the existing bonus of 4.2% per year.

As a contribution to avoiding poverty in old age, the minimum pension (equalisation supplement reference rate; *Ausgleichszulagenrichtsatz*) will be increased to EUR 1,000 (value as of 2016) once 30 contribution years from employment have been reached. This measure will mainly benefit those groups which have lower pension claims due to low incomes or long periods of part-time employment.

Country-Specific Recommendation No. 2

"Strengthen measures to increase the labour market participation of older workers and women, including by improving the provision of childcare and long-term care services. Take steps to improve the educational achievement of disadvantaged young people."

Labour market participation of older workers and women

Increasing the labour market participation of older workers is among the top priorities of Austrian employment policy. Due to demographic developments and the more difficult access to early retirement forms, and on the basis of the measures taken to increase labour market participation among older workers, the labour supply of older workers has expanded substantially. This has contributed to a rise in the rate of employment among older workers (50 to 64 years old).¹³ Compared to the overall average, however, the rate of unemployment among older workers has not risen as drastically in relation to the increase in employment.

¹² For more information on the results of the summit held on 29th February 2016, please refer to https://www.sozialministerium.at/cms/site/attachments/7/3/4/CH3582/CMS1456830163590/ministerratsvortrag_pensionen.pdf

¹³ cf. Employment, rehabilitation and pension monitoring on the basis of data from January to December 2015 (https://www.sozialministerium.at/cms/site/attachments/3/5/4/CH3434/CMS1456301123599/pensionsmonitoring_langfassung_jahresbericht_2015_pdfua.pdf)

Table 4: Employment of older workers

| Age | Base value (2012) | 2013 value | 2014 value | Current value (2015) | Average annual change since 2012 (% points) | 2018 target in government programme |
|----------------|-------------------|------------|------------|----------------------|---|-------------------------------------|
| Men | | | | | | |
| 50 to 54 years | 82.1% | 82.5% | 82.6% | 83.1% | +0.33 | No target |
| 55 to 59 years | 67.9% | 68.9% | 70.3% | 71.8% | +1.30 | 74.6% |
| 60 to 64 years | 21.6% | 23.1% | 24.7% | 28.9% | +2.43 | 35.3% |
| Women | | | | | | |
| 50 to 54 years | 75.2% | 76.4% | 77.4% | 78.8% | +1.20 | No target |
| 55 to 59 years | 48.0% | 49.8% | 51.7% | 55.6% | +2.53 | 62.9% |

Source: Austrian Federal Ministry of Social Affairs

The federal government decided to continue the **50+ employment initiative** launched in the year 2014 and has made a total of EUR 150 million available for the year 2016, with a budget of EUR 175 million envisaged for 2017. The aim of the initiative is to increase the rate of employment among 50 to 64-year-olds from 56.4% (2014) to 58% by 2019 (based on national method of calculation). To this end, key labour market policy instruments include integration subsidies, wage subsidies, subsidised employment in social enterprises, and non-profit employment projects. In this context, great emphasis will be placed on the topics of labour and health, in particular maintaining employability. The **fit2work** prevention programme which has been available throughout Austria since 2013 has now been evaluated and further improved, and vocational rehabilitation and reintegration after long illness-related absences will be developed further. The **Einstellungssache 50+** PR campaign launched for older workers by the Austrian Public Employment Service (*Arbeitsmarktservice - AMS*) as well as a tailored pension information campaign for women will specifically contribute to raising awareness with regard to longer employment for older workers.

Table 5: Unemployment rate among older workers (based on national method of calculation)

| Unemployment rates | Age | 2012 in % | 2013 in % | 2014 in % | 2015 in % |
|--------------------|-------------|-----------|-----------|-----------|-----------|
| 50+ age group | | | | | |
| Men | 50-54 years | 7.5 | 8.2 | 9.0 | 9.7 |
| | 55-59 years | 8.6 | 9.6 | 10.7 | 11.7 |
| | 60-64 years | 13.4 | 14.5 | 15.9 | 15.9 |
| Women | 50-54 years | 5.8 | 6.3 | 7.0 | 7.4 |
| | 55-59 years | 7.3 | 8.3 | 9.4 | 9.9 |

Source: Austrian Federal Ministry of Social Affairs, Bali Web

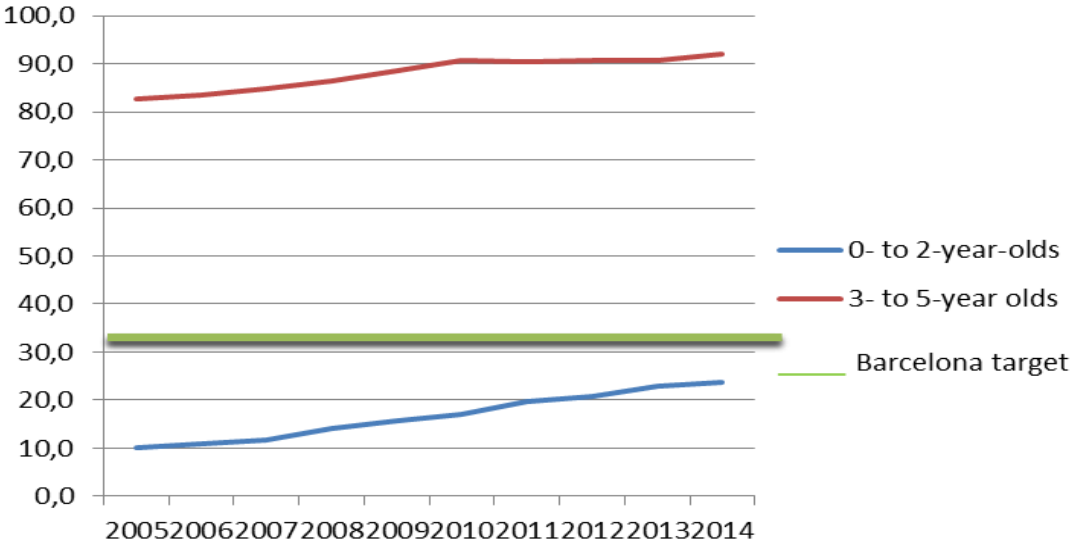
Moreover, in the course of the summit on the labour market and the economy in October 2015, the federal government agreed to introduce a **bonus/malus system** in order to create additional financial incentives for businesses to hire older workers. If one or more of the targets for the employment of older workers are not met by mid-2017, the following model will go into effect from 2018 onward: Where an enterprise with at least 25 employees is

above the industry-specific employment rate for older workers, it will receive a bonus in the form of an additional reduction of non-wage labour costs from 1st January 2018 (FLAF¹⁴ contributions reduced by 0.1 percentage points). Enterprises which remain below the industry rate will be required to pay double the usual termination levy when they terminate employment relationships (currently EUR 242 instead of EUR 121).

Employment among women in the 20 to 64 age group is high in comparison to the EU average and has risen from 64.0% (2005) to 70.1% in the last ten years.¹⁵ However, the increase in employment among women can primarily be attributed to an increase in part-time employment. In a ten-year comparison, the share of part-time employment has risen from 41.6% (2005) to 46.9%.¹⁶ In 2014, 67.3% of women aged 25 to 49 with children under 15 years of age were employed part time. In 44.6% of couples with children under 15 years of age, the wife was employed part time and the husband was employed full time in 2014 (2004: 34.8%)¹⁷.

The Commission also addresses the issue of care obligations in its country analysis and points out that the expansion of all-day child care facilities in Austria is still not sufficient. According to the data from Statistics Austria, the child care coverage rate came to 23.8% among 0 to 2-year-olds and 92.0% among 3 to 5-year-olds (not including care by qualified child-minders and children who start school early).¹⁸

Chart 2: Child care coverage rate among 0 to 5-year-olds, 2005-2014 (in %)



Source: Statistics Austria

¹⁴ FLAF – Familienlastenausgleichsfonds (Family Burden Equalisation Fund)
¹⁵ cf. Eurostat; the figures refer to the annualised average for the first three quarters of 2015.
¹⁶ cf. Eurostat; the value for 2015 refers to the first three quarters of the year.
¹⁷ cf. Statistics Austria, Gender statistics, retrieved on 3rd March 2016
http://www.statistik.at/web_de/statistiken/menschen_und_gesellschaft/soziales/gender-statistik/index.html
¹⁸ cf. Statistics Austria, Child care facilities statistics 2014/15, retrieved on 3rd September 2015
http://www.statistik.at/web_de/statistiken/menschen_und_gesellschaft/bildung_und_kultur/formales_bildungswesen/kindertagesheime_kinderbetreuung/021658.html

The trend observed in recent years reveals clear improvements; however, additional efforts will be necessary in order to meet the Barcelona target of 33%, especially in the 0 to 2 age group. The expansion efforts therefore focus on attaining the Barcelona target for children under 3 years of age throughout Austria. For the 2014 to 2017 period, a total of EUR 305 million is available, and the federal provinces will provide co-funding in the amount of EUR 134 million. For 3 to 6-year-olds, all-day child care offerings will be expanded further in the coming years. Regarding long-term care for incapacitated adults, the corresponding structures were already created in the year 2014 with the introduction of leaves of absence and part-time employment in order to make it easier for employed persons to care for their relatives. Beyond that, an amendment to the Long-Term Care Fund Act (*Pflegefondsgesetz*) is planned for 2016 in order to ensure that persons requiring care are provided with affordable long-term care facilities according to their needs until the year 2021.

The 2015/16 tax reform also includes a number of incentives for employment among women. If both parents earn taxable income and each claim the child allowance, then both can benefit from a split child allowance, which has been increased from EUR 132 to EUR 300 per parent from 2016 onward. In such cases, the child allowance amounts to EUR 600 in total. At the same time, the child allowance has been increased from EUR 220 to EUR 440 from 2016 onward for families in which only one parent earns taxable income. In addition to those measures, it is also important to mention the agreements made at the government's pension summit, as already discussed above. Another important policy instrument for the purpose of increasing labour participation among women is the requirement that the Austrian Public Employment Service (AMS) should use at least 50% of funds for active labour market policy for women; this requirement has been in place for years.¹⁹

Improvement of education outcomes for disadvantaged youths

Austrian education policy places great emphasis on improving education opportunities and outcomes for disadvantaged youths. In order to mitigate socioeconomic disadvantages, an extensive package of measures has been implemented; these measures already start in early childhood education and extend all the way to offers of free basic education and compulsory schooling certificate programmes within the framework of the adult education initiative. In addition to the compulsory pre-school year for 5-year-old children, starting in the 2016/17 school year there will be a mandatory advising session for parents whose 4-year-old children are not yet in nursery school.²⁰ For this age group, nursery school will be offered by the federal provinces at a reduced rate or free of charge. Greater integration in institutional child education and child care facilities is intended to promote holistic development, in particular the development of language skills, in order to facilitate the transition to primary school. Overall, the promotion of language skills is considered a highly important measure because it plays a key role in successful integration and constitutes a basic prerequisite for a successful academic and professional career. In addition, the government programme and

¹⁹ An impact study conducted by WIFO and IHS shows the substantial corrective function of this policy and its sensitisation effects with regard to equal opportunities (cf. Lutz, H/Schratzenstaller, M/Leitner, A/Laimer, A, 2013, *50% des Budgets der aktiven Arbeitsmarktpolitik für Frauen. Implementierung, Umsetzung und Wirkung des Genderbudgetziels*

(<http://www.forschungsnetzwerk.at/downloadpub/Studie%2050%20Prozent%20des%20Budgets%20der%20aktiven%20Arbeitsmarktpolitik%20fuer%20Frauen.pdf>)

²⁰ cf. Art. 15a B-VG agreement on free compulsory half-day early development support in institutional child education and care facilities in the 2015/16, 2016/17 and 2017/18 nursery school years, Federal Law Gazette I. No. 138/2015

the resolutions taken in connection with education reform also call for the introduction of a second compulsory free nursery school year for 4-year-olds.

In order to facilitate a smooth transition from nursery school to school and to focus on strengthening children's basic skills, interests and talents, the draft education reform provides for numerous measures. In this context, the compulsory last year of nursery school and the first two years of primary school are viewed as a joint school entry phase.²¹ Cooperation between nursery schools and primary schools ("network schools") will be developed further and expanded throughout the country. With the help of an "education compass", comprehensive documentation on language skills and development will be recorded using a portfolio system for all children from the age of 3½ until the end of their school career. In addition, a binding and uniform nationwide quality framework for elementary education will be coordinated and adopted in cooperation with the federal provinces. The gradual implementation of this framework will be completed by the year 2025. Additional measures will also be taken in order to improve education and further training for elementary school instructors.

In order to improve language and reading skills among children whose first language is not German, proven measures from the field of German as a Second Language (*Deutsch als Zweitsprache – DaZ*) will be extended and expanded (e.g. beginners' language groups; "*Sprachstartgruppen*"), also in order to address the needs of asylum seekers and people who have been granted subsidiary protection. From the funds specially earmarked for integration measures, a total of EUR 23.75 million has been allocated to education.²² For the year 2016, an additional EUR 40 million and for 2017 an additional EUR 80 million are provided for integration measures in the Federal Budgetary Framework Law (*Bundesfinanzrahmengesetz – BFRG 2017-2020*). For the 2016/17 school year, the budget for compulsory schools was increased by 15% for the purchase of schoolbooks and instruction materials for German as a Second Language. A separate budget for the purchase of schoolbooks was established for vocational schools in 2015/16 and will be used for young refugees who are beyond the compulsory schooling age.

Due to the influx of refugees, the challenges facing Austrian education have grown substantially at all levels. In principle, the existing instruments for the integration of children and youths whose first language is not German are well suited for promoting the integration of recognised refugees and persons granted subsidiary protection into the Austrian school system. Last year, Austrian schools succeeded in taking on nearly 10,000 children and youths from such backgrounds. In order to respond directly to the change in circumstances since the fall of 2015, an integration package was assembled in order to expand the promotion of language skills at schools that have taken in larger numbers of refugees. In addition, preparations have been made for the deployment of mobile intercultural teams that will provide assistance directly at schools. There are also offers for young refugees who are not required to attend school: For young refugees with strong educational backgrounds, transition stages to secondary school education have been designed, while basic education courses focusing on literacy have been established for youths with weaker educational backgrounds. The next steps will be implemented in 2016 with an extensive resource

²¹ For further information on specific points in the Austrian education reform package, please refer to the Education Reform Commission, presentation to the Austrian Council of Ministers on 17th November 2015 (<https://www.bmbf.gv.at/ministerium/vp/2015/20151117.pdf?55kaz6>).

²² Government meeting on 11th September 2015; Budgetary Provisions in the Federal Budgetary Framework Act and Federal Budget Act 2016 (cf. Federal Law Gazette I 14052015, adopted by the National Council on 26th November 2015)

package for integration and education as well as a complementary educational package entitled "*Respekt, Zusammenleben und Gleichstellung von Männern und Frauen*" (*Respect, Coexistence, and Equality between Men and Women*).

All-day school forms have also made a significant contribution to improving education outcomes among disadvantaged youths. For this reason, greater emphasis has been placed on continuing the expansion of all-day school offerings. By the 2018/19 school year, these offerings will be expanded from 147,000 (2015/16) to as many as 200,000 places, which will make for a coverage ratio of up to 30%.

As of the start of the 2015/16 school year, all General Lower Secondary Schools (*Hauptschulen*) in Austria had been transformed into New Secondary Schools (*Neue Mittelschulen* – NMS). In response to the evaluation published in March 2015,²³ strict qualitative and quantitative monitoring targets and an appropriate level of development support from the National Centre for Learning Schools (*Bundeszentrum für lernende Schulen*) have been employed in quality assurance and improvement processes. In the medium term, the change in instruction processes will have an increasingly positive impact on performance development, which will contribute to mitigating socioeconomic disadvantages and sustainably improving education outcomes for disadvantaged youths. In 2013/14, data on the educational paths taken by graduates of New Secondary Schools (NMSs) were available for the first time. In line with the trend observed to date, 45% of NMS graduates moved on to a higher secondary school (academic or vocational upper secondary school) in the 2014/15 school year; the corresponding figure for General Lower Secondary Schools came to 40.4%. For children whose first language is not German, the data for the 2014/15 school year likewise show that a substantially larger share of NMS graduates (30.8%) went on to attend a higher secondary school in comparison to General Lower Secondary School graduates (22.1%). According to Statistics Austria, more NMS graduates move up to the next grade in a higher secondary school than do their peers in Lower Secondary Schools (*Hauptschulen*). The difference between pupils whose first language is German and those who use other languages for everyday communication is also less pronounced at New Secondary Schools than at General Lower Secondary Schools.²⁴ However, the results of the evaluation of the first two cohorts of NMS graduates clearly show that changes in education have only a limited impact on the "inheritance" of parents' education standards by the next generation. Without structural changes at the lower secondary level, the "glass ceiling" will remain in place for pupils from households that are less inclined towards education. The education reform package also provides for test regions of a joint school for all pupils aged 6 to 14. The goal is to create a school where all pupils can develop to the best of their individual abilities. The effects of these measures will be assessed in an evaluation planned for the year 2025.

Country-Specific Recommendation No. 3

"Remove disproportionate barriers for service providers and impediments to setting up interdisciplinary companies."

In the limitations on access to and on the performance of regulated professions, the European Commission identifies impediments to growth which may have a negative effect

²³ cf. Eder, F./Altrichter H./Hofmann, F/ Weber, C., 2015. *Evaluation der Neuen Mittelschule (NMS). Befunde aus den Anfangskohorten*, research report, Graz

²⁴ cf. Statistics Austria, School statistics. Retrieved on 14th December 2015

on productivity and competitiveness in those industries. In general, Austria has effective structures in place for vocational education and qualification, and in the interest of maintaining a high level of qualifications and consumer protection, it is an important objective to maintain and advance those high quality standards. As a result, there is great interest in a quantitative and qualitative evaluation of existing differences in barriers to access to certain professions. Austria is taking part in the mutual evaluation of regulated professions and reviewed whether specific regulations are necessary and appropriate in the course of the evaluation process. The results of this review were summarised in a national action plan which was submitted to the European Commission in December 2015. In early 2017, the European Commission plans to publish a final report on the individual action plans. A scientific analysis conducted by the Research Institute for Liberal Professions at the Vienna University of Economics and Business and appended to the action plan also points out that liberal professions have shown above-average growth (22%) in the last ten years (2004-2013), thus outstripping growth in dependent employment (14.3%) by a wide margin.²⁵ In addition, it is necessary to mention that in the amendment to the Austrian Trades Ordinance (*Gewerbeordnung – GewO 1994*), the EU Directive on the recognition of professions was implemented in accordance with all requirements as of January 2016. In this way, the prerequisites for the recognition of professional qualifications from other EU Member States were relaxed in several respects.²⁶ In the case of civil engineering companies, the planned amendment to the Civil Engineers Act (*Ziviltechnikergesetz*) is expected to relax access restrictions by mid-2016. Similarly, in the case of advanced medical-technical professions, a number of regulations were made more flexible and liberalised in 2015, and the rules for pursuing careers in that field were adapted to reflect current requirements in the health sector.²⁷ Interdisciplinary cooperation has been possible in certain areas and in specific forms (e.g. working groups and independent contracts) in the past, but it has not been feasible to establish a common legal entity thus far. On the basis of the resolutions resulting from the government's reform dialogue on 23rd June 2015, the federal government therefore established an interministerial working group, including representatives of the professions, to develop a solution in line with the reform dialogue.

Country-Specific Recommendation No. 4

"Address the potential vulnerabilities of the financial sector in terms of foreign exposure and insufficient asset quality."

In order to strengthen the Austrian banking sector, the Austrian Financial Market Stability Board (*Finanzmarktstabilitätsgremium – FMSG*) issued a recommendation to the Financial Market Authority (FMA) in September 2015 to require a systemic risk buffer for key Austrian banking institutions (which are largely under the supervision of the ECB) with high exposure to Eastern Europe. The purpose of the recommendation was to ensure an accumulation of

²⁵ This corresponds to annual employment growth of 2.5%; cf. Austrian Action Plan (in implementation of Art. 59 of Directive 2005/36/EC on the recognition of professional qualifications), Vienna: Federal Ministry of Science, Research and Economy, December 2015.

²⁶ cf. Amendment to the Austrian Trades Ordinance 1994 (Federal Law Gazette I No. 155/2015)

²⁷ cf. Amendment to the Act on Medical Masseurs and Massage Therapists, to the Act on Medical-Technical Services and to the Act on Medical Assistant Professions (Federal Law Gazette I. No. 33/2015)

own funds in order to overcome sudden losses (e.g. due to non-performing loans in Eastern Europe) more effectively. Starting in 2016, the systemic risk buffer will be increased by 0.25% per year until it reaches 2% in 2019; this buffer is added to the applicable SREP ratio.²⁸ The restructuring of the Austrian banking sector will be implemented consistently and in accordance with the requirements of state aid regulations as prescribed by the European Commission. In April 2015, the partly nationalised Österreichische Volksbanken AG (ÖVAG) completed the sale of Volksbank Romania, a subsidiary that had incurred heavy losses. In July 2015, the restructuring and breakup of ÖVAG as well as its transformation into an asset resolution company were confirmed by legislators. The resolution company, *immigon portfolioabbau ag*, is responsible for ensuring an orderly, active and optimal exploitation of the bank's assets.²⁹

In the fall of 2015, the Republic of Austria came to an agreement with the Free State of Bavaria on a general settlement regarding Bayerische Landesbank and HETA Asset Resolution AG, thus establishing legal certainty in this regard. In October, the National Council passed a special act³⁰ which enabled the settlement payments in the form of repayable guarantees in the amount of EUR 1.23 billion.

²⁸ Within the framework of the Supervisory Review and Evaluation Process (SREP), the ECB defines Tier 1 capital ratios for banks

²⁹ Further details on the restructuring of the Austrian banking sector can be found in the Austrian Stability Programme: Update for the period 2014 to 2019. Vienna: Federal Ministry of Finance, April 2016

³⁰ cf. cf. Federal Law Gazette I No. 127/2015

4. Europe 2020 targets: Progress and measures taken

Since the year 2010, the national Europe 2020 targets have served as guidelines for the Austrian federal government as well as the provincial governments. Even if not all of the defined targets will be attained by 2020, significant progress is visible in all areas.

Table 6: Overview of Europe 2020 targets

| | Austrian national target | | EU headline target | |
|---|--|----------------------|--------------------|----------------------|
| | 2020 | As of 2014 | 2020 | As of 2014 |
| Employment rate in % | 77% | 74.2% | 75% | 69.2% |
| R&D investment in % of GDP | 3.76% | 3.1% ⁽¹⁾ | 3.0% | 2.03% |
| Emissions target Reduction in sectors not covered by Emissions Trading System (compared to 2005) | -16% | -15% | -10% | -14% ⁽¹⁾ |
| Share of renewable energy in gross final energy consumption | 34% | 33.1% | 20% | 16% |
| Energy efficiency / stabilisation of gross final energy consumption (in Mtoe) ³¹ | 25.1 | 26.8 | 1,086 | 1,061.2 |
| Early school leavers | 9.5% | 7.3% ⁽²⁾ | <10% | 10.9% ⁽¹⁾ |
| Tertiary education in % | 38% | 39.1% ⁽¹⁾ | ≥40% | 38.5% ⁽¹⁾ |
| Reduction of share of population in or at risk of poverty / social exclusion (compared to 2008) | -235,000 | -148,000 | -20,000,000 | 4,795,000 |
| (1) Preliminary value for 2015 (2) Final value for 2015 | <i>Source: Eurostat/Statistics Austria</i> | | | |

4.1 Labour market and employment

In 2015, employment in Austria showed relatively robust developments despite the weak economic situation. Compared to the previous year, the number of employed persons rose by 0.9% in 2015; however, due to growth in the labour supply, the rate of unemployment rose by 0.8 percentage points to 9.1% (based on the national method of calculation) in the course of the year.³² The labour supply will also continue to expand in 2016 and in the ensuing years. A number of factors are responsible for this increase: In addition to the more rapid growth in the number of workers from countries that acceded to the EU in 2004 and 2007, the labour market participation rate of older workers can be expected to rise in response to the measures taken to increase the actual retirement age. Another challenge for the Austrian labour market has arisen from the integration of recognised refugees and persons granted subsidiary protection. However, in this context it is also necessary to note

³¹ According to Statistics Austria, final energy consumption reached 25.4 Mtoe in 2014. The difference to EUROSTAT data is essentially due to the different assignment of energy sources in the production of steel and iron to non-energy use

³² cf. AMS (http://www.ams.at/_docs/001_spezialthema_1215.pdf)

that the latter group will only cause an expansion of the labour supply with a delay, and the effects will predominantly become visible in the year 2017.

Table 7: Key labour market data in 2015 (based on national method of calculation)

| | Current figures | Change on previous year | |
|---------------------------------------|-----------------|-------------------------|----------|
| | | absolute | relative |
| Payroll employment | 3,534,854 | +31,454 | +0.9% |
| Women | 1,656,696 | +16,335 | +1.0% |
| Men | 1,878,158 | +15,119 | +0.8% |
| Unemployed persons | 354,332 | +34,974 | +11.0% |
| Women | 149,261 | +13,433 | +9.9% |
| Men | 205,071 | +21,541 | +11.7% |
| Unemployment rate (registered) | 9.1% | +0.8 percentage points | |
| Women | 8.3% | +0.6 percentage points | |
| Men | 9.8% | +0.9 percentage points | |

Source: Austrian Public Employment Service (AMS)

In light of the current challenges on the Austrian labour market, the federal government adopted a comprehensive package of measures in October 2015.³³ In order to ensure that sufficient funds are also available for active labour market policy measures, an additional EUR 50 million will be made available from passive budget funds (unemployment insurance) in the year 2016, meaning that an additional EUR 300 million in activated funds will be available. From 2017 onward, EUR 350 million will be activated.

In order to be able to respond more effectively to the immediate challenges of long-term unemployment, the Budget Accompanying Act³⁴ provided for a more flexible use of budgeted funds. Employment subsidies of up to EUR 100 million will be made available for persons who are registered as unemployed with the Austrian Public Employment Service for more than 365 days. One key instrument of active labour market policy in order to enable long-term unemployed persons to return to work is the integration subsidy (*Eingliederungsbeihilfe*). Employers can receive a subsidy for wage costs and non-wage labour costs if they hire persons who have been registered as unemployed for a longer period of time. Additional proven policy instruments for reintegration into the labour market include temporary employment in social enterprises and non-profit employment projects. For the year 2016, a total of EUR 150 million has been earmarked for the promotion of older workers (*Beschäftigungsinitiative 50+*; see also Section 3, Country-Specific Recommendation No. 2). For both target groups, up to 60% of the earmarked funds will be used for integration subsidies and subsidised wages and up to 40% will be used for social enterprises and non-profit employment projects.

The expanded semi-retirement model that has been in place since 1st January 2016 makes an effective instrument available in order to keep older persons in employment longer. Instead of corridor pensions, employment relationships will be transformed into part-time contracts

³³ *Arbeitsmarkt- und Konjunkturgipfel: Wachstum und Arbeitsplätze durch gezielte Investitionen*, Vienna: 30th October 2015 (<https://www.bka.gv.at/DocView.axd?CobId=61011>)

³⁴ cf. Budget Accompanying Act 2016 (Federal Law Gazette I No. 144/2015)

until the employee reaches the legal pensionable age, meaning that their pensions will not be subject to deductions. In general, it is possible to reduce weekly working time by 40 to 60% with partial wage compensation.

From the year 2016 onward, a total of EUR 70 million per year has been allocated for measures to integrate persons who are granted asylum into the labour market. In addition, during the government meeting on 11th September 2015, the federal government decided to establish an "integration pool" in the amount of EUR 75 million in order to fund labour market integration measures for persons granted asylum in Austria. For the years 2016 and 2017, an additional EUR 40 million per year has been allocated for integration measures in the Federal Budgetary Framework Law (*Bundesfinanzrahmengesetz – BFRG 2017-2020*).

The expenditure of the Austrian Public Employment Service (AMS) to promote employment for recognised refugees and persons granted subsidiary protection amounted to approximately EUR 43 million in 2014. In 2015, the AMS spent some EUR 50 million, most of which went towards qualification subsidies.

Another focus area of labour market policy is youth employment, where particular attention is being paid to youths from migrant backgrounds. On average over the year 2015, the number of unemployed youths came to just under 47,000 (15 to 24-year-olds). Nearly 40% of those youths came from migrant backgrounds.³⁵ One special challenge in this context is the comparatively large share of youths who are not in education, employment or training ("NEET"). According to a study conducted at the University of Linz,³⁶ the annual average number of youths in a NEET situation came to 75,100 between 2006 and 2013. In order to combat this problem, specific packages of measures were adopted in 2015.

From the 2016/17 school year onward, all youths who have not yet reached the age of 18 will be required to engage in education or training after completing general compulsory schooling. This will include attending an academic or vocational upper secondary school, completing a dual education/training programme or attending a recognised vocational or training institution which prepares them for reintegration in continuing education and training offers. In addition, measures will continue to rely on proven instruments such as youth coaching and production schools to prepare for training and to support in-company vocational training, and on coaching for apprentices as well as businesses that employ apprentices. Moreover, low-threshold measures and programmes in youth programmes outside of school also serve to support the integration of youth into the labour market, for example through employment by the hour. Older youths are provided with support in completing their education at later stages, in vocational training and supplementary qualifications.

4.2 Research and development

According to Statistics Austria, total spending on research and experimental development came to approximately EUR 10.4 billion in 2015. This means that gross domestic spending on

³⁵ cf. Austrian Federal Ministry of Social Affairs, ELIS (<http://www.dnet.at/elis/Arbeitsmarkt.aspx>)

³⁶ cf. Koblbauer, Ch./Bacher, J./Tamesberger, D./Leitgöb, H., 2015, *Jugendliche weder in Beschäftigung, Ausbildung noch in Training: Ein Bundesländervergleich*. Research report, April 2015 (http://www.jku.at/soz/content/e94921/e95831/e96904/e272914/NEET-BerichtVersion3_ger.pdf)

research and development rose by 2.8% compared to 2014. In relation to Austria's gross domestic product, this makes for an R&D intensity of 3.1%.³⁷

In quantitative terms, the private business sector is responsible for the largest share of R&D spending (47.2%, or approximately EUR 4.76 billion). Including funds provided by enterprises outside Austria (a large share of which are multinational groups with subsidiaries that conduct research in Austria), some 62.6% of R&D spending can be attributed to the private sector. Therefore, Austria is steadily approaching the research funding distribution targeted in the Austrian RTI Strategy (two thirds from the private sector, one third from the public sector). With spending of EUR 3.21 billion by the federal government and EUR 0.44 billion by provincial governments, the public sector contributes just under 37% of total expenditure, thus funding a comparatively large share of R&D spending. In order to attain the targeted ratio of research funding, additional incentives are required from the private business sector.

In recent years, Austria's R&D intensity has climbed steadily. Compared to the EU-28, Austria's spending was below that of Finland, Sweden and Denmark, and substantially higher than the EU-28 average of 2.03% in 2014 (the most recent year for which comparison figures are available).³⁸ In order to continue this trend in the future as well, a decision was made in the course of the 2015/16 tax reform to increase the research subsidy (rebate to businesses) from 10% to 12%. Furthermore, immigration benefits for researchers and scientists were introduced in form of a lump-sum allowance (30% of taxed income from scientific activities within 5 years as of the date of relocation to Austria). In addition, an agreement was made to use the revenues from the temporary increase of the maximum tax rate to 55% to endow an "Austria Fund" with EUR 50 million (based on an estimate for 2016). Half of the funds will be used to promote basic and applied research. The other half will be allocated to research and development for fundamental industrial technologies in the fields of mobility, energy, and information and communication technologies. Additional relief for private-sector R&D activities was introduced in the Alternative Funding Act (*Alternativfinanzierungsgesetz – AltFG*).³⁹ The new law has substantially simplified the obligation to publish a prospectus while simultaneously protecting the interests of investors. After a basic draft of the Digital Roadmap had been developed by experts from ministries, regional authorities, social partners and other stakeholders in summer 2015, a broad participation process was launched in February 2016. In the course of the ICT Convention Austria (*IKT Konvent Österreich*), a preliminary assessment of the current situation was presented. On the basis of the resulting discussion paper, a broad-based online consultation and an open crowdsourcing process were initiated.⁴⁰ The results of the consultation will be incorporated into the Digital Roadmap 2016, which will lead to a government resolution by the end of the year.

³⁷ cf. Statistics Austria, Global Estimates 2015 (http://www.statistik.at/web_de/statistiken/energie_umwelt_innovation_mobilitaet/forschung_und_innovation/globalschaetzung_forschungsquote_jaehrlich/index.html); and http://www.statistik.at/web_de/presse/107593.html, retrieved on 20th April 2016

³⁸ cf. Eurostat, Europe 2020 (http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=de&pcode=t2020_20&plugin=1)

³⁹ cf. Federal Law Gazette I No. 114/2015; in force since September 2015

⁴⁰ For additional information, see <https://www.digitalroadmap.gv.at/de/>

4.3 Climate change and energy

With the climate and energy package adopted in 2007, the European Union committed to the binding goals of reducing greenhouse gas emissions by 20% compared to 1990 levels, enlarging the share of renewable energy sources in gross final energy consumption to 20%, and increasing energy efficiency by 20% by the year 2020. These three key targets were adopted at the national level, and the corresponding national requirements and targets were defined.

Reduction of greenhouse gas emissions

Throughout the EU, the defined target is to reduce greenhouse gas emissions in the non-ETS sector by 10% by the year 2020 (compared to the base year 2005). This obligation was distributed among the Member States according to their respective economic prosperity by way of effort sharing.⁴¹ For Austria, this means that greenhouse gas emissions from sources not covered by the Emissions Trading System (non-ETS emissions) are to be reduced by 16% compared to 2005 levels. The decision was implemented at the national level in the Climate Protection Act (*Klimaschutzgesetz – KSG*).⁴² In June 2015, the Austrian Council of Ministers adopted a programme of measures for the 2015 to 2018 period⁴³ which defined further measures at the federal and provincial level on the basis of the initial implementation stage (2013-2014). According to the Austrian Environment Agency's calculations, this package of measures will contribute to reducing greenhouse gas emissions by approximately 1.9 million tons of CO₂ equivalents⁴⁴ by 2020. The recently published greenhouse gas inventory shows that the trend is indeed emerging, with values even falling approximately 3.9 million tons below the 2014 target of 52.1 tons of CO₂ equivalents (as defined in the Climate Protection Act [KSG]). Actual (non-ETS) emissions dropped to 48.2 million tons of CO₂ equivalents in 2014 and were thus lower than the target value for that year as well as the target for 2015.⁴⁵ By summer 2016, the Austrian government plans to present a green book for an integrated energy and climate strategy leading up to the year 2030.

Increasing the share of renewable energy

The share of renewable energy sources in gross final energy consumption is to be increased to 20% throughout the EU. According to the EU Renewable Energy Directive, the national target defined for Austria is 34%. As early as 2014, the share of renewable energy in Austria had already reached 33.1%. In particular, a large share has been attained in power generation (hydro, wind, photovoltaic, geothermal and biomass power), accounting for nearly 70% of overall power consumption. In addition, large shares of renewable energy

⁴¹ cf. Effort Sharing Decision, No. 406/2009/EC

⁴² cf. Climate Protection Act, Federal Law Gazette I. No. 106/2011 as last amended

⁴³ cf. Austrian Environment Agency, 2015, Climate Protection Report 2015

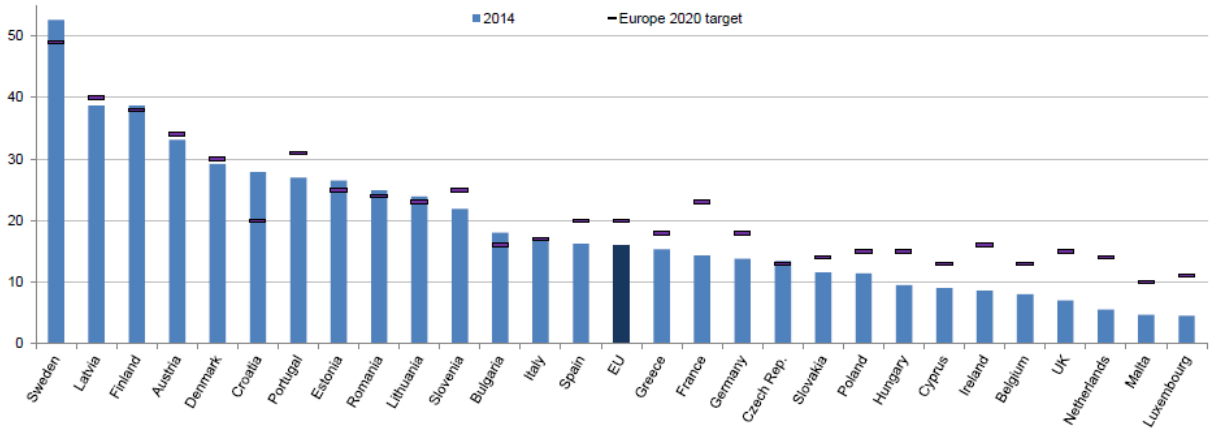
⁴⁴ Greenhouse gases include carbon dioxide (CO₂), methane (CO₄) and other emissions that affect the climate. The gases are sometimes characterised by very different warming potentials. In order to add them to a sum, they are standardised on the basis of the climate effect of CO₂. The warming potentials of gases are thus measured as "CO₂ equivalents" on the basis of CO₂

⁴⁵ cf. Austrian Environment Agency, 2016, Greenhouse Gas Inventory 2014 (http://www.umweltbundesamt.at/fileadmin/site/presse/news_2016/THG-Bilanz_Hintergrundinformation.pdf)

(<http://www.umweltbundesamt.at/fileadmin/site/publikationen/REP0555.pdf>)

have been recorded in overall heat consumption.⁴⁶ The share of recognised renewable energy sources in transport came to nearly 6.9% (or 8.6% including renewable electric power).

Chart 3: Share of renewable energy in gross final energy consumption (2014; in % of gross final energy consumption)



Source: Eurostat

Increasing energy efficiency

The Austrian Federal Act on Energy Efficiency (*Energieeffizienzgesetz – EEff-G*)⁴⁷ was adopted with a view to increasing **energy efficiency** as well as supply security. Since 1st January 2015, large enterprises (company obligation) as well as energy suppliers (supplier obligation) have been required to address their energy consumption and their energy sales to end-customers. In April 2015, an energy efficiency monitoring body was established at the Austrian Energy Agency in order to evaluate and monitor the obligations laid down in the EEff-G. In February 2016, more than one year after the Act on Energy Efficiency was adopted, the monitoring body was able to report a positive balance. Based on preliminary (not yet verified) data, a total of 10,882 measures comprising 9.59 PJ were reported by the energy suppliers, thus going beyond their obligations by a full 5.51 PJ. Likewise, energy efficiency requirements for households were also fulfilled far beyond the required level (according to preliminary data which have not yet been verified by the monitoring body). In addition, enterprises have reported voluntary actions totalling 11.15 PJ, thereby revealing the potential in the energy efficiency field.

An initial evaluation of the company obligation (i.e. either high-quality energy audits have to be conducted in a four-year cycle or a continuous management system focusing on energy must be established) indicates that more than 1,000 audits were notified to the monitoring body, where single audits may encompass several enterprises. Some 450 qualified energy auditors are available in order to improve in particular the input-output relation of energy consumption.⁴⁸

⁴⁶ cf. Statistics Austria, Energy Balances http://www.statistik.at/web_de/statistiken/energie_umwelt_innovation_mobilitaet/energie_und_umwelt/energie/energiebilanzen/index.html (29.02.2016)
⁴⁷ Austrian Energy Efficiency Act (EEff-G), Federal Law Gazette I No.72/2014
⁴⁸ cf. Energy efficiency monitoring body http://monitoringstelle.at/index.php?id=695&tx_ttnews%5Btt_news%5D=973&cHash=539923b0cc92115b51076f82dc6175dd

Under the EEff-G, the federal government is also obliged to take energy efficiency measures to save an additional 48.2 GWh between 2014 and 2020. Government departments already redesigned energy efficiency contracting projects in 2014 and 2015; they engaged in energy management and took restructuring measures on buildings and in building technologies. As a result of these measures, 20% of the 2020 target has already been reached. In 2016, the thermal rehabilitation of houses, apartments and factory buildings will continue under the federal government’s funding initiative to improve energy efficiency. A total of EUR 43.5 million is budgeted for the year 2016.

Thanks to the early implementation of energy-saving measures and the very ambitious target set out in the Act on Energy Efficiency (EEff-G), final energy consumption in Austria was already reduced to 1,063 PJ in 2014. Thus, the targeted maximum final energy consumption of 1,100 or 1,050 PJ by 2020 is within reach.

4.4 Education

Decreasing the early school leaving rate

In recent years, Austrian education has made progress towards reaching both Europe 2020 education targets. In this context, Austria set the goal of keeping the early school leaving rate at a level below 9.5%. The target has already been reached, with the early school leaving rate coming to 7.3% for 2015. Nevertheless, there are still many challenges to overcome in order to ensure growth, prosperity and social cohesion. In its 2016 country report on Austria, the European Commission points out that Austria's success in the education of youths is still very heavily influenced by their socio-economic background. In addition, the Commission points out that young people from migration backgrounds are particularly at risk. It is true that youths from migration backgrounds more frequently leave the school system or finish compulsory schooling without a completion certificate. Despite the substantially higher early school leaving rate among youths from migration backgrounds, the trend has pointed downward since 2008. In this context, important additional stimuli are expected from the new "AusBildung bis 18" ("Education until 18") initiative; (see also Section 4.1 and Annex 1, Tables 2 and 3).

Table 8: Early school leavers (ESLs)

| | Year in % | | | | | | |
|--------------------------|--------------|------|------|------|------|------|------|
| Migration background | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| Total | 10.2 | 8.8 | 8.3 | 8.5 | 7.8 | 7.5 | 7.0 |
| Non-migration background | 6.4 | 5.5 | 5.3 | 5.9 | 5.2 | 4.7 | 4.6 |
| First generation | 25.7 | 22.9 | 21.4 | 20.7 | 18.5 | 19.6 | 16.0 |
| Second generation | 25.0 | 20.4 | 16.3 | 14.9 | 18.5 | 17.1 | 14.7 |

Source: Austrian Federal Ministry of Education and Women's Affairs / Statistics Austria.⁴⁹

⁴⁹ The measurements refer to the share of 18 to 24-year-olds who have not successfully completed Level II upper secondary education and are currently not in any kind of education or training programme. Persons are considered to be from a migration background in cases where both parents were born abroad; members of the first generation include those who were born abroad, while the second generation refers to those born in Austria

In order to promote individual life and career paths for all children and to encourage growth, prosperity and social cohesion in Austria and Europe, the Austrian federal government adopted the main points of a comprehensive education reform in November 2015.⁵⁰ The government also agreed on a schedule for the implementation of the reform package, which will be rolled out in different stages and steps. The education package comprises a total of six modules. The reforms begin as early as elementary education and provide for improvements in the school entry stage (i.e. the transition from nursery school to primary school). The schools will be given greater autonomy in terms of educational, organisational, personnel-related and financial decision-making. In addition, test regions involving a maximum of 15% of the pupils concerned will be established in which a joint school for 6 to 14-year-olds will undergo a trial with scientific support. The educational innovation package calls for the nationwide availability of ultra-fast broadband Internet access at schools and provides for the establishment of an education foundation which – based on the model of the National Foundation for Research, Technology and Development – will make funds available for innovative education and school (research) projects on a competitive basis; these excellence programmes will provide resources by means of innovative educational projects and school (research) projects for nursery-level and school education as well as support for the gifted. In addition, school administration will be made leaner thanks to the establishment of Education Departments in each federal province.

As for the target of sustainable integration of persons with a need for basic education into society and the labour market,⁵¹ the free education offerings within the framework of the adult education initiative will be continued and, with the help of ESF funds, expanded in the 2015 to 2017 period.

In February 2016, the Austrian National Council also adopted the Federal Act on the National Qualifications Framework (*Bundesgesetz über den Nationalen Qualifikationsrahmen – NQR-Gesetz*).⁵² The Framework will make the Austrian education system, in particular qualifications in vocational education, more easily comparable throughout Europe and will at the same time promote lifelong learning, which includes formal, non-formal and informal learning. This will also generate substantial benefits for young people who are subject to disadvantages in education.

Increasing tertiary attainment

In connection with its national Europe 2020 targets, Austria set a target of increasing the share of 30 to 34-year-olds with a tertiary degree (or an equivalent degree) to 38%. At present, Austria has fulfilled this national target with a share of 39.1%⁵³ (as of 2015). According to Statistics Austria's current calculations, in the winter semester 2014/15 a total of 375,911 students were enrolled in ordinary university-level studies or in a course of study at an Austrian university, university of applied sciences or teacher training institution. Thus

⁵⁰ cf. Education Reform Commission (2015). Presentation to the Austrian Council of Ministers (<https://www.bmbf.gv.at/ministerium/vp/2015/20151117.pdf?55kaz6>)

⁵¹ Minimum size of target group in Austria: 243,000 persons in need of basic and literacy education (result of IHS study, see: Steiner, Mario/Vogtenhuber, Stefan (2014): *Grundlagenanalysen für die Initiative Erwachsenenbildung*, Vienna)

⁵² cf. https://www.parlament.gv.at/PAKT/VHG/XXV/I/I_01007/fname_506793.pdf

⁵³ In total, 39.1% of 30 to 34-year-olds in Austria have completed a tertiary-level degree (ISCED 2011 levels 5 to 8)

the number of university-level students in Austria had risen by 2.2% compared to the 2013/14 academic year and by 16.3% over a five-year period.⁵⁴

Despite this positive development, the European Commission comments in its country analysis that the number of STEM graduates in Austria is low compared to other industrialised countries, which may endanger Austria's efforts to join the ranks of the innovation leaders. However, recent data from the OECD (November 2015)⁵⁵ paint a highly positive picture. The share of STEM graduates in the tertiary education sector as a whole (in addition to higher education [ISCED 6 to 8, i.e. universities, universities of applied sciences and teacher training institutions) and studies at ISCED level 5 [vocational upper secondary school]) came to 28% in 2013.⁵⁶ This means that the share of STEM graduates in Austria is the same as in Finland and is only exceeded by Germany (34%), Greece (30%) and South Korea (31%). In the winter semester of 2014/15, a total of 109,971 degree-programme students were enrolled in STEM programmes at universities and universities of applied sciences in Austria. Among them, 27,807 were in the first year of the study programmes. In the 2013/14 academic year, 14,790 university students completed degrees in STEM subjects (31.5% of all degrees completed). The developments have been similar at universities of applied sciences, where 35.6% of all degrees completed were in STEM disciplines.⁵⁷

In its country analysis, the European Commission also addresses the issue of higher education funding in Austria, in particular pointing to the steadily rising number of students and recommending further reforms. From the Commission's perspective, a capacity-based funding model would be a suitable instrument to contribute to the financial security of higher education institutions. The development of an enrolment-based funding model is envisaged in the Austrian government programme. As for more concrete measures, decisions on the next steps will be taken in the year 2017.⁵⁸ Even now, the allocation of funding within the framework of structural funds for higher education is based on the principles of enrolment-based funding (subdivision of all study programmes into seven disciplinary groups with different weights; courses of study where students complete courses and examinations most actively are considered the most important indicator for funding purposes). For the 2016 to 2018 period, structural funds for higher education were increased from EUR 450 million to EUR 750 million.

4.5 Poverty and social exclusion

According to the definition used in the Europe 2020 strategy, approximately 1,551,000 persons in Austria were in danger of poverty or social exclusion in 2015.⁵⁹ This figure is equal

⁵⁴ cf. Statistics Austria,

(http://www.statistik.at/web_de/statistiken/menschen_und_gesellschaft/bildung_und_kultur/formales_bildungswesen/universitaeten_studium/index.html); retrieved on 23rd February 2016

⁵⁵ cf. OECD, Education at a Glance 2013

⁵⁶ For the first time, the OECD also included graduates of vocational upper secondary schools (due to their reclassification under ISCED 2011) among graduates of tertiary-level education (cf. Education at a Glance 2015, Tab. A3.3).

⁵⁷ cf. Statistics Austria, 2015, *Statistisches Jahrbuch 2016*, p. 139 ff.

⁵⁸ Austrian Federal Ministry of Science, Research and Economy, 2015. *Der gesamtösterreichische Universitätsentwicklungsplan 2016-2021*

(http://wissenschaft.bmwf.gv.at/fileadmin/user_upload/wissenschaft/publikationen/2015_goe_UEP-Lang.pdf)

⁵⁹ According to the EU definition, people are considered to be at risk of poverty or social exclusion if they fulfil at least one of the following three conditions: (1) their household income is below the poverty threshold of

to 18.3% of the overall population. Compared to the base year 2008, the Europe 2020 target group has decreased in size by approximately 148,000 persons. In 2015, 13.9% of the overall population (1,178,000 persons) were at risk of poverty, i.e. their available household income for a one-person household amounted to EUR 1,163 per month or less (12 times per year). 3.6%, or 302,000 persons, were affected by significant material deprivation,⁶⁰ and 8.2% (526,000 persons) lived in households with no or very low work intensity.⁶¹

In comparison to 2014, a decline has been observed in all three target groups. The decline was most pronounced among people living in households with no or very low work intensity as well as among people subject to significant material deprivation.⁶²

In 2015, a total of 380,000 (22%) children and youths under the age of 20 were affected by poverty or the risk of social exclusion. Among adults (over 20 years of age), women are affected in more cases (19%, or 648,000) than men (16%, or 523,000).⁶³ Single parents and persons in families with many children as well as older women⁶⁴ are still especially at risk of poverty in Austria.

Due to the numerous interrelated effects involved, efforts to combat poverty in Austria focus on multiple risk factors. The further expansion of high-quality, affordable child care and care for incapacitated adults serves to promote the labour market participation of women in particular. The available statistics clearly show that the risk of poverty declines in families where women are employed. This is especially pronounced in multiple-person households with a maximum of two children, where the risk of poverty drops from 32% to 5% in cases where the woman is employed.⁶⁵ Another important aspect in the context of poverty risk is the gender pay gap, a point also addressed by the European Commission in its country report. According to Eurostat, the gender pay gap in Austria narrowed from 25.5% in the year 2006 to 22.9%⁶⁶ in the year 2014. Therefore, Austria has the second-largest pay gap in the EU-28. One important prerequisite for income equality is income transparency. Since March 2011, therefore, employers have been required by law to indicate the minimum remuneration according to the applicable collective bargaining agreement and to indicate their willingness to pay more than the minimum in all job advertisements. In addition to this

60% of the national median equivalent income; (2) severe material deprivation; (3) living in a household with very low work intensity.

⁶⁰ Severe material deprivation is considered to exist if at least 4 out of 9 criteria (defined at the EU level) are met: (1) having arrears on mortgage or rent payments, utility bills, hire purchase instalments or other loan payments; (2) not being able to face unexpected financial expenses; not being able to afford (3) one week's annual holiday away from home, (4) heating to keep the apartment/home warm, (5) a meal with meat, chicken, fish (or a vegetarian equivalent) every second day, (6) a car, (7) a washing machine, (8) a colour television, (9) a phone (including mobile phones).

⁶¹ Households with no or very low work intensity are defined as those where the members who are of working age (18-59 years, except students) work less than 20% of their total employment potential. This indicator is only reported for people under 60 years of age.

⁶² cf. Statistics Austria, Poverty and social exclusion 2015; retrieved on 14th April 2016 (http://www.statistik.at/web_de/statistiken/menschen_und_gesellschaft/soziales/armut_und_soziale_eingliederung/index.html)

⁶³ cf. Statistics Austria, Poverty and social exclusion 2015, retrieved on 14th April 2016 (http://www.statistik.at/web_de/statistiken/menschen_und_gesellschaft/soziales/armut_und_soziale_eingliederung/index.html)

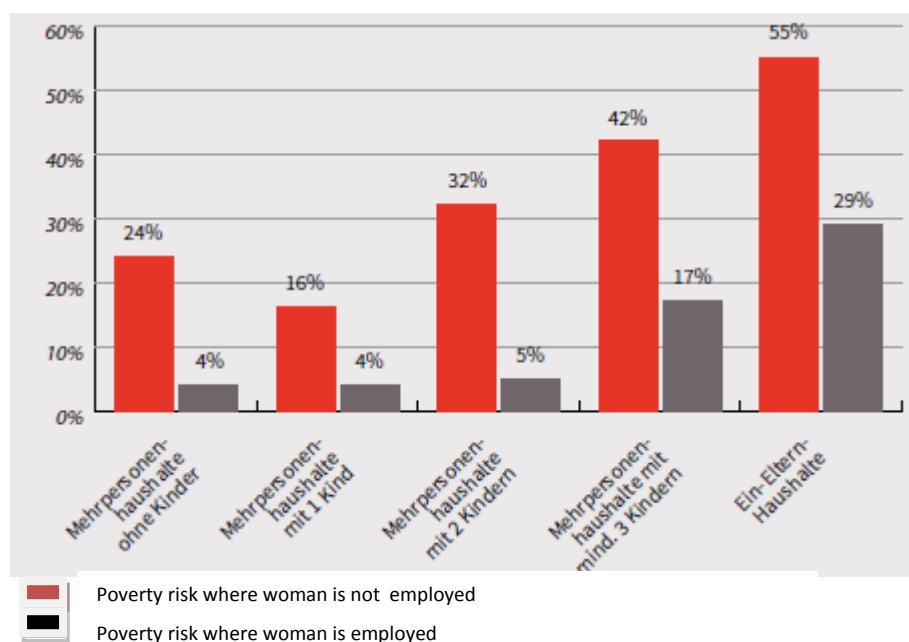
⁶⁴ For information on measures to combat poverty among women in old age, see also Section 3, Country-Specific Recommendation No. 2.

⁶⁵ cf. Austrian Federal Ministry of Social Affairs, 2015. *Armut und soziale Ausgrenzung. Kein Randphänomen*, Vienna.

⁶⁶ cf. Eurostat. Gender pay gap (without adjustment). Based on gross hourly earnings. Preliminary value for 2014

measure, enterprises with a certain minimum number of employees are obliged to prepare income reports. Since 2014, this obligation has applied to enterprises with 150 employees or more. Both instruments have been evaluated in the last year.⁶⁷ Salary disclosure have shown positive effects, as differences in salaries between industries are more visible and can be addressed. Income reports are still not well known and have only seldom been used as the basis for additional structural measures in enterprises up to now. Despite the high degree of implementation, both instruments exhibit room for improvement in terms of their effect on strengthening income transparency.

Chart 4: Share of risk of poverty based on employment of women⁶⁸



Source: Austrian Federal Ministry of Social Affairs, 2015.

In order to combat long-term disadvantages for children and youths from households at risk of poverty and the poorer educational opportunities and outcomes that often accompany such situations, Austrian education policy has focused more heavily on this target group (see also Section 3, Country-Specific Recommendation No. 2, and Section 4.4).

From July 2014 onward, the family allowance was raised by 4% (the higher allowance for families with children with substantial disabilities by 8.4%), and increases by 1.9% in 2016 and 2018 have already been established in Austrian law.

These measures will provide families with approximately EUR 830 million in additional funds. In this context, the share attributable to sibling adjustments in the family allowance amounts to some EUR 50 million, thus giving special consideration to families with more than one child.

⁶⁷ cf. Austrian Federal Ministry of Education and Women's Affairs (2015). *Einkommenstransparenz. Gleiches Entgelt für gleiche und gleichwertige Arbeit. Gehaltsangaben in Stelleninseraten und Erstellung von Einkommensberichten: Evaluierung der Umsetzung und Wirkung der Bestimmungen* (<https://www.bmbf.gv.at/frauen/gstam/einkommenstransparenz.pdf?56r3ym>)

⁶⁸ cf. Austrian Federal Ministry of Social Affairs, 2015. *Armut und soziale Ausgrenzung. Kein Randphänomen*, Vienna, p.12

5. ESI Funds: Coherence between funding priorities for 2014 to 2020 and national-level Europe 2020 targets and country-specific recommendations

The content of Austria's ESI Funds programmes is geared toward the objectives of EU cohesion policy (economic, social and territorial cohesion), the Common Agricultural Policy and the targets of the EU 2020 strategy in the context of intelligent, sustainable and inclusive growth. The Austrian programmes for the EFRE (including the programmes in the European Territorial Cooperation funding pool), the ESF and ELER make a contribution to all national EU 2020 targets. For example, the priorities of Austria's nationwide **EFRE Regional Programme 2014-2020** include strengthening research, technological development and innovation (which also includes enhancing the competitiveness of SMEs) as well as increasing energy efficiency and using renewable energy in business enterprises. In contrast, the **ESF Programme 2014-2020** focuses on promoting sustainable and high-quality employment, investing in education, skills and lifelong learning, and promoting social integration and poverty reduction. In this context, the deployment of ESF funds is designed to promote equal opportunities-based labour participation and career development for women, the (re-)integration of older workers, the formal advancement of qualifications among persons with low-level qualifications and persons subject to disadvantages in education, and the reduction of the number of early school leavers (especially among disadvantaged youths; see also Country-Specific Recommendation No. 2). The Austrian **ELER Programme 2014-2020**, is designed to make contributions to achieving the emissions reduction target, increasing the share of renewable energy, and securing employment in rural areas. For the first time, the programme has also been able to fund social service facilities in rural areas, including care for children and adults.

6. Institutional aspects

The Austrian National Reform Programme 2015 was adopted by the Austrian Council of Ministers on 21 April 2015 and submitted to the Austrian Parliament on 27 April 2015 as a report of the federal government for deliberation in accordance with the rules of procedure. The Budget Committee deliberated on the National Reform Programme in a public session and acknowledged the Programme with a majority of votes.

Within their respective areas of responsibility, the provincial and local governments contribute to reaching the national Europe 2020 targets and to the implementation of country-specific recommendations. Where cooperation opportunities between the federal government and the provincial governments exist, agreements are made on the basis of Article 15a of the Federal Constitutional Act (B-VG). These agreements are binding on the federal government as well as the provincial governments. In addition, the Austrian Domestic Stability Pact (ÖStP 2012) governs domestic budget coordination, the medium-term orientation of budgets and the division of deficit ratios and sanction burdens. Examples of measures which are the sole responsibility of the provincial governments can be found in Annex 2, Table 2.

The specific measures taken by the federal provinces to implement the country-specific recommendations are summarised in Annex 2, Table 1. This documentation is in no way exhaustive, but it does provide some insight into implementation progress at the provincial level.

The Austrian federal government is making every effort to implement the Europe 2020 strategy with the close involvement of the provincial governments, regions and local governments as well as the social partners and all relevant interest groups. The joint contribution of the social partners to the National Reform Programme can be found in Annex 2, Table 3.

The involvement of civil society in the Europe 2020 process falls within the competences of the various ministries in Austria. In accordance with Austria's standards for public involvement, efforts are being made to launch participation processes at an early juncture in order to make appropriate use of the existing room for manoeuvre. With regard to the measures to combat poverty in connection with the Europe 2020 target, reference is made to the Austrian platform for the implementation of the national Europe 2020 target regarding poverty reduction and social inclusion. This platform involves all major actors and meets at least twice per year, thus ensuring a sustained dialogue between the actors involved.