Austrian stability programme

Update for the period 2000 to 2004

Federal Ministry of Finance
Vienna, 19 December 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). Austria herewith submits its stability programme for the period 2000 to 2004.

By 2002 Austria will reduce the public deficit to 0% of gross domestic product (GDP), with the Federal Government deficit coming down to 0.75% of GDP. In 2001 the public-sector deficit will be 0.75% of GDP. As a result, the general government debt ratio will fall below the reference value of 60% of GDP as early as 2002.

This update of the stability programme has been drawn up using the most recent economic assessment, the measures adopted in 2000 for implementing the government programme, the Federal budget for 2001 and 2002, and the new agreement with the provinces and municipalities. **Consolidation will be maintained over the period 2001 to 2004** on the basis of significant savings on the expenditure side. In 2001 and 2002 the goal of a zero deficit will be achieved at the same time as cutting public revenues. Further reforms will be carried out in the structural policy area. In this regard, the Federal Government will align itself on the Broad Economic Policy Guidelines, especially the recommendations concerning Austria contained therein, 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 the public deficit to zero
- to make Austria more attractive as a business location by improving the conditions for growth
- to increase the expenditure ratio for R&D
- to combat unemployment unremittingly
- to renew social-protection systems
- to safeguard pensions and retirement provision
- to reform government expenditure and public services
- to sell Federal Government's shares in firms.

It has also been possible, in the context of the financial burden sharing negotiations, to reach an agreement with the provinces and local authorities which will enable the new deficit target to be met (the previous agreement ensured only that a deficit below the reference value in Article 104 of the EC Treaty could be met).

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 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

2. Austria's economy in 2000

2.1 Continuation of Austria's economic stability

The behaviour of domestic demand and employment was better in 2000 than had been expected as recently as March. Austria's economy grew in line with the trend in the Union (Figure1). Real economic growth was broadly based as a result of good export performance and high domestic demand and will probably be about 3½% in 2000. There are signs, however, that growth could have peaked in the second quarter of 2000.

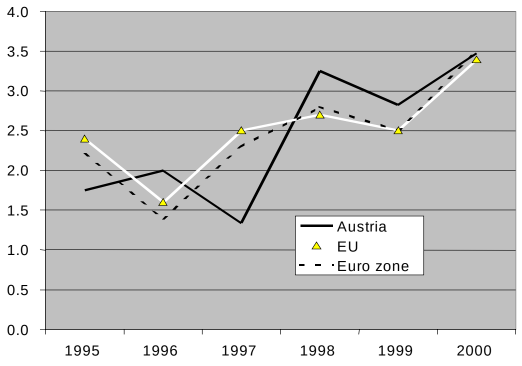
Owing to a 0.6% increase in dependent employment, the unemployment rate fell by 0.5 points in the course of the year, from 3.6% in November 1999 to 3.1% in November 2000 (Figure 4). Unemployment fell in all groups, particularly among the over-50s.

As a result of the moderate wage trend (2000: +2.0% *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 from autumn 1999 has led to a significant increase in inflation. Of the (still provisional) 2.1% year-on-year increase in the harmonised consumer price index (HCPI) in October 2000, some 0.8 of a percentage point was attributable to the rise in energy prices (Figure 3). However, in autumn 2000, Austria continues to be one of the countries with the lowest inflation rate in the EU.

Long-term nominal interest rates initially rose within the euro zone. In the second and third quarters they hovered around 5¼%, before starting on a downward trend in November. In Austria the interest differential vis-à-vis the German Federal loans benchmark increased to 38 basis points, partly as a result of criticism of the earlier budget policy. Following the announcement of the new budget target of a zero percent deficit, the interest differential fell to some 30 basis points, but it is still sizeable (Figure 2). At the short-term end, the ECB raised interest rates significantly in several stages, which markedly flattened the yield curve over the year and at the beginning of December resulted for the first time in a partial slight negative slope. In 2000 the euro continued to fall against the US dollar and the yen until October (Figure 6). Overall, it may be said that in the first three quarters European monetary policy probably still had a moderately growth-boosting effect on Austria.

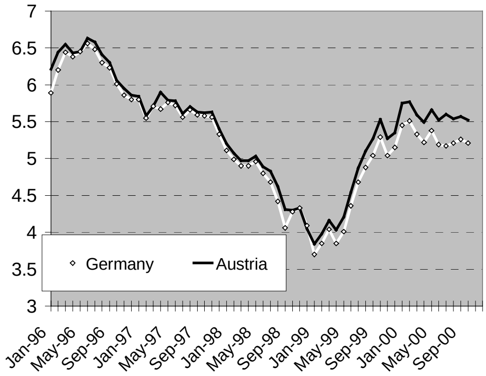
The current account deficit remained high at an (estimated) 3.1% of GDP (Figure 5). According to a provisional cash-based calculation, the balance of payments on goods and services deteriorated in the first three quarters of 2000 by some ¾% of GDP compared with 1999, partly on account of higher oil prices and a lower surplus on the tourism balance. The negative incomes balance improved slightly. The current transfers balance remained negative, partly because of transfers to the EU budget.

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



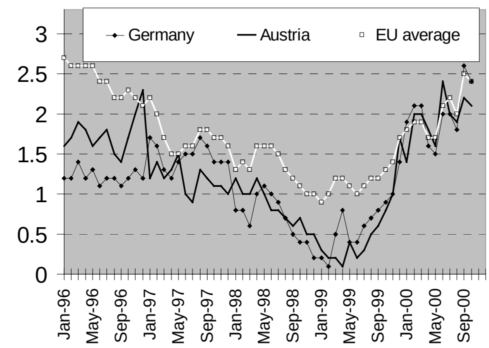
Source: Statistik Austria, WIFO October 2000, EU Commission, November 2000

Figure 2: Long-term interest rates as percentages in Austria and Germany, 1996 to 2000



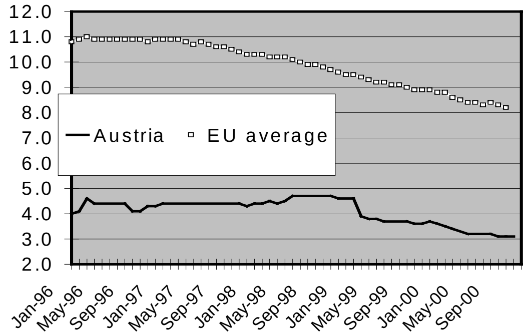
Source: OeNB

Figure 3: Harmonised consumer prices in Austria, Germany and on average in the EU 1996 to 2000



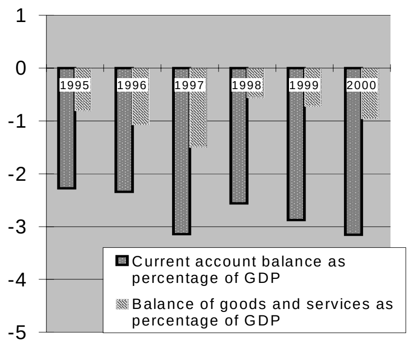
Source: EUROSTAT

Figure 4: Unemployment in Austria compared with EU average, 1996 to 2000



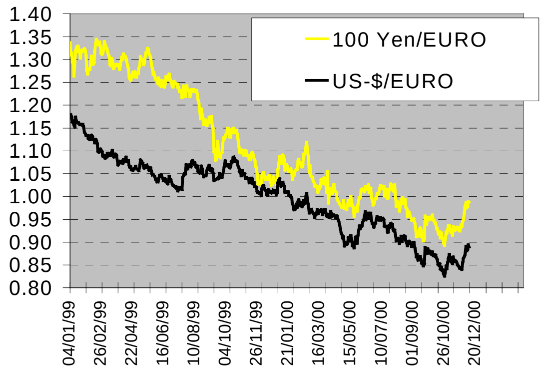
Source: European Commission, Labour Market Service

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



Source: Statistik Austria, OeNB, WIFO, October 2000

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



Source: European Central Bank

2.2 Public budgets in 2000

The Federal Government's budget implementation for 2000 is running according to plan. The more favourable economic situation means that revenue from taxes and public charges will probably be higher than in the preliminary budget. Expenditure on federal employees are running to plan. Expenditure on provincial teachers, however, will probably be higher than in the preliminary budget. With the Federal transfer to pension funds as well, overruns should be expected following the increase in early retirement (forward shift effects of the pension reform); these may be offset, though, by extra revenue. In addition, as in previous years, balance-sheet extensions (for offsetting purposes) should be expected; these are transactions which, while they increase total expenditure and revenue, do not alter the balance and hence did not result in a deterioration of the budget's structure. They include recoveries from the EU, interest payments arising from the performance of currency exchange contracts, allocations to/withdrawals from reserves, financing for specific purposes, and internal Federal transfers.

Table 1 compares the public budget deficits given in the 2000 stability programme with the expected values for 2000 (estimates). Data revisions have changed the values for, in particular, 1997 and 1998. In 2000 the deficit target of 1.7% of GDP will be undershot.

Table 1 Overall public budgets deficit, 1995 to 2000

	1995	1996	1997	1998	1999	2000
			as percentage of GDP			
Deficit according to the 1997 convergence programme	-5.1	-4.0	-2.7	-2.5	-2.2	-1.9
Deficit according to the 1998 stability programme	-5.1	-3.7	-1.9	-2.2	-2.0	-1.7
Deficit according to the 2000 stability programme	-5.1	-3.7	-1.9	-2.2	-2.0	-1.7
Actual deficit (according to ESA 95) 1)	-5.1	-3.8	-1.7	-2.3	-2.1	-1.4
1) 2000: expected value						

Source: Statistik Austria, Federal Ministry of Finance

In pursuance of the government programme, specific targets for personnel costs were set for 31 December 2000. The number of Federal employees declined by 2.65%, or some 5 600 jobs, in the first three quarters of 2000, of which about 1 500 through spin-offs. The number of retirements in the first eight months was approximately 3 200 and was nearly twice as high as in the comparable period of the previous year.

Under the privatisation programme, the Austrian Postal Savings Bank (*Österreichische Postsparkasse*) was sold to a private bank for ATS 17.9 billion in August 2000. This means that the Federation no longer holds any shares in commercial credit institutions. Federal shares in Vienna Airport were sold in October and November. Also sold in November 2000 was the Austrian state printing works (*Österreichische Staatsdruckerei*). More than 52% of Telekom AG is now privately owned, following the flotation in November 2000. The proceeds of the sale were approximately ATS 34 billion and were used to repay the debts of the Austrian Industrial Holding Company (ÖIAG). The auction of UMTS licences at the beginning of November yielded ATS 11.4 billion.

The public debt ratio stood at 64.6% of GDP at the end of 1999. It should be borne in mind in particular that the extremely strong increase in the value of the yen and the appreciation of the Swiss franc in 1999 led to a rise in debt of ATS 29.5 billion, or 1.1% of GDP. These two currencies continued to appreciate until November 2000. Nevertheless, the public debt ratio should be less than 64% of GDP at the end of the year.

3. Economic policy up to 2004

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 within the currency union is to maintain price stability. In the scenarios of the present programme, it is assumed, in line with the latest European Commission forecast, that after the oil price shock has faded the inflation rate in the euro zone will average 1¾% a year until 2004.

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

Long-term interest rates in the euro zone stabilised in 2000 at about 5.5%. In the third quarter of 2000, long-term real rates were at around 3% in the euro zone and around 3¼% in Austria. Over the forecast period, short-term interests might rise slightly as the economy improves. Up to 2004, it is plausible to assume that average long-term nominal interest rates will remain at their current level (see Table 4. 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 overall public budget deficit may not exceed 3% of GDP. After broad-based discussions in the summer, the Federal Government and the provincial and local authorities agreed in September 2000 to reduce the public-sector deficit to zero.

This will be achieved in two stages. First, in 2001, the general government deficit will be cut to 0.75% of gross domestic product. Then, in 2002, it will fall to 0%. The general government debt ratio will fall below 60% of GDP.

To keep to the new deficit targets in 2001 and 2002, the revenue ratio must fall less quickly than planned in the 2000 stability programme. If programmes reduce expenditure as intended, further cuts in taxation will be made, especially with regard to labour and capital, so that the tax burden can be further reduced in the long term (see also Table 6).

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

- By 2003, a total of ATS 15 billion of the expected increase in expenditure in all areas of government activity will have been saved on a lasting basis.
- Instead of by 9 000 as hitherto, the numbers of other employees will be reduced by 11 000. Similarly, the numbers of civil servants will be reduced, to prevent the ratio of civil servants from rising.
- A policy of wage moderation from 2001 to 2003 will also have the effect of curbing spending. Wages and salaries for 2001 and 2002 were determined in such a way that in 2001 there will be a fixed increase of ATS 500 (approx. EUR 36) per month (x 14). For 2002, a percentage increase of 0.8% was agreed.
- The introduction of annualised working-time models in the public service from 1 January 2002 will result in permanent savings of ATS 1.2 billion in overtime payments. Regional and local authorities are being asked to carry out appropriate measures in their areas.
- The expected increases in **pensions** will be reduced by ATS 18.5 billion (in 2003) following the pensions reform (see Section 3.2.2 Social insurance).
- **Discretionary** (i.e. non-mandatory) **expenditure** is to be cut as a result of *inter alia* the following measures: reform of the Federal Government's procurement practice: a central purchasing agency is to be established to handle procurement equivalent to about 1% of GDP (the Bill has already been introduced); reduction of fringe benefits; 20% reduction of entertainment expenses; reduction of public-relations expenditure; review of maintenance and repair policy, to identify possible savings; freezing of travel and subsistence expenses; zero-base budgeting for aid, acquisitions of equity and membership dues; preparation of a land use plan for the public authorities.
- The Labour Market Service will be reformed**.**
- **Government transfer payments** are to be concentrated on **core functions**, *inter alia* by continuing on the course of making certain areas into independent companies; Federal payments to all hived-off areas are also to be limited. A **Task Reform Commission** has been set up. 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.

Table 2: Federal,[1] provincial and municipal measures affecting the public budget balance, calculated in accordance with ESA 95, for the years 2001 to 2003 (cumulative) compared with the statutory position in 2000

	2001	2002	2003
	ATS billion		
Expenditure			
Administration, inc. staff expenditure	-5.0	-11.1	-15.0
Pension insurance	-4.5	-10.9	-18.5
Other social transfers	-3.7	-3.7	-3.7
Disabled persons	1.0	1.0	1.0
Universities	0.5	1.0	1.0
Family assistance	0.0	7.3	9.0
Savings from debt reduction	-0.0	-3.0	-4.0
Miscellaneous[2]	19.1	10.2	6.2
Provinces and municipalities[3]	-8.0	-11.5	-11.5
Social insurance institutions[3]	-3.0	-3.0	-3.0
Total current expenditure	**- 3.6**	**-23.7**	**-38.5**
Revenues:			
Beverage tax alternative solution/ Advertising levy	-3.0	-3.0	-3.0
Non-wage labour costs	0.0	-2.0	-8.4
Measures in accordance with Table 3	29.8	31.3	31.0
Total current revenues	**26.8**	**26.3**	**19.6**
Total	**30.4**	**50.0**	**58.1**
As percentage of GDP	1.0	1.6	1.9

1) There are further expenditure savings at Federal level, but these do not affect the balance calculated in accordance with ESA 95. In 2001 and 2002, the expenditure side accounts for 62.3% and 68.9% respectively of the consolidation at Federal level (see Section 3.2.1)
2) Balance; e.g. R&D; including expenditure margins
3) Measures and/or improvement of the balance compared with 2000
N.B. This table contains projected figures and/or estimates. The appropriate legislation has already been passed in most cases.
Source: Federal Ministry of Finance

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

- Non-wage labour costs will be progressively reduced by ATS 15 billion by 2003 (not all of this will affect the public budgets).
- **Privatisation proceeds and sales** will be used to repay debts and, if possible, to further reduce the budget deficit.
- In addition, from 2001, revenue measures will be taken to achieve the new deficit target. These measures were selected in accordance with the following criteria: expansion of the tax base, closure of loopholes, fairer tax treatment, no increase in the rates of mass taxes.

The following measures to reduce the **level of debt** are planned in addition to the steps taken by the Federal Government in 2000: 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:

- Dorotheum Auktions-, und Versatz-Gesellschaft m.b.H.
- Print Media Austria AG
- Flughafen Wien AG (Vienna Airport)

- 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. Moreover, the ÖIAG will continue to make its expertise as a privatisation agency available for firms not directly within its portfolio.

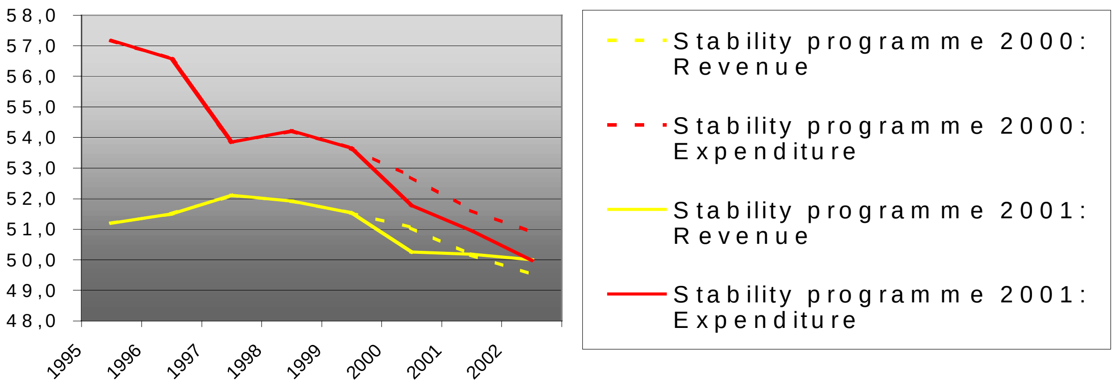
These privatisations will enable the existing liabilities of the ÖIAG and the PTBG to be repaid and the Federal Government's guarantee for debts to be permanently discontinued. Any shares remaining with the OIAG after repayment of all liabilities will continue to be held by it pending further privatisation 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 help to reduce the level of public debt.

Table 3: Revenue measures in the budgets for 2001 and 2002 compared with the statutory position in 2000 (cash basis; ATS billion)

Revenue measures	**2001**	**2002**
Taxes and public charges	26.8	27.3
Of which		
Changes to deductions	5.1	5.2
Changes to tax privileges	4.0	4.5
Abolition of the investment allowance	0.0	6.0
Restriction of liability provisions	0.0	3.0
Extension of depreciation time on buildings	0.0	2.5
Limitation of losses brought forward	0.0	2.5
Extension of application of the wages - tax	0.5	0.6
Interim taxation of income received from trusts	2.0	2.0
Increasing the tax on gifts to foundations/trusts	0.1	0.2
Increasing assessed value of inheritance assets	0.5	1.0
Catering turnover subject to 10% turnover tax	-1.3	-1.6
Increasing motor vehicle tax for lorries	0.7	0.9
Interest on tax arrears/deposits	0.2	0.5
Raising prepayments; effects of early payment	15.0	0.0
Tax adjustment of accident benefits	2.0	2.0
Enrolment fees	1.0	2.0
Total	**29.8**	**31.3**
as percentage of GDP	1.0	1.0

Source: Federal Ministry of Finance

Figure 7: Comparison of the expenditure and revenue ratios as a percentage of GDP in the 2000 stability programme with the 2001 stability programme



N.B. The GDP values in the 2001 stability programme were used for calculating the ratios.
Source: Federal Ministry of Finance

3.2.1 The Federal budget for 2001 and 2002

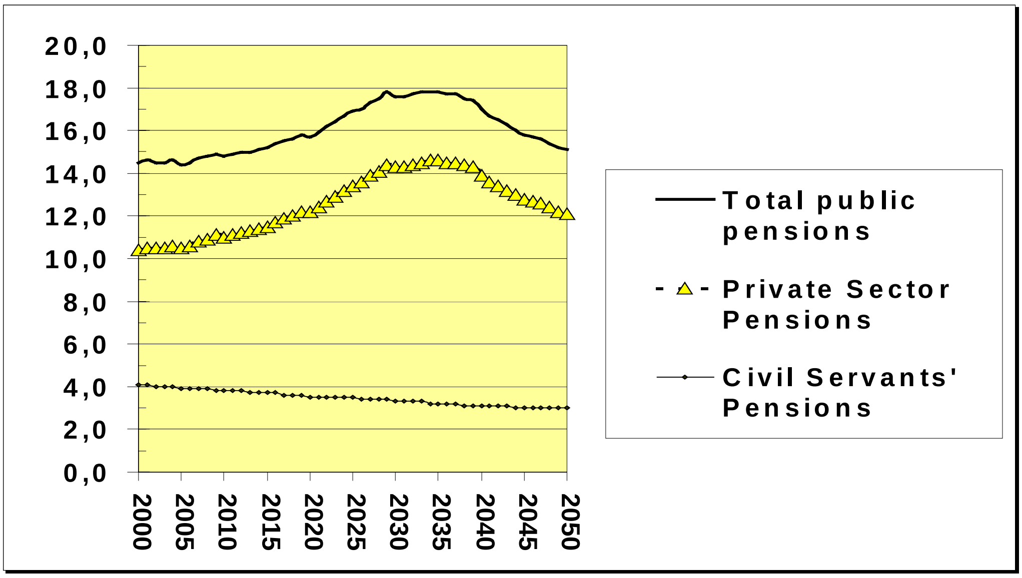
The consolidation path for general government assumes a deficit of 1.4% in 2000, 0.75% in 2001 and, finally, 0% in 2002. The Federal balance as calculated in ESA will improve by just under ATS 36 billion compared with the 2000 stability programme. A particular concern is to spread the necessary contributions fairly and to design just measures having a fair social distribution. The consolidation of the Federal budget will be achieved through a multitude of individual measures in all spending categories and safeguarded through structural reforms having the effect of easing the budgetary burden and improving quality in the medium to long term. The measures are designed in such a way that all public authorities, social groups (workers, employees, traders, farmers, pensioners, civil servants) and types of revenue contribute in broadly equal measure to the consolidation. On the revenue side, a number of measures contribute to the consolidation (see Table 3). Incomes under ATS 30 000 a month and pensions of less than ATS 20 000 are not subject to income tax increases.

3.2.2 Social insurance and public pensions

In June 2000 it was decided to go a stage further in reforming the **public pension insurance systems**. The long-term viability of the pension system in Austria was improved by the following measures: (1) an increase in the abatement in the event of early retirement to 3% per year; (2) raising the early-retirement age by 1.5 years to 56.5 years (women) and 61.5 years (men); (3) automatic adjustment of pensions; (4) reductions of survivors' pensions where there is an entitlement to an own pension. By 2003 this reform will bring savings of ATS 18.5 billion or 0.6% of GDP.

- In the Federal public service, in the case of the ÖBB (Austrian Federal Railways), PTV and provincial teachers, the pension contribution for serving employees and the pension guarantee contribution for pensioners were each increased by an additional 0.80% with effect from 1 October 2000. The other public authorities were recommended to introduce similar rules on increasing pensionable age and on pension contributions for active and retired employees.

Figure 8: Scenario: trend of public pension expenditure 2000 to 2050 (including the 2000 pension reform) as a percentage of GDP



Source: Federal Ministry for the Generations and Social Security; Federal Ministry for Public Services and Sport

- A committee of experts was set up to tackle the next stages of the reform with a view to adjusting the pensions system to societal change.
- Tax benefit for private retirement provision will be increased by ATS 750 (approx. EUR 55) from 2001 (bonus-carrying amount: EUR 1 000/yr).

The various social insurance institutions are to be merged if this further maintains efficiency, reduced costs, other synergistic effects, continued accessibility to the public and quality maintenance.

To continue to ensure a high degree of efficiency in the distribution of care allowance, quality assurance will be stepped up (e.g. by checking that a copy of the care contract has been submitted) and efforts will be made to provide better social support for caring relatives.

Measures are to be taken in the area of sickness insurance in order to ensure that the increase in costs does not exceed the increase in revenue. In addition, it is planned to release medical services into the extramural domain and ensure that medicine is progress-oriented.

- Non-contributory joint coverage for partners with children remains. Partners without children will be offered preferential joint coverage at the level of entitlement corresponding to the employee's sickness insurance contribution (equivalent scheme for self-employed persons and farmers).
- The obligation to contribute to sickness insurance will be expanded up to the upper earnings limit for certain occupational supplementary pensions, to avoid the erosion of pensioners' contributions to public health insurance.
- As regards pharmaceuticals, it was possible following negotiations with the industry and initiatives by the Federation of Austrian Social Insurance Institutions to make savings of just under ATS 1 billion.

3.2.3 Provinces and local authorities

On 16 October 2000 the Federal Government, the provinces and the local authorities agreed the financial burden sharing arrangements (*Finanzausgleich*, or FAG) up to 2004 and a pact on the joint achievement of the deficit target of 0% of GDP in 2002. The following are the provisions which directly concern the general government deficit:

- The provinces undertake, starting in 2001, (this obligation shall apply to the whole financial burden sharing period), to contribute an average budget surplus of not less than 0.75% of GDP, calculated in accordance with ESA, and at any rate of ATS 23 billion to the general government consolidation path. Temporary underruns of - 0.15% of GDP are allowed, if over the whole financial burden sharing period the average value of 0.75% of GDP is attained.
- By the end of 2001 permanent savings of at least ATS 3.5 billion will be made as a result of task and structural reforms agreed between the Federal Government and the provinces, which will (also) affect Federal expenditure.
- Staff expenditure on provincial teachers will be curbed by laying down binding pupil/teacher ratios.
- The current system of housing assistance will be reformed and will be extended to include measures to maintain or improve the infrastructure and measures to achieve the Kyoto objective.
- As regards health institutions, a standing working party will be set up to examine structural changes in the health system, including the extramural sphere.
- The local authorities undertake, starting in 2001, (this obligation shall apply to the whole financial burden sharing period), to contribute an average budget surplus of 0% of GDP, calculated in accordance with ESA, to the general government consolidation path. Temporary underruns of - 0.10% of GDP are allowed, if over the whole financial burden sharing period the average value of 0% of GDP is attained.
- The results agreed are binding; a penalty system reflecting corresponding arrangements at European level will be set up as a safeguard. An information system with similar penalties will also be set up to support the amended stability pact.

3.3 Structural and capital market 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:

The Federal Government's capital market campaign

The Austrian capital market is still appreciably less developed than those in other States which are otherwise broadly comparable in economic strength and structure. This fact and the forthcoming privatisations have prompted recent discussions. The following significant measures are planned:

- Admission of offer prospectuses in English for issues of securities. Allowing publication of prospectuses on the Internet in accordance with the publishing obligations laid down in capital market legislation. Broadening the scope of the exemption from the obligation to produce a prospectus for euro securities.
- Reform of "other securities trading" on the Vienna Stock Exchange: transformation into a regulated market in accordance with Article 16 of the Investment Services Directive, with a ban on insider trading, plus disclosure obligations and market supervision.
- The stock exchange turnover tax was abolished on 1 October 2000.

- Inheritance tax lapses from 1 January 2001 where, in the case of holdings of less than 1%, shares in public limited companies, etc. are inherited through succession (not in the form of a gift).
- The current tax allowance of ATS 10 000 for the issue of employee shares will be raised to ATS 20 000 from 1 January 2001.
- Stock options will be given preferential tax treatment under certain conditions
- An employee's income up to a ceiling of ATS 20 000 from an employees' trust which holds shares only in the employer's firm, will be subject to capital gains tax of only 25%.

Similarly, to improve corporate governance, it is intended to increase the managing board's reporting obligations vis-à-vis the general meeting of shareholders and to improve the protection of minority shareholders.

Other structural policy measures

- The **R&D ratio** is to be increased in stages to 2.5% of GDP by 2005. From 2001 an additional ATS 7 billion for research and development and ATS 3 billion for infrastructure will be made available under the Federal Government's offensive.
- The **Austria Virtual Marketplace** project. E-government solutions are to be implemented as quickly as possible (under the eAustria part of eEurope). A successful example is the www.help.gv.at project. A business advisory service is also being set up on the Internet (www.lets-ebiz.at). By 2005 it will be possible to visit all administrative channels on computer. The additional financial resources will be obtained by involving private partners (in the form of a public-private partnership).
- 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 working by 2001. The sanction mechanisms of the law on working time are to be reviewed.
- **Shop opening times**: Monday-to-Friday 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 the retail trade will be made more flexible. Sunday closing will be maintained.
- In July 2000 it was decided to **liberalise the energy market**. Complete liberalisation of the electricity market will be introduced in 2001 and of the gas market in 2002. In addition, on the electricity market, every consumer will have a free choice of supplier from 1 October 2001. Independent regulators will be set up.
- **Privatisations**: see Section 3.2.
- **Law governing industrial plants:** As a first step, the relevant EU Directives have been transposed in 2000. The environmental-impact-assessment procedure will be simplified and speeded up. Secondly, in 2001, a far-reaching concentration of procedures is planned, with the creation of a network of one-stop shops at district level. Finally, not later than 2002, a single legislative act will be adopted covering the matters falling within Federal competence.

3.4 Labour market policy

Increasing the level of employment and reducing unemployment are important aims of Austrian economic policy. In accordance with the priorities set out at the Luxembourg Employment Summit, the Austrian Federal Government, acting in cooperation with the two sides of industry, 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 on 3.5% by the end of 2002. These levels were attained already in 2000.

The following new measures are planned or have already been implemented:

- **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 provinces, the local authorities, the two sides of industry and the Labour Market Service (AMS) cooperated in preparing **a package of measures for older workers** which entered into force on 1 October 2000.
- The two sides of industry have drawn up **a new working-time model** for the tourist industry that extends employment each season by two weeks.
- Until the end of 2003 the **further training benefit** has been increased to the level of the corresponding unemployment benefit and should at least be equal to the parental leave allowance. It can no longer be received following parental leave.
- Under a "**bonus-malus system**" the "bonus" for hiring workers over 50 has been increased by dispensing altogether the employer's contribution to the unemployment insurance fund (hitherto only those over 55 and only half of the contribution for persons between 50 and 55), while the basic amount of the "malus" (i.e. "firing") component has been raised from 0.1% to 0.2% of the basis for the contribution.
- For workers over 45, the period of entitlement is extended by the period covered by training measures organised by the AMS (until the end of 2003). For unemployed persons over 45 the longest period of entitlement for unemployment benefit is taken to calculate the ceiling for emergency assistance, thereby removing the previous disadvantage whereby a new entitlement for employment benefit was acquired for a shorter period.
- The AMS is to be operated as a limited company.
- In order to provide social protection for the large number of new entrepreneurs, a **new, voluntary unemployment-insurance scheme designed particularly for young businessmen** and the newly self-employed is planned.
- 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.
- For **the long-term unemployed** (recipients of emergency and social assistance), a programme of work in the local community (in the health and care sectors, monument protection, environmental protection, maintenance of parks and public gardens, etc.) was introduced under which they receive a benefit that is equivalent to the emergency assistance for which they are eligible but is at least some ATS 6 800 a month.
- **Hiving-off of severance obligation**: instead of the present severance payment, the employers are to pay regular contributions to an umbrella pension fund for newly recruited workers.
- **In order to reduce labour market fragmentation,** the benefit entitlements of blue collar workers in the event of illness were equated to those of white collar workers. The costs for business resulting from this rule were offset by other measures.
- Administrative simplification and greater social effectiveness regarding unemployment benefit entitlement are the main objectives of recent measures in the **unemployment insurance field**. The key improvements for those concerned are the discontinuation of the arrangement whereby a partner's income was taken into consideration for the granting of additional family benefit in the unemployment insurance field and the increase in unemployment benefit for those on the lowest incomes to the level of the minimum pension for single persons, subject to a ceiling equivalent to 60% or 80% of previous net earnings (without/with supplementary family benefit). The replacement rate in the case of higher incomes is to be standardised at 55%. From 2001 child allowance for pensioners and additional family benefit will be standardised within the unemployment insurance system and the **net replacement rate** inclusive of additional

family benefits will be **limited to 80% of earned income**. In the event of recent unemployment, unemployment benefit will be calculated on the basis of most recent earnings whereas previously unused (higher) unemployment benefit claims were taken into consideration. For some of the unemployed, unemployment benefit will be calculated on the basis of an earlier assessment basis (unadjusted for inflation). Emergency assistance will no longer be adjusted for inflation.

- In 2000 limited **employment permits** were granted for up to 6 000 seasonal workers (working for a period of up to six months) and for up to 10 000 harvest workers (for a period of up to six weeks). The government programme envisages 8 000 and 7 000 licences respectively for 2001.
- As of 2001 a ATS 1 billion **campaign to create jobs for the handicapped** will be launched ("Behindertenmilliarde"). A focal point of the campaign will be starting jobs for handicapped school leavers.

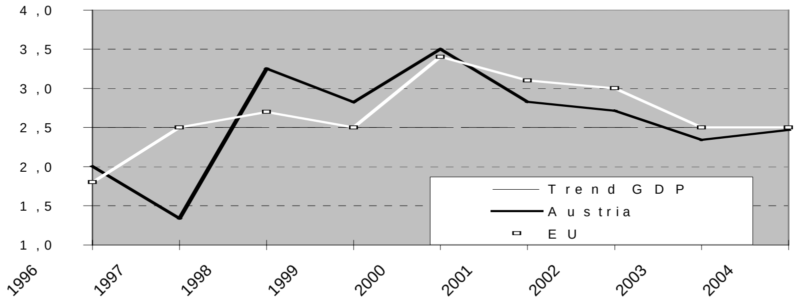
4. The economy and public finances from 2000 to 2004

4.1 The economic environment from 2000 to 2004

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 a period of buoyant growth. Thus, growth rates above the historic potential rate are to be expected up to 2004. The expansionary effects of European monetary policy could evaporate from 2001 onwards and the monetary policy stance itself could be between neutral and moderately restrictive. 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). Similarly, higher oil prices will weaken purchasing power, at least in the short term.

The forecast (standard scenario) used for the stability programme assumes that real GDP growth between 2000 and 2004 will average around 2¾% a year in Austria with the upside and downside risks likely to be symmetrical and determined in particular by international developments. Private consumption will grow more rapidly in 2001 as a delayed consequence of the tax reform, but exports and the external contribution are also likely to grow, and this in turn should revive investment. General government consumption will be dampened by budgetary consolidation efforts. According to WIFO, the measures in the 2001/2002 budgets will dampen GDP-growth by some ¼ percentage point in each year. The reason for this relatively small impact is that only the higher wage and salary incomes (top quartile) are affected, while the other measures relate predominantly to the removal of tax reliefs for firms and foundations. 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 in early 2001.

Figure 9: Real economic growth in Austria and the EU, 1996 to 2004



Source: Statistik Austria; WIFO, October 2000, Federal Ministry of Finance, European Commission.

The current account deficit could stabilise at around 2¼% of GDP until 2004 on the basis of an improved services account. 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 3%.

Table 4: Economic trends, 1997 to 2004 (percentage change on previous year)

	1997	1998	1999	2000	2001	2002	2003	2004
Private consumption, volume	2.3	2.3	2.5	2.8	2.0	2.1	2.0	2.2
Gen. government consumption, vol.	-1.4	2.8	3.2	0.0	0.0	0.4	0.4	0.4
Gross fixed asset formation, volume	1.0	2.7	3.2	5.4	4.6	4.6	3.1	3.1
Change in stocks and statistical differences	0.7	0.7	0.4	0.7	0.7	0.5	0.4	0.4
Domestic final uses, volume	1.3	2.5	2.6	3.1	2.2	2.2	1.9	2.1
Exports as broadly defined, volume	9.9	5.5	7.6	8.2	5.6	5.7	5.4	5.5
Imports as broadly defined, volume	9.7	3.7	7.1	7.4	4.4	4.8	4.7	5.0
Gross domestic product, volume	1.3	3.3	2.8	3.5	2.8	2.7	2.3	2.5
Gross domestic product, nominal	2.6	4.0	3.7	5.0	4.5	3.7	3.1	3.5
Gross domestic product in ATS billion	2513.5	2614.6	2712.0	2847.6	2976.1	3084.8	3181.3	3292.4
Per capita wages	0.7	2.8	2.3	2.7	3.0	2.6	2.9	2.8
Unit wage costs	0.3	1.3	1.2	0.2	1.5	0.4	0.6	0.6
Private consumption deflator	1.8	0.7	0.5	2.3	1.6	1.2	1.1	1.2
Harmonised consumer price index	1.2	0.8	0.6	2.0	1.6	1.2	1.1	1.2
People in paid employment	0.4	1.0	1.2	1.0	0.9	0.6	0.2	0.4
Unemployment rate; EU-definition	4.4	4.5	3.7	3.2	3.0	3.0	3.0	3.0
Current account balance as a % of GDP	-3.2	-2.5	-2.8	-3.1	-2.5	-2.5	-2.4	-2.3
Economic environment:								
EU 15 gross domestic product, vol.	2.5	2.7	2.5	3.4	3.1	3.0	2.5	2.5
Exchange rate USD/EUR*	-	-	1.067	0.930	0.990	1.020	1.020	1.020
EU 15 HICP	1.7	1.3	1.2	2.1	2.0	1.8	1.7	1.7
Interest rate on new issues	5.7	4.7	4.7	5.6	5.6	5.7	5.7	5.7

*ATS/euro conversion rate: 13.7603 ATS/euro

Source: Statistik Austria, WIFO, Federal Ministry of Finance

4.2 Public budgets

On the basis of the economic and budgetary trends and the planned measures (see Tables 2 and 3), it will be possible to keep within the Maastricht Treaty reference values and to achieve a balanced budget.

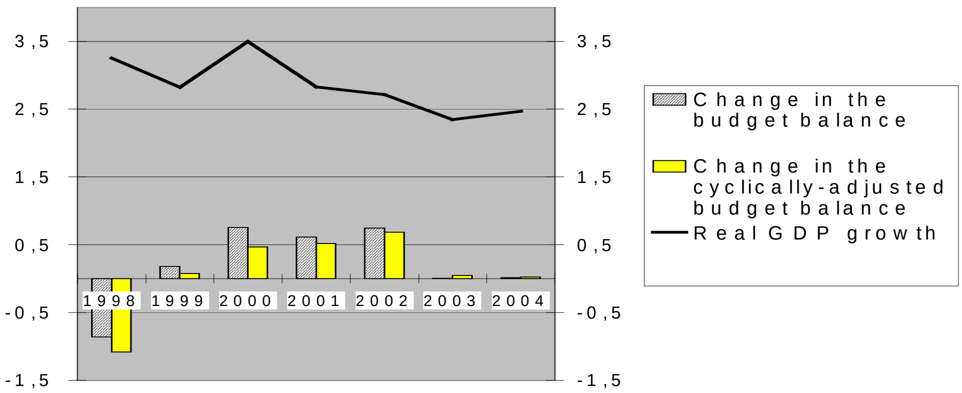
Table 5: Financial deficits of public budgets based on ESA 95, 1997 to 2004

	1997	1998	1999	2000	2001	2002	2003	2004
	as percentage of GDP							
General government financial balance	-1.7	-2.3	-2.1	-1.4	-0.75	0.0	0.0	0.0
of which:								
Federal Government sector	-2.7	-2.9	-2.6	-1.8	-1.5	-¾	-¾	-¾
Länder and local authorities	0.8	0.5	0.6	0.5	¾	¾	¾	¾
Social insurance institutions	0.2	0.1	-0.1	-0.1	0.0	0.0	0.0	0.0

Source: Statistik Austria, 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 10 compares in graphic form real economic growth with the change in the actual and the cyclically-adjusted budget balance, with a trend growth of 2.5% a year being assumed for potential growth,[1] for the sake of simplicity.

Figure 10: Real economic growth (as percentage) and change in the budget balance as a percentage of GDP, 1998 to 2004



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

[1] Average real GDP growth on the basis of ESA 95 was 2.6% in the period 1989-99.

Table 6 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 4.3 percentage points between 1999 and 2004.[2] Public revenue also falls by 2.2 percentage points. The public budget balance improves in 2004, being 2.1 percentage points better than in 1999.

Table 6: Revenue and expenditure of the public budgets, 1997 to 2004 in ATS billion

	1997	1998	1999	2000	2001	2002	2003	2004	2004/1999
Revenue									in %(-points)
Output for own use	48.8	48.1	47.7	40.7	41.4	42.2	42.2	43.5	-8.9
Earnings of non-market producers	32.1	37.4	39.1	47.9	49.1	49.8	49.8	49.8	27.5
Production and import duties	376.6	391.4	408.1	422.8	436.8	448.7	459.1	470.8	15.4
Investment income	33.8	28.9	28.7	29.0	25.4	26.9	24.2	24.2	-15.7
Income and capital tax	339.5	358.2	363.4	370.4	415.4	436.1	454.4	477.3	31.3
Social security contributions	435.9	451.0	464.1	475.1	488.3	502.0	511.4	524.9	13.1
Other current transfers	36.0	38.0	39.8	46.9	35.0	34.0	34.0	34.0	-14.5
Asset transfers	7.0	4.5	6.7	2.6	2.1	2.1	2.1	2.2	-67.7
Total income	1309.7	1357.5	1397.6	1435.4	1493.5	1541.8	1577.2	1626.7	16.4
Income as percentage of GDP	52.1	51.9	51.5	50.4	50.2	50.0	49.6	49.4	-2.1
Expenditure									
Intermediate inputs	139.2	148.9	156.7	159.5	163.6	167.2	171.9	176.7	12.8
Compensation of employees	288.2	296.7	310.2	318.4	321.1	323.2	332.7	344.0	10.9
Production and import duties	6.8	7.5	7.4	7.0	7.0	7.1	7.1	7.3	-1.6
Subsidies	64.4	72.5	71.5	70.6	80.3	77.8	80.1	80.9	13.3
Interest expenditure	97.3	98.5	96.5	99.3	101.5	104.3	104.3	104.0	7.8
Monetary social welfare transfers	475.5	485.4	503.8	512.0	523.9	541.9	552.7	576.0	14.3
Benefits in kind	117.6	123.5	130.9	135.4	139.6	143.6	147.6	151.8	16.0
Other current transfers	64.1	72.7	74.2	75.0	74.5	75.8	76.8	78.4	5.6
Current expenditure	1253.2	1305.6	1351.1	1377.2	1411.5	1441.0	1473.3	1519.1	12.4
Current saving	56.4	51.9	46.5	58.2	81.9	100.8	103.9	107.6	131.3
Current saving as percentage of GDP	2.2	2.0	1.7	2.0	2.8	3.3	3.3	3.3	1.6
Capital transfers	52.5	63.7	54.0	54.5	55.7	53.5	54.6	55.7	3.2
Gross investment	49.4	48.5	50.2	46.9	49.9	48.8	49.8	51.0	1.6
Accrual of capital. net	-1.6	-0.4	-0.2	-4.5	-1.5	-1.5	-1.3	0.0	-100.0
Total expenditure	1353.5	1417.5	1455.0	1474.1	1515.6	1541.8	1576.3	1625.7	11.7
Expenditure as percentage of GDP	53.8	54.2	53.7	51.8	50.9	50.0	49.6	49.4	-4.3
Net borrowing	-43.8	-60.0	-57.4	-38.7	-22.2	0.0	0.9	0.9	-101.6
Net borrowing as % of GDP	-1.7	-2.3	-2.1	-1.4	-0.75	0.0	0.0	0.0	2.1
For information:									
Primary balance as % of GDP	2.1	1.5	1.4	2.1	2.7	3.4	3.3	3.2	1.7

Source: WIFO, October 2000, 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 7 and Figure 11). 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 debt ratio will already exceed the 60% reference value in 2002. These figures do not yet include the planned sale of housing owned by the Federation.

[2] No additional fiscal policy measures were assumed for 2004 since that year falls outside the current parliamentary term.

Table 7: Determinants of the change in the debt ratio, 1997 to 2004

	1997	1998	1999	2000	2001	2002	2003	2004
Government debt in ATS billion	1627.1	1672.2	1752.8	1795.5	1827.4	1824.4	1819.2	1820.2
Debt ratio	64.7	64.0	64.6	63.1	61.4	59.1	57.2	55.3
Change in the debt ratio	-4.4	-0.6	0.7	-1.6	-1.7	-2.3	-2.0	-1.9
of which:								
Contribution of primary balance	-2.1	-1.5	-1.4	-2.1	-2.7	-3.4	-3.3	-3.2
Contribution of public sector interest payments	3.9	3.8	3.6	3.5	3.4	3.4	3.3	3.2
Contribution of nominal GDP growth	-1.7	-2.5	-2.3	-3.1	-2.7	-2.2	-1.8	-1.9
Contribution of stock flow adjustment [1)]	-4.4	-0.4	0.9	0.1	0.3	-0.1	-0.2	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 at around 5.7% in the forecasting period (Table 8).

Table 8: Issue yield and average rate of interest on government debt, 1995 to 2004

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	as percentage									
Issue yield on government bonds	7.1	6.3	5.7	4.8	5.2	5.6	5.6	5.7	5.7	5.7
Effective average interest rate	7.0	6.4	5.8	6.1	5.8	5.7	5.7	5.7	5.7	5.7

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 2001 to 2004 is in each case one percentage point higher than in the standard 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 9. In the higher scenario there is a surplus of 0.6% of GDP in 2004. This would have a correspondingly dampening effect on the debt ratio (see Figure 10). In the lower scenario too, the deficit in 2001 and thereafter remains virtually in balance. The debt ratio would remain on a distinctly downwards trend but would decline less rapidly.

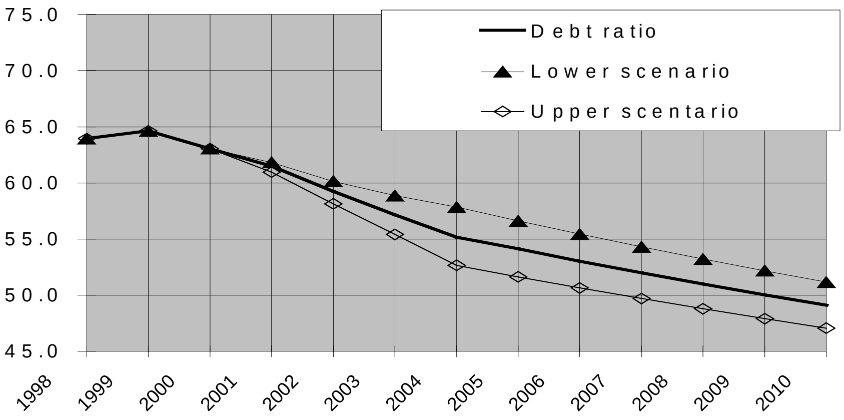
Table 9: Economic growth and net public sector borrowing from 2000 to 2004 in three scenarios

	2000	2001	2002	2003	2004
	Standard scenario				
Gross domestic product	3.5	2.8	2.7	2.3	2.5
Net borrowing as percentage of GDP	-1.4	-0.75	0.0	0.0	0.0
Debt ratio as percentage of GDP	63.1	61.4	59.1	57.2	55.3
	Higher growth scenario				
Gross domestic product	3.5	3.4	3.3	2.9	3.1
Net borrowing as percentage of GDP	-1.4	-0.6	0.3	0.5	0.6
Debt ratio as percentage of GDP	63.1	61.0	58.1	55.5	52.7
	Lower growth scenario				
Gross domestic product	3.5	2.3	2.1	1.7	1.9
Net borrowing as percentage of GDP	-1.4	-0.9	-0.3	-0.5	-0.6
Debt ratio as percentage of GDP	63.1	61.8	60.1	58.9	57.9

Source: Statistik Austria, WIFO, October 2000; 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 0% and a stock flow adjustment of half a percent of GDP.

Figure 10: Trend of debt ratio in three scenarios up to 2004 and trend up to 2010



Source: Statistik Austria, WIFO, October 2000; 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 10% 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 90% of Federal debt is borrowed at fixed interest rates and in October 2000 the residual life of existing debt was 5.9 years. In comparison with the standard scenario a lasting rise in average interest rates of one percentage point from 2001 onwards would, on the basis of the existing debt structure, cost the public deficit in 2004 some ATS 8 billion or ¼ of a percentage point of gross domestic product.