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Commission assesses the updated Stability Programme of Austria

The European Commission today adopted a Recommendation to the Council of Ministers on the updated Stability Programme of Austria (2000-2003. The general government deficit ratio is projected to decline from 2.0 % of GDP in 1999 to 1.3% of GDP in 2003. During the same period, the debt ratio is expected to fall to 61.2 % of GDP. The Commission concludes that the medium-term budgetary targets in the updated programme lacks ambition as the minimum budgetary position consistent with the Stability and Growth Pact requirements is only met in 2003. A faster decline in the deficit ratio would be necessary to attain the required safety margin for the government balance, as recommended in the Council Opinion on the original programme[1]. On the basis of the Commission's Recommendation, the Council is expected to adopt a formal Opinion on the updated Austrian programme on [8 May 2000].

The Commission Recommendation was adopted on the initiative of Pedro Solbes, EU Commissioner for economic and monetary affairs, as part of the procedures set in the Stability and Growth Pact for surveillance and co-ordination of national economic and budgetary policies at the level of the European Union.

The Stability and Growth Pact, adopted by the European Council at its meeting in Amsterdam in June 1997, requires Member States participating in the euro-zone to present stability programmes and their updates to the Council and the Commission. The programmes provide information on how Member States intend to meet the objectives of the Pact, in particular, the medium-term budgetary target of a general government budget close to balance or in surplus which will enable their finances to withstand normal cyclical fluctuations without exceeding the reference value of a deficit of 3 % of GDP. The Austrian updated programme was submitted on 30 March 2000.

The Commission's Recommendation highlights the following:

- The Austrian government sent the update of the stability programme rapidly after taking office.
- The development of government finances over the programme period is strongly affected by a front-loaded reform of income taxes which had been adopted by the previous government. The budgetary costs of the reform amount to more than 1% of GDP from 2000 onwards.
- The macroeconomic scenario underlying the updated Austrian stability programme appears plausible. It assumes annual average growth of 2½ % over the period 2000-2003.

[1] OJ C42/5, 17.2.1999.

- The deficit targets for 1998 and 1999 set in the original stability programme have been met. However, between 1997 and 1999, virtually no budgetary consolidation took place. Moreover, the debt ratio, which is still above the 60% of GDP reference value, increased between 1998 and 1999 from 63.5% to 64.9% in conflict with Treaty obligations.
- The updated programme envisages to reduce the general government deficit ratio from 2.0% of GDP in 1999 to 1.3% in 2003. During the same period, the debt ratio is expected to fall to 61.2% of GDP. A reduction in both the expenditure and the revenue ratios is envisaged.
- The programme includes major structural reforms, in particular, in the pension and health care sectors and reforms in the public administration.
- Notwithstanding these positive elements, the budgetary targets of the programme lack ambition. The required minimum budgetary position consistent with the Stability and Growth Pact requirements is only met in 2003, the last year of the period covered by the programme. Moreover, achieving this target relies heavily on one-off measures, in particular the sale of real estate property.
- Substantial surpluses from Länder and social insurance institutions are required to attain the general government deficit targets. This assumption appears however highly uncertain, in particular in the light of recent estimates on increasing deficits in the health care sector.
- As a consequence, the Austrian government needs to do its utmost to achieve lower deficit targets than those set in the stability programme. A faster decline in the deficit ratio would be necessary to attain the required safety margin for the government balance, as recommended in the Council Opinion on the original programme. In addition, it is essential that the government replaces the planned one-off measures by structural reforms as from, at the latest, 2001 onwards.
- With respect to the planned reforms, notably in the pension and health care sectors as well as in public administration, it is paramount that the Austrian government pursues these reforms rigorously and implements them with utmost determination.

Key figures of the Austrian stability programme update

	1999	**2000**	**2001**	**2002**	**2003**
Real GDP growth rate (annual % change)	2.2	2.8	2.8	2.5	1.9
General government budget deficit (% of GDP)	2.0	1.7	1.5	1.4	1.3
Government debt (% of GDP)	64.9	64.1	62.7	61.9	61.2
Inflation (harmonised consumer price index, annual % change)	0.6	1.5	1.3	1.0	1.0