AUSTRIAN STABILITY PROGRAMME

FOR THE PERIOD 1998 TO 2002

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5. NOVEMBER 1998

FEDERAL MINISTRY
OF FINANCE

CONTENTS

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1. Introduction and summary

In accordance with Regulation (EEC) No 1466/97 each Member State is obliged to submit a stability programme (participants in monetary union) or a convergence programme (non-participants). In accordance with the Council Decision of 1 May 1998, stability programmes are to be submitted before 31 December 1998. Austria herewith submits its stability programme for the years 1998 to 2002.

By 2002 Austria will reduce the deficit to such an extent that with normal cyclical fluctuations the government deficit will be kept within the reference value of 3% of gross domestic product (GDP) even without corrective measures. The debt ratio should also reach the reference value of 60% of GDP in 2002. More specifically, the budgetary policy target is an overall public budgets deficit of 1½% of GDP for normal cyclical situations. This is also sufficient to keep the debt ratio lastingly below the 60% mark.

The stability programme is based on the most recent economic assessment and on the federal budget already decided for 1999. **Consolidation will be maintained over** the period from **1998 to 2002** and further **structural reforms** will be undertaken. The Federal Government's economic policy will otherwise be directed mainly towards creating employment and reducing unemployment, maintaining social cohesion and increasing growth through an innovative structural policy

In order to safeguard the robustness of the budget scenarios, the economic forecasts underlying the stability programme are again cautious in line with Austrian practice. There is a firm political determination, whenever budgetary deficiencies appear, to take swift and effective action to achieve the Government's targets. Austria is thus pursuing further its successful path within the monetary union.

2. Austria's economy in 1997/98

2.1 Continuation of Austria's nominal stability

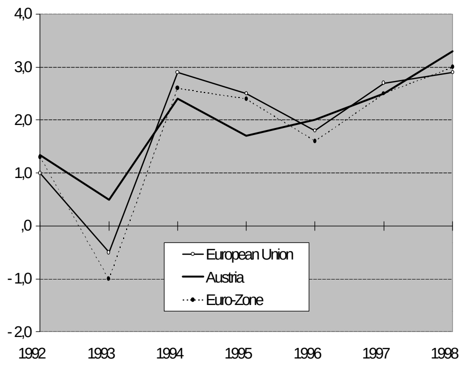
The economic trend in 1997 and 1998 has been better than outlined in the 1997 convergence programme. The economy is experiencing a healthy upswing earlier than expected. Real economic growth reached 2.5% in 1997 and will probably reach 3.3% in 1998. Austria's economy therefore again performed in line with the trend in the Union (Diagram 1). The crises in the Asian area and in Russia have fortunately so far had no real measurable effect on growth.

The unemployment rate has remained disappointingly high at 4½%, even though it is still less than half the EU average (Diagram 4). In 1998 employment again rose strongly (+1% of people in paid employment in the first three quarters), but new jobs are not reducing unemployment to the same degree, so that it has actually risen slightly.

As a result of the moderate wage trend and the continuing, competition-stimulating effects of EU accession, inflation has remained low in Austria. In the autumn of 1998 again, Austria is one of the three countries with the lowest inflation rate in the European Union. Long-term nominal interest rates fell in line with international trends. In September 1998 they stood at 4.3%, a level which, for the first time since 1989, was again below the nominal growth rate of gross domestic product. The Austrian indicators have continued to show a very favourable picture compared with the other EU Member States (Diagrams 2 and 3). On the exchange-rate front, the Austrian Schilling has remained stable against the German mark and the ECU (Diagram 6), but because of the international financial crises, the exchange rate's volatility against the US dollar has recently increased again.

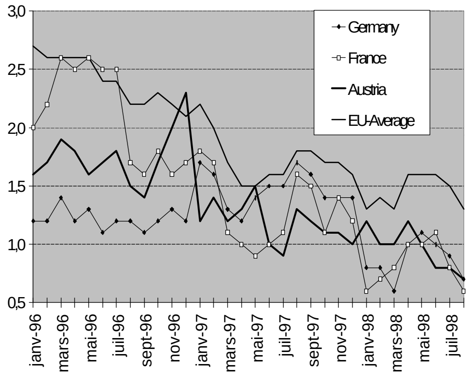
Some easing is evident in the current account balance (Diagram 5). The clear improvement in competitiveness of some four and a half percentage points since 1995 (as measured by the real effective exchange rate for industrial goods) has led to a moderate improvement, which is also discernible for tourism.

Diagram 1: Real economic growth in Austria and in the EU 1992 to 1998



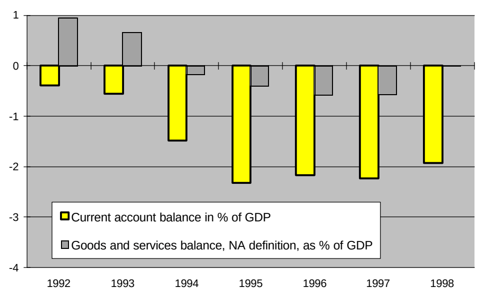
Source: ÖSTAT, WIFO, September 1998

Diagram 3: Harmonised consumer prices in Austria, Germany, France and on average in the EU 1996 to 1998



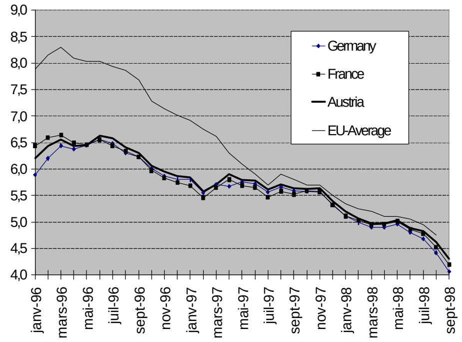
Source: EUROSTAT

Diagram 5: Current account balance as percentage of gross domestic product 1992 to 1998



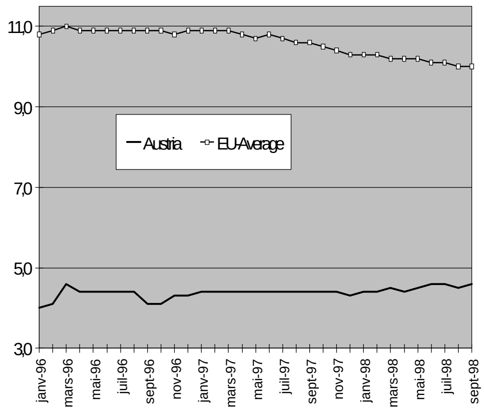
Source: ÖSTAT, Austrian National Bank, WIFO

Diagram 2: Long-term interest rates as percentages in Austria, Germany, France and on average in the EU, 1996 to 1998



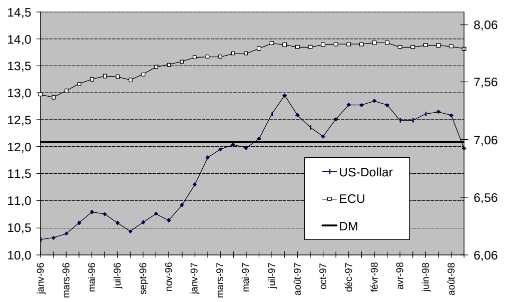
Source: BIS, own calculations

Diagram 4: Unemployment in Austria compared with EU average, 1996 to 1998



Source: European Commission

Diagram 6: ATS/USD, ATS/ECU and ATS/DM exchange rates (the right-hand scale shows the margins of intervention in the EMS) 1996 to 1998



Source: EUROSTAT

2.2. Consolidation of public budgets in 1997 and 1998

The aim of the 1996/97 consolidation package was to meet the fiscal convergence criteria, having regard for the need to maintain social equilibrium, promote economic growth and employment, safeguard competitiveness, prevent increases in non-wage labour costs and speed up structural reforms in public administration and the markets.

Table 1 shows that the general public budgets deficits were lower in 1997 and 1998 (estimate) than planned in the 1997 convergence programme.

Table 1: Overall public budgets deficit from 1993 to 1998

	1993	1994	1995	1996	1997	1998
	as percentage of GDP					
Deficit according to 1997 convergence programme	-4.2	-4.9	-5.1	-4.0	-2.7	-2.5
Actual deficit	-4.2	-5.0	-5.1	-3.7	-1.9	-2.2

Source: ÖSTAT, Federal Ministry of Finance

The marked undershooting in 1997 of the projected deficit reflects not only the consolidation measures which account for approximately 1½% of GDP, but was caused by some partly one-off additional factors. The hospital financing reforms show positive results. The social security budget was in better balance than expected as a result of a marked fall in the sickness figures. Organisational measures hived off certain services provided by the Länder and the local authorities from the government sector, thus reducing public investment and also the public deficit slightly. On the other hand, the Länder and local authorities are likely to have postponed investment projects until 1998 (see Table 5), so that the deficit for 1998 will probably be slightly above its "long-term" figure.

3. Economic policy from 1998 to 2002

3.1 Monetary and exchange-rate policy and price trend

The aims of monetary and exchange-rate policy adopted hitherto will remain unchanged until the beginning of the third stage of economic and monetary union (see the Austrian declaration in the Act of Accession). In accordance with the decision of the European Union Heads of State or Government of 2 May 1998, Austria will participate in EMU from the beginning of the third stage. As a result, the Schilling will be replaced by the Euro in 1999. The responsibility for monetary policy, which has hitherto lain with the Austrian central bank, is transferred to the European System of Central Banks (ESCB), and exchange-rate policy is transferred to the Council of the European Union (participating Member States).

In accordance with Article 105 of the EC Treaty the monetary policy objective of the monetary union is to maintain price stability. In the scenarios of the present programme it is assumed that the Euro zone inflation rate will average 2% a year up to 2002.

National inflation rates may diverge from this average. For Austria it is assumed that employers and unions will maintain their successful independent wage and incomes policy. In recent years this has been supplemented by positive steps to increase flexibility, so that sectors and firms are well prepared to absorb asymmetric shocks in the monetary union. As a result the risks for budgetary policy are generally considered to be small. In the light of the anticipated economic trend (see section 4), the cost-induced pressure on the inflation rate is likely to remain moderate. In the medium term, the stimuli stemming from the public budgets should be broadly price neutral, and structural reforms should damp down inflation.

In autumn 1998 long-tem interest rates reached a welcome low level. The low point of 4.3% in nominal terms (September) is, however, partly attributable to special factors in the wake of the economic crisis in Asia and Russia. It is therefore to be expected that as the economic upswing grows stronger, interest rates in the Euro zone will rise slightly (see Table 3), even though the declining public deficits should have a restraining effect. On the whole the level of nominal interest rates should remain low.

3.2 Budgetary policy and medium-term objective for the budget deficit

It was the declared aim of Austrian economic policy - an aim fully shared by regional and local authorities, employers and unions - to take part in the third stage of economic and monetary union from the outset. The current legislative period ends at the beginning of 2000, and the current fiscal equalisation between central and regional government has been agreed up to the end of 2000. For subsequent years the existing government's budgetary policy objectives can be expressed, but specific measures will have to be formulated by the government of the time.

Austria regards it as an economic policy objective for the macroeconomic policy mix to be as balanced as possible in the monetary union, in line with many years of Austrian tradition and experience. For budgetary policy the obligation under Article 104c of the EC Treaty applies, namely that the overall public budget deficit shall not exceed 3% of GDP. Therefore if a pro-cyclical budgetary policy, i.e. one which reinforces a downturn, is to be prevented, the budget deficit must be reduced so far as to remain below 3% of GDP without special corrective measures in the case of a cyclical downswing.[1]

The Federal Government regards a deficit of 1½% of GDP as a medium-term budget objective that fulfils these requirements of the third stage of monetary union. This figure is a mean value derived from expert calculations, with calculations by the OECD, the IMF and the European Commission lying close to it.

Taking into account the cyclical situation, this goal was reached in 1997 and, assuming no change in the legal situation and a continuing savings-oriented budgetary policy, will continue to be observed in the years ahead.

Nevertheless budgetary policy is still faced by challenges, which were also formulated in the "Broad Economic Policy Guidelines":

- the present deficit does not yet permit active corrective measures if there is an economic downturn
- the tax system should be made more favourable to employment. An appropriate tax reform is planned for the year 2000
- determined efforts must be made to combat unemployment
- the momentum of individual items of government expenditure must be examined in order to reduce the burden of taxes in the medium and long term; additional budget costs are to be avoided or to be financed by expenditure cuts.
- government expenditure must become more effective and efficient, so as to make the economy more competitive
- the debt ratio must be brought below the reference value of 60% of gross domestic product
- the deficit should not exert any pressure on the level of interest rates, so that private investment activity is stimulated.

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[1] In a cyclical downswing the revenue from direct taxation in particular falls as a result of the progressive income tax system and the decline in employment, and expenditure must be increased because of statutory obligations, e.g. for unemployment benefits. While this stabilises income and hence demand, it increases the public deficit by comparison with a more favourable economic situation.

3.2.1 1998 and 1999 Federal budgets

The simultaneous presentation of Federal Budgets for two years proved its value in 1996/97. The Federal Government has therefore again presented simultaneous budget proposals for 1998/99. For reasons of constitutional law, however, parliament adopted the Federal Budget for 1999 separately and not until May 1998.

On 17 October 1997 the Constitutional Court handed down a ruling which requires the way children are now taken into account for income tax purposes to be changed. To comply with this judgment, child benefit or child allowances will be increased in stages from 1999. This will cost the public budgets some 0.2% of GDP in 1999, and the total cost will be approximately ½% of GDP from 2000.

Table 2: Measures in the 1998/99 Federal budgets compared with the 1996/97 situation, in ATS billion

	Plan	**Plan**
Expenditure measures	**1998**	**1999**
Staff expenditures in the civil service	1.5	3.8
Family policy measures 2)	2.8	3.4
Family assistance		-3.0
Care allowances	0.4	0.4
Unemployment insurance	0.3	0.3
Pension insurance	2.8	4.1
Home ownership savings scheme	1.8	0.3
State aid	1.0	1.0
General administration	5.0	5.0
Total expenditure	**15.6**	**15.3**
Revenue measures		
Turnover tax	1.5	1.5
Charges	1.2	1.2
Mineral oil duty	0.5	0.5
Tobacco duty	3.0	3.0
Total taxes 1)	**6.2**	**6.2**
Social Security Contributions	**2.0**	**2.5**

Total	**23.8**	**24.0**
1) Before transfers to Länder and local authorities		
2) Full effect of the 1996 package of measures		

Source: Federal Ministry of Finance

In order to reduce the **level of debt**, provision has been made for privatisation proceeds of ATS 3 billion in both 1998 and 1999.

3.2.2 Social security

In the autumn of 1997 the decision was taken to reform the public **pension systems**. The long-term funding of the pension system in Austria was improved by the following measures: 1) an increase in the actual retirement age whilst maintaining the legal retirement age; 2) a far-reaching narrowing of the differences between private sector and public sector employees and the approximation of all systems; 3) an extension of the calculation periods for pension assessment; 4) reinforcement of the insurance principle with basic retention of the pay-as-you-go system. The reform produces long-term savings of some 1½% of GDP.

3.2.3 Länder and local authorities

A number of Länder have adopted internal decisions committing them to keeping their public budgets in balance. The local authorities are also carrying out structural reforms by hiving off services from the public budgets. Both the Länder and local authorities are also pursuing a privatisation strategy.

3.2.4 Financial control

In June 1998 the "consultation mechanism" was adopted. Its purpose is to improve financial co-ordination between central, regional and local authorities. Under the mechanism, authorities will be required to provide information on legal changes which may have financial effects on other authorities. Where there is no agreement on bearing costs, the authorities which have suffered costs may sue for compensation. An inter-Austria stability pact is also to be adopted by the end of 1998. It will contain the following commitments: acknowledgement on joint budget co-ordination, medium-term orientation of budget management, drawing-up of stability programmes, allocation of any penalties to the authorities causing an excessive deficit.

3.3 Structural policy

Structural policy is still directed towards improving competitiveness and creating future-oriented jobs in Austria. Important measures have been taken in this context in the period 1996 to 1998 and are being continued:

- **State aid** is being cut.

- In all **public departments** further hive-offs are being undertaken of those non-sovereign areas which can be run more efficiently by the private sector.
- By means of a further **administrative simplification**, the administration process is being speeded up and costs are being reduced.
- The next stage of the **tax reform** in Austria is being planned for the year 2000. The aims are further simplification and elimination of bureaucracy, an examination of the taxation of investment income relative to that of earnings, alleviation of the tax burden on the factor "labour", consideration of eco-taxes, pension reform, funding of regional and local authorities, reform of succession and gift tax, and examination of the impact of globalisation on tax law.
- Additional funds are being made available for **technology policy** and for **training** despite the general curbs on public expenditure. Assistance is to be concentrated more heavily on the leading-edge industries. The public funds multiplier is to be increased by additional private funds.
- The liberalisation of the **telecommunications** sector and of **energy supply** is being carried out as planned.
- The regulation of the capital markets is being adapted to the circumstances of EMU.
- The operation of the **goods and services markets** is being examined.

3.4 Labour market policy

Raising the level of employment and reducing unemployment represent important objectives of Austrian economic policy. The employment bias of economic strategy, which is based on a stability-oriented macroeconomic policy and an overall performance-oriented wage and incomes policy, has contributed substantially to the favourable appearance of the Austrian labour market situation when compared with that of other countries.

In accordance with the targets of the Luxembourg employment summit, the Austrian Federal government in co-operation with employers and unions in April 1998 presented a National Action Plan for employment. The intention is that the measures contained in the National Action Plan will help to raise the employment level by 100,000 persons in the next five years and cut the unemployment rate to close on 3.5%. The instruments for achieving this are:

- pushing ahead with an active labour market policy
- making it easier to set up businesses
- training measures
- new work-distribution arrangements

- structuring taxation and other statutory charges in a way which is conducive to employment
- taking steps to combat undeclared work
- opening up new demand
- making family life more compatible with professional life
- increasing public investment.

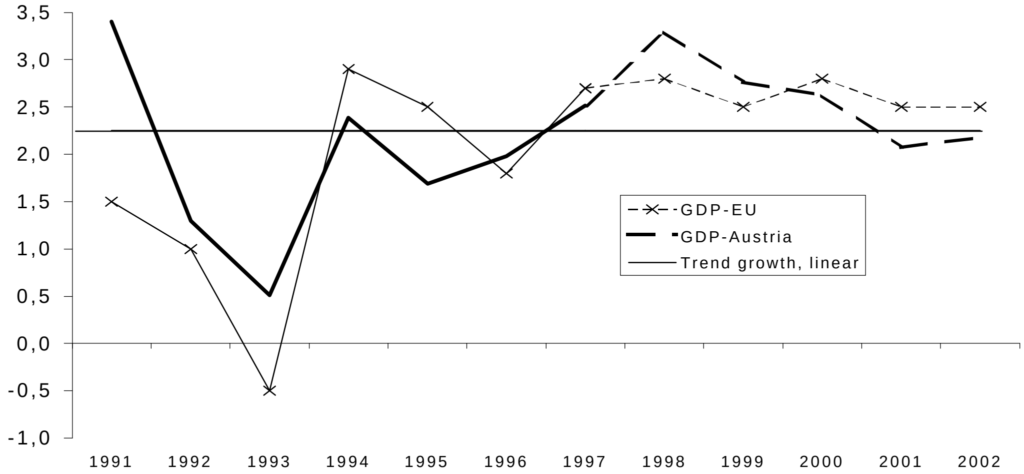
4. The economy and public finances from 1998 to 2002

4.1 Economic strategy and the economic environment from 1998 to 2002

The medium-term forecasts of such international institutions as the OECD and the International Monetary Fund and of the European Commission paint a favourable picture of the economic environment in the medium term. They indicate that Europe is experiencing an economic upturn which is likely to be relatively robust. Growth rates above the historical potential rate are to be expected up to the year 2002. The pressure is being taken off long-term interest rates by the further narrowing of public deficits in the Euro zone. Wage settlements will probably not help to push up prices until late in the forecast period. As a result, hardening consumer and investment demand is a major determinant of the interest rate level in Europe, which is therefore likely to climb slightly. In historical terms, however, the level will probably remain relatively low, with real interest rates assumed to stand at three to four per cent.

In September 1998 the economic research institute WIFO published an economic forecast for Austria. The picture painted assumes that in 1999 capital utilisation will be the same as in 1992 (seven-year economic cycle). According to the forecast, nominal GDP growth from 1998 to 2002 will on average remain slightly above the long-term trend growth rate of approximately 2¼% a year. Of the individual components of demand since 1997, growth has since 1997 been supported by the external contribution, which will revive investment from 1998 and private consumption from 1999. The wage/price trend should continue to follow a moderate course and ensure inflation rates of under 2%.

Diagram 7: Real economic growth, Austria and EU, 1991 to 2002



Source: ÖSTAT; WIFO, September 1998, Federal Ministry of Finance

The current account deficit will fall by the year 2002 to approximately 1¼% of GDP. External equilibrium (external contribution; excluding the balance of transfers) will, according to WIFO, be reached again in 1998. The unemployment rate will still increase slightly in 1998, but by 2002 it should fall to below 4% as a result of the measures in the Austrian Action Plan for Employment.

Table 3: Economic trends, 1995 to 2002 (percentage change on previous year)

	1995	1996	1997	1998	1999	2000	2001	2002
Private consumption, real	2,9	2,0	0,7	1,8	1,9	2,7	2,4	2,3
Public consumption, real	0,0	0,6	-3,9	1,5	1,5	1,4	1,4	1,4
Gross fixed capital investment, real	1,2	2,5	2,8	5,3	3,6	3,4	1,6	2,1
Change in stocks and statistical differences	0,4	0,2	1,6	1,9	2,0	1,8	1,7	1,6
Available goods and services, real	1,9	1,7	1,8	3,0	2,5	2,4	1,9	2,0
Exports as broadly defined, real	6,5	6,9	10,1	6,8	5,6	6,2	5,5	5,5
Imports as broadly defined, real	7,0	6,3	8,7	6,3	5,2	6,0	5,3	5,2
Gross domestic product, real	1,7	2,0	2,5	3,3	2,8	2,6	2,1	2,2
Gross domestic product, nominal	4,1	3,7	4,1	4,6	3,9	4,2	3,9	4,1
Gross domestic product in ATS billion	2328,7	2414,6	2514,4	2631,1	2733,1	2848,4	2958,6	3081,3
Per capita wages	4,3	1,8	0,7	2,2	2,7	3,2	3,2	3,4
Unit wage costs	1,9	-0,9	-1,5	-0,3	0,7	1,7	1,8	1,8
Private consumption deflator	1,6	2,9	2,1	1,1	1,0	1,5	1,8	2,0
Harmonised consumer price index	-	1,8	1,2	1,1	1,0	1,5	1,8	2,0
People in paid employment	-0,7	-0,6	0,4	1,1	0,7	1,2	0,6	0,6
Unemployment rate; EU-definition	3,9	4,4	4,4	4,6	4,6	4,3	4,1	3,9
Current account balance as % of GDP	-2,3	-2,2	-2,2	-1,8	-1,7	-1,7	-1,6	-1,4
Economic environment:								
EU-15 Gross domestic product, real	2,5	1,8	2,7	2,8	2,5	2,8	2,5	2,5
Exchange rate ATS/USD*	10,1	10,6	12,6	12,4	11,7	11,6	11,5	12,0

EU-15 Harmonised consumer price index	-	2,4	1,7	1,6	2,0	2,2	2,0	2,0
Interest rate on new issues	7,1	6,3	5,7	4,8	4,6	5,0	5,2	5,7

* On 1 January 1999 the Schilling will be replaced by the Euro, so that from 1999 the column shows the assumed change in the Euro value of the Schilling against the dollar (the Euro/Dollar exchange rate is derived from the rate at which the Schilling will be converted into the Euro on 1 January 1999).

Source: WIFO, Federal Ministry of Finance

4.2 Public budgets

The reference values in the Maastricht Treaty can be significantly undershot with the past and planned measures.

Table 4: Financial deficits of public budgets, 1995 to 2002

	1995	1996	1997	1998	1999	2000	2001	2002
	As percentage of GDP							
General government financial balance	-5.1	-3.7	-1.9	-2.2	-2.0	-1.7	-1.5	-1.4
of which:								
Federal Government sector*	-4.8	-4.1	2,6	-2.6	-2.5	-2.2	-2.0	-1,9
Länder and local authorities	-0.2	0.3	0.5	0.4	-	-	-	-
Social insurance institutions	-0.1	0.1	01	0.0	-	-	-	-

Source: ÖSTAT, Federal Ministry of Finance

* including Federal funds.

In detail, the trends for the main aggregates of income and expenditure in the public budgets as a whole are as follows:

Table 5: Income and expenditure of the public budgets, 1995 to 2002, in ATS billion

	1995	1996	1997	1998	1999	2000	2001	2002
Income								
Indirect taxes	341.0	358.6	380.3	399.2	415.2	427.2	439.0	451.9
Direct taxes	283.1	318.3	340.0	349.4	366.8	389.0	410.7	436.2
Social security contributions	416.0	428.1	437.7	450.2	463.2	478.2	491.9	504.7
Other income	109.7	101.0	74.9	67.5	68.8	70.1	71.4	72.7
Total income	1149.8	1206.1	1232.9	1266.1	1314.1	1364.6	1413.2	1465.7
Income as percentage of GDP	49.4	50.0	49.0	48.1	48.1	47.9	47.8	47.6
Expenditure								
Transfers to enterprises	59.5	55.0	61.0	62.5	63.0	64.3	65.6	66.9
Transfers to private house households	505.9	522.0	524.5	541.9	568.9	592.6	615.4	639.5
Other transfers	21.2	23.8	24.6	27.1	26.7	27.1	27.6	28.1
Total transfers	586.6	600.8	610.1	631.5	657.8	684.1	708.6	734.5
Public consumption	469.4	480.3	478.2	492.2	506.6	522.1	539.6	558.7
Interest payments	102.4	105.9	100.8	102.2	103.4	102.3	101.6	103.1
Current expenditure	1158.4	1187.0	1189.1	1225.9	1267.8	1308.6	1349.8	1396.4
Current saving	-8.7	19.1	43.8	40.3	46.2	55.9	63.2	69.1
Current saving as percentage of GDP	-0.4	0.8	1.7	1.5	1.7	2.0	2.1	2.2
Capital transfers	43.8	41.2	41.7	44.8	44.8	46.1	47.4	49.3
Public investments	66.1	68.3	49.3	53.0	56.0	57.6	59.2	61.6
Total expenditure	1268.3	1296.5	1280.2	1323.7	1368.7	1412.2	1456.4	1507.2
Expenditure as percentage of DGP	54.5	53.7	50.9	50.3	50.1	49.6	49.2	48.9
Net borrowing	-118.6	-90.4	-47.2	-57.5	-54.7	-47.7	-43.4	-41.7
Net borrowing as percentage of GDP	-5.1	-3.7	-1.9	-2.2	-2.0	-1.7	-1.5	-1.4

Source: WIFO, September 1998, Federal Ministry of Finance

The standard scenario shows that, with the deficit developing as forecast, the debt ratio is on a clear downward trend (see Table 6 and Diagram 8). In 1998 too, besides the contributions made by the primary deficit and economic growth, hive-offs by the regional and local authorities and privatisation proceeds will help to cut the debt ratio. The basic macroeconomic conditions will be sufficient to compensate for the still high interest effect and to maintain the debt ratio's downward trend.

Table 6: Determinants of the change in the debt ratio, 1995 to 2002

	1995	1996	1997	1998	1999	2000	2001	2002
Government debt in ATS billion	1615,2	1684,4	1618,9	1695,7	1734,7	1772,3	1809,2	1849,4
	as percentage of GDP							
Debt ratio	69,4	69,8	64,4	64,4	63,5	62,2	61,2	60,0
Change in debt ratio	3,6	0,4	-5,4	0,1	-1,0	-1,2	-1,1	-1,1
of which								
Contribution of primary balance	0,7	-0,6	-2,1	-1,7	-1,8	-1,9	-2,0	-2,0
Contribution of public sector interest payments	4,4	4,4	4,0	3,9	3,8	3,6	3,4	3,3
Contribution of nominal GDP growth	-2,3	-2,4	-2,7	-2,8	-2,3	-2,5	-2,3	-2,4
Contribution of stock flow adjustment	1,3	-0,9	-4,5	0,7	-0,6	-0,4	-0,3	-0,1

Source: Federal Ministry of Finance

The maturing of higher-yielding government debt gives rise to an autonomous trend for interest payments to fall as a proportion of GDP (Table 7).

Table 7: Issue yield and average interest payment on government debt, 1992 to 2002

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
	as percentage of GDP										
Issue yield on government bonds*	8.3	6.7	7.0	7.1	6.3	5.7	4.8	4.6	5.0	5.2	5.7
Effective average interest rate**	7.1	7.4	6.8	7.0	6.6	6.0	6.3	6.1	5.9	5.7	5.7

* 10-year Federal bond in Austrian Schilling

** by reference to the previous year's final position

Source: Federal Ministry of Finance

4.3 Public budgets in three scenarios

Below, two alternative calculations are compared with the standard scenario. Only public investment is rated as independent of growth. The higher scenario assumes that the gross domestic product of the trading partners from 1999 to 2002 is in each case one percentage point higher than in the main scenario. The lower scenario, by contrast, assumes that the growth of the trading partners is one percentage point lower. The other exogenous assumptions remain the same as in the standard scenario. The results are set out in Table 8.

In the higher scenario the public deficit in 2002 falls to ¾% of GDP. This would have a correspondingly dampening effect on the debt ratio (see Diagram 8). In the lower scenario too, the deficit in 1999 and thereafter remains within the reference value of 3% of GDP. However, the debt ratio would only fall very slowly.

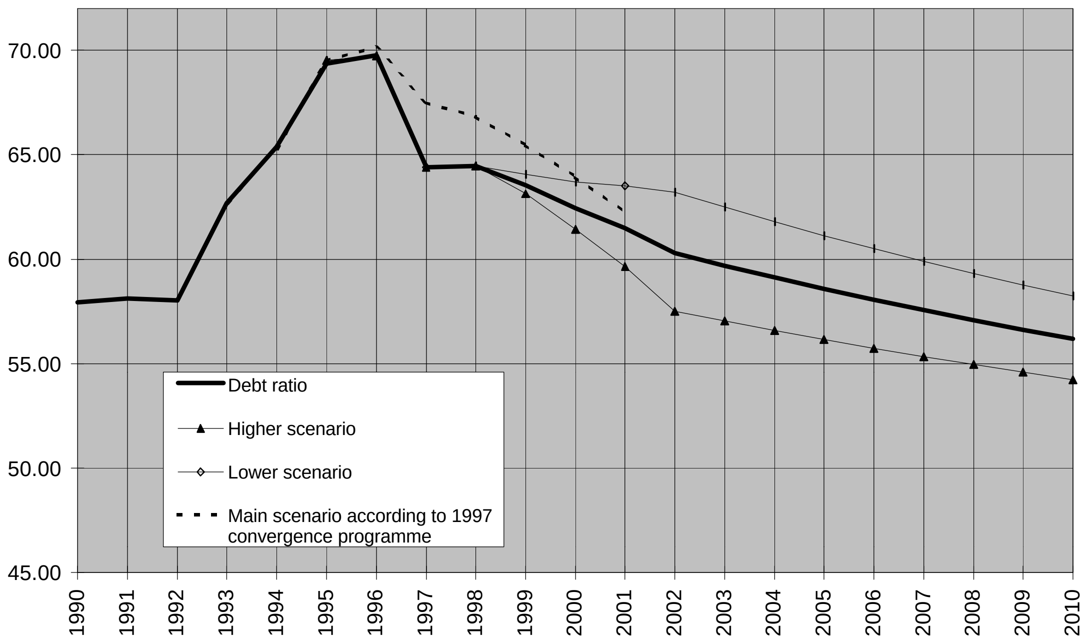
Table 8: Economic growth and net public sector borrowing from 1998 to 2002 in three scenarios

	1995	1996	1997	1998	1999	2000	2001	2002
	Standard scenario							
Gross domestic product	1,7	2,0	2,5	3,3	2,8	2,6	2,1	2,2
Net borrowing as percentage of GDP	-5,1	-3,7	-1,9	-2,2	-2,0	-1,7	-1,5	-1,4
Debt ratio as percentage of GDP	69,4	69,8	64,4	64,5	63,5	62,2	61,1	60,0
	Higher growth scenario							
Gross domestic product	1,7	2,0	2,5	3,3	3,4	3,3	2,8	2,9
Net borrowing as percentage of GDP	-5,1	-3,7	-1,9	-2,2	-1,9	-1,4	-1,0	-0,7
Debt ratio as percentage of GDP	69,4	69,8	64,4	64,5	63,1	61,1	59,2	57,2
	Lower growth scenario							
Gross domestic product	1,7	2,0	2,5	3,3	2,1	1,9	1,4	1,5
Net borrowing as percentage of GDP	-5,1	-3,7	-1,9	-2,2	-2,2	-2,0	-2,0	-2,1
Debt ratio as percentage of GDP	69,4	69,8	64,4	64,5	64,0	63,3	63,1	62,9

Source: WIFO, September 1998; Federal Ministry of Finance

Diagram 8 shows the trend of the debt ratio in three growth scenarios up to 2010; the technical assumptions from 2002 are a nominal GDP growth rate of 4.5% a year, a deficit ratio of 1.5% and a stock flow adjustment of half a percent of GDP.

Diagram 8: Trend of debt ratio in three scenarios up to 2002 and trend up to 2010



Source: WIFO, September 1998; Federal Ministry of Finance

At the end of 1997 20.3% of government debt was denominated in foreign currency, of which approximately 40% relates to currencies which are changing over to the Euro. Some 12% of government debt is denominated in the currencies YEN, SFR and USD. A simultaneous ten per cent devaluation/revaluation of these currencies would reduce/increase the debt ratio by some three quarters of a percentage point of GDP.

The risks for the deficit of higher interest rates on government debt can also be regarded as low. Just under 80% of government debt is borrowed at fixed interest rates and at the end of 1997 the average maturity of existing (Federal) debt was 5.9 years. In comparison with the standard scenario a lasting rise in the interest rate level of one percentage point from 1999 would (on the basis of the existing redemption plan) cost the public deficit some ATS 6 billion or 0.2 percentage points of gross domestic product in 2002 (i.e. interest payments would be 3.6% of GDP instead of 3.4%).