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Commission assesses the updated Austrian stability programme (2000-2004)

The European Commission adopted today a recommendation to the Council of Ministers on the updated Stability Programme for Austria (2000-2004). The programme envisages a decline in the general government deficit ratio from 1.4% of GDP in 2000 to a balanced position in 2002 and beyond. The debt ratio is expected to fall to 55.3 % of GDP. This implies a much faster deficit reduction than foreseen in the previous update of the programme. The Commission concludes that the medium-term budgetary targets in the updated programme are in line with the Stability and Growth Pact and the Broad Economic Policy Guidelines. The programme projects average annual output growth of 2.6 % over the period 2001-2004 which appears feasible. Given the currently favourable economic conditions the timing and speed of the budgetary consolidation seem appropriate. On the basis of the Commission's Recommendation, the Council is expected to adopt a formal Opinion on the updated Austrian programme on [12 February 2001].

The Commission recommendation is adopted on the initiative of Pedro Solbes, EU Commissioner responsible for economic and monetary affairs, who commenting on the programme said: *"The Commission's assessment of the stability programmes for the Member States is an important element in the multilateral surveillance process. Given the continuous strengthening of economic policy co-ordination in the Union, the Commission will put increasing emphasis in its analysis on the degree of ambition with which Member States plan to conduct their economic policies in the short and medium term. An assessment of how Member States plan to tackle budgetary consolidation and implement structural reforms, on the appropriateness of the policy-mix given the current economic cycle, or on how to deal with sustainability issues like the consequences of ageing population are among the issues in our analysis."*

The Commission's main conclusions on the Austrian programme are the following:

- The macroeconomic scenario underlying the updated Austrian stability programme assumes annual average growth of 2.6% over the period 2001-2004. Such a growth rate appears feasible in light of the continued favourable supply and demand conditions in the Austrian economy.
- The general government deficit ratio is projected to be reduced from 1.4% of GDP in 2000 to a balanced position in 2002 and thereafter. During the same period, the debt ratio is expected to decline to 55.3% of GDP, falling below the 60% reference value in 2002. The envisaged decline in the deficit ratio is much faster than previously foreseen, thus complying with the Council's recommendation in its opinion on the previous update. The Stability and Growth Pact is now respected earlier, which is welcome and also appropriate in view of the currently favourable economic conditions.

- In 2000, despite higher-than-projected growth the estimated deficit in the current update is not lower than forecast in the previous update of the programme - once originally unbudgeted proceeds from the auctioning of mobile telephone licenses are excluded. The Council recommended in its opinion on the previous update that, in the event of higher growth, a better deficit outcome should be achieved.
- In the initial years of the programme the deficit reduction relies heavily on revenue side measures. This will lead to a rise in the tax burden, which will only decline in the later years of the programme. As a consequence, once a balanced budgetary position is attained, and without compromising the overall budgetary adjustment, the Austrian government should adopt measures to lower the high tax burden, especially on labour. The planned reduction in non-wage labour costs is a welcome first step in this direction.
- By 2003, a major part of the total envisaged consolidation originates from expenditure savings. The programme includes major structural reforms, namely in the pension system and public administration. The recent reform of early retirement is particularly welcome.
- A tight budgetary implementation will be required in 2001 and 2002 to attain the deficit targets. Strict expenditure control and budgetary discipline is also required at lower levels of government as the achievement of the programme targets relies strongly on substantial surpluses in the finances of the Bundesländer and balanced budgets in the social insurance institutions.
- In order to achieve sustainable government finances in the longer term, reforms in the pension and health care systems need to be continued with determination.
- The budgetary consolidation process is greatly facilitated by a good economic overall performance. To raise the growth potential of the Austrian economy, continued and determined reforms of product and capital markets are necessary, in order to enhance competition, foster the provision of risk capital and improve entrepreneurial dynamism and corporate governance.

The Stability and Growth Pact, adopted by the Amsterdam European Council in June 1997, requires countries participating in the euro-zone to present stability programmes to the Council and the Commission. These programmes provide information on how countries intend to meet the objectives of the Pact and in particular the medium term goal of a budget close to balance or in surplus.

Key figures from the stability programme of Austria

		2000	2001	2002	2003	2004
Real GDP growth (percentage change)	December 2000	3.5	2.8	2.7	2.3	2.5
	March 2000	2.8	2.8	2.5	1.9	-
General government balance (% of GDP)	December 2000	1.4	0.75	0.0	0.0	0.0
	March 2000	1.7	1.5	1.4	1.3	-
General government debt (% of GDP)	December 2000	63.1	61.4	59.1	57.2	55.3
	March 2000	64.1	62.7	61.9	61.2	-
Inflation (HCPI), (annual percentage change)	December 2000	2.0	1.6	1.2	1.1	1.2
	March 2000	1.5	1.3	1.0	1.0	-