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Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Austria

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Recommendation for a

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on the economic, social, employment, structural and budgetary policies of Austria

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Council Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[2], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support to the Member States for the implementation of reforms and investments, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it helps achieve to the economic and social recovery and implement sustainable reforms and investments, in particular to promote the green and digital transitions and make the Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the EU and support the continued implementation of the European Pillar of Social Rights.

(2) The REPowerEU Regulation[3], adopted on 27 February 2023, aims to phase out the European Union's dependency on Russian fossil fuel imports. This would help achieve

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1 OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

2 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17), ELI: http://data.europa.eu/eli/reg/2021/241/oj.

3 Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1), ELI: http://data.europa.eu/eli/reg/2023/435/oj.

energy security and diversify the EU's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. Austria added a new REPowerEU chapter to its national recovery and resilience plan in order to finance key reforms and investments that will help achieve the REPowerEU objectives.

(3) On 16 March 2023, the Commission issued a Communication on the 'Long-term competitiveness of the EU: looking beyond 2030[4], in order to inform policy decisions and create the framework conditions for increasing growth. The Communication frames competitiveness along nine mutually reinforcing drivers. Among these drivers, access to private capital, research and innovation, education and skills, and the Single market emerge as paramount policy priorities for reforms and investments to address current productivity challenges as well as to build up the long-term competitiveness of the EU and its Member States. On 14 February 2024, the Commission followed this Communication with the Annual Single Market and Competitiveness Report[5]. The report details the competitive strengths and challenges of Europe's Single Market, tracking yearly developments according to the nine competitiveness drivers identified.

(4) On 21 November 2023, the Commission adopted the 2024 Annual Sustainable Growth Survey[6], marking the start of the 2024 cycle of the European Semester for economic policy coordination. The European Council endorsed the priorities of the 2024 Annual Sustainable Growth Survey around the four dimensions of competitive sustainability on 22 March 2024. On 21 November 2023, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2024 Alert Mechanism Report 2024. in which it did not identify Austria as one of the Member States that may be affected or may be at risk of being affected by imbalances, and for which an in-depth review would be needed. On the same date, the Commission also adopted an opinion on the 2024 draft budgetary plan of Austria. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 12 April 2024, as well as the proposal for the 2024 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which the Council adopted on 11 March 2024.

(5) On 30 April 2024, the EU's new economic governance framework came into force. The framework includes the new Regulation of the European Parliament and of the Council (EU) 2024/1263 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97. It also includes the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure and the amended Directive 2011/85/EU on the budgetary frameworks of Member States[7]. The objectives of the new framework are public debt sustainability and sustainable and inclusive growth through gradual fiscal consolidation as well as reforms and investments. It promotes national ownership and has a greater medium-term focus, combined with more effective and coherent enforcement. Each Member State should submit to the Council

4 COM(2023) 168 final.

5 COM(2024) 77 final.

6 COM(2023) 901 final.

7 Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1264/oj) and Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj).

and to the Commission a national medium-term fiscal-structural plan. National medium-term fiscal-structural plans contain the fiscal, reform and investment commitments of a Member State, covering a planning horizon of 4 years or 5 years depending on the regular length of the national legislature. The net expenditure path[8] in the national medium-term fiscal-structural plans should comply with the requirements of Regulation (EU) No 2024/1263, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period at the latest, or for it to remain at prudent levels below 60% of GDP, and to bring and/or maintain the government deficit below the 3% of GDP reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in Regulation (EU) No 2024/1263, the adjustment period may be extended by 3 years at most. For the purpose of supporting the preparation of those plans, on [21 June] 2024, the Commission is set to provide Member States with guidance on the content of the plans and the subsequent annual progress reports that they will need to submit and, in accordance with Article 5 of Regulation (EU) No 2024/1263, will transmit to them technical guidance on the fiscal adjustments (reference trajectories and technical information, where applicable). Member States should submit their medium-term fiscal-structural plans by 20 September 2024, unless the Member State and the Commission agree to extend the deadline by a reasonable period of time. Member States should ensure the involvement of their national parliaments, and the consultation of independent fiscal institutions, of social partners and other national stakeholders, as appropriate. In 2024, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. The full implementation of the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans help to effectively address all, or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. The 2019, 2020, 2022 and 2023 country-specific recommendations remain equally relevant also for revised, updated or amended recovery and resilience plans in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(6) On 30 April 2021, Austria submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines of Annex V to that Regulation. On 13 July 2021, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for Austria[9], which was amended on 9 November 2023 in accordance with Article 21(1) of Regulation (EU) 2021/241 on the grounds that the RRP is partially no longer achievable because of objective circumstances, as well as to

[8] Net expenditure as defined in Article 2 of Council Regulation (EU) 2024/1263 of 29 April 2024(OJ L 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj). Net expenditure means government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by Union funds revenue, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure, and (vi) one-offs and other temporary measures.

[9] Council Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for Austria (10159/2021).

include the REPowerEU chapter[10]. The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, that Austria has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

(7) The Commission published the 2024 country report for Austria[11] on 19 June 2024. It assessed Austria's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2023 and took stock of Austria's implementation of the recovery and resilience plan. Based on this analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges. It also assessed Austria's progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

(8) Based on data validated by Eurostat[12], Austria's general government deficit decreased from 3.3% of GDP in 2022 to 2.7% in 2023, while the general government debt fell from 78.4% of GDP at the end of 2022 to 77.8% at the end of 2023.

(9) On 12 July 2022, the Council recommended[13] that Austria take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance[14], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Austria was recommended to stand ready to adjust current spending to the evolving situation. Austria was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds. In 2023, according to the Commission estimates, the fiscal stance[15] was contractionary, by 0.9% of GDP, in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided a contractionary contribution to the fiscal stance of 0.5% of GDP. This includes the increased targeted emergency support measures to households and firms most vulnerable to energy price hikes by 0.2% of GDP. The growth of nationally financed primary current expenditure in 2023 was in

10 Council Implementing Decision of 7 November 2023 amending the Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for Austria (14472/2023).

11 SWD (2024) 620 final.

12 Eurostat-Euro Indicators, 22.4.2024.

13 Council Recommendation of 12 July 2022 on the National Reform Programme of Austria and delivering a Council opinion on the 2022 Stability Programme of Austria OJ C 334, 1.9.2022, p. 162.

14 Based on the Commission 2024 spring forecast, the medium-term potential output growth of Austria in 2023 is estimated at 8.7% in nominal terms, based on the 10-year average real potential growth rate and the 2023 GDP deflator.

15 The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures (and excluding temporary emergency measures related to the COVID-19 crisis) and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.2% of GDP in 2023. Nationally financed investment amounted to 3.5% of GDP in 2023, representing a decrease of 0.1 percentage points as compared to 2022. Austria financed additional investment through the Recovery and Resilience Facility and other EU funds. It financed public investment for the green and digital transitions, and for energy security, such as creating better broadband access in rural and remote areas and supporting households to replace fossil-fuelled heating systems by renewable heating technology, which are partly funded by the Recovery and Resilience Facility and other EU funds.

(10) The macroeconomic scenario underpinning Austria's Economic and Budgetary Projections foresees real GDP to grow at 0.2% in 2024 and 1.8% in 2025, while it projects CPI inflation at 3.8% in 2024 and 2.7% in 2025. The general government deficit is expected to increase to 2.9% of GDP in 2024 and to stand at 2.8% of GDP in 2025, while the general government debt-to-GDP ratio is set to decrease to 77.5% by the end of 2024 and 77.4% by the end of 2025. After 2025, the general government deficit is projected to decrease gradually to 2.8% of GDP in 2026, and 2.7% in 2027. Therefore, the general government balance is planned to remain below the 3% of GDP deficit reference value over the programme horizon. In turn, after 2025, the general government debt-to-GDP ratio is projected to remain stable at 77.4% in 2026, and 2027. The Commission Spring 2024 Forecast projects real GDP to grow by 0.3% in 2024 and 1.6% in 2025, and HICP inflation to stand at 3.6% in 2024 and 2.8% in 2025.

(11) The Commission Spring 2024 Forecast projects a government deficit of 3.1% of GDP in 2024, while the general government debt-to-GDP ratio is set to decrease to 77.7% by the end of 2024. The increase of the deficit in 2024 mainly reflects the delayed effects of inflation on the expenditure side (salaries, pensions, indexed social benefits), and additional spending under the national fiscal framework in the areas of childcare, housing and climate, as well as the recently adopted housing and construction package. In addition to this, several energy-related emergency support measures, such as the electricity price brake, have been extended until the end of 2024. Based on the Commission's estimates, the fiscal stance is projected to be expansionary by 0.4% of GDP in 2024.

(12) Expenditure amounting to 0.1% of GDP is expected to be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2024, compared to 0.2% of GDP in 2023, according to the Commission Spring 2024 Forecast. Expenditure financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Austria.

(13) On 14 July 2023, the Council recommended[16] that Austria ensure a prudent fiscal policy, in particular by limiting the nominal increase in net nationally financed primary expenditure[17] in 2024 to not more than 4.6%. When executing their 2023 budgets and preparing their Draft Budgetary Plans for 2024, Member States were

[16] Council Recommendation of 14 July 2023 on the 2023 National Reform Programme of Austria and delivering a Council opinion on the 2023 Stability Programme of Austria, OJ C 312, 1.9.2023, p. 186.

[17] Net primary expenditure is defined as nationally financed expenditure net of (i) discretionary revenue measures, (ii) interest expenditure, (iii) cyclical unemployment expenditure, and (iv) and one-offs and other temporary measures.

invited to take into account that the Commission would propose to the Council the opening of deficit-based excessive deficit procedures based on the outturn data for 2023. According to the Commission Spring 2024 Forecast, Austria's net nationally financed primary expenditure is projected to increase by 5.9% in 2024, which is above the recommended maximum growth rate. This excess spending over the recommended maximum growth rate in net nationally financed primary expenditure corresponds to 0.6% of GDP in 2024. This risks being not in line with what was recommended by the Council.

(14) Moreover, the Council recommended that Austria take action to wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. The Council further specified that, should renewed energy price increases necessitate new or continued support measures, Austria should ensure that these were targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings. According to the Commission Spring 2024 Forecast, the net budgetary cost[18] of emergency energy support measures is estimated at 1.4% of GDP in 2023 and projected at 0.4% in 2024, and 0.1% in 2025. In particular, the electricity price brake for households and the reduction of the energy levy are assumed to remain in force in 2024, albeit with a minor impact[19]. If the related savings were used to reduce the government deficit, as recommended by the Council, these projections would imply a fiscal adjustment of 1.0% of GDP in 2024, whereas net nationally financed primary expenditure[20] provides an expansionary contribution to the fiscal stance of 0.4% of GDP in that year. The emergency energy support measures are not projected to be wound down as soon as possible in 2023 and 2024. This risks being not in line with what was recommended by the Council. Moreover, the related savings are not projected to be fully used to reduce the government deficit. This risks being not in line with the Council recommendation. The budgetary cost of emergency energy support measures targeted at protecting vulnerable households and firms is estimated at less than 0.1% of GDP in 2024 (0.4% in 2023), of which less than 0.1% of GDP preserve the price signal to reduce energy demand and increase energy efficiency (0.4% in 2023).

(15) In addition, the Council also recommended that Austria preserve nationally financed public investment and ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds, in particular to foster the green and digital transitions. According to the Commission Spring 2024 Forecast, nationally financed public investment is projected to decrease to 3.3% of GDP in 2024 from 3.5% of GDP in 2023. This is due to exceptionally high investment in 2023, partly driven by the municipal investment law. Taking into account these additional factors, public investment in 2024 is assessed as respecting the Council recommendation. In turn,

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[18] The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

[19] Measures that, according to Austria, remain in place until the end of 2024 are, in principle, assumed in the Commission 2024 spring forecast as having a budgetary impact also in 2025.

[20] This contribution is measured as the change in general government primary expenditure, net of (i) the incremental budgetary impact of discretionary revenue measures, (ii) one-offs, (iii) cyclical unemployment expenditure and (iv) expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate, expressed as a ratio to nominal GDP.

public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to remain stable at 0.2% of GDP in 2024.

(16) Based on policy measures known at the cut-off date of the forecast and on a no-policy-change assumption, the Commission Spring 2024 Forecast projects a government deficit of 2.9% of GDP in 2025. The decrease of the deficit in 2025 mainly reflects a more moderate increase in salaries, pensions and other social benefits due to decreasing inflation and the phase-out of measures to mitigate the impact of high energy prices. The general government debt-to-GDP ratio is set to increase to 77.8% by the end of 2025. The increase of the debt-to-GDP ratio in 2025 mainly reflects higher interest rate expenditure in 2024 and lower nominal GDP growth rates.

(17) Austria's fiscal framework relies on a complex system of intergovernmental transfers between federal and regional authorities, providing limited incentives for efficient public spending. The lack of tax autonomy makes funding of expenditure across federal levels highly dependent on this system. In 2023, only a small percentage of all public revenues were own source revenues of the federal states. At the same time, financing of essential services such as healthcare, childcare and public transport depends partially on expenditure by the federal states and municipalities. Demographic change and the green transition further exacerbate the cost pressure on the federal states and municipalities, while own source revenues are not linked to expenditure dynamics. The current fiscal framework results in inefficiencies and a lack of transparency, as it blurs the link between the tax burden and public expenditure. Better aligning own source revenues with subcentral government spending and strengthening transparency and coordination are important for improving the overall quality of public spending. Reforming the property tax system could be used to improve fiscal federalism and the overall tax system.

(18) The tax mix continues to rely heavily on labour income (payroll taxes and social security contributions) and consumption. In 2022, Austria had the third-highest tax-to-GDP ratio in the EU and a very high tax wedge. Since 2023, personal income tax brackets have been indexed to inflation, preventing a further increase of the tax wedge through bracket creep. At the same time, the eco-social tax reform of 2022 provided relief measures in the area of taxes and social security and introduced CO_2 pricing in the transport and heating sectors, improving the tax mix. However, several long-standing structural challenges in the tax mix remain unaddressed. Making better use of more growth-friendly taxes could also help create the necessary budgetary space and improve the fairness of the tax system.

(19) Healthcare spending is among the highest in the EU, with many healthcare services still provided by hospitals, which is a costly and less efficient way to provide care. Public expenditure on healthcare is projected to increase from 7.8% of GDP in 2022 to 8.8% GDP in 2050. In addition, a growing and ageing population is expected to lead to an increase in the utilisation of healthcare services, further aggravating fiscal sustainability concerns. The healthcare reform of 2023 included significant investments in primary care, ambulatory care, digitalisation and prevention that could help contain costs in the long term, if accompanied by structural reforms. It will be crucial to ensure that patients are guided through the health system in a consistent way, including by making sure that the increased availability of primary healthcare services will translate into lower utilisation of existing hospital or ambulatory specialist healthcare services. Austria's recovery and resilience plan will help to strengthen outpatient primary healthcare, in particular by supporting existing and new primary healthcare centres in local areas. However, the reform package of 2023 lacked

structural reforms that would realign financing and spending responsibilities to increase efficiency.

(20) The long-term care reform of 2023 improved the adequacy of service provision in view of an ageing population. At the same time, increasing female labour market participation and changing family structures call for strengthened formal care structures. While the long-term care reform helped improve the training opportunities, working conditions and pay of long-term care staff, further efforts are also needed to improve the situation of self-employed live-in carers. Moreover, the reform did not address structural fiscal sustainability. Long-term care expenditure is projected to almost double from 1.6% of GDP in 2022 to 3.1% in 2070. The long-term care system is characterised by split competencies for financing and service provision. It would be desirable to increase harmonisation of financing and services, coordinate between the different sectors, and put in place common performance standards across regions. Asset testing is applied for home- and community-based care but not for residential care, leading to a financial incentive to use the relatively more expensive residential care.

(21) In accordance with Article 19(3), point (b), and Annex V, criterion 2.2 of Regulation (EU) 2021/241, the Austrian recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, proceeding swiftly with the effective implementation of the plan, including the REPowerEU chapter, is essential to boost Austria's long-term competitiveness through the green and digital transition, while ensuring social fairness. To deliver on the commitments of the plan by August 2026, it is essential for Austria to continue the implementation of reforms and investments by addressing emerging delays. In particular, it is essential to proceed with the preparation of the second and third payment requests. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(22) As part of the mid-term review of the cohesion policy funds, in accordance with Article 18 of Regulation (EU) 2021/1060, Austria is required to review each programme by March 2025, taking into account, among other things, the challenges identified in the 2024 country-specific recommendations, as well as its national energy and climate plan. This review forms the basis for the definitive allocation of the EU funding included in each programme. Austria has made progress in implementing cohesion policy and the European Pillar of Social Rights, but challenges remain. Regional disparities in Austria are among the smallest in the EU, but the existing ones risk being reinforced in the future, partially because of demographic challenges and depopulation in certain remote rural territories. It is important to accelerate cohesion policy implementation, and the priorities agreed in the programmes continue to be relevant. It is particularly important to improve the efficiency of the research and innovation system, in line with the national and regional smart specialisation strategies, and to use science-business links. It is also necessary to continue green investments, notably in promoting energy efficiency and reducing the carbon footprint, including through emerging green technologies. Integrated territorial development approaches to support inclusive and sustainable local development are key. Fostering the quality and inclusiveness of education, training and lifelong learning, particularly for disadvantaged groups, remains pertinent, and investments supporting active

inclusion and employability should also continue. Austria could also leverage the Strategic Technologies for Europe Platform initiative to support the development or manufacturing of critical technologies, including clean and resource-efficient technologies.

(23) Beyond the economic and social challenges addressed by the recovery and resilience plan and other EU funds, Austria faces several additional challenges related to the labour market, business dynamism and access to risk capital as well as persistent dependence on gas imports from Russia and relatively high emissions in the transport sector.

(24) The employment rate of women in full-time equivalents is below the EU average, although an upward trend can be observed. Austria ranks second highest in the EU in terms of part-time employment of women. The insufficient provision of quality early childhood education and care facilities, together with strong regional differences, plays a key role in the high share of women in part-time employment. In 2023, only 24.1% of under-3-year-olds participated in formal childcare, thus the participation rate in early childhood education and care remains overall below the EU average of 34.9%. The double burden of paid-work and care obligations affects women significantly more than men. While steps are being taken to increase the availability and quality of early childhood education and care, the opening hours of childcare facilities do not significantly increase the possibility for parents with caring responsibilities, essentially women, to work longer hours. Furthermore, introducing compulsory quality standards in early childhood education and care could better ensure the provision of quality care across the country.

(25) Austria experiences a decline in its business dynamism, with enterprise birth and death rates among the lowest in the EU. The share of start-ups and young enterprises is declining, having a negative impact on productivity (while in 2013 the share of young enterprises was 5.4%, in 2020 this percentage fell to 3.8%, below the EU average). The share of high-growth enterprises is also significantly below the EU average (in 2021, 8.21% in number of enterprises and 7.29% in number of employees, compared to 9.18% and 12.40%, respectively, in the EU). Equity financing is low by international standards. The limited supply of private risk capital is a constraint for innovative companies and technology diffusion. Supply and demand of risk capital are not particularly high in Austria, which could hamper the creation and growth of new technology-intensive or innovative enterprises. Limitations on access to venture capital finance are especially affecting innovative SMEs and start-ups. Risk capital financing is underdeveloped, with private equity at only 0.14% of GDP in 2022, significantly below the EU average of 0.64%, and venture capital at 0.041% of GDP (EU average: 0.09%).

(26) Skills shortages and mismatches are among Austria’s most pressing challenges and the demographic ageing is set to further exacerbate the situation. Austria’s job vacancy rate remains one of the highest in the EU and has remained over 4% since the end of 2021. Although the employment rate of older workers has increased continuously over the last decade and reached 57.7% in 2023, it remains well below the EU average of 63.8%. With more limited digital skills and often facing discriminatory practices because of their age, older workers have difficulties in reintegrating into the labour market. Low-qualified people with only the compulsory level of school education are particularly vulnerable and represent the highest share of the unemployed in Austria. Similarly, people with a migrant background and people with a disadvantaged socio-economic background have lower labour market attainment and face particular

labour market barriers also due to challenges regarding school-to-work transition. According to the 2022 Programme for International Student Assessment (PISA) survey, around one in four 15-year-old Austrian pupils lacked a minimum level of proficiency in mathematics, reading and science; and the share for those with a disadvantaged or migrant background increased to 45% in mathematics. Furthermore, young people born outside the EU are nearly two times more likely to leave school early, negatively impacting their labour market integration. The measures in Austria's recovery and resilience plan to improve skills supply as well as the educational outcomes of disadvantaged pupils are being implemented, but additional measures are needed to reduce existing labour and skills shortages. These could include promoting labour market access for older, low-skilled workers and people with a migrant background, preventing young people with a migrant background from leaving school early, as well as improving the basic skills of disadvantaged pupils and pupils with a migrant background.

(27) Despite some diversification efforts, Austria continues to be heavily dependent on Russian gas. Although gas supplies from Norway, and to a lesser extent from North Africa and Central Asia, increased in 2023, imports from Russia dominated the gas supply, in particular during winter (98% of total imports in December 2023). To expand transport capacity from neighbouring countries such as Germany and Italy, Austria supported targeted investments to upgrade its gas pipeline infrastructure. At the same time, measures under Austria's recovery and resilience plan, such as the investment in energy efficiency and in the replacement of fossil fuel heaters, help to reduce gas demand and speed up the green transition. The government announced a new plan to terminate the long-term supply contract with the Russian company Gazprom and to introduce an obligation for domestic gas suppliers to diversify away from Russia, however without a clear timeline for implementation. The lack of a clear strategy to decouple from Russian gas leaves Austria's energy supply vulnerable.

(28) Austria's installed renewable energy capacity grew by 6% in 2022. While solar energy, in particular photovoltaics, continued to expand strongly, wind energy did not match the expansion speed of solar energy. Upgrading and expanding electricity storage as well as the transmission and distribution grids, especially between the east and west of Austria, has become a matter of urgency in view of Austria's target of using 100% renewable electricity by 2030. This requires both more investments and speed in integrating additional renewable power generation into the system as set out in the first integrated net infrastructure plan published in April 2024. Austria has presented further measures to accelerate the energy transition, but the revised electricity market act and the renewable gases act are still awaiting adoption by Parliament.

(29) Austria's measures to reduce greenhouse gas emissions over the last few years are starting to show results. Greenhouse gas emissions not covered by the EU emissions trading system declined by 5% in 2022. Nevertheless, current policies leave a gap of 21 pps to Austria's agreed effort sharing target of 48% under the Effort Sharing Regulation by 2030 compared to 2005 levels. Austria still needs to submit to the Commission a draft update of its national energy and climate plan, which was due in June 2023, setting out how it aims to close this gap. Austria introduced a CO_2 price for non-ETS sectors, which is a step in the right direction, but transport emissions per capita remain above the EU average, inter alia due to relatively low tax rate for diesel, causing the so-called 'fuel tank tourism'. The Austrian recovery and resilience plan contains a number of sustainable transport reforms and investments, but there is scope

for further emission reduction measures, including strengthening public transport in rural areas.

(30) In view of the close interlinkages between the economies of euro area Member States and of their collective contribution to the functioning of the Economic and Monetary Union, in 2024 the Council recommended that the euro area Member States take action, including through their recovery and resilience plans, to implement the recommendation on the economic policy of the euro area. For Austria, recommendations (1), (2), (3) and (4) help implement the first, second, third and fourth euro area recommendations.

HEREBY RECOMMENDS that Austria take action in 2024 and 2025 to:

1. Submit the medium-term fiscal-structural plan in a timely manner. In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure[21] in 2025 to a rate consistent with putting the general government debt on a plausibly downward trajectory over the medium term and respecting the 3% of GDP deficit Treaty reference value. Improve the fiscal sustainability of the healthcare system and the long-term care system. Simplify and rationalise fiscal relationships and responsibilities across layers of government and align financing and spending responsibilities. Further improve the tax mix to reduce the tax wedge and support inclusive and sustainable growth.

2. Address emerging delays to allow for continued, swift and effective implementation of the recovery and resilience plan, including the REPowerEU chapter, ensuring completion of reforms and investments by August 2026. Accelerate the implementation of cohesion policy programmes. In the context of their mid-term review, continue focusing on the agreed priorities, while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness.

3. Boost the labour market participation of women, including by improving quality childcare services, and of older workers. Improve labour market outcomes for disadvantaged groups, such as low-skilled jobseekers and people with a migrant background, and raise the levels of basic skills, starting at school level. Promote business dynamism, creation and growth of young companies, including through better access to risk capital.

4. Improve energy security by accelerating the diversification of gas supply towards non-Russian sources. Further reduce emissions, in particular in the transport sector.

Done at Brussels,

For the Council
The President

[21] According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.