Austrian stability programme

Update of the Austrian stability programme for the period 2000 to 2003

Federal Ministry of Finance
Vienna, March 2000

FEDERAL MINISTRY
OF FINANCE

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1. Introduction and summary

In accordance with Regulation (EC) 1466/97, each Member State is to submit a stability programme (participants in monetary union) or a convergence programme (non-participants) annually. Austria herewith submits its stability programme for the period 2000 to 2003.

By 2005 Austria will reduce the public deficit to 1% of gross domestic product (GDP), with the Federal Government deficit coming down to 1.5% of GDP. In the long term, it is seeking to achieve a balanced Federal budget. The general government debt ratio will also be reduced to the reference value of 60% of GDP by 2005 at the latest.

This update of the stability programme has been drawn up using the new ESA 95 statistical basis,[1] the most recent economic assessment, the Federal budget for 2000 and planned maeasures in subsequent years. **Consolidation will be maintained over the period 2000 to 2005** on the basis of significant savings on the expenditure side and tax cuts, and further reforms will be carried out in the areas of structural policy, the labour market and pensions. In this regard, the Federal Government will align itself on Broad Economic Policy Guidelines and the Employment Guidelines in order to work constructively and cohesively towards furthering integration between the Member States. In particular, the Federal Government has the following economic-policy priorities:

- to reduce public deficits
- to make Austria more attractive as a business location
- to increase the expenditure-to-GDP ratio for R&D
- to combat unemployment unremittingly
- to renew social-protection systems
- to safeguard pensions and retirement provision
- to reform government tasks and public services
- to sell Federal Government's shares in firms.

Alongside the measures outlined in this programme, which have already been agreed politically, numerous expert working parties will propose additional measures to be implemented from 2001 on.

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 slippages appear, to take swift action to achieve the Government's targets.

This programme may be consulted on the website of the Austria Federal Ministry of Finance: http://www.bmf.gv.at

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1 Council Regulation (EC) No 2223/96 on the European system of national and regional accounts in the Community

2. Austria's economy in 1999/2000

2.1 Continuation of Austria's economic stability

The increase of domestic demand and employment was better than expected in 1999. Austria's economy grew in line with the trend in the Union (Figure 1), although less rapidly than forecast in the 1998 stability programme. Developments on the international financial markets (Asia, Russia), which took place in 1998, affected the growth rate, which fell to 2.2%.

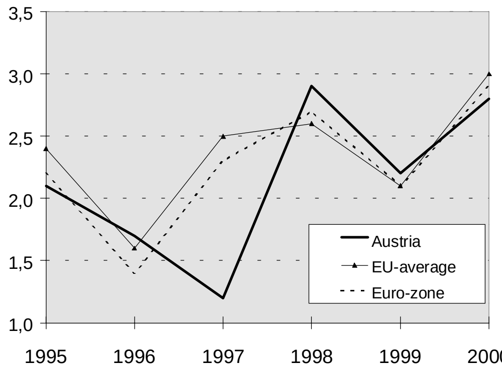
Owing to a 1.1% increase in employment, the unemployment rate fell by 0.5 points in the course of the year, from 4.6% in January 1999 to 4.1% in February 2000 (Figure 4). However, unemployment among the over-50s did not fall.

As a result of the moderate wage growth (1999: +2.3% per capita) and the continuing, competition-increasing effects of EU accession, "core" inflation has remained low in Austria. Nevertheless, the dramatic rise in oil prices in autumn 1999 has led to a significant increase in inflation. Of the (still provisional) 1.9% year-on-year increase in the harmonised consumer price index (HCPI) in February 2000, just under 1 percentage point was attributable to the rise in energy prices (Figure 3). However, in spring 2000, Austria continues to be one of the countries with the lowest inflation rate in the EU. This should remain the case because wage increases in 2000 will be well below those of 1999.

Long-term nominal interest rates initially fell within the euro zone before rising beginning in the second quarter of 1999 to more than 5¾% (20 March 2000: 5.50%), partly as a result of the "flight to quality" and of an alignment towards the US market level (Figure 2). It is worth noting that only since participating in the euro has Austrian Federal debt shown a visible liquidity premium against the European benchmark (German Federal debt), which despite an increase in each volume of issues is currently some 25 basis points. In 1999 the euro fell sharply against the US dollar and, more particularly, the yen (Figure 6). Overall, therefore, it may be said that the monetary policy of the ECB has probably had a moderately growth-boosting effect on Austria in 1999.

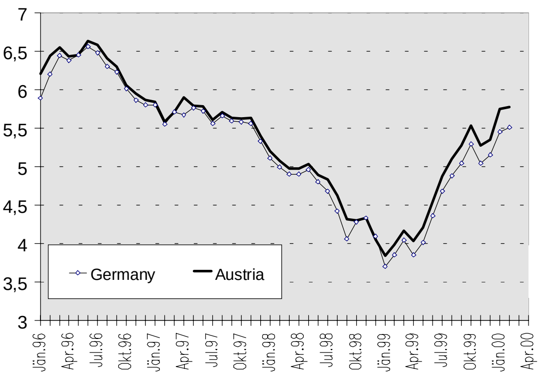
The current account deficit remained high at an estimated 2¼% of GDP (Figure 5). According to a provisional cash-based calculation, the balance of payments on goods and services was slightly better in 1999 than in the previous year. The current transfers balance remained markedly negative (1% of GDP), partly because of transfers to the EU budget. The incomes balance worsened by 0.4% of GDP to -0.3% of GDP. The increase in net indebtedness from long-term fixed-rate securities and the lower balance of other investment contributed to this situation.

Figure 1: Real economic growth in Austria and in the EU 1995 to 2000



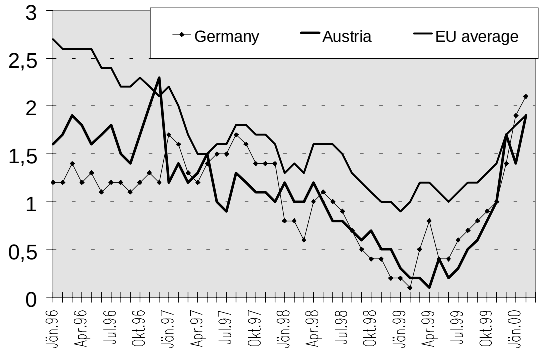
Source: Statistik Österreich, WIFO, December 1999, European Commission, November 1999

Figure 2: Long-term interest rates as percentages in Austria and Germany 1996 to 1999



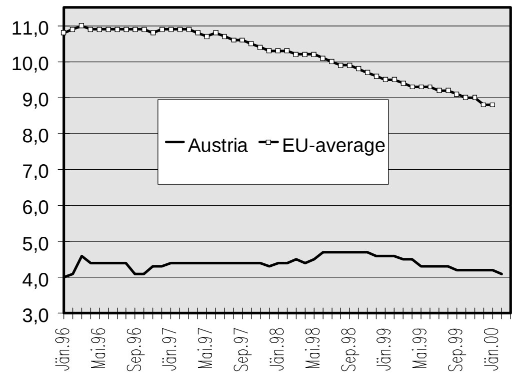
Source: OeNB

Figure 3: Harmonised consumer prices in Austria, Germany and on average in the EU 1996 to 1999



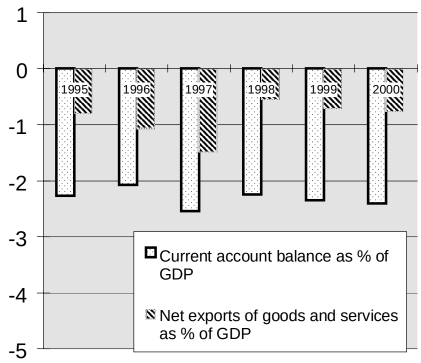
Source: EUROSTAT

Figure 4: Unemployment in Austria compared with EU average 1996 to 1999



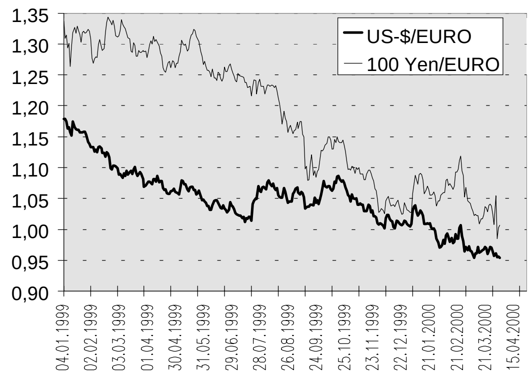
Source: European Commission, Labour Market Service

Figure 5: Current account balance as percentage of gross domestic product, 1995 to 2000



Source: Statistik Österreich, OeNB, WIFO, December 1999

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



Source: European Central Bank

2.2 Public budgets in 1999

The 1998 stability programme was statistically based on the European System of Integrated Economic Accounts, Second Edition (ESA 79). Since 1999, ESA 95 has been applicable. This has changed important macroeconomic aggregates significantly, e.g. the GDP growth path is much flatter than in the previous calculation. The new method of calculation also changes the statistical presentation of the public finances significantly.

Table 1 shows the public budget deficits projected in the 1998 stability programme, the outturn on the basis of ESA 79,[2] the comparable data on the basis of ESA 95 and the expected value for 2000 (estimates). It shows that the target values set out in the programmes have all been met. The public budget balance worsened temporarily in 1998 compared to 1997 as a result of a number of measures being discontinued.

2 Up to and including 1999, ESA 79 is applicable for the purposes of Article 104 of the EC Treaty.

Table 1 Overall public budgets deficit, 1995 to 2000

	1995	1996	1997	1998	1999	2000
	as % of GDP					
Balance according to Convergence Programme 1997	-5,1	-4,0	-2,7	-2,5	-2,2	-1,9
Balance according to Stability Programme 1998	-5,1	-3,7	-1,9	-2,2	-2,0	-1,7
Actual Balance ESA 79	-5,1	-3,7	-1,9	-2,2	-	-
Actual Balance ESA 95	-5,1	-3,8	-1,9	-2,5	-2,0	-1,7
1) 2000: Planned according to Stability Programme 2000						

Source: Statistik Österreich, Federal Ministry of Finance

Provisional Federal Government budget results in 1999
The budget deficit for 1999, as calculated on an administrative basis, was ATS 68.2 billion, i.e. almost ATS 2 billion less than originally estimated. This is equivalent to 2.5% of GDP. The Maastricht deficit (ESA 95) was ATS 64 billion, or 2.4% of GDP. Thus the target forecast in the 1998 stability programme has been undershot.

The main aims of the 1999 budget were:
1. to step up the fight against unemployment,
2. to spend more on education, science and research,
3. to provide more money for families, and
4. to increase spending on security.

Expenditure in excess of the budgetary limits arose primarily in the public service as a result of wage rises and higher spending on education, science and internal affairs. Additional expenditure was also incurred on the National Employment Action Plan [Nationaler Aktionsplan für Beschäftigung], on measures to reduce youth unemployment and on pensions. Federal tax revenues remained below expectations. On the other hand, transfers from the EU-budget were higher than expected, as were transfers of profits from the Austrian National Bank, interest on Federal Government securities and profits from issues.
At the end of 1999, the public debt ratio stood at 64.9% of GDP. It should be borne in mind that the extremely strong increase in the value of the yen and the appreciation of the Swiss franc led to a rise in debt by ATS 29.5 billion, or 1.1% of GDP.

2000 tax reform

The tax reform for 2000, which entered into force on 1 January 2000, pursues the following aims:

1. reducing the tax burden on wages and other personal income,
2. support for families and children,
3. enhancing the position of Austria as a business location and increasing employment,
4. simplifying and eliminating bureaucracy and ending various loopholes, and
5. cutting costs by optimising administrative procedures.

Table 2 shows the individual measures forming part of the "2000 tax reform" (with that part of the family package which will be applicable as of 2000).

Table 2: Effects of the 2000 tax reform on the public budget balance calculated in accordance with ESA 95 for the years 2000 to 2003 (on 1999 basis, cumulative)

	2000	**2001**	**2002**	**2003**
	ATS billion			
Tax schedule reform	-15.0	-16.8	-17.0	-17.0
Return on equity	0.0	-0.2	-0.5	-0.5
Loss participation	0.0	0.5	1.0	1.0
Research allowance	0.0	-0.2	-0.5	-0.5
Apprenticeship allowance	0.0	-0.2	-0.5	-0.5
Old-age provision	0.0	-0.2	-0.5	-0.5
Assistance for business start-ups	-0.6	-0.6	-0.6	-0.6
Business transfer	0.0	-0.3	-0.3	-0.3
Flat-rate turnover-tax scheme/agriculture	-1.0	-1.2	-1.2	-1.2
Miscellaneous	-0.3	-0.9	-0.8	-0.7
Family assistance	-6.0	-6.0	-6.0	-6.0
Total	**-22.9**	**-26.1**	**-26.9**	**-26.8**
As percentage of GDP	0.8	0.9	0.9	0.9

Source: Federal Ministry of Finance

3. Economic policy up to 2003

3.1 Assumptions regarding monetary and exchange-rate policy and prices

Since the introduction of the euro, monetary policy is conducted by the European System of Central Banks (ESCB) while exchange-rate policy for the euro is conducted by the Council of the European Union (participating Member States).

In accordance with Article 105 of the EC Treaty, the objective of monetary policy in the currency union is to maintain price stability. The scenarios of the present programme assume, in line with the latest European Commission forecast, that the inflation rate in the euro zone will average 1¾% a year until 2003.

For Austria it is assumed that social partners will maintain their successful independent wage and incomes policy. This shall be supplemented by additional steps to increase flexibility at enterprise level, so that sectors and firms are well prepared to absorb asymmetric shocks in the monetary union. Such flexibility reduces the risks for budgetary planning. In the light of the anticipated economic trend (see section 4), cost-induced pressures on the inflation rate are likely to remain moderate. The public budgets are expected to generate tax-induced price effects of some 0.4 percentage points in both 2000 and 2001. However, structural reforms (see sections 3.3 and 3.4) should keep inflation in check. Overall, Austrian inflation should be lower than in the euro zone as a whole.

Euro-zone interest rates rose again in 1999. In the first quarter of 2000, long-term real rates were at around 3¾% in the euro zone and around 4% in Austria. Over the forecast period, short-term interests might rise slightly as the economy improves in 2000 (the ECB raised its main refinancing rate to 3.5% on 16 March). Up to 2003, it is plausible to assume that average long-term nominal interest rates will remain at their current level (see Table 5). On current market expectations, the US dollar is likely to lose some of its value against the euro.

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

The aim of Austrian economic policy is to make a positive contribution to a stable and balanced economic trend in the European Union and the euro zone. Austria thus is committed to adhere to the stability and growth pact. For budgetary policy the obligation under Article 104 of the EC Treaty applies, namely that the public budget deficit overall may not exceed 3% of GDP. The budget deficit should therefore be reduced so far as to remain below 3% of GDP without special corrective measures, in the event of a cyclical downswing.[3] In this respect, a deficit of 1½% of GDP would still seem sufficient to cover normal cyclical fluctuations. However, as indicated in the 1998 stability programme, a deficit of this size hardly permits active corrective measures. In the interests of future generations, the new Federal Government will therefore reduce the deficit still further. The long-term goal is to achieve a balanced budget.

The aim up to 2005 is for an overall public deficit of 1%. The overall debt ratio will be reduced to 60% of GDP. The interim goal for 2003 is to achieve an overall public deficit of 1.3%.

The most urgent objective is to meet the obligations entered into in the 1998 stability programme, primarily through spending cuts. The deficit-increasing effect of tax reductions under the 2000 tax reform (see Table 2) is to be offset by gradual and structural savings on the expenditure side.

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[3] 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 insurance. While this stabilises income and hence demand, it increases the public deficit by comparison with a more favourable economic situation.

However, in order to meet the deficit targets in both 2000 and 2001, other revenues must first be increased (whilst the overall tax ratio continues to decline). One-off measures will also be implemented. When successfully implementing expenditure programmes, further tax cuts will be made, particularly on labour, so that the tax burden falls even more (see also Table 7).

Table 3: Federal measures affecting the public budget balance, calculated in accordance with ESA 95 for the years 2000 to 2003 (cumulative), as compared to the status quo (1999 legal situation)

	2000	2001	2002	2003
	ATS billion			
Expenditure:				
Staff expenditure	-1.3	-5.2	-8.5	-10.1
Pension insurance	-0.0	-5.0	-10.0	-15.0
Other social transfers	-0.0	-3.0	-3.0	-3.0
Discretionary spending	-10.0	-8.0	-8.0	-8.0
Family assistance	0.1	0.6	6.0	7.0
Miscellaneous[1)]	-3.2	2.6	2.6	2.6
Total current expenditure	**-14.4**	**-18.0**	**-20.9**	**-26.5**
Revenues:				
Motor vehicle-related insurance tax	3.7	5.0	5.2	5.3
Tobacco duty	0.6	1.2	1.2	1.2
Electricity levy	2.1	4.0	3.1	3.2
Fees	0.6	2.0	2.0	2.0
Non-wage labour costs	0.0	-4.9	-8.4	-8.4
Total current revenues	**7.0**	**7.3**	**3.1**	**3.3**
Sale of licences and real estate	9.0	8.0	8.0	8.0
Total	**30.4**	**33.3**	**32.0**	**37.8**
As a percentage of GDP	1.1	1.1	1.1	1.2

1) Balance
Note: This table contains projected figures and/or estimates. The corresponding statutory measures are currently being prepared.
Source: Federal Ministry of Finance

In concrete terms, the Federal Government's strategy consists of the following measures:

- By 2003, a total of ATS 10 billion of the expected increase in personell expenditure in all areas of government activity will have been saved on a lasting basis. The core measure is a 9 000 reduction in the number of Federal civil servants (excluding Federal teachers and universities) by 2003. This will be achieved by an annual 2% staff reduction (through natural fluctuation) throughout the life of the current parliament. In the area of universities and education (Federal and Land teachers) measures will also be taken to reduce staff expenditure on a lasting basis. By introducing annualised working-time models in the public service from 1 January 2001 it is hoped that lasting savings of ATS 1.2 billion on overtime payments will be possible. A policy of wage moderation from 2001 to 2003 will also curb spending. Regional and local authorities are also invited to implement appropriate measures in their areas.
- By 2003, the expected increases in **pensions** (Table 4 shows the development of statutory pension insurance) are to be reduced by ATS 15 billion (in 2003) by applying the inflation adjustment to existing pensions and on the basis of other measures planned.
- Public expenditure is to be examined as to whether it reaches those most in need with the aim of achieving savings of ATS 3 billion a year. Regional and local authorities are asked to take part in this process.
- **Discretionary** (i.e. non-obligatory) **expenditure** is to be cut as a result of the following measures: reform of the Federal Government's procurement practice; reduction of fringe benefits; 20% reduction of costs of representation; reduction of public-relations expenditure; review of maintenance and repair policy, to identify possible savings; freezing of travelling and expense allowances; zero-base budgeting for aid, acquisitions of equity and membership dues; drawing-up of a space-utilisation plan for the public administration.
- The labour market Service will be made legally independent**.**

- **Government tasks** are to be concentrated on **core functions**, inter alia by continuing on the course of transforming certain areas into independent companies; Federal transfers to all hived-off areas are also to be limited. Over the life of the parliament, hiving-off is planned (from 2002) in the following areas, representing total expenditure of some ATS 23 billion and involving some 30 400 posts: technical establishments and establishments directly serving industry; the maximum hiving-off of control and valuation activities; the transfer of selected social services (advice, care services) to private persons (with quality control) and the privatisation of business areas. A **Task Reform Commission** composed of outside experts has been set up at government level. Its remit is to present, by the end of 2001, proposals for the medium and long-term reduction of tasks and of the government spending associated with those tasks.

On the revenue side, the following measures are being taken:

- Setting-up of a Tax Reform Working Party with the aim of making wide-ranging proposals by the end of 2000 for increasing the Austria's attractiveness as a location for business and labour, simplifying the tax system, including tax collection and systems of rebates or extra payments, with a view to improving compliance, and reducing the tax ratio, all within the limits of budgetary possibilities.
- Increase of tobacco duty.
- Increase of the electricity levy by 10 groschen/kWH while maintaining the existing ceiling.
- Uprating of motor vehicle-related insurance tax.
- Phased ATS 15 billion reduction of non-wage labour costs by 2003 (only part of this will affect public budgets).
- Measures in the area of **sickness insurance** to increase cost awareness and to help curb costs.
- Privatisation (sale) via the BIG of all **real estate** not necessary for administrative purposes.
- Use of the **proceeds of privatisation and sales** for debt redemption, to reduce the budget deficit further or for R&D projects.
- Increase on 1 January 2002 (target date) of the HGV toll to approx. ATS 2/km, taking account of international trends; tax disc prices (annual tax disc ATS 1 000, appropriate increase for other tax discs) are to be increased on 1 January 2001 (total additional revenues for road operators are estimated at approximately ATS 4.8 billion in 2003).
- The following measures to reduce the **level of debt** are planned by the Federal Government: as part of the Government's privatisation mission, the ÖIAG will, as a priority, sell the following firms or shares in them to new owners, strategic partners or the public:
- Österreichische Staatsdruckerei GmbH
- Dorotheum Auktions-, Versatz- und Bank-Gesellschaft m.b.H.
- Print Media Austria AG
- Flughafen Wien AG
- Österreichische Postsparkasse AG
- Telekom Austria AG
- Austria Tabak AG
- Further privatisations will be examined in a second phase. In carrying privatisations out, the ÖIAG is required, in the public interest, to obtain the best possible return while taking account of the firms' and national interests. The necessary draft legislation has already been submitted to Parliament. Moreover, the ÖIAG will continue to make its expertise as a privatisation agency available for firms not directly within its portfolio.

These privatisations will enable the existing liabilities of the ÖIAG and the PTBG to be repaid and the Federal Government's liability for debts to be permanently discontinued. Any participations remaining with the OIAG after repayment of all liabilities will continue to be held by it pending further privatisation instructions from the Federal Government, with additional sales of under a share of 25% plus one share being possible if strategic syndicates are guaranteed for the purpose of strengthening Austria's position as a decision-making location. Depending on how privatisation progresses, these measures will also reduce the level of public debt in accordance with Article 104 of the EC Treaty.

3.2.1 The Federal budget for 2000

The budget forecast has shown that, without active countermeasures, the Federal budget would, in administrative terms, have shown a net deficit of ATS 109 billion in 2000. The forecast deficit is to be compressed by four packages of measures to a level of ATS 62 billion, which is consistent with the Maastricht Treaty, with the administrative deficit being substantially smaller - some ATS 55 billion - as a result of special factors. These measures include:

- savings on operating costs and staff expenditure (approximately ATS 14.5 billion);
- reallocations in the area of Family Burden Equalisation Fund [Familienlastenausgleichsfonds - FLAF], unemployment insurance and the Environmental and Water-Management Fund [Umwelt- und Wasserwirtschaftsfonds - UWWF] (total of some ATS 13 billion). For example, any FLAF surpluses from 1999 and 2000 will be used to offset expenditure on the pension insurance scheme and on child allowances;
- some ATS 20 billion will be used to consolidate the budget on the basis of various measures such as the auctioning off of mobile-telephone licences, the sale of real estate or the liquidation of reserves;
- some ATS 7 billion should come from an increase in revenues from the tobacco duty, the electricity levy, motor vehicle-related insurance tax and the adjustment of charges and fees.

3.2.2 Social insurance

In autumn 1997 a reform of the public **pension insurance systems** was initiated. The long-term viability of the pension system in Austria was improved by the following measures: (1) an increase in the discount of the replacement rate in the event of early retirement; (2) a wide-ranging reduction in the differences between private sector and public sector employees and the approximation of all systems; (3) a lengthening of the contribution periods on which pensions are based. This reform gives rise to long-term savings of some 1½% of GDP.

However, this reform has not done enough to curb the rise in pension expenditure (see Table 4). Additional measures will therefore be necessary which should reduce expenditure by ATS 15 billion (0.5% of GDP) by 2003: To this end an expert commission was established which shall propose further measures to adapt the public pension system in view of societal change. As soon as its report is forwarded the Federal Government will adopt concrete measures.

Table 4 The statutory pension-insurance system, 1995-2004

	1995	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Number of pensions (x 1 000)	1822	1856	1883	1903	1926	1957	1988	2016	2042	2072
Number of insured persons (x 1 000)	3015	2998	3021	3058	3103	3139	3175	3195	3216	3239
Pension/1000 insured persons	604	619	623	622	621	623	626	631	635	640
Number of early-retirement pensions	155	182	205	221	227	236	244	255	266	272
As a percentage of total pensions	8.5	9.8	10.9	11.6	11.8	12.1	12.3	12.6	13.0	13.1
Pension expenditure (ATS bill.)	218.9	231.7	237.9	246.9	259.0	265.9	278.9	293.2	308.4	324.6
Federal contribution (ATS bill.)	52.3	53.8	54.7	56.8	63.0	65.5	70.3	76.6	83.1	89.5

Note: If the latest economic forecasts are applied, the predicted rise in pension expenditure is lower.
Source: Pensionsbeirat, November 1999;

- For the Federal civil service, the Federal Railways, the Post and Telecommunications Administration and Länder-employed teachers, the pension contribution for those in active employment and the pension-security contribution for pensioners will each be increased by 0.80%. Other public authorities are being asked to also raise the pensionable age or implement the same arrangements.
- A Committee of Experts has been set up to discuss further reforms designed to adapt the pension system to social changes, within the following remit: existing pensions are to be left unchanged; annual account is to be taken of increasing life expectancy when fixing pensions after the entry into force of the higher qualifying age for pensionable early retirement; there should be a single pension system for persons starting work in the private and public sectors, with account being taken of different contribution arrangements; examination of need for survivors' pensions if the recipient also has high earnings or a large pension of his/her own; old-age protection for women who have contributed to insurance for a shorter time because of family commitments due to separation; further improvement of the law relating to company pensions; introduction of a personal pension account so that everybody who is covered can check his/her entitlements at any time; review of contribution and calculation periods; review of increments.
- Depending on how the budget balance develops, further tax relief for private old-age provision is envisaged.

<u>The various social insurance institutions</u> are to be merged if this guarantees efficiency, reduced costs, other synergistic effects, continued accessibility to the public and quality maintenance.

Measures are to be taken in the area of <u>sickness insurance</u> in order to ensure that the increase in costs does not exceed the increase in revenue. Moreover, it is envisaged to shift certain medical services away from hospitals and to ensure progress in medical services. An expert group was established. As soon as this group puts forward its proposals, the Federal Government will adopt concrete measures.

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, partly by hiving off services from the public budgets. Both the Länder and the local authorities are also pursuing a privatisation strategy. Some Länder have reformed their salary and pension systems.

For the upcoming regional burden sharing round, the Federal Government will push for better matching of responsibilities and expenditure also with regard to certain earmarked revenues, and for discussion of the suitability of individual taxes and levies in relation to economic policy and to making Austria an attractive business location (irrespective of the financial base). The Länder and local authorities will also be encouraged to fulfil their respective savings potential, especially in the area of administrative costs and to review of their respective responsibilities, so as to establish a fair financial partnership between the various levels of government, with the aim of achieving a combined positive budget balance of 0.5% of GDP.

In a ruling on 9 March 2000, the Court of Justice of the European Communities ordered the abolition of a tax on alcoholic beverages (the "Getränkesteuer"), the revenues from which accrued to the local authorities. This would lead to a reduction in revenues of some 0.15% of GDP. Measures to make this tax compatible with EU law are already under way.

3.3 Structural policy

Structural policy is directed towards improving the **attractiveness of Austria as a business location**, strengthening the country's international competitiveness and thereby securing and creating jobs. The following measures are planned to that end:

- Improvements in the conditions governing the Austrian **capital market:** strengthening of the growth segment of the Vienna Stock Exchange in favour of small and medium-sized firms; strengthening of the venture-capital segment by complementing the liability model with a credit model for private venture-capital recipients; liberalisation of the investment rules for venture-capital providers in line with international practice; the tax rules governing equity financing for SMEs are to be improved.
- **Rural development**: The Federal Government is committed to an active policy favouring rural development and gives due regard to implementing the new pillar of the EU common agricultural policy within the Agenda 2000.
- The **R&D ratio** is to be increased in stages to 2.5% of GDP by 2005. Domestic SMEs and potential young entrepreneurs are to be supported in their research efforts and be provided with the necessary know-how and risk capital. This will be funded by privatisation proceeds in excess of the amounts needed to settle debts, and other one-off sources of finance - provided other needs do not exist. A Research and Development Council is to be set up to prepare a long-term Austrian R&D strategy and to monitor its phased implementation; links are to be established with European partners, with the expansion of the network of industry-related service centres and of clusters. In a broad-based information campaign, the growth and employment potential of new technologies is to be emphasised. The use of European R&D programmes is to be improved.
- **"Österreich digital"** is a partnership between industry and the Government aimed at the rapid development of the information society by means of the following measures: expansion of the transmission infrastructure; appropriate training in all types of schools and in further education, including technical universities and colleges; greater use of electronic media in training and further training; near-market regulation of e-commerce; support programme for Internet use by SMEs; exploitation of Austria's cultural heritage in digital form; support by established firms (capital, know-how) for business start-ups in the area of the digital economy.
- In all sectors in which there is no collective agreement, **flexible working time** will be made possible at company or individual level. As agreed with the EU, Austria will bring into force gender-neutral rules governing night work by 2001. The sanction mechanisms of the law on working time are to be reviewed.
- **Shop opening hours**: Monday-to-Saturday opening hours are to be increased from the current maximum of 66 hours to 72 hours (although existing special arrangements, such as those in the food sector, will remain in force). The law on Saturday employment in retail trade will be made more flexible. Sunday closing will be maintained.
- **Liberalisation of the energy market:** The aim is to achieve a rapid and complete opening-up of the electricity and gas markets, combined with freedom of choice for households and businesses. Privatisations are planned. Cluster formation in the energy sector will be encouraged with a view to linking up infrastructure, production, know-how and services.
- **Reform of banking supervision:** Establishment of a banking supervisory authority which is politically independent and not subject to instructions, according to the international model.
- **Privatisations** (see section 3.2)
- **Law governing industrial plants:** As a first step, the relevant EU Directives will be transposed in 2000. The environmental-assessment procedure will be simplified and speeded up. Secondly, a far-reaching concentration of procedures is planned not later than 2001, with the creation of a network of one-stop shops at district level. Finally, a single legislative act will be adopted covering the matters falling within Federal competence, not later than 2002.
- **The reform of government expenditure and responsibilities** is to be implemented on the basis of the following structural policy measures: Improvement of access to the authorities via electronic media. By 2005, it should be possible to perform all administrative procedures electronically. All authorities should draw up standards for carrying out their duties. Official contacts are to be reduced by applying the one-stop-shop principle, with the necessary agreements to be concluded between the Federal Government, Länder and local authorities. Data registers are to be linked up. By 2001, concrete targets and implementation plans should have been established. A Federal Information Agency will be set up to improve communication with the public. The follow-up costs to the national economy should also be indicated in laws and regulations. Care should also be taken to ensure that regulations are drafted in simple and clear terms. To that end, a small "Better regulation" expert group will be available to provide early advice to departments drafting laws and regulations. When EU Directives are being transposed, standards which go beyond transposal have to be substantiated.

3.4 Labour market policy

Increasing the level of employment and reducing unemployment are important aims of Austrian economic policy. This employment focus of economic strategy, which is based on a stability-oriented macroeconomic policy and a wages and incomes policy which takes account of the overall economy, has greatly contributed to the favourable situation of the Austrian labour market as compared with that of other countries.

In accordance with the priorities set out at the Luxembourg Employment Summit, the Austrian Federal Government, acting in cooperation with the social partners, presented a National Employment Action Plan in April 1999. The measures it proposes are to help increase employment by 100 000 jobs and to reduce the unemployment rate to close to 3.5% by the end of 2002.

The following new measures are planned:

- **Reduction of non-wage labour costs**/labour costs by ATS 15 billion (0.5% of GDP) by 2003.
- As part of the measures to secure the pension system, the Länder, local authorities, social partners, the Labour Market Service (AMS) and the social-insurance institutions are cooperating in preparing **a package of measures for older workers**, which is due to enter into force not later than 1 October 2000.
- **An active labour-market policy:** Expenditures for active labour-market policy, which were increased by 36% in 1999, will not be cut (though frozen in nominal terms). Measures for older workers and women will be boosted. The existing measures and the content of the National Employment Action Plan will be evaluated.
- **The unemployed are to receive better and more efficient job-placement services.** The AMS is to be converted into a limited-liability company. The statutory provisions will be simplified so that fewer staff are needed for the administration of unemployment benefits. The introduction of performance-related pay for AMS employees is being sought. The one-stop-shop principle (job-placement and payment of benefits) is to be implemented. The AMS is to be expanded into a modern Info-Point using the Internet. The barriers for private employment agencies are to be abolished and they are to be encouraged to cooperate more closely with the AMS.
- In order to provide social protection for the large number of new entrepreneurs, a **new, voluntary unemployment-insurance scheme**, designed particular for young businessmen and the newly self-employed, is to be set up. At the same time, the funding of the contribution designed to safeguard the claims of the self-employed will be examined.
- More permeability between professions and a relaxation of professional protection is being sought for related professions in order to increase the effectiveness of job placement.
- **The long-term unemployed** (recipients of social aid and social assistance) are to be required to work for the local community (in the health and care sectors, monument protection, environmental protection, maintenance of parks and public gardens), for which they will receive a 20% bonus on top of their benefit.
- **Conversion of severance pay into a pension:** Instead of the existing severance pay, companies are to pay part of the wages of persons starting their working life into an external pension fund, the amount being calculated according to actuarial principles. Companies will be required to make these payments for a maximum of 25 years per person. In order to provide an incentive to employ older workers, the pension fund contributions should be paid up to the age of 45 years. Transitional rules will be applicable to existing entitlements.
- **The linking and coordination of existing Federal, Land and local authority social benefits:** Experience is to be gathered on the basis of pilot projects to determine whether the administration of social benefits might be modernised by centralising applications and payments at a single "social-service point" at district level, in line with the one-stop-shop principle.
- In the event of sickness, **white- and blue-collar workers** are to enjoy the same conditions with no effect on costs.
- **Benefits** under the unemployment, accident and sickness and pension insurance schemes will be reviewed from the point of view of social justice. The conditions for entitlement to unemployment benefit will be clarified, partly in order to prevent improper claims. The rules governing the type of job offer which can be considered acceptable will be tightened up. If recipients of unemployment and social aid benefits are found to be doing undeclared work, they will have to repay at least 30 days' worth of benefits.

- **Better social integration of disadvantaged groups,** e.g. by means of work assistance, the adaptation of jobs for the disabled, employment projects geared to needs (e.g. the socially beneficial provision of labour in the health and care sector). Full commitment of the Federal Government to employ disabled persons, as legally requested.
- Better treatment of foster parents under the pension-insurance system.
- **Improvement of employment and social law enforcement.**
- Within the limits of its statutory responsibilities and possibilities, the Labour Inspectorate will fulfil more of a service mission for firms and their employees.
- Easing of the registration rules for **household help** (childcare, cleaning services, care of the elderly), with payment arrangements being made less bureaucratic.
- For 2000 and 2001 limited-term **work permits** will be issued for up to 8 000 seasonal workers (up to six months) and for up to 7 000 harvest helpers (up to six weeks).

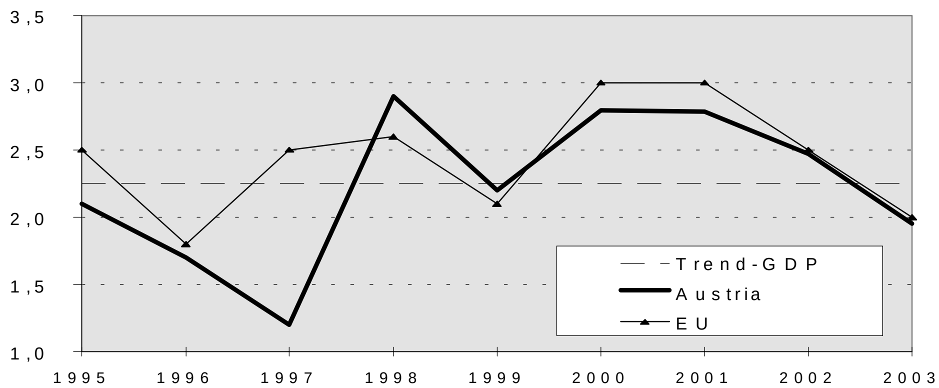
4. The economy and public finances from 2000 to 2003

4.1 The economic environment from 2000 to 2003

The medium-term forecasts of international institutions like the OECD and the International Monetary Fund and the European Commission and the Austrian Institute for Economic Research (WIFO) paint a favourable picture of the economic environment in the medium term. They indicate that Europe is experiencing an upturn which is likely to be relatively robust. Thus, growth rates above the historic potential rate are to be expected up to 2003. The further narrowing of government deficits in the euro zone is taking the pressure off long-term interest rates, which should remain relatively stable (short-term interest rates could respond to the growth dynamic).

The forecast (standard scenario) assumes that real GDP growth between 2000 and 2003 will average around 2½% a year, with the upside and downside risks likely to be symmetrical and determined in particular by international developments. Private consumption will grow more rapidly in 2000 and 2001 as a consequence of the tax reform, but exports and the external contribution are also likely to grow up to 2001 and this in turn should revive investment. General government consumption will be considerably dampened by budgetary consolidation efforts. The wage/price trend should continue to follow a moderate course under the pressure of international competition and structural adjustment, ensuring that inflation rates remain well below 2%. The rise in oil prices is likely to leave its mark on the inflation rate to a significant extent in 2000 only. Tax measures could temporarily push up consumer prices in 2000 and 2001. The current account deficit could stabilise at just under 2% of GDP until 2003 on the basis of an improved services account.

Figure 7: Real economic growth in Austria and the EU, 1995 to 2003



Source: Statistik Österreich; WIFO, January 2000, Federal Ministry of Finance, European Commission, November 1999

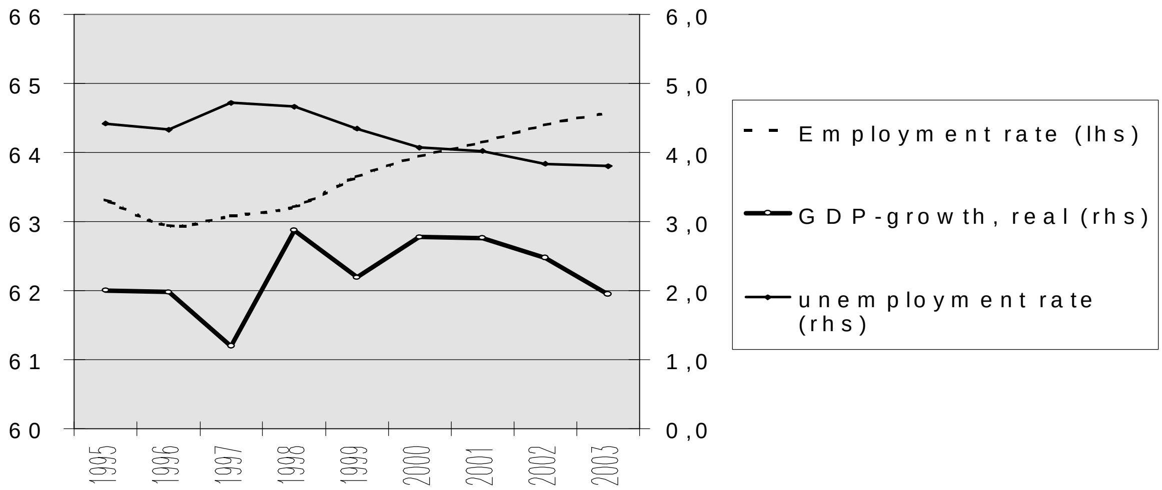
On the labour market, economic growth together with the planned measures should contribute to a marked growth in labour supply (e.g. retirement age, seasonal workers; but partly offset by the extension of parental leave) and in demand for labour (e.g. reduction in non-wage labour costs, shop opening hours, seasonal workers) and thus bring the unemployment rate down to below 4%.

Table 5: Economic trends, 1996 to 2003 (percentage change on previous year)

	1996	1997	1998	1999	2000	2001	2002	2003
Household final consumption, volume	3,2	0,1	1,5	2,3	2,3	2,4	1,6	1,9
Government final consumption, volume	0,6	-3,9	1,5	2,3	-0,4	0,5	0,8	1,0
Gross capital formation, volume	2,1	0,8	6,8	3,3	3,6	4,5	4,0	1,7
Inventories and stat. discrepancy	-0,5	0,3	-0,7	0,0	0,9	0,8	0,7	0,6
Total final domestic consumption	1,9	0,2	2,2	2,3	2,3	2,5	1,9	1,5
Exports of goods and services, volume	6,0	10,1	8,7	4,0	6,1	5,6	5,6	5,3
Imports of goods and services, volume	5,9	9,4	6,9	4,1	4,9	5,0	4,6	4,6
Gross domestic product, volume	2,0	1,2	2,9	2,2	2,8	2,8	2,5	1,9
Gross domestic product, market prices	3,3	2,8	3,5	2,9	3,6	4,1	3,7	3,0
Gross domestic product in bn ATS	2453,2	2522,2	2610,9	2685,9	2782,5	2896,9	3005,4	3095,2
Wages/employee	0,8	0,7	2,8	2,3	2,2	2,9	2,4	2,1
Unit labour costs	-1,0	0,3	1,3	1,2	0,2	0,7	0,7	0,8
Household consumption deflator	2,3	1,8	0,7	0,5	1,4	1,3	1,1	1,1
Harmonised Consumer Price Inflation	1,8	1,2	0,8	0,6	1,5	1,3	1,0	1,0
Dependent employment	-0,6	0,4	1,0	1,2	0,7	0,7	0,9	0,7
Unemployment rate, Eurostat-definition	4,3	4,4	4,7	4,4	4,1	4,0	3,8	3,8
Current account balance as % of GDP	-2,1	-2,5	-2,2	-2,3	-2,3	-2,0	-1,9	-1,8
Economic environment:								
EU-15 GDP-growth, volume	1,6	2,4	2,6	2,1	3,0	3,0	2,5	2,0
Exchange rate US-$/Euro*	-	-	-	1,050	1,019	1,042	1,042	1,042
EU-15 HCPI	2,4	1,7	1,3	1,2	1,7	1,7	1,7	1,7
Issue yield on government bonds	6,3	5,7	4,7	4,7	5,7	5,7	5,7	5,7

*ATS/euro conversion rate: 13.7603 ATS/euro
Source: Statistik Österreich, WIFO, Federal Ministry of Finance

Figure 8: Employment rate, unemployment rate and economic growth in percentage terms, 1995 to 2003



Source: Statistik Österreich, WIFO, Federal Ministry of Finance

4.2 Public budgets

On the basis of the economic and budgetary trends, the 2000 tax reform and the planned measures (see Tables 2 and 3), it will be possible to keep within the Maastricht Treaty reference values and to continue on the course of the 1998 stability programme.

Table 6: Financial deficits of public budgets based on ESA 95, 1995 to 2003

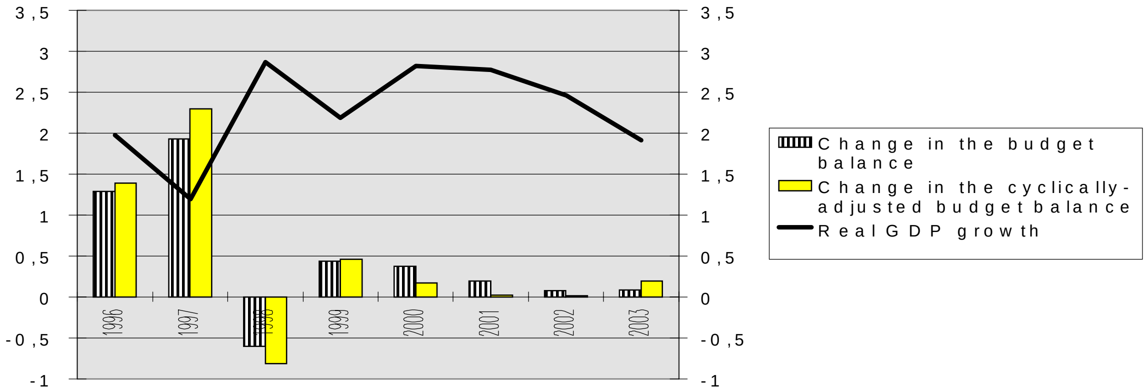
	1995	1996	1997	1998	1999	2000	2001	2002	2003
	as percentage of GDP								
General government financial balance of which:	-5,1	-3,8	-1,9	-2,5	-2,0	-1,7	-1,5	-1,4	-1,3
Federal Government sector*	-4,7	-4,0	-2,7	-2,9	-2,4	-2,2	-2,0	-1,9	-1,8
Länder and local authorities	-0,4	0,2	0,8	0,5	0,4	-	-	-	-
Social insurance institutions	-0,1	0,1	0,0	0,0	0,0	-	-	-	-

* including Federal funds

Source: Statistik Österreich, Federal Ministry of Finance

In order to assess the sustainability of budgetary consolidation and the appropriateness of budgetary policy in the light of economic trends, the European Commission adjusts public budget revenue and expenditure by the change in economic growth relative to "potential growth" (the "output gap"), weighted by the shares of the individual budget categories and their dependence ("elasticity") on the output gap. The calculation both of the output gap (size and change cannot be gleaned from data but must be estimated on the basis of certain assumptions) and of elasticities is surrounded by considerable uncertainty. In particular, it is possible for data revisions of the output gap to result in significant changes in the estimate at a later date.

Figure 9: Real economic growth (as percentage) and change in the budget balance as a percentage of GDP, 1996 to 2003



Note: a positive value indicates an improvement in the budget balance, Source: Federal Ministry of Finance

Figure 9 compares in graphic form real economic growth with the change in the actual and the cyclically-adjusted budget balance, with a trend growth of 2.25% a year being assumed for potential growth,[4] for the sake of simplicity.
Table 7 shows the changes in the individual income and expenditure categories according to the standard scenario. Thus, expenditure as a percentage of GDP is projected to fall by 3.4 percentage points between 1999 and 2003. Public revenue also falls by 2.7 percentage points. The public budget balance improves in 2003, being 0.7 percentage points greater than in 1999.

[4] The closer trend growth and GDP growth are to one another, the smaller the difference between the change in the actual and the change in the cyclically-adjusted budget balance. Owing to the stable growth in Austria, the average output gap has so far been relatively low by comparison with the EU. Furthermore, owing to certain specific factors, the budget balance has so far responded only relatively modestly to the output gap. The data revision undertaken in connection with the changeover to ESA 95 has not yet produced any definite findings. Policy changes can also alter output gap and responsiveness.

Table 7: Income and expenditure of the public budgets, 1995 to 2003 in ATS billion

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2003/1999
Revenues										in %
Output for own final use	44,3	46,4	49,0	48,6	50,4	50,0	50,0	50,0	50,0	-0,8
Other non-market output	67,6	69,0	31,6	35,7	36,8	37,0	36,0	36,0	36,0	-2,1
Taxes on production and imports	337,7	355,2	376,6	391,4	408,1	419,9	438,7	451,4	459,7	12,7
Property income	45,5	33,5	30,3	22,9	21,9	22,0	19,8	17,4	15,7	-28,1
Current taxes on income, wealth, etc.	284,3	321,2	339,5	358,2	363,4	367,9	381,6	396,8	410,1	12,8
Social contributions	413,1	427,6	435,9	449,6	462,6	477,2	484,9	494,7	504,9	9,1
Other current transfers	44,9	38,9	45,0	40,1	43,8	44,4	40,0	40,0	40,0	-8,6
Capital transfers	2,4	2,7	5,3	2,1	2,1	2,1	2,1	2,1	2,1	0,0
Total revenues	1239,8	1294,5	1313,2	1348,5	1389,0	1420,6	1453,1	1488,4	1518,5	9,3
Total revenues as % of GDP	52,2	52,8	52,1	51,6	51,7	51,1	50,2	49,5	49,1	-2,7
Expenditure										
Intermediate consumption	235,8	245,9	260,7	276,2	289,7	294,5	306,3	310,0	314,5	8,6
Compensation of employees	299,4	302,5	288,1	294,6	306,1	314,3	320,3	327,2	333,7	9,0
Taxes on production and imports	6,5	6,6	6,8	7,1	6,9	7,0	7,0	7,1	7,1	3,0
Subsidies	68,9	64,6	64,6	71,4	71,2	71,2	71,9	72,6	74,8	5,1
Interest	102,7	103,8	97,4	98,5	97,0	99,3	102,2	105,4	107,8	11,2
Social benefits other than in kind	462,3	475,5	475,4	479,8	493,7	511,7	516,9	533,5	544,2	10,2
Other current transfers	67,2	70,3	71,3	76,7	76,7	74,7	75,0	76,0	77,1	0,5
Current expenditure	1242,7	1269,1	1264,3	1304,4	1341,1	1372,6	1399,5	1432,0	1459,2	8,8
Current savings	-2,9	25,4	48,9	44,2	47,9	48,0	53,6	56,4	59,3	23,8
Current savings as % of GDP	-0,1	1,0	1,9	1,7	1,8	1,7	1,8	1,9	1,9	0,1
Capital transfers	49,7	49,0	49,5	59,7	54,5	52,3	54,8	55,9	56,4	3,5
Gross fixed capital formation	72,4	69,4	49,0	48,5	47,8	46,0	48,3	49,2	50,2	4,9
Tangible fixed assets, net	-4,3	0,1	-1,6	0,3	0,0	-4,2	-7,2	-7,2	-7,2	90170,0
Total expenditures	1360,6	1387,6	1361,2	1412,8	1443,4	1466,6	1495,3	1529,8	1558,5	8,0
Total expenditures as % of GDP	57,3	56,6	54,0	54,1	53,7	52,7	51,6	50,9	50,4	-3,4
Net borrowing (-)	-120,7	-93,1	-48,0	-64,3	-54,4	-46,0	-42,2	-41,4	-40,0	-26,4
Net borrowing as % of GDP	-5,1	-3,8	-1,9	-2,5	-2,0	-1,7	-1,5	-1,4	-1,3	0,7
Memorandum item:										
Primary balance as % of GDP	-0,8	0,4	2,0	1,3	1,6	1,9	2,1	2,1	2,2	0,6

Source: WIFO, December 1999, Federal Ministry of Finance

In the standard scenario, with the deficit developing as forecast, the debt ratio remains on a clear downward trend (see Table 8 and Figure 10). In addition to the contributions made by the primary deficit and economic growth, sale proceeds (calculated as zero in Table 8) will also help to cut the debt ratio. The macroeconomic environment and the primary balance are sufficient to compensate for the still high interest rate effect and to keep the debt ratio on its downward trend. The Government's programme envisages the 60% reference value for the debt ratio being reached in 2005. This value may even be undershot sooner if the privatisation programme is implemented in full.

Table 8: Determinants of the change in the debt ratio, 1996 to 2003

	1996	1997	1998	1999	2000	2001	2002	2003
Public debt in bn ATS	1676,3	1611,7	1656,9	1742,6	1783,2	1817,6	1859,0	1894,5
	as % of GDP							
Debt ratio	68,3	63,9	63,5	64,9	64,1	62,7	61,9	61,2
Change in debt ratio	0,3	-4,4	-0,4	1,4	-0,8	-1,3	-0,9	-0,6
of which:								
Primary balance	-0,4	-2,0	-1,3	-1,6	-1,9	-2,1	-2,1	-2,2
Interest	4,2	3,9	3,8	3,6	3,6	3,5	3,5	3,5
GDP-growth, nominal	-2,2	-1,9	-2,2	-1,8	-2,3	-2,5	-2,3	-1,8
Stock-Flow Adjustment [1)]	-1,3	-4,5	-0,7	1,2	-0,2	-0,3	0,0	-0,1

1) Residual variable, resulting, for example, from exchange-rate fluctuations, changes in equity participation, hive-offs from the public sector, tax debts, time adjustments, shares in central bank profits, etc.
Source: Federal Ministry of Finance

The average rate of interest on government debt is expected to stabilise in the forecasting period (Table 9).

Table 9: Issue yield and average rate of interest on government debt, 1992 to 2003

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
	as %											
Issue yield on government bonds*	8,3	6,7	7,0	7,1	6,3	5,7	4,8	5,2	5,7	5,7	5,7	5,7
Effective average interest rate**	7,1	7,4	6,8	7,0	6,4	5,8	6,1	5,9	5,7	5,7	5,8	5,8

* 10-years federal government debt in ATS

** 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. The higher scenario assumes that the gross domestic product of the trading partners from 2000 to 2003 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 10. In the higher scenario the public deficit in 2003 falls to 0.6% of GDP. This would have a correspondingly dampening effect on the debt ratio (see Figure 10). In the lower scenario too, the deficit in 2000 and thereafter remains well below the reference value of 3% of GDP. However, the debt ratio would not fall.

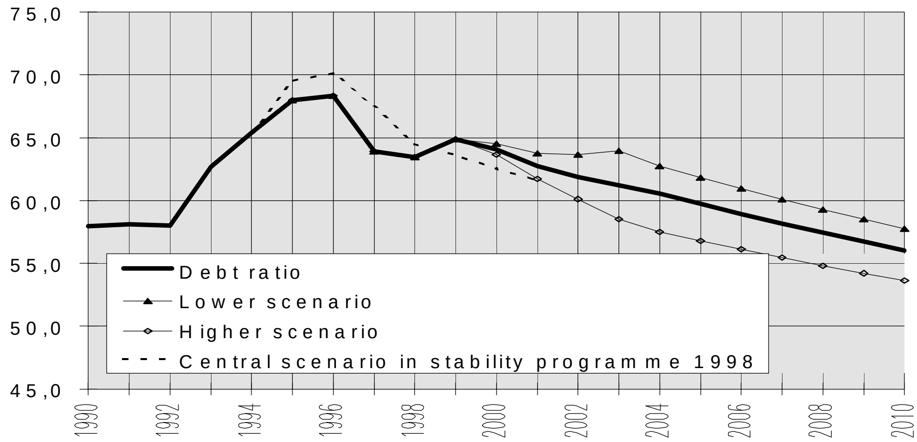
Table 10: Economic growth and net public sector borrowing from 2000 to 2003 in three scenarios

	1999	2000	2001	2002	2003
	Standard scenario				
Gross domestic product	2,1	2,8	2,8	2,5	1,9
Net borrowing as percentage of GDP	-2,0	-1,7	-1,5	-1,4	-1,3
Debt ratio as percentage of GDP	64,9	64,1	62,7	61,9	61,2
	Higher growth scenario				
Gross domestic product	2,1	3,3	3,3	3,1	2,6
Net borrowing as percentage of GDP	-2,0	-1,5	-1,2	-0,9	-0,6
Debt ratio as percentage of GDP	64,9	63,7	61,7	60,1	58,5
	Lower growth scenario				
Gross domestic product	2,1	2,3	2,2	1,9	1,4
Net borrowing as percentage of GDP	-2,0	-1,8	-1,7	-1,9	-2,0
Debt ratio as percentage of GDP	64,9	64,5	63,8	63,7	64,0

Source: Statistik Österreich, WIFO, December 1999; Federal Ministry of Finance

Figure 10 shows the trend of the debt ratio in three growth scenarios up to 2010; the technical assumptions from 2004 are a nominal GDP growth rate of 4% a year, a deficit ratio of 1% and a stock flow adjustment of half a percent of GDP.

Figure 10: Trend of debt ratio in three scenarios up to 2003 and trend up to 2010



Source: Statistik Österreich, WIFO, December 1999; Federal Ministry of Finance

At the end of 1999, ATS 230.9 billion of Federal debt was denominated in yen and Swiss francs. A simultaneous ten per cent devaluation/revaluation of these currencies would reduce/increase the debt ratio by some 0.8 of a percentage point of GDP.

The risks for the deficit of higher interest rates on government debt can also be regarded as slight. Some 87% if Federal debt is borrowed at fixed interest rates and at the end of 1999, the residual life of existing debt was 5.7 years. In comparison with the standard scenario a lasting rise in interest rates of one percentage point over the entire interest rate curve in 2000 would, on the basis of the existing debt structure, cost the public deficit in 2003 some ATS 8 billion or ¼ of a percentage point of gross domestic product (i.e. interest payments would be 3½% of GDP instead of 3¾%).