

AUSTRIAN STABILITY PROGRAMME

Update for the period 2004 to 2008

(working translation)

**Federal Ministry of Finance
Vienna, November 30, 2004**



FEDERAL MINISTRY
OF FINANCE

**Federal Ministry of Finance
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1. Introduction and summary

In accordance with Regulation (EC) No 1466/97, Member States are required to submit a stability programme (members of EMU) or a convergence programme (non-members). Austria herewith submits its update for the period 2004 to 2008. The programme's structure reflects the agreements reached by the ECOFIN Council on July 10, 2001.

With this update Austria is firmly committed to the goals of the Stability and Growth Pact. Sound and sustainable public finances are the basis for the successful implementation of the European Growth Strategy (Lisbon agenda).

With regard to its economic policy the Austrian government follows a three-pronged strategy:

- **Balanced budget over the economic cycle**
- **Lowering the tax burden to 40% of GDP by 2010**
- **Raising potential growth via fostering investment in research, education and infrastructure**

A successful implementation of this strategy increases the attractiveness of Austria as a business location in the context of international competition. Some of the economic policy goals of this government have been implemented already, or will be reached within the time horizon of this programme:

- **Tax reform 2004/2005, resulting in a substantial lowering of the tax burden**
- **Continued structural reform of the expenditure side of public households**
- **Creation of a single unified pension scheme and achievement of long-term fiscal sustainability via the pension reforms of 2003 and 2005**
- **Health reform 2005**
- **Balanced budget at the General government level in the year 2008 and declining debt ratio**

The budget proposals for the years 2005 and 2006 fully embrace the initiative of the European Council of December 2003 by implementing and further strengthening the European Growth Initiative through national measures in the fields of infrastructure, research and innovation.

The new national fiscal revenue sharing scheme (Finanzausgleich) together with a renewed Austrian stability pact ensures the quality of public finances throughout the time horizon of this update.

The figures for public households presented in this update are based on a cautious economic outlook until 2008. In addition, the most important structural reforms, undertaken in the area of financial and labour markets with a view to improve the long run growth potential of the Austrian economy, are portrayed in this update.

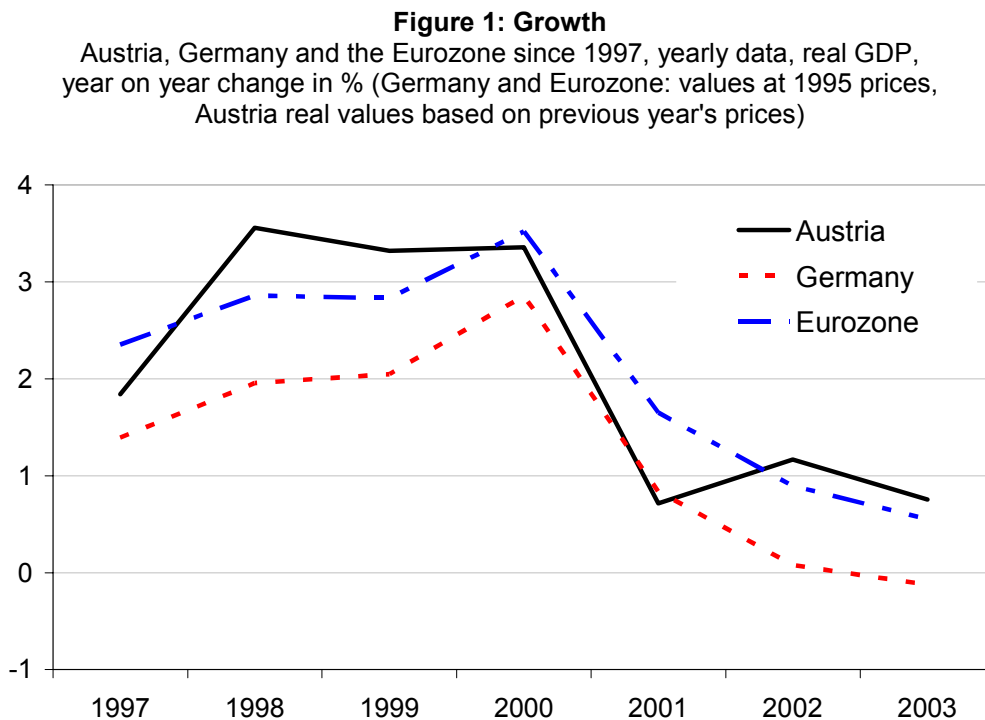
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2. The Austrian economy in the period 2003 to 2008

2.1. Economic developments until 2003

Similar to other European economies, falling investment activity in 2001 and 2002 was at the heart of the last cyclical downturn in Austria. Compared to previous downturns, household consumption was unusually lacklustre between 2002 and 2003. For the first time since 1990 private consumption grew less than 1% for two years in a row. In 2003 growth was driven by strongly accelerating investment, both in equipment and construction. To a large extent, this was induced by fiscal incentives stemming from the measures in the Stimulus Packages I & II and the Growth and Competitiveness Package 2003. The premium on increased investment expenditure will cease to exist by the end of 2004.

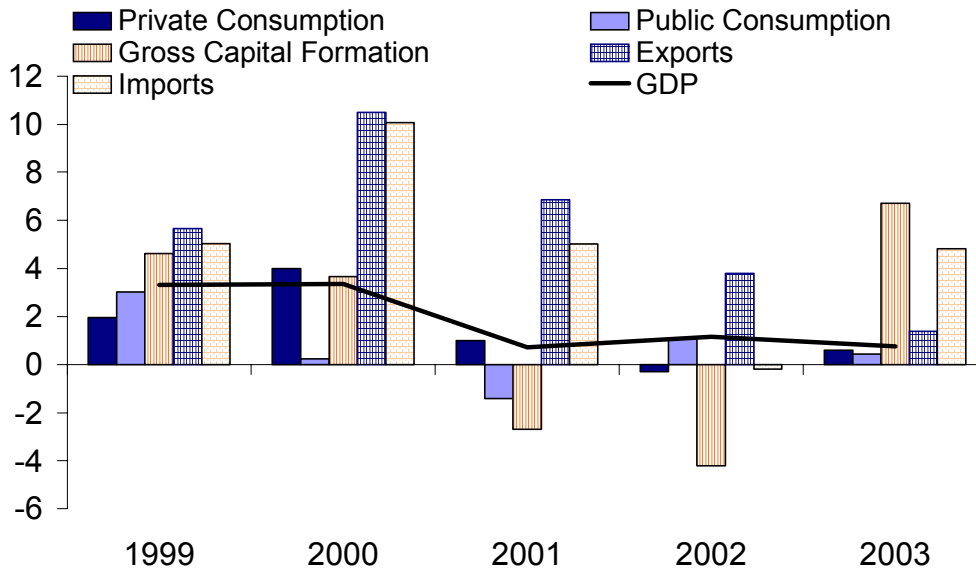
Figure 1 shows growth rates of Austria in comparison with those of the German economy, its main economic trading partner and of the Eurozone. Figure 2 displays growth rates of the main components of GDP in real terms on the basis of previous year's prices.



Source: Statistik Austria, European Commission

Figure 2 displays the development of the business cycle over the last 5 years. The increased investment premium together with other measures taken in the Stimulus Packages I & II and the Growth and Competitiveness Package 2003 put an end to negative investment growth in the years 2001 and 2002, equipment investment in 2003 showed dynamic growth. This has led to dynamic import growth as well. The Austrian investment expenditures for business equipment have a substantial import content (around 70%).

Figure 2: Growth rates
 Growth of GDP components,
 real values on the basis of previous year's prices,
 yearly data since 1999, year on year change in %



Source: Statistik Austria

2.2. Economic developments in the period 2004 to 2008

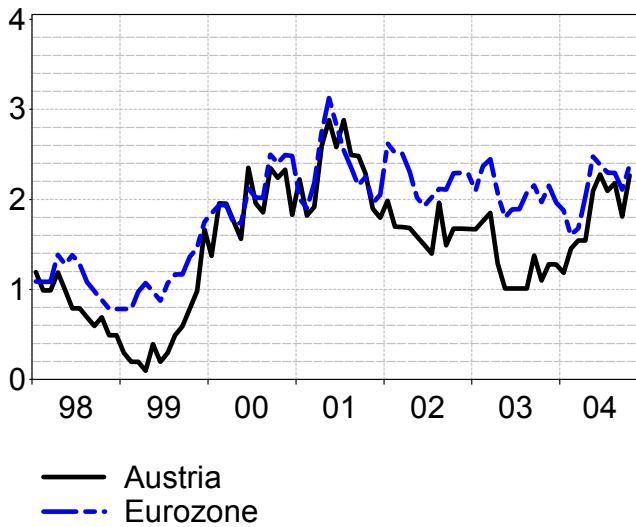
Economic recovery in 2004 is benefiting from the global upturn in European exports in general and of German exports in particular. To some extent, growth has become self-sustained already (private consumption and investment). The development of consumer prices (HCPI) now more closely resembles that of the Eurozone (figure 3). After 1.3% in 2003, the expected rate of inflation in 2004 is 2.1%, partly due to higher energy prices. Austria remains in the group of countries with a high degree of price stability.

Dependent employment rose by 0.9% in 2003 from 3.154,000 to 3.184,000. This trend continued in 2004. The most recent figure for dependent employment was 3.228,500 (October 2004).

However, labour supply growth is more dynamic than employment. The number of job-seekers in October was 0.4 percentage points above the figure 12 months ago. Hence, we do not expect a significant reduction in the rate of unemployment before 2005 (table 1). The rate of unemployment will steadily fall to 4.0% until 2008.

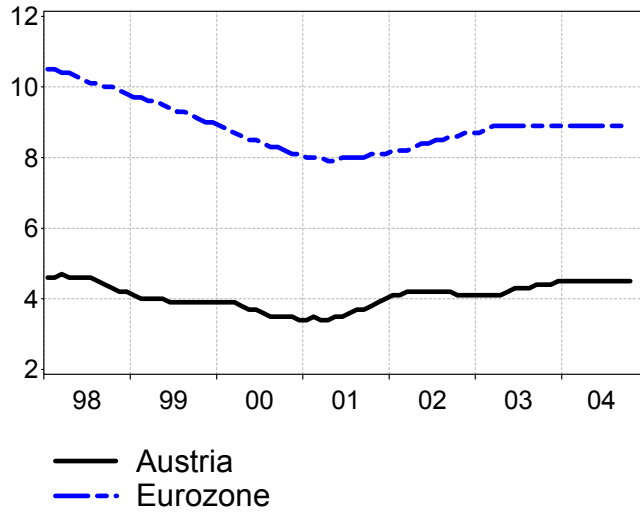
The standardised rate of unemployment according to EUROSTAT is currently at 4.5%. The implementation of a new statistical methodology (cf. Technical Annex point 3) has slightly corrected this figure upwards. Austria still exhibits one of the lowest rates of unemployment in the EU, and the positive gap with the unemployment figure of the Eurozone has been increasing for the last three years (figure 4).

Figure 3: Consumer prices
Austria and Eurozone 1998-2004,
monthly values, yoy change in %



Source: EcoWin

Figure 4: Unemployment rates
Austria and Eurozone, 1998-2004,
standardised, in %

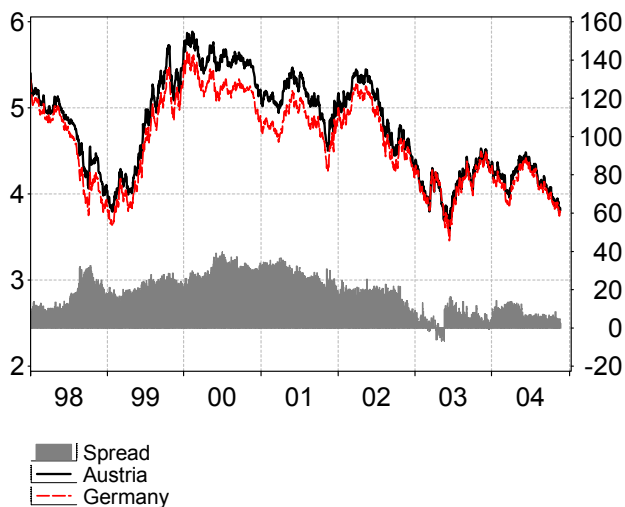


Source: EcoWin

Long term interest rates have hardly changed since the last update. The rate of return on 10 year government bonds has hovered around 4% and 4.5% since the end of 2002; the spread with the German 10 year bond is at historically low levels. It has remained within the range of 0 to 9 basis points since mid-2004 (figure 5).

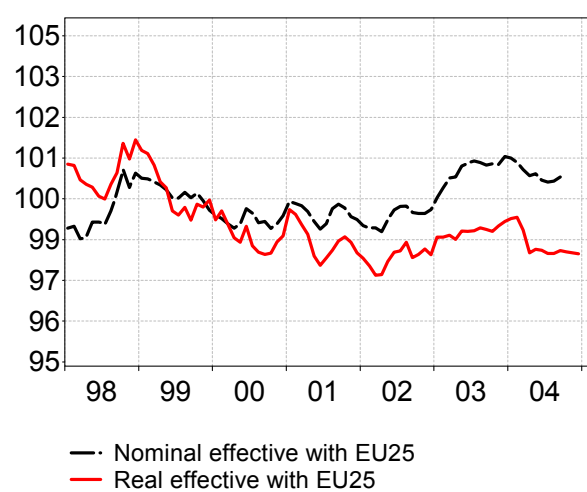
The external value of the euro has surpassed expectations since the last update of this programme. Due to the high current account deficit in the U.S., medium term developments are expected to further strengthen the euro.

Figure 5: Long term interest rates
in %, Austria and Germany since 1998
and spread in basis points (rhs)



Source: EcoWin

Figure 6: Effective exchange rates
nominal and real, 1998 to 2004
(1st quarter 1999 = 100)



Source: EcoWin

However, Austrian exports should not suffer too much. The new EU member states have become important markets for Austrian exports, and for the Austrian car industry German domestic demand is still more relevant than extra-EU demand. Correspondingly, the trade-weighted effective exchange rates tell a substantially different story than the bilateral USD/€ exchange rate (figure 6). In real terms, Austrian exports have become even more competitive in the EU25 since 1999.

After a surplus in the current account of 0.7bn € in the year 2002 and a deficit of -1.1bn € in 2003, the development in 2004 is more upbeat. This mainly reflects the dynamic growth of exports of goods and services. The outlook taken from the September forecast of the Austrian Institute of Economic Research (WIFO) should therefore constitute a lower bound for the year 2004 (table 1).

The tax reform will strengthen private consumption from 2005 onwards. However, public consumption will remain subdued. With accelerating domestic demand and the increasing demand for imports mainly due to the high import content of equipment investment, the external contribution to growth will go to zero. In 2006, due to buoyant investment activity, imports will grow faster than exports. The external contribution to growth will turn negative before turning positive again in 2008.

Table 1 gives an overview of the economic developments during the time period of this programme. The figures for 2005 and 2006 correspond to those of WIFO's September 2004 forecast, those for 2006 until 2008 are mostly based on WIFO's 2004 medium term forecast. Absolute figures (for nominal GDP) take into account the latest yearly figures of the Austrian National Accounts which were published by Statistik Austria on October 8, 2004 (cf. Technical Annex point 2).

The output gap is closed in the final year of the programme period. Accordingly, the tax reform 2004/2005 is implemented while the economy is still not operating at its potential.

Table 1: Economic developments 2003 to 2008 (yoy change in %)

	ESVG- Kode	2003	2004	2005	2006	2007	2008
GDP growth, real values on the basis of previous year's prices including FISIM	B1g	0.8	1.9	2.5	2.5	2.2	2.4
GDP level at current market prices including FISIM (billions of €)	B1g	226.1	233.5	243.6	253.4	263.1	274.2
GDP deflator		1.6	1.3	1.8	1.5	1.6	1.8
HICP change		1.3	2.1	1.8	1.4	1.5	1.6
Employment, productivity, current account							
Dependent active employment ¹⁾		0.2	0.6	0.9	0.9	0.9	1.1
Labour productivity ²⁾		0.8	1.4	1.6	1.6	1.3	1.3
Rate of unemployed EU-definition ³⁾		4.1	4.5	4.3	4.2	4.1	4.0
Current account balance in % of GDP		-0.9	-0.7	-0.8	-0.5	-0.5	-0.5
Components of growth: yoy change in %							
1. Private consumption expenditure	P3	0.6	1.6	2.5	2.9	2.4	2.3
2. Government consumption expenditure	P3	0.4	0.5	0.3	0.3	0.4	0.3
3. Gross fixed capital formation	P51	6.2	2.2	3.5	4.3	3.3	3.1
4. Changes in inventories as a % of GDP	P52+P53	0.4	-0.3	-0.1	0.0	0.1	0.2
5. Exports of goods and services	P6	1.4	6.0	6.2	6.0	5.5	6.5
6. Imports of goods and services	P7	4.8	4.7	6.4	6.6	5.9	6.5
Contributions to growth							
7. Final domestic demand (1+2+3)		1.9	1.5	2.6	2.7	2.2	2.1
8. Changes in inventories (=4)	P52+P53	0.4	-0.3	-0.1	0.0	0.1	0.2
9. External balance of goods and services (5-6)	B11	-1.4	0.8	0.0	-0.2	-0.1	0.1

1) Without persons on paid parents leave, without mandatory military service persons, and without persons participating in active labour market policy programmes

2) GDP growth per economically active person

3) Structural break in 2004 (see also Technical Annex point 3)

Positions may not sum up due to rounding errors.

Source: WIFO, Statistics Austria, Eurostat, Federal Ministry of Finance

3. Economic policy up to 2008

3.1. Economic policy strategy, budgetary policy and medium-term budgetary objective

The economic policy strategy, as it was put forward in the update of March 2003 continues to be implemented. Several intermediate goals have been achieved by now. Among them are the reform of the Austrian railways and the pension reform 2003. Both have entered into force on January 1, 2004. The second part of the complete overhaul of the pension system (creation of a single harmonized system) shall enter into force on January 1, 2005 (cf. chapter 6 and the technical annex point 4).

The priorities of the Austrian government's medium-term budgetary policy form a three-pronged strategy:

- Balanced budget over the economic cycle
- Lowering the tax burden to 40% of GDP until 2010
- Raising potential growth via fostering investment in research, education and infrastructure

The general government deficit of 1.1% of GDP in 2003 was slightly lower than projected in the update of November 2003. During the period of 2004 until 2006 the Austrian government accepts higher deficits for the sake of the tax reform in order to strengthen the purchasing power of private households and to provide a more favourable environment for business activity in a sustained manner. The new fiscal revenue sharing scheme (Finanzausgleich; cf. chapter 3.4) together with a renewed Austrian stability pact ensures the quality of public finances throughout the time horizon of this update and has laid down a path towards a balanced budget in the year 2008.

Table 2: Cyclical developments

in % of GDP	ESA Code	2003	2004	2005	2006	2007	2008
1. GDP growth, real	B1g	0.8	1.9	2.5	2.5	2.2	2.4
2. Actual balance ¹⁾	B9	-1.1	-1.3	-1.9	-1.7	-0.8	0.0
3. Interest payments	D41	3.2	3.2	3.1	3.1	3.0	2.9
4. Potential GDP growth ²⁾		2.0	2.0	2.0	2.0	2.1	2.1
5. Output gap		-1.3	-1.4	-0.9	-0.4	-0.3	0.0
6. Cyclical budgetary component		-0.7	-0.7	-0.5	-0.2	-0.1	0.0
7. Cyclically-adjusted balance (2-6)		-0.4	-0.6	-1.5	-1.5	-0.7	0.0
8. Cyclically-adjusted primary balance		2.8	2.6	1.6	1.6	2.3	2.9

1) including tax reform and SWAP-operations

2) HP-filter method

NB: Growth elasticity of the general government financial balance of 0.5

NB: Rounding differences are possible. The cyclically adjusted budget balance may vary by +/- ¼ percentage points of GDP

Sources: Statistics Austria, Federal Ministry of Finance

The cyclically adjusted deficit rises to 1.5% of GDP in 2005 before returning to zero in 2008 (table 2). Without the measures of the Stimulus Packages I & II, the Growth and Competitiveness Package 2003 and the tax reform 2004/2005 surpluses would have occurred as soon as 2006 and would have risen further to 1.4% of GDP in the year 2008. This would not have been a viable budgetary strategy against the background of an international re-allocation of factors of production. This environment called for a pro-active lowering of the tax burden.

The positive economic incentives of the Growth- and Competitiveness Package 2003 will continue to exert their full effect until the end of 2004. However, due to various lags in the financing of the measures, their budgetary effects will be felt mainly in 2005 and 2006. From 2005 on, the second part of the tax reform will strengthen the economic upturn by fuelling domestic demand. The budgetary effects of the tax reform accrue mainly in the years 2005 and 2006. Therefore, during these years the deficit will be temporarily higher. From 2007 on, the exceptional transitory effects disappear.

In a medium growth scenario, the lowering of the tax burden to 40% of GDP will be almost achieved by the year 2006, 4 years earlier than planned. Therefore, the goal of reducing the tax burden to 40% of GDP no later than 2010 seems to be well within reach, even in the case of another phase of subdued growth in the Eurozone.

The measures providing for an increase of funds for research and development were described already in the last update. The funds dedicated to this policy-initiative during the years 2000-2003 will be more than doubled during the period 2004-2006. This corresponds to the high priority the government has attached to R&D, fully in line with the Lisbon strategy. In 2004, R&D-expenditures as a percentage of GDP will have reached 2.27% which is above the EU-average. These measures are part of the sustained effort to fully implement the European Growth Initiative.

Measures for raising the R&D potential in Austria since 2000 in millions of €

2000 – 2003	
R&D Initiative I	509
Research allowance 10-15% & research premium 3-5%	110
2004 – 2006	
R&D Initiative II	600
National Foundation for Research, Technology and Development	300
Research allowance 25% & research premium 8%	300
Total	1819

With respect to the reform of public administration, by end 2003 public employment had been reduced by 14,000, instead of the initially planned reduction of 10,000 positions by 2006. Most of this was achieved by not filling the places of people leaving the active workforce. The additional reduction in public sector employment in 2004 is around 2000 (without outsourcing of universities). The reforms of pensions and the public service already show their positive effects on the public households (cf. chap. 5).

3.2. Public finances in 2004

The implementation of the budget for 2004 is very restrictive on the expenditure side. However, for some areas of priority status, more funds are available compared to 2003 in line with the economic policy strategy outlined above. These areas are the following:

- Development aid: +30m €
- Monetary transfers to families (mainly for childcare): +116m €
- Kyoto-measures: +30m €
- R&D Initiative II: +180m €
- Austrian Railways: +383m €

Due to the pension reform 2003 pension contributions by the central government will be 300m € lower in 2004 compared to 2003.

The first stage of the tax reform 2004/2005 that became effective on January 1, 2004, reduces the revenues of the general government by 700m € (500m € less for the central government). Due to the increase in excise taxes with the purpose to make the tax system more ecologically viable, the budgetary impact of the first stage was relatively small. However, tax revenues are clearly below the planned amounts with the exception of mineral oil tax. Corporate and personal income tax revenues are lower due to increased premiums on R&D-investment and the temporary premium on increased investment. The low VAT revenues result from continued lacklustre consumer spending. According to recent estimations the total net revenue shortfall amounts to 1.1bn € (0.5% of GDP). The administrative deficit will rise by approximately this amount. However, this unplanned shortfall in revenues will not be compensated by new revenues, but will be made permanent in order to lower the tax burden. The second stage of the tax reform was partially brought forward, which brought about another decrease in revenues amounting to 200m €.

On the expenditure side, interest payments and the contribution to the EU-budget will be lower than budgeted, but the monetary transfers to unemployed persons and to civil servants' pensions are above the targeted values. Whereas the increased expenditure for unemployed persons was due to labour market developments, the rise in expenditures for civil servants' pensions constitutes a period shift: Due to the pension reform 2003, many civil servants decided to retire earlier than planned. The Maastricht deficit of the central government is expected to amount to 1.7% of GDP in 2004. For the general government, a deficit of 1.3% of GDP was notified. This is 0.6% of GDP above the budgeted deficit. According to the deficit criterion Austria ranks 8th in the EU25 and 5th in the Eurozone.

3.3. Public finances from 2005 to 2008

The 2005 budget is dominated by the tax reform which has the purpose to reduce the burden on private households and to strengthen the expansionary power of the Austrian economy. Thus, a temporary increase in the deficit is accepted. In 2005, expenditures increase by 2.1% compared to 2004. This increase is clearly below WIFO's estimate of nominal GDP growth, we will witness a further decrease in the expenditure to GDP ratio.

The first stage of the tax reform was presented in the last update. Hence, here we explain only the second stage of the tax reform 2004/05.

The second stage of the tax reform 2004/05:

The second stage of the tax reform is a permanent net reduction of the tax burden of households and companies amounting to more than 2.5bn € p.a.

- Introduction of an average tax rate on personal income and wages with a smoother marginal tax rate schedule
- Tax free thresholds are increased to a gross yearly income of 15,770 € for wage earners
- 13,500 € for pensioners
- 10,000 € for the self-employed

Out of approximately 5.9m taxpayers, 2.55m will be exempted from paying taxes.

- Lowering of the corporate income tax rate to 25%
- Modernised corporate income taxation with a modern and internationally attractive group taxation
- Strengthening the income of families and single earners by a new children supplements to the sole earner and single parent tax credits and a higher additional income limit for the single earner's tax allowance
- Increased tax allowances for commuters and for church contributions
- Elimination of taxes with only marginal revenues
- Lower taxation of fuel used for agricultural purposes

Otherwise, the key issues of the 2005 budget are the same as in 2004.

On the expenditure side:

- Further increase of R&D expenditures
- Kyoto measures +30m €
- Increase of home-care payments by 2%
- Further reduction in public sector employment by 1,700

Compared to the targeted values in the budget 2004, revenues decrease by 0.6%. The key factors on the revenue side are:

- Net budgetary impact of both stages of the tax reform 2004/05: -2.1bn €
- Lower revenues, respectively higher expenditures due to investment and R&D subsidies

According to the new fiscal revenue sharing scheme, the Maastricht deficit of the federal government will amount to 2.4% of GDP in 2005. Correspondingly, the general government deficit 2005 will amount to 1.9% of GDP. As mentioned in the preceding chapter, the general government budget will be balanced in 2008.

Table 3A presents the budgetary impact of the different measures since the end of 2001 and the tax reform 2004/05. In 2007, the temporary measures of the stimulus packages phase out and reduce the deficit by 800m €. The permanent effects of the tax reform, the permanent measures of the stimulus packages and the reduction of non-wage labour costs amount to 3.8bn € from 2007 onwards.

Table 3A: Budgetary effects of Stimulus Packages I & II, of the Growth- and Competitiveness Package 2003, and of the tax reform 2004/2005

Budgetary effect in millions of €	2003	2004	2005	2006	2007	2008
Stimulus Packages I & II	-622	-562	-537	-687	-587	-587
Premium on increased investment expenditure, above target	-300	-500	-400	-	-	-
Modified VAT on imports	-250	-	-	-	-	-
Growth and Competitiveness Package 2003	-	-100	-460	-140	-	-
Lower non-wage labour costs	-	-153	-153	-153	-153	-153
Tax reform 2004/2005	-	-229	-2056	-3566	-3041	-3041
thereof: first step 2004	-	-29	-291	-483	-483	-483
thereof: second step 2005	-	-200	-1765	-3083	-2558	-2558
Total	-1172	-1544	-3606	-4546	-3781	-3781

A negative sign stands for either increased expenditures or decreased revenues.

Source: Federal Ministry of Finance

Table 3 shows budgetary developments up to 2008.

Table 3: Budgetary developments 2003 to 2008

in % of GDP	ESA code	2003	2004	2005	2006	2007	2008
Net lending by sub-sectors							
1. General government	S13	-1.1	-1.3	-1.9	-1.7	-0.8	0.0
2. Central government ¹⁾	S1311	-1.7	-1.7	-2.4	-2.2	-1.4	-0.75
3. Länder (ohne Wien) ¹⁾	S1312	0.5	0.3	0.4	0.4	0.5	0.55
4. Provinces (excl. Vienna) ¹⁾	S1313	0.2	0.1	0.2	0.2	0.2	0.2
5. Social security funds	S1314	0.0	0.0	-0.1	-0.1	-0.1	0.0
General government (S13)							
6. Total receipts ²⁾	harmonised	49.5	48.7	47.5	46.2	46.0	45.8
7. Total expenditures ²⁾	harmonised	50.6	50.0	49.5	48.0	46.7	45.8
8. Actual balance (6-7)	B9	-1.1	-1.3	-1.9	-1.7	-0.8	0.0
9. Net interest payments	D41	3.2	3.2	3.1	3.1	3.0	2.9
10. Primary balance		2.1	1.9	1.2	1.3	2.2	2.9
Revenues							
11. Taxes	D2+D5	28.0	27.7	26.8	25.9	25.8	25.6
12. Social contributions	D61	16.3	16.2	15.9	15.6	15.6	15.6
13. Other		5.2	4.8	4.8	4.7	4.6	4.6
14. Total receipts	harmonised	49.5	48.7	47.5	46.2	46.0	45.8
14a. Tax burden according to SNA ³⁾		43.1	42.7	41.6	40.5	40.3	40.0
Expenditures							
15. Collective consumption	P32	6.9	7.0	6.8	6.6	6.5	6.4
16. Social transfers in kind	P31	10.9	10.7	10.4	10.1	9.9	9.6
17. Social transfers other than in kind	D62	18.7	18.7	18.6	18.3	18.1	17.8
18. Net interest payments	D41	3.2	3.2	3.1	3.1	3.0	2.9
19. Subsidies	D3	3.2	3.0	3.1	2.8	2.7	2.4
20. Gross fixed capital formation	P51	1.2	1.2	1.1	1.1	1.0	0.9
21. Other		6.4	6.3	6.3	6.0	5.5	5.8
22. Total expenditures	harmonised	50.6	50.0	49.5	48.0	46.7	45.8

1) The financial equalisation scheme is valid until 2008; different attribution of sectors to different levels of government;

2) including SWAP-operations

3) From D2+D5+D61 imputed social contributions are subtracted, inheritance taxes are added.

NB: Figures may not sum up due to rounding errors.

Source: Statistics Austria, Federal Ministry of Finance

Due to higher deficits compared to the last update, gross national debt rises more than expected. In addition, not all possible revenues from the privatisation of the Postal Service, the Austrian Telekom, and the ÖIAG have been realized. The path presented in Table 4 is cautious, since no future privatisation revenues have been included. All in all, privatisation revenues of up to 3bn € can be expected until 2008. The implicit interest rate on the government debt approaches the long-term interest rate, as ever fewer high yield bonds remain in the portfolio.

The debt ratio will fall below the reference value of 60% in 2008 for the first time since 1992.

Table 4: Debt developments 2003 to 2008

	ESA Code	2003	2004	2005	2006	2007	2008
Government debt in billion €		145.8	149.9	154.9	159.8	162.0	162.0
in % of GDP							
Government debt ratio		64.5	64.2	63.6	63.1	61.6	59.1
Change in government debt ratio		-1.3	-0.3	-0.6	-0.5	-1.5	-2.5
Contributions to change in debt ratio							
Primary balance	B9	-2.1	-1.9	-1.2	-1.3	-2.2	-2.9
Public sector interest payments	D41	3.2	3.2	3.1	3.1	3.0	2.9
Nominal GDP growth	B1g	-1.5	-2.1	-2.7	-2.6	-2.4	-2.5
Stock-Flow Adjustment ¹⁾		-0.9	0.5	0.2	0.3	0.0	0.0
Implied interest rate on government debt		5.0	5.0	4.9	4.9	4.9	4.9

1) Residual

NB: Figures may not sum up due to rounding errors.

Source: Federal Ministry of Finance

3.4. Provinces and local authorities

On October 25, 2004, the key points of a new fiscal revenue sharing scheme were agreed upon by the federal, regional and local governments for the period from 2005 to 2008. At the same time, the Austrian stability pact was re-instated for the years 2005 to 2008 in order to secure the continued stability of Austrian public finances. The agreement which will become effective (after regional parliaments have ratified the treaty) at the beginning of 2005 leads up to a balanced budget in 2008 and reinforces the coordination of the different authorities' households. In the agreement, the regional authorities (including Vienna) are obliged to deliver an average stability contribution of

- not less than 0.6% of GDP in 2005
- not less than 0.7% of GDP in 2007
- and not less than 0.75% of GDP in 2008

The central government stated that it will keep its deficit below 0.75% in 2008. The local governments' budgets shall be balanced on a regional level. Another element of the agreement is the "Administrative Reform II". The main goals are lowering costs and improving efficiency in the public sector. On the basis of the results of the "Austrian " a high level working group will design adequate measures. The main focus will be on the harmonization of the regionally different civil service and pension systems in the public sector, on the standardization of personnel data management, on the introduction of a control system for measures including ex-post evaluation of projects in the public sector, and on the division of functions within the public sector. In order to balance the budget in the area of health care (social security and hospitals), additional revenues of 300m € (0.12% of GDP) are provided. At the same time, common measures to lower and control costs and to improve efficiency in health care will be adopted.

4. Sensitivity analysis and comparison with previous updates

The economic outlook and the assessment of economic risks turn out to be particularly difficult this year. Since the last update, the development of oil prices and the external value of the euro have turned into additional downside risks for the cyclical recovery in Europe. In the case of Austria the crucial question is, if the beginning recovery of economic growth in the Eurozone and especially in Germany will be sustained.

Table 5: Growth rates and net lending of the public sector from 2003 to 2008; comparison with the update of November 18, 2003

ESA Code	2002	2003	2004	2005	2006	2007	2008
Growth, real	B1g	yoy change in %					
Update November 18, 2003	1.4	0.9	1.9	2.5	2.5	2.4	-
Update 2004	1.2	0.8	1.9	2.5	2.5	2.2	2.4
<i>Difference</i>	-0.2	-0.1	0.0	0.0	0.0	-0.2	-
Actual budget balance	B9	in % of GDP					
Update November 18, 2003	-0.1	-1.3	-0.7	-1.5	-1.1	-0.4	-
Update 2004	-0.1	-1.1	-1.3	-1.9	-1.7	-0.8	0.0
<i>Difference</i> ¹⁾	0.0	0.2	-0.6	-0.4	-0.6	-0.4	-
Government debt ratio	in % of GDP						
Update November 18, 2003	66.7	66.4	65.8	64.1	62.3	59.9	-
Update 2004	65.7	64.5	64.2	63.6	63.1	61.6	59.1
<i>Difference</i> ²⁾	-1.0	-1.9	-1.6	-0.5	0.8	1.7	-

1) A positive sign denotes an improvement.

2) A positive sign denotes deterioration.

Source: Federal Ministry of Finance

Table 5 shows the good track record of the Austrian economic forecasts. Actually, Austria is one of the very few EU member states that rely on the economic forecast of an independent economic forecasting institute.

The deviation from the target path for the budget in the years 2004 to 2006 can be explained by three factors: First, a level shift in the tax revenues in 2004. As was explained in chapter 3, revenues in 2004 are running below expectations by 1.1bn € (0.5% of GDP). In accordance with the economic policy strategy of the Austrian government as well as with the BEPG, in view of the still lacklustre domestic demand, these lower than expected revenues have not been compensated by levying new taxes, but have been fully absorbed.

Second, cyclical expenditures were higher than expected (due to a higher number of unemployed persons). These two factors are the intended results of letting the automatic stabilizers work fully.

The third factor consists in the measures described in Table 3A in chapter 3, resulting in lower revenues and additional expenditures by fostering investment through the Stimulus Packages I & II and through the Growth and Competitiveness Package 2003. All three factors taken together explain more than the deviation from target of the budgetary path since the last update of the stability programme.

The deviations in the debt ratio result from the higher deficits. Furthermore, revenues stemming from possible future privatisations in the years 2007 and 2008 have not been taken into account yet. After correcting for the full potential of revenues from privatisation measures of around 3bn € and the inclusion of the effect resulting from higher deficits, there remains little difference with last year's path.

Table 6: Public households in three growth scenarios

	2004	2005	2006	2007	2008
Base Case Scenario					
Gross domestic product	1.9	2.5	2.5	2.2	2.4
Net lending as % of GDP	-1.3	-1.9	-1.7	-0.8	0.0
Debt ratio as % of GDP	64.2	63.6	63.1	61.6	59.1
Higher growth scenario					
Gross domestic product	2.0	3.0	3.0	2.5	2.6
Net lending as % of GDP	-1.3	-1.6	-1.2	-0.1	0.8
Debt ratio as % of GDP	64.1	62.9	61.8	59.7	57.2
Lower growth scenario					
Gross domestic product	1.7	2.0	2.0	1.8	2.3
Net lending as % of GDP	-1.4	-2.2	-2.3	-1.5	-0.8
Debt ratio as % of GDP	64.4	64.1	64.1	62.8	60.6

Source: Federal Ministry of Finance

Table 6 shows an estimated path for the budget balance and the debt ratio in the case of an upper and a lower growth scenario. In the case of the higher growth scenario, it is assumed, that the cyclical recovery, especially of domestic demand, turns out to be stronger which results in a steeper cyclical upturn. By contrast, the negative risk is modelled as a lower than expected growth in the Eurozone resulting in lower exports and investments and a flatter growth schedule. In the higher scenario, a balanced budget is reached one year ahead of the normal scenario. In the case of the lower growth scenario, the balanced budget is pushed back one year. In cyclically adjusted terms, by definition, the budget is balanced in 2008. The ratio of government debt reaches a value below 60% of GDP as soon as 2007, whereas the debt ratio stays slightly above the Maastricht reference value in the lower growth scenario.

Again, interest rate risks are considered to be negligible.

5. Quality of public finances

The Austrian government aims to increase the quality of its public finances. To this end the dynamics of backward-oriented types of expenditures is lowered, obligatory types of spending are checked for efficiency and redundancy, and the focus is on future-oriented types of expenditure. The structural reforms on the expenditure side of the budget create room for lowering the tax burden.

5.1. Health Reform Act 2005

To the Austrian government health is a means to an active lifestyle. Technical progress and research in medicine, structural reform in the health sector and the discussion on health related costs shall not disguise the fact that the real goal is a higher standard of living for each individual. This is the government's perspective for health reform: Five areas for activities are concerned:

- health promotion
- quality assurance
- innovation
- structural reforms
- financing

The government presented the comprehensive Health Reform Act 2005 and a set of measures in the context of a new promotion of health via preventive exams.

From 2005 on, the preventive health check (Gesundheitsvorsorgeuntersuchung) will for the first time explicitly differentiate between different sexes and age groups and will work towards the achievement of pre-defined objectives in the area of health-prevention. Of utmost importance are the early diagnosis of popular diseases such as cancer, diabetes, and cardio-vascular-dysfunctions. Beginning in 2005, parallel to the very successful mother-child-passport, health-passports for every age-group will be available.

With a view to the fact that smoking is the most important jeopardy to health that can be actively avoided and which is responsible for 14,000 deaths per year in Austria, a policy of prevention against the abuse of tobacco products is at the core of responsible health policy. A special body shall coordinate future health-promoting measures and increase the dissemination of best-practice models. An intergovernmental treaty between the different levels of government in Austria will form the basis for providing financial means to this end (cf. chap. 3.4).

Securing the quality package

In the context of the negotiation of intergovernmental treaties between different levels of government in Austria, a common understanding was reached on the necessity of ensuring the quality of health services across the different sectors within the health system.

Innovation package

The Health Reform Act 2005 contains a clause on the future use of telematics in the health sector, which will promote the use of the most recent technological advances in communications and information technology in this field. The nationwide introduction of the so-called e-card for every Austrian citizen will constitute one of the most modern and most reliable electronic card systems for health management in Europe. Furthermore, this intergovernmental treaty calls for the creation of a coordinating body that will plan and manage the introduction of the electronic file system in the health sector.

Structural package

New legal organizational forms for medical practices which permit finding new organizational forms of ambulatory care and analysis are being prepared in order to implement the intergovernmental treaty on the financing of hospitals and the health reform 2005. These will permit to begin working on reform projects concerning the financing of ambulatory care in hospitals as well as with practitioners in an integrated manner.

The Health Reform Act 2005 will come into power on January 1, 2005.

5.2. Administrative Reform II

Since 2000 a first part of administrative reform has contributed to the restructuring effort on the expenditure side of public households to increase the quality of public finances. From 2000 to 2003 this reform effort has resulted in alleviating the expenditure side by more than 1bn €. It included an increase in efficiency by delivering public services with a reduced number of employees and a restructuring effort on the federal level, e.g. the re-organized financial administration and streamlined procedures in the ministries. Devolution of responsibilities to lower levels of government, e.g. registration, lost-and-found services and provision of travel documents, and the elimination of superfluous organisational tasks, e.g. in the area of adult persons' training. In total, the number of public employees was reduced by 14,000 between 2000 and 2003, with all but the education sector contributing to the effort.

However, administrative reform is an on-going business. The government agenda 2003-2006 underlines the necessity of a follow-up. New reform projects include the re-organisations and structural reforms of the police forces (joining two different bodies of the police force and streamlining its catalogue of duties). These reform measures call for close cooperation between different levels of government. The Austrian Constitutional Convention has a mandate to evaluate the current allocation of competences across different levels of government and across different layers within the administration and to agree on reform proposals to be included in a comprehensive constitutional reform.

At the time being, the Austrian Constitutional Convention has come up with specific reform projects aiming at an ever more efficient public administration. A complete overhaul of the law on public finances is considered as well. New rules and procedures of an output oriented administration shall apply at all levels of government. As enforcement mechanism, budgetary resources shall be linked to defined objectives and thereby increase the effectiveness of the administration and also make it more goal-oriented. In addition, the federal government has proposed to institute an expenditure rule, which becomes binding before debt development can embark on an unsustainable path. Thereby, the policy principle of a balanced budget over the cycle could become a permanent feature of Austrian economic policy.

In the following, a short survey of those proposals by the Austrian Constitutional Convention that are deemed to have an effect on the quality of public finances follows.

Committee 2 – Structural analysis of constitutional regulations

All constitutional regulations have been screened in order to eliminate those that have become outdated or redundant. This has resulted in estimation that four out of five regulations can be abandoned or transformed in ordinary laws making constitutional law a more transparent issue. The comprehensibility of laws reduces transactions costs for both public and private agents and therefore contributes to the release of the full growth potential of the economy.

Committee 5 – Competences across different levels of government

A simpler and more precise distribution and delineation of competences across different levels of government is at the heart of a more efficient public service. To arrive at this end, the number of types of competences shall be reduced and the distribution of competences be made more flexible.

Committee 6 – Administrative reform

The formation of organizational units implementing the concept of functionally overlapping jurisdictions creates synergies and provides for a better allocation of know-how. Administrative reform is spurred by the introduction of principles from management by objectives. The use of benchmarks and the ongoing analysis of costs, quantity and quality of public services among similar agencies and government bodies will increase efficiency within the public administration.

Committee 10 – Fiscal constitution

The representatives of the federal government have proposed a matching of revenue resources with spending responsibilities and legislative competences at all levels of government. This principle could be instituted by defining a corresponding objective in the Fiscal Constitution. The federal government considers the matching of revenue resources with spending responsibilities and legislative competences at all levels of government as a necessary condition for good governance and a more efficient provision of public goods.

5.3. Pension reform

In 2000 a fundamental restructuring process of the Austrian pension system was started. The aim was to increase financial sustainability. First steps in that direction were taken with the pension reform of 2000. The core issue of the pension reform bill of 2003 was to abolish early retirement. Retirement ages are increased stepwise from 56.5 to 61.5 years. By the year 2017, early retirement will be fully abolished. Early retirement due to long term unemployment was already replaced by an old age transitional benefit starting at January 1, 2004. The contribution base for retiring will be gradually extended from the best 15 years to the best 40 years in 2028, which means that complete working careers will form the basis of pension calculations.

The law for harmonizing pension systems aims at increasing the young population's trust in the future capacity of the Austrian pension system. A single pension system for most segments of the population, based on the framework of the general social security law (ASVG), with equal contributions and equal benefits will be implemented on January 1, 2005. The goal is to provide the insured at the age of 65 after 45 contribution years with benefits of 80% of their lives' average income. An important element of a modern public pension system in Austria are contribution oriented, individual pension accounts with a component based on socially valuable contributions. Times of child care, military and civil services, and hospice-care leaves will both be equally accounted for and their contribution to the size of pension benefit will be increased.

The new harmonized pension law 2005 applies to all insured persons that are younger than 50 at the beginning of 2005. For those with careers in hard physical work and those with long periods of insurance, special treatments are considered. Civil servants of the federal republic aged 50 or less, will be integrated in the harmonized system. Claims on the pension system acquired so far will be transferred. Newly hired civil servants are integrated directly into the harmonized system.

6. Effects of population ageing on the sustainability of public finances

6.1. Retirement systems: The Pension Reform of 2003

The pension reform bill of 2003 was the starting point for the combined effects of the measures that make the Austrian pension system financially more sustainable. Retirement ages have been increased and strong incentives to work longer have been added to the system in order to raise the labour force participation rates of workers aged 55-64 years. Older workers have been made more attractive from employers' point of view. The long run effects of the Pension Reform 2003 alone were calculated to amount to approximately 1% of GDP. Savings in the civil sector pension schemes were estimated to amount to 0.1 percentage points until 2010 and up to between 0.3-0.4 percentage points until 2030. With January 1, 2005, the harmonization of all existing systems will take effect. Individual measures are described in the technical annex.

6.2. 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 update of the Austrian stability programme. According to these projections, expenditures rise by approximately 2.5% of GDP and begin to fall substantially thereafter.

Table 7: Long run sustainability of public finances

Public expenditure as % of GDP	2005	2015	2020	2025	2030	2035	2040	2045	2050
Pension expenditure ¹⁾	14.2	14.2	14.6	14.8	14.9	15.1	14.5	14.1	13.6
<i>of which: private sector</i>	<i>10.1</i>	<i>10.6</i>	<i>11.1</i>	<i>11.6</i>	<i>11.8</i>	<i>12.0</i>	<i>11.7</i>	<i>11.3</i>	<i>10.9</i>
Health expenditure	5.1	5.4	5.6	5.8	6.0	6.1	6.3	6.4	6.4
Care expenditure	0.7	0.9	1.0	1.0	1.1	1.2	1.3	1.4	1.5
Assumptions (in %)									
Dependency ratio (65+/overall)	25	29	31	35	41	46	48	48	49
Productivity growth (labour)	1.1	1.9	1.8	1.8	1¾	1¾	1¾	1¾	1¾
Real GDP growth (5 year average)	1.7	2.0	1.6	1.5	1.4	1.6	1.7	1.8	1.6
Activity rate (Men 15-64)	76.7	76.8	77.0	77.2	78.7	80.3	81.2	81.3	81.2
Activity rate (Women 15-64)	60.8	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	69.4	69.9	71.8	74.0	75.2	75.6	75.8
Unemployment rate (EU-definition)	4.3	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0

1) Long run projections for public sector employees are not available yet. Estimates point to a reduction in expenditures of 0.2% of GDP in the year 2030.

Source: Statistics Austria, Federal Ministry of Finance

The far-reaching reforms guarantee the long-run sustainability of public finances. Increased activity rates should also translate into a higher employment potential and a higher growth potential as well. These measures slow down expenditure dynamics to a considerable degree.

7. Horizontal measures influencing public finances

7.1. Capital markets

Many important elements of the action plan for the Austrian capital market have already been realised, such as the Austrian Code of Corporate Governance, the adoption of the provisions for a new private retirement product ("Zukunftsvorsorge"), and the establishment of a Committee for the Austrian capital market. Currently, further elements of this package of measures aiming at the promotion of the capital market are being implemented: Most importantly, it is necessary to increase its supply-sided volume. These efforts shall be complemented by enhancing the amount of information provided. A favourable future trend for the Austrian capital market is also important due to the forthcoming new capital requirements for banks ("Basel II"), which could have a considerable impact on company financing. In this context it is necessary to optimally provide for companies' own funds via an efficient national capital market: This approach is in the interest of a well-adjusted pattern of financing.

Following the comprehensive completion of the measures scheduled in the Financial Services Action Plan (FSAP) the new priority is to translate these measures into national law: At present, the implementation into Austrian law of several directives of relevance for the capital market is taking place. Key aspects are the directive on the activities and supervision of institutions for occupational retirement provision, the directive on markets in financial instruments ("Wertpapierdienstleistungsrichtlinie") and the prospectus directive. The transformation into national law of the market abuse directive and the respective implementing measures have already been adopted by the Austrian parliament; the respective provisions will enter into force on January 1, 2005. The act implementing the directive on financial conglomerates already entered into force. Furthermore, with regard to "Gewährträgerhaftung", the legislation has been altered by Austrian federal and regional legislators so that it is now compliant with European law: In this regard, the European Commission had qualified state guarantees for liabilities of provincial mortgage banks and savings banks established by a municipality (Landeshypothekenbanken and Gemeindesparkassen) as public financial aid and thus incompatible with the Single Market.

7.2. Privatisation policy

The privatisation of public enterprises and the improvement of corporate governance are important structural policy goals. Table 8 displays actions taken in the current legislative period.

Table 8: Privatisation policy¹⁾

Aug. 2003:	Sold 9% of VA Technologie AG on the stock market	33m €
Sept. 2003:	100% of Österreichische PostBus AG sold to the ÖBB	119m €
Sept. 2003:	Sold 19.7% of VoestAlpine AG on the stock market and emission of 15% as convertible bonds	492m €
Nov.2003:	Sold remaining 25% of shares in Böhler-Uddeholm AG on the stock market	134m €
Total:		778m €

1) Fulfilling the mandate given to it by the Austrian government, the ÖIAG has carried out the following privatisations:

On September 30, 2004, the net liabilities of ÖIAG amounted to 1.79bn €, compared to about 6bn € at the beginning of 2000. Of the share-holdings of the Federal Ministry of Finance, the stakes in the regional airports were sold, resulting in revenues of 5.09m € in 2003 and 13.84m € in 2004. In July 2004 the Bundeswohnbaugesellschaften were sold with a net-transaction value totalling 1.016bn €.

7.3. Labour market

Austria has implemented numerous measures to further accomplish an integration of the unemployed into the labour market. It is the goal to reduce the duration of unemployment to a maximum of 90 days. For young people, additional training positions were created and integrative on the job training was intensified.

Increased education tax credits (from 9% to 20%) and education premiums (of 6%) are encouraging investment into human capital, apprenticeships and the development of strategies of life long learning. In the area of training programmes for adult people, special programmes are targeting disadvantaged groups. Concerning enhanced gender equality, a new federal law for equal treatment became effective on January 1, 2004. The gender mainstreaming programme is being continued, and regulations for more flexible working times facilitate the combination of family and professional careers.

Detailed descriptions of these measures can be found in the Austrian Action Plan for Employment 2004.

Technical annex

A1. External economic assumptions

The Code of Conduct on form and content of stability and convergence programmes asks for the provision of a table stating the basic external economic assumptions on a voluntary basis. This table provides an overview of the development over time of the major exogenous variables that are used in the national forecasting exercises. Among them, the most prominent ones are the price of oil, the bilateral exchange rates between the euro and the US dollar and the growth of relevant foreign markets. It is the latter that is most important in models of the Austrian economy. Due to the high tax content of oil-related products, the price of oil is of a much lesser significance. Second round effects of hikes in the oil price are rather included in the growth of relevant markets variable.

Table 0. External economic assumptions

	2003	2004	2005	2006	2007	2008
Short-term interest rate (annual average)	2.3	2.1	2.6	3.2	3.0	3.0
Long-term interest rate (annual average)	4.2	4.2	4.6	4.8	4.9	4.9
USD/€ exchange rate (annual average)	0.89	0.81	0.80	0.78	0.75	0.75
World excluding EU25 growth	4.2	5.7	4.8	4.6	5.0	5.0
Growth EU25	0.8	2.5	2.3	2.4	2.2	2.4
Growth of relevant foreign markets	-	9.0	7.9	7.3	7.0	8.0
Growth of world import volumes excluding EU25	10.3	11.6	8.8	8.3	8.0	9.0
Oil prices (Brent, USD/Barrel)	32.2	39.3	35	35	35	35

A2. Changes in methodology in the Austrian system of national accounts

Introduction of previous year's price basis and chaining: Implementing two EC decisions (98/715/EC of November 30, 1998, and 2002/990/EC of December 17, 2002) on October 8, 2004, real yearly values of the Austrian national accounts were published for the first time as being calculated on the basis of the preceding year's price relations. The advantage of this method consists in the more accurate recording of relative price changes and the resulting substitution effects. With the method up to now, the further one moved away from the base year, the larger grew the error in the implied price relations in real terms. As a result, structural breaks occurred whenever one switched to a new base year.

Especially in relation to the coordination of economic policies within the Stability and Growth Pact and the BEPG, statistically induced fluctuations in the real GDP-measures are highly unwelcome. Taken to the extreme, it is conceivable that a council decision, whether a member state has complied with the recommendations of the Council, could hinge on the choice of the base year. With the new method, this problem can hardly arise, since the base year for real values in period t is always taken to be period $t-1$.

But there is a downside, too. The sub-components of GDP (and their growth rates) lose their additivity in real terms. Until now, real GDP was the sum of its sub-components. The GDP-deflator consequently was calculated as the ratio of nominal and real GDP in the form of an identity. With the system previous year's prices the GDP-deflator becomes a common price deflator which has to be estimated in the same manner as other price deflators already being estimated. So far, we do not have at our disposal such estimates. This will remain the case until spring 2005, when real values will be provided going back as far as 1976. The economic forecast of the Austrian WIFO institute was done on the basis of the old system using real values with 1995 prices.

A3. Introduction of the micro census in the labour force survey

Statistik Austria implemented a new methodology based on the micro census to establish data concerning the labour force beginning with its survey of the 1st quarter of 2004. It has thus implemented the European directive 577/98. Major innovations are, firstly, a rolling random sample consisting of 1,750 households per week and nearly 23,000 households per quarter, and, secondly, using data from the central registration system (ZMR). The survey is now centralised and makes use of the latest methods in information technology. In accordance with the European directive, additional pieces of information are surveyed.

These allow, for instance, to arrive at statements concerning the efficiency of labour market institutions or the implicit barriers to participation in the labour market. The new survey is a complete modification of methods, which results in a typical structural break in the data generating process by the first quarter of 2004. New unemployment data is therefore not directly comparable with previously published figures.

A4. Harmonization of pensions systems of 2005

The establishment of harmonized guaranteed pension accounts in autumn 2004 will become effective with January 1st 2005. It is a new system of individual, transparent pension accounts with the key rule of 45 - 65 - 80 (45 contribution years, retirement age of 65 and a public pension amounting to 80% of average life earnings).

Specifics include:

Pension accounts: Pension accounts will be established for everyone. The accounts will show contributions paid in as well as other credits acquired, such as child care times and unemployment times.

Guarantee of benefits: The claims visible in pension accounts cannot be reduced. The federal government guarantees to protect against poverty, unemployment and disability, and inflation.

Scaling up: Established claims will be scaled up according to developments of average increases of the annual contribution base.

Accrual rates are a uniform 1.78 pp.

Pension adjustments: Existing pensions will be adjusted by the consumer price index starting in 2006, given some special regulations for high pensions.

Contribution rates will be uniformly at 22.8%. For farmers and self-employed a contribution rate of 15% and 17.5% is effective, the difference is borne by the federal government. Adjustments of contributions are step wise (0.25%) starting in January 2006.

Contribution base: Uniform maximum contribution bases for everyone (90€ above the maximum value of ASVG 2005) will become effective on January 1st 2005. Uniform minimum rates (of the ASVG) will also hold for farmers and those self employed.

Unemployment replacement times: For times of unemployment 70% of unemployment benefits are considered the contribution base. In times of social assistance 92% (92% of 70%) are the contribution base. Partnership incomes in times of receiving special assistance are not taken into account.

Child care times, military or civil service or hospice leaves: These times will become effective with a contribution base of 1,350 €. Payments will stem half from the FLAF and half from the public budget until 2009, from 2010 on that ratio will be 75% to 25%.

Sick pay counts as a 100% contribution and will be borne by the public budget.

Retirement ages: As a rule the retirement age will be 65, a corridor from 62 to 65 years will be established. Up to the age of 68 a bonus can be acquired. Premiums and discounts amount to 4.2% per year. Gender differentiations do not exist. To establish pension rights a recorded working period of 7 years is necessary. Retiring when in the pension corridor is only possible when 450 insurance months have been acquired.

Sustainability: To guarantee the sustainability of financing a sustainability factor will be introduced. Until 2015 it is based on the expected path of life expectancies of Statistic Austria's medium scenario.

"Hard labour": If work has been in the defined area of "hard labour" for each year 3 months may be subtracted from the retirement age. Earliest possible retirement is at the age of 60. The discount ratio amounts to 2.1% per annum. Only 5% of work areas may be counted as "hard labour".

Transition periods are handled by parallel calculations for all workers younger than 50. Claims are due to the proportion of working time in each system.

Cap on losses: A modification of the 10% cap on losses, starting with a 5% cap and accumulating step-wise to 10% until 2024. Pensions established in 2004 will have to be re-calculated.

Solidarity between generations: Higher pensions (more than half of the maximum contribution base of ASVG) will be increased by fixed instalments for 3 years starting in 2006.