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Commission assesses the Austrian stability programme

The European Commission made a recommendation to the Council of Ministers on the Austrian stability programme. The recommendation was made in accordance with the new reinforced procedures of the Stability and Growth Pact for the monitoring of the economic and budgetary policies of the countries of the European Union (EU). The Austrian stability programme covers the period 1998-2002 and envisages a reduction in the general government deficit ratio to 1.4% of GDP and in the gross debt ratio to 60% of GDP by the end of the period of the programme. The Commission concludes that the envisaged deficit target provides the necessary margin to prevent the government deficit from exceeding the 3% of GDP reference value under normal cyclical conditions. The Commission considers, however, the budgetary strategy appears risk prone and that an additional safety margin would be necessary to insure against unforeseen developments in economic activity and in the public finances. In addition, such a safety margin would provide room for the potential use of active budgetary policy and help secure a faster decline in the debt ratio. The Commission deems the general thrust of structural measures announced in the programme appropriate and in line with the Broad Economic Guidelines agreed at the Cardiff European Council. On the basis of the Commission's recommendation, the Council is expected to adopt a formal opinion on the Austrian programme on 18 January.

The Commission recommendation is adopted on the initiative of President Jacques Santer and Yves-Thibault de Silguy, the Commissioner responsible for economic, monetary and financial affairs, as part of the procedures in the Stability and Growth Pact for surveillance and co-ordination of national economic and budgetary policies at the EU level.

The Stability and Growth Pact, agreed by the Amsterdam European Council in June 1997, requires countries participating in the euro zone to present stability programmes to the Council and the Commission. These programmes aim to demonstrate how countries intend to meet the objectives of the Pact and in particular the medium-term goal of a budget close to balance or in surplus. The programmes cover the current year and at least three future years (the Austrian programme covers the period 1998-2002).

The Commission's main conclusions are the following:

- the programme is based on a realistic macroeconomic scenario which assumes output growth of close to trend growth over the projection period;
- the programme envisages a reduction in the general government deficit ratio to 1.4% of GDP and in the gross debt ratio to 60% of GDP by the year 2002;
- budgetary consolidation will be achieved by a reduction in the expenditure-to GDP ratio which will be only partially offset by an expected decrease in the revenue-to-GDP ratio;
- the programme provides the required margin to prevent the government deficit from exceeding the 3% of GDP reference value under normal cyclical conditions;
- the envisaged medium-target represents, however, only a minimum position which is risk-prove and does not insure against unforeseen developments in economic activity and in public finances. In particular it precludes the potential use of active budgetary policy and does not provide for a swift decline in the debt ratio which would be warranted in view of the longer-term financial burdens arising from population ageing;
- to widen the safety margin, more ambitious targets would have been appropriate; for this reason, the Austrian government should make every effort to surpass the budgetary targets set in the stability programme;
- the general thrust of the structural policy measures set out in the programme appears appropriate and in keeping with the Broad Economic Policy Guidelines; a rapid and determined implementation of the reforms would be conducive to the achievement of the objectives of the stability programme.

Key figures of the Austrian stability programme

	1997	1998	1999	2000	2001	2002
Real GDP growth rate (annual % change)	2.5	3.3	2.8	2.6	2.1	2.2
General government budget deficit (% of GDP)	1.9	2.2	2.0	1.7	1.5	1.4
Government debt (% of GDP)	64.4	64.4	63.5	62.2	61.2	60.0
Inflation (Harmonised CPI, annual % change)	1.2	1.1	1.0	1.5	1.8	2.0
Unemployment rate (Eurostat definition, in %)	4.4	4.6	4.6	4.3	4.1	3.9

Source: Stability Programme for Austria (1998-2002).