EUROPEAN COMMISSION

Brussels, 30.5.2012
SWD(2012) 306 final

COMMISSION STAFF WORKING DOCUMENT

Assessment of the 2012 national reform programme and stability programme for AUSTRIA

Accompanying the document

Recommendation for a

COUNCIL RECOMMENDATION

on Austria's 2012 national reform programme and delivering a Council opinion on Austria's stability programme, 2011-2016

{COM(2012) 306 final}

CONTENTS

EXECUTIVE SUMMARY

In 2011, the Austrian economy surpassed its pre-crisis output and employment levels. GDP growth strengthened to 3.1 %, significantly above the EU average. Employment grew at 1.4 % compared to the year before, bringing the employment rate to an estimated 75.2 %. Austria's economic activity is expected to significantly slow down as compared to 2011. GDP growth is projected to increase by 0.7%. Unemployment is foreseen to slightly increase - to 4.3%.

With the adoption of the fiscal consolidation package at the beginning of 2012, Austria has embarked on a path towards more sustainable public finances. Measures were notably taken among others to reduce expenditure on pensions, subsidies and public servants' salaries as well as to close loopholes in VAT collection. They were complemented by measures aimed at expanding child-care and all-day school places. At the end of 2011, a debt brake starting in 2017 was introduced, however not in the Constitution.

Even though the Austrian economy and labour market have been performing well in comparison to other Member States, the country faces numerous challenges. Since the country’s labour force potential is projected to shrink from 2020 onwards, Austria needs to tap the full potential of the working age population, in particular of older workers. Faced with increasing competition from low-cost countries, Austria needs to improve its non-price competitiveness through increased emphasis on research and innovation. The supply of skilled human resources at all educational levels, but especially at tertiary level, is too low. The long-term growth prospects of the economy will depend increasingly on a diversifying services sector and a business environment conducive to innovation and entrepreneurial dynamism. However, entry barriers currently hamper sound competition. Austria also faces particular challenges due to the high exposure of its banks to the countries of Central and Eastern Europe. The fiscal relations between the federal, regional and local governments are the source of widely recognised inefficiencies – not adequately addressed until now.

1. INTRODUCTION

The national reform programme was submitted to the Commission on 25 April and the stability programme on 24 April.

In June 2011, the Commission proposed five country-specific recommendations (CSRs) for economic and structural reform policies for Austria. In July 2011, the Council of the European Union adopted these recommendations which concerned public finances, taxation, inter-governmental fiscal relations, the pension system, education, the labour market, and competition and market functioning in the services sector.

In November 2011, the Commission published its Annual Growth Survey for 2012[1] presented the basis for building the necessary common understanding on the priorities for action at national and EU levels in 2012. It focused on five priorities — ensuring growth-friendly fiscal consolidation, restoring normal lending to the economy, promoting growth and competitiveness, tackling unemployment and the social consequences of the crisis, and modernising public administration — and encouraged Member States to implement them in the 2012 European Semester.

Against this background, Austria presented updates of its national reform programme and stability programme in April 2012. These programmes present details of the progress made since July 2011 and the plans for going forward.

This Staff Working Document assesses the state of implementation of the 2011 country-specific recommendations and the Annual Growth Survey 2012 in Austria, identifies current policy challenges and, in this light, examines the country's latest policy plans.

Overall assessment

Austria has implemented the Council recommendations only partially. The substantial package of measures recently adopted by parliament has addressed the need for prompt fiscal consolidation in Austria, recommended by both the 2011 country-specific recommendations and the Annual Growth Survey 2012, and for raising the effective retirement age. However, the consolidation package has not tackled sufficiently the inefficiencies in fiscal relations between the federal, regional and local authorities, identified as a major challenge for Austria. Moreover, instead of shifting the burden away from labour taxation to consumption, environmental and property taxes, it has increased the tax burden on labour for some groups. Some measures have been taken to improve the situation of women on the labour market and to enhance education outcomes, in particular for vulnerable youth. Reforms with significant potential, such as the New Secondary School, have been enacted in the education system. Austria has succeeded in eliminating the transposition deficit with respect to the Services Directive, although increasing competition and consumer choice in the services area requires further attention.

The policy plans submitted by the Austrian authorities in the national reform programme and stability programme 2012 are relevant, but their scope is not commensurate with the existing challenges. Further efforts are needed to raise the effective retirement age, improve the situation of women and migrants in the labour market, and enhance education outcomes.

[1] COM(2011) 815 final of 23 November 2011

Moreover, significant structural reforms, relating in particular to the healthcare and education systems, the social security and tax burden on labour, the powers and resources of the competition authority and the barriers to business start-ups are still outstanding. Last but not least, the restructuring of banks that have benefited from public support in the recent past should be stepped up.

2. ECONOMIC DEVELOPMENTS AND CHALLENGES

2.1. Recent economic developments and outlook

In 2011 the Austrian economy surpassed its pre-crisis output and employment levels. GDP growth strengthened to 3.1 %, significantly above the EU average. In contrast to 2010, domestic demand played a more important role, while the contribution of net exports weakened with the easing of global trade growth. The main contribution came from capital formation, reflecting the strong revival in investment activity that started in 2010 and held up throughout most of 2011. Employment grew at 1.4 % compared to the year before, bringing the employment rate to an estimated 75.2 % and helping to keep unemployment down to the lowest level in the EU.

Economic growth is set to weaken in 2012. Statistical data indicate a marked increase in inventory build-up in 2011, which possibly signals worsening growth prospects in the near future. Indeed, export and overall growth tailed off in the course of last year, even posting slightly negative rates in the fourth quarter. In addition, despite further advances in employment, the growth of private consumption was rather modest. Corporations and households still seem to hesitate with investment and consumption spending, setting the stage for rather subdued growth throughout most of 2012. GDP is projected to grow by just 0.8 % in 2012 before regaining some momentum in 2013.

Private consumption is likely to stay sluggish as the recovery in household confidence is at a very early stage and employment growth is slowing down. The decline in unemployment came to a halt in August 2011 and has fluctuated around a rate of 4.2 %, with the number of job-seekers still 23 % above the pre-crisis trough according to data for February 2012. The latest wage negotiations have raised negotiated wages by an average 3.2 % year-on-year as of March 2012. This limits the scope for sustaining the pace of employment gains during 2012. The overall impact of these counteracting trends on the real disposable income of households is rather uncertain.

Manufacturers’ order inflows and backlogs weakened throughout 2011 as did their expectations for exports. Indeed, firms have boosted their competitiveness by renewing capacity and withholding the compensation of productivity gains realised in the course of 2010 and early 2011. Their capacity to accommodate demands for wage increases has strengthened. However, the outcomes of the latest wage negotiations may put upward pressure on unit labour costs as output and productivity are still struggling to recover from the decline in the second half of 2011.

The prospects for weaker export and overall growth as well as the levelling-off of capacity utilisation rates will continue to be a drag on investment activity in the following quarters. Financing conditions may tighten as banks focus on raising capital buffers and further cleaning up their balance sheets. Credit demand from both companies and households has been weakened by the uncertainty due to the economic outlook, while the renewed tightening of credit standards may weigh additionally on credit activity in the coming months.

On the whole, the risk balance seems neutral. Foreign trade holds both downside (weak demand from the euro area) and upside risks (upbeat domestic demand in Germany, and indirect benefits from still growing import demand in emerging markets). Domestically, solid sentiment in the construction sector, together with sound corporate and household balance sheets, bodes well for investment activity. On the other hand, the recovery of consumer confidence remains subject to risk in both directions.

Driven by higher motor and heating fuel prices, as well as rising food prices, headline inflation averaged 3.8% from April to November 2011, but fell to 2.7% in March 2012. Core inflation (the harmonised index of consumer prices, excluding energy and unprocessed food) has been affected by spillovers into prices of services, where the annual rate of change peaked at 3.9% in August 2011. These effects are projected to disappear gradually, leading to a moderation of inflation in 2012. Wage growth is likely to remain contained, as the pace of economic expansion decelerates, although the translation of wage increases negotiated in various sectors into effective wage levels may well exert upward pressure on producer and consumer prices.

2.2. Challenges

Even though the Austrian economy has been systematically outperforming the euro area as a whole in terms of GDP growth, the country faces numerous challenges, which have remained broadly unchanged since last year's European Semester report. With the adoption of the latest fiscal consolidation package, Austria has embarked on a path towards more sustainable public finances. However, despite repeated calls by Austrian experts and international institutions, the measures contained in the package do not provide for significant streamlining in fiscal relations between the federal, regional and local governments, widely acknowledged as a major source of potential savings, in particular in health and education. Regarding the healthcare sector, there is further potential for savings in stronger integration of healthcare planning and financing, in a shift from hospital care, characterised by a relatively high number of hospital beds, to outpatient care, and in enhanced health promotion and prevention, where Austria's spending is well below the EU average. In the education sector, significant benefits could be reaped from aligning funding and spending on teacher salaries between the federal and regional authorities.

The performance of the Austrian labour market has been very good, as witnessed by the lowest unemployment rate in the EU in 2010 and 2011. However, since the country's labour force potential is projected to shrink from 2020 onwards, Austria will need to strive to tap the full potential of the working age population by addressing the problems of the low employment rate of older workers, the widespread take-up of early retirement and invalidity pension schemes, the high tax and social security burden on labour income, and the relatively high degree of gender segmentation, where women are concentrated in marginal and low-wage employment and perform the bulk of unpaid care work. The employment impact of parenthood is above the EU average, and is much higher for women than for men leading to a very high gender pay gap. A related challenge is a slightly above EU average poverty risk of elderly women due to substantial gender inequality in pension outcomes. The lower pension age for women (by five years) is not necessarily to their advantage as they have substantially less time to build individual entitlements. It also raises pension expenditure markedly. Moving forward with harmonising the statutory retirement age for men and women would improve the equity and sustainability of the pension system. Furthermore, the potential of people with a migration background is not fully harnessed due to low educational achievement or difficulties with the recognition of skills acquired abroad.

The country's competitiveness will depend on a flexible and efficient education and training system that can adapt to new realities and prepare students in the best possible way for their future working lives. Despite above-average spending on education in Austria, the PISA results in all tested subject areas are below average. The inter-generational transmission of educational attainment is particularly high in Austria. In comparison with the rest of the EU, pupils with a migration background in particular show substantial underachievement compared to natives. One contributing factor is the 'early tracking' into two different schooling streams at the age of 10, which, combined with widespread half-day schooling, has a negative effect on the educational attainment of vulnerable youth. Some reforms have recently been enacted in the area of education, but they are expected to meet the challenges only partially. The supply of skilled human resources at all educational levels, but especially at tertiary level, is too low, which is likely to jeopardise efforts to foster the technological intensity of production in the business sector and excellence in research in the academic sector. In particular, despite the increasing number of tertiary mathematics, science and technology graduates in the recent past, the shortage of such graduates might hamper growth in a number of sectors of the economy.

The long-term growth prospects of the economy will depend increasingly on a diversifying services sector and a business environment conducive to innovation and entrepreneurial dynamism. The Structural Funds are investing in these areas, and it is strongly recommended that they continue to do so, for example by setting up and boosting risk capital funds for innovative start-ups where appropriate. Faced with increasing competition from low-cost countries in the middle technology segment, Austria needs to improve its non-price competitiveness through increased emphasis on research and innovation. In the wake of the new strategy 'The way to innovation leader', this will require adopting a more integrated and better coordinated approach to policy development and implementation, supported by top-level political steering and continued budgetary prioritisation. In this regard, the scarcity of venture capital may also prove to be a constraint. The challenge of further lowering market entry barriers including start-up conditions for enterprises as well as promoting consumer choice and value through increasing competition, especially in the provision of services, has to be addressed on an on-going basis. In this context, it is imperative that the competition authority is vested with appropriate powers and resources. Sectors that require particular attention include, but are not limited to, railway freight and postal services.

Last but not least, maintaining the stability of the Austrian financial sector is of the utmost importance. In this respect, Austria faces particular challenges due to the high exposure of its banks to the countries of Central and Eastern Europe, as asset quality may still be deteriorating in several of these economies. Another challenge is to mitigate the risks associated with foreign currency lending to unhedged borrowers, especially the outstanding stock of loans in Swiss francs. Also, authorities need to continue to monitor closely and restructure those banks that have benefited from public sector support, especially the credit institutions that were nationalised.

3. ASSESSMENT OF POLICY AGENDA

3.1. Fiscal policy and taxation

Budgetary developments

The main goal of the medium-term budgetary strategy presented in the Austrian stability programme for the years 2011-2016 consists in gradually reducing the general government deficit to zero in nominal terms and to a close-to-balance position in structural terms by 2016. This means that Austria's medium-term objective (MTO) defined as a structural deficit of 0.45% of GDP would be achieved by the end of the programme's period. It should be noted that the MTO set by the Austrian authorities in this programme is less ambitious than the target of a balanced budget over the business cycle chosen in previous years. Nevertheless, the new MTO, although lower than the previous one, adequately reflects the requirements of the Stability and Growth Pact. The strategy also envisages that the nominal general government deficit falling to 2.1% of GDP in 2013 (from 3% of GDP in 2012) allowing Austria to correct its excessive deficit in line with the deadline set in a Council Recommendation issued in the context of the Excessive Deficit Procedure (EDP) in December 2009.

The general government deficit turned out at 2.6% of GDP in 2011 which was significantly lower than the 3.9% of GDP planned in the previous year's update of the programme and the 3.4% of GDP forecast by the Commission in autumn 2011. Part of the difference can be explained by the postponement of the cancellation of government participation in the "bad bank" KA Finanz from 2011 to 2012, based on a decision by Eurostat (equivalent to about 0.3% of GDP). The rest was due to lower than planned expenditure at all levels of government and more favourable economic conditions, which resulted in higher than expected revenue growth.

For 2012, both the programme and the Commission's Spring 2012 Forecast foresee an increase in the nominal general government deficit to 3% of GDP, partly due to the capital transfers to be paid in connection with government participation in the two struggling banks (KA Finanz and ÖVAG), considered by both the Austrian authorities and the Commission to be one-off measures. The consolidation effort planned for the remaining period of the programme is fairly evenly spread in terms of the headline deficit, primary balance and (recalculated) structural balance[2] (for details see Table III in the annex). The deficit targets contained in the latest programme are lower than in the previous year's programme for all the overlapping years. In particular, in the years 2013 and 2014 they are lower by almost 1% of GDP. As this is accompanied by a more pessimistic economic scenario especially in 2012 and 2013, the lower deficit targets are a result of the better than foreseen outcome in 2011 and the new policy measures adopted by the Austrian parliament for the period 2012-2016 in March 2012.

The programme envisages that about 70% of the consolidation effort will be on the expenditure side (reduction in the expenditure ratio by 1.8% of GDP between 2011 and 2016). Cuts are to be made in all primary expenditure categories. However, almost half of the consolidation effort on the expenditure side is to fall within the category "other" which is not fully explained. The programme foresees that the revenue-to-GDP ratio will

[2] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the programme, using the commonly agreed methodology

grow by 0.8 p.p. in the period 2011-2016, with a shift towards higher revenue from income and wealth taxes and lower taxation of production.

The measures on which the consolidation plans rely are specified in fairly sufficient detail for the period 2012-2013. However, it should be stressed that the budgetary effect of the advanced taxation of pension funds (in 2012) and the tax repatriation agreement with Switzerland (in 2013) is difficult to quantify, as it depends on individual uptake. The consolidation effort for the remaining years of the programme is less well defined, in particular in terms of expenditure cuts at sub-national level. Also the consolidation effort on the revenue side in 2014 relies to some extent on the introduction of a financial transaction tax for which there is no legal basis at the moment.

Box 1. Main measures

The consolidation effort presented in the 2012 stability programme is based on two consolidation packages adopted by the Austrian parliament in December 2010 and in March 2012 respectively. On the revenue side, they include closing loopholes in VAT collection, taxing gains accrued due to rezoning of land, hikes in income tax for high-earners and rise in social contributions for certain groups. On top of that, additional revenue is expected from advanced taxation of pension funds (in 2012) and the tax repatriation agreement with Switzerland (2013). However, their budgetary impact is highly uncertain as it depends heavily on uptake by individuals. The additional revenue from the financial transaction tax is also doubtful as there is no legal basis for it at the moment. On the expenditure side, the measures consist mainly in cuts in pension allowances, freezing the salaries of civil servants and reducing administrative costs across the board, but they will be partly offset by additional spending on education. The consolidation effort in 2012 will be hampered by significant capital transfers due to government participation in two struggling banks, ÖVAG and KA Finanz.

Main budgetary measures

Revenue	Expenditure
2011	
• Bank levy (0.1% of GDP)	
2012	
• Advanced taxation of pension funds (0.3% of GDP) – its budgetary effect is highly uncertain as it depends heavily on uptake	• Reduction in subsidies (-0.1% of GDP) • Administrative cuts across the board (-0.1% of GDP) • Additional spending on schools (0.1% of GDP) • Capital transfers due to government participation in struggling banks (0.6% of GDP)
2013	
• Tax repatriation agreement with Switzerland (0.3% of GDP) – its budgetary effect is highly uncertain as it depends heavily on uptake • Changes in real estate taxation (0.1% of GDP) • Closing of loopholes in VAT collection (0.1% of GDP)	• Cuts in pension and unemployment allowances (-0.3% of GDP) • Administrative reform and salary freeze for civil servants (-0.1% of GDP) • Additional spending on universities (0.1% of GDP)

2014	
• Financial transaction tax (0.2% of GDP) – doubtful effect as no legal basis yet • Further impact of changes in real estate taxation and closing of loopholes in VAT collection (0.1% of GDP)	• Cuts in pension and unemployment allowances (-0.2% of GDP) • Administrative reform and cuts in subsidies (-0.1% of GDP)
2015	
	• Cuts in pension and unemployment allowances (-0.2% of GDP) • Administrative reform and cuts in subsidies (-0.2% of GDP)
1. Note: The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign means that revenue / expenditure increases as a consequence of this measure. The degree of detail reflects the type of information made available in the stability or convergence programme and, where available, the multiannual budget.	

The programme foresees that the structural deficit will gradually fall from 2.4% of GDP in 2011 to 0.2% of GDP in 2016. The structural fiscal adjustment planned is spread fairly evenly over the programme period. The average annual fiscal effort for the period up to the deadline for correcting the excessive deficit, i.e. 2011-2013, is projected both by the programme and the Commission's 2012 Spring Forecast to amount to about 0.5% of GDP, which is below the 0.75% of GDP recommended by the Council in the context of the Excessive Deficit Procedure . Last year's country-specific recommendation issued for Austria on the budgetary strategy called for action to ensure the average annual adjustment effort of 0.75% of GDP. In that respect, this recommendation has been addressed partially as the 0.5% adjustment planned in the 2012 programme is higher than the 0.2% envisaged in the previous one, but lower than the required effort.

Both the programme and the Commission's 2012 Spring Forecast expect the excessive deficit to be corrected in 2013. For the remaining period of the programme, varied progress towards the MTO is planned. It is sufficient in the year 2015 (a structural adjustment of 0.6% of GDP), but insufficient in 2014 and 2016 (0.3% and 0.4% of GDP respectively). However, the deviations from the appropriate adjustment path towards the MTO in these two years are not significant, as they do not exceed 0.5% of GDP. According to the information provided in the programme, the growth in government expenditure over the period 2014-2015 will be in line with the spirit of the expenditure benchmark. Following an overall assessment of Austria's budgetary plans with the structural balance as a reference, including an analysis of expenditure net of discretionary revenue measures, the adjustment path towards the MTO seems to be appropriate.

After having been declining until 2007, the debt-to-GDP ratio has been growing continuously since 2008 on the back of the substantially increased general government deficits and massive government support for the banking sector. At the end of 2011, it amounted to 72.2% of GDP. The 2012 stability programme stipulates that the debt-to-GDP ratio should continue its upward trend until 2013 and will start declining thereafter (see Table IV in the annex). In terms of the debt reduction benchmark, Austria will be in transition in the years 2014-2016 and the plans presented in the programme should ensure sufficient progress towards compliance with the debt criterion. However, there are some risks attached to this projection. Firstly, a source of concern is the growing debt of state-owned companies classified outside the government sector (such as the Austrian Federal Railways and the Austrian Highway Authority). Secondly, further burdens on debt as a result of government measures to support the banking sector cannot be excluded.

Long-term sustainability

With regard to the sustainability of public finances, the long-term change in age-related expenditure is above the EU average[3]. The initial budgetary position compounds the long-term costs. Under a no-policy change assumption, debt would stabilise at 72% of GDP by 2020. Additional fiscal consolidation beyond the forecast horizon would be needed to meet the reference value for government debt beyond the short-term. However, the full implementation of the programme would be enough to put debt on a downward path by 2020, though would still be above the reference value of 60% of GDP. Recent reform measures undertaken in the field of pensions would reduce sustainability risks. Ensuring sufficient primary surpluses over the medium-term, as planned in the 2012 programme, would improve the sustainability of public finances.

Fiscal framework

It is widely acknowledged that fiscal relations between the three layers of government in Austria (federal, regional and local) are complex and lack transparency. Decision-making in many areas is divided among various levels of authority. Revenue-raising and spending responsibilities for a number of activities do not lie within the same level of government (for examples see Box 2). One of the 2011 country-specific recommendations issued to Austria called for improving the budgetary framework by aligning legislative, administrative and financing responsibilities between the different levels of government, in particular in healthcare and education.

[3]**1**The impact of the most recent reform is not included in the figures.

Box 2: Inefficiencies in fiscal relations between the layers of government

The Austrian healthcare system is organised in a fairly complex way. The social security system funds practising physicians. Where hospitals are concerned, the federal government sets the framework conditions, but the provinces are the real decision-makers, even though they provide less than half of the government funding for hospitals (the rest comes from social insurance and from the federal and local governments). In running hospitals, the provinces and municipalities do not always pursue an agenda exclusively concerned with health service provision. There are also economic and political interests at stake, which make closing down redundant hospitals literally impossible. Since different agents are responsible for in-patient and out-patient services, there is no incentive to move workload from costly hospitals to practising physicians whose services are cheaper. The number of hospital stays in Austria is among the highest in the OECD countries. According to the Federal Audit Court, hospital services worth more than 1 % of GDP should be shifted from the hospital sector to practising physicians[4]. Another important weakness of the Austrian health system is that it has its primary focus on curative treatment, whereas preventive health care is underdeveloped (1.8% of overall health spending in AT, compared to the EU average of 2.9%). This has a negative impact on cost developments in the health sector, as well as indirect negative effects on long-term care.

The financing of the education system is also controversial. The federal government funds the salaries of teachers to a large extent as well as the entire cost of teachers' pensions. However, teachers are formally employed by the provinces. The federal government is responsible for the curriculum but the provinces have far-reaching competences in terms of the organisation of schooling (including pupil numbers per class and teaching periods). Local governments have the task of maintaining the infrastructure of compulsory schools. This division of competences does not encourage effective allocation of resources and weakens cost-cutting incentives.

The Austrian authorities have only partially addressed this country-specific recommendation. The latest consolidation package provides for the streamlining of subsidies granted by the various levels of government. It also envisages changes to the way healthcare is organised and financed, but the operational details of that reform have still to be agreed by the central and regional governments. Nevertheless, the tentative agreement made between the federal and regional governments in May 2012 that healthcare would in future be financed from a centralised fund, raises hopes that many of the current inefficiencies could be removed from the system.

Another new development aimed at improving the Austrian fiscal framework was the introduction of a debt brake in December 2011 to limit the structural federal government deficit to 0.35 % of GDP, starting in 2017. The original attempt to enshrine the debt brake in the constitution in order to limit the structural general government deficit to 0.45 % of GDP failed due to insufficient support from the opposition parties in parliament. Despite the lack of constitutional status, i.e. not applying to sub-national authorities, the provinces have undertaken to respect it.

This is now reflected in the updated goals of the Austrian Stability Pact, which sets fiscal targets for the three layers of government. The newest edition of the Pact was signed by the federal, regional and local governments on 9 May 2012. Apart from aligning the

4 *Vorschläge des Rechnungshofes zur Verwaltungsreform*, Positionen Reihe 2011/1.

budgetary targets for each layer of government with the above-mentioned debt brake and the general government fiscal goals presented in the 2012 stability programme, the new agreement also aims to enhance oversight of the provinces' budgets by the federal government and make the sanction mechanisms (modelled on those under the SGP) more stringent. Moreover, the Pact has now been transformed into a permanent instrument as opposed to its previous time-limited editions, which had to be renegotiated periodically[5]. Another novelty is an 'expenditure brake', whereby public expenditure growth should not exceed the medium-term GDP growth.

Tax system

The tax and social security burdens on labour income in Austria are among the highest in the EU and have increased for all family types over the last decade. Average combined tax and social security contribution rates are high for almost all workers. Marginal effective tax rates, however, are particularly high at low income levels, due to the interaction of social security contributions, personal income tax and the benefit system[6]. Even though Austria performs well in nearly all labour market groups, also among the low-skilled, it has set itself an even more ambitious Europe 2020 employment target (77%–78% compared to a 2011 employment rate of 75.2%) and will need further growth in employment to reach it.

One of the 2011 country-specific recommendations issued to Austria, backed by the general Annual Growth Survey 2012 priorities, called for reducing, in a budget-neutral way, the effective tax and social security burden on labour, especially for low- and medium-income earners. This issue was not addressed in the budget law for 2012 adopted by the Austrian parliament in November 2011. The newly adopted consolidation package contains tax measures going in the opposite direction, namely increases in social security contributions and personal income taxation as well as reductions in tax-free earnings for the self-employed. As most of these measures target high-income individuals, whose response to labour tax incentives is rather inelastic according to empirical research, no significant impact on the labour market is expected. However, the abolition of the exemption from unemployment contributions for older workers is not conducive to enhancing the employment of older workers.

Instead of further increasing the tax burden on labour, Austria would benefit from shifting the tax burden towards recurrent real estate taxes and a further and faster shift towards environmental taxation, given the currently rather low receipts from such taxes. Austria would thus have room to address the recommendation for a budgetary neutral shift away from labour taxation with a view to increasing employment rates further given the need to counteract the impact of demographic change on the working population. The restrictions on input VAT deductibility for certain real estate transactions and the abolition of mineral oil tax reimbursements, contained in the latest consolidation package, certainly broaden the tax bases and, in the latter case, also eliminate environmentally harmful subsidies. However, given that these measures apply to only very limited areas, they are certainly not very ambitious. In particular, the private use of company cars continues to be subsidised via the tax system. Estimates indicate a subsidy of over 30%, amounting to up to 0.6% of GDP. Increasing the land tax for agricultural enterprises, taxing gains from the rezoning of land and taxing all gains stemming from real estate transfers, with the exception of owner-occupied housing, will increase the low

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[5] However, the Pact can be suspended in special circumstances, e.g. significant changes in the financing needs of the health care or long-term care sector, unexpected fall in tax revenue, etc.

[6] OECD Economic Survey on Austria (July 2011).

share of Austrian property taxation. However, with the exception of the land tax on agricultural enterprises, the newly proposed changes to the tax system concern taxes on real estate transactions and not the recurrent taxes on property that are less detrimental to growth.

Future challenges remain, as the share of taxation considered less detrimental to growth remains low and is decreasing further due to increases in labour taxation. Despite initial measures to increase less growth-detrimental property taxation, further steps need to be taken. Currently, the recurrent taxation of real estate is among the lowest in Europe. Further steps should focus on increasing it, e.g. by adjusting the tax factor determining the tax base, as it uses 1982 values.

3.2. Financial sector

Financial stability

The capitalisation of the banking sector improved in 2011 (i.e. as in June 2011), as the average Tier 1 capital of Austrian banks increased to 10.3% compared to 10.0% at the end of 2010. Following the call by the European Council on 27 October 2011 for a temporary increase in bank capital up to 9% core Tier 1, in December 2011 the European Banking Authority (EBA) recommended that three Austrian institutions (Erste Group, Raiffeisen and Volksbank) should further increase their capital. Individual compliance plans are now being implemented. The total capital increase needed according to the EBA was EUR 3.9 billion. Erste Bank recently announced that its financial results in the last quarter of 2011 had enabled it to reduce the capital amount requested by the EBA from EUR 743 million to EUR 166 million.

The EBA considered the restructuring of Volksbank to be an appropriate response to the December 2011 recapitalisation recommendation. Therefore, the bank will no longer be assessed against the core Tier 1 ratio of 9% after taking into account an appropriate sovereign buffer. Volksbank, the fourth largest Austrian bank, is currently undergoing a significant restructuring. Following a first round of public sector support in 2009, the state had to inject further capital into the bank on 27 February 2012. Therefore, the Austrian state is now a major minority shareholder (with roughly 49% of the capital). Kommunalkredit, the ‘good bank’ of the former Kommunalkredit AG (taken over by the Austrian state in 2008), participated in the Greek private-sector involvement (PSI) package and is likely to have ended 2011 in negative territory. Furthermore, KA Finanz (i.e. the ‘bad bank’ of Kommunalkredit) suffered a significant impacted from the Greek PSI due to its exposure to Greek sovereign debt and its sizeable credit default swap (CDS) portfolio and may also need further public support. Hypo Alpe Adria, which was taken over by the Austrian government in 2009, managed to earn a slight profit (according to International Financial Reporting Standards) in 2011 after four consecutive years of losses[7]. However, the upward trend in delinquencies on the loan portfolio in the western Balkan countries may continue to put a strain on the profitability and solvency of Hypo Alpe Adria going forward. Given the still difficult situation of these banks, further public support for their restructuring may be necessary in the future.

The deterioration in asset quality continued in 2011 and led to a further increase in loan-loss provisions. Given this trend in impaired assets, coupled with upward pressures on bank funding costs, profitability remained subdued throughout 2011.

[7] According to the stricter Austrian accounting standards, the bank ended 2011 in negative territory.

Funding of the economy

Against the backdrop of the increase in credit demand in the corporate sector, credit activity improved only marginally in 2011 compared to the previous year. Foreign currency loans to households and corporations (i.e. loans in Swiss francs and Japanese yen), one of the main vulnerabilities of the banking sector, still represent roughly 30% of total loans. However, the situation has eased since the onset of the financial crisis. According to recent data, the outstanding stock of foreign currency loans to households amounted to EUR 37 billion at the end of 2011 (compared to around EUR 39 billion at the end of 2010), which corresponds to 28.4% of the total loans to households. Foreign currency loans are largely denominated in Swiss francs (i.e. roughly 93%), and the remainder in Japanese yen. Moreover, the Austrian extension of Article 16 of the Consumer Credit Directive to mortgages seems to have considerably reduced the offer of fixed-rate mortgages in favour of floating-rate mortgages with complicated rate-cap structures.

Whereas exposure to the countries of Central and Eastern Europe (CEE) remained broadly stable by mid-2011 compared to the end of December 2010, more recent data indicate a downward trend. According to BIS (Bank of International Settlements) data, the total exposure of Austrian banks to the CEE countries amounted to USD 295 billion at the end of the third quarter of 2011. To address the vulnerabilities associated with this exposure, in November 2011 the Austrian banking supervisors announced measures to improve the sustainability of the business models of Austrian banks in the CEE region. The decision to announce these measures, which would have an impact on new lending in several CEE countries (in particular those with high loan-to-deposit ratios), was taken unilaterally by the Austrian supervisors, as host supervisors in the CEE region were not previously informed. Therefore, further improvements in cooperation and exchanges of information with home- and host-country financial sector supervisors in the CEE region may be needed. Following consultations with the European Commission and with host-country supervisors, these measures were amended and subsequently included in a supervisory guideline of the Austrian supervisors published on 14 March 2012.

As regards access to credit for SMEs, the situation further improved in 2011. The rate of rejected loan applications and unacceptable loan conditions decreased, making Austria one of the countries with the most favourable debt-financing conditions for SMEs. After the contraction in 2009-2010, loans to non-financial firms have been consistently expanding at a moderate pace, reaching 2.2% (year on year) in September 2011[8]. The number of SMEs using debt financing increased in the period 2009-2011 from 68 to 73%. On the other hand, the relatively underdeveloped stock market and venture capital industry do not offer sufficient alternatives for raising capital. Consequently, equity financing remained below the EU average, with less than 6% of Austrian SMEs having access to it in 2011. The accessibility and supply of equity finance would benefit from improving the legal framework for venture capital, e.g. by increasing the attractiveness and transparency of legal forms used for (i) venture capital funds and (ii) investment vehicles, including measures to mitigate possible tax disincentives.

3.3. Labour market, education and social policies

Overall, the Austrian labour market has performed well, as witnessed by the high employment rate and the lowest unemployment rate in the EU in 2010 and 2011. There is, however, scope to enhance labour market participation of certain groups of the

[8] National Bank of Austria – Kreditmonitor December 2011.

population. The employment rate of older workers is below EU average and has decreased from 2010 to 2011 despite a sharp rise in the years before. The average exit age from the labour force is also below the EU average. The gap between the employment rates of migrants and nationals is considerable and above the EU average. The unemployment rate of migrants is more than twice as high as that of nationals. The female employment rate is above the EU average, but the gap in work intensity between women and men as well as the gender pay gap are among the highest in the EU. Most of these challenges were reflected in last year's country-specific recommendations issued to Austria and have also been highlighted in the Annual Growth Survey 2012.

Longer working lives

A number of measures to increase the effective retirement age were adopted in the consolidation package, including a continued reform of invalidity pensions and an enhanced focus on professional rehabilitation. The latter encompasses the replacement of invalidity pensions by rehabilitation subsidies for people under 50 with health problems from 2014 onwards, which will be administered by the Public Employment Service together with enhanced active labour market measures. However, for those above 50 who account for the large majority of invalidity pensioners, no structural changes are planned. The 2011 Euro-Plus-Pact commitments linked to this policy area are "Fit2Work" (counselling infrastructure in 3 provinces, a model developed with the help of the European Social Fund) and the 'Gesundheitsstraße' (better streamlined occupational medical examination). Both aim at maintaining the employability of older employees and reducing the number of retirements due to ill health. Furthermore, the pension calculation method will be simplified and made more transparent as of 2014. The early retirement scheme with deductions ('Korridorpensionen') will be reformed through increasing the required contributory years from 37.5 to 40 years and increasing the deduction factor. Additional incentives for companies to employ older people (mainly integration subsidies) are planned. However, no convincing plans have been presented neither to increase the take-up and efficiency of life-long learning for older people nor to enhance the promotion of an active ageing culture in companies. Access to the early retirement scheme for long-term insured is not planned to be further restricted and there are also no measures announced to harmonise the statutory retirement age between women and men. The proposed measures will therefore not be far-reaching enough to substantially raise the effective retirement age.

Gender segmentation

Some measures have been taken to improve the situation of women in the Austrian labour market. In order to facilitate access to care for dependent children, funds have been made available by the federal government for the expansion of childcare places (EUR 55 million until 2014, a sum to be matched by an identical contribution from the provinces) and the expansion of all-day school places (EUR 320 million until 2014). The latter had been announced in the Euro Plus Pact and the commitment is being fulfilled. In both cases, the pace and scope of implementation will depend considerably on the provinces. For long-term care, a new fund has been created (EUR 685 million) to cover the rising costs in this area in the period 2011 to 2014. The NRP announces a continuation of this fund until 2016 with an allocated budget of EUR 650 million. On the other hand, some smaller-scale measures mainly focusing on awareness raising have been introduced, such as the income calculator for women, staff income reports and indication of minimum pay in job advertisements. Most of these measures have been taken under the National Action Plan for the equal treatment of women and men on the labour market. However, greater effort is necessary to ensure a more equal distribution of unpaid care work between women and men, e.g. by further promoting take-up of parental leave by fathers, and to combat stereotypes with regard to career choices.

Underutilised potential of people with a migration background

The NRP includes a number of measures to address the problems people with a migration background face on the labour market. In particular, migrants are three times more often employed and remunerated below their actual qualification levels than Austrians – the incidence of over-qualification is among the highest in the OECD[9]. Besides some support measures designed to address lack of language skills and missing networks, the NRP announces a project to provide a more centralised structure for the recognition of skills acquired abroad with contact points at regional level. A clear and transparent structure needs to be put in place to facilitate employment of foreign qualified workers and to improve information for employers without creating additional bureaucratic obstacles or procedures for migrants. As the high gaps in labour market performance between migrants and nationals also point to the existence of discrimination, the study project announced in the NRP to look into discrimination of migrants on the labour market is considered an important complementary step to be followed up.

Overall, Austria has addressed the labour market country-specific recommendations only partially. Relevant reforms have been implemented or are planned, for example to further restrict access to the invalidity pension, make the early retirement scheme with deductions less attractive and make the calculation of pension benefits more transparent. However, they are not substantial enough to ensure long-term sustainability and adequacy of pensions. Reforms to improve the situation of women on the labour market, such as the expansion of childcare facilities, are relevant, but not adequate to meet the challenge. Indeed, inactivity and part-time work due to family responsibilities are still above the EU-average, while the percentage of children cared for outside the family is below the EU average. The measures implemented in order to raise awareness of the substantial female-male wage gap in Austria are relevant, but neither their effectiveness nor their level of ambition is considered sufficient. The recommendation to bring forward harmonisation of the pension age between men and women (planned in Austria for 2024-2033) has not been addressed.

The substantial gender inequality in pension outcomes and the resulting degree of poverty among elderly women, above the EU average despite high public spending on pensions, are drawbacks of the Austrian pension system. Direct old-age pensions for women (not taking into account the compensatory supplement) amount only to approximately 60 % of the corresponding benefits for men. More than a quarter of female pensioners living alone have incomes below the poverty threshold. Measures to increase equality in income and careers, and bringing forward harmonisation of the statutory retirement ages of women and men could alleviate the situation to a certain extent however only in the medium or even long term. Meanwhile, attention needs to be given to the poverty risk of this group.

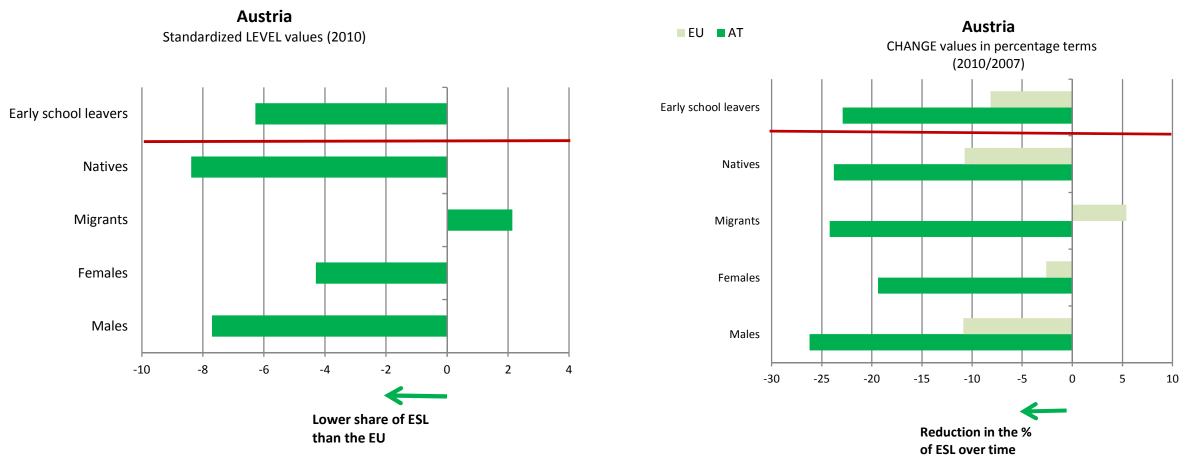
A further challenge for the Austrian authorities is to develop a sustainable model for the financing of long-term care services, which, due to demographic developments, will need to be expanded, also with a view to increasing the availability of care services to improve reconciliation of work and family life, especially for women. The consolidation package and the NRP foresee prolongation of the long-term care fund beyond 2014 with an

[9] Cf. OECD Social, Employment and Migration Working Papers No. 127: *The Labour Market Integration of Immigrants and their Children in Austria,* 2011, Paris

amount of EUR 650 million. A working group is supposed to develop proposals for the sustainable provision and financing of long-term care services by the end of 2012. It will be important that these proposals go beyond gradual adaptation of the current system and also tackle inequalities regarding access to care services.

Despite relatively high public spending on education in Austria (5.5 % of GDP vs 5.1 % in the EU-27 in 2008), the PISA results in all tested subject areas are below average. Furthermore, while the early school-leaving rate (ESL) is well below the EU average, the position of migrants remains particularly problematic, with a persistent ESL gap between this group and natives. The influence of socio-economic background on educational achievement is particularly high. In order to address these concerns, Austria is currently implementing several reforms, such as the expansion of all-day school places (as announced in the Euro-Plus-Pact) and the replacement of general secondary schools by new secondary schools by 2018/2019. Regarding the latter, general secondary schools in rural areas with a good reputation transform more readily into new secondary schools than the less well performing schools in larger cities. Therefore, the risk persists that the general secondary schools in urban areas with a high percentage of disadvantaged pupils with a migrant background will be the last to be transformed. This risks slowing down the improvement in educational outcomes and the decrease in drop-outs (in particular among disadvantaged pupils with a migrant background) in urban areas. The focus should therefore be on prioritising the transformation of general secondary schools with a high proportion of disadvantaged pupils.

Chart 1. Early school-leavers among specific population sub-groups



Note: Migrants are respondents reporting that they were born abroad. In Austria, the share of migrants in the 18-24 age group amounts to 16.2 %.

New measures for early intervention against early school leaving (youth and apprentice coaching) and free-of-charge courses to provide basic education qualifications for people who did not complete schooling (‘second-chance education’) have also been introduced in addition to the already well-established Training Guarantees for young people, which include training in designated training centres for those who cannot find a company-based apprenticeship place. A comprehensive Lifelong Learning Strategy for 2020 was presented in July 2011, but as no budget or clear responsibilities have been allocated, its effectiveness will depend on how high it will come on the political agenda.

Tertiary attainment is low in comparison to the EU average. In addition, migrants and, to a lesser extent, males have a lower tertiary attainment rate than the EU average. In order to raise the share of tertiary education graduates in Austria, and meet the skills needs of the labour market better, the government has set out to increase investment in higher education to 2 % of GDP by 2020. However, steadily growing numbers of students and high drop-out rates (around 40 %) remain the main challenges together with a considerable gap in funding. A Higher Education Plan has been developed, the capacity–oriented financing is supposed to be introduced as from 2013. Higher education is currently almost exclusively funded by public sources. The expected need for continued fiscal consolidation limits future state funding, prompting exploration of ways to broaden the financial base. Tuition fees, accompanied by state-of-the-art student grant and loan systems to facilitate the access of students from disadvantaged backgrounds, are one option being discussed. They would also limit the duration of studies and improve their completion rate.

Overall, the 2011 country-specific recommendation calling for improved educational outcomes and the Annual Growth Survey 2012 priorities in the area of education are only partially addressed. The expansion of all-day school places, the new secondary schools as well as the youth and apprentice coaching have the potential to improve education outcomes, in particular among disadvantaged youth. However, the coaching measures should be embedded in a comprehensive strategy combating ESL. Furthermore, early childhood education and addressing German language deficits at an early age would deserve a stronger focus in order to ensure that all children have the best possible basis for starting school. The ‘second-chance education’ scheme might improve the labour market prospects of school drop-outs, but its uptake remains to be seen. The new secondary school reform will not completely solve the issue of early tracking of pupils into different schooling streams at the age of 10, often criticised as detrimental to vulnerable youth, as academic secondary schools are participating only on a limited basis (at most 10 % of all classes).

3.4. Structural measures promoting growth and competitiveness

Austria enjoys a favourable position in terms of competitiveness and productivity. It is one of the few EU Member States to have surpassed its pre-crisis output peak. It has maintained a current account surplus and high export intensity. The regulatory environment is generally business-friendly. Nevertheless, Austria faces relative structural weaknesses in several areas, which may harm its long-term growth potential. Whereas manufacturing has been the driver of productivity growth, competition in the services sector has not been particularly supportive of domestic demand. Expenditure on R&D is high by European standards, but Austria may not be exploiting and maintaining its innovative potential sufficiently. There is also room for improving resource efficiency and environmental protection. In addition, Austria still has a large number of internal market directives left to transpose into national legislation, in particular in the transport sector. The relevance of these issues, which were subject of a country-specific recommendation for Austria last year, was later confirmed in the Annual Growth Survey 2012 priorities.

Liberalisation, competition and product market reforms

The Services Directive has finally been implemented through adoption of a ‘horizontal law’ and changes in legislation at province level. Nevertheless, a number of restrictions in the services sector remain. These include requirements prohibited by the Services Directive (e.g. establishment and insurance obligations). At the same time, the proportionality of a number of admissible requirements still has to be examined. A striking fact is that certain requirements have been abolished in some of the provinces, but maintained in others.

There is no commitment from the Austrian authorities with regard to liberalisation of **network services and industries**, where high network access prices and distortive behaviour by incumbent firms deter market entry, competition and innovation. For rail freight services the degree of competition is among the lowest in the EU. The infrastructure manager and the incumbent rail transport operators are controlled by the same holding. The market shares of the state-owned railway carrier OeBB are still 80 % in freight and 93 % in passenger services[10]. It is essential to ensure effective implementation of the EU directives in order to allow competition between providers of rail freight services and, in particular, to ensure non-discriminatory access to infrastructure. Access to postal infrastructure remains an issue in Austria. Despite considerable progress with the replacement of delivery boxes, many such boxes are still only accessible to the incumbent operator. Competition in electronic communications would benefit from increased flexibility in spectrum management and **access to spectrum**[11].

The consultations on the design of an entry-exit access scheme for the gas transmission system to eliminate gas transport along contractual paths are progressing. At the same time, Austria is still lagging behind in transposing the Electricity Directive of the Third Energy Package at province level. Network costs are currently among the highest in the EU. In addition, the permit procedures for construction of gas and electricity infrastructure have remained overly time-consuming.

Unjustified restrictions in the liberal **professions** (self-imposed regulations, licensing and membership requirements, and restrictions on the establishment of interdisciplinary firms, e.g. between lawyers, tax and management consultants) persist in spite of partial progress. Austria has notified 214 regulated professions to the Commission (EU average: 152), including 23 in business services (EU average: 13). This indicates significant scope for assessing the justification and proportionality of regulation in these professions with a view to facilitating access to them.

There are now proposals to reform competition law on the table that would address Austria’s commitment (national reform programme 2011) to **strengthen the Federal Competition Authority**. The reform would bring useful changes to the current competition framework such as extended investigative powers for the institution, which would make them similar to those of the European Commission; among others the rights to search and seal companies premises, to issue requests for information and to sanction non- or misinformation in response to such requests. However, the reform proposal does not address the need to secure adequate financial resources and staffing for the competition authority whose number of staff is among the lowest in comparison to analogous institutions in other EU Member States.

In spite of gradual reductions over recent years, the number of administrative procedures required (8, including licensing, registration, certification and announcement), minimum capital and the time needed (up to 28 days) to **set up a business** are unnecessarily

10 Rail Market Monitoring Survey 2012.

11 Member States were required by the amended GSM Directive (2009/114/EC) to allow by 9 May 2010 the introduction of UMTS systems in the 900 MHz and 1 800 MHz bands and by Decision 2011/251 EU to allow by 31 December 2011 the introduction of LTE (Long Term Evolution) and WiMAX (Worldwide Interoperability for Microwave Access) in these bands.

burdensome and would benefit from further reductions. The reform of limited liability company, currently still in discussion, foresees a reduction of the required (paid-in) minimum capital and the costs for notary certification in certain cases. However the announcement requirements and other procedures would remain unchanged.

All in all, the action on the recommendation issued in 2011 has lacked scope, determination and hence tangible results and important structural weaknesses in the functioning of services markets have persisted. The relevance and validity of the recommendation remains just as strong and this justifies reissuing it with enhanced rigour. The progress with respect to research and innovation, environment and climate protection, energy and resource efficiency will also warrant monitoring to ensure optimal use of limited public funding, expand the utilisation of structural funds and avoid perverse incentives.

Research and innovation

Expenditure on R&D is high by European standards, but Austria may not be sufficiently exploiting and maintaining its innovative potential. One reason for this problem is an underdeveloped venture capital market (seed and start-up investment amount to 0.06 % of GDP compared to an EU average of 0.14% in 2010), which suffers from an unfavourable legal framework and a disadvantageous tax treatment of equity financing compared to debt financing. Education has to provide the adequate skills as a basis for innovation and competitiveness.

The economic crisis and the shortage of venture capital are among the factors behind the recent decline in the domestic private sector share of **R&D expenditure** from 49 % in 2007 to 44 % in 2010, thus putting at risk achievement of the ambitious Europe 2020 target of 3.76 % of GDP for gross expenditure on research and development (GERD). Indeed, R&D is concentrated in a limited number of companies, while the start-up and growth dynamics of innovative firms are low. Austria formulates R&D policies from a position of contentment with its relatively favourable standing in terms of overall R&D intensity. However, it remains an innovation follower, lagging behind in terms of the economic effects of innovation (e.g. knowledge-intensive exports, revenue from innovative products, licence and patent revenue from abroad). Despite recent strong increases in public R&D funding, the Austrian research and innovation system is underperforming, in particular due to a relatively low tertiary education rate, especially in science and engineering, and a complex governance system leading to inefficiencies in policy implementation. Published in 2011, the Austrian RTDI Strategy 'The way to innovation leader' contains many initiatives to improve the performance of the research and innovation system. These are echoed and enhanced in the 2012 national reform programme and the Euro Plus Pact commitments. The most prominent measure is the simplification of the tax regime of innovation activities to a single tax credit raised from 8 % to 10 %. In addition, the cap on the amount which could be subcontracted while remaining eligible for tax credit rises from 100 thousand EUR to 1 million EUR. While budget neutral these measures are expected to encourage subcontracting to research centres or universities. On the other hand, this approach favours established activities more than the breakthrough research needed for an economy like Austria's at the expense of direct funding of research activities. Moreover, whereas the NRP lists numerous initiatives it lacks clear prioritisation and details of players and budgets and implementation timetables.

Energy and resource efficiency

Austria has committed itself to reduce its greenhouse gas emissions in sectors not covered by the Emissions Trading System (ETS) by 16 % compared to 2005 by 2020. Until 2010, emissions decreased by 9 % which is in line with the target. According to Austria's latest projections based on existing measures emissions are expected to be reduced by 5.2 % by 2020, leading to a shortfall of the target by 10.8 percentage points. Austria has also exceeded the 2010 national emission ceiling for nitrogen oxides by about 40 %. The cost of health damage due to non-compliance is estimated at €500 million.

In the light of Austria's ongoing fiscal consolidation, it is important to review climate policies, and contain adverse effects on climate change targets. In January 2012, the government announced a new campaign to promote the thermal insulation of buildings older than 20 years, offering grants totalling €130 million and additional funding if the materials used are made from renewable sources. In addition, Austria is planning to increase fuel tax levels to those of Germany and Italy by 2021, in an attempt to reduce emissions from fuel exports. At the beginning of 2011, mineral oil tax increased by EUR 20/t. The cost of insuring CO_2-intensive vehicles had already been increased to tackle emissions from transport. At the same time, though, the introduction of allowances for commuter and business trips is slowing the shift away from emission-intensive mobility. More decisive steps to tap the emission reduction potential in the transport sector would be required to achieve the climate target. It is also important for the Brenner Base Tunnel to be completed without delay since this will remove a major cross-border transport bottleneck and help reduce pollution from road traffic in the Brenner area.

The 2011 Staff Working Document highlighted the need for a coherent, transparent and predictable renewable energy policy to achieve the 2020 target of 34 % from renewable sources. Indeed, progress has been made in increasing the share of renewable energies through legal frameworks and fiscal incentives. The Climate Change Bill, passed in October 2011, provides an institutional framework for increasing energy efficiency, supporting renewable energies and enhancing incentives for climate change mitigation. It sets emission limits until 2020, and a legal framework for non-compliance. In February 2012, to support the Climate Change Bill, Austria passed the Green Electricity Act to further promote energy security and increase the share of renewables with a view to reducing Austria's dependence on imported fossil fuels[12] and nuclear power as well as creating green jobs. Approximately EUR 110 million will be used to bring forward the construction of 5000 wind and solar plants originally scheduled between 2015 and 2026. Austria would benefit from accelerating the full transposition of the RES Directive (2009/28/EC), the implementation of the National Renewable Energy Action Plan, the revision of the national energy efficiency strategy, and the transposition of the Electricity Directive 2009/72/EU of the Third Energy Package directives.

Austria has made good progress in diversifying access routes for natural gas. Physical reverse-flow capabilities from Italy to Austria, co-financed by the European Energy Programme for Recovery, became operational in October 2011. However, there has been very limited progress with trans-border electricity interconnections[13], which is hampering the ability to provide balance capacity to the Central European Network via Austria's hydro-storage potential. The 380 KV[14] ring network still has to be completed and the internal grid reinforced to integrate power from wind and pump storage plants. However,

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[12] 65 % of overall energy consumption compared to an EU-27 average of 53.9 %.

[13] With the exception of the construction of a merchant 12 km 132 kV interconnector between Amoldstein and Tarvisio, Italy, in 2011.

[14] High-voltage networks reduce transmission losses.

discussions have been held with neighbouring countries on a joint exit from nuclear power. Austria has also announced its ambition to be independent of foreign electricity by 2050. The Ministry of the Economy has proposed a decree requiring the roll-out of smart meters for 95 % of end-users by 2018[15].

To address the high per capita consumption of material and production of municipal waste, a **resource efficiency** action plan containing national targets to increase resource efficiency by 50 % up to 2020 was adopted by the government in January 2012. The Plan contains numerous measures and instruments but is not legally binding. There is potential to use new economic instruments to promote prevention, avoid incinerating reusable waste and make reuse and recycling economically more attractive. Further steps would be to analyse and improve the cost effectiveness of producer responsibility systems and to apply them to other waste streams. A further contribution could be to introduce incentive systems to favour prevention and participation in the separate collection systems across Austria.

3.5. Modernisation of public administration

Overall, Austria performs better than the EU average in terms of the efficiency of its public administration. Next to the ongoing implementation of a programme (2007-2012) to reduce the administrative burden for enterprises, with an intermediate target for 2010 already achieved, a complementary programme is now focusing on the burden on citizens. Based on a baseline measurement of the most burdensome administrative procedures, 150 simplification measures have been identified and partly implemented.

The **point of single contact** is now well established, although there is scope for improving the clarity of information and linguistic availability beyond German.

In parallel and in order to further reduce administrative costs for enterprises by about EUR 200 million, an online business service portal (USP) is being set up for companies based in Austria. It should establish progressively as a single point of contact for a wide range of services (e.g. tax declarations, social security contributions and public procurement procedures). However, the second stage scheduled to become fully operational by 2013 might be delayed. E-procurement is not yet widely used, but Austria has presented an e-procurement master plan that covers both tendering guidelines and e-invoicing. Markets for publicly procured goods and services are often characterised by barriers to entry and de facto limited competition (especially the health and pharmaceutical markets)[16]. A more pro-competitive approach would stimulate productivity growth and help control costs.

There is significant scope for improving the performance of Austrian public institutions. Impact assessments of new regulations are so far largely limited to a calculation of administrative burdens rather than an analysis of overall costs and benefits to society. The establishment of a system for more extensive assessments is not planned until 2013 and the envisaged assessments are generally limited in scope and depth. As highlighted above, Austria needs to reduce fragmentation and inefficiency stemming from the division of competences among federal, state and local government. In many areas there are nine different laws in place, one per region, (e.g. construction law), which leads to unnecessary burdens for enterprises and market fragmentation. It also renders the transposition of EU directives lengthy and inefficient because of the need to transpose once at federal level and another nine times at province level (the so-called ‘factor 10’).

15 This may have important personal data protection implications.
16 OECD country survey AT 2011.

4. OVERVIEW TABLE

2011 commitments	Summary assessment
Country-specific recommendations (CSRs)	
Accelerate the correction of the excessive deficit, which is planned mainly on the expenditure side, thus bringing down the high public debt ratio, taking advantage of the ongoing economic recovery, in order to ensure an average annual fiscal effort of 0.75% of GDP over the period 2011-2013 in line with the Council recommendations under the EDP. To this end, adopt and implement the necessary measures, including at sub-national level. Specify measures as needed to ensure adequate progress towards the medium-term objective in line with the Stability and Growth Pact (SGP) after correction of the excessive deficit.	In March 2012, the Austrian government adopted a substantial package of consolidation measures (currently under debate in the Austrian parliament), which will enable Austria to meet the Council's recommendation to reduce the general government deficit to below 3% by 2013. However, the 0.75% average annual fiscal effort in the period 2011-2013, which the Council also called for, will not be delivered. Therefore, Austria has implemented the CSR only partially.
Take steps to further strengthen the national budgetary framework by aligning legislative, administrative, revenue-raising and spending responsibilities across the different levels of government, in particular in the area of healthcare.	The newly proposed consolidation package provides for reforms of the way subsidies are granted by the various levels of government. The package also aims to introduce changes to the organisation and financing of the healthcare sector that would result in savings equivalent to about 0.2% of GDP by 2016. However, operational details of the reforms have still to be agreed by the central and regional governments. All in all, the Austrian authorities have only partially addressed this CSR.
In consultation with the social partners and according to national practices, take steps to further limit access to the current early retirement scheme for people with long insurance periods and take steps to reduce the transition period for harmonisation of the statutory retirement age between men and women to ensure the sustainability and adequacy of the pension system. Apply strictly the conditions for access to the invalidity pension scheme.	In order to raise the effective retirement age, the Austrian authorities have enacted reforms to restrict access to the invalidity pension scheme and the early retirement scheme with deductions. However, no action has been taken or is planned to bring forward harmonisation of the statutory retirement age between men and women and no further steps have been taken regarding the deduction-free early retirement scheme for people with long insurance periods. Therefore, Austria has addressed this CSR only partially.
Take measures to enhance participation in the labour market, including the following: reduce, in a budgetary neutral way, the effective tax and social security burden on labour, especially for low- and medium-income earners; implement the National Action Plan on the equal treatment of women and men in the labour market, including improving the availability of care services and all-day school places to increase the options for women to work full-time and reducing the high gender pay gap; take steps to improve educational outcomes and prevent school	Several measures have been enacted in the education sector in order to address the needs of vulnerable youth better but they need to be efficiently implemented and early tracking has not been fully addressed. Steps have been taken to improve the situation of women in the labour market by extending care services as well as by introducing measures to raise awareness of the substantial gender pay gap in Austria. However, the measures are not commensurate with the existing challenges. Finally, instead of shifting the burden away from labour taxation to consumption and property taxes, the latest

drop-out.	consolidation package has in fact increased the tax burden on labour for some groups. To sum up, Austria has addressed this CSR only partially.
Take further steps to foster competition, in particular in the services sectors, by relaxing barriers to entry, removing unjustified restrictions on some professions, and enhancing the powers of the competition authority. Accelerate adoption of the outstanding 'horizontal law' implementing the Services Directive.	Services Directive transposed; lack of progress on remaining issues.
Euro Plus Pact (national commitments and progress)	
Public finance commitments: focus on raising the effective retirement age, through discouraging early retirement and maintaining the employability of older workers, and on reform of the Austrian Stability Pact by reviewing binding upper limits on the deficits of the various layers of government (federal, provincial and municipal), enhancing transparency and strengthening the enforcement mechanism.	The public finance commitments are being fully implemented.
Labour market commitments: focus on combating youth unemployment through guaranteed apprenticeship training and other qualification measures.	The labour market commitments are being fully implemented.
Structural policy commitments: focus on R&D and education. Additional resources to be provided on an annual basis over 2011-2014 for financing and stimulating research activity, for opening additional places in university equivalent technical colleges and for the development of all-day school models.	The structural policy commitments are being fully observed.
Europe 2020 (national targets and progress)	
Employment rate target set in the 2011 NRP: 77-78%	After a crisis-related drop from 75.1% in 2008 to 74.7% in 2009, the employment rate for people aged 20 to 64 has been steadily increasing and reached 74.9% in 2010 and 75.2% in 2011. In spite of the crisis and compared to other EU countries, Austria is thus making good progress towards achieving its EU 2020 employment target range.
R&D target set in the 2011 NRP: 3.76% of GDP	Gross domestic expenditure on R&D (in % of GDP): 2.72% in 2009 and 2.76% in 2010. There is still some way to the target. Progress will depend on involving the private sector through a variety of policies: on competition, education and availability of venture capital.
Greenhouse gas emissions target: -16% (compared to 2005 emissions, ETS emissions not covered by this national target)	Change in non-ETS greenhouse gas emissions between 2005 and 2010: -9%
Renewable energy target set in the 2011 NRP: 34%	Share of renewable energy in gross final energy

	consumption: 29.7 % in 2009 (EUROSTAT) and 30.8 % (National RES Progress Report). Austria has already achieved its 2011/2012 interim renewable energy target.
Energy efficiency: reduction in primary energy consumption by 7.16 Mtoe by 2020	The energy efficiency objectives are set according to national circumstances and national formulations. As the methodology for expressing the 2020 energy consumption impact of these objectives in the same format was agreed only recently, the Commission is not yet able to present an overview.
Early school-leaving target: 9.5 %	Early leavers from education and training (percentage of the population aged 18-24 with at most lower secondary education and not in further education or training): 8.7 % in 2009 and 8.3 % in 2010. The target has been achieved, but a big gap between migrants and their native peers persists: natives 5.8 % versus migrants 21.2 % (2010).
Tertiary education target: 38 %	Tertiary educational attainment is low in comparison to the EU average: 23.5 % in both 2009 and 2010. Migrants and, to a lesser extent, males have a lower tertiary attainment rate than the EU average, but there has been a positive overall development over the last three years, even if no progress was made towards achieving the tertiary education target between 2009 and 2010. It has to be noted that Austria has traditionally obtained a large part of its higher-skilled labour force from VET colleges that grant ISCED 4A level qualifications. This is also why the government included this qualification level in its national target of 38 %. [Tertiary education attainment and equivalent (including ISCED 4a) 2010: 33.5 % (estimate).]
Target for reducing the population at risk of poverty or social exclusion in number of persons: 235 000	The number of people at risk of poverty or social exclusion decreased by 126 000 in 2009 and by 161 000 in 2010 (both compared to 2008). Considerable progress has been made towards the target, since almost half of the total targeted reduction of 235 000 has already been achieved, although this might be partly due to a purely statistical effect.

5. ANNEX

Table I. Macroeconomic indicators

	1995-1999	2000-2004	2005-2008	2009	2010	2011	2012	2013
Core indicators								
GDP growth rate	3.0	1.9	2.8	-3.8	2.3	3.1	0.8	1.7
Output gap [1]	-0.1	0.0	1.0	-2.9	-1.8	-0.1	-0.6	-0.3
HICP (annual % change)	1.2	1.8	2.3	0.4	1.7	3.6	2.4	2.0
Domestic demand (annual % change) [2]	2.2	1.2	1.8	-3.0	2.0	4.0	0.4	1.4
Unemployment rate (% of labour force) [3]	4.2	4.1	4.6	4.8	4.4	4.2	4.3	4.2
Gross fixed capital formation (% of GDP)	24.1	23.0	21.6	20.7	20.5	21.1	21.2	21.4
Gross national saving (% of GDP)	22.8	24.4	26.4	24.2	24.6	25.9	26.1	26.4
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-3.2**	**-1.7**	**-1.3**	**-4.1**	**-4.5**	**-2.6**	**-3.0**	**-1.9**
Gross debt	**66.3**	**65.8**	**62.6**	**69.5**	**71.9**	**72.2**	**74.2**	**74.3**
Net financial assets	**-37.5**	**-36.3**	**-34.5**	**-40.6**	**-43.7**	**n.a**	**n.a**	**n.a**
Total revenue	51.2	50.0	47.9	48.7	48.1	47.9	48.4	48.6
Total expenditure	54.4	51.6	49.2	52.9	52.6	50.5	51.4	50.6
of which: Interest	3.7	3.1	2.7	2.8	2.7	2.6	2.7	2.7
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**-2.9**	**-1.2**	**-0.4**	**1.9**	**4.3**	**1.3**	**1.3**	**1.1**
Net financial assets, non-financial corporations	**-68.8**	**-79.2**	**-88.3**	**-92.4**	**-90.9**	**n.a**	**n.a**	**n.a**
Net financial assets, financial corporations	**-3.6**	**-1.6**	**2.1**	**7.0**	**6.2**	**n.a**	**n.a**	**n.a**
Gross capital formation	16.6	16.7	16.5	14.3	15.3	18.0	17.7	18.1
Gross operating surplus	20.6	22.8	24.5	21.6	22.6	23.0	22.8	23.2
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**4.0**	**3.9**	**5.2**	**5.2**	**3.7**	**3.3**	**3.5**	**3.1**
Net financial assets	**95.7**	**99.2**	**109.6**	**120.8**	**120.3**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	42.1	40.7	39.3	41.3	40.6	40.2	40.8	40.6
Net property income	6.6	6.4	8.0	5.9	4.6	4.4	4.3	4.4
Current transfers received	23.8	23.8	22.2	23.8	23.7	22.8	23.0	22.8
Gross saving	9.4	8.5	9.9	10.1	8.5	7.8	8.0	7.6
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**-2.3**	**0.9**	**3.5**	**3.3**	**3.0**	**1.8**	**1.2**	**1.7**
Net financial assets	**15.8**	**19.5**	**12.9**	**8.4**	**12.1**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	-0.3	3.2	5.1	4.8	4.3	3.0	3.0	3.1
Net primary income from the rest of the world	-1.3	-1.4	-0.9	-0.7	-0.5	-0.4	-0.3	-0.3
Net capital transactions	-0.1	-0.2	-0.1	0.1	0.1	-0.1	-0.7	-0.1
Tradable sector	46.4	46.6	45.6	43.9	44.4	45.1	n.a	n.a
Non-tradable sector	43.5	43.7	44.9	46.4	46.0	45.2	n.a	n.a
of which: Building and construction sector	7.3	6.7	6.4	6.5	6.2	6.2	n.a	n.a
Real effective exchange rate (index, 2000=100)	110.0	99.7	100.3	102.8	100.5	100.7	100.9	100.5
Terms of trade goods and services (index, 2000=100)	102.3	101.1	99.5	98.2	96.4	93.9	93.2	93.0
Market performance of exports (index, 2000=100)	99.7	103.8	105.0	102.4	99.7	101.2	102.1	102.4

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2000 market prices.

[2] The indicator for domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source:

Commission spring 2012 forecast

Table II. Comparison of macroeconomic developments and forecasts

	2011		2012		2013		2014	2015	2016
	COM	SP	COM	SP	COM	SP	SP	SP	SP
Real GDP (% change)	3.1	3.1	0.8	0.4	1.7	1.4	2.0	2.2	2.1
Private consumption (% change)	0.6	0.6	0.8	0.8	1.0	0.9	1.0	1.1	1.2
Gross fixed capital formation (% change)	5.7	5.7	1.4	1.1	2.3	2.0	2.5	2.9	3.2
Exports of goods and services (% change)	6.7	6.7	2.8	3.3	5.1	5.9	6.7	6.6	6.0
Imports of goods and services (% change)	7.0	7.0	2.2	3.2	4.9	5.0	5.8	5.6	5.4
Contributions to real GDP growth:									
- Final domestic demand	2.0	2.0	0.9	0.5	1.2	0.7	1.2	1.3	1.5
- Change in inventories	1.9	0.9	-0.5	-0.2	0.2	0.1	0.1	0.1	0.0
- Net exports	0.2	0.2	0.4	0.2	0.3	0.6	0.8	0.8	0.6
Output gap[1]	-0.1	0.0	-0.6	-0.9	-0.3	-1.0	-0.5	0.1	0.5
Employment (% change)	1.4	1.9	0.4	0.8	0.7	0.5	1.0	1.1	1.1
Unemployment rate (%)	4.2	4.2	4.3	4.6	4.2	4.8	4.7	4.6	4.4
Labour productivity (% change)	1.6	1.2	0.3	-0.4	1.0	0.9	1.0	1.0	1.0
HICP inflation (%)	3.6	3.6	2.4	2.5	2.0	2.1	2.1	2.3	2.2
GDP deflator (% change)	2.1	2.1	1.9	1.7	1.5	1.4	1.5	1.6	1.7
Comp. of employees (per head, % change)	3.0	2.7	3.6	3.3	1.9	2.3	2.6	3.1	3.0
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	1.8	1.7	1.2	1.4	1.7	1.8	2.3	2.7	2.4

Note:

[1]In percent of potential GDP, with potential GDP growth according to the programme as recalculated by the Commission.

Source :

Commission spring 2012 forecasts (COM); Stability programme (SP).

Table III. Composition of the budgetary adjustment

(% of GDP)	2011	2012		2013		2014	2015	2016	Change: 2011-2016
	COM	COM	SP	COM	SP	SP	SP	SP	SP
Revenue	**47.9**	**48.4**	**48.7**	**48.6**	**48.9**	**48.7**	**48.7**	**48.7**	**0.8**
of which:									
- Taxes on production and imports	14.3	14.4	14.4	14.4	14.4	14.3	14.2	14.1	-0.2
- Current taxes on income, wealth, etc.	12.9	13.2	13.5	13.5	13.7	13.8	14.0	14.2	1.3
- Social contributions	16.2	16.4	16.3	16.4	16.3	16.3	16.3	16.3	0.1
- Other (residual)	4.5	4.4	4.5	4.3	4.5	4.3	4.2	4.1	-0.4
Expenditure	**50.5**	**51.4**	**51.7**	**50.6**	**51.0**	**50.3**	**49.3**	**48.7**	**-1.8**
of which:									
- Primary expenditure	47.9	48.7	49.0	47.8	48.3	47.6	46.6	46.1	-1.8
of which:									
Compensation of employees	9.3	9.5	9.5	9.4	9.4	9.3	9.2	9.1	-0.2
Intermediate consumpiton	4.3	4.2	4.3	4.1	4.2	4.2	4.1	4.0	-0.3
Social payments	24.5	24.9	25.1	24.8	25.0	24.7	24.4	24.2	-0.3
Subsidies	3.6	3.6	3.6	3.7	3.7	3.7	3.5	3.5	-0.1
Gross fixed capital formation	1.0	1.0	1.0	1.0	1.0	0.9	0.9	0.9	-0.1
Other (residual)	5.2	5.6	5.6	5.0	5.0	4.7	4.6	4.4	-0.8
- Interest expenditure	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.6	0.0
General government balance (GGB)	**-2.6**	**-3.0**	**-3.0**	**-1.9**	**-2.1**	**-1.5**	**-0.6**	**0.0**	**2.6**
Primary balance	**0.0**	**-0.3**	**-0.3**	**0.8**	**0.6**	**1.2**	**2.0**	**2.6**	**2.6**
One-off and other temporary measures	-0.2	-0.6	-0.5	0.0	0.0	0.0	0.0	0.0	0.2
GGB excl. one-offs	**-2.4**	**-2.4**	**-2.5**	**-1.9**	**-2.1**	**-1.5**	**-0.6**	**0.0**	**2.4**
Output gap[2]	-0.1	-0.6	-0.9	-0.3	-1.0	-0.5	0.1	0.5	0.5
Cyclically-adjusted balance[2]	-2.6	-2.7	-2.6	-1.8	-1.6	-1.3	-0.7	-0.2	2.4
Structural balance[3]	**-2.4**	**-2.1**	**-2.1**	**-1.8**	**-1.6**	**-1.3**	**-0.7**	**-0.2**	**2.1**
Change in structural balance		*0.2*	*0.3*	*0.4*	*0.4*	*0.3*	*0.6*	*0.4*	
Structural primary balance[3]	0.2	0.5	0.6	0.9	1.1	1.4	2.0	2.4	2.2
Change in structural primary balance		*0.3*	*0.4*	*0.4*	*0.4*	*0.3*	*0.6*	*0.3*	
Expenditure benchmark									
Public expenditure growth[4] (real)		1.82	0.79	-0.93	-0.27	0.47	0.15	n.a.	n.a.
Reference rate[5,6]		1.49	1.49	1.49	1.49	*1.49*	*1.49*	n.a.	n.a.
Lower reference rate[5,7]		0.46	0.46	0.46	0.46	*0.46*	*0.46*	n.a.	n.a.
Deviation in % GDP from applicable reference rate		0.65	0.16	-0.67	-0.35	*0.01*	*-0.14*	n.a.	n.a.
Two-year average deviation in % GDP from applicable reference rate		n.a.	n.a.	-0.01	-0.09	*-0.17*	*-0.07*	n.a.	n.a.

Notes:

[1]On a no-policy-change basis.

[2]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by the Commission on the basis of the information in the programme.

[3]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

[4]Modified expenditure aggregate used for the expenditure benchmark, growth rates net of non-discretionary changes in unemployment benefit and of discretionary measures.

[5]The reference rates applicable to 2014 onwards will be available from mid-2012. For illustrative purposes, the current reference rates have also been applied to the years 2014 onwards.

[6]The (standard) reference rate applies starting in the year following which the country has reached its MTO.

[7]The lower reference rate applies as long as the country is adjusting towards its MTO, including the year in which it reaches the MTO.

Source :

Stability programme (SP); Commission spring 2012 forecasts (COM); Commission calculations.

Table IV. Debt dynamics

(% of GDP)	average 2006-10	2011	2012		2013		2014	2015	2016
			COM	CP	COM	CP	CP	CP	CP
Gross debt ratio[1]	**65.6**	**72.2**	**74.2**	**74.7**	**74.3**	**75.3**	**74.6**	**72.8**	**70.6**
Change in the ratio	1.5	0.3	2.0	2.5	0.1	0.6	-0.7	-1.8	-2.2
Contributions [2]:									
1. Primary balance	**-0.3**	**0.0**	**0.3**	**0.3**	**-0.8**	**-0.6**	**-1.2**	**-2.0**	**-2.6**
2. "Snow-ball" effect	**0.8**	**-1.0**	**0.8**	**1.2**	**0.5**	**0.6**	**0.1**	**-0.1**	**0.0**
Of which:									
Interest expenditure	2.7	2.6	2.7	2.7	2.7	2.7	2.7	2.6	2.6
Growth effect	-0.9	-2.1	-0.5	-0.3	-1.2	-1.0	-1.5	-1.6	-1.5
Inflation effect	-1.0	-1.4	-1.4	-1.3	-1.1	-1.1	-1.1	-1.1	-1.2
3. Stock-flow adjustment	**1.1**	**1.3**	**1.0**	**1.1**	**0.5**	**0.6**	**0.4**	**0.3**	**0.5**
Of which:									
Cash/accruals diff.									
Acc. financial assets									
Privatisation									
Val. effect & residual									

(% of GDP)		2011	2012		2013		2014	2015	2016
			COM/SP[3]	SP[4]	COM/SP[3]	SP[4]	SP[4]	SP[4]	SP[4]
Gap to the debt benchmark[5,6]	-	-	-	-	-	-	-	-	-
Structural adjustment[7]	-	-	-	-	-	-	0.3	0.6	0.4
To be compared to:									
Required adjustment[8]	-	-	-	-	-	-	0.0	0.0	0.0

Notes:

[1]End of period.

[2]The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio

[3]Assessment of the consolidation path set in the SP assuming growth follows the COM forecasts.

[4]Assessment of the consolidation path set in the SP assuming growth follows the SP projections.

[5] Not relevant during EDP that were ongoing in November 2011 and in the three years following the correction of the excessive deficit.

[6]Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

[7]Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[8]Defines the remaining annual structural adjustment over the transition period which ensures that - if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (SP) budgetary projections are achieved.

Source:

Stability programme (SP); Commission services' spring 2012 forecasts (COM); Commission services' calculations.

Table V. Long term sustainability indicators

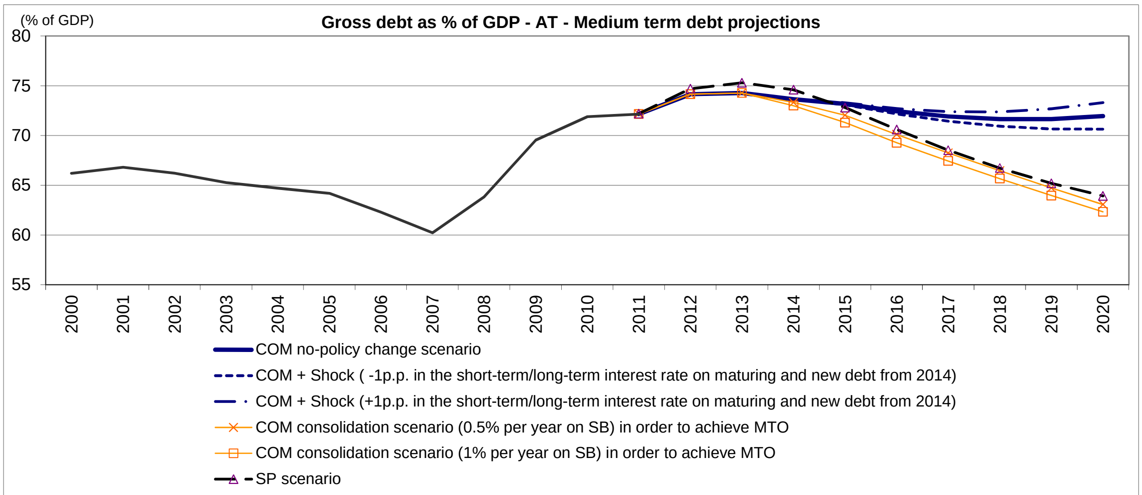
	AT		EU27	
	No-policy change scenario	Stability programme scenario	No-policy change scenario	SCP's scenario
S2	3.7	2.5	2.9	0.7
of which:				
Initial budgetary position (IBP)	0.2	-1.0	0.7	-1.6
Long-term change in the primary balance (LTC)	3.5	3.5	2.3	2.4
of which:				
pensions	1.7	1.6	1.1	1.2
health care and long-term care	2.0	1.9	1.5	1.5
other	-0.1	0.0	-0.3	-0.3
S1 (required adjustment)*	2.3	0.8	2.2	-0.1
Debt, % of GDP (2011)	72.2		82.8	
Age-related expenditure, % of GDP (2011)	28.9		25.8	

Source: Commission, 2012 Stability programme.

Note: The 'no policy change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves according to the spring 2012 forecast until 2013. The 'stability programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented.

* The required adjustment of the primary balance until 2020 to reach a public debt of 60% of GDP by 2030.

Graph - Medium-term debt projections



Source: Commission, 2012 stability and convergence programmes.

Table VI. Taxation indicators

	2001	2005	2007	2008	2009	2010
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	44.9	42.1	41.7	42.7	42.6	42.0
Breakdown by economic function (% of GDP)[1]						
Consumption	12.3	12.1	11.6	11.6	12.0	11.8
of which:						
- VAT	8.1	7.9	7.7	7.8	8.1	7.9
- excise duties on tobacco and alcohol	0.7	0.7	0.6	0.6	0.6	0.6
- energy	1.7	1.8	1.6	1.6	1.6	1.6
- other (residual)	1.8	1.7	1.6	1.6	1.7	1.6
Labour employed	21.7	20.9	20.7	21.3	21.6	21.3
Labour non-employed	2.4	2.4	2.4	2.5	2.5	2.5
Capital and business income	7.4	5.7	6.1	6.3	5.5	5.5
Stocks of capital/wealth	1.1	1.0	1.0	1.0	1.0	1.0
p.m. Environmental taxes[2]	2.6	2.6	2.4	2.4	2.4	2.4
VAT efficiency[3]						
Actual VAT revenues as % of theoretical revenues at standard rate	61.3	60.5	60.5	60.9	60.9	60.2

Note:

1 Tax revenues are broken down by economic function, i.e. according to whether taxes are raised on consumption, labour or capital. See European Commission (2012), Taxation trends in the European Union, for a more detailed explanation.

2 This category comprises taxes on energy, transport and pollution and resources included in taxes on consumption and capital.

3 The VAT efficiency is measured via the VAT revenue ratio. The VAT revenue ratio is defined as the ratio between the actual VAT revenue collected and the revenue that would theoretically be raised if VAT was applied at the standard rate to all final consumption. A low ratio can indicate a reduction of the tax base due to large exemptions or the application of reduced rates to a wide range of goods and services ('policy gap') or a failure to collect all tax due to e.g. fraud ('collection gap'). See European Commission (2011), Tax reforms in EU Member States, European Economy 5/2011, for a more detailed explanation.

Source: Commission

Table VII. Financial market indicators

	2007	2008	2009	2010	2011
Total assets of the banking sector (% of GDP)	875.8	962.0	1017.5	978.9	840.9
Share of assets of the five largest banks (% of total assets)	50.4	55.3	58.8	56.8	…
Foreign ownership of banking system (% of total assets)	58.7	55.8	49.9	…	…
Financial soundness indicators:					
- non-performing loans (% of total loans) [1]	0.8	2.6	9.0	8.6	14.1
- capital adequacy ratio (%) [2]	10.7	10.6	10.9	14.6	10.3
- return on equity (%) [1], [3]	16.4	-8.0	-40.6	-66.5	-8.6
Bank loans to the private sector (year-on-year % change)	20.7	1.4	-5.6	-12.6	-4.7
Lending for house purchase (year-on-year % change)	11.4	-6.9	-4.1	-2.5	-0.9
Loan to deposit ratio	181.1	179.0	162.0	140.8	133.4
CB liquidity as % of liabilities	2.5	5.6	6.0	9.3	9.1
Banks' exposure to countries receiving official financial assistance (% of GDP)[4]	6.0	6.1	5.7	1.6	1.2
Private debt (% of GDP)	…	…	222.1	182.8	168.6
Gross external debt (% of GDP) [5]					
- Public	16.1	33.9	45.6	50.8	62.5
- Private	391.5	482.6	525.4	668.0	650.8
Long term interest rates spread versus Bund (basis points)*	8.9	54.2	200.3	299.6	699.3
Credit default swap spreads for sovereign securities (5-year)*	…	89.2	202.1	299.6	734.7

Notes:

[1] All licensed banks. Latest June 2011.

[2] The capital adequacy ratio is defined as total capital divided by risk weighted assets.

[3] Net income to equity ratio. Latest June 2011.

[4] Covered countries are IE, EL, PT, RO, LV and HU.

[5] Latest data 2011Q3.

* Measured in basis points.

Source :

Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission (long-term interest rates), World Bank (gross external debt) and ECB (all other indicators).

Table VIII. Labour market and social indicators

Labour market indicators	2006	2007	2008	2009	2010	2011
Employment rate (% of population aged 20-64)	73.2	74.4	75.1	74.7	74.9	75.2
Employment growth (% change from previous year)	2.7	2.5	1.5	-0.3	0.5	1.2
Employment rate of women (% of female population aged 20-64)	66.4	67.2	68.6	69.4	69.6	69.6
Employment rate of men (% of male population aged 20-64)	80.0	81.6	81.7	80.1	80.2	80.8
Employment rate of older workers (% of population aged 55-64)	35.5	38.6	41.0	41.1	42.4	41.5
Part-time employment (% of total employment)	22.0	22.9	23.7	25.1	25.6	25.6
Part-time employment of women (% of women employment)	40.6	41.7	42.1	43.6	44.5	44.7
Part-time employment of men (% of men employment)	6.6	7.3	8.2	8.9	9.2	9.1
Fixed term employment (% of employees with a fixed term contract)	9.0	8.9	9.0	9.1	9.3	9.6
Unemployment rate[1] (% of labour force)	4.8	4.4	3.8	4.8	4.4	4.2
Long-term unemployment[2] (% of labour force)	1.3	1.2	0.9	1.0	1.1	1.1
Youth unemployment rate (% of youth labour force aged 15-24)	9.1	8.7	8.0	10.0	8.8	8.3
Youth NEET[3] rate (% of population aged 15-24)	7.5	7.0	7.1	7.8	7.1	:
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	9.8	10.7	10.1	8.7	8.3	:
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	19.2	18.9	19.4	21.1	20.8	:
Labour productivity per person employed (annual % change)	2.9	1.9	-0.4	-2.5	1.7	1.7
Hours worked per person employed (annual % change)	-1.3	-0.3	-1.0	-2.6	-0.7	0.3
Labour productivity per hour worked (annual % change; constant prices)	3.3	2.2	0.4	-0.5	2.1	1.4
Compensation per employee (annual % change; constant prices)	1.9	0.6	1.3	1.2	-0.4	1.7
Nominal unit labour cost growth (annual % change)	1.1	1.2	3.8	4.9	0.0	1.3
Real unit labour cost growth (annual % change)	-0.8	-0.8	2.0	3.8	-1.8	-0.8

Notes:

[1] According to ILO definition, age group 15-74)
[2] Share of persons in the labour force who have been unemployed for at least 12 months.
[3] NEET are persons that are neither in employment nor in any education or training.

Sources:
Commission (EU Labour Force Survey and European National Accounts)

Expenditure on social protection benefits (% of GDP)	**2005**	**2006**	**2007**	**2008**	**2009**
Sickness/Health care	7.09	6.94	6.98	7.22	7.61
Invalidity	2.36	2.28	2.15	2.13	2.28
Old age and survivors	11.29	11.31	11.26	11.62	12.65
Family/Children	2.97	2.85	2.73	2.83	3.07
Unemployment	1.62	1.60	1.43	1.37	1.76
Housing and Social exclusion n.e.c.	0.11	0.12	0.11	0.11	0.12
Total	28.7	28.2	27.8	28.4	30.8
of which: Means tested benefits	1.78	1.85	1.81	1.89	2.11
Social inclusion indicators	**2006**	**2007**	**2008**	**2009**	**2010**
Risk-of-poverty or exclusion[1] (% of total population)	17.8	16.7	18.6	17.0	16.6
Risk-of-poverty or exclusion of children (% of people aged 0-17)	19.3	18.5	20.4	17.5	18.8
Risk-of-poverty or exclusion of elderly (% of people aged 65+)	17.3	15.1	17.3	16.4	15.8
At-risk-of-poverty rate[2] (% of total population)	12.6	12.0	12.4	12.0	12.1
Value of relative poverty threshold (single household per year) - in PPS	10452	10686	11124	11315	11451
Severe material deprivation[3] (% of total population)	3.6	3.3	6.4	4.8	4.3
Share of people living in low work intensity households[4] (% of people aged 0-59 not student)	8.0	8.1	7.8	7.2	7.7
In-work at-risk-of poverty rate (% of persons employed)	6.4	6.1	6.4	5.9	4.9

Notes:

[1] People at risk of poverty or social exclusion (AROPE): individuals who are at risk of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in households with zero or very low work intensity (LWI).

[2] At-risk-of poverty rate: share of people with an equivalised disposable income below 60% of the national equivalised median income.

[3] Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour TV, or ix) have a telephone.

[4] People living in households with very low work intensity: share of people aged 0-59 living in households where the adults work less than 20% of their total work-time potential during the previous 12 months.

Sources:

For expenditure on social protection benefits ESSPROS; for social inclusion EU-SILC.

Table IX. Product market performance and policy indicators

Performance indicators	2002-2006	2007	2008	2009	2010	2011
Labour productivity[1] total economy (annual growth in %)	1.4	2.0	-0.6	-3.1	1.5	1.6
Labour productivity[1] in manufacturing (annual growth in %)	3.5	6.3	1.7	-9.5	9.0	n.a.
Labour productivity[1] in electricity, gas, water (annual growth in %)	1.8	-7.8	4.6	4.6	n.a.	n.a.
Labour productivity[1] in the construction sector (annual growth in %)	2.3	0.6	-0.3	-4.2	-6.6	n.a.
Patent intensity in manufacturing[2] (patents of the EPO divided by gross value added of the sector)	3.5	3.3	2.7	n.a.	n.a.	n.a.
Policy indicators	**2002-2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Enforcing contracts[3] (days)	n.a.	397	397	397	397	397
Time to start a business[3] (days)	n.a.	28	28	28	28	28
R&D expenditure (% of GDP)	2.3	2.5	2.7	2.7	2.8	n.a.
Tertiary educational attainment (% of 30-34 years old population)	20.9	21.1	22.2	23.5	23.5	n.a.
Total public expenditure on education (% of GDP)	5.5	5.4	5.5	n.a.	n.a.	n.a.
	2005	**2006**	**2008**	**2009**	**2010**	**2011**
Product market regulation[4], Overall (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	1.5	n.a.	n.a.	n.a.
Product market regulation[4], Retail (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	3.6	n.a.	n.a.	n.a.
Product market regulation[4], Network Industries[5] (Index; 0=not regulated; 6=most regulated)	1.9	1.7	1.7*	n.a.	n.a.	n.a.

Notes:

[1]Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.

[2]Patent data refer to applications to the European Patent Office (EPO). They are counted according to the year in which they were filed at the EPO. They are broken down according to the inventor's place of residence, using fractional counting if multiple inventors or IPC classes are provided to avoid double counting.

[3] The methodologies, including the assumptions, for this indicator are presented in detail on the website http://www.doingbusiness.org/methodology.

[4] The methodologies for the product market regulation indicators are presented in detail on the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html. The latest available product market regulation indicators refer to 2003 and 2008, except for Network Industries.

[5] Aggregate ETCR.

*figure for 2007.

Source:

Commission, World Bank - *Doing Business* (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).

Table X. Green Growth

Austria		2001-2005	2006	2007	2008	2009	2010
Green Growth performance							
Macroeconomic							
Energy intensity	kgoe / €	0.15	0.15	0.14	0.14	0.14	0.14
Carbon intensity	kg / €	0.41	0.38	0.36	0.35	0.34	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	0.86	0.87	0.84	0.81	0.79	n.a.
Waste intensity	kg / €	n.a.	0.23	0.23	0.23	n.a.	n.a.
Energy balance of trade	% GDP	-2.2%	-3.6%	-2.9%	-3.6%	-2.5%	-3.0%
Energy weight in HICP	%	7	8	8	9	8	8
Difference between energy price change and inflation	%	1.28	4.6	3.8	2.5	-2.8	1.4
Environmental taxes over labour taxes	ratio	11.2%	10.7%	10.5%	10.1%	10.0%	n.a.
Environmental taxes over total taxes	ratio	6.1%	6.0%	5.8%	5.6%	5.7%	n.a.
Sectoral							
Industry energy intensity	kgoe / €	0.17	0.17	0.16	0.15	0.15	n.a.
Share of energy-intensive industries in the economy	% GDP	10.4	10.8	10.9	11.0	10.3	n.a.
Electricity prices for medium-sized industrial users	€ / kWh	n.a.	0.07	0.08	0.09	n.a.	n.a.
Public R&D for energy	% GDP	n.a.	0.00%	0.01%	0.01%	0.01%	n.a.
Public R&D for the environment	% GDP	n.a.	0.01%	0.01%	0.01%	0.01%	n.a.
Recycling rate of municipal waste	ratio	82.0%	96.2%	96.7%	96.8%	99.3%	n.a.
Share of GHG emissions covered by ETS	%	n.a.	35.9%	36.3%	36.8%	34.1%	n.a.
Transport energy intensity	kgoe / €	0.58	0.62	0.59	0.57	0.59	n.a.
Transport carbon intensity	kg / €	1.61	1.63	1.55	1.46	1.49	n.a.
Change in the ratio of passenger transport and GDP	%	-0.5%	-1.6%	-2.5%	0.4%	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	69.2%	72.2%	68.7%	68.8%	65.0%	n.a.
Diversification of oil import sources	HHI	n.a.	0.13	0.15	0.14	0.20	n.a.
Diversification of energy mix	HHI	0.29	0.28	0.28	0.28	0.29	n.a.
Share of renewable energy in energy mix	%	20.2%	21.7%	23.7%	24.8%	27.3%	n.a.

Country-specific notes:

The year 2011 is not included in the table due to lack of data.

General explanation of the table items:

Source: Eurostat unless indicated otherwise; ECFIN explanations given below

All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2000 prices)

- Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)
- Carbon intensity: Greenhouse gas emissions (in kg CO_2 equivalents) divided by GDP (in EUR)
- Resource intensity: Domestic Material Consumption (in kg) divided by GDP (in EUR)
- Waste intensity: waste (in kg) divided by GDP (in EUR)

Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP

Energy weight in HICP: the share of the "energy" items in the consumption basket used in the construction of the HICP

Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual %-change)

Environmental taxes over labour or total taxes: from the Taxation DG's database "Taxation trends in the European Union"

Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in EUR)

Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP

Recycling rate of municipal waste: ratio of municipal waste recycled over total municipal waste

Public R&D for energy or for the environment: government spending on R&D (GBAORD) for these categories as % of GDP

Share of GHG emissions covered by ETS: based on greenhouse gas emissions as reported by Member States to EEA (excl LULUCF)

Transport energy intensity: final energy consumption of transport (in kgoe) divided by gross value added of industry (in EUR)

Transport carbon intensity: greenhouse gas emissions in transport divided by gross value added of the transport sector

Passenger transport growth : measured in %-change in passenger kilometres

Energy import dependency: net energy imports divided by gross inland energy consumption incl. of international bunkers

Diversification of oil import sources: Herfindahl index (HHI), calculated as the sum of the squared market shares of countries of origin

Diversification of the energy mix: Herfindahl Index over natural gas, total petrol products, nuclear heat, renewable energies and solid fuels

Share of renewable energy in energy mix: percentage-share in gross inland energy consumption, expressed in tonne oil equivalents