AUSTRIAN
STABILITY PROGRAM

Update for the period 2003 to 2007

(working translation)

Federal Ministry of Finance
Vienna, 25 March 2003

FEDERAL MINISTRY
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CONTENTS

1. INTRODUCTION AND SUMMARY	**4**
2. AUSTRIA'S ECONOMY IN THE PERIOD 2002 TO 2007	**5**
2.1. Prolonged weak economic activity in 2002	**5**
2.2. Economic developments in the period 2003 to 2007	**7**
3. ECONOMIC POLICY UP TO 2007	**9**
3.1. The economic policy strategy	**9**
3.2 Budgetary policy and medium-term objective for the budget balance	**10**
3.3. Public budgets in 2002	**11**
3.4. Provinces and local authorities	**13**
3.5. Public budgets from 2003 to 2007	**14**
4. SENSITIVITY ANALYSIS AND COMPARISON WITH PREVIOUS STABILITY PROGRAMS	**16**
5. QUALITY OF PUBLIC FINANCES	**17**
6. EFFECTS OF POPULATION AGEING ON THE SUSTAINABILITY OF PUBLIC FINANCES	**19**
6.1. Pension systems	**19**
6.2. Health and care systems	**20**
6.3. Long run Sustainability	**21**
7. HORIZONTAL MEASURES WITH AN IMPACT ON PUBLIC FINANCES (STRUCTURAL AND CAPITAL MARKET POLICY)	**22**
7.1. Structural policies	**22**
7.2. Capital markets	**23**
7.3. Privatisation policy	**24**
7.4. Labour markets	**25**
7.5. Sustainability and environment	**27**
ANNEX: Debt issued for public enterprises	**28**

1. Introduction and summary

In accordance with Regulation (EC) No 1466/97, Member States are required to submit a stability program (members of EMU) or a convergence program (non-members). Austria herewith submits its updated stability program for the period 2003 to 2007. The program's structure reflects the agreements reached by the Ecofin Council on 10 July 2001. Due to national elections on November 24th 2002 the deadline for the stability program could not be met.

On February 28th 2003 a new government was formed. Subsequently, the update of Austria's stability program was formally agreed upon on March 25th, 2003.

With this program Austria explicitly commits itself to the aims of the Stability and Growth pact. Core priorities of the new Federal government's economic policy are:

- **Achieving long-run financial sustainability of the Austrian pension system.**
- **Further progress with structural reforms on the expenditure side of public budgets,**
- **whilst prioritising research, development and education.**
- **Strengthening of Austria as an attractive business location, especially in view of enlargement of the European Union.**
- **Lowering tax rates, notably with more emphasis on ecological elements in the tax system in accordance with the EU (energy taxes and mineral oil taxes) as well as lowering of indirect labour costs.**
- **Further privatisations.**
- **Restructuring of the Austrian railway system.**

With these measures the growth potential of the Austrian economy should be raised perceptibly.

The figures presented for public budgets are based on a cautious forecast of economic developments up to the year 2007. The underlying assumption is that Austria and Europe will return to a normal growth pattern in the course of the coming years. Moreover, measures to stimulate growth and to improve labour markets, as well as measures to aid victims of the 2002 floods are described.

Based on the preliminary results for public budgets in 2002, the stability program shows budgetary developments of subsequent years, resulting from an implementation of the government program.

This program is to be found on the web-site of the Austrian Federal Ministry of Finance: http://www.bmf.gv.at.

2. Austria's economy in the period 2002 to 2007

2.1. Prolonged weak economic activity in 2002

The state of the economy turned out less favourably than was expected when the last update of the Austrian stability program was finalised in November 2001. In this respect Austria followed Euro zone developments, the slowdown in 2001 being slightly more pronounced (figure 1). When comparing actual real GDP-growth with the forecasts in the last update of the Austrian stability program, the cumulative difference in real growth amounts to one percent of GDP in the years 2001 and 2002. However, the slowdown in growth of nominal GDP has been even more pronounced: 1.9 percent nominal growth of GDP in 2002 constitutes the historically lowest figure for Austria available on the basis of ESA'95.

In 2002 domestic demand stagnated. The floods may well have further dampened growth. However, exports of goods developed more favourably than the European average, mostly due to buoyant exports to Central and Eastern Europe.

Employment stabilised on a high level in 2002 (according to social security statistics there was still positive employment growth). Labour supply has, however, grown significantly faster (the number of job seekers up by 13.7 percent or 28,500 persons), raising the rate of unemployment from 3.6 to 4.1 percent (figure 4). Unemployment increased at above-average rates in the segments of the young (25 years or less) and older male persons (55 years or more).

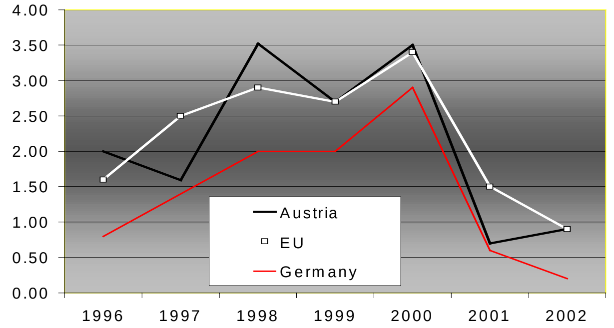
Inflation developed as expected in the last update of the stability and growth program. Starting in the second quarter of 2001 consumer price inflation slowed down. The HICP rose by 1.7 percent in 2002. Inflation thus remained below the European average (figure 3).

Nominal interest rates also developed in line with expectations and stabilised at a low level. Starting slightly below 5 percent in December 2001, long term interest rates rose by about 50 basis points until April 2002 and declined markedly thereafter (the ECB lowered its rate by 50 basis points in December 2002) to below 4 percent at the beginning of March 2003. Since then the interest rate differential to the German Bunds continuously declined, and disappeared at the beginning of March 2003 (figure 2). The yield curve has flattened out again in the course of the year.

The exchange rate of the Euro turned out to be decisively different from what was expected when the last update of the stability program was delivered. This is especially true for the USD/Euro-rate. Between January 2002 and March 2003 the Euro appreciated against the Dollar by more than 20 percent (figure 6).

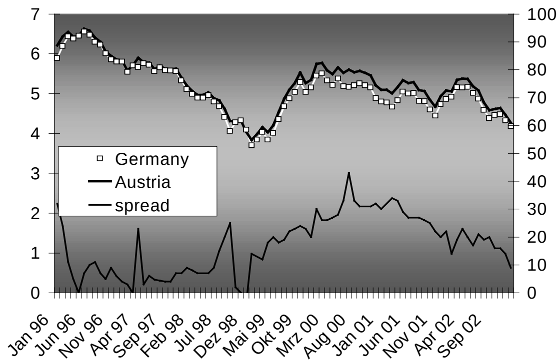
The current account deficit turned out at 2.1 percent of GDP in 2001. Preliminary figures for 2002 (cash basis) show a marked improvement due to decreasing imports of goods and still growing exports of goods resulting in a surplus of a quarter percentage point of GDP (figure 5). The capital account shows reduced activity compared to financial flows in 2001. Austrian investments abroad continued to grow until fall 2002 whereas inward FDI's remained at the level of 2001.

Figure 1: Real economic growth in Austria, Germany and the EU, 1996 to 2002



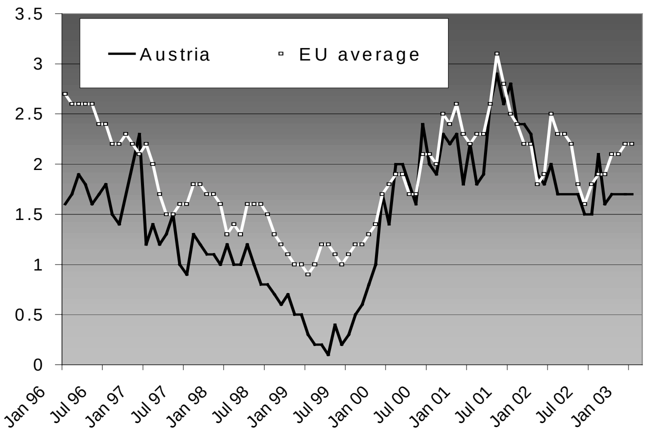
Source: Statistik Austria, Federal Ministry of Finance, EU Commission

Figure 2: Long term interest rates in Austria and Germany, 1996 - present, and spread in basis points (right hand scale)



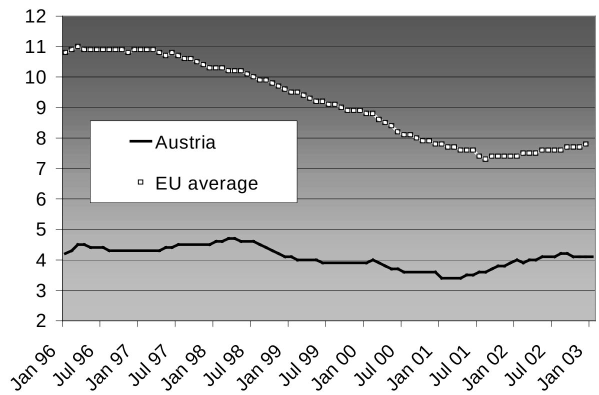
Source: Austrian National Bank

Figure 3: Harmonised consumer prices in Austria and EU average, 1996 to 2002



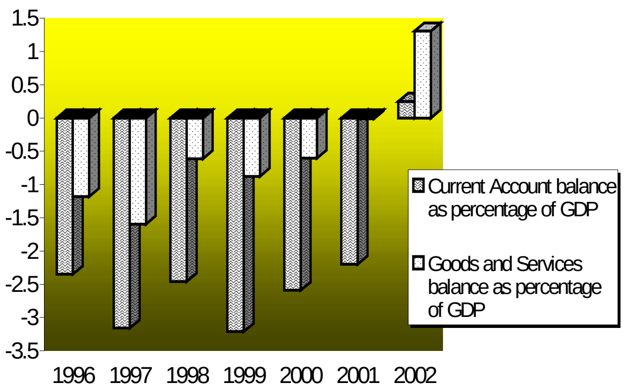
Source: EUROSTAT

Figure 4: Unemployment in Austria compared with EU average, 1996 to 2002



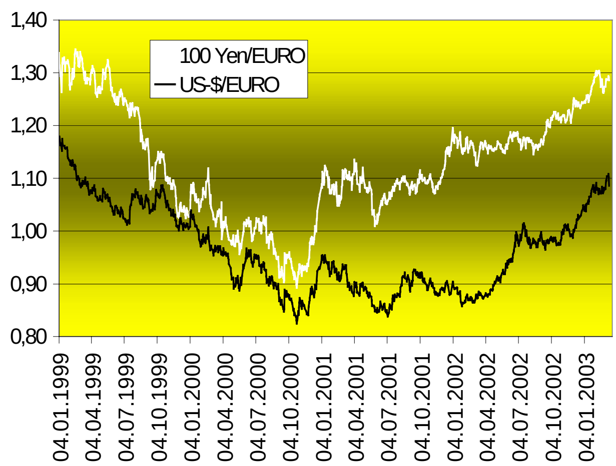
Source: EU Commission, Labour Market Service (AMS)

Figure 5: Current account balance as percentage of GDP, 1996 to 2002



Source: Statistik Austria, Austrian National Bank

Figure 6: US-$/Euro, 100 YEN/Euro exchange rates from 1999 onwards



Source: European Central Bank

2.2. Economic developments in the period 2003 to 2007

Europe, the USA and Japan are still in a phase of weak economic growth, the duration of which is currently even more difficult to ascertain than one year ago. Especially the continued uncertainties in the Middle East appear to have a decisive influence on expectations. Automatic stabilisers are working and in some areas there is a clear additional fiscal stimulus. Nevertheless, the last economic upturn masked unsolved structural weaknesses in many economies.

International institutions such as the OECD and the International Monetary Fund as well as the European Commission, but also the Austrian Economic Research Institute (WIFO), paint a sombre picture of short-term prospects. The current phase of low growth has been longer than expected. In the medium run there are reasons to assume that Europe will return to its normal expansion path since, contrary to earlier situations, the decline in growth in the Euro-Zone is not caused by serious macro-economic disequilibria.

Economic developments in Austria are to a large degree determined by international conditions. We have based ourselves on the following assumptions:

- International economic activity will recover in the second half of 2003, but will exert dynamic growth impulses only in 2004.

- Crude oil prices will relatively soon return to OPEC margins.

- Monetary policy in the Euro zone will continue to base itself on a desirable inflation rate of up to 2 percent. Interest rates will therefore develop in line with expected economic activity.

- The US dollar/Euro exchange rate will remain close to parity.

For Austria, it is assumed that the social partners will continue to take account of the external environment in their wage and incomes policy. In view of expected economic developments, the impact of labour costs on the inflation rate is expected to remain modest and, especially in export oriented sectors, unit labour costs will continue to decline. So far, wage negotiations in 2003 have supported this view. Overall, the inflation picture will most likely correspond to developments in the Euro zone.

Private consumption and especially corporate investments are assumed to significantly rise again in 2003. Especially the latter have received an impulse by the budgetary packages and the replacement investment caused by the flood catastrophe in August 2003. International developments will have a positive contribution on growth; the orientation towards accession countries will create a further positive stimulus. Economic activity should in the later years of the program return to a normal expansion path; the output gap may have closed by the end of the program's period.

The risks attached to this forecast are mostly downward in the short term, and upward in the medium term. They will be influenced in particular by international developments.

Table 1: Economic trends 2001 to 2007 (percentage change on previous year)

	ESA-Code	2001	2002	2003	2004	2005	2006	2007
GDP growth at constant market prices	B1g	0.7	0.9	1.4	2.0	2.5	2.5	2.4
GDP in bn. Euro*	B1g	211.9	216.0	222.6	230.5	239.5	248.6	257.9
GDP deflator		1.8	1.1	1.6	1.5	1.4	1.3	1.4
Private consumption deflator		2.0	1.6	1.6	1.8	1.7	1.6	1.7
HICP change		2.5	1.7	1.6	1.8	1.7	1.6	1.6
Dependent employment**		0.5	0.2	0.7	0.5	0.9	1.0	0.8
Labour productivity growth ***		0.3	1.4	1.4	1.5	1.5	1.6	1.6
Wages/head		1.8	2.2	2.2	2.4	2.6	2.5	2.7
Unit labour costs		1.5	0.9	0.8	0.9	1.1	0.9	1.0
Unemployment rate; EU-Definition		3.6	4.1	4.1	4.0	3.8	3.7	3.6
Current account balance as % of GDP		-2.2	0.2	-0.2	-0.3	-0.5	-0.5	-0.5
Sources of growth: percentage changes at constant prices								
1. Private consumption expenditure	P3	1.5	0.6	0.9	1.6	2.0	1.8	1.4
2. Government consumption expenditure	P3	-0.5	0.3	0.6	0.2	0.2	0.2	0.5
3. Gross fixed capital formation	P51	-2.2	-2.3	1.5	2.6	3.7	3.9	3.6
4. Changes in inventories	P52+P53	-0.4	0.0	-0.1	0.1	0.0	0.1	0.0
5. Exports of goods and services	P6	7.4	0.8	3.4	4.7	5.6	5.4	5.3
6. Imports of goods and services	P7	5.9	-1.1	2.6	4.2	5.0	4.8	4.7
Contribution to GDP growth								
7. Final domestic demand (1+2+3)		0.2	-0.1	1.0	1.5	2.0	1.9	1.7
8. Change in inventories (=4)	P52+P53	-0.4	0.0	-0.1	0.1	0.0	0.1	0.0
9. External balance of goods and services (5-6)	B11	0.8	1.0	0.5	0.4	0.5	0.5	0.6
Basic assumptions								
Short-term interest rate		4.3	3.0	2.5	2.5	3.0	3.0	3.0
Long-term interest rate		5.1	5.1	5.0	5.3	5.4	5.4	5.4
US-$/Euro exchange rate		0.896	0.945	1.058	1.058	1.058	1.058	1.058
USA GDP growth, volume		0.3	2.3	2.3	2.4	2.7	2.7	2.5
Euro-zone GDP growth, volume		1.0	0.9	1.3	2.3	2.5	2.5	2.3
Oil price in US-$/barrel		24.6	25.5	30.1	22.0	22.4	22.9	23.3

* Schilling entry-rate of 13.7603 Schilling/Euro

**According to social security statistics

***GDP-growth/employed

Sources: Statistik Austria; Federal Ministry of Finances

3. Economic policy up to 2007

3.1. The economic policy strategy

The economic policy strategy of the new government consists of supply side policies combined with demand side policy elements. The ongoing reform of public administration, measures to increase flexibility of the labour market, reform of the pension system, the ongoing reduction of barriers for private enterprises and a comprehensive reform of the taxation system should improve the supply side and will strengthen Austria as an attractive business location. The tax reform will also create additional private demand.

In this government the following main measures are planned:

- Sustainable structural reforms are to reduce government spending by approximately 0.5 percent of GDP from 2004 onwards (reform of public administration at all levels, reform of the pension and social security systems, cuts in subsidies and reform of the Austrian Railways).
- Fundamental reform of public pensions, in order to stabilise spending in the long run at the current level (as a percentage of GDP).
- Reform of the Health Care System; utilisation of efficiency reserves on supply and demand sides.
- Reduction of taxes by 1.3 percent of GDP with elements of a more ecological tax system
- Structural reform of goods, labour and capital markets.
- Further privatisation of public assets.
- Restructuring of the Austrian Railway System

Economic effects of the envisaged tax reform

The envisaged tax reform intends to reduce the net tax burden by 1.3 percent of GDP. This amounts to the largest reform since 1945. Additionally, labour supply will markedly increase due to a reform of the pension system. Since overall supply and demand are increased simultaneously, the growth rate is expected to rise at least temporarily, matched by employment growth. For the large tax reforms of the years 1989 and 1994 (which had indeed somewhat smaller supply side effects) model calculations showed an increase in GDP in the course of 4 years of approximately the size of the tax relief. This implied that the tax reforms were partly self-financed (by about one fifth). It is thus essential that government expenditures decline substantially in order to ensure sustainability.

The current program does not incorporate such tax-reform induced growth effects. This should be considered when evaluating the scenarios for economic development and the fiscal stance in table 2. If growth effects actually materialise, revenues will be used to further consolidate the budget.

3.2. Budgetary policy and medium-term objective for the budget balance

It is the goal of Austrian economic policy to actively contribute to stable and balanced economic developments in Austria, the European Union and EMU. Austria therefore explicitly commits itself to the stability and growth pact. The basis for budgetary policy is the requirement of Article 104 TEU, which states that public deficits shall not exceed 3 percent of GDP.

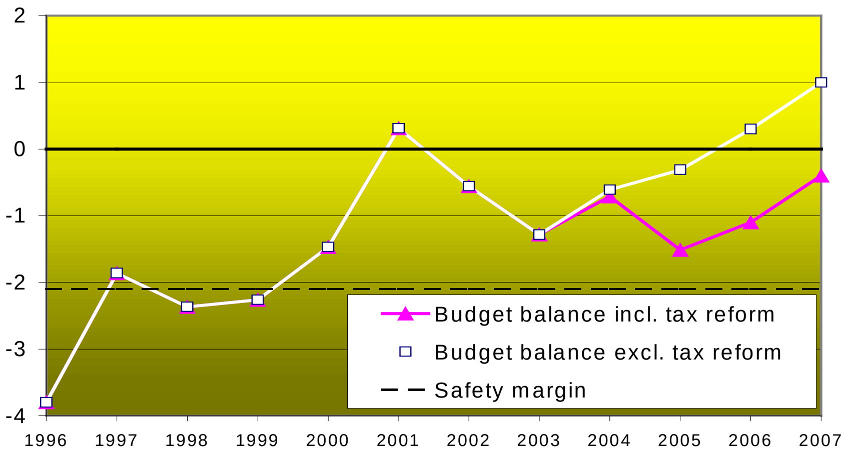
The measures planned will especially improve the long run sustainability of public finances. According to first calculations public pension expenditures (as a percentage of GDP) in 2050 will be broadly at the same level as they were in 2002. The pension reform is in accordance with the Lisbon Strategy, a concrete recommendation of the ECOFIN Council and also of international organisations. The pension reform will also increase the labour supply significantly until 2010.

Under the last government public finances were in balance for the first time in decades. The long-term stabilisation of the budget has not been fully accomplished yet, and will be a top priority in the coming period. Should the measures on the spending side actually be implemented, the second priority is a reduction of the Austrian overall tax ratio. The Broad Economic Policy Guidelines 2002 recommend a tax reduction, given that corresponding measures on the spending side are undertaken. The plans of the government program regarding public spending create those conditions in order to tackle a comprehensive reform of the taxation system. A reduction of the tax burden to 43 percent of GDP until 2006 is the declared goal of the government.

The tax reform should result in a tax relief of 1.3 percent of GDP (details listed below). The federal government expects noticeable improvements of labour and capital supply in Austria, investment in tangible and intangible capital becoming more independent of the business cycle as well as positive effects on living standards and the environment.

The tax reform will be timed in such a way that public expenditures will already be following a downward trend, labour supply can still increase, and the output gap is not

Figure 7: Budgetary developments as a percentage of GDP with and without a tax reform



Source: Federal Ministry of Finance, Public Finance Report 2002 closed yet. Another consideration will be that the public deficit must not rise above the cyclical safety margin of 2.1 percent of GDP (Public Finance Report 2002, p. 60). It also needs to be considered that the reform of the pension system will already show effects in the re-structuring phase until 2009 and will lead to noticeable reductions of public spending.

This budget policy ensures that public budgets will be close to balance in the medium term:

Table 2: Cyclical developments and budget balances, 2002 to 2007

% of GDP	ESA Code	2002	2003	2004	2005	2006	2007
1. GDP growth at constant prices	B1g	0.9	1.4	2.0	2.5	2.5	2.4
2a. Actual balance*		-0.6	-1.3	-0.6	-0.3	0.2	1.0
2b. Actual balance**	B9	-0.6	-1.3	-0.7	-1.5	-1.1	-0.4
3. Interest payments	D41	3.7	3.6	3.5	3.3	3.3	3.2
4. Potential GDP-growth***		2.0	2.0	2.0	2.0	2.0	2.0
5. Output gap		-0.3	-1.0	-1.0	-0.6	-0.1	0.3
6. Cyclical budgetary component**		-0.1	-0.3	-0.3	-0.2	0.0	0.1
7. Cyclically adjusted balance**		-0.4	-0.9	-0.4	-1.3	-1.1	-0.5
8. Cyclically adjusted primary balance**		3.3	2.7	3.2	2.0	2.1	2.6

* excluding tax reform, including SWAP-operations
**including tax reform and SWAP-operations
***HP-filter method

NB: Rounding differences are possible. The cyclically adjusted budget balance may vary by +/- ¼ percent of GDP.
Sources: Statistik Austria; Federal Ministry of Finance.

3.3. Public budgets in 2002

In 2002 the overall public budget deficit reached 0.6 percent of GDP. The public debt ratio stood at 67.9 % of GDP at the end of 2002. The divergence from the originally proposed budget goals is explained in the following chapters.

The privatisation program has been continued (Chapter 7). Revenues have been used to reduce the debt of the ÖIAG (holding company).

At the beginning of August 2002 large areas in Austria were devastated by floods; the dimensions of the catastrophe are still not completely quantified. Water levels reached highs seen 150 years ago. The destruction of buildings, infrastructure, foregone production and long term effects are estimated to amount to about 1 ½ percent of GDP. A far-reaching public aid program of about 800 Mill. € to avoid extreme social hardship and to secure production capacities was implemented. This became only partly effective in the budget of 2002, the larger share will become effective in the course of 2003.

Effects of the business cycle and measures applied

The slow down in the economy resulted in significant reductions in tax revenues, especially of the cyclically sensitive wages and turnover taxes. These, as well as income and corporation taxes, remained clearly below expectations. Preliminary results show that tax revenues in 2002 remained below forecasts by 1.8 bn. € or 0.8% of GDP.

The adverse developments in the economy resulted automatically in increased government spending. The difficulties in the labour market caused increased spending on unemployment benefits and increased spending on pensions: pension contributions were less dynamic and worsening labour market conditions resulted in additional entries into retirement. For unemployment benefits, an additional 0.5 bn. € had to be spent compared to the expectations for 2002. The federal contribution to the pension system exceeded the budgeted amounts by 0.3 bn. €.

These additional expenditures were compensated by a strict implementation of the budget. In particular, savings on the expenditure side were achieved as regards interest payments and - due to the reform of the public administration - salaries and administration costs. The budget also profited from increased dividends of the Austrian National Bank and the fact that less than originally budgeted was transferred to the EU-budget.

On August 17th tobacco taxes were increased by an average of 15 cent/package (increase to reach the minimum rate in the EU). This has lead – ceteris paribus - to additional revenues of approx. 80 Mio. € from 2003 on. The additional revenues of tobacco taxes in 2002, resulting from increased prices between July 1st, 2002 and December 31st, 2002 will be used to finance health care provisions.

Stimulus packages

Since Austria reached its goal of a zero-deficit already in 2001, there was some budgetary leeway for 2002. In accordance with the Broad Economic Policy Guidelines 2002 it was used to stimulate economy activity. The aim of the two packages was to primarily stimulate supply-side effects.

Stimulus package I from December 2001

- Further tax incentives for investment in research (Frascati-Manual) and introduction of a research allowance of 10% and a research premium of 3 %.
- Increase of the existing training allowance from 9 % to 20 % or alternatively a premium for education expenditures of 6 %.
- Limited to 2002, a depreciation rate of 7 % for new buildings with a cap of 3.8 mill. € was introduced.
- Existing tax benefits for setting up new enterprises were extended to the inheritance of enterprises. Additionally, a relief from the real estate tax up to 75,000 € is granted.
- Further structural policies are described in Chapter 7.

These measures implied an expected loss in tax revenues of about 15 mill. € in 2002, and 170 mill. € p.a. from 2003 onwards

Stimulus package II from September 2002

The measures of the second stimulation package are primarily aimed at creating more favorable labor market conditions for young adults and cutting costs for business:

- 100 mill. € will be additionally spent in 2003 for research and development (this will become effective in the budget of 2004)

- A program of further education **for 5,000 unemployed youths** aged 19 to 24 with a duration of 18 months was established. It aims at giving participants a professional diploma. This age group has experienced the largest increase in unemployment.
- The **existing special program** for the training of youths between 15 and 18 years was extended. The number of youths trained will be increased from 2,000 to 3,350, with special regard to disabled youths.
- A **programme** for qualification in social professions shall train approx. 2000 people, special consideration will be given to women returning from maternity leaves.
- **Employees** older than 45 will be granted an increased funding for participation in further education for a time span of 3 to 12 months.
- Not only are unemployment insurance payments for **apprentices** waved (not valid in the last year of training), but contributions to accident insurance and contributions to the insolvency fund are waved additionally. Every firm training an apprentice will receive a premium of 1,000 € per head and year, which may be raised to 2,000 € if the apprenticeship takes place in a profession with high market demand.
- For **additional further investments** an investment premium of 10% is granted until the end of 2003.
- The **construction sector** will benefit from the higher depreciation rate (see package I) until the end of 2003.
- **The research allowance based on the Frascati-Manual was increased from 10 to 15 %, the (alternative) research premium was increased from 3 to 5 %.**
- The training allowance of 20 % can under certain conditions also be applied for education measures within the company and is also available for persons receiving maternity/childcare benefits, who have been employed in the company previously.
- A funded pension provision with a tax premium was established (for the year 2003 premiums are granted for annual pension contributions up to 1,851 €.)

These measures will lead to a lasting reduction of direct taxes of approx. 130 mill. €, and to permanent additional expenditures of 200 mill. € p.a.

3.4. Provinces and local authorities

On October 16th 2000 the Federal Government, the provinces and local authorities agreed on the revenue sharing arrangements (“*Finanzausgleich”*, or “FAG”) for the period up to 2004 and a pact on the joint achievement of the deficit target of 0 % of GDP in 2002 (see the stability program of December 19th 2000). In the implementation of the agreements progress has been made:

- In October 2001 the Federal Government and the provinces agreed on a number of structural reforms especially in the division of tasks between the levels of government.
- The agreed pupil/teacher ratios are being implemented at provincial level.
- The system of housing assistance was reformed and extended to include measures to maintain or improve the infrastructure, and measures to achieve the Kyoto targets.
- A penalty system reflecting corresponding arrangements at the European level was set up. (Expenditures of all levels of government for aid in catastrophes and rebuilding measures are to be regarded as exceptional and transitory. According to EU regulations they should be disregarded when fiscal discipline and the budget are evaluated.)
- In 2002 and 2003 the expenditures for flood related aids were exempt from sanctions in the framework of the Austrian Stability Pact.

3.5. Public budgets from 2003 to 2007

In this period the government program envisages the following measures:

On the expenditure side savings of approx. 2.2 percent of GDP will be achieved until 2006 due to the following measures:
- Reform of the public administration and reduction in numbers of civil servants (0.6 % of GDP)
- Evaluation of public subsidies and reform of the Austrian Railway System (0.1 % of GDP)
- Savings due to redistribution of responsibilities by provinces and local authorities (0.5 % of GDP).
- Reform of the pension system (0.5 % of GDP)
- Reform of social security funds (0.5 % of GDP)

Research and development, education and infrastructure are considered as priority policy areas.

On the revenue side a wide-ranging tax reform should be implemented in two stages. The first stage, which shall be implemented as of 1. 1. 2004 shall have a gross volume of nearly 1 bn. € and will reduce the tax burden in net terms over half a bn. € (0.25 % of GDP). This stage will include the following measures:
- Relief of lower and middle incomes through increased tax allowances in the Personal Income Tax law (complete tax relief for yearly incomes below € 14,500).
- Promotion of the capital base of businesses through preferential taxation of non-distributed profits for non-stock companies (half the tax rate, minimum at least 20 %).
- Increased importance of ecological components in the Austrian tax system in accordance with the EU (energy taxes and mineral oil taxes).
- Relief of indirect labour costs especially for older employees.
- The 13th special prepayments of VAT will be cancelled as of 2004.

The second stage of the tax reform shall be implemented in 2005 and result in a lowering of taxes by € 2.5 bn. Overall tax relief will thus amount to € 3.0 bn., (1.3 % of GDP) and the tax burden will decline to below 43%.

The Budget Year 2003

In 2003, the budget will be co-determined by the process of formation of government. A federal budget has not yet been approved due to recent elections at the time when the stability program was drawn up. From a current perspective the deficit of all public budgets may increase from 0.6 % in 2002 to 1.3 percent of GDP in 2003. The following elements contribute to this perspective:
- There are delayed payments from 2002 due to financial aid for the flood victims.
- The output gap is increasing, which leads to revenues losses.
- The budgetary effects of the stimulus packages are becoming effective.
- The already agreed upon increases in salaries and benefits (i.e. wage stabilisation for civil servants in 2002, child care benefit, family benefits, promotion of part time labour) as well as the legislated adjustments of wages and pensions will lead to increased expenditures.

Table 3 shows developments in the individual expenditure and revenue categories under the normal scenario including the tax reforms. Expenditure as a share of GDP will fall by 2.3 percentage points between 2002 and 2007. Public revenue will fall by 2.1 percentage points.

Table 3: Budgetary developments 2001 to 2007 (including tax reform)

% of GDP	ESA code	2001	2002	2003	2004	2005	2006	2007
Net lending (B9) by sub-sectors								
1. General government *	S13	0.3	-0.6	-1.3	-0.7	-1.5	-1.1	-0.4
2. Central government **	S1311	-0.5	-1.0	-1.8	-1.4	-2.2	-1.9	-1.1
3. Provinces (exc. Vienna)**	S1312	0.5	0.4	0.4	0.7	0.75	0.75	0.75
4. Local government (incl. Vienna)**	S1313	0.1	0.1	0.1	0.0	0.0	0.0	0.0
5. Social security funds	S1314	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
General government (S13)								
6. Total receipts	ESA	52.3	51.5	51.1	50.8	49.5	49.4	49.4
7. Total expenditures	ESA	52.0	52.1	52.4	51.6	51.0	50.5	49.8
8. Budget balance* (6-7)	B9	0.3	-0.6	-1.3	-0.7	-1.5	-1.1	-0.4
9. Net interest payments	D41	3.8	3.7	3.6	3.5	3.4	3.3	3.2
10. Primary balance (9+8)		4.1	3.2	2.3	2.7	1.9	2.2	2.8
Components of revenues *								
11. Taxes	D2+D5	29.8	28.9	28.5	28.5	27.2	27.2	27.2
12. Social contributions	D61	17.0	17.2	17.1	16.9	16.9	16.9	16.9
13. Other		5.5	5.5	5.5	5.5	5.4	5.3	5.2
14. Total receipts	ESA	52.3	51.5	51.1	50.8	49.5	49.4	49.4
14a. Tax burden according to SNA***		45.6	44.6	44.3	44.0	43.0	42.9	42.9
Components of expenditures *								
15. Collective consumption	P32	7.6	7.7	7.6	7.5	7.4	7.3	7.2
16. Social transfers in kind	P31	11.6	11.7	11.6	11.4	11.2	11.1	10.9
17. Social transfers other than in kind	D62	18.6	18.9	19.2	19.1	18.9	18.8	18.6
18. Interest payments	D41	3.8	3.7	3.6	3.5	3.4	3.3	3.2
19. Subsidies	D3	2.6	2.7	2.7	2.8	2.9	2.9	2.8
20. Gross fixed capital formation	P51	1.2	1.1	1.1	1.0	1.0	1.0	1.0
21. Other		6.7	6.3	6.6	6.3	6.3	6.2	6.1
22. Total expenditures	ESA	52.0	52.1	52.4	51.6	51.0	50.5	49.8

*including tax reform and SWAP-Operations
** The current financial burden sharing is valid until 2004
***From D2+D5+D61 imputed social contributions are subtracted, inheritance taxes are added

NB. There are rounding differences. The Austrian stability pact allows the public authorities to diverge temporarily from the figures agreed.

Sources: Statistik Austria, Federal Ministry of Finance.

In the normal scenario and taking into account the projected deficit developments, the debt ratio remains on a clear downward trend (see table 4), which is especially large due to the redemption of public debt by public enterprises (see note at annex). The macro-economic conditions and the primary balance are sufficient to compensate the still high interest effect and to keep debt ratios on a downward trend path. The debt ratio should sink below the reference value of 60 percent in 2007.

Table 4: Trend in public debt 2001 to 2007

	ESA Code	2001	2002	2003	2004	2005	2006	2007
Government debt in € bn.		142.7	146.6	149.0	150.1	152.9	154.5	154.2
As % of GDP								
Government debt ratio		67.3	67.8	67.0	65.1	63.8	62.1	59.7
Change in government debt ratio		2.5	0.5	-0.8	-1.9	-1.3	-1.7	-2.4
		Contribution to change in debt ratio						
Primary balance	B9	-4.1	-3.2	-2.3	-2.7	-1.9	-2.2	-2.8
Public-sector interest payments	D41	3.8	3.7	3.6	3.5	3.4	3.3	3.2
Nominal GDP growth	B1g	-1.6	-1.3	-2.0	-2.3	-2.4	-2.3	-2.3
Stock-flow adjustment[1]		4.4	1.2	-0.1	-0.3	-0.3	-0.5	-0.5
Implied interest rate on government debt		5.8	5.6	5.5	5.4	5.4	5.4	5.4

1) Residual variable.
Rounding differences possible
Source: Federal Ministry of Finance.

4. Sensitivity analysis and comparison with previous stability programs

Table 5 compares current data with those in the update of 27 November 2001. The reasons for divergences in 2002 were already described above. The debt ratio was revised upwards by 2.6 bn. € and 11.7 bn. €, respectively, (altogether 6.5 percent of GDP) due to two decisions by Eurostat. These decisions will, however, accelerate debt reduction in the future (see annex).

Table 5: Economic growth and net borrowing by the public sector between 2002 and 2007; Comparison with the 2002 Stability Program

	ESA code	2002	2003	2004	2005	2006	2007
GDP growth, real	B1g						
Stability program 2002		1.3	2.4	2.8	2.8	-	-
Stability program 2003		0.9	1.4	2.0	2.5	2.5	2.4
Difference		-0.4	-1.0	-0.8	-0.3	-	-
Actual budget balance	B9						
Stability program 2002		0.0	0.0	0.2	0.5	-	-
Stability program 2003*		-0.6	-1.3	-0.7	-1.5	-1.1	-0.4
Difference**		-0.6	-1.3	-0.9	-2.0	-	-
Government debt ratio							
Stability program 2002		59.6	57.2	54.7	52.1	-	-
Stability program 2003		67.8	67.0	65.1	63.8	62.1	59.7
Difference***		8.2	9.8	10.4	11.7	-	-

* including tax reform and SWAP-Operations
** a positive sign denotes an improvement
*** a positive sign denotes a deterioration

Source: Federal Ministry of Finance.

For the sensitivity analysis it is assumed in the upper scenario that structural reforms and the tax reform result in a growth impulse. The lower scenario assumes a prolonged period of low growth (trading partners show 0.5 percentage points lower GDP-growth per year starting in 2003).

Table 6: Economic growth and public households in three scenarios

	2003	2004	2005	2006	2007
	Normal Scenario				
GDP	1.4	2.0	2.5	2.5	2.4
Budget balance as a % of GDP	-1.3	-0.7	-1.5	-1.1	-0.4
Debt ratio as a % of GDP	67.0	65.1	63.8	62.1	59.7
	Upper level growth scenario				
GDP	1.4	2.0	3.2	2.9	2.5
Budget balance as a % of GDP	-1.3	-0.7	-1.3	-0.8	0.1
Debt ratio as a % of GDP	67.0	65.1	63.2	61.0	58.1
	Lower level growth scenario				
GDP	1.1	1.7	2.2	2.2	2.0
Budget balance as a % of GDP	-1.4	-0.9	-1.7	-1.5	-0.9
Debt ratio as a % of GDP	67.2	65.7	64.8	63.6	61.8

Source: Federal Ministry of Finances

At the end of 2002 15.7 bn. € or 7 percent of GDP of government debt were denominated in YEN and SFR. A simultaneous depreciation/appreciation of those currencies by 10 % would therefore decrease/increase the debt ratio by approx. 0.7 % of GDP.

The interest rate risk on government debt can be regarded as low. Around 90 percent of government debt carries fixed interest rates; the average duration for existing debt amounted to less than 6 years at the end of 2002. Compared to the normal scenario an increase in interest rates on the current debt by 1 percentage point, starting 2003, would lead to an increase in deficit of 0.13 bn. € until 2007.

5. Quality of public finances

It is the Austrian government's goal to enhance the quality of public finances. In this chapter the budget structure and measures of the administrative reform are described. The federal government aims at reducing the size of the public sector to reach the OECD average. To this end the following main measures are planned:

- Savings on the expenditure side of the federal administration of 1.3 bn. € until 2006.
- From 2003 onwards 10,000 posts shall be abolished, in the education sector the structural effect of ageing shall be compensated.
- Over-time work shall further be reduced by 8 %.
- Current programs of administrative reform (evaluation, controlling) shall be continued.
- Establishment of a financial impact assessment by external authorities is planned.
- District administrations shall serve as focal points for citizens.
- Strict realisation of the two step judicial court system. Establishment of courts on administrative issues for provinces
- A centralised accounting (agency) for all ministries shall be established.

- Establishment of a “Bundesservice GesmbH” for support services.
- Establishment of a federal state aid database with the perspective to include other levels of government.

Within the framework of a complete restructuring of the Federal Budget Law in the sense of new public management, global budgets will be established for ministries. Specified results will be combined with increased responsibility for resources via performance indicators; there will be positive and negative sanctions for meeting or failing to meet budget goals. Subordinated administrations shall get more flexibility and responsibility. Accounting shall follow business rules more closely. The implementation of those measures will start in 2005.

Starting in 2003, the unified auditing of wage taxes and social contributions will lead to an essential simplification of administration. The auditing is to be conducted by a single authority (auditors being either from the social insurance funds or the tax administration) as a rule.

In the construction sector there have been massive losses in value added tax revenues due to tax fraud, as services of sub contractors to main contractors have been invoiced, but the sub contractor did not declare or pay VAT. Simultaneously the main contractor claimed those taxes stated in the invoice as input tax. In order to safeguard tax revenues, an Austrian amendment to the 6th VAT Directive should ensure that the person to whom the supply is made is liable for the payment of the VAT. This provision will also establish fairer conditions of competition in the sector.

The Austrian federal government plans to increase spending on research and development to 2.5% of the GDP until 2006. Aid systems and structures of research institutions are to be made more efficient and medium and long run financing should be safeguarded:

- Special funds for research, technology and innovation of 600 mill. € (0.3 % of GDP) shall be made available during the legislative period.
- For research outside of universities financing will be secured.
- Aid systems are to be simplified.
- In consultation with the ECB it is planned to channel excessive reserves of the Central Bank into a "national fund for research and technology" in order to stimulate innovation, research and technology in Austria in order to reach the goal of an R&D ratio of 3 % by 2010.

6. Consequences of an ageing population on the sustainability of public finances

The demographic projections of Statistik Austria (STATAT) and of Eurostat show a marked increase of the share of older persons in the Austrian population. Current projections of STATAT assume a relatively stable development of the Austrian population at approximately 8.1 million. Dependency ratios (share in the population aged 64 and older) are expected to rise from currently 23% to 46% in the years 2040-2050, the share of people older than 80 years will rise even more significantly. The increase in dependency ratios especially accelerates in the period between 2020 and 2040.

6.1. Retirement systems

Due to an ageing population the Austrian retirement system will be facing great challenges in the medium run. The reforms of the years 1997 and 2000 have already been important first steps in order to ensure the sustainability of the pension systems in the long run. Especially the increased age for early retirement by 1.5 years, and increased deductions for earlier retirement, have slowed down the growth of total pension benefits noticeably. With "New Severance Payment" (compulsory employee pension scheme) and "Provision for the Future" important steps for a further upgrading of company and individual pension insurance (second and third pillar) were set up. The further strengthening of those two pillars will be pursued in the coming legislative period.

The financial capacity of the pension system, which is based on the generation contract, shall be ensured by a comprehensive and ambitious reform package ("Pensionssicherungsreform"). Core elements for achieving long run sustainability are:

- Increased participation rates of older workers, especially due to an increased effective retirement age and the reduction of non-wage labour costs,
- increased fairness between generations,
- harmonisation of all pension insurance systems and the resulting establishment of an integrated, uniform pension system for all employed, based on the framework of the private sector employees,
- measures which help to reduce the risk of old age poverty, fight old age unemployment and a higher valuation of maternity-leave years.

The Pension Reform 2004

- Step by step harmonization of premiums and contribution schemes for pension insurance as a first step in the new government.
- The age limit for early retirement shall be increased gradually, starting in 2004 by 4, in 2005 by 6, 2006 to 2009 by 8 months each.
- Lowering of the yearly increase rate of the replacement ratio from 2%-points to 1.78 %-points per year (80% replacement ratio in 45 instead of 40 years).
- Until 2033, the reference period for calculating retirement benefits will be raised from 15/18 to 40 years (private sector from 2004 onwards 12 months per year; civil service 18 months per year)
- Lifting the contribution from retired civil servants by 1 %-point.
- Increasing the age of entry into retirement in the public sector, including public enterprises (e.g. Austrian Railways, postal service).

Pension reform continued

- Securing the pension assessment base: If certain conditions are fulfilled, periods of unemployment will be counted into the pension entitlement, even if no social aid can be claimed in that period of unemployment.

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- Individuals above the legal entry age (until 2019:60/65), who are still actively employed will receive a yearly bonus of 4.2%. The deduction per year for earlier retirement will be 4.2% and is to be subtracted from the respective gross pension without cap. Early retirement with long contribution years shall only then be possible if the entitlement at least reaches the minimum pension ("Ausgleichszulagenrichtsatz").

- Indexing of pensions continues to be oriented towards the goal of preserving purchasing power. One-off payments and fixed and basic payments for the socially disadvantaged are an element of this strategy.

- Termination of early retirement due to unemployment and transfer to the unemployment insurance system.

- Retirement after 40/45 contribution years remains possible until 2010.

- Pensioners will have the opportunity to still engage in socially insured employment. The contributions paid into the respective retirement funds shall be taken into account for the pension earnings.

- After discontinuation of the possibility of early retirement due to long contribution periods and combined with an increase of required contribution years, given a regulatory age of 65, the voluntary option to retire at the age of 60 will be possible based on actuarial surcharges and discounts.

- Establishment of a minimum pension for needy individuals who have reached the regular age for retirement but are without entitlement to a pension.

- Maternity leaves up to 24 months (previously 18 months) shall be taken into account for the assessment of the pension base in the course of a comprehensive pension reform.

- Further stepwise reductions of assumed imputed pensions of farmers.

- The types of pensions based on the reason of “decreased ability to work” (invalidity and inability to work) shall be evaluated and included in the oncoming reform process.

6. 2 Health- and care systems

The Austrian healthcare system is based on the principle that all workers and retirees as well as their dependants are included in the system' s service provision. Provision of public health care therefore reaches 99% of the population. In principle there is no difference between the services provided for the insured, though there are different insurance funds which cover different expenses.

In the year 2002 various measures have already been taken to reduce the deficit, which had arisen in the year 2001, and in order to activate new, more efficient incentive effects in the health care system:

- A compensation system between the insurance funds
- Increased tobacco taxes (up to the EU minimum level), earmarked for financing the health care system
- An increase in prescription fees
- Saving measures on the administration by simplifying and merging procedures
- New rules on the financing of hospitals (agreement under Article 15a of the Constitution)
- Contribution bases were broadened for dependants (additional contributions)

Measures in the government program

- Structural reforms in the administration of the health care sector (including harmonization of contributions, coverage and doctor’s fees, IT systems of social funds; establishment of the e-card).
- Increase in contribution payments to health insurance of pensioners in annual steps at a rate of 0.25%-points from 3.75%-points to 4.75%-points.
- Establishment of a single contribution rate for health insurance of 7.3% for blue and white collar workers.
- Introduction of a 0.1%-point contribution for accidents not related to work.
- Medical service charge and outpatient charge are to be replaced by a cost-related own contribution, subject to social hardship.
- The use of generic pharmaceutics in Austria is to be adjusted to the EU average. The share of prescription free OTC-drugs is to be increased preliminary to 10% to eventually reach EU averages.
- Evaluation of wholesale and pharmacy margins. More economic prescription policies shall be acquired through uniform rules for all insurance institutions including private ones (combined with effective sanction mechanisms).
- National health care goals will be set.
- Conversion of 10,000 and abolition of 6,000 hospital beds until 2006.
- Advertising of precautionary check ups in order to increase these measures. The role of general practitioners as trustworthy counselors and advisers shall be strengthened.
- Provincial health funds are to function as instruments of comprehensive regional planning, regulation and financing. A cooperation of provinces is desirable.
- Goal of the FAG package, which is to be newly designed in 2005, is a reduction of costs for the central association of social funds by 250 mill. € (0.1% of GDP)

Concerning care for old age more social security for care giving dependants has been established through a leave of one year. The criteria for securing quality have been broadened, to ensure an efficient targeting of the long-term care benefit ("Pflegegeld") further on.

6.3 Long run sustainability

Table 7 provides an overview of possible budgetary consequences of the ageing process until the year 2050, based on the demographic projections of STATAT of 2001 and the common EU assumptions of the EPC. The data for the health and care sectors are based on projections of old age spending profiles.

Calculations have been refined as compared to the last stability program. Currently – without taking the pension reform of 2004 into account – a long run increase of spending on pensions, health and care services of about 4% of GDP until 2050 is projected. This reflects a level of about 1 % of GDP lower than the calculations based on Eurostat demographic projections.

The measures of the government program are not reflected in table 7 yet. These comprehensive reforms will ensure the long run sustainability of public finances. It is to be expected that labour market participation rates and therefore the growth and employment potential of the economy can be increased significantly in the medium and long run. These measures will also significantly slow down the spending dynamics – first estimates have pointed to savings of about 2.5% of GDP until 2050. Therefore, ageing-related spending will rise to very limited extent in the long run.

Table 7 Long-term sustainability of public finances (without the pension reform of 2004)

Public expenditure as % of GDP	**2005**	**2010**	**2015**	**2020**	**2025**	**2030**	**2035**	**2040**	**2045**	**2050**
Pension expenditure *	14.7	14.9	15.3	15.8	16.6	17.2	17.5	17.3	16.8	16.5
Pension expenditure *private sector*	*10.6*	*11.0*	*11.5*	*12.1*	*13.0*	*13.7*	*14.2*	*14.1*	*13.7*	*13.4*
Pension expenditure *public sector*	*4.1*	*3.9*	*3.8*	*3.7*	*3.6*	*3.5*	*3.3*	*3.2*	*3.1*	*3.1*
Health expenditure	5.1	5.2	5.4	5.6	5.8	6.0	6.1	6.3	6.4	6.4
Care expenditure	0.7	0.8	0.9	1.0	1.0	1.1	1.2	1.3	1.4	1.5
Assumptions *(in %)*										
Dependency rate (65+/overall)	25	26	29	31	35	41	46	48	48	49
Productivity growth (labour)	2.0	1.9	1.9	1.8	1.8	1¾	1¾	1¾	1¾	1¾
Real GDP growth (five-year average)	2.3	2.3	2.0	1.6	1.5	1.4	1.6	1.7	1.8	1.6
Activity rate (men 15-64)	76.7	76.5	76.8	77.0	77.2	78.7	80.3	81.2	81.3	81.2
Activity rate (women 15-64)	60.8	61.7	61.5	61.7	62.4	64.7	67.4	69.0	69.7	70.1
Activity rate (overall 15-64)	68.8	69.2	69.2	69.4	69.9	71.8	74.0	75.2	75.6	75.8
Unemployment rate (EU definition)	3.7	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0

* Without pension reform 2004

7. Horizontal measures influencing public finances (Structural and capital market policies)

7.1. Structural policies

The central goal of Austrian economic policies is to improve the attractiveness of Austria as a business location in the European and global competitive market, especially in view of enlargement of the European Union.

In July 2002 the new competition law was implemented. Under the competition law an independent Competition Authority is established. This organisation is responsible for taking on and investigating cases and preparing decisions by submitting motions to the cartel court; to this end it is also endowed with the right for investigation. The authority will also act on behalf of Austria in the implementation of European cartel law in Austria and ensure the coherence between those two legal areas. The cartel law has been strengthened; a federal cartel attorney has been established; right of motion of the independent competition agency; strengthened role of professional judges; broadening of measures if dominance in the market has been abused; stricter sanctions in the area of merger controls; far reaching replacement of criminal sanctions by a system of monetary fines up to 1 mill. Euro or 10 % of the yearly world-wide turnover of the business.

In the framework of the "Stimulus Package I" further steps for liberalisation of the industrial code ("Gewerbeordnung") and further steps for the shortening of procedures for the set-up of industrial plants to 3 months have been set.

The government program includes the following measures:

- Commitment to achieve the objectives of the Lisbon strategy
- Increased spending on research, development and innovation
- Cutting of “red tape”
- Increased flexibility in labour markets (see chapter on Labour Markets)
- Liberalised shop opening hours with maintenance of Sunday closing: The currently legal opening hours between Monday 5am and Saturday 6pm are to be adjusted. Governors of provinces may decree an increase from the current 66 hours to the maximum of 72 hours. If governors do not implement such extended regulations, opening hours from 5am to 9pm are to be the new legal time frame.
- Measures to allow a better financing for SMEs (especially regarding BASLE II)
- The majority holdings of the Austrian public in the energy sector is to be given up, taking account of Austrian interests and supply security.
- To increase the number of new businesses, start-up risks for young business people are to be reduced by extending government guarantees and allowing easier succession into existing businesses.
- In the medium run the establishment of a single convergence regulator in the sector of the media is desirable. Until then, co-operation between existing regulators is to be intensified.
- Promotion of competition in the telecommunications sector
- Independence of the communications regulator KommAustria

7.2. Capital markets

Financial market supervision, which used to be concentrated at the Ministry of Finance, has been brought together under the umbrella of the Financial Market Supervisory Authority which is independent and responsible for supervising the entire financial market. Enforcement competence and the competence to levy fines are united in a single agency. In the banking sector there is a close co-operation with the Austrian National Bank, which can conduct on-site examinations and give appraisal reports.

By mid-September 2002 9 concessions for operating the newly established employee pension schemes (2nd pillar of the pension system) were granted.

The strengthening of the Austrian capital market and the Vienna Stock Exchange to improve the financing situation for businesses shall be achieved by the following measures in the coming period:

- Strengthening of the risk capital market (Venture Capital/Private Equity),
- Analysis of the framework, i.e. pros and cons of founding an external rating agency and possibly supporting the creation of a rating agency for SMEs.
- Enacting a law on real estate investment funds
- Further strengthening of the second and third pillars of the pension system

- Creation and development of new approaches in the promotion of employee's assets in business capital.

7.3. Privatisation policy

To privatise public enterprises and to improve corporate governance are important goals of structural policies. Table 7 shows the steps taken so far:

Table 8: Privatisations carried out by the Federal Government in the last legislation period

Nov. 2000	Sale of 100% of PSK to BAWAG	1.299 bn. €
Nov. 2000	Sale of 22.4% of TelekomAustriaAG on stock exchange and of 4.8% under contractual agreements to STET International (Telekom Italia)	1.009 bn. €
Nov. 2000	The sale of 2.62% of the Flughafen Wien AG (complete 5.24%) to the City of Vienna and the province of Lower Austria and the floating of 3.22% following a share buy-back by Flughafen Wien AG	0.072 bn. €
March 2001	The sale of the Österreichische Staatsdruckerei GmbH to an Austrian investor	0.003 bn. €
March 2001	Floating of the remaining 8.92% to the Flughafen Wien AG to national and international investors	0.071 bn. €
May 2001	Sale of 1% VA Stahl AG to employee participation foundation	0.010 bn. €
Aug. 2001	Sale of the remaining 41.13% Austria Tabak AG to Gallaher Group	0.769 bn €
Sep. 2001	Sale of 100% Dorotheum GmbH to private company	0.073 bn. €
March 2002	Sale of 100% Strohal Rotations Druck GmbH to the Invest Equity Group	0.028 bn. €
	Total	**3.334 bn. €**

Revenues of privatisation did not directly flow into public budgets but into the ÖIAG, where the Federation holds 100 % of shares. The net financial obligations of the ÖIAG sank from 6.29 bn € on 1.1.2000 to below 2 bn. € at the end of 2002.

The following concrete measures are planned in the new legislation period:

- The complete privatisation (100%) of Böhler Uddeholm AG, VA Technologie AG, Voest Alpine AG, Österreichische Postbus AG, Österreichische Bergbauholding AG and the Telekom Austria (up to 100%) is desired. An Austrian core of shareholders is aimed at through syndicates with industrial partners, banks, insurance companies, pension funds, and employee provision funds, in order to strengthen head-quarter functions in Austria.
- For the Austrian Post AG a strategic partner is being looked for, which is a first step to privatisation.

- The divestment of federal housing companies is continued.
- An official directory of property owned by the federation, the provinces, communities and funds will be created.

7.4. Labour markets

The EU targets for the overall employment rate of 70 % in 2010, of 60 % for women and of 50% for older workers (aged 55 to 64 years) are the continuing guideline for Austrian labour market policy. Full employment in that sense is still Austria's most important goal. Fiscal, economic, labour market and education policies form a policy-mix, aimed at meeting employment goals and assisting employment policy. The economy's need for flexibility as well as the demand for security and solidarity and therefore fair access to the labour market should be met equally.

With the Stimulus Package I from December 2001 (see Chapter 3) the law preventing simultaneous labour placement and labour leasing has been terminated. Administrative restrictions for private and non-profit labour placement institutions as well as labour unions and professional interest groups with the ability to undertake collective bargaining have been reduced. In the construction sector a qualification campaign for construction workers was started.

In the year 2002 the legal framework for the newly established employee pension scheme (formerly severance payment rules) was installed, which took effect as of 1st January 2003: The new rules aim at achieving social and labour market goals as well as not impairing the competitiveness of businesses. The following provisions for new employment contracts should lead to the desired outcomes:

- The existing claims to severance payments (and assets) will be moved to special financial institutions (similar to pension funds), and administered in individual accounts.
- The claims to employee provision start on the first day of employment (previously they became valid only in the 3rd year) and independent of the reason for termination of the employment.
- Employers' contributions are 1.53 % of wage.
- The provisions can (except if the employment was ended by the employee) either be immediately paid out (after at least 3 years of employment) or they can be paid out when the employee retires. If paid out as a pension, a preferential rate of taxation will apply.

The problems in the Austrian labour market especially concern older employees. Therefore the federal government pays special attention to that group.

- For workers older than 56/58 years the non-wage labour costs will be reduced by 3 percentage points; for workers older than 60 by 10 percentage points.
- Old age part-time employment will be prolonged, but reformed.
- Reform of the "bonus-malus" system on hiring/firing elderly workers with a stronger focus on the duration of employment in a company and ending discrimination between men and women when being dismissed. The job-protection of older workers, who have been hired with a “bonus”, shall become effective after a longer employment-spell and the “bonus-malus”-rates are to be increased.
- For older persons in special situations, such as precarious employment, additional funds shall be devoted for further education and training.

- Unemployed persons before the age of 26 or after the age of 50 shall be offered reasonable employment within 8 weeks. If that proves impossible, the unemployed worker is entitled to participate in further education programs.

Apart from these measures the labour market and its institutions are intended to become more flexible:

- Reform of the Labour Market Service (AMS) to increase efficiency in job placement (goal: placement within 90 days)
- Strengthening of the early warning system: employees should register immediately at the AMS after they have been given notice of dismissal, to ensure individual support in best time.
- Increased flexibility for reasonability of employment: An individual support plan for everyone seeking employment is to be designed by the AMS. Sanction mechanisms need to be adjusted in both ways. Job-placement across regions needs to be evaluated and the profession protection rules shall be modernised with due regard to securing earned income.
- More flexible working hours: The legal framework for working hours is to be simplified and modernised according to EU-law. Social partners as well as individual companies shall be given more room for flexible solutions. Measures to enable SMEs without work councils to sign individual contracts are to be set.
- Workers under new forms of employment (freelance-employees, new self-employed) and also entrepreneurs shall be covered in the unemployment insurance system on a voluntary basis.
- Establishing a right for part-time work or flexible arrangement of working schedules for parents of children up to the age of 7 years or until they start schooling along with a right to return to full time positions. This holds for employees who have been employed for at least 3 years in companies with at least 20 employees.
- Equal status for blue and white-collar workers regarding wage payments in case of insolvent employers.
- Social partners are encouraged to establish a minimum wage of 1,000 €/month in collective bargaining agreements. At the same time, measures to preserve jobs in sensitive areas shall be taken.
- With regard to potential discrimination of disabled people, laws applying to education, employment, and accessibility to jobs shall be analysed. The possibility to grant subsidies for measures, which aim at increasing job accessibility for disabled persons and/or preventive health measures for disabled persons, will be continued.
- The labour force participation rate of women in Austria shall be increased up to 65% by measures such as: gender specific counselling offers for women by the AMS, job coaching and job orientation, (especially in the areas of IT and technology); offers for qualification and education to enable a re-integration into the job market after childcare leave, (especially retraining i.e. to become professional care givers); reduction of income disparities between men and women (equal wage for equal work).
- The federal government supports all measures enabling choice for parents regarding childcare. The federal government will put pressure on provinces and communities to establish a qualitative, sufficient and adequate provision of childcare in view of the EU goals for children younger than 3 years, and to guarantee supervision when schools are closed.
- Review whether unemployment aid should be transformed into a new social aid scheme.

7.5. Sustainability and environment

Austria internationally ranks highly regarding its environmental and sustainability policies. Nevertheless, policy will continue to further those conditions which allow sustainable growth, in order to live up to the responsibility for the quality of life within Austria and on a global scale.

A more ecological tax system:

- Consistent with the goal of budget consolidation, the reduction of taxes and non-wage labour costs, the tax system shall be made more ecological in the framework of the tax reform.
- Taxation of fossil fuels shall be further developed in light of European developments and traffic-related taxes and fees. Renewable energy is to be promoted and the achievement of the Kyoto goal in all areas is to be optimally supported.
- Enforcement of the speedy introduction of sulphur free fuel and respective tax measures (mineral oil tax).

The national climate strategy is to be implemented as soon as possible subject to ecological, economical and social conditions. Regarding financing and the financing structure of the climate strategy, the budget will be increased from 2004 until 2006 by 30 Mio. € in each year. (+ 90 Mio. € in 2006). Thermic-energetic measures in houses are to be enforced by restructuring the funds in the housing grant system. A system of emission trading shall be established in accordance with EU developments and the legal basis for JI/CDM-measures shall be created quickly within the law on environmental promotion.

Enforcement of renewable energy and energy efficiency:

- Increasing the use of bio mass until 2010 by 75%.
- Improving energy efficiency (energy used per GDP unit) by 1.6% p.a.
- Increasing of the share of renewable energy by 1 % p.a.
- The share of "eco"-electricity is to increase until 2008 to 78.1%
- Biogenic fuels will be promoted by setting quotas for application.
- Photovoltaics shall also be promoted.
- A grant system for usage of bio-gas shall be analysed.
- A contracting-program to preserve energy within government buildings shall be prolonged and be extended to private office buildings.

Annex: Debt issued for public enterprises

Since 1998 public companies, which are owned 100% by the federal republic, such as ASFINAG, ÖBB, SCHIG, may refinance themselves as follows: The Austrian Republic issues loans in her own name, part of which is handed down to public enterprises. When loans are issued, documents establish clearly and with reference to the legal status (§65c budget framework law) that this is a case of financing of public companies. Each underwriter of such loans immediately knows that part of the emissions will go to public companies. The special status of this debt is transparent both for debtors and creditors. Subsequently, the respective companies pay interest and principal to the Austrian Republic and the Austrian Republic fulfils the respective interest and redemption duties towards its creditors.

Debt issued for public enterprises is the financially most efficient form of financing, since the Austrian Republic has AAA rating and is liquid for the investor. The economic advantage ranges between 0.42% and 0.69% of the financing nominal. The nominal saving in interest so far has amounted to 73.3 Mio. €.

Eurostat decided in February 2003 that on debt issued for public enterprises strict gross accounting principles have to be applied. Thus, the issuing of loans for public enterprises in the name of the republic has been discontinued.

The Eurostat decision has the following effects on the budget indicators: no effects on the budget balance (administrative deficit and Maastricht deficit). Higher interest payments will be met by equally increased interest revenues. Public gross debt according to CR 3605/93 will rise. Financial assets will rise by the same amount. Net assets of the state remain unchanged.

Table 9: Effects of the Eurostat decision on the debt ratio

1998-2007

Year	in bn. EUR	in % of GDP
1998	2.2	1.2
1999	5.5	2.8
2000	8.0	3.9
2001	9.5	4.5
2002	11.7	5.4
2003	11.1	5.1
2004	10.5	4.8
2005	9.6	4.4
2006	8.2	3.7
2007	6.7	3.1
Years following	0	0