EUROPEAN
COMMISSION

Brussels, 2.6.2014
SWD(2014) 421 final

COMMISSION STAFF WORKING DOCUMENT

Assessment of the 2014 national reform programme and stability programme for AUSTRIA

Accompanying the document

Recommendation for a COUNCIL RECOMMENDATION

on Austria's 2014 national reform programme and delivering a Council opinion on Austria's 2014 stability programme

{COM(2014) 421 final}

CONTENTS

EXECUTIVE SUMMARY

Austria's economic activity is expected to rise in 2014, as domestic demand strengthens and exports increase. According to the Commission 2014 spring forecast, output growth is projected to pick up to 1.6 % in 2014 and 1.8 % in 2015. Low interest rates and stable corporate liquidity are expected to favour a rebound in investment. With inflation easing and the job market improving, growth of real disposable income should support growth in consumption. Unemployment is foreseen to remain at around 5 % due to a parallel increase in the participation rate.

Overall, Austria has made some progress in addressing the 2013 country-specific recommendations. Most of the reforms will have an impact only in the medium to long term, however. Work has continued on the implementation of healthcare reform and policies to extend working lives, to improve secondary and tertiary education and to help realise the labour market potential of women, older workers and people with migrant background. Some progress has also been made with the restructuring of the banking sector. The national reform programme and the stability programme, submitted on 8 and 29 April respectively, lay out national policy priorities and a series of measures to address most, but not all challenges targeted by the 2013 country-specific recommendations. The documents state the recognition of and commitment to achieving the priorities of the Annual Growth Survey. However, they seem to lack a comprehensive strategic approach to address the fiscal sustainability risks faced by Austria in the medium-term through more decisive and structural policy measures.

Significant challenges remain with respect to safeguarding the long-term growth potential, ensuring fiscal sustainability in light of the ageing population, and enhancing the stability of the banking system. Austria needs to maintain the momentum of reforms in the labour market, pensions, healthcare and education, and to do more to promote competition in the services sector. It also needs to ensure effective progress in restructuring distressed banks.

- **Labour market participation:** the Austrian labour market continues to perform well. It has the lowest unemployment rate in the EU (4.9 % in 2013). However, the participation of particular groups in the labour market is significantly lower than the overall participation rate. The employment rate of older workers is below the EU average, the gender pay gap is one of the highest in the EU and limited availability of childcare and long-term care services restricts full-time employment opportunities for women. People with a migrant background face higher than average unemployment and are often not employed according to their qualification level. Demographic changes relating to the ageing society and shrinking labour force, coupled with an increasing proportion of workers with migrant background, pose challenges for the medium and long term.

- **Long term sustainability:** measures to limit the access to early retirement and to increase incentives for staying in employment longer entered into force in 2014. The new government has introduced ambitious targets to raise the effective retirement age by 2018. Nonetheless, structural measures, such as the equalisation of the statutory age of retirement for men and women and the creation of a link between the statutory retirement age and life expectancy, have not featured. A healthcare expenditure rule aims to stabilise healthcare expenditure as a percentage of GDP. The efficient allocation of resources in the Austrian healthcare system is still, however, hampered by a complex governance structure and a relatively strong concentration of resources on the large and costly hospital sector and below EU-average spending on preventive healthcare. The on-going healthcare reform aims to overcome the institutional fragmentation of healthcare services and to stabilise healthcare expenditure as a percentage of GDP.

- **Education:** despite some progress, educational achievement in reading is below average, and the socio-economic background of parents continues to have a significant influence on children's educational achievement. The high drop-out rate in higher education illustrates the need for a comprehensive strategic and financial framework, which has not yet been developed.
- **Competition in services:** anti-competitive practices – including entry barriers and unjustified restrictions on service providers, and anti-competitive behaviour of incumbent firms – have persisted, most notably in the regulated professions and in railway transport. The competition authority's shortage of resources has not been adequately addressed. Significant potential benefits from competitive tendering in public procurement are not being exploited.
- **Banking sector:** the stability of the financial sector would be improved through decisive steps to complete the restructuring of nationalised banks.

1. INTRODUCTION

In May 2013, the Commission proposed a set of CSRs for economic and structural reform policies for Austria. On the basis of these recommendations, the Council of the European Union adopted seven CSRs in the form of a Council Recommendation in July 2013. These recommendations related in particular to public finances, pensions, health and long-term care, the labour market, education, competition in services and the financial sector. This staff working document (SWD) assesses the current level of progress in implementing these recommendations in Austria.

The SWD assesses policy measures in light of the findings of the Commission's Annual Growth Survey 2014[1] and the third annual Alert Mechanism Report (AMR),[2] which were published in November 2013. The Annual Growth Survey sets out the Commission's proposals for building the necessary common understanding of the priorities for action at national and EU level in 2014. It identifies five priorities to guide Member States to renewed growth: pursuing differentiated, growth friendly fiscal consolidation; restoring normal lending to the economy; promoting growth and competitiveness for today and tomorrow; tackling unemployment and the social consequences of the crisis; and modernising public administration. The AMR serves as an initial screening device to determine whether macroeconomic imbalances exist or risk emerging in Member States. The AMR found positive signs that macroeconomic imbalances in Europe are being corrected. To ensure that a complete and durable rebalancing is achieved, 16 Member States were selected for a review of developments in the accumulation and unwinding of imbalances. These in-depth reviews were published on 5 March 2014 along with a Commission Communication.[3]

On the basis of the 2013 Council Recommendations, the Annual Growth Survey and the AMR, Austria presented a national reform programme on 08 April 2014 and a stability programme on 29 April 2014. These programmes provide detailed information on progress made since July 2013 and on the government's plans. The information contained in these programmes provides the basis for the assessment made in this SWD.

The programmes submitted underwent an inclusive consultation process involving the national parliament, local and regional authorities and stakeholders.

2. ECONOMIC SITUATION AND OUTLOOK

Economic situation

In 2013, the Austrian economy faced an environment of perceived uncertainty, leading to slow foreign and stagnating domestic demand. Economic growth decelerated further to 0.3 % in 2013 from the level of 2.8 % seen in 2011. Businesses revised their investment plans downwards and investment growth turned negative. Private consumption stagnated despite a solid labour market. Net exports showed a slight improvement on the previous year, due to declining imports, and this helped to avoid a recession. The growth in employment slowed in 2013, reflecting stagnating output. The increase in the labour force prevented a decline in the unemployment rate however. Nominal wage growth only very marginally exceeded inflation. Signs of a recovery are emerging from the data available at the start of 2014. Albeit somewhat inconsistently, business and consumer sentiment have been improving since mid-2013, while

1 COM(2013) 800 final.

2 COM(2013) 790 final.

3 Apart from the 16 Member States identified in the Alert Mechanism Report, Ireland was also covered by an in-depth review following the conclusion by the Council that Ireland should be fully integrated into the normal surveillance framework after the successful completion of its financial assistance programme.

retail sales and manufacturing output showed positive year-on-year growth in January and February.

Economic outlook

The Commission 2014 spring forecast assumes a consolidation of business and consumer confidence over 2014 and 2015. GDP growth is projected to regain some momentum and reach 1.6 % and 1.8 % respectively, driven by a strengthening of domestic demand. Net exports are expected to contribute positively to growth. This is due in part to faster growth in exports, but more significantly to domestic demand, as a rebound in imports is also forecast which will lessen the growth in net exports. Low interest rates and stable corporate liquidity are expected to give companies sufficient reassurance for them to carry out essential replacements and extensions of capacity. Credit growth is expected to remain subdued, however, on account of both weak demand and the banking sector's need to deleverage. Increases in wages over the coming years are expected to be moderate. With inflation easing over the forecast horizon and employment strengthening, growth in real disposable income is however projected to support an increase in consumption.

The stability programme and the national reform programme submitted by the Austrian authorities on 8 and 29 April 2014, respectively, share the same economic outlook as formulated by the Austrian Economic Research Institute (WIFO) on 27 March 2014. The underlying macroeconomic scenario is broadly in line with the Commission 2014 spring forecast, but with more optimistic projections of potential growth and labour income. The documents contain estimates of disbursements of funds for specific structural measures but the expected quantitative impacts are only limited to the budget projections.

3. CHALLENGES AND ASSESSMENT OF POLICY AGENDA

3.1. Fiscal policy and taxation

Budgetary developments and debt dynamics

The current Stability Programme includes also the updated Draft Budgetary Plan for 2014 and the Draft Budgetary Plan for 2015, which have been sent to the Commission on the 29th of April. The main purpose of the Stability Programme (SP) is to reach the Medium-Term Objective (MTO) by 2016. The current Programme confirms the MTO of a structural deficit of 0.45 % of GDP, reflecting the objectives of the Pact.

In 2013 the general government deficit reached 1.5% of GDP, significantly better than the target of last year Stability Programme which planned a deficit of 2.3% of GDP, mainly due to the one-off effect of the sale of mobile telephonic spectrum (0.6% of GDP) , whose final impact significantly exceeded expectations. This one-off revenue, recorded as negative capital expenditure contributed to a lower expenditure GDP ratio (51.2%) relative to that included in the DPB sent in October (51.9%). Lower expenditure growth achieved in the implementation of the 2013 Budget has more than compensated lower than expected revenue from indirect taxes.

In 2014 the Stability Programme projects the deficit to increase to 2.7% of GDP. According to Commission's forecast the increase of the deficit will be marginally larger (2.8% of GDP). The main reason for the deterioration in the budget balance is the impact of the establishment of a defeasance structure (Liquidation Entity, Abbaueinheit) for the Hypo Group Alpe Adria Bank (Hypo). The purpose of this entity is to manage the winding down of all the assets currently in the balance sheet of Hypo, with the exception of those related to the South-East Europe network of subsidiaries which will be transferred to a different holding and sold separately. The estimate made by a group of expert appointed by the government, indicates that the deficit-increasing impact of this operation would amount to 4 billion of euro in 2014 (1.2% of GDP). This still preliminary estimate, including a capital injection of 750 million of euro, already undertaken in 2014, is included in both government and Commission's forecast. The final budgetary impact of the operation will be assessed by Eurostat following an independent asset quality review of Hypo's Asset to be undertaken later this year. The budget for 2014 contains two consolidation packages, including measures equivalent in total to 0.4% of GDP split between 0.24% of GDP on the revenue side, already adopted with the Tax Package in February and 0.15% of GDP on the expenditure side The headline deficit is expected to decline to 1.4% of GDP in 2015, mainly reflecting the diminishing impact of one-off support to Hypo.

For 2015, the additional discretionary effect of the tax package account for additional revenue amounting to 0.1% of GDP. According to the information included in the Stability Programme on the expenditure side no additional further measures are envisaged to be adopted,. To this extent it is not clear whether past expenditure savings planned for 2015 in the 2013 Stability Programme, relative in particular to lower expenditure in the pension and unemployment insurance system and in subsidies (accounting for 0.4% of GDP) are still expected to take place. This is an important aspect that Austrian authorities should clarify in order to assess the medium-term budgetary strategy outlined in the Programme since a sensible reduction by 1.7 pps in the expenditure ratio which is estimated to decrease to 50.7% of GDP is projected in 2015. The Commission's forecast of the government deficit for 2015 (2.5% of GDP) slightly exceed the estimate of the Programme, mainly due to higher expenditure projections, in particular subsidies in percentage of GDP are projected to experience a lower reduction than in the Stability Programme.

In the following years the Medium-Term Budgetary Framework of the Programme points to a continuing reduction in both the revenue and the expenditure ratio leading to a deficit of 0.5% in 2018. Last year's Stability Programme envisaged the revenue ratio to remain broadly constant up to 2017.

In light of this revised scenario, the planned achievement of the MTO by 2016 is supported by a more pessimistic outlook, pointing to a negative output gap over the whole horizon covered in the projections (2013-2018), while in last year Stability Programme the output gap was expected to close in 2016.

Box 1. Council recommendations addressed to Austria

On 2 December 2009, the Council decided that an excessive deficit existed in Austria and adopted a Council Recommendation under Art. 126(7) TFEU. The Council recommended Austria to correct its excessive deficit by 2013. To this end, Austria should: bring the general government deficit below 3% of GDP in a credible and sustainable manner; ensure an average annual fiscal effort of ¾% of GDP over the period 2011-2013, which should also contribute to bringing the gross debt ratio back on a declining path that approaches the reference value at a satisfactory pace by restoring an adequate level of the primary surplus.

On 9 2013 July, the Council also addressed recommendations to Austria in the context of the European Semester. In particular, in the area of public finances the Council recommended to Austria to implement the 2013 budget as envisaged and to attain the MTO by 2015.The Council also recommended to harmonise the pensionable age between men and women and to link retirement age to life expectancy.

The implementation of the 2013 Budget, besides ensuring the deficit to stay below 3% as confirmed by validated figures, has led to an average structural adjustment over the period 2011-2013 of 0.7%, very close to that recommended by the Council (3/4 % of GDP) to correct the excessive deficit by the deadline. The current Commission spring forecast confirms that a sustainable correction of the deficit has been achieved given that the deficit will not exceed the 3% threshold over the forecast horizon

Under the assumption that the EDP is abrogated, Austria will be in transition period as from 2014 and will have to make sufficient progress towards the debt reduction benchmark, defined by the minimum linear structural adjustment in 2014 and 2015. Thereafter, i.e. from 2016, Austria should show a debt-to-GDP ratio fully compliant with the debt benchmark, i.e. sufficiently diminishing towards the 60% reference value. Both the change in the structural balance projected by the Programme and the Commission's forecast ensure the respect of the debt criterion in 2014 and 2015.

The Programme projects an increase in the debt ratio by roughly 5 pps. to 79.2% of GDP in 2014. This is linked to the inclusion in general government debt of an amount of 17.8 billion corresponding to the amount of liabilities incurred in connection with the transfer of the impaired assets of Hypo Alpe Adria to the Liquidation Entity. Eurostat's guidelines for the recording of impaired assets operation envisage that both assets and liabilities of public wind-down entities have to be included in the government balance sheet and therefore public debt has to include the relevant debt instruments of the entity. The impact on public debt will fade out over time as a result of the winding-down of assets and the reimbursement of liabilities. The DBP expects the debt level to decrease to 77.6% of GDP. The Commission expects slightly higher debt both in 2014 and 2015. The reduction in public debt level is assumed to continue over the horizon of the Stability Programme which projects public debt on a downward path decreasing to 71.5% of GDP in 2018.

Under the assumption that the EDP is abrogated, Austria will be subject to the preventive arm of the SGP and should ensure sufficient progress towards its MTO starting from 2014. With a debt ratio above 60% and normal cyclical conditions (the output gap falls in the interval between -1.5% and 1.5% of GDP), Austria is required to pursue an annual structural adjustment toward the MTO of above 0.5% in 2014, which has been operationalized in agreement with Member States as a requirement of an effort of at least 0.6% of GDP.

The Stability Programme (as recalculated by the Commission using the commonly agreed methodology) envisages virtually no improvement in the structural balance, implying an unchanged structural deficit of 1.0% in 2014. The Commission's forecast projects a negative structural effort of 0.1% of GDP. According to the information provided in the Programme, the growth rate of government expenditure, net of discretionary revenue measures, leads to a deviation from the expenditure benchmark by around 1.6% of GDP. This is due essentially to the cost of establishing the planned Hypo Alpe Adria defeasance structure and other planned financial sector measures, since such expenditure-increasing one-offs are not excluded from the computation of the expenditure benchmark. The expenditure benchmark based on spring forecast projects a higher deviation of 1.8% of GDP.

The above analysis of Austria's budgetary developments, with the structural balance as a reference, including the analysis of expenditure, net of discretionary revenue measures, points then to the existence of a risk of significant deviation based on both Programme’s plans and the Commission's forecast in 2014.

In 2015 the Programme projects a larger improvement in the structural balance than the Commission’s forecast (0.3% and 0.1% of GDP respectively). Nevertheless, the risk of significant deviation persists also in 2015 based on both pillars on a two-year horizon since both the two year change in the structural balance and in the growth rate of expenditure are projected to deviate by 0.5% from the required adjustment. This is confirmed by Commission’s forecast According to the plan of the Stability Programme Austria will not meet the MTO by 2015.

On 12 May 2014, the Austrian authorities announced their commitment to take additional discretionary measures, not included in the updated DBP, that, together with better than expected revenue related to an improved projection for employment, amount to close to EUR 1 billion in 2014.

On the revenue side, the additional measures involve concrete actions to reduce fraud on capital gain tax, a reduction of the deductibility of costs in corporate income tax and the application of a stricter regime in relation to voluntary disclosure of tax fraud. On the expenditure side, savings are expected from the reduction in pensions and other expenditure of semi-public companies and from streamlining the provision of subsidies and transfers in order to avoid duplications. In addition, a further reduction in discretionary spending for all expenditure categories, except items with growth-enhancing potential, are envisaged to take place by mean of a government's decision.

The Commission has evaluated the nature and possible yield of these measures. According to its assessment, those measures that are of a structural nature, have plausible yields and have an adequate legal basis could effectively amount to EUR 630 million (0.2% of GDP) in 2014, provided that they are fully implemented.

These measures, if fully and timely implemented, should thereby reduce the planned deviation from the required adjustment path towards the MTO in 2014 from 0.6% to 0.4% of GDP.

Box 2. Main budgetary measures

Revenue	**Expenditure**
2014	
• Increase in indirect taxes (vehicle insurance tax, tobacco and other tax on products) (0.1% of GDP) • Change of the tax base in corporate taxation (0.1% of GDP) • Fight against tax fraud (0.09% of GDP)	• Reduction in non-obligatory expenditure (-0.26% of GDP). • Reduction in pension expenditure and increase in effective retirement age (-0.2% of GDP) • Reduction in subsidies and transfers (-0.03% of GDP) • Increase spending in education, research, and family care services (0.15% of GDP).
2015	
• Increase in indirect taxes (vehicle insurance tax, tobacco and other tax on products) (0.05% of GDP) • Change of the tax base in corporate taxation (0.05% of GDP)	• Reduction in non-obligatory expenditure (0.14% of GDP) • Increase spending in education, research, and family care services (0.09% of GDP).
2016	
• Financial Transaction tax (0.14 % of GDP).	• Reduction in pension expenditure due to increase in effective retirement age (-0.04% of GDP

Note: The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities including also the effect of the additional measures as estimated by the Commission, communicated on 12 May 2014. A positive sign implies that revenue / expenditure increases as a consequence of this measure.

Fiscal framework

In 2013, Austria received a CSR concerning the streamlining of fiscal relations between layers of government. The analysis undertaken for this SWD leads to the conclusion that Austria has made limited progress on measures taken to address this recommendation (for the full CSR assessment see the overview table in Section 4).

The reform of the Austrian Internal Stability Pact, which entered into force in 2012, has strengthened Austria's fiscal framework. It served to translate into national legislation the Fiscal Compact and Council Directive 2011/85/EU on budgetary frameworks. Nevertheless, specific weaknesses, in particular those relating to complex federal fiscal relations and the mismatch between funding and spending responsibilities, have not been directly addressed.

The mandate of Austria's Fiscal Council has been extended as of November 2013. In response to the requirements of the Fiscal Compact, it is now responsible for monitoring the conditions which would trigger the correction mechanism contained in the structural balance rule, and assessing the possibility of issuing recommendations designed to activate, prolong or terminate the correction mechanism. The law conferring responsibility for the new tasks on the institution also formally changed its name from the Government Debt Committee to the Fiscal Council, in order to better reflect its current role. The responsibility for producing the official, independent macroeconomic forecast underpinning the government's budgetary plans remains with the Austrian Institute of Economic Research.[4]

The set of multiple fiscal rules included in the Austrian Internal Stability Pact aims to ensure stronger fiscal discipline by introducing an approach based on output targets. In particular, the application of the expenditure benchmark to regional and local government strengthens the medium-term budgetary framework by introducing an annual cap for expenditure growth. An analysis of state and local government expenditure shows that they are quite volatile. In many years, the annual nominal expenditure growth of both states and municipalities overshot approximations of the limits which the new expenditure rule would have imposed. Moreover, states' average expenditure growth has in the past been above this benchmark. Subsidies and capital transfers are the main causes of the high expenditure figures. Local governments perform slightly better, with average expenditure growth remaining below the reference ratio set by the new expenditure rule. In some years, however, expenditure growth departed considerably from the reference ratio, such as in 2008, when subsidies to the healthcare sector drove up local expenditure growth. The effectiveness of the fiscal rules will therefore depend on their ability to encourage reforms in specific areas such as the healthcare sector. The Austrian Internal Stability Pact also contains a provision whereby all three levels of government are obliged to submit their medium-term budgetary plans (the state and local government in a relatively detailed form) to the coordination committee (a body administering the Stability and Growth Pact) by 31 August each year. These are legally binding according to the pact, but the stringency and effectiveness of this rule should be closely monitored in future.

The coalition agreement, which sets the policy priorities of the new government, recognises the need for a reform of Austria's federal system. According to the government's plan, the objective of the reform would be to modernise the current division of

---

[4] The Austrian Institute of Economic Research was founded in 1927. It is a non-profit association under Austrian law. The 16-member Governing Board and the 34-member Supervisory Council comprise representatives of various NGOs, financial institutions, including the Austrian National Bank, businesses, business associations and academia. Representatives of the central and regional government occupy one and two seats respectively on the Governing Board and two seats each on the Supervisory Council.

power between layers of government. It would also reduce the use of the system of mutual approval rights between federal and state governments which currently applies when passing legislation addressing several policy areas where responsibilities are divided between the levels of government. Although various unsuccessful attempts to overhaul the complex federal system have been made in the past, the adoption and implementation of this reform would be crucial to streamlining federal relations between levels of government.

Long-term sustainability

Austria appears to face medium fiscal sustainability risks in the medium-term. The medium-term sustainability gap[5], showing the adjustment effort up to 2020 required to bring debt ratios to 60 % of GDP in 2030, is at 1.7% of GDP, primarily related to the structural primary balance in 2015. In the long-term, Austria appears to face medium fiscal sustainability risks, primarily related to the projected ageing costs contributing with 3.6 pp. of GDP over the very long run. The long-term sustainability gap[6] shows the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path, is at 3.5% of GDP. Risks would be higher in the event of the structural primary balance reverting to lower values observed in the past, such as the average for the period 2004-2013. It is therefore appropriate for Austria to continue to implement measures that reduce government debt and further contain age-related expenditure[7] growth to contribute to the sustainability of public finances in the medium/long term.

Last year Austria received a recommendation for bringing forward the equalisation the pensionable age for men and women, increasing the effective retirement age by making the retirement age and pension benefits dependent on changes in life expectancy and implementing and monitoring the recent reforms restricting access to early retirement. The analysis in this SWD leads to the conclusion that Austria has made some progress on measures taken to address this recommendation (for the full CSR assessment see the overview table in Section 4).

The reforms to the pension and the health system adopted last year could, to a certain extent and under certain conditions, improve the sustainability of public finances in the medium term. This will be the case if the measures are fully implemented, if actions in these fields are intensified and if conditions are created to allow a fundamental change in the

---

5 See Table V. The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady improvement in the structural primary balance to be introduced until 2020, and then sustained for a decade, to bring debt ratios back to 60% of GDP in 2030, including financing for any additional expenditure until the target date, arising from an ageing population. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is assigned low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 p.p. of GDP per year until 2020 after the last year covered by the autumn 2013 forecast (year 2015) is required(indicating an cumulated adjustment of 2.5 pp.), it is assigned medium risk; and, (iii) if it is greater than 2.5 (meaning a structural adjustment of more than 0.5 p.p. of GDP per year is necessary), it is assigned high risk.

6 See Table V. The long-term sustainability gap (S2) indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: i) the initial budgetary position (IBP) which gives the gap to the debt stabilising primary balance; and ii) the additional adjustment required due to the costs of ageing. The main assumption used in the derivation of S2 is that in an infinite horizon, the growth in the debt ratio is bounded by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates); thereby not necessarily implying that the debt ratio will fall below the EU Treaty 60% debt threshold. The following thresholds for the S2 indicator were used: (i) if the value of S2 is lower than 2, the country is assigned low risk; (ii) if it is between 2 and 6, it is assigned medium risk; and, (iii) if it is greater than 6, it is assigned high risk.

7 Ageing costs comprise long-term projections of public age-related expenditure on pension, health care, long-term care, education and unemployment benefits. See the 2012 Ageing Report for details.

approach to public finances. At the beginning of 2014, some measures to limit the access to early retirement and to increase incentives for remaining in employment longer entered into force. The new government has introduced ambitious targets to raise the effective retirement age by 2018. It has also announced the binding nature of the targets. Structural measures, such as the equalisation of the statutory retirement age for men and women and the linking of the statutory retirement age to life expectancy, have not been included, however.

Some steps have been taken to address the inefficiencies of the healthcare system, but the approach adopted by the government of containing healthcare expenditure by capping the growth in expenditure at the level of nominal GDP growth may be difficult to maintain. In the past, general government health spending mirrored GDP growth in years when the growth in output was quite robust. Experience shows, however, that such a rule may be difficult to maintain, in particular when the economy slows down or when specific events, such as the assumption of public hospitals' debt, drive up spending. Additional safeguards to ensure the budget cap is maintained through timely monitoring exercises are planned by the authorities.

Tax system

Austria's tax system is characterised by the high tax burden placed on labour, with labour tax accounting for 24.7 % of GDP in 2012, the second highest in the EU, affecting incentives to work for low- and median income earners. Although Austria shows nevertheless a good labour market performance, there is potential for further improvement. Austria's implicit tax rate on labour is the third highest in the EU with relatively high social security contributions on labour. Its tax wedge for single workers ranks 6th at 67 % of average wage and 5th at 100 % of average wage, amounting to almost 50 percent of labour costs. This is mirrored in the high marginal tax rates for low and median earners. Together, high social contributions and entry income tax rates lower incentives to work for individuals with low earnings potential, second earners and women, whose share of workers in part-time in Austria is well above EU-average. High social contributions and entry income taxes are likely to lower incentives to work for individuals with low earnings potential, particularly through the interaction with the social benefit system, and for second earners i.e. mostly women. Austria scores among the countries having the highest low-wage trap[8] for second earners and the employment rate of low skilled people is 19.6 percentage points lower than the general employment rate (EU-average: 16.3 percentage points). Reducing the tax burden on labour, in particular for low-income earners, would furthermore increase the resilience of the Austrian labour market to downside-risks.

Austria has scope to shift from labour taxation to other taxes less detrimental to growth, such as recurrent taxes on immovable property. This was also a recommendation made in 2013. It called on Austria to reduce the tax and social security burden on labour affecting low-income earners in particular in a budget-neutral way by relying more on other sources of taxation. The analysis in this SWD leads to the conclusion that Austria has made limited progress in addressing this recommendation (for the full CSR assessment see the overview table in Section 4).

Austrian Parliament approved minor reductions in employers' social security contribution, but the recently adopted tax package does not include measures further to reduce the tax burden on labour or to exploit the potential for a tax shift. Thus, Austria

[8] The low-wage trap is defined as the share of additional earnings arising from an increase in work productivity/working hours which are wiped out by the relative increase in taxes and withdrawn of benefits. Low-wage trap is particularly high in Austria for principal earner at 100% of average wage and second-earner moving from 33% to 67% of average wage.

has shown limited progress in improving the structure of its tax system. In March 2014, the Austrian National Council approved a reduction of non-wage labour costs by 0.1 pp from July 2014 and an additional 0.1 pp by January 2015. Earlier in 2014, it adopted a law proposal on a tax package (Abgabenänderungsgesetz 2014) increasing tax revenue by 0.2 % of GDP in 2014 and by an additional 0.1 % of GDP in following years. It includes measures aimed at broadening the tax base of direct taxes and increasing indirect tax rates such as excise duties on alcohol, tobacco and car taxes. This package does however not include substantial measures to shift the tax burden towards taxes less detrimental to growth, notably to revenues from recurrent taxes on immovable property. The revenue raised by Austria with these taxes was the fourth lowest in the EU in 2012 (0.2 % of GDP). They are levied on a base of cadastral values which have largely not been updated since 1973. The adjustment in the cadastral values is a process which takes time to be finalised but it is likely to lead to additional revenue. The share of environmental taxes is in line with EU average.

3.2. Financial sector

Banking sector capitalisation continued to improve in 2013, although NPLs continue to rise and foreign currency loans remain a concern. The total capital adequacy ratio reached 14.9 % at the end of June 2013, rising from 14.2 % at the end of 2012. The tier 1 capital ratio (based on consolidated assets only) meanwhile increased to 11.5 % by mid-2013, from 11 % at the end of 2012. The six largest Austrian credit institutions are subject to comprehensive assessment by the European Central Bank. The profitability of Austrian banks came under renewed pressure in the first half of 2013, as operating costs and the cost of risk both continued to rise. The continuing deterioration of asset quality in roughly half of the countries in central, eastern and south-eastern Europe where Austrian banks operate has led to there being a higher ratio of consolidated non-performing loans (NPLs) than unconsolidated NPLs. The NPL ratio as calculated on a consolidated basis (i.e. including all NPLs held by Austrian banks and their subsidiaries) reached 8.8 % in mid-June 2013, whereas the unconsolidated NPL ratio (i.e. excluding NPLs of foreign subsidiaries) stood at 4.4 %. Notwithstanding several supervisory measures adopted in recent years to curb foreign exchange lending to unhedged borrowers and to limit new lending in foreign currency, the stock of foreign currency loans (mostly denominated in Swiss francs) is still likely to create challenges for the Austrian banking sector in the future. Approximately 70 % of foreign currency loans to households are bullet loans,[9] most of them linked to repayment vehicles that are sensitive to financial market developments.

In 2013, the Council Recommendation for Austria contained a CSR on financial stability and the banking sector, specifically highlighting the need for close oversight of the banking sector and increased efforts to restructure nationalised and partly nationalised banks. In line with the recommendations, authorities have taken steps towards restructuring nationalised and partially nationalised banks. The banks remain however in a difficult situation.

Österreichische Volksbanken AG (ÖVAG) has proceeded with the implementation of the restructuring plan approved by the European Commission, but the low profitability and continued deterioration of asset quality has made the restructuring process more complicated. ÖVAG started the process of selling its Maltese subsidiary in September 2013. In June 2013, ÖVAG and Raiffeisen reached an agreement whereby the latter will buy a portfolio of corporate claims worth around EUR 1 billion from ÖVAG. The bank is still however struggling to return to profitability. At the end of September 2013, Volksbanken recorded a post-tax loss of around EUR 67 million. Due to the ongoing downsizing process

[9] The payment of the entire principal of the loan or the principal and the interest is due at the end of the loan contract.

and the reduction in risk-weighted assets, the capitalisation of the bank has improved, with tier 1 capital reaching 13.0 % of total assets at the end of September 2013 compared to 10.9 % at the end of 2012.

In September 2013, the European Commission approved Hypo Group Alpe Adria's restructuring plan. Following the sale of Hypo Bank Austria at the end of May 2013 to India's Anadi Financial Holdings, the company will be wound up according to the following schedule: (i) the network of subsidiaries in south-eastern Europe will be sold by 30 June 2015; (ii) a separate company (a liquidation entity) will be set up with the purpose of winding down all entities and portfolios as quickly as possible, with any part not sold by 30 June 2015 being transferred to this unit.[10] According to the stability programme, the legal framework for the wind-down of Hypo Alpe Adria is to be presented for adoption by Parliament by summer. The organisational preparation of setting up the respective asset management company (AMC) is in progress. The AMC is expected to become operational in autumn.

KA Finanz, the 'bad bank' of Kommunalkredit is still operational but is currently winding down its assets and has continued to downsize its balance sheet. The bank's operational income was not sufficient to cover the net expenses incurred in running down the portfolio, and it therefore recorded a loss of EUR 18 million June 2013, (compared with a loss of EUR 50 million for the year to June 2012). As part of the public support for KA Finanz, Austria earmarked EUR 250 million in its 2013 budget to enable the bank to fulfil the Basel III criteria and to maintain a tier 1 ratio of approximately 7 % of total assets. The government decided to wind down the state-owned Kommunalkredit Austria AG, as the attempted re-privatisation had failed due to the difficult market conditions. The European Commission approved the plan for winding down the bank on 19 July 2013. Kommunalkredit Austria AG ceased new lending and is working out its assets over time.

Small and medium-sized enterprises in Austria do not generally suffer difficulties in accessing finance but parts of the financial markets do however remain underdeveloped. The main challenges are to improve access to small scale equity finance (venture capital) and to foster the development of alternatives to bank lending (in particular equity and mezzanine financing, including crowd funding), as highlighted by the Annual Growth Survey. While small and medium-sized enterprises are by no means unable to obtain financing, they continue to report restrictions in terms of the availability of loans and the provision of collateral[11]. Given this, the decreasing reliance on debt finance can be seen as a positive development. Political actions taken in 2013 or prepared for 2014, including better support for start-ups and some first regulatory improvements to facilitate crowd-funding, are helping enterprises to strengthen their equity base but still fall short of sufficiently matching SME and mid-cap financing needs with available sources of capital.

3.3. Labour market[12], education and social policies

The Austrian labour market continues to perform well and Austria has the lowest unemployment rate in the EU (4.9 % in 2013)[13] but the participation rate of particular groups in the labour force is significantly lower than the aggregate rate. The future challenges for the Austrian labour market result from structural changes in the economy and demographic changes, notably the ageing society, the shrinking work force and the increasing proportion of workforce with migrant background, calling for a better use of the labour

[10] The decision to create a company through which to carry out the wind-up was taken on 14 March 2014.
[11] Source: Austrian National Bank (December 2013): Financial Stability Report 26
[12] For further details, see the 2014 Joint Employment Report, COM(2013)801, which includes a scoreboard of key employment and social indicators.
[13] Source: Eurostat.

market potential of older workers, women and migrants. The employment rate of older workers is below the EU average due to early retirement schemes, invalidity pensions and low statutory retirement age. The full time equivalent[14] employment rate of women is below EU average due to limited availability of childcare services. People with migrant background face higher unemployment rates and lower labour market participation. Moreover, the tax and social contribution burden for low income earners remains a barrier for employment and the health care sector faces challenges in terms of ensuring sustainability and access to long term care. The socio-economic background of parents continues to have a significant influence on the educational achievements. In higher education, increasing numbers of enrolled students continue to put pressure on finances and organisation and the share of students completing their programmes successfully remains low.

Labour market

In 2013, Austria received CSRs on making better use of the labour market potential of older workers, women and migrants by improving the employability of older workers, improving childcare and long-term care services, recognising migrants' qualifications and reducing the tax wedge for low-income earners. The analysis in this SWD leads to the conclusion that Austria has made some progress on measures taken to address these recommendations (for the full CSR assessment see the overview table in Section 4).

Austria has implemented a number of measures to encourage people to remain in employment longer. The effective retirement age remains considerably below the statutory retirement age however. Restrictions to early retirement and invalidity pension schemes adopted in previous years came into force on 1 January 2014. In particular, temporary invalidity pensions are no longer available to people below the age of 50 and will gradually be phased out entirely. The newly introduced pension account is designed to raise awareness of the link between individual contributions and future benefits. The effective retirement age which stood at 58.4 years in 2012 remains considerably below the statutory retirement age however (by 5.6 years for men and 2.6 years for women in 2012) and there are still several routes open allowing people to leave the labour market early, although access conditions have been made more restrictive. The NRP sets relatively ambitious targets: the effective retirement age is to be increased by 1.6 years between 2012 and 2018, which is more than the expected increase in life expectancy.[15] The government plans to introduce a binding monitoring mechanism which will trigger an adjustment to policies should there be a deviation from the path towards the target. This mechanism could trigger further reforms, in addition to those already being implemented. Effective use of this mechanism will be important for achieving the targets. Incentives for staying longer in employment will be strengthened by an increase of the incrementing factor for pension benefits from 4.2 % to 5.1 %, which is according to the NRP under preparation. At present, however, there are no plans to link the statutory retirement age to life expectancy or to bring forward the equalisation the statutory retirement age for men and women, a measure which would also contribute to longer working lives and fiscal sustainability and would help to address the gender gap in pensions. Thus, whilst the steps being taken to restrict routes to an early exit from the workforce are addressing, in part, the short-term challenge of low retirement ages, further structural measures are needed. Measures to promote accessible and age-friendly working environments would both support the goal of longer working lives and further promote the participation of persons with disabilities in employment.

[14] The computation of the full-time equivalent employment rate is designed to take account of the proportion of women working part-time.

[15] Based on demographic assumptions included in the *2012 Ageing Report*.

New funds have been allocated to measures improving the employability of older workers, helping people to return to work after ill health, and providing training and opportunities for qualification in a new field of work. The specific allocations are: EUR 300 million between 2014 and 2018 for re-training people with reduced working capacity, for whom benefits have also been introduced, linked to following training courses and/or returning to work; EUR 750 million between 2012 and 2016 for measures to help older people and those with health problems to return to or join the workforce; and according to the NRP EUR 370 million between 2014 and 2016 for measures to improve labour market conditions for older workers. The Fit2Work counselling infrastructure has been rolled out to all regions. The government's commitment to improving labour market participation among the 50-plus age group and health-impaired people, in particular via temporary subsidies, in-work benefits and lifelong-learning programmes, may lead to progress in this area. There is scope to further promote accessible and age-friendly working environments.

While financial resources have been earmarked for measures to make it easier to combine family and working life, there is not yet a comprehensive strategy in place and availability of care places is still limited. In particular, financing for increased provision of childcare, all-day school places and long-term care services has been extended since 2011-12 and there are plans to bring in further increases over the period to 2018. The NRP reports an increase of the care ratio for the 0-2 years old between 2007/8 (11.8 %) and 2012/13 (20.8 %), but it is still below the Barcelona target of 33 %. There is no coherent nationwide strategy however, such as could be developed in cooperation with the federal states, addressing regional differences in the demand for childcare and the compatibility of family and full-time work. Austria continues to implement and extend previously adopted measures relating to the gender pay gap. These are mainly focused on raising awareness and increasing transparency. The measures announced in the coalition agreement of last December, such as increasing the number of women in executive posts and promoting employment in professions seen as atypical for women, are also steps in the right direction. The measures remain rather small-scale however compared to the problem and its causes. Austria has one of the highest proportions of women in part-time employment, care responsibilities are unequally divided between men and women, and availability of affordable high-quality childcare and long-term care services is limited. Moreover, there is a high concentration of women in low-wage employment. They are often overqualified for their jobs but face obstacles to career development, in particular due to the limited availability of qualified part-time work, long periods of parental leave, and barriers to obtaining management positions (the 'glass ceiling').

Some measures to improve the integration of migrants in the labour market have been adopted, and the government plans to introduce more comprehensive measures in the future. In order to improve the process by which migrants can obtain official recognition of their qualifications, service centres have been set up at regional level to guide people through the procedure, and the recognition procedure for tertiary qualifications has been shortened from six to three months. According to the NRP a special recognition act and improved transitions to legal (seasonal) employment for asylum seekers are planned. Furthermore the NRP announces plans for the development of an overall strategy to improve migrants' access to the labour market. Nonetheless, migrants still face difficulties on the labour market as a result of structural obstacles, including discrimination, and show a very high incidence of 'overqualification', with a high proportion of highly-educated immigrants from low-income countries working in low-skilled jobs.[16]

Education

[16] OECD (2012): *The labour market integration of immigrants and their children in Austria.*

In 2013, Austria received CSRs on improving educational achievement. These involved improving early-childhood education and reducing the negative effects, particularly on the learning outcomes of disadvantaged groups, of early streaming of pupils into different school types at the age of 10. The CSRs also highlighted the need for improved strategic planning in higher education and more extensive measures to reduce the drop-out rate. The analysis in this SWD leads to the conclusion that Austria has made some progress on measures taken to address this recommendation (for the full CSR assessment see the overview table in Section 4).

PISA 2012 shows that Austria has improved in all categories, most of all in reading.[17] **Nevertheless, the incidence of low achievers in reading is significantly above the EU average. In mathematics, Austria performs better, with a rate of low achievement below the EU average, and in science the rate is close to the EU average.**[18] A separate study from the OECD (the *Survey of Adult Skills*) emphasises the strong link which continues to exist between weak reading skills and the socio-economic background of parents, in particular in the case of migrants. While overall the target set for reducing the rate of early school leavers has already been met, the rate for pupils with a migrant background, who constitute a growing percentage of the total population of pupils, was more than three times higher than for those of non-migrant background (21.5 % compared to 6.0 % in 2012).[19] Due to a complex governance structure here is no comprehensive national framework for high-quality early childhood education.

A number of reforms to the school system have been adopted in 2013 and work on others is ongoing, as described in the NRP. Additional funding has been provided to finance an additional compulsory year of kindergarten from 2014/15 and for teaching languages to this age group. The new measures to promote early-childhood education, such as the creation of a framework at state level and the introduction of a new transition phase between early-childhood education and primary school, are further positive steps. Both measures were announced in the coalition agreement. Austria will continue to roll out the new middle schools programme until 2018/19 and will also increase the number of all-day school places. The potential of new middle schools to mitigate the negative effects of early streaming for the socially disadvantaged and to improve achievement in education must be monitored closely. National testing of education standards did not show better results for the New Middle School than for its predecessor “Hauptschule”. As described in the NRP, the government adopted a comprehensive reform of teacher training and new legislation for teachers’ working conditions and salaries in June 2013, which does not however address early-years education and care.

High drop-out rates combined with the general need to increase tertiary graduation rates remain a feature of Austrian higher education. 35 % of students pursuing a university degree do not complete their studies in Austria compared to an EU-average of 31 %. According to the NRP, in 2012, additional funding[20] lasting until 2015 was made available to address these and other shortcomings of the higher education system. However, beyond 2015, sufficient financing is not yet ensured. The Austrian higher education plan, which has been designed to deal with the growing number of students and the difficulties they experience in combining work and studies, is to be implemented on a step-by-step basis

[17] PISA 2009-12 comparison: reading 470/490, science 494/506; mathematics 496/506.

[18] Pisa 2012 comparison AT/EU average: reading 19.5 %/17.8 %, mathematics 18.7 %/22.1 %, science 15.8 %/16.6 %.

[19] Source: Eurostat 2012.

[20] As announced in the Euro Plus Pact, more funding has been allocated to universities. Annually, an additional EUR 80 million was allocated to universities and universities of applied sciences (*Fachhochschulen*) for the period 2012 to 2014. As earlier agreed in the 2012-16 Consolidation package, an additional EUR 250 million was made available in 2013.

between now and 2021. This plan, together with the introduction of an entry or introductory phase at the beginning of university-level studies, has the potential to reduce the duration of university studies and the drop-out rate. The existing initiatives do not currently however provide a comprehensive strategic framework to adequately address the sustainable development of higher education. According to the NRP, Austria has continued to invest in guidance and orientation measures such as the *Studienchecker*, a scheme introduced to offer more guidance and support to pupils in their final two years of pre-university education, to help them in choosing the right direction for their studies.[21] Combined with additional available resources, this may also help to reduce drop-out rates.

Healthcare and long-term care

In 2013, the Council Recommendation for Austria included CSRs on the full implementation of the healthcare reform. The purpose of these recommendations was to make sure that the expected gains from improved efficiency do materialise. The recommendations also included developing a financially sustainable model for the provision of long-term care and focusing efforts on prevention, rehabilitation and measures to allow people to continue living independently. The analysis in this SWD leads to the conclusion that Austria has made some progress on measures taken to address this recommendation (for the full CSR assessment see the overview table in Section 4).

Some measures were taken in 2013 to implement the healthcare reform but they may not prove sufficient to address the structural weaknesses in the sector. All aspects of the implementation of the reform must be monitored, in order to assess the extent to which it will improve the efficiency of the sector. The reform is intended to lead to significant changes in healthcare, introducing a more evidence-based and coordinated approach to the planning and delivery of services, and thus allowing efficiency gains to be made. A system of electronic health records has been introduced and targets for healthcare provision have been agreed between the relevant actors at national and regional level. It appears unlikely however that the reform will lead to a substantial shift from in-patient to out-patient care, as the targets agreed to date are not sufficiently ambitious to bring about such a change. According to the NRP, the long-term care fund has been extended until 2016 to improve the strategic planning, transparency, provision of care services and to extend the case and care management. Additional EUR 650 million has been allocated to finance its operation. The government plans to further extend its use to 2018 and allocate further EUR 700 million. The long-term care fund provides an interim solution for the financing of care services, but more extensive structural measures are needed to increase the cost-effectiveness of the system. A paid care leave has been introduced as of 2014, which facilitates the reconciliation of informal care and work. Some additional funds have been made available for measures to help people return to work after illness, an area of particular importance in view of the reform of the invalidity pension taking effect as of 2014, and strategies are being developed for improving preventive healthcare, notably the dementia prevention strategy. The new government programme includes plans for improving conditions for those who wish to continue living independently (i.e. rather than in a care home), inter alia by promoting ambient assisted living programmes and offering incentives for the construction of barrier-free buildings.

3.4. Structural measures promoting sustainable growth and competitiveness

Austria's solid economic growth, remarkable employment record and highly productive workforce reflect a prosperous and competitive economy. The economic crisis and weakening intra-euro-area trade have however led to a significant loss of global market share. More recent export performance is broadly in line with the performance of its EU partners and

[21] *Studienchecker* started as a pilot project in 2008. It has been rolled out in 397 schools to date, with the aim of reaching 678 schools during the course of 2014-15.

Austria benefits from tight supply chain integration with Germany and central Europe. Overall, Austria's external balance was scarcely affected by its loss of market share, and the current account surplus has stabilised at a moderate level. The developments in the real effective exchange rate and the manufacturing unit labour cost do not suggest that Austria is facing any problems relating to international cost-competitiveness. Nevertheless, the decline in market share may signal the need to better exploit the economy's innovative capacity. Despite a strong labour market, growth in private consumption has been rather sluggish, with purchasing power suffering due to the noticeable inflation differential vis-à-vis the euro area, primarily driven by prices in the services sector. Promoting competition and productivity in the services sector will be essential for increasing consumer choice and improving the value of services, and, along with extending working lives, has been shown to offer an effective way of generating additional economic growth over the long and medium term (see Box 2).

In 2013, Austria received a CSR on barriers to service providers, in particular relating to restrictions in regulated professions, competition in the railway sector, and the powers and resources of the Federal Competition Authority. Austria has made only limited progress in addressing this CSR.

Significant regulatory barriers continue to prevent companies and individual professionals from offering their services in Austria. Legislation regulating specific professions limits the forms of company that can be set up and imposes shareholding requirements. At the same time, access to individual professions is subject to certain professional qualifications. The combination of these requirements, relating respectively to the legal form of companies, shareholding and professional qualifications, creates barriers to entering the market and offering professional services, which may significantly limit competition. It may also have a negative effect on the mobility of European professionals wishing to set up in business and work in Austria when their country of origin does not impose such regulations. The assessment of the peer review on legal form, shareholding and tariff requirements under the Services Directive[22] shows that Austria has the strictest legal form and shareholding requirements of all Member States for the professions assessed. Setting up interdisciplinary services companies remains very difficult in Austria (despite surveys showing demand for such services). The new government has agreed in principle to allow such companies to be established, but no action has been taken to date. Differences in regulatory requirements between individual states further complicate the provision of services and the mobility of service providers. To date, no justification has been provided for these measures, in terms of public interest or consumer protection, and Austria has not provided evidence to show that legitimate public interest objectives could not be met with a less restrictive regulation.

Austria is participating in the EU-wide mutual evaluation exercise on professional qualification requirements and has updated its database of regulated professions as a first step towards assessing the justification and proportionality of professional qualification requirements. The Austrian Constitutional Court ruled in November 2013 that the regulation of the photography profession was unjustified and disproportionate. A preliminary ruling by the EU Court of Justice decided that the existing application of the demographic criteria for setting up new pharmacies in Austria was not consistent with EU law. Aside from these court interventions however, progress on reforms to liberalise services has been limited to date, and services in Austria remain heavily regulated to the detriment of service providers and consumers.

[22] http://ec.europa.eu/internal_market/services/services-dir/implementation/2012-communication/index_en.htm.

The Austrian federal competition authority is small compared to the equivalent authorities of other Member States of similar or smaller size and its was recommended in 2013 that the powers and resources of the competition authority should be strengthened. The Austrian competition authority BWB has had its powers strengthened appreciably though the competition law amendments of 05 December 2012. This also involved an important alignment to EU competition law although the BWB has no decisional powers which remain with the cartel court. The authority still suffers from a lack of financial and human resources, affecting its ability to enforce competition law more rigorously and its participation in European and international cooperation. Additional resources would also allow the authority to invest in advocacy — to prevent, to seek to limit or to abolish anti-competitive aspects of regulation.

It is likely that the potentially significant economic benefits of efficient and competitive public procurement are not being realised throughout the Austrian public sector and in the utilities sector, where operators are also covered by the public procurement Directives. The value of calls for tenders published by Austrian authorities and entities under EU procurement legislation was 1.5 % of GDP and 6.6 % of total public expenditure on works, goods and services in 2012, well below the EU averages of 3.4 % and 17.7 % respectively. Cross-border publication of public tenders has consistently stayed among the lowest in the EU, a situation that cannot be explained by Austria's federal structure, as comparisons with other Member States show. This situation creates considerable costs for the Austrian taxpayer and for European businesses in terms of business opportunities foregone.[23] The low cross-border publication rate of public contracts may have various causes. Among others it could be explained by the methods used for the calculation of thresholds, above which a publication at the EU level is required; or by an excessive use of exceptional provisions, lifting the requirement for publication for the respective public procurement procedure. Austria has not taken significant measures to address this issue. The Federal Administrative Court took over the powers to review procurement decisions in January 2014, which will ensure the independence of such decisions.

The Austrian freight and passenger railway markets would benefit from further efforts to promote competition, as recommended in 2013. To date, however, Austria has failed to take any specific action to address this CSR. While the use of different modes of transport in Austria is already among the most diversified in the EU, with public passenger transport recording one of the highest railway share in the EU, additional benefits could be generated from the high quality infrastructure already in place by further improving service and by shifting more traffic from road to rail. The functioning of the Single Market is very dependent on there being competitive and accessible rail markets in strategically located transit countries such as Austria. Increased use of rail instead of road transport would help Austria to meet the greenhouse gas emission target set by the Europe 2020 Strategy and to reduce pollution caused by road traffic (see below). Under the current institutional structure of the incumbent company, Österreichische Bundesbahnen, the same holding company controls the company responsible for infrastructure and the railway operators. This structure limits transparency in relation to public service obligations and may potentially hide incidences of cross-subsidisation.[24] While non-incumbent enterprises have already achieved a certain

[23] Empirical studies (http://ec.europa.eu/internal_market/publicprocurement/docs/final_report_en.pdf (p. 111, articles 7.29 and 7.30), http://ec.europa.eu/economy_finance/publications/publication16259_en.pdf (p. 7), http://ec.europa.eu/internal_market/publicprocurement/docs/modernising_rules/er853_1_en.pdf (p. xviii)) suggest that competitive tendering in public procurement could generate savings in the order of 5 % of the contract value. In 2011 this would have translated into savings of just under 0.1 % of GDP.

[24] Cross-subsidisation is in breach of EU law (see Regulation (EC) No 1370/2007 on public passenger transport services by rail and by road; Directive 2012/34/EU establishing a single European railway area requires account separation between infrastructure managers and railway operators).

degree of market penetration (17.6 % for freight and 8.7 % for passenger transport), new entrants, both in the passenger and freight railway market, face various barriers. These include technical equipment requirements, e.g. for the use of a newly built section of a major trans-European corridor (Inntal). Persistent anti-competitive practices on the part of the incumbent company have forced competitors to resort to costly administrative procedures (e.g. complaints to the regulatory authority) and litigation. The incumbent company is currently awarded a public service contract covering about 90 %[25] of the territory and allegedly also including high-speed services, which de facto eliminates the possibility for competition on this part of the market. The potential for significant savings of public funds through competitive awarding of parts of the transport volume covered by the public service contract directly awarded to ÖBB, as allowed for in this contract, remains unutilised[26].

Despite the relatively high levels of public R&D funding (Austria ranks fifth in the EU-28), the Austrian research and innovation system is underperforming.[27] Public R&D investment often fails to translate into research and innovation outputs and related economic effects due to the relatively low tertiary education attainment rate (27 % in 2013 compared to the EU average of 36.6 %), structural factors, and the relatively low level of cooperation between publicly funded research and business (public expenditure R&D co-financed by private enterprises represents only 0.042 % of Austria's GDP compared to a EU average of 0.052 %). While the intensity of R&D undertaken by businesses is above EU average, the growth of innovative firms in their start-up phase is below EU average (4 % of employees in Austria were employed in fast-growing firms in 2010, compared to a EU average of 6 %). Austria has addressed the underperformance of its research and innovation system in a research, technological development and innovation strategy published in 2011. In 2014, Austria needs to present a national or regional research and innovation strategy for smart specialisation in order to support small and medium-sized enterprises. The existence of such a strategy and its coordination between national and regional levels is a pre-requisite for receiving financing from the European Investment and Structural Funds during the 2014-20 programming period. Promoting investment by private business in research and innovation technology as well as in knowledge-intensive sectors and technology transfer will be amongst the main objectives of the smart specialisation strategy.

Start-up conditions for the simplest legal forms of companies are good, whereas the administrative burden for establishing more complex legal forms could be further reduced. In 2013, Austria took steps to improve start-up conditions for firms, and the recent reform of the limited liability company as a legal form has lightened the burden for those choosing this form of company. The reform reduces the minimum starting capital required and reduces costs incurred for the services of notaries and lawyers. The requirement that the application be submitted in paper form has also been dropped. The reform therefore goes some way to aligning the conditions for limited liability companies with those for single-person companies. The reform has increased the rate at which limited liability companies are being created, but has also led to adverse effects, as established firms have changed their legal form purely so as to reduce their equity base and thus reduce their tax liability. An amendment passed in 2014 tackles these adverse effects while leaving the more favourable conditions created for the first ten business years of companies of this legal form unchanged. The limited liability company reform represents substantial progress in this area,

[25] AT did not report to the Commission the passenger - km under PSO, this figure is an estimate by Commission services.

[26] The impact assessment accompanying the Commission proposal on the 4th railway package (SWD (2013)10, http://ec.europa.eu/commission_2010-2014/kallas/headlines/news/2013/01/doc/swd(2013)-10-part1.pdf, box 7) provides evidence on the savings of public funds by competitive tendering.

[27] Austria ranked 11th among EU Member States in the Innovation Output Indicator in 2013 (COM (2013) 624 of 13.09.2013)

but it remains to be seen whether the targets for the time taken and costs incurred in setting up a new company of this form can be fully met.

Active regional cooperation and appropriate regulatory incentives remain critical for the development and operation of the electricity and gas networks. The implicit flow-based capacity allocation procedure designed to limit the negative impact of unplanned flows in the central and eastern European region had not been implemented by the end of 2013 as planned. The high-tension 380-kV ring in Austria is yet to be completed and cross-border capacities at Austria's borders with Italy, Slovenia, Switzerland and Germany require improvement. A further assessment would be needed to determine whether the new requirement for electricity suppliers to provide a certificate of origin for all sources of electricity will restrict the import of supplies from other Member States. The development of gas networks must also be closely coordinated with neighbouring countries. In line with Regulation (EU) No 347/2013 on guidelines for trans-European energy infrastructure, Austria has designated one national competent authority responsible for managing and coordinating the process for granting permits for projects of common interest. For these projects at least, it is necessary to provide incentives to transmission system operators so as to encourage investment and to further streamline the process for granting permits.

Austria is making good progress in promoting use of renewable energy. Nonetheless, considerable efforts will be needed to achieve the aim of stabilising final energy consumption, so that energy consumption in 2020 is equal to the 2005 level. Energy from renewable sources represented 32.1 % of Austria's energy consumption in 2012, and the country is on track for meeting its 2020 target of 34 %. At the same time, there is still significant potential for energy saving in buildings and transport, in energy supply networks, in the public sector, in the manufacture of products and in industrial processes (i.e. in the activities of SMEs and in industry). The regions will play a major role in ensuring that the planned measures are implemented correctly and without unnecessary delay, and that they achieve clear and ambitious targets. A task-sharing approach will therefore be critical to the success of the measures. The draft Energy Efficiency Act is expected to be adopted in 2014.

Austria recognises the impact of resource efficiency on business competitiveness. Austria generates more economic wealth relative to materials used than the EU average. Its economy is however dependent on imports of raw materials, partly for domestic consumption but also for the manufacture of exports. Assuming a baseline annual growth rate in resource productivity of 1.9 % (the average improvement between 1995 and 2010), additional efforts would be needed to reach the 2020 target, set in the Austrian resource efficiency action plan approved in 2012, of a 50 % increase in resource productivity compared to 2008.

Air pollution and the negative impacts of climate change have significant effects on the environment and on health and have a high economic cost to society[28]. Eight floods caused damages totalling EUR 5300[29] million between 2002 and 2013. Measures to reduce particulate matter and nitrogen oxide emissions from road transport are of particular relevance to public health. Measures to manage the effects of climate change and ecosystem services, such as the management and prevention of floods in areas with conditions allowing implementation of cost-effective nature-based solutions could substantially improve the capacity for prevention and mitigation of natural disasters related to climate change. In 2013, important steps were taken to address the challenge of meeting the **greenhouse gas emission**

[28] E.g. 5 500 premature deaths (in 2010), 1.8 million workdays lost each year due to sickness related to air pollution, with associated costs for employers, healthcare, and agriculture (crop losses).

[29] Risk and Policy Analysts, Study on Economic and Social Benefits of Environmental Protection and Resource Efficiency related to the European Semester, DG ENV, February 2014, http://ec.europa.eu/environment/integration/green_semester/pdf/RPA %20Final %20Report-annexes.pdf

targets and closing the currently projected gap of 7 percentage points. Amendments to the Climate Protection Act and the Environmental Law Adjustment Act for the period from 2013 to 2020 brought in legally binding measures, such as greenhouse gas emission targets per sector, as well as funding opportunities for waste, energy, industry, fluorinated gases, buildings, agriculture, and transport. In addition, a new scheme awarding subsidies for the installation of photovoltaic systems is expected to lead to a more rapid expansion of photovoltaic generation capacity.

Box 2: Potential impact of structural reforms on growth – a benchmarking exercise

Structural reforms are crucial for boosting growth. It is therefore important to know the potential benefits of these reforms. Benefits of structural reforms can be assessed with the help of economic models. The Commission uses its QUEST model to determine how structural reforms in a given Member State would affect growth if the Member State narrowed its gap vis-à-vis the average of the three best EU performers on key indicators such as the degree of competition, labour market participation, the benefit replacement rate or the implicit consumption tax rate. Improvements on these indicators could raise GDP by about 4½ % in a 10-year period. Some of the reforms could have an effect even within a relatively short time horizon. The model simulations corroborate the analysis of Section 3.3 and Section 3.6; the largest gains would likely stem from decreasing the mark-ups on final goods and increasing the participation rate of women and the elderly. The simulations support the priority placed by the authorities on increasing working lives and should encourage them to further reform the pension system and promote competition in the services sector.

Table: Structural indicators, targets and potential GDP effects[30]

Reform areas		AT	Average 3 best EU performers	GDP % relative to baseline	
				5 years	10 years
Market competition	Final goods sector markups (price-cost margin)	0.19	0.13	1.6	1.9
Market regulation	Entry costs	5.20	0.13	0.0	0.0
Tax reform	Implicit consumption tax rate	21.2	28.6	0.3	0.4
Skill enhancing reforms*	Share of high-skilled	6.3	10.7	0.0	0.1
	Share of low-skilled	16.9	7.5	0.0	0.1
Labour market reforms	Female non-participation rate (25-54ys):			0.5	0.6
	- low-skilled	30.1	26.4		
	- medium-skilled	13.4	10.5		
	- high-skilled	9.6	4.3		
	Low-skilled male non-participation rate (25-54ys)	15.5	7.7	0.0	0.1
	Elderly non-participation rate (55-64ys):			0.4	0.9
	- low-skilled	22.9	13.4		
	- medium-skilled	10.9	4.8		
	- high-skilled	5.7	3.3		
	ALMP (% of GDP over unemployment share)	26.4	37.4	0.1	0.1
	Benefit replacement rate**	68.7	52.6	0.4	0.5
Total				3.3	4.6

Source: Commission services. Note: In these simulations it is assumed that all member states undertake reforms which close their structural gaps by half. The table shows the contribution of each reform to total GDP after five and ten years. If the country is above the benchmark for a given indicator, we do not simulate the impact of

[30] Final goods sector mark-ups is the difference between the selling price of a good/service and its cost. Entry cost refers to the cost of starting a business in the intermediate sector. The implicit consumption tax rate is a proxy for shifting taxation away from labour to indirect taxes. The benefit replacement rate is the % of a worker's pre-unemployment income that is paid out by the unemployment scheme. For a detailed explanation of indicators see Annex.

reform measures in that area; however, the Member State in question can still benefit from measures taken by other Member States.[31] * The long run effect of increasing the share of high-skilled population would be 2.7% of GDP and of decreasing the share of low-skilled would be 2.6%.** EU average is set as the benchmark.

3.5. Modernisation of public administration

Austria performs relatively strongly in the area of public administration. Its systems are effective but there is scope for improvement. Austria has maintained its ranking among the top ten countries in the area of public administration, as measured by the World Bank government effectiveness indicator, and its score is above the EU average. Its ranking has however fallen somewhat over 2011 and 2012. A fragmented and inefficient division of responsibilities between federal, state and local government has led to a multiplicity of regulatory regimes, delays in the transposition of EU directives, an unnecessary burden on business and market fragmentation. A complex governance structure is also affecting the performance of Austria's innovation system (see Section 3.4).

Measures are currently being implemented to reduce the administrative burden for businesses and individuals. Following the conclusion of a programme (2007-12) to reduce the administrative burden for businesses, the working programme of the new federal government includes plans to set up an agency responsible for reducing the administrative burden and simplifying processes. The purpose of the agency would be to develop and promote measures to reduce 'red tape' for businesses and individuals and to reduce costs for public administration offices. The improvement of e-government services continues to be a priority, and steps are being taken to improve the facilities for online registration of businesses. The system is expected to be fully operational by 2015. In order to achieve a further reduction of administrative costs for businesses of around EUR 200 million, an online business service portal is being implemented in stages. This is designed to function as a single point of contact for a wide range of services (e.g. tax declarations, social security contributions and public procurement procedures). The second stage was implemented in 2013.

Austria has put in place a network of nine regional points of single contact to assist companies providing services in Austria. Austria has well-developed e-government systems and the points of single contact could benefit from being linked with other business-related e-services. The accessibility to portals for users in other Member States needs to be improved, inter alia by making portals available in other languages, increasing the number of services available to users in other Member States and improving the usability of the portals.

Since January 2013, an impact assessment system for new regulation has been introduced integrating nine different tests for different types of impacts. The inclusion of a small and medium-sized enterprise test in the system is a positive feature. The main weakness of the system would appear to be a conceptual one, in that it does not allow comparisons to be made between policy options other than the envisaged legislative proposal. The quality of the resulting analysis and the transparency of the methods used to quantify social costs and benefits will need to be evaluated in detail when the first results from the new system are made available.

[31] For a detailed explanation of the transmission mechanisms of the reform scenarios see: European Commission (2013), "The growth impact of structural reforms", Chapter 2 in QREANo. 4. December 2013. Brussels; http://ec.europa.eu/economy_finance/publications/qr_euro_area/2013/pdf/qrea4_section_2_en.pdf

4. CONCLUSIONS

Austria's has coped well with the difficult economic environment of recent years. Several challenges of a medium- to long-term nature will require ongoing attention and appropriate policies. Economic growth has remained positive, employment and income growth have remained robust and financing conditions continue to be relatively favourable. Nonetheless, the labour market is failing to benefit from the full potential of certain parts of the workforce (in particular people with migrant background, women and older workers), while the services sector may be suffering from a suboptimal degree of competition, as progress in removing excessive barriers to entering the market has been limited. Education outcomes are still below average in reading and socio economic background continues to have a significant influence on attainment. There is scope for further enhancing the long-term sustainability of the pension and health systems. The financial system meanwhile is still encumbered by the sizeable volume of impaired assets held by a number of distressed banks. The above issues were all addressed in the 2013 CSRs for Austria.

The analysis in this Staff Working Document leads to the conclusion that Austria has made some progress in addressing the 2013 country-specific recommendations. Austria has made some progress in promoting longer working lives, improving education achievement and improving the utilisation of the labour market potential of women, people with a migrant background and older workers. Some progress has been made in implementing healthcare reform and the restructuring of the banking sector has continued. Most of the reforms, in particular in education and healthcare, will have an impact only in the medium to long term. Effective implementation and monitoring therefore remain critical.

Challenges identified in July 2013 and reiterated in the Annual Growth Survey remain valid while the medium-term budgetary strategy set up by the Programme should be reinforced in the years 2014-2015. The budgetary projections including in the Programme point to risk of non-compliance with the rules of the preventive arm of the SGP. To safeguard its long-term growth potential and fiscal sustainability in spite of an ageing population, Austria needs to maintain or even increase the momentum of reform, in particular as regards the labour market, pensions, healthcare and education. Greater efforts to promote competition, in particular in the services sector, would improve the business environment whilst decisive steps to complete a transparent restructuring of nationalised banks would increase the stability of the financial system.

The national reform programme and the stability programme submitted by Austria broadly address most, but not all challenges identified in last year's staff working document. The NRP announces Austria's policy plans in the areas of the labour market, education, healthcare, long term care and in ensuring further progress towards the EU 2020 targets. The Stability Programme confirms the objective of achieving the medium-term objective by 2016 one year behind that sets by last year's recommendation and plans a lower structural adjustment towards the MTO with respect to the requirements of the preventive arm of the Stability and Growth Pact. The stability program spells out the concrete steps for advancing the restructuring of the banking sector. In many cases, however, the perspective is backward looking or focused on the short term and the description of the measures does not reveal an underlying comprehensive strategic framework.

OVERVIEW TABLE[32]

2013 commitments	Summary assessment
Country-specific recommendations (CSRs)	
CSR 1: Implement the budget for the year 2013 as envisaged so as to correct the excessive deficit in a sustainable manner and achieve the average annual structural adjustment effort specified in the Council Recommendation under the Excessive Deficit Procedure. After correction of the excessive deficit, pursue the structural adjustment effort at an appropriate pace so as to reach the medium-term objective by 2015. Streamline fiscal relations between layers of government, for example simplifying the organisational setting and aligning spending and funding responsibilities.	Austria has made **some progress** in addressing CSR 1: • Austria has fully implemented the recommendation for corrective the excessive deficit in a sustainable manner; • No progress has been made towards pursuing a structural adjustment consistent with the requirement of the pact. The achievement of the MTO is still envisaged in 2016. • Some progress has been made to streamline fiscal relations among layers of government;
CSR 2: Bring forward the harmonisation of pensionable age for men and women, increasing the effective retirement age by aligning retirement age or pension benefits to changes in life expectancy; implement and monitor the recent reforms restricting access to early retirement and further improve older workers' employability in order to raise the effective retirement age and the employment rate of older workers	Austria has made **some progress** in addressing CSR 2: • No progress has been made towards equalising the retirement age for women's and men. • Austria has made substantial progress in restricting access to early retirement, improving the process of reintegration into the workforce and offering opportunities for re-training. Some progress has also been made in improving older workers' employability, in particular by facilitating reintegration into the workforce and offering opportunities for re-training.
CSR 3: Take new measures to increase the labour market participation of women, namely by further improving child care and long-term care services and address the high gender pay and pension gaps.	Austria has made **some progress** in addressing CSR 3**:** • Some progress has been made in improving childcare and long-term care services while limited progress has been made to address the high gender pay and pension gaps. • Some progress has been made towards better

[32] The following categories are used to assess progress in implementing the 2013 country-specific recommendations:
No progress: The Member State has neither announced nor adopted any measures to address the CSR. This category also applies if a Member State has commissioned a study group to evaluate possible measures.
Limited progress: The Member State has announced some measures to address the CSR, but these measures appear insufficient and/or their adoption/implementation is at risk.
Some progress: The Member State has announced or adopted measures to address the CSR. These measures are promising, but not all of them have been implemented yet and implementation is not certain in all cases.
Substantial progress: The Member State has adopted measures, most of which have been implemented. These measures go a long way in addressing the CSR.
Fully addressed: The Member State has adopted and implemented measures that address the CSR appropriately.

Use the labour market potential of people with a migrant background by continuing to improve the recognition of their qualifications and their education outcomes. Reduce the effective tax and social security burden on labour for low-income earners in a budget-neutral way by relying more on other sources of taxation less detrimental to growth, such as recurrent property taxes.	utilisation of the labour market potential of people with a migrant background. Advisory services offering guidance on the recognition process have been improved but further simplification of the whole recognition process as well as improvement of the general labour market conditions for people with a migrant background is needed. • So far, only limited progress can be reported in terms of reducing the tax burden for low-income earners and shifting it to recurrent property taxes.
CSR 4: Effectively implement the recent reforms of the healthcare system to make sure that expected cost efficiency gains materialise. Develop a financially sustainable model for the provision of long-term care and put a stronger focus on prevention, rehabilitation and independent living	Austria has made **some progress** in addressing CSR 4: • Some progress has been made in the implementation of healthcare reform, although important challenges are yet to be addressed, in particular reducing the level of in-patient treatment and ensuring the long-term sustainability of healthcare services. Some progress has been made in improving the cost-effectiveness of public spending on healthcare. • Some progress has been made to ensure the provision of long-term care in the medium term but additional effort to improve the sustainability of the sector in the long term is needed.
CSR 5: Improve educational outcomes, in particular of disadvantaged young people, including by enhancing early childhood education and reducing the negative effects of early tracking. Further improve strategic planning in higher education and enhance measures to reduce drop-outs.	Austria has made **some progress** in addressing CSR 5: • Some progress has been made in addressing the CSR on education. Austria has taken several measures. Educational achievement has improved slightly, but socio-economic background continues to have a significant influence and insufficient emphasis is put on preventing early school leaving at an early stage. A nationwide strategic approach for high-quality early-childhood education is needed. • Some progress can be reported in the area of higher education. The effective implementation of the higher education plan in operation until 2021 requires close monitoring. This plan can be considered as an instrument for improving coordination but it does not provide a comprehensive strategic framework for the development of higher education.
CSR 6: Further strengthen the powers and resources of the federal competition authority and monitor the implementation of the competition law reform.	Austria has made **limited progress** in addressing CSR 6 • Limited progress has been made in strengthening the powers of the competition authority, as it remains understaffed.

Remove excessive barriers for service providers. This includes reviewing whether existing restrictions on entry and conduct in regulated professions are justified by general interest and fostering competition notably in the railway sector.	• Limited progress has been made in removing excessive barriers preventing service providers from entering the market. No general review exercise has taken place. Austria is however taking part in a mapping of regulated professions being carried out by the Commission (a legal obligation under the revised Professional Qualifications Directive). • Austria has made no progress in promoting competition in the railway sector. No measures have been taken.
CSR 7: With a view to maintaining financial stability continue to closely oversee the nationalised and partly nationalised banks and speed up their restructuring.	Austria has made **some progress** in addressing CSR 7: • Some progress has been made as regards the restructuring of nationalised and partially nationalised state-owned banks in 2013, but the overall situation of these banks (especially of Hypo Alpe Adria) remains difficult.
Europe 2020 (national targets and progress)	
Policy field target	**Progress achieved**
R&D target: 3.76 % of GDP (two thirds from the private sector, one third from the public sector).	After a strong increase in R&D intensity between 2000 (1.93 %) and 2008 (2.67 %) of nearly 0.1 pps per year, progress in increasing R&D intensity slowed after 2008. R&D intensity reached 2.80 % in 2010, 2.77 % in 2011 and 2.84 % in 2012 (of which 1.95 % resulted from private-sector spending and 0.73 % from public-sector spending). While, according to Eurostat data, there was a small increase in private R&D spending as a percentage of GDP over the period 2010-12, public spending stagnated. This demonstrates that Austria is currently not on track to reach its ambitious 3.76 % spending target. Without additional efforts and increased progress, the target will not be reached. It should also be noted that the revision of the European System National Accounts (ESA 2010), which will be implemented in autumn 2014, is expected to lead to the calculation of a higher value of GDP and a corresponding decline in R&D intensity.
Employment rate (%):	In 2013 the overall employment rate was 75.5% compared to 75.6% in 2012 and 75.2% in 2011 and well above the EU-28 level of 68.3% in 2013. To reach the national target of an employment rate between 77% and 78% by 2020, the current employment rate would need to rise between 1.5 and 2.5pp.
Early school leaving (%):	Austria is already outperforming the Europe 2020 and its national target for reducing early school leaving (2006: 9.8 %, 2012: 7.6 %, 2013: 7.3%), but efforts to reduce the early school leaving rate amongst people with a migrant background must be maintained.

Tertiary education attainment (%):	Austria is making progress in this area (2006: 21.2 %, 2011: 23.8 %, 2012: 26.3 %, 2013: 27.3%). If qualifications classified as level 4a in the international standard classification of education are also included, the rate of tertiary education attainment was 36.6 % in 2012. Nevertheless increasing the overall percentage of the population to have completed tertiary education remains a challenge.
Reduction of people in or at risk of poverty (in number of persons): -235 000 (compared with 2008)	The number of people at risk of poverty or social exclusion has fallen by 125 000 (EU SILC 2011), which implies that Austria has already reached just over half of the targeted reduction of 235 000 by 2020. NB: EU SILC 2012 data show a significant increase in the number of people at risk of poverty or social exclusion but the figures are not comparable due to a break in series.
Energy efficiency target: 20 % By 2020: primary consumption of 31.5 million tonnes of oil equivalent and final energy consumption of 26.3 million tonnes of oil equivalent	The national legislation transposing the energy efficiency directive has not yet been adopted.
National greenhouse gas emission target: -16 % in 2020 compared to 2005 (in sectors not included in the Emissions Trading Scheme).	Change in greenhouse gas emissions from sectors not included in the Emissions Trading Scheme between 2005 and 2012: -13 %. According to the latest national projections submitted to the Commission, and taking into account existing measures, it is expected that the target will be missed: -9 % in 2020 as compared with 2005 (i.e. a projected shortfall of 7 pp).
2020 renewable energy target: 34 % Share of renewable energy in all modes of transport: 10 %	Renewable energy sources contributed 32.1 % of Austria's total energy consumption in 2012. Austria is on track for meeting the 2020 renewable energy target. The proportion of renewable energy used in transport was 7.72 %.

ANNEX

Standard Tables

Table I. Macro-economic indicators

	1996-2000	2001-2005	2006-2010	2011	2012	2013	2014	2015
Core indicators								
GDP growth rate	3.2	1.7	1.4	2.8	0.9	0.4	1.6	1.8
Output gap [1]	0.2	-0.6	-0.1	-0.1	-0.4	-1.1	-0.8	-0.4
HICP (annual % change)	1.2	1.9	1.8	3.6	2.6	2.1	1.6	1.7
Domestic demand (annual % change) [2]	2.1	1.2	0.9	3.2	0.1	-1.1	1.1	1.5
Unemployment rate (% of labour force) [3]	4.1	4.4	4.4	4.2	4.3	4.9	4.8	4.7
Gross fixed capital formation (% of GDP)	24.1	22.5	21.0	21.2	21.4	21.1	21.2	21.5
Gross national saving (% of GDP)	23.1	24.6	25.8	24.8	24.5	24.2	24.8	25.6
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-2.4**	**-1.7**	**-2.4**	**-2.5**	**-2.6**	**-1.5**	**-2.8**	**-1.5**
Gross debt	**65.9**	**65.4**	**65.6**	**73.1**	**74.4**	**74.5**	**80.3**	**79.2**
Net financial assets	**-36.7**	**-37.0**	**-36.8**	**-44.7**	**-49.5**	**n.a**	**n.a**	**n.a**
Total revenue	51.1	49.6	48.0	48.3	49.1	49.7	49.6	49.4
Total expenditure	53.5	51.3	50.4	50.8	51.6	51.2	52.4	50.9
of which: Interest	3.6	3.0	2.7	2.6	2.6	2.6	2.6	2.6
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**-2.9**	**-0.7**	**1.0**	**1.7**	**1.3**	**1.2**	**3.0**	**1.8**
Net financial assets; non-financial corporations	**-71.7**	**-80.0**	**-91.3**	**-81.4**	**-80.1**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**-3.8**	**-0.4**	**4.6**	**10.8**	**12.1**	**n.a**	**n.a**	**n.a**
Gross capital formation	16.8	16.5	15.7	16.5	16.1	15.1	15.1	15.4
Gross operating surplus	21.3	23.1	23.8	23.1	22.2	22.0	22.5	22.8
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**3.6**	**4.0**	**5.1**	**2.1**	**2.8**	**2.7**	**3.0**	**3.3**
Net financial assets	**97.1**	**100.6**	**113.3**	**114.7**	**117.6**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	41.7	40.3	39.9	40.0	40.5	40.7	40.4	40.1
Net property income	6.8	6.5	7.5	5.4	6.0	5.8	6.1	6.4
Current transfers received	23.5	23.7	22.6	22.7	22.8	23.1	23.1	22.9
Gross saving	8.9	8.6	9.9	7.5	8.0	7.6	8.0	8.3
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**-1.9**	**1.5**	**3.6**	**1.4**	**1.6**	**2.6**	**3.4**	**3.8**
Net financial assets	**16.7**	**18.5**	**12.8**	**5.0**	**4.3**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	0.3	3.6	5.1	3.0	3.2	4.6	5.4	5.7
Net primary income from the rest of the world	-1.3	-1.2	-0.7	-0.7	-0.6	-0.8	-0.8	-0.7
Net capital transactions	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Tradable sector	46.4	46.3	45.1	44.8	44.2	43.8	n.a	n.a
Non tradable sector	43.5	44.0	45.4	45.7	46.2	46.6	n.a	n.a
of which: Building and construction sector	7.3	6.6	6.3	6.0	6.2	6.2	n.a	n.a
Real effective exchange rate (index, 2000=100)	106.6	99.8	101.2	101.0	100.5	103.5	104.8	104.5
Terms of trade goods and services (index, 2000=100)	100.7	100.4	98.2	95.4	94.3	94.8	95.4	95.4
Market performance of exports (index, 2000=100)	94.0	99.1	96.8	93.9	94.9	96.7	96.8	97.1

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.

[2] The indicator on 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 2014 spring forecast (COM); Stability programme (SP).

Table II. Comparison of macroeconomic developments and forecasts

	2013		2014		2015		2016	2017	2018
	COM	SP	COM	SP	COM	SP	SP	SP	SP
Real GDP (% change)	0.4	0.4	1.6	1.7	1.8	1.7	1.9	1.9	1.8
Private consumption (% change)	-0.2	-0.2	0.7	0.8	1.0	1.0	1.2	1.1	1.2
Gross fixed capital formation (% change)	-0.9	-0.9	2.2	3.0	3.4	2.1	2.1	2.4	1.9
Exports of goods and services (% change)	2.8	2.8	4.4	4.7	5.9	5.7	5.9	5.7	5.6
Imports of goods and services (% change)	0.6	0.6	3.7	4.8	5.7	5.5	5.6	5.5	5.5
Contributions to real GDP growth:									
- Final domestic demand	-0.3	-0.3	1.0	1.2	1.4	1.0	1.3	1.3	1.2
- Change in inventories	-0.7	-0.6	0.1	0.3	0.0	0.3	0.2	0.2	0.1
- Net exports	1.2	1.2	0.6	0.2	0.4	0.4	0.4	0.4	0.4
Output gap[1]	-1.1	-1.2	-0.8	-0.8	-0.4	-0.6	-0.3	-0.1	-0.3
Employment (% change)	0.7	0.8	0.8	1.1	0.9	1.0	0.9	0.9	0.9
Unemployment rate (%)	4.9	4.9	4.8	5.2	4.7	5.3	5.1	5.1	5.0
Labour productivity (% change)	-0.3	-0.4	0.9	0.6	1.0	0.7	1.0	1.0	0.9
HICP inflation (%)	2.1	2.1	1.6	1.9	1.7	1.9	1.9	1.9	1.8
GDP deflator (% change)	1.6	1.6	1.9	1.8	1.7	1.9	1.7	1.7	1.7
Comp. of employees (per head, % change)	2.1	2.0	2.0	2.3	2.0	2.5	2.5	2.5	2.6
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	2.6	2.7	3.4	3.3	3.8	3.7	4.4	4.5	4.7

Note:

[1] In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source :

Commission 2014 spring forecast (COM); Stability programme (SP).

Table III. Composition of the budgetary adjustment

(% of GDP)	2013	2014		2015		2016	2017	2018	Change: 2013-2018
	COM	COM	SP	COM[1]	SP	SP	SP	SP	SP
Revenue	**49.7**	**49.6**	**49.7**	**49.4**	**49.3**	**49.3**	**49.1**	**49.0**	**-0.7**
of which:									
- Taxes on production and imports	14.5	14.4	14.5	14.3	14.4	14.3	14.1	14.0	-0.5
- Current taxes on income, wealth, etc.	13.7	14.0	14.0	14.1	14.0	14.2	14.3	14.4	0.7
- Social contributions	16.7	16.6	16.7	16.5	16.6	16.5	16.4	16.4	-0.3
- Other (residual)	4.7	4.6	4.6	4.5	4.3	4.3	4.3	4.2	-0.5
Expenditure	**51.2**	**52.4**	**52.4**	**50.9**	**50.7**	**50.0**	**49.7**	**49.4**	**-1.8**
of which:									
- Primary expenditure	48.7	49.8	49.8	48.3	48.2	47.5	47.2	46.9	-1.7
of which:									
Compensation of employees	9.4	9.2	9.3	9.1	9.2	9.1	9.0	9.0	-0.4
Intermediate consumption	4.4	4.4	4.4	4.4	4.3	4.3	4.3	4.2	-0.2
Social payments	25.4	25.4	25.3	25.3	25.2	25.0	25.0	24.9	-0.5
Subsidies	3.4	3.4	3.3	3.3	3.2	3.1	3.0	2.9	-0.5
Gross fixed capital formation	1.0	1.0	1.0	1.0	1.0	1.0	0.9	0.9	-0.1
Other (residual)	5.1	6.4	6.5	5.3	5.3	5.0	5.0	5.1	0.0
- Interest expenditure	2.6	2.6	2.6	2.6	2.5	2.5	2.5	2.5	-0.1
General government balance (GGB)	**-1.5**	**-2.8**	**-2.7**	**-1.5**	**-1.4**	**-0.7**	**-0.6**	**-0.5**	**1.1**
Primary balance	**1.0**	**-0.3**	**-0.1**	**1.0**	**1.2**	**1.8**	**1.9**	**2.0**	**1.0**
One-off and other temporary measures	0.1	-1.2	-1.3	-0.2	-0.3	-0.1	-0.1	-0.1	-0.2
GGB excl. one-offs	**-1.6**	**-1.6**	**-1.4**	**-1.3**	**-1.1**	**-0.6**	**-0.5**	**-0.4**	**1.3**
Output gap[2]	-1.1	-0.8	-0.8	-0.4	-0.6	-0.3	-0.1	-0.3	0.8
Cyclically-adjusted balance[2]	-1.0	-2.4	-2.3	-1.3	-1.1	-0.6	-0.5	-0.3	0.7
Structural balance (SB)[3]	**-1.1**	**-1.2**	**-1.0**	**-1.1**	**-0.8**	**-0.5**	**-0.4**	**-0.2**	**0.8**
Change in SB	*0.5*	*-0.1*	*0.0*	*0.1*	*0.3*	*0.3*	*0.0*	*0.2*	-
Two year average change in SB	*0.5*	*0.2*	*0.2*	*0.0*	*0.1*	*0.3*	*0.2*	*0.1*	-
Structural primary balance[3]	1.4	1.3	1.5	1.4	1.8	2.1	2.1	2.3	0.8
Change in structural primary balance		*-0.1*	*0.0*	*0.1*	*0.2*	*0.3*	*0.0*	*0.2*	-
Expenditure benchmark									
Applicable reference rate[4]	n.a.	-0.12	-0.12	-0.12	-0.12	n.a.	n.a.	n.a.	-
Deviation[5] (% GDP)	n.a.	-1.8	-1.6	0.5	0.6	n.a.	n.a.	n.a.	-
Two-year average deviation (% GDP)	n.a.	n.a.	n.a.	-0.7	-0.5	n.a.	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 Commission services on the basis of the programme scenario using the commonly agreed methodology.

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

[4] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A lower rate applies as long as the country is adjusting towards its MTO, including in year t.The reference rates applicable to 2014 onwards have been updated in 2013.

[5] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

Source :

Stability programme (SP); Commission 2014 spring forecast (COM); Commission calculations.

Table IV. Debt dynamics

(% of GDP)	Average 2008-2012	2013	2014 COM[2]	2014 SP	2015 COM[2]	2015 SP	2016 SP	2017 SP	2018 SP
Gross debt ratio[1]	**70.6**	**74.5**	**79.6**	**79.2**	**78.5**	**77.6**	**75.6**	**73.4**	**71.5**
Change in the ratio	2.8	0.1	5.1	4.7	-1.1	-1.7	-2.0	-2.2	-1.9
Contributions[3] :									
1. Primary balance	**0.3**	**-1.0**	**0.3**	**0.1**	**-1.0**	**-1.2**	**-1.8**	**-1.9**	**-2.0**
2. "Snow-ball" effect	**1.1**	**1.1**	**0.0**	**0.1**	**-0.2**	**-0.3**	**-0.2**	**-0.1**	**0.1**
Of which:									
Interest expenditure	2.6	2.6	2.6	2.6	2.6	2.5	2.5	2.5	2.5
Growth effect	-0.4	-0.3	-1.2	-1.2	-1.4	-1.3	-1.4	-1.4	-1.2
Inflation effect	-1.1	-1.2	-1.3	-1.3	-1.3	-1.5	-1.3	-1.2	-1.2
3. Stock-flow adjustment	**1.5**	**0.0**	**4.8**	**4.6**	**0.1**	**-0.2**	**0.0**	**-0.1**	**0.1**
Of which:									
Cash/accruals diff.									
Acc. financial assets									
Privatisation									
Val. effect & residual									

	2013	2014 COM	2014 SP	2015 COM	2015 SP	2016 SP	2017 SP	2018 SP
Gap to the debt benchmark[4,5]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Structural adjustment[6]	n.a.	-0.1	0.0	0.1	0.3	0.3	n.a.	n.a.
To be compared to:								
Required adjustment[7]	n.a.	-0.2	-0.2	-0.3	-0.3	-0.8	n.a.	n.a.

Notes:

[1]End of period.

[2] The gross debt ratio differs from the projections of the Commission spring 2014 forecasts due to a correction of a technical error.

[3]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 (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

[4]Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[5]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.

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

[7]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 for the previous years are achieved.

Source :

Stability programme (SP); Commission spring 2014 forecasts (COM); Commission calculations.

Table V. Sustainability indicators

	Austria			European Union		
	2013 scenario	**No-policy-change scenario**	**Stability programme scenario**	**2013 scenario**	**No-policy-change scenario**	**Stability programme scenario**
S2*	3.4	3.5	2.8	2.4	2.4	0.7
of which:						
Initial budgetary position (IBP)	-0.2	-0.1	-0.5	0.5	0.4	-1.3
Long-term cost of ageing (CoA)	3.7	3.6	3.3	1.9	2.0	2.0
of which:						
pensions	1.8	1.7	1.4	0.7	0.8	0.9
healthcare	1.2	1.1	1.0	0.9	0.9	0.8
long-term care	0.9	0.8	0.8	0.6	0.6	0.6
others	-0.1	0.0	0.1	-0.4	-0.4	-0.3
S1**	1.7	1.7	0.9	1.5	1.7	-0.2
of which:						
Initial budgetary position (IBP)	-0.7	-1.2	-1.6	-0.2	-0.4	-2.0
Debt requirement (DR)	0.8	1.3	0.9	1.5	1.8	1.5
Long-term cost of ageing (CoA)	1.6	1.7	1.5	0.2	0.3	0.3
S0 (risk for fiscal stress)***	0.07	:		:		
Debt as % of GDP (2013)	74.5			88.9		
Age-related expenditure as % of GDP (2013)	28.9			25.8		

Source *: Commission; 2014 stability programme.*

Note : The 2013 scenario depicts the sustainability gap under the assumption that the budgetary position evolves until 2013 in line with the Commission's 2014 spring forecast. The 'no-policy-change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves until 2015 in line with the Commission's 2014 spring forecast. The 'stability programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented. Age-related expenditure as given in the 2012 Ageing Report.

* The long-term sustainability gap (S2) indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: (i) the initial budgetary position (IBP), which gives the gap vis-à-vis the debt-stabilising primary balance and (ii) the additional adjustment required due to the costs of ageing. The main assumption used in the derivation of S2 is that, in an infinite horizon, the growth in the debt ratio is bound by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates); thereby not necessarily implying that the debt ratio will fall below the EU Treaty 60 % debt threshold. The following thresholds were used for the S2 indicator: (i) if the value of S2 is lower than 2, the country is classed as low risk; (ii) if it is between 2 and 6, it is classed as medium risk; and (iii) if it is greater than 6, it is classed as high risk.

** The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady improvement in the structural primary balance in the period to 2020 and then sustained for a decade, to bring debt ratios back to 60% of GDP in 2030, including financing for any additional expenditure by the target date, arising from population ageing. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is classed as low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 pp of GDP per year until 2020 after the last year covered by the 2014 spring forecast (2015) is required (indicating a cumulated adjustment of 2.5 pp), it is classed as medium risk; and (iii) if the S1 value is greater than 2.5 (i.e. a structural adjustment of more than 0.5 pp of GDP per year is necessary), it is classed as high risk.

*** The S0 indicator reflects up-to-date evidence on the role played by fiscal and financial competitiveness variables in creating potential fiscal risks. The methodology for the S0 indicator differs fundamentally from that for the S1 and S2 indicators. Unlike S1 and S2, S0 is not a quantification of the required fiscal adjustment effort, but a composite indicator which estimates the extent to which there might be a risk of fiscal stress in the short term. The critical threshold for the S0 indicator is 0.43.

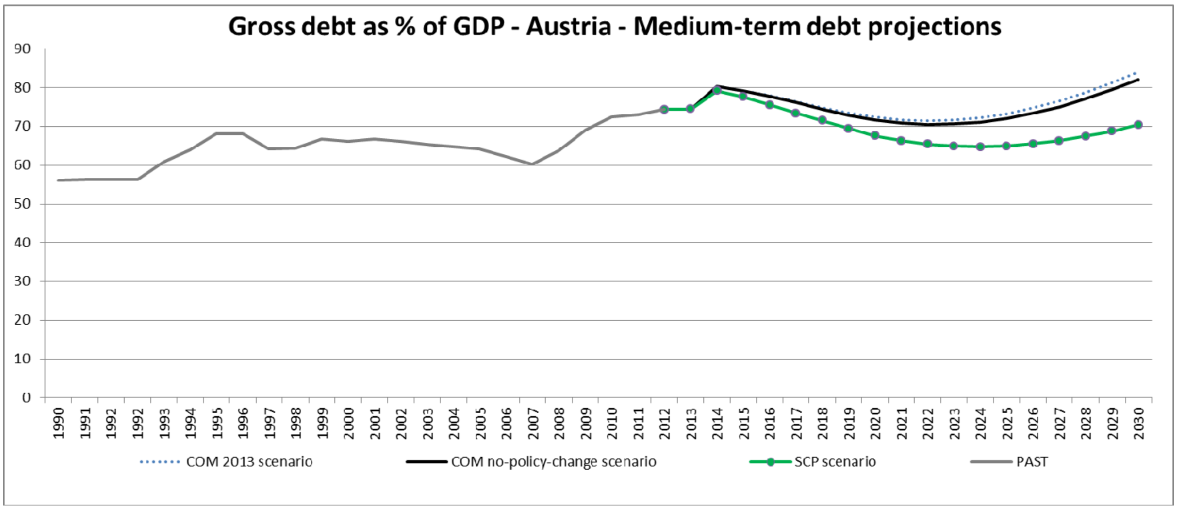

Table VI. Taxation indicators

	2002	2006	2008	2010	2011	2012
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	43.6	41.5	42.7	42.1	42.2	43.1
Breakdown by economic function (% of GDP)[1]						
Consumption	12.4	11.6	11.6	11.8	11.8	11.9
of which:						
- VAT	8.1	7.6	7.8	8.0	7.8	8.0
- excise duties on tobacco and alcohol	0.7	0.7	0.6	0.6	0.6	0.6
- energy	1.7	1.6	1.6	1.6	1.7	1.6
- other (residual)	1.8	1.7	1.6	1.6	1.6	1.6
Labour employed	21.5	20.8	21.3	21.4	21.3	22.0
Labour non-employed	2.5	2.4	2.5	2.6	2.6	2.7
Capital and business income	6.1	5.7	6.3	5.4	5.7	5.6
Stocks of capital/wealth	1.1	1.0	1.0	1.0	0.9	1.0
p.m. Environmental taxes[2]	2.7	2.5	2.4	2.4	2.5	2.4
VAT efficiency[3]						
Actual VAT revenues as % of theoretical revenues at standard rate	63.0	58.8	60.9	59.9	59.4	60.6

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 (2014), 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. It is defined as the ratio between the actual VAT revenue collected and the revenue that would be raised if VAT was applied at the standard rate to all final (domestic) consumption expenditures, which is an imperfect measure of the theoretical pure VAT base. 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'). It should be noted that the relative size of cross-border shopping compared to domestic consumption also influences the value of the ratio, notably for smaller economies. See European Commission (2012), Tax Reforms in EU Member States and OECD (2012), Consumption tax trends for a more detailed discussion.

Source: Commission

Table VII. Financial market indicators

	2009	2010	2011	2012	2013
Total assets of the banking sector (% of GDP)	372.9	343.2	337.6	317.6	292.2
Share of assets of the five largest banks (% of total assets)	37.2	35.9	38.4	36.5	-
Foreign ownership of banking system (% of total assets)	19.5	19.5	20.9	22.2	-
Financial soundness indicators:					
- non-performing loans (% of total loans)[1)]	2.3	2.8	2.7	2.8	2.9
- capital adequacy ratio (%) [1)]	15.0	15.4	15.8	17.0	17.5
- return on equity (%) [1),2)]	1.5	7.9	1.4	5.5	2.7
Bank loans to the private sector (year-on-year % change)	-0.8	0.3	2.0	0.8	-0.8
Lending for house purchase (year-on-year % change)	2.2	2.6	3.8	2.6	2.2
Loan to deposit ratio	107.9	110.9	108.8	107.4	103.5
CB liquidity as % of liabilities	2.4	1.5	1.7	2.1	1.0
Banks' exposure to countries receiving official financial assistance (% of GDP)[3)]	26.8	24.1	20.7	16.8	15.5
Private debt (% of GDP)	147.3	150.3	147.8	147.4	-
Gross external debt (% of GDP)					
- Public	55.7	58.7	59.1	63.2	61.3
- Private	42.4	42.2	38.7	41.4	41.2
Long term interest rates spread versus Bund (basis points)*	71.4	48.2	71.1	87.8	44.0
Credit default swap spreads for sovereign securities (5-year)*	71.3	60.6	76.8	78.9	19.8

Notes:

1) Latest data 2013Q3.

2) After extraordinary items and taxes. Tier 1 capital.

3) Covered countries are CY, EL, ES, LV, HU, IE, PT and RO.

* 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	2008	2009	2010	2011	2012	2013
Employment rate (% of population aged 20-64)	75.1	74.7	74.9	75.2	75.6	75.5
Employment growth (% change from previous year)	2.0	-0.7	1.0	1.7	1.3	0.7
Employment rate of women (% of female population aged 20-64)	68.6	69.4	69.6	69.6	70.3	70.8
Employment rate of men (% of male population aged 20-64)	81.7	80.1	80.2	80.8	80.9	80.3
Employment rate of older workers (% of population aged 55-64)	41.0	41.1	42.4	41.5	43.1	44.9
Part-time employment (% of total employment, 15 years and more)	23.3	24.6	25.2	25.2	25.7	26.6
Part-time employment of women (% of women employment, 15 years and more)	41.5	42.9	43.8	44.0	44.9	45.5
Part-time employment of men (% of men employment, 15 years and more)	8.1	8.7	9.0	8.9	9.0	10.0
Fixed term employment (% of employees with a fixed term contract, 15 years and more)	9.0	9.1	9.3	9.6	9.3	9.2
Transitions from temporary to permanent employment	53.2	48.1	40.5	41.4	50.4	:
Unemployment rate[1] (% of labour force, age group 15-74)	3.8	4.8	4.4	4.2	4.3	4.9
Long-term unemployment rate[2] (% of labour force)	0.9	1.0	1.1	1.1	1.1	1.2
Youth unemployment rate (% of youth labour force aged 15-24)	8.0	10.0	8.8	8.3	8.7	9.2
Youth NEET rate (% of population aged 15-24)	7.1	7.8	7.1	6.9	6.5	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)	10.1	8.7	8.3	8.3	7.6	7.3
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	22.2	23.5	23.5	23.8	26.3	27.3
Formal childcare (from 1 to 29 hours; % over the population less than 3 years)	4.0	7.0	6.0	11.0	7.0	:
Formal childcare (30 hours or over; % over the population less than 3 year)	2.0	2.0	3.0	3.0	7.0	:
Labour productivity per person employed (annual % change)	-0.4	-2.4	1.1	1.4	-0.4	-0.3
Hours worked per person employed (annual % change)	-1.0	-2.9	-1.0	0.6	-1.3	-1.0
Labour productivity per hour worked (annual % change; constant prices)	0.5	-0.2	1.9	0.5	0.9	0.7
Compensation per employee (annual % change; constant prices)	1.4	0.9	-0.3	0.3	0.8	0.5
Nominal unit labour cost growth (annual % change)	3.7	5.0	0.3	0.8	3.0	:
Real unit labour cost growth (annual % change)	2.0	3.4	-1.1	-1.3	1.3	:

Notes:

[1] 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.

[2] Long-term unemployed are unemployed persons for at least 12 months.

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

Expenditure on social protection benefits (% of GDP)	2007	2008	2009	2010	2011
Sickness/Health care	7.0	7.3	7.7	7.6	7.2
Invalidity	2.1	2.1	2.2	2.2	2.2
Old age and survivors	13.3	13.6	14.7	14.8	14.5
Family/Children	2.7	2.8	3.0	3.1	2.8
Unemployment	1.4	1.4	1.7	1.7	1.5
Housing and Social exclusion n.e.c.	0.1	0.1	0.1	0.1	0.1
Total	27.0	27.6	29.8	29.7	28.7
of which: means tested benefits	1.9	2.0	2.2	2.2	2.2
Social inclusion indicators	**2008**	**2009**	**2010**	**2011**	**2012**
At-risk-of-poverty or social exclusion[1] (% of total population)	18.6	17.0	16.6	16.9	18.5
At-risk-of-poverty or social exclusion of children (% of people aged 0-17)	20.4	17.5	18.8	19.2	20.9
At-risk-of-poverty or social exclusion of elderly (% of people aged 65+)	17.3	16.4	15.8	17.1	16.2
At-Risk-of-Poverty rate[2] (% of total population)	12.4	12.0	12.1	12.6	14.4
Severe Material Deprivation[3] (% of total population)	6.4	4.8	4.3	3.9	4.0
Share of people living in low work intensity households[4] (% of people aged 0-59)	7.8	7.2	7.8	8.1	7.7
In-work at-risk-of poverty rate (% of persons employed)	6.3	6.0	5.0	5.4	8.1
Impact of social transfers (excluding pensions) on reducing poverty	49.4	50.2	49.8	49.4	44.2
Poverty thresholds, expressed in national currency at constant prices[5]	11 160	11 309	11 680	11 875	11 731
Gross disponsable income (households)	178 056	179 076	181 492	185 742	192 712
Relative median poverty risk gap (60% of median equivalised income, age: total)	15.3	17.2	17.2	19.0	20.1

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 household with zero or very low work intensity (LWI).

[2] At-risk-of poverty rate (AROP): 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 (excluding dependent children) work less than 20% of their total work-time potential during the previous 12 months.

[5] For EE, CY, MT, SI, SK, thresholds in nominal values in Euros; HICP - index 100 in 2006 (2007 survey refers to 2006 incomes)

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

Table IX. Product market performance and policy indicators

Performance indicators	**2004-2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Labour productivity[1] total economy (annual growth in %)	1.3	-3.5	0.8	1.5	-0.5	n.a.
Labour productivity[1] in manufacturing (annual growth in %)	4.4	-8.9	9.5	6.7	0.1	n.a.
Labour productivity[1] in electricity, gas, water (annual growth in %)	-5.6	4.0	-7.3	1.6	11.0	n.a.
Labour productivity[1] in the construction sector (annual growth in %)	-1.5	-9.7	-3.9	-1.4	-0.4	n.a.
Patent intensity in manufacturing[2] (patents of the EPO divided by gross value added of the sector)	389.0	390.1	384.5	377.1	n.a.	n.a.
Policy indicators	**2004-2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Enforcing contracts[3] (days)	397.0	397	397	397	397	397
Time to start a business[3] (days)	25.0	25	25	25	25	25
R&D expenditure (% of GDP)	2.5	2.7	2.8	2.8	2.8	n.a.
Tertiary educational attainment (% of 30-34 years old population)	21.2	23.5	23.5	23.8	26.3	27.3
Total public expenditure on education (% of GDP)	5.4	6.0	5.9	5.8	n.a.	n.a.
	2008	**2009**	**2010**	**2011**	**2012**	**2013**
Product market regulation[4], Overall (Index; 0=not regulated; 6=most regulated)	1.4	n.a.	n.a.	n.a.	n.a.	1.2
Product market regulation[4], Retail (Index; 0=not regulated; 6=most regulated)	3.3	n.a.	n.a.	n.a.	n.a.	2.4
Product market regulation[4], Network Industries[5] (Index; 0=not regulated; 6=most regulated)	1.9	n.a.	n.a.	n.a.	n.a.	1.5

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 of 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.

[5] Aggregate ETCR.

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

		2003-2007	2008	2009	2010	2011	2012
Green Growth performance							
Macroeconomic							
Energy intensity	kgoe / €	0.15	0.14	0.14	0.14	0.14	0.13
Carbon intensity	kg / €	0.40	0.35	0.34	0.35	0.33	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	0.86	0.77	0.76	0.75	0.76	n.a.
Waste intensity	kg / €	n.a.	0.23	n.a.	0.14	n.a.	n.a.
Energy balance of trade	% GDP	-2.7	-3.6	-2.5	-3.0	-3.8	-4.1
Energy weight in HICP	%	7.7	9.0	7.8	7.9	8.9	9.1
Difference between change energy price and inflation	%	3.58	2.5	-2.8	1.4	2.2	1.1
Environmental taxes over labour taxes	ratio	11.0%	10.1%	10.0%	9.9%	10.3%	n.a.
Environmental taxes over total taxes	ratio	6.1%	5.6%	5.7%	5.6%	5.8%	n.a.
Sectoral							
Industry energy intensity	kgoe / €	0.17	0.16	0.16	0.17	n.a.	n.a.
Share of energy-intensive industries in the economy	% GDP	10.5	11.0	10.3	n.a.	n.a.	n.a.
Electricity prices for medium-sized industrial users**	€ / kWh	n.a.	0.09	0.10	0.09	0.09	0.09
Gas prices for medium-sized industrial users***	€ / kWh	n.a.	n.a.	0.03	0.03	0.03	0.04
Public R&D for energy	% GDP	n.a.	0.01%	0.01%	0.01%	0.01%	0.02%
Public R&D for the environment	% GDP	n.a.	0.01%	0.01%	0.01%	0.02%	0.02%
Recycling rate of municipal waste	ratio	85.4%	90.4%	91.1%	92.6%	92.5%	92.5%
Share of GHG emissions covered by ETS*	%	n.a.	36.9%	34.1%	36.4%	36.9%	35.4%
Transport energy intensity	kgoe / €	0.61	0.57	0.61	n.a.	n.a.	n.a.
Transport carbon intensity	kg / €	1.68	1.46	1.55	n.a.	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	70.7%	68.7%	65.1%	62.2%	70.1%	63.6%
Diversification of oil import sources	HHI	n.a.	0.12	0.12	0.12	0.11	n.a.
Diversification of energy mix	HHI	0.29	0.27	0.28	0.28	0.26	0.27
Share renewable energy in energy mix	%	20.8%	24.8%	27.6%	27.0%	26.3%	30.1%

Country-specific notes:
The year 2012 is not included in the table due to lack of data.
General explanation of the table items:
Source: Eurostat unless indicated otherwise; ECFIN elaborations indicated 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 CO2 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 DG TAXUD'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 2005 EUR)
Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP
Electricity and gas prices medium industrial users: consumption band 500 - 2000MWh and 10000 - 100000 GJ; figures excl. VAT.
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 activity (kgoe) divided by transp industry gross value added (2005 EUR)
Transport carbon intensity: greenhouse gas emissions in transport activity divided by gross value added of the transport sector
Energy import dependency: net energy imports divided by gross inland energy consumption incl. energy consumption 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 renewable energy in energy mix: %-share in gross inland energy consumption, expressed in tonne oil equivalents
* Commission and EEA.
** For 2007 average of S1 & S2 for DE, HR, LU, NL, FI, SE & UK. Other countries only have S2.
*** For 2007 average of S1 & S2 for HR, IT, NL, FI, SE & UK. Other countries only have S2.

List of indicators used in Box 2 on the potential impact on growth of structural reforms

Final goods sector mark-ups: Price-cost margin, i.e. the difference between the selling price of a good or service and its cost. Final goods mark-ups are proxied by the mark-ups in selected services sectors (transport and storage, post and telecommunications, electricity, gas and water supply, hotels and restaurants and financial intermediation but excluding real estate and renting of machinery and equipment and other business activities[33]).
Source: Commission services estimation using the methodology of Roeger, W. (1995). "Can imperfect Competition explain the Difference between primal and dual Productivity?" *Journal of Political Economy* Vol. 103(2) pp. 316-30, based on EUKLEMS 1996-2007 data.

Entry costs: Cost of starting a business in the intermediate sector as a share of income per capita. The intermediate sector is proxied by the manufacturing sector in the model.
Source: World Bank, Doing Business Database. www.doingbusiness.org. 2012 data.

Implicit consumption tax rate: Defined as total taxes on consumption over the value of private consumption. In the simulations it is used as a proxy for shifting taxation away from labour to indirect taxes. The implicit consumption tax-rates are increased (halving the gap vis-à-vis the best performers) while labour tax-rates are reduced so that the combined impact is ex-ante budgetary neutral.
Source: European Commission, Taxation trends in the European Union, 2013 edition, Luxembourg, 2013. 2011 data.

Shares of high-skilled and low-skilled: The share of high skilled workers is increased, the share of low-skilled workers is reduced (halving the gap vis-à-vis the best performers). Low-skilled correspond to ISCED 0-2 categories; high-skilled correspond to scientists (in mathematics and computing, engineering, manufacturing and construction). The remainder is medium-skilled.
Source: EUROSTAT. 2012 data or latest available.

Female non-participation rate: Share of women of working age not in paid work and not looking for paid work in total female working-age population
Source: EUROSTAT. 2012 data or latest available.

Low-skilled male non-participation rates: Share of low-skilled men of working age not in paid work and not looking for paid work in total male working-age population
Source: EUROSTAT. 2012 data or latest available.

Elderly non-participation rates (55-64 years): Share of the population aged 55-64 years not in paid work and not looking for paid work in total population aged 55-64 years.
Source: EUROSTAT. 2012 data or latest available.

ALMP: Active Labour Market Policy expenditures as a share of GDP over the share of unemployed in the population.
Source: EUROSTAT. 2011 data or latest available.

Benefit replacement rate: Share of a worker's pre-unemployment income that is paid out by the unemployment insurance scheme. Average of net replacement rates over 60 months of unemployment.
Source: OECD, Benefits and Wages Statistics.
www.oecd.org/els/benefitsandwagesstatistics.htm.2012 data.

[33] The real estate sector is excluded because of statistical difficulties of estimating a mark-up in this sector. The sector renting of machinery and equipment and other business activities is conceptually part of intermediate goods sector.