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AUSTRIA: MACRO FISCAL ASSESSMENT

AN ANALYSIS OF THE APRIL 2009 UPDATE OF THE STABILITY PROGRAMME

The Stability and Growth Pact requires each EU Member State to present an annual update of its medium-term budgetary programme, called "stability programme" for countries that have adopted the euro as their currency and "convergence programme" for those that have not.

The attached technical analysis of the programme, prepared by the staff of, and under the responsibility of, the Directorate-General for Economic and Financial Affairs (DG ECFIN) of the European Commission, was finalised on 17 June 2009. Comments should be sent to Josef Baumgartner (Josef.Baumgartner@ec.europa.eu) or Carsten Eppendorfer (Carsten.Eppendorfer@ec.europa.eu). The main aim of the analysis is to assess the realism of the budgetary strategy presented in the programme as well as its compliance with the requirements of the Stability and Growth Pact. However, the analysis also looks at the overall macro-economic performance of the country and highlights relevant policy challenges.

The analysis takes into account (i) the Commission services' 2009 spring forecast, (ii) the code of conduct ("Specifications on the implementation of the Stability and Growth Pact and guidelines on the format and content of stability and convergence programmes", endorsed by the ECOFIN Council of 11 October 2005) and (iii) the commonly agreed methodology for the estimation of potential output and cyclically-adjusted balances. Technical issues are explained in an accompanying methodological paper prepared by DG ECFIN.

Based on this technical analysis, the European Commission adopted a recommendation for a Council opinion on the programme on 24 June 2009. The ECOFIN Council adopted its opinion on the programme on 7 July 2009.

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All these documents, as well as the provisions of the Stability and Growth Pact, can be found on the following website:

http://ec.europa.eu/economy_finance/about/activities/sgp/main_en.htm

1. INTRODUCTION

This document assesses the April 2009 update of the Austrian stability programme. It takes into account all currently available information, notably the Commission services' 2009 Spring forecast and the short-term measures adopted by the Austrian authorities in response to the economic downturn. The programme, which was submitted on 21 April 2009[1], covers the period 2008-2013 and builds on the 2009 budget framework law and the 2008-2013 fiscal equalisation law. It has been approved by the government and presented to the Parliament on 21 April 2009. The programme contains a detailed description of the 2008 and 2009 fiscal stimulus and financial sector stabilisation measures and specifies their impact on the Federal budget.

2. MAIN CHALLENGES IN THE ECONOMIC DOWNTURN AND THE POLICY RESPONSE

As a small and strongly export-oriented economy, Austria is affected by the global recession mainly via the contraction in international trade with a particular strong fall in foreign demand in 2009. The economic downturn gained momentum in the first quarter 2009 (GDP -2.8% q-o-q). The manufacturing sector, notably automotive suppliers are expected to suffer most, as goods exports are forecast to shrink significantly, dragging down also private investment in equipment. According to the Commission services' Spring 2009 forecast, real GDP is projected to shrink by 4% in 2009, followed by stagnation in 2010. The positive output gap has been closing rapidly and is projected to turn strongly negative in 2009 and 2010. For that period, Austria is thus expected to be in "bad economic times" (see Figure 1 in Annex 2).

The direct impact of the global financial crisis on the real economy has been relatively contained, although the financial sector suffered from a massive slump in profits especially from banks' foreign activities in Central and Eastern Europe (CEE) in 2008. Among foreign banks operating in this region, Austrian banks hold the largest share of total foreign claims on CEE countries. With Austrian banks' assets in CEE representing over 60% of Austrian GDP, the fiscal implications of a potential banking crisis in CEE countries have raised concerns, and the risk premium on Austrian government bonds, as measured by the spread vis-à-vis German bonds, soared to as much as 130 basis points in early 2009, before edging down again to around 60 basis points in May 2009. While the financial crisis has revealed weaknesses of the Austrian financial system, its direct effects on domestic economic activity have so far been limited, although bank margins for loans have increased and lending conditions have been tightened in recent months, especially for larger enterprises which also face more difficult terms for issuing corporate bonds and raising equity capital.

The labour market remained resilient until recently. Employment growth reached 1.8% (1.5%) in 2007 (2008) and unemployment fell to 170 000 persons in June 2008, the lowest number since 2002. Meanwhile, the recession began to take its toll in the fourth quarter of 2008, and unemployment is set to rise strongly in the coming months. Although the rise in unemployment is curtailed by the reduction in overtime and recourse to short-time work, a sharp fall in employment by 2.7% in 2009 and 0.9% 2010 is projected, leading to the loss of 112000 jobs. This is mirrored by a predicted increase in unemployment to a rate of 7.1% in 2010, up from 3.8% in 2008.

[1] The English language version was submitted on 24 April 2009.

Despite buoyant tax revenues during the latest boom period, the fiscal balance improved only slightly due to spending increases. The government deficit for 2008 amounted to 0.4% of GDP. Public finances are set to quickly deteriorate in 2009 to a deficit of 4¼% of GDP, widening further to 5¼% of GDP in 2010. This is the result of sizeable government revenue losses and additional expenditure due to automatic stabilisers. In addition, discretionary measures to stabilise financial markets, sustain business activity and household income, will weigh significantly on Austria's public finances.

In accordance with the European Economic Recovery Plan, the Austrian government has taken sizeable fiscal counter-action. Two economic recovery programmes, income tax cuts and a labour market support package were introduced with a focus on income support, reducing lay-offs and improving access to training, sustaining investment and private access to finance. Support to credit-constrained enterprises comes mainly in off-budget form as guarantees and subsidised loans. To support the automotive industry, a premium is offered for scrapping old cars on the purchase of new ones. Recovery programmes I and II announced the front-loading of infrastructure projects of state-owned enterprises to stimulate construction activity. In addition to such discretionary measures, automatic stabilisers will be allowed to operate.

The Austrian authorities have adopted several measures to stabilize financial markets including an extension of guarantees for bank deposits held by individuals, as well as further incentives for private household saving through savings and loan associations were reinforced. The Austrian government offers guarantees for interbank loans, bond and commercial paper issues by the newly funded Austrian Clearing Bank (*OeCAG*) and commercial banks, as well as funds for capital injections to commercial banks.

Table I: Comparison of macroeconomic developments and forecasts

	2008		2009		2010		2011	2012	2013
	COM	SP	COM	SP	COM	SP	SP	SP	SP
Real GDP (% change)	1.8	1.8	-4.0	-2.2	-0.1	0.5	1.5	2.0	2.3
Private consumption (% change)	0.9	0.9	0.1	0.4	0.4	0.8	1.5	1.5	1.6
Gross fixed capital formation (% change)	1.8	1.8	-11.6	-5.1	0.1	0.3	2.7	2.7	3.6
Exports of goods and services (% change)	2.0	2.0	-10.9	-5.6	0.4	0.6	3.9	5.2	5.9
Imports of goods and services (% change)	1.6	1.6	-9.5	-4.2	1.1	0.6	3.5	4.8	5.4
Contributions to real GDP growth:									
- Final domestic demand	1.0	1.0	-2.4	-0.8	0.4	0.7	1.4	1.5	1.7
- Change in inventories	0.7	0.4	-0.3	-0.4	-0.1	-0.2	-0.3	0.1	0.0
- Net exports	0.4	0.4	-1.3	-1.0	-0.4	0.0	0.4	0.4	0.6
Output gap[1]	2.9	2.6	-2.2	-0.9	-3.3	-1.7	-1.6	-1.2	-0.5
Employment (% change)	1.8	2.4	-2.1	-1.1	-0.9	-0.5	0.0	0.6	0.7
Unemployment rate (%)	3.8	3.8	6.0	5.0	7.1	5.8	6.1	6.3	6.2
Labour productivity (% change)	0.3	-0.6	-1.3	-1.1	0.8	1.0	1.5	1.4	1.6
HICP inflation (%)	3.2	3.2	0.5	0.6	1.1	1.1	1.3	1.5	1.9
GDP deflator (% change)	2.4	2.4	1.4	1.4	1.0	0.8	1.3	1.5	1.9
Comp. of employees (per head, % change)	3.3	2.6	2.8	2.6	1.4	1.0	1.7	1.9	2.5
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	3.3	2.9	2.7	1.6	2.4	0.6	1.0	1.3	1.4

Note:

[1]In percent of potential GDP, with potential GDP growth according to the programme as recalculated by Commission services.

Source :

Commission services' spring 2009 forecasts (COM); Stability programme (SP)

3. MACROECONOMIC SCENARIO

The macroeconomic scenario underlying the April 2009 stability programme as presented in Table I, envisages real GDP growth to fall from 1.8% in 2008 to -2.2% in 2009 before recovering to 0.5% in 2010. For 2009, the programme expects the fiscal stimulus measures (Recovery Packages I and II) to support growth by 0.75 percentage points. As from 2011, an average rate of 1.9% until the end of the programme period in 2013 is projected. Assessed against currently available information[2] this scenario appears to be based on markedly favourable growth assumptions. Indeed, the projected fall in 2009 is one of the most benign scenarios currently expected for Austria. In particular the contributions from domestic demand, gross fixed capital formation and net exports in 2009 are strongly on the positive side compared with the Commission services' forecast. In line with the more optimistic GDP forecast, the programme also expects a more limited decline in employment. The programme's inflation forecast of 0.6% in 2009 and 1.1% in 2010 appears realistic.

The output gap and potential growth estimates[3] indicate that economic activity will fall considerably below potential in 2009 and 2010. Here again, the Commission services' Spring forecast, implies a much wider negative output gap for 2009 and 2010, indicating a deeper and more protracted recession. As from 2011 the output gap gradually closes with growth expected mildly above potential. This seems realistic on the back of an expected stabilisation of the global economy, which would benefit the strongly export oriented Austrian economy.

4. BUDGETARY STRATEGY

4.1. Budgetary implementation in 2008

The 2008 general government deficit turned out at 0.4% of GDP, slightly below the target of 0.6% of GDP set in the previous update of the stability programme. The better-than-expected outcome mainly arises from the base effect as the deficit recorded for 2007 was also 0.2 percentage points lower than planned (see Table 1 in Annex 2). Revenue exceeded the projection in the previous programme by 0.8% of GDP, mainly due to a more favourable starting position in 2007 and to a lesser extent due to a more tax-friendly growth composition. Higher revenue growth in 2008 (contributing by 0.1% of GDP to the revenue windfalls) mainly derives from higher employment and wage growth and implicit fiscal drag. Part of the revenue was used to finance the "stabilisation package" in response to reductions in purchasing power due to temporary higher inflation in 2008. Expenditure was around 0.5% of GDP higher than expected, partly due to the fiscal measures to compensate also for the rise in inflation, including measures for pension benefits and higher social transfers

Overall, the 2008 budget balance was only slightly affected by the dramatic change in the economic environment, as the government's fiscal stimulus and financial stabilisation package will primarily kick in from 2009 onwards. Nevertheless, the debt-to-GDP ratio increased by 3.1 percentage point, resulting mainly from capital injections to troubled commercial banks.

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2 The assessment notably takes into account the Commission services' Spring 2009 forecast, but also other information that has become available since then.

3 As recalculated by Commission services based on information in the programme, following a commonly agreed methodology.

4.2. Near-term budgetary strategy

The updated stability programme projects general government deficits of 3.5% of GDP for 2009 and of 4.7% for 2010. These figures match those of the (draft) double-budget for 2009/2010 that the Austrian Federal Ministry of Finance also announced on 21 April 2009, in parallel with the Stability Programme. Apart from the effects of the recession on revenue and expenditure, the widening gap reflects the government's discretionary fiscal counter-action to the tune of about 1.4% to 1.7% of GDP, respectively.[4]

Some of these measures were already taken in 2008 to protect households' purchasing power in the face of rising inflation, but will largely remain in place in 2009 and 2010. They include a reduction of social security contributions, VAT cuts for pharmaceuticals, a reduction of tuition fees at universities as well as an increase in several transfer payments (see Table II "other measures"), adding up to 0.4% of GDP [5].

A first economic recovery package, passed at the end of October 2008, aims at supporting small and medium-sized enterprises (SMEs). Measures taken include equity capital assistance, investment incentives, and the extension of a programme to promote exports and foreign direct investment[6]. Furthermore, SMEs will benefit from additional subsidised credit for investment projects and increased state guarantees that can be used as collateral. Since much of the first package consists of credit lines and guarantees that may not be taken up or crowd out other privately-financed projects, the direct economic stimulus as well as the impact on the government balance in 2009 may be limited.

The second recovery package, announced in January 2009, includes investment incentives for businesses in the form of capital depreciation allowances, incentives for energy-efficiency investments by private households and businesses, investment in R&D and regional fiscal stimulus programmes. The introduction of a compulsory, free-of-charge year in kindergarten is also part of the second recovery programme.

In the Recovery Packages I and II it was announced that infrastructure projects of state-owned enterprises should be brought forward. These front-loaded off-budget construction investment projects may account for another 0.3% of GDP in 2009 and 2010. However, since railway and highway projects require considerable lead time for planning and implementation, and given the still high capacity utilisation of large construction firms specialized in this area, it is unlikely that the expected impulses will be forthcoming in 2009. For investment in buildings, especially at the local level (public buildings, schools, and train stations) the implementation of these plans seems more likely, at least for the latter part of the year.

More significantly, an income tax reform was implemented in 2009, carried forward from 2010. The total volume of the tax cuts amounts to € 2.1 billion (0.8% of GDP) in 2009 and € 2.9 billion (1% of GDP) in 2010 (see Table II). It aims at reducing the burden for low and middle income earners and families by increasing tax allowances and lowering tax rates,

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4 Estimated impulse in comparison to the base year, i.e. the situation in 2008. Announced front-loaded off-budget construction investment projects by state-owned enterprises as well as support to credit-constrained enterprises comes mainly in off-budget form as guarantees and subsidised loans are not included.

5 The base year for the calculations of these figures is 2008, i.e. only the additional revenue or expenditure effect in 2009/10 is counted.

6 The measure "further incentives for private household saving through savings and loan associations" was also part of the Recovery Package I. However, taken its economic effect it is rather a support measure to safeguard mortgage loan home financing.

raising child allowances and extending tax allowances for corporate profits (effective from 2010 onwards).

Table II. Main budgetary measures for 2009

Revenue measures([1])	Expenditure measures([2])
• Measures in response to the downturn	
• Income tax reduction (-0.7% of GDP)	• Labour market package - short-time work (0.1% of GDP) • Increased allowances for children (0.1% of GDP) • Introduction of a 13th family allowance per year (0.2% of GDP)
• Other measures	
• Abolition of university fees (-0.1% of GDP) • Tax exemptions (-0.1% of GDP) • Reduction of VAT on pharmaceuticals (-0,1% of GDP) • Reduction in social contributions (-0.1% of GDP)	
Notes: ([1]) Estimated impact on general government revenue: ([2]) Estimated impact on general government expenditure *Source: Commission services and stability programme of Austria*	

Measures targeted to avoid lay-offs include easier recourse and higher financial incentives (special training allowances) for short-time work. By mid-May 2009, almost 55 000 persons (nearly 2% of the dependent workforce) were registered for short-time work. The costs are projected by the authorities at € 220 million (0.1% of GDP). Furthermore, additional vocational training and qualification programmes have been announced. More widespread application of short-time work and the extension of training programmes have helped limiting the rise in unemployment so far. However, in the case of a prolonged recession, lay-offs and the implicit rise in unemployment compensation outlays may become inevitable.

To stimulate demand and support the distressed car industry the government, in April 2009 introduced a "scrapping premium" of € 1500 for replacing an old with a new, environmentally-friendly car. The scheme is limited to 30 000 cars (approximately ¾% of the stock of cars or 10% of newly-registered cars in 2008). The financial cost of this measure will be shared equally by the government and the Austrian auto retail trade sector.

In addition to discretionary measures, the expansionary impact of automatic stabilisers is estimated at 1¾% and ¼% of GDP[7] in 2009 and 2010, respectively.

Table III: Composition of the budgetary adjustment

(% of GDP)	2007	2008		2009		2010		2011	2012	2013	Change: 2008-2013
	COM	COM	SP	COM	SP	COM[1]	SP	SP	SP	SP	SP
Revenue	**48.0**	**48.2**	**48.2**	**47.4**	**47.5**	**46.7**	**46.5**	**46.4**	**46.1**	**46.1**	**-2.1**
of which:											
- Taxes on production and imports	14.1	14.1	14.1	14.3	14.1	14.3	13.9	13.8	13.6	13.5	-0.6
- Current taxes on income, wealth, etc.	13.5	14.0	14.0	12.6	12.9	12.2	12.3	12.5	12.6	12.7	-1.3
- Social contributions	15.9	16.0	16.0	16.3	16.3	16.2	16.2	16.1	16.0	16.0	0.0
- Other (residual)	4.6	4.1	4.1	4.2	4.2	4.0	4.2	4.0	3.9	3.9	-0.2
Expenditure	**48.5**	**48.6**	**48.7**	**51.6**	**51.1**	**52.1**	**51.3**	**51.1**	**50.9**	**50.1**	**1.4**
of which:											
- Primary expenditure	45.8	46.1	46.1	48.6	48.2	48.9	48.2	47.9	47.5	46.6	0.5
of which:											
Compensation of employees	9.1	9.1	9.1	9.8	9.6	9.8	9.5	9.4	9.3	9.1	-0.1
Intermediate consumption	4.3	4.5	4.5	4.4	4.4	4.6	4.4	4.3	4.2	4.1	-0.4
Social payments	23.4	23.6	23.6	25.5	25.0	25.8	25.4	25.4	25.4	25.2	1.6
Subsidies	3.3	3.5	3.5	3.8	3.5	3.8	3.4	3.3	3.2	3.1	-0.4
Gross fixed capital formation	1.0	1.0	1.0	1.1	1.1	1.1	1.0	1.1	1.1	1.1	0.0
Other (residual)	4.6	4.4	4.4	4.1	4.7	3.9	4.4	4.4	4.4	4.1	-0.2
- Interest expenditure	2.7	2.5	2.6	3.0	2.9	3.2	3.0	3.3	3.4	3.6	0.9
General government balance (GGB)	**-0.5**	**-0.4**	**-0.4**	**-4.2**	**-3.5**	**-5.3**	**-4.7**	**-4.7**	**-4.7**	**-3.9**	**-3.5**
Primary balance	**2.2**	**2.1**	**2.2**	**-1.1**	**-0.6**	**-2.1**	**-1.7**	**-1.4**	**-1.3**	**-0.4**	**-2.6**
One-off and other temporary measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GGB excl. one-offs	**-0.5**	**-0.4**	**-0.4**	**-4.2**	**-3.5**	**-5.3**	**-4.7**	**-4.7**	**-4.7**	**-3.9**	**-3.5**
Output gap[2]	2.7	2.9	2.6	-2.2	-0.9	-3.3	-1.7	-1.6	-1.2	-0.5	-3.1
Cyclically-adjusted balance[2]	-1.8	-1.8	-1.6	-3.2	-3.1	-3.8	-3.9	-4.0	-4.1	-3.7	-2.1
Structural balance[3]	**-1.8**	**-1.8**	**-1.6**	**-3.2**	**-3.1**	**-3.8**	**-3.9**	**-4.0**	**-4.1**	**-3.7**	**-2.1**
Change in structural balance		*0.0*	*0.2*	*-1.4*	*-1.5*	*-0.6*	*-0.8*	*0.0*	*-0.2*	*0.4*	
Structural primary balance[3]	1.0	0.8	1.0	-0.1	-0.2	-0.6	-0.9	-0.7	-0.7	-0.1	-1.2
Change in structural primary balance		*-0.2*	*0.1*	*-0.9*	*-1.2*	*-0.4*	*-0.7*	*0.2*	*0.0*	*0.6*	

Notes:

[1]On a no-policy-change basis.

[2]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission services on the basis of the information in the programme.

[3]Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source:

Stability programme (SP); Commission services' spring 2009 forecasts (COM); Commission services' calculations

To stabilize financial markets**,** Austrian authorities have adopted several measures. For deposits held by individual persons guarantees are unlimited until the end of 2009 and up to € 100 000 thereafter. For small to medium size enterprises the guaranteed upper ceiling is € 50 000. Further incentives for private household saving through savings and loan associations (*Bausparförderung*) were implemented aimed at safeguarding mortgage loan home financing. For interbank loans and bond emissions by the newly funded Austrian Clearing Bank (*OeCAG*) and for commercial paper emissions by commercial banks the Austrian government provided guarantees up to € 75 billion (27% of GDP). In addition, funds

[7] These figures are recalculated by Commission services' on the basis of information provided in the Austrian stability programme. The difference to the Commission services' estimates based on the Spring 2009 forecast is due to the different macroeconomic scenario (see points 2 and 3).

up to € 15 billion (5½% of GDP) for capital injections by the government to financial institutions are available, of which € 6.4 billon were agreed upon by mid of May (but only € 4.7 billion are factually demanded so far).

The stance of fiscal policy in 2009 is expansionary, with the structural deficit ratio projected to increase by 1½ percentage points. The revenue-to-GDP ratio is expected to fall by a ¾ percentage point to 47½% of GDP, whereas the expenditure-to-GDP ratio is foreseen to increase by 2½ percentage points to 51% of GDP.

With the aim of providing timely stimulus, most of the measures took effect in the first quarter of 2009. Overall, the measures taken are mainly targeted to the labour market and to support household income. As 85% of the funds provided as additional discretionary fiscal stimulus will be permanent, the reversibility of the fiscal measures adopted in response to the crisis is not ensured. Hence, an effective and credible fiscal strategy will be needed to return to a path of consolidation once the crisis abates.

4.3. Medium-term budgetary strategy

Austria's objective is to achieve a balanced budget. The objective is part of a three-pillar budgetary strategy, which also envisages promoting investment in R&D, infrastructure, education, protection of the social welfare system as well as structural reforms in the area of public administration.

The 2009 programme foresees a general government deficit of 3.5% of GDP in 2009, widening further to 4.7% in 2010 and remaining at that level until 2012 on a no-policy-change scenario. Only in 2013 the deficit is foreseen to narrow slightly to 3.9% of GDP. Driven by the measures in response to the crisis, the expenditure-to-GDP ratio will increase by 2.6 percentage points between 2008 and 2010. At the same time, the revenue-to-GDP ratio is expected to fall by 1.7 percentage points as a result of discretionary tax cuts and the cyclical erosion of tax bases. The structural deficit is projected to double to 3.1% of GDP in 2009 and to increase further to around 4% in 2010. Accordingly, the fiscal policy stance is distinctly expansionary in 2009 and 2010. Throughout the remaining programme period, the fiscal stance is considered to be broadly neutral as the structural balance is planned to change only marginally until 2012 and to improve by 0.5% of GDP in 2013.

In order to avoid such a lasting excess of the 3%-of-GDP reference value for the deficit, the programme announces that the government will "take all measures needed to achieve a correction until 2012". So far, working groups have been established to prepare further reforms of the federal fiscal agreement between the different levels of government, the structure and financing of health and elderly care as well as reforms of the public administration to exploit potentials for savings and cost-efficiency. First results are expected for 2011.

4.4. Risks to the budgetary targets

The macroeconomic scenario underlying the budgetary projections of the programme is surrounded by considerable uncertainty with respect to the duration, extent and macroeconomic impact of the financial crisis. The growth assumption appear to be markedly favourable, both for 2009 and thereafter, as a swift recovery is projected to bring real GDP growth back to potential already in 2011.

The budgetary path projected in the update appears optimistic for 2009 and 2010. In the light of a weak economic environment, the programme projects a decline in revenue growth that is by about ½ percentage point lower than the Commission services' forecast for this period.

The projections for the expenditure ratio foresee an increase of around 5½ percentage points until 2010 which is about 1.9 percentage points below the Commission forecast. For 2011 to 2013, annual expenditure growth is assumed at around 3%. The update's projections provide no information on measures to support expenditure restraint after 2010 - notably given the permanent nature of the major part of the fiscal stimulus measures. In addition, there is a substantial risk stemming from the financial market stabilisation package granted to the banking sector which is assumed to have a direct impact on the debt through capital injections and potential bank takeovers, but may also substantially increase the deficit in the event of public guarantees being called, recapitalisation not being undertaken at market conditions or the purchase price of assumed risks being higher than the assets' market value.

Overall, the budgetary outcomes are subject to downside risks due to the economic downturn as well as due to the limited reversibility of expansionary measures in response to the crisis. Revenue projections appear optimistic and the programme lacks sufficient information on consolidation efforts envisaged from 2010 onwards.

In the last years, Austria had a reasonably good track record for meeting its budgetary targets. While both expenditure and revenue were often higher in nominal terms than planned, revenue windfalls generally exceeded expenditure overruns. With the first stage of the reform of budgetary legislation entering into force on 1 January 2009, a new multi-annual expenditure framework for the federal government with fixed ceilings set for four consecutive years has been established. The new framework is intended to make budgetary outcomes more predictable in a medium term framework.

5. DEBT DEVELOPMENTS AND LONG-TERM SUSTAINABILITY

5.1. Debt developments

Having stood at 59.4% of GDP in 2007, the debt-to-GDP ratio has increased by more than 3 percentage points in 2008 and is set to rise rapidly by a further 6 percentage points to 68½% of GDP in 2009. According to the update, debt levels will reach 78½ % of GDP at the end of the programme period. This reverses the (mainly cyclical and expenditure driven) declining path until 2007, when gross debt briefly fell below the 60% of GDP Treaty reference value for the first time since 1992.

The increase in the debt level in 2008 and 2009 is largely driven by sizable stock-flow adjustments linked to the financial market stabilisation package (amounting to 5.1% and 2.0% of GDP in 2008 and 2009, respectively). The package to support commercial banks was passed at the end of 2008 and led to an increase in the debt ratio without raising the deficit. From 2009 onwards, a strong contribution is projected to come from a declining primary balance as a result of the sizable tax cuts of the 2009 tax reform and the fiscal stimulus package. In past years the "snow-ball" effects were relatively low and usually debt-reducing. This has now turned to a debt-increasing effect, because the nominal GDP growth has become negative and interest expenditure is increasing. Consequently, the debt ratio is set to rise significantly especially in 2009. In 2010, the debt ratio is expected to increase further to 73.0% of GDP according to the Programme, and reaches 78½% by the end of 2013. The Commission services' spring forecast projects a rise in debt that is even 2 percentage points higher in 2010.

Table IV: Debt dynamics

(% of GDP)	average 2002-06	2007	2008		2009		2010		2011	2012	2013
			COM	SP	COM	SP	COM	SP	SP	SP	SP
Gross debt ratio[1]	**64.4**	**59.4**	**62.5**	**62.5**	**70.4**	**68.5**	**75.2**	**73.0**	**75.7**	**77.7**	**78.5**
Change in the ratio	-1.0	-2.5	3.1	3.1	7.9	6.0	4.8	4.5	2.7	1.9	0.8
Contributions[2] *:*											
1. Primary balance	**-1.0**	**-2.2**	**-2.1**	**-2.2**	**1.1**	**0.6**	**2.1**	**1.7**	**1.4**	**1.3**	**0.4**
2. "Snow-ball" effect	**0.5**	**-0.3**	**0.2**	**0.2**	**4.7**	**3.4**	**2.6**	**2.1**	**1.3**	**0.9**	**0.4**
Of which:											
Interest expenditure	2.9	2.7	2.5	2.6	3.0	2.9	3.2	3.0	3.3	3.4	3.6
Growth effect	-1.4	-1.8	-1.0	-1.0	2.6	1.4	0.1	-0.3	-1.1	-1.5	-1.7
Inflation effect	-1.0	-1.3	-1.4	-1.4	-0.9	-0.9	-0.7	-0.6	-0.9	-1.1	-1.4
3. Stock-flow adjustment	**-0.5**	**0.0**	**5.1**	**5.1**	**1.9**	**2.0**	**0.1**	**0.7**	**0.0**	**-0.1**	**0.0**
Of which:											
Cash/accruals diff.	0.0	-0.1		n.a.		n.a.		n.a.	n.a.	n.a.	n.a.
Acc. financial assets	-0.3	0.4		n.a.		n.a.		n.a.	n.a.	n.a.	n.a.
Privatisation	-0.1	0.0		n.a.		n.a.		n.a.	n.a.	n.a.	n.a.
Val. effect & residual	-0.2	-0.1		n.a.		n.a.		n.a.	n.a.	n.a.	n.a.

Notes:

[1]End of period.

[2]The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source :

Stability programme (SP); Commission services' spring 2009 forecasts (COM); Commission services' calculations

The measures to secure and stabilise the financial sector markedly affect the debt. An overall amount of up to € 100 billion has been made available in guarantees for the three pillars, namely the stimulation of the interbank-market via the newly funded Austrian Clearing Bank (OeCAG), the equity-strengthening of individual banks, and the restoration of confidence of market participants through deposit guarantees. The programme gives no detailed information about how temporary these guarantees are. While the debt-reducing impact of liability fees and dividends on the measures are taken into account, the programme doesn't foresee any related expenditures after 2010. However, there remain considerable risks of further debt increases, should more financial institutions resort to public support. On the other hand, an improvement in the global economic situation would make it unnecessary to call in the guarantees and could lead to a countervailing stock-flow adjustment at a later point in time. Taking also into account these risks to the debt projections, the debt ratio is not diminishing towards the reference value over the programme period (see Figure 3 in Appendix 2).

5.2. Long-term debt projections and the sustainability of public finances

This section presents sustainability indicators based on the long-term age-related government spending as projected by the Member States and the EPC in 2006 according to an agreed methodology.[8]

[8] Economic Policy Committee and the European Commission (2006), 'The impact of aging on public expenditure: projections for the EU-25 Member States on pensions, health care, long-term care, education and unemployment transfers (2004-50)', *European Economy – Special Report* No. 1/2006. European Commission (2006), The long-term sustainability of public finances in the European Union, European Economy No. 4/2006. European Commission (2008), *Public finances in EMU – 2008*, *European Economy* No. 4/2008.

Table 4 in the Annex 2 shows that the projected increase in age-related spending is rising by 1.1% of GDP between 2010 and 2050, which is below the EU average. Sustainability indicators for two scenarios are presented in Table 5 in the Annex. Assuming that the structural primary balance remained at its 2008 level except for the impact of age-related expenditure, the sustainability gap (S2)[9] would amount to 1.8% of GDP; about 1.5% of GDP more than in last year's assessment, which is mainly due to a lower estimated structural primary balance in the starting year. The starting budgetary position is almost sufficient to stabilize the debt ratio over the long-term, entailing a small risk of unsustainable public finances even before considering the long-term budgetary impact of ageing. However, if the 2009 budgetary position of the Commission services' spring 2009 forecast was taken as the starting point, the sustainability gap would widen to about 2 ¾% of GDP.

The "programme scenario" which is based on the end-of-programme structural primary balance, reflects relative to the "2008 scenario" the weakening of the budgetary position due to the current economic crisis. Based on the assumptions used for the calculation of the sustainability indicators, Figure 4 in the Annex 2 displays the projected debt/GDP ratio over the long-term. For an overall assessment of the sustainability of public finances, other relevant factors are taken into account. They are summarized in Table 6 in the Annex. The programme presents projections updated by national authorities, taking into account recent changes to the pension system, which tend to increase the long-term cost of ageing.

Austria appears to be at medium risk with regard to the sustainability of public finances. The long-term budgetary impact of ageing in Austria is lower than the EU average, with pension expenditure projecting to increase only slightly as a share of GDP over the long-term. The budgetary position in 2008, as estimated in the programme, is weaker than the starting position of the previous programme, compounding the budgetary impact of population ageing on the sustainability gap. If the 2009 budgetary position as projected by the Commission services Spring 2009 forecast were taken as the starting point, the sustainability gap would widen substantially. Moreover, the current level of gross debt is above the Treaty reference value. Ensuring higher primary surpluses over the medium term, e.g. by raising the effective retirement age, would contribute to reducing risks to the sustainability of public finances.

6. INSTITUTIONAL FEATURES OF PUBLIC FINANCES

Although currently interrupted in response to the economic and financial crisis, past consolidation efforts contributed to a slow convergence of Austrian expenditure-to-GDP ratio towards the European average. So far, this progress was achieved mainly by a reduction in the number of public employees (in the context of the first and second stage of the public administration reform), which is envisaged to be continued over the programme period.

Considerable room for improvement remains in the effectiveness of public spending and the existing federal fiscal framework. Austrian fiscal relations - governed by the Fiscal Equalisation Law 2008-2013 and the Domestic Stability Pact 2008 - are rather complex and lack transparency due to overlapping responsibilities, co-administration and co-financing at federal, Länder and local levels of government.[10] Consequently, there is scope for efficiency

[9] The S2 indicator is defined as the change in the current level of the structural primary balance required to make sure that the discounted value of future structural primary balances (including the path of property income) covers the current level of debt.

[10] For recommendations on enhancing the effectiveness of Austrian fiscal federalism, see also OECD (2005), *Economic Surveys: Austria*, Vol.2005/8, Paris.

gains in several areas of public spending, in particular in health care and education (see Annex 1).[11] The 2009 programme update mentions that an expert working group on public administration reform has been formed, but no tangible proposals are expected before 2011 and previous slow reform pace had repeatedly revealed missing political commitment by the government.

On the federal level, Austria has embarked on a far-reaching reform of the budgetary framework law comprising two stages. The first stage, which entered into force on 1 January 2009, established a new multi-annual expenditure framework with fixed ceilings (for about 80% of total expenditures) set for four consecutive years on a rolling basis. It is expected to prevent pro-cyclical spending and to enhance the effectiveness of the automatic stabilisers. A further strengthening of the framework could be realised by explicitly linking it to the long-term fiscal objectives required under the provisions of the Stability and Growth Pact.[12] The second stage, starting as of 2013, involves inter alia the introduction of output-based budgeting ("performance budgeting") and the modernisation of the accounting system of the public administration. Given the expected gains in efficiency and improvements in transparency from the reforms as well as potential cost cutting, the implementation, which was originally planned for 2011, should be ensured for 2013 and not be delayed any further.

7. ASSESSMENT

This section assesses the budgetary strategy, taking into account the risks, in the light of (i) the adequacy of the fiscal stimulus package in response to the Commission Communication of 26 November 2008 on the European Economic Recovery Plan (EERP) as endorsed by the European Council conclusions on the European Economic Recovery Plan (EERP) on 16 December 2008 and the overall fiscal stance (ii) the criteria for short-term action laid down the above mentioned Commission Communication, and (iii) the objectives of the Stability and Growth Pact.

Driven by strong economic growth in the last years, the general government deficit narrowed to ½% of GDP, providing budgetary leeway used by the government to introduce in 2008 and 2009 a sizeable fiscal stimulus in response to the crisis. An impulse of around 1.4% of GDP in 2009 and 1.7% of GDP in 2010 is provided, hence, the fiscal stance will be expansionary.

The EERP set a number of criteria for assessing countries' measures in response to the recession. In particular, measures need to be timely, targeted and temporary. The stimulus measures of the Austrian government include a mix of revenue and expenditure instruments. They aim at bolstering private incomes, avoiding lay-offs and strengthening human skills by providing further vocational training, as well as incentives for investment and support to the automotive sector. The response has been timely as most of the measures took effect in the first quarter of 2009, and it has been commensurate to the scale and pace of the economic downturn. The major part of the impulse comes from the revenue side, notably with the income tax cuts accounting for 0.8% of GDP. Its effect on demand may, however, be dampened by rising household saving in the face of uncertain labour market prospects and wealth losses in the wake of the financial market crisis. Other measures will become effective only with a lag, such as the infrastructure projects brought forward by state-owned enterprises, or may have limited impact due to the depressed overall investment climate.

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11 European Commission (2008), *Public Finances in the EMU – 2008*.

12 OECD (2009), *2009 Economic Review – Austria*.

The measures taken are only partly in line with the general principles of the EERP since they are largely of a permanent nature (e.g. cuts in income tax and social contribution rates). Hence, a credible and sound strategy is needed for consolidation to resume as soon as the crisis abates. Yet, the stability programme foresees no reduction in government net borrowing before 2013, although GDP growth is projected to pick up as from 2010.

As a small, open economy, Austria is highly exposed to external economic developments. Given the markedly benign assumptions for GDP throughout the programme period, the authorities' budgetary projections are subject to substantial downside risks, particularly in the event of the current recession proving deeper and longer than generally assumed. The negative budgetary risks of the support programmes for enterprises and commercial banks, for their part, are currently estimated to be limited, as most of them are off-budget in the form of guarantees. However, if the number of non-performing domestic and foreign loans increases to a degree that the solvency of major Austrian banks is put at risk, public finances would deteriorate further, as substantial additional capital injections by the government would then become necessary.

The programme does not foresee the MTO (defined by the programme as a balance budget) to be reached within the programme period mainly as a consequence of the financial and economic crisis. The programme foresees the general government deficit to widen from 3.5% in 2009 to 4.7% in 2010 and to remain at that level until 2012 on a no-policy-change scenario. Only in 2013 the deficit is foreseen to narrow slightly to 3.9% of GDP. Consequently, there is no deficit reduction in line with the Stability and Growth Pact (SGP) until 2012. Also, no sufficient safety margin against breaching the 3% of GDP deficit limit will be reached within the programme period, as indeed the planned deficits are above the limit. Furthermore the outlined consolidation path is subject to downside risks. Finally, the higher deficit ratios throughout the programme period and financial transactions linked to the financial stabilisation package imply that the debt-to-GDP ratio will increase up to 78½% of GDP in 2013.

ANNEX 1. SPECIAL TOPIC IN PUBLIC FINANCES: COMPOSITION AND EFFICIENCY OF AUSTRIAN PUBLIC EXPENDITURE

In the context of the Lisbon Agenda for Growth and Jobs, the Austrian government has set new spending priorities towards increasing public expenditures in growth-enhancing categories such as infrastructure, education and R&D. In line with the Stability and Growth Pact (SGP), Austria has also committed to achieve a balanced budget over the business cycle. These two commitments, which are part of the Austrian three-pillar strategy (see Section 4.3) to enhance the growth potential of the Austrian economy, pose challenges. Considering its already large government size, Austria has over the medium to long term limited scope for further increases in public spending (see Section 5.2). In this vein, an increase in the efficiency of public spending offers an opportunity to match both ambitious objectives.

Considering two aspects of the quality of public finances[13] (QPF), namely, the composition and efficiency of public expenditure, this Annex is organised as follows. First the composition of Austrian public expenditure is discussed using an approach that classifies government spending according to past, present and future related expenditures. The next section employs input-output ratios to analyse some efficiency aspects of health care, R&D as well as of the education sector.

1. COMPOSITION OF PUBLIC SPENDING

In 1996, general government spending accounted for over 55% of GDP in Austria, clearly above the Euro Area (EA) average of 48% of GDP. In 2008, the expenditure–to-GDP ratio for Austria was 48%, smoothly converging towards European government size averages. In keeping with its fiscal consolidation commitments, further decreases in Austrian government size should be expected in the medium term, even though this downward trend is currently interrupted in response to the economic crisis. In view of scarce resources, more attention will be directed to the composition of government expenses, their efficiency and impact on long-run economic growth. Well targeted public expenditure (e.g. future-oriented) can be determinant for the performance of the economy. Public spending on education and infrastructure can contribute to long run growth by raising human and physical capital stock. Similarly, expenses on R&D speed up technological progress, thus being growth enhancing.

The composition of public spending has an influence on the performance of the public sector. A high share of non-discretionary expenditure reduces the government leeway and thus, limits the possibility to have a well-targeted economic policy. The composition of expenditures shows government' spending priorities and allows drawing conclusions on the State's approach towards macroeconomic policy, income redistribution and resource allocation[14]. To analyse the composition of public spending, this section adopts an approach that analyses government expenditure in the light of three time vectors: past, present and future[15]. For that

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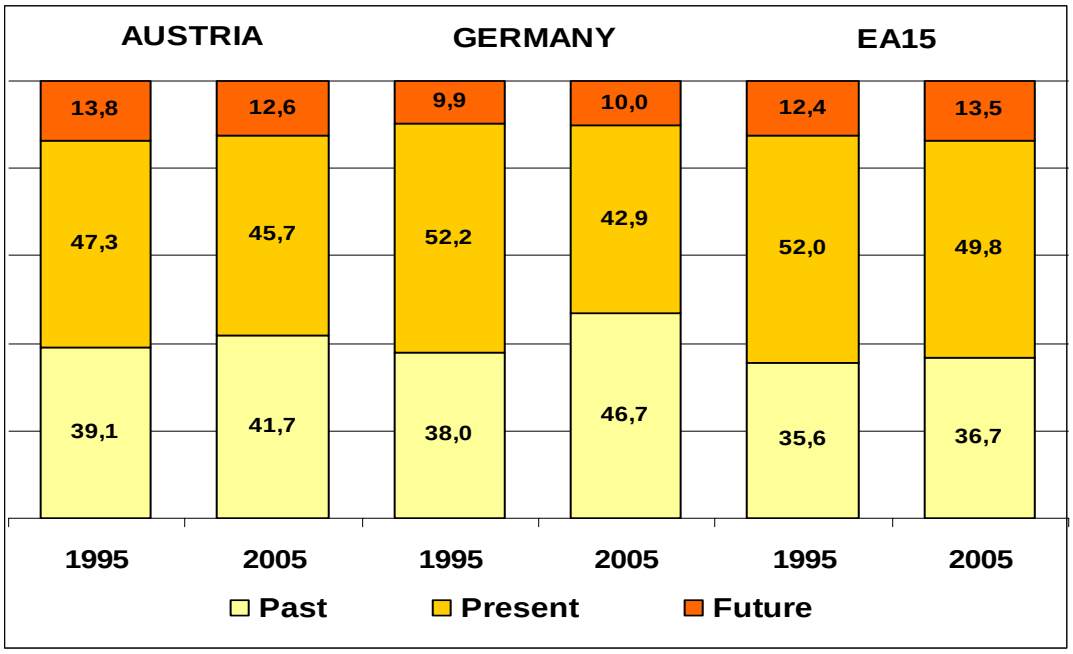
[13] European Commission, (2008), Public Finances in EMU. Part III: The quality of public finances and growth: a conceptual framework.

[14] Mandl, U., Dierx, A. and Ilzkovitz, F., (2008), The effectiveness and efficiency of public spending, *Economic Papers 301*, February 2008.

[15] In 2004, this approach was employed by the Austrian Ministry of Finance and later also in Mandl, U., (2004), Austrian approach towards the quality of public expenditures, in The Quality of Public Finances:

purpose and due to data limitations, the COFOG categories were employed. The expenditures based on past decisions and legal entitlements can be represented in the COFOG classification mainly by social protection expenses. Present-oriented expenditures include public spending allocated to the economic, legal and social system as well as for maintaining the productive potential of the work force. In the COFOG classification present related spending consists of general public services, defence, public order and safety, economic affairs, housing and community amenities, health, and recreation, culture and religion expenditures. Future-oriented spending refers to public expenditures that aim at enhancing human and physical capital accumulation and technological progress in order to foster long-run economic growth. R&D and infrastructure are important future-oriented expenditures but due to the high level of data aggregation one can not distinguish them as individual categories, therefore in the present analysis future-oriented spending only consists of education and environment public spending. More disaggregated spending categories would have been preferable as they would have facilitated a more accurate classification into the three time vectors. However, the use of the one-digit level COFOG categories allows drawing some interesting remarks.

Figure 1. General government spending according to past-, present- and future-related expenditures



Note: *Past* consists of social protection expenditures; *Present* comprises public spending on general public services, defence, public order and safety, economic affairs, housing and community amenities, health, and recreation, culture and religion; and *Future* contains education and environment public spending.

Source: Eurostat

As one can observe in Figure 1, Austria's social protection (past related) spending is larger than that of the EA average and has increased between 1995 and 2005 as a percent of total spending. An Austrian greying population has increased the pension's burden and thus social

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Findings of the European Policy Committee-Working Group (2004-2007), *European Economy Occasional Papers 37*, March 2008.

protection expenditures. Recent long-run projections (based on EC and EPC projections) point that public pension expenditures will continue to rise until they reach a peak level of 15% of GDP in 2032. By 2050, they are expected to fall to 13.1% of GDP[16]. The introduction of the formula "45/65/80" - 45 years of contributions to the pension system, 65 years old and 80 percent of average life long earnings – aims at increasing the effective retirement age and guaranteeing a sufficient income level. In addition, the minimum pension provision was recently improved. By redistributing wealth, social protection creates a safety net that can work as a growth-promoting institutional factor but when extremely generous it can reduce incentives to work, to invest in human capital or exercise entrepreneurial talents[17].

In Austria, Germany and the EA, present related expenditures in percent of total expenditures have decreased between 1995 and 2005 (Figure1). In Austria, however, the development of the COFOG categories classified as present-oriented was mixed. As a result of the implementation of new public management practices (e.g. fostering e-government and grouping accounting offices into a central agency) and a steady reduction in the number of civil servants (though two thirds of these public employees' cost-savings have been due to increased outsourcing[18]), expenditures on general public services have decreased as a percentage of total government expenditure. On the other hand, expenditures on defence, public order and safety, and health have been increasing since 1995.

The most important future-oriented activity, government expenditure on education, has increased as a percent of total spending. In contrast, spending on environment protection has decreased as a percent of total spending and in 2006 it was notoriously lower than that of the EA average. Although this highly aggregated COFOG classification does not allow observing the development of other expenditures with a positive impact on the future supply-side such as R&D and infrastructure, there is substantial evidence suggesting that public expenditure on R&D activities has been steadily increasing. For instance, the share of government budget appropriations or outlays for research and development (GBOARD) in GDP increased from 0.48% in 1981 to 0.69% in 2007. During the same time span, gross domestic expenditure on R&D (GERD) increased from 1.1% of GDP to 2.5% of GDP.

In Figure 2, productive activities (named after their rate of return) are grouped into a simple definition that includes transportation, R&D and education public spending. Starting from similar levels in 1995, Austria and the EA have been shifting primary spending towards these three productive activities. After 2004 their patterns start, however, to differ. Public investment is associated with a higher marginal productivity than public consumption and therefore more likely to be growth enhancing[19]. Between 1995 and 2007, the share of public investment in the EA was maintained rather constant (Figure 3). The performance of Austria was different to that of the EA as its shares of general government investment in GDP continuously decreased. In Austria, the share of public investment fell from 3% of GDP in

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16 Austrian Ministry of Finance: http://english.bmf.gv.at/EconomicPolicy/EconomicpolicyinAustria/Longtermchallenges/_start.htm

17 Afonso, A., Ebert, W., Schuknecht, L. and Thöne, M., (2005), Quality of public finances and growth, ECB Working Paper Series No. 438, February 2005.

18 Pitlik, H. et al (2008) Effizienz der Ausgabenstrukturen des öffentlichen Sektors in Österreich, WIFO Project 5307, November 2008.

19 However, comparing the results of Gerson (1998), Romero de Avila and Strauch (2003) and Afonso and Furceri (2008), the European Commission, (2008) in its *Public Finances in EMU* report concludes that the empirical evidence is inconclusive towards determining the effect of public investment on economic growth. The small share of public investment (around 3% of GDP in European countries) and the importance of well-targeted public expenditure instead of overall public investment are pointed as reasons behind this mixed empirical evidence.

1995 to 1% of GDP in 2007. Political costs of deficits due to institutional constraints and privatisation are among the most quoted explanations for this widely observed stylised fact. In Austria, this significant reduction in the share of public investment can be greatly attributed to budgetary hive-offs: the investment spending of the main railway (ÖBB) and highway (ASFINAG) infrastructure companies is counted as private although they are held as public corporations[20]. Figure 4 shows a decreasing pattern in Austrian and German government consumption. However, the same can not be stated for the EA average.

Figure 2. Productive spending (public spending on transportation*, R&D and education) as % of primary spending

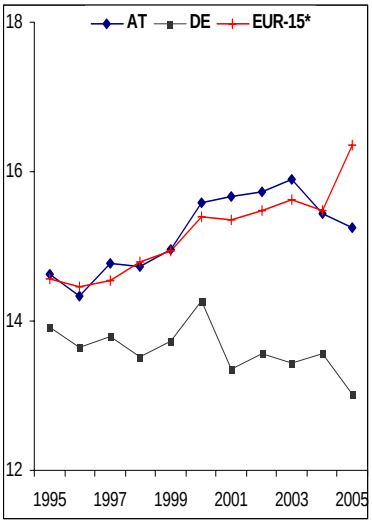


Figure 3. General government investment as % GDP

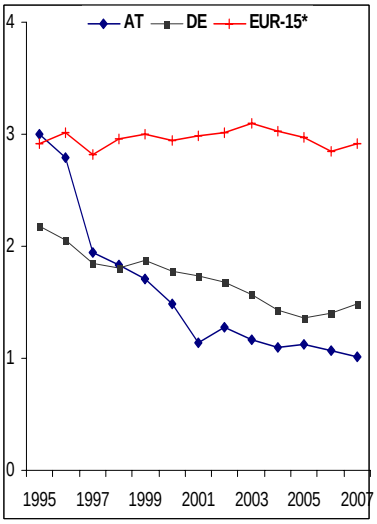
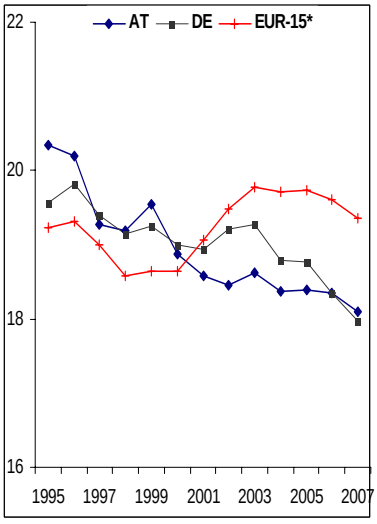


Figure 4. Final consumption expenditure of general government as % of GDP



Note: * Transportation expenditures include all sources of financing, as well as maintenance expenditures financed by public administrations.

Source: Eurostat, AMECO and OECD International Transport Forum

2. EFFICIENCY OF PUBLIC EXPENDITURES

The present subsection analyses some aspects related to the efficiency of public spending taking input-output ratios as rough efficiency proxies. The data originates from Eurostat, OECD, World Health Organisation (WHO), World Economic Forum (WEF) and Institute for Management Development (IMD), and was organised into a comprehensive database by the Commission Services. Individual results can only be indicative as they depend on the selected input and output variables. Besides, cross-country comparability is limited because some indicators' definitions vary across countries. However to partly overcome these problems, the present analysis combines the results of several input-output ratios based on different performance variables. Another limitation is that this rather simplistic approach, neglects the

[20] Pitlik, H. et al. (2008), Effizienz der Ausgabenstrukturen des öffentlichen Sektors in Österreich, WIFO Project 5307, November 2008.

influence of covariates[21]. Bearing these caveats in mind, the results should shed some light on the efficiency of Austrian public spending.

Table 1. Input-output ratios according to public spending categories - Austria compared to the Euro Area (EA) average

	AT	EA15		AT	EA15
General Public Services (GPS)			***Health***		
Bribing and corruption-to-GPS expenditure-ratio	2,5	1,7	Life expectancy at birth -to-public health expenditure-ratio	11,6	14,2
Corruption perception index-to-GPS expenditure-ratio	2,9	2,1	Health Adjusted Life Expectancy at birth-to-public health expenditure-ratio	10,2	10,7
Corruption's impact on parliament-to-GPS expenditure-ratio	0,7	0,6	Healthy Life Years at birth-to-public health expenditure-ratio	8,5	10,9
Public trust in financial honesty of politicians-to-GPS expenditure-ratio	1,7	1,2	Healthy Life years at 65-to-public health expenditure-ratio	1,0	1,5
Diversion of public funds-to-GPS expenditure-ratio	2,1	1,6	Survival rate-to-public health expenditure-ratio	14,4	18,0
Bureaucracy-to-GPS expenditure-ratio	1,6	0,9	Infant survival rate-to-public health expenditure-ratio	144,4	174,9
Wastefulness of government-to-GPS expenditure-ratio	1,5	1,2	***R&D***		
Public order and safety (POS)			Patents granted (per mio inhabitants)-to-public R&D expenditure-ratio	179,0	163,7
Persons convicted (% of offenses)-to-POS expenditure-ratio	4,6	10,4	Technological readiness (WEF)-to-public R&D expenditure-ratio	5,5	10,8
Burden of crime-to-POS expenditure-ratio	62,7	58,0	Innovation index (WEF)-to-public R&D expenditure-ratio	5,1	9,5
Business cost of crime and violence-to-POS expenditure-ratio	4,3	3,8	Summary Innovation Index (EIS)-to-public R&D expenditure-ratio	0,5	0,9
Fairness of justice-to-POS expenditure-ratio	6,3	4,4			
Organised crime-to-POS expenditure-ratio	4,7	4,0	Basic research (IMD)-to-public R&D expenditure-ratio	7,1	11,8
			Education		
Personal security and private property-to-POS expenditure-ratio	6,6	5,1	Total PISA score-to-primary and secondary education expenditure-ratio	141,5	144,4
Police satisfaction-to-POS expenditure-ratio	38,6	45,8	Educational attainment-to primary and secondary education expenditure-ratio	22,7	18,1
Reliability of polic services-to-POS expenditure-ratio	4,4	3,7	Early school leavers-to-primary and secondary education expenditure-ratio	95,6	94,8

Note: Years correspond to the latest observation available at the time of the analysis.

Source: Eurostat, OECD, World Health Organisation (WHO), World Economic Forum (WEF), Institute for Management Development (IMD) and European Innovation Survey (EIS).

In the past years, Austria has implemented reforms aiming at maintaining a satisfactory performance of general services while reducing the amount of public resources devoted to those activities. Indeed, the results of the seven input-output ratios presented in Table 1, which measure general services' output in terms of corruption perception, public trust in financial honesty of politicians, diversion of public funds, bureaucracy- and wastefulness of public spending, confirm an efficient use of Austrian public resources in comparison to that of the Euro Area (EA) average. Similar favourable results are reported by public order and safety input-output ratios. In relation to what Austria spends for public order and safety; several

[21] Institutional and structural factors as well as other country-specific characteristics influence public sector performance. A source of bias arises when such environmental factors are not taken into account. Besides, policies that target these factors can help to improve the efficiency of the public sector.

output indicators point that crime does not impose large costs on businesses, justice is administered rather fairly, private property is safe and police services are quite reliable. However, persons convicted as percent of offenses- and levels of satisfaction with local police- to public order and safety expenditure ratios depict poor results when compared to EA ratios.

2.1. Health Care

According to different health output measures (e.g. life expectancy at birth, survival rate and infant survival rate), Austria generally performs rather similar to the EA average. In Austria, however, these health results come at a higher cost than in the EA average. Table 1 shows that all its input-output ratios are lower than those of the EA average, even the result of the input-output ratio based on health adjusted life expectancy (the only output indicator where Austria performs significantly above EA average levels) is below the EA average. As an illustration, Figure 5 presents Austria's relative health efficiency position. The dark line represents the production possibility frontier indicating the highest possible level of output (i.e. average number of years that a person can expect to live in good health) that can be achieved with a given level of input (i.e. health expenditure as % of GDP), and the lowest level of input necessary to attain a given level of output. The countries located at the frontier are regarded as efficient because they could not obtain more output for that given amount of input or the same level of output employing fewer inputs. In Austria, large input inefficiencies exist as the same output could be achieved employing fewer resources (Figure 5). As a response to these large health expenses, the 2005 Health Reform Act introduced several measures aiming at declining health care costs, namely, new forms of organisations in hospitals, better coordination between hospitals and practitioners in the public and private sectors and a reduction of the administrative costs[22]. Additional organisational changes and improved health governance (streamlining of competencies, expenditures and responsibilities among government layers) could help to curb down the costs of Austria's expensive health system while keeping a satisfactory output level.

2.2. R&D

As one of the government's top priorities, public expenses in R&D have been increasing at a fast pace. In an effort to asses the efficiency of R&D spending, Table 1 presents various input-output ratios that employ different innovation output measures, but no innovation output measure is free of flaws. For instance, patents are highly influenced by a country's industrial structure. Innovation indices can have a low degree of representation (e.g. WEF indices are often based on small country samples), hence they are sensitive to aggregation methods and/or included variables. However, the combination of the different results yielded by various input-output ratios should be helpful in assessing the efficiency of R&D spending. Measuring the efficiency of public R&D spending by means of the number of patents granted related to public or total R&D expenditure indicates that the Austrian use of these resources is more efficient than that of the EA average (Table 1). But if one takes WEF, EIS and IMD performance indicators, the input-output ratios depict somewhat different results. For instance, the EA seems more efficient than Austria when one considers the technological readiness-, innovation- or basic research- to public R&D spending ratios. Plotting the EIS Innovation index against the public investment in R&D -to- GDP ratio allows drawing an efficiency frontier (Figure 6). Austria is below that efficiency frontier and thus regarded as

[22] OECD (2007), OECD Economic Surveys: Austria, Volume 2007/15, July 2007.

inefficient. In the past years Austria has been very successful in mobilising additional resources for R&D, but the real target is innovation output. Here one must acknowledge major time lags as R&D expenses are not immediately transformed into innovation outputs. Recent years have shown some signs of improvement. For instance, the European Innovation Scoreboard 2007 Comparative Analysis of Innovation Performance suggests that Austria shows above EU27 average efficiency in transforming inputs into applications and intellectual property although they also highlight that substantial efficiency gains are yet to be realised. Since framework conditions are an important complement of R&D spending, their improvement can provide a better soil for the creation and diffusion of innovation. In this sense, a simplification of the institutional framework for innovation policy, enhanced product market competition, improved conditions for start-ups, easier access to high skilled workers and a better human capital development are recommended policies to increase the efficiency and effectiveness of R&D spending[23].

Figure 5. Health Adjusted Life Expectancy (HALE)* and government spending on health as % of GDP

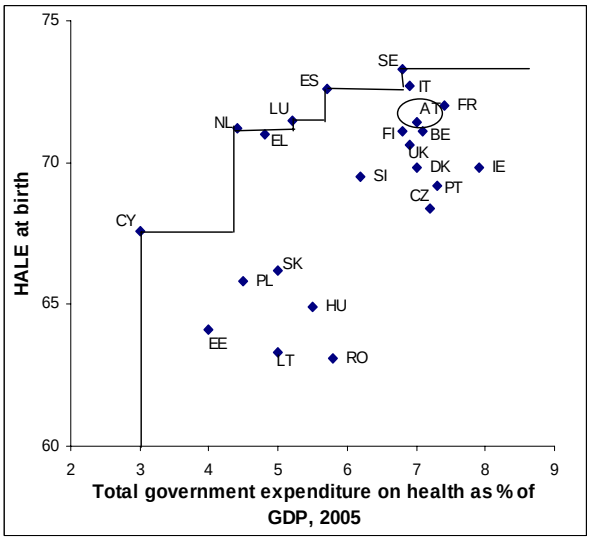
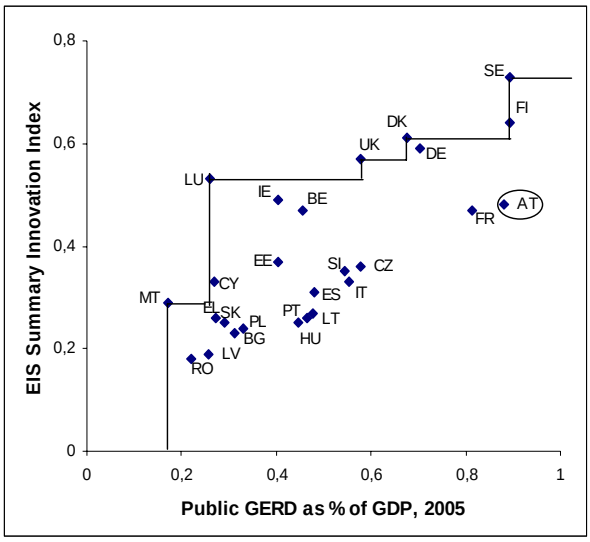


Figure 6. Summary Innovation Index (SII) and public spending on R&D (GERD) as % of GDP**



Note: *The Health Adjusted Life Expectancy is an indicator that results from subtracting the average number of years in ill-health weighted for severity of the health problem to the life expectancy. **The Summary Innovation Index includes a wide range of measures properly classified into five dimensions: innovation drivers, knowledge creation, innovation & entrepreneurship, applications and intellectual property.

Sources: Eurostat, OECD, World Health Organisation (WHO) and European Innovation Survey (EIS).

2.3. Education

In various editions of the Austrian Reform Programme (ARP), education has been pointed out as one of the main spending priorities of the Austrian government. But, setting numerical targets that just increase the money spent on education does not necessarily improve the quality of the service. Whether these expenses on education are used efficiently depends to a large extent on the definition used for education output, i.e. the quantity or quality of the

[23] OECD (2007), OECD Economic Surveys: Austria, Volume 2007/15, July 2007. . Aiginger et al. (2009), Die Weichen für Morgen werden Heute gestellt, Für eine radikal neue Forschungs-, Technologie- und Innovationspolitik in Österreich. http://www.bmvit.gv.at/innovation/downloads/kurzzusammenfassung.pdf

service provided plays a major role. In terms of quantity, the Austrian education system assures almost a universal enrolment rate to primary and secondary education, one could classify it therefore as efficient. In fact, Austria enjoys large attainment rates (% of population aged 25 to 64 having completed at least upper secondary education) in relation to the money spent in primary and secondary education, which could be an indication of efficiency. However, a less favourable picture arises when one judges efficiency by means of the quality of education provided. Recent cross-country studies evaluating the performance in mathematics and science of elementary and secondary school pupils, TIMSS 2007 and PISA 2006 respectively, do not show encouraging results for Austria. For instance, the PISA score to primary and secondary education expenditure ratio depicts a low rate in comparison to that of the European average.In Figure 7 PISA scores are plotted against annual expenditure on public and private educational institutions per student and also against public spending in secondary education as a percent of GDP (see Figure 8). Both figures place Austria below the efficiency frontier, as it allocates considerable resources to secondary education while performing rather average. Taking into account environmental factors such as GDP per head and parental educational attainment, Afonso and St. Aubyn (2005) estimate that in Austria educational output could be increased by 17 percent while using the same amount of inputs[24]. Empirical evidence also indicates that input inefficiencies on Austrian education seem to be substantial. By means of DEA technical input efficiency estimations, Sutherland et al (2007) suggest that Austria could maintain its level of education output while employing just 84 % of the resources[25]. This reveals that there is a large scope for saving public resources and keeping at the same time a satisfactory performance on education.

Developing a conceptual basis that groups institutional indicators into resource allocation, budget management and market efficiency, Gonard et al (2007) assessed public spending efficiency in primary and secondary education[26]. Their results indicate that Austria has severe inefficiencies in the three categories.

Overlapping responsibilities between government layers have counterproductive effects on public spending efficiency. Good school governance requires coherence between expenditures, competences and responsibilities. OECD data[27] show that in Austria local governments control 54 % of the resources directed to lower secondary education, the State manages 29 % while schools just the remaining 17%. For instance, local authorities are responsible for the maintenance of compulsory schools' facilities while the federal government is responsible to fund the salaries of the teachers. At the same time the teachers are civil servants of the school's respective province. Such division of competences does not encourage effective allocation of resources. As the last Macro Fiscal Assessment mentioned, streamlining of competences and of financing and spending responsibilities could potentially result in significant efficiency gains and reductions in public expenditure[28].

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[24] Afonso, A. and St. Aubyn, M., (2005), Cross-country efficiency of secondary education provision: a semi-parametric analysis with nondiscretionary inputs, ECB Working Paper Series No. 494, June 2005.

[25] Sutherland, D, Price, R., Joumard, I. Nicq, C., (2007). Performance Indicators for Public Spending Efficiency in Primary and Secondary Education, OECD Economics Department Working Paper No. 546.

[26] Gonand, F., Joumard, I. and Price, R., (2007), Public spending efficiency: institutional indicators in primary and secondary education, OECD Economics Department Working Papers No. 543.

[27] OECD (2008), Education at glance 2008, Paris.

[28] European Commission (2008), Austria: Macro Fiscal Assessment. An analysis of the November 2007 update of the stability programme.

Figure 7. PISA scores and expenditure on secondary education per student

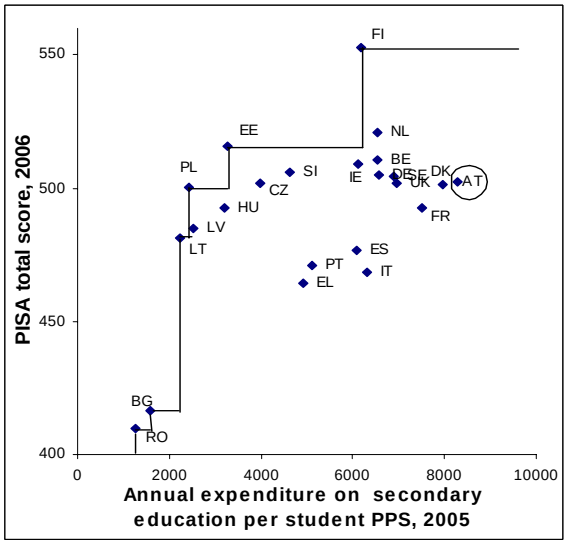
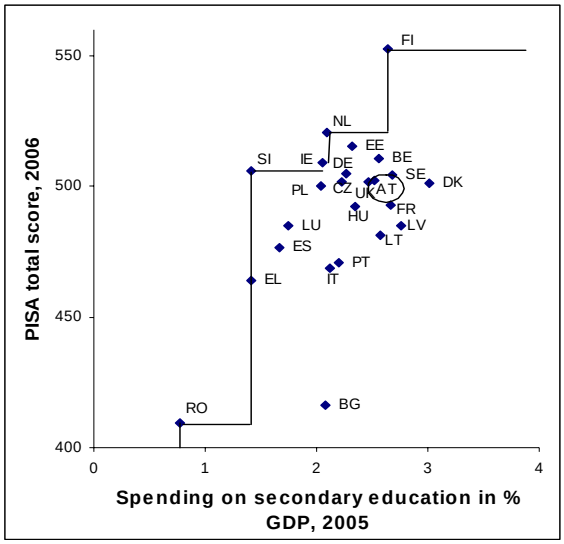


Figure 8. PISA scores and public expenditure on secondary education as a % of GDP



Sources: *Eurostat and OECD*

The Austrian education system has found it difficult to allocate resources to specific educational needs. Besides selecting the children's education path at an early age (10), the Austrian education system does so by discriminating according to talent, abilities and social background[29]. The results from the Labour Force Survey 2000 point that the inter-generational education upgrading is rather low as 52% of Austrian children achieve the same level of schooling as their parents, while 22% attain a lower level and just 26% complete a higher education level[30]. In contrast, the EU unweighted average of the countries with data available indicates that 49% of children obtain the same education level as their parents, as high as 38 % complete a higher schooling level and just 13% a lower one. Adding to the already unfavourable picture, PISA 2006 and TIMSS 2007[31] results for Austria indicate that foreign-born and second generation immigrants systematically underperform native students in science, mathematics and reading. Comparing these scoring differences to those of other OECD members that also hold significant immigrant populations, points that considerable improvement could be achieved towards the integration of immigrants to the Austrian educational system.

Experiences in various countries have shown that policy interventions in early childhood yield positive returns when aiming at increasing equality of educational opportunity[32]. In this vein, the Austrian government has introduced an initiative to provide more resources to the

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29 Biffl, G., (2008), Bildung und Arbeitsmarkt aus ökonomischer Sicht, Beitrag zum Dialogforum Hirschwang 2008: Arbeitsmarkt ohne Schranken Überwindet Bildung ohne Grenzen?, Juni 2008.

30 Aiginger, K. and Bock-Schappelwein, J., (2007), Zur Aussagekraft der PISA-2006-Ergebnisse: Chancen und Herausforderungen für den österreichischen Arbeitsmarkt, WIFO 2007.

31 Bos, W. et al (2007), Trends in International Mathematics and Science Study (TIMSS).

32 Woessman, L., (2006), Efficiency and equity of European education and training policies, CESifo Working Paper No. 1779, August 2006.

integration of students with particular integration needs[33]. This scheme contains basically a compulsory year in kindergarten for children with language problems and further German language assistance for elementary school pupils with insufficient mastery of the language. Likewise, in autumn 2007, the legal basis that allowed testing the "new middle school" was established[34]. This was launched in five Austrian Länder in autumn 2008. The "new middle school" aims at guaranteeing a performance-based form of teaching for all children. Instead of enrolling children at the age of ten in different types of lower-secondary schools, the new system will prepare them until they are 14 to then choose an education path. Since evidence points that early selection is particularly harmful for students with low socioeconomic status, postponing the timing of student selection is expected to benefit this group[35]. Until now, however, the "new middle school" is just a pilot programme. Before materializing the government's ambitions of spreading the concept over Austria for the 2009/2010 school year, the efficiency and effectiveness of the new school model should be monitored and evaluated.

Another important aspect when aiming at improving public spending efficiency is budget management. Austrian schools significantly lack autonomy in deciding over the organisation of the institution, personnel management, planning structures and resources. OECD data[36] indicates that in Austria schools take just 30 % of all decisions concerning the supply of lower secondary education while the rest is decided on a State, Central or Local government level. Gonard et al (2007) argue that greater autonomy for school managers in their day-to-day operations is a necessary condition for a more outcome-focused framework to enhance strongly the efficiency of public spending. The ARP for 2008-2010 mentions that modern school management practices should be adopted. In this sense, more independence will be given to schools in adapting their curricula to specific needs and in setting profiles and priorities[37]. While this is a step towards improving school management efficiency, it is not clear whether schools will be provided with autonomy in decisions such as firing and hiring personnel and administration of resources.

Last but not least, productive efficiency is presumed to be related to the degree of competitive pressure in service provision, which involves the presence of market signals. Austria is less advanced in the implementation of benchmarking among schools. This practice could help to identify best practices and inefficiencies in schools and thus it could be an effective tool for increasing competitive pressures. The possibility for pupils and/or their families to choose the school they prefer is strongly limited in Austria. This inhibits market efficiency in primary and lower-secondary schools.

Besides potential cost savings and improved quality of the service, a more effective and efficient primary and secondary education system could pave the way for needed reforms to the tertiary education system (e.g. to allow the system to respond to market needs, ensure an educational mix and provide qualified workers). Since equal access to education is among the main public concerns, reform initiatives that would allow universities to choose students or to charge tuition fees have been rejected as it is argued that they will place students from lower socio-economic backgrounds at a disadvantage. Empirical research suggests that the ability of the student and long-run background factors are the most important determinants of enrolment

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33 Second Austrian Reform Programme for Growth and Jobs 2008-2010.

34 Idem.

35 Woessman, L., (2006), Efficiency and equity of European education and training policies, CESifo Working Paper No. 1779, August 2006.

36 OECD (2008), Education at glance 2008, Paris.

37 Bundesministerium für Unterricht, Kunst und Kultur: http://www.bmukk.gv.at/enfr/school/educ/heading1.htm4596.xml

in higher education[38]. Hence, a better and more inclusive basic secondary education could ease a wider reform of the Austrian higher education system while keeping or even improving the conditions for equal access to higher education.

Adding-up public sector performance indicators in a total public sector performance index (PSP) that includes information on administration, education (secondary school enrolment, education achievement), health (life expectancy, infant mortality), income distribution, economic stability (inflation) and economic performance outcomes (10 year average of unemployment rates); Afonso et al (2003) assess the efficiency of public spending in 23 OECD Member states. Their results show that Austrian public expenditures as percent of GDP were quite large in 2000 while its overall public sector performance was not satisfactory thus placing Austria below the efficiency frontier[39]. Although the conclusions should be taken with caution due to data limitations and methodology constraints, their results point to the fact that in countries with a sizeable public sector as is the Austrian case; input inefficiencies (i.e. the same level of output could be achieved employing fewer inputs) are generally larger than output inefficiencies (i.e. more output could be achieved while keeping the level of inputs unchanged)[40].

3. SUMMARY

In spite of Austrian efforts to curve down public expenses, its government size is still relatively large although smoothly converging to the Euro Area (EA) average. Reinforced efforts to lower the wastefulness of public spending can contribute to reduce the size of public sector and thus to increase the government's leeway. The composition of public spending (using COFOG data) was analysed according to past-, present- and future- related expenditures. The effect of an Austrian greying population on public finances was reflected in a large and increasing share of social protection (i.e. past-related) expenditure in total public spending. General public services, defence, public order and safety, economic affairs, housing and community amenities, health, and recreation, culture and religion (i.e. present-related) expenditures were the largest spending category though decreasing as a percent of total spending. Conversely, activities with a higher rate of return, also called future-oriented expenditures (i.e. education and environment), had the smallest share in total spending. In this sense, enhancing the efficiency of public spending would release resources that can be either saved (contributing to achieve a balanced budget) or allocated towards future-oriented activities with a higher potential to lead to economic growth.

The evidence has shown that still important steps need to be taken towards ensuring the efficient use of public resources. Inefficiencies are substantial, meaning that satisfactory results could be maintained with fewer resources. Long-run cost-savings can only be achieved through the correct identification and subsequent amendment of institutional flaws and the creation of incentives for using resources in an efficient way. While some measures to increase the efficiency of expenses on general public services have been implemented,

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38 Jacobs, B. and van der Ploeg, F., (2005), Guide to reform of higher education: a European perspective, presented at the Panel Meeting of Economic Policy, London.

39 The results are obtained by means of the Free Disposal Hull (FDH) approach that is a non-parametric technique employed in the literature to measure the efficiency of government spending. The FDH approach assumes that inputs and/or outputs can be disposed freely and the production frontier results from connecting the most efficient input-output observations.

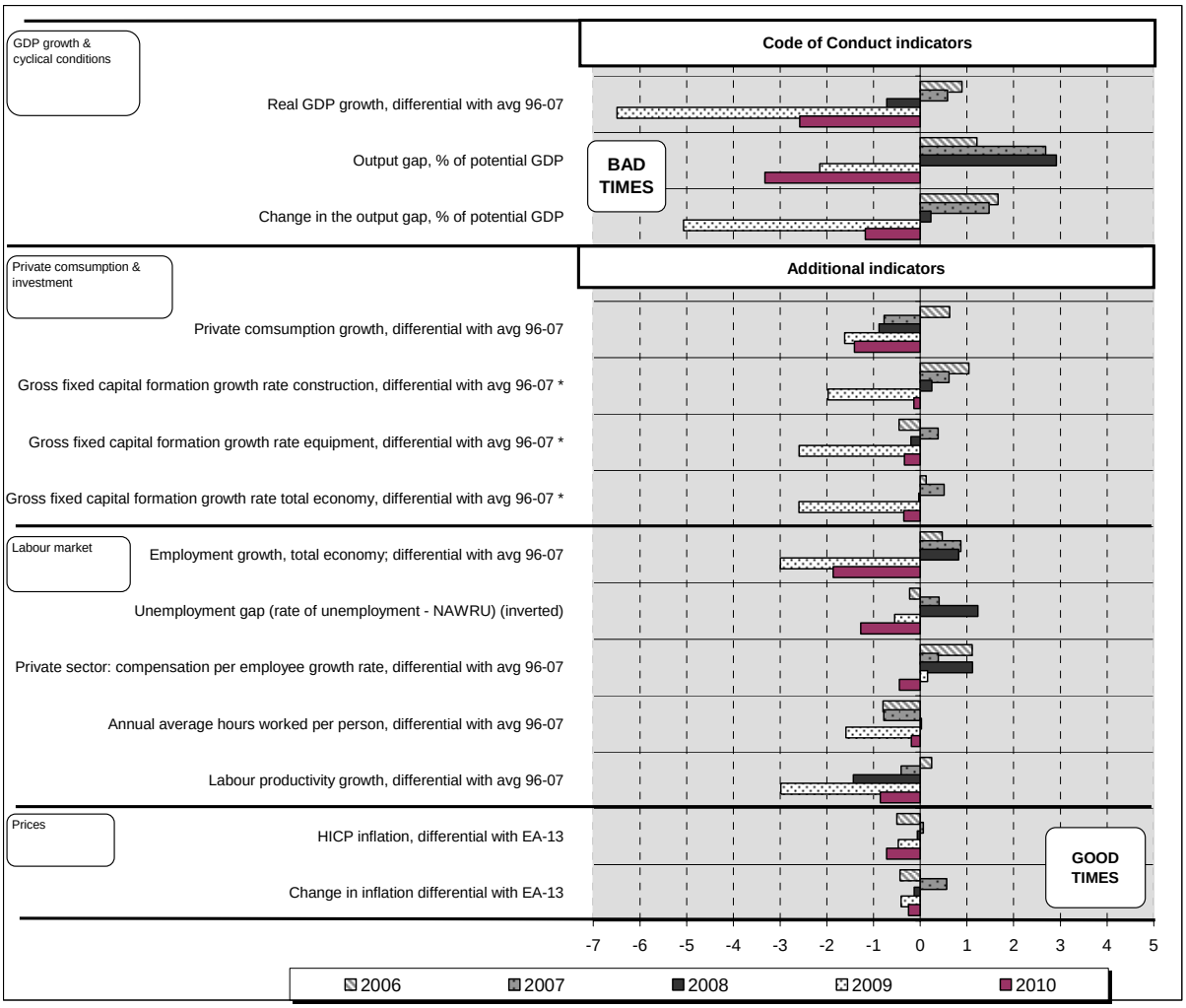
40 Afonso, A., Schuknecht, L. and Tanzi, V., (2003), Public sector efficiency: an international comparison, ECB Working Paper No. 242, July 2003.

concrete efficiency-enhancing plans for other spending categories are still missing. In keeping with the Lisbon goals, Austria has substantially increased R&D expenses. However, in order to assure the cost-efficiency of such expenses, measures that simplify the institutional framework and complementary framework conditions should be adopted. Likewise, potential efficiency gains can be achieved in health and education by means of improved fiscal federal relations and other institutional reforms.

In terms of quantity, the Austrian education system yields satisfactory results, though not in terms of quality. As a core forward-looking activity, increasing the quality of the education provided turns of utmost importance. Given that Austria runs one of the most expensive education systems in Europe, it is rather unlikely that allocating more public resources to this activity will prove as a solution. Institutional reforms such as a higher degree of school autonomy and a better framework to allocate resources to specific educational needs can improve the performance of primary and secondary school students as well as ensuring a more equitable system. Simultaneously, these reforms can result in significant cost savings. The positive spillover effects that a better quality of primary and secondary education has on higher education should not be underestimated as early policy interventions positively influence the later performance of students.

ANNEX 2. ADDITIONAL TABLES AND FIGURES

Figure 1: Good and bad economic times



* These variables have been divided by their standard deviation over the period 2003-2010, with a view to reducing their variability relative to other variables in the graph.

Source: Commission services' April 2009 spring forecast (COM)

Table 1: Budgetary implementation in 2008

	2007		2008	
	Planned SP Nov 2007	**Outcome SP Apr 2009**	**Planned SP Nov 2007**	**Outcome SP Apr 2009**
Government balance (% of GDP)	-0.7	-0.5	-0.6	-0.4
Difference compared to target	**0.2**		**0.2**	
Of which : due to a different starting position end 2007			0.2	
due to different revenue / expenditure growth in 2008			0.0	
p.m. Denominator effect and residual [2,3]			0.0	
p.m. Nominal GDP growth (planned and outcome)			4.4	4.2
Revenue (% of GDP)	47.4	48.0	47.5	48.2
Revenue surprise compared to target [1]	**0.6**		**0.8**	
Of which : due to a different starting position end 2007			0.6	
due to different revenue growth in 2008			0.1	
p.m. Denominator effect [2]			0.1	
p.m. Residual [3]			0.0	
p.m. Revenue growth rate (planned and outcome)			4.5	4.6
Expenditure (% of GDP)	48.3	48.7	48.1	48.7
Expenditure surprise compared to target [1]	**-0.4**		**-0.5**	
Of which : due to different starting position end 2007			-0.4	
due to different expenditure growth rate in 2008			0.0	
p.m. Denominator effect [2]			-0.1	
p.m. Residual [3]			0.0	
p.m. Expenditure growth rate (planned and outcome)			4.1	4.2

Notes:

[1] A positive number implies that the outcome was better (in terms of government balance) than planned.

[2] The denominator effect captures the mechanical effect that, if GDP turns out higher than planned, the ratio of revenue or expenditure to GDP will fall because of a higher denominator. Although the denominator effect can be very significant for revenue

[3] The decomposition leaves a small residual that cannot be assigned to the previous components. The residual is generally small, except in some cases where planned and actual growth rates of revenue, expenditure and GDP differ significantly.

Source : Commission services

Table 2: Evolution of budgetary targets in successive programmes

		2007	2008	2009	2010	2011	2012	2013
General government balance (% of GDP)	**SP Apr 2009**	**-0.5**	**-0.4**	**-3.5**	**-4.7**	**-4.7**	**-4.7**	**-3.9**
	SP Nov 2007	*-0.7*	*-0.6*	*-0.2*	*0.4*	*n.a.*	*n.a.*	*n.a.*
	COM Spring 2009	-0.5	-0.4	-4.2	-5.3	n.a.	n.a.	n.a.
General government expenditure (% of GDP)	**SP Apr 2009**	**48.7**	**48.7**	**51.1**	**51.3**	**51.1**	**50.9**	**50.1**
	SP Nov 2007	*48.3*	*48.1*	*47.7*	*47.2*	*n.a.*	*n.a.*	*n.a.*
	COM Spring 2009	48.5	48.6	51.6	52.1	n.a.	n.a.	n.a.
General government revenue (% of GDP)	**SP Apr 2009**	**48.0**	**48.2**	**47.5**	**46.5**	**46.4**	**46.1**	**46.1**
	SP Nov 2007	*47.4*	*47.5*	*47.3*	*47.4*	*n.a.*	*n.a.*	*n.a.*
	COM Spring 2009	48.0	48.2	47.4	46.7	n.a.	n.a.	n.a.
Structural balance[1] (% of GDP)	**SP Apr 2009**	**-1.7**	**-1.6**	**-3.1**	**-3.9**	**-4.0**	**-4.1**	**-3.7**
	SP Nov 2007	*-0.7*	*-0.6*	*-0.4*	*0.1*	*n.a.*	*n.a.*	*n.a.*
	COM Spring 2009	-1.8	-1.8	-3.2	-3.8	n.a.	n.a.	n.a.
Real GDP (% change)	**SP Apr 2009**	**3.1**	**1.8**	**-2.2**	**0.5**	**1.5**	**2.0**	**2.3**
	SP Nov 2007	*3.4*	*2.4*	*2.5*	*2.5*	*n.a.*	*n.a.*	*n.a.*
	COM Spring 2009	3.1	1.8	-4.0	-0.1	n.a.	n.a.	n.a.

Note:

[1]Cyclically-adjusted balance excluding one-off and other temporary measures. There are no one-offs and other temporary measures in the most recent programme and Commission services' spring forecast..

Source :

Stability programmes (SP); Commission services' spring 2009 forecasts (COM)

Table 3: Assessment of tax projections

	2009			2010			2011	2012
	SP	COM	OECD[3]	SP	COM[1]	OECD[3]	SP	SP
Change in tax-to-GDP ratio (total taxes)	-0.8	-0.8	0.0	-1.0	-0.5	0.0	0.0	-0.1
Difference (SP – COM)	0.0		/	0.0		/	/	/
of which[2] :								
- discretionary and elasticity component	*1.6*		/	*1.6*		/	/	/
- composition component	*0.0*		/	*40.3*		/	/	/
Difference (COM - OECD)	/	-0.8		/	-0.5		/	/
of which[2] :								
- discretionary and elasticity component	/	*-9.5*		/	*-0.6*		/	/
- composition component	/	*1.0*		/	*0.0*		/	/
p.m.: Elasticity to GDP	3.5	1.7	1.0	-0.7	-0.2	1.0	1.0	0.9

Notes:

[1]On a no-policy change basis.

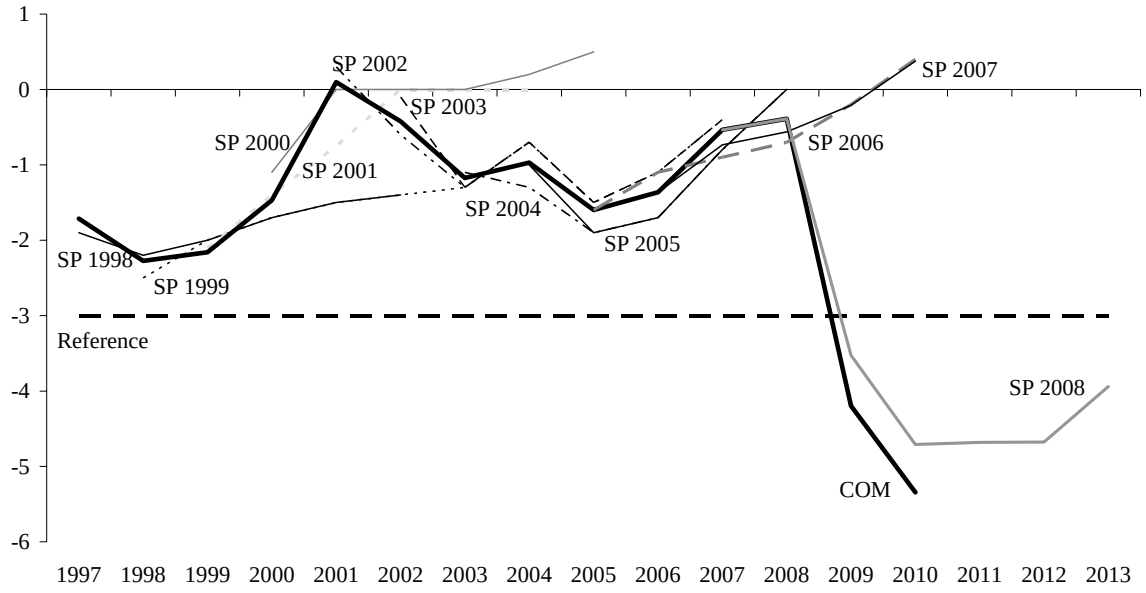
[2]The composition component captures the effect of differences in the composition of aggregate demand (more tax rich or more tax poor components). The discretionary and elasticity component captures the effect of discretionary fiscal policy measures as well as variations of the yield of the tax system that may result from factors such as time lags and variations of taxable income that do not necessarily move in line with GDP, e.g. capital gains. The two components may not add up to the total difference because of a residual component, which is generally small.

[3]OECD ex-ante elasticity relative to GDP.

Source :

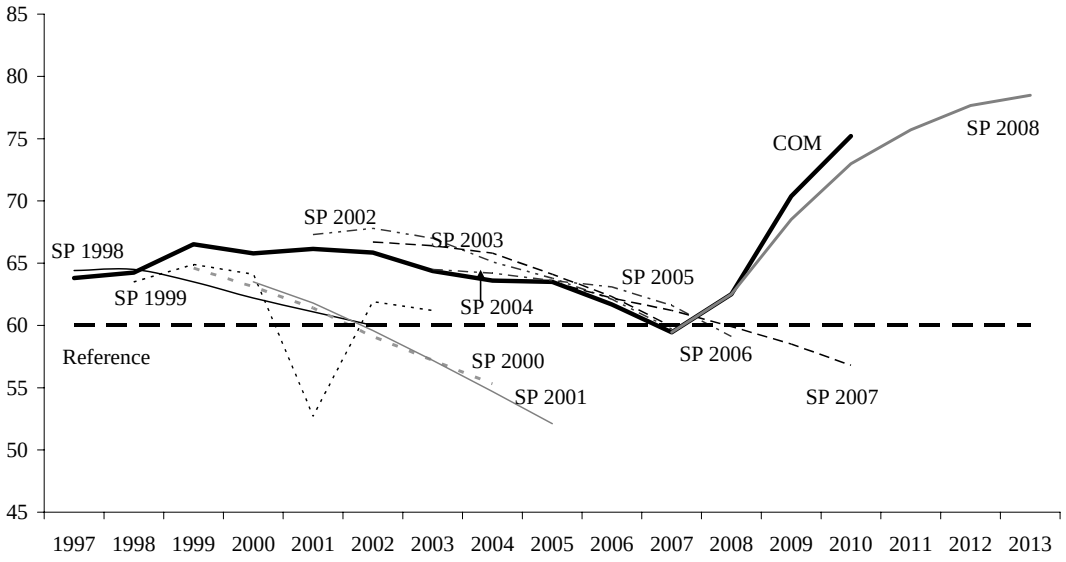
Commission services' spring 2009 forecasts (COM); Stability programme (SP); Commission services' calculations; OECD (N. Girouard and C. André (2005), "Measuring Cyclically-Adjusted Budget Balances for the OECD Countries", OECD Working Paper No. 434).

Figure 2: Government balance projections in successive programmes (% of GDP)



Source: Commission services' spring 2009 forecast (COM) and successive stability programmes

Figure 3: Debt projections in successive programmes (% of GDP)



Source: Commission services' spring 2009 forecast (COM) and successive stability programmes.

Table 4: Long-term age-related expenditure: main projections

(% of GDP)	2004	2010	2020	2030	2040	2050	Change 2010- 50
Total age-related spending	25.2	24.2	24.2	26.0	26.1	25.3	1.1
- Pensions	13.4	12.8	12.8	14.0	13.4	12.2	-0.6
- Healthcare	5.3	5.5	5.9	6.3	6.7	6.8	1.3
- Long-term care	0.6	0.7	0.8	1.0	1.2	1.5	0.8
- Education	5.1	4.6	4.1	4.2	4.2	4.1	-0.5
- Unemployment benefits	0.8	0.6	0.6	0.6	0.6	0.6	0.0
Property income received	1.4	1.3	1.2	1.0	0.9	0.8	-0.5

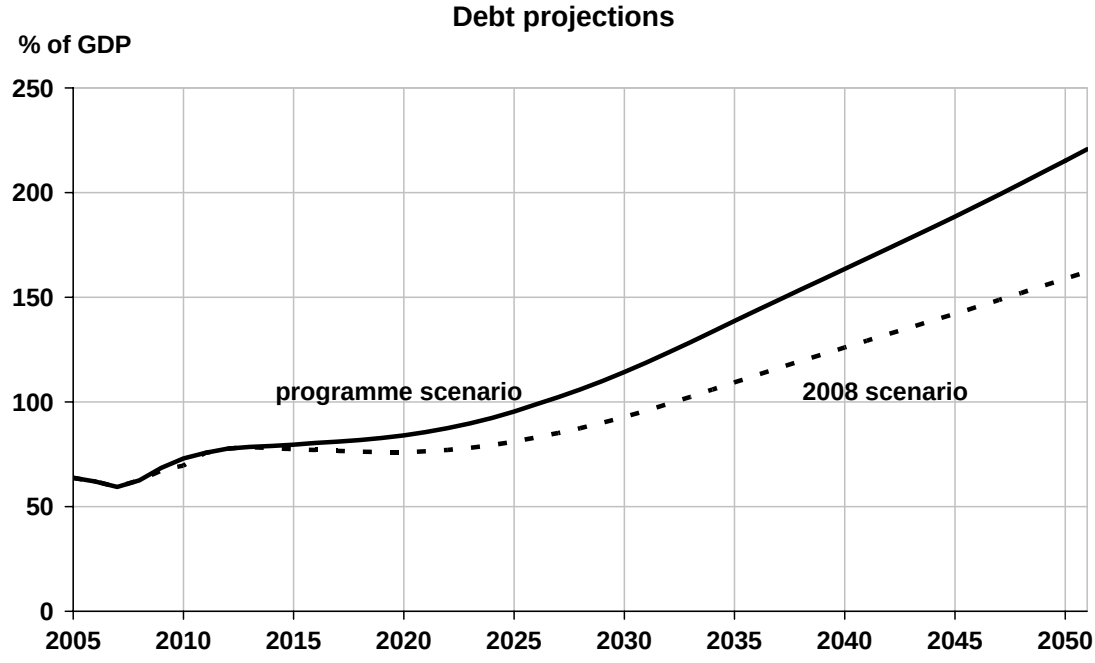
Source: Economic Policy Committee and Commission services.

Table 5: Sustainability indicators and the required primary balance

	2008 scenario			Programme scenario		
	S1	**S2**	**RPB**	**S1**	**S2**	**RPB**
Value	1.9	1.8	2.3	3.0	2.9	3.0
of which:						
Initial budgetary position (IBP)	0.2	0.4	-	-1.9	1.5	-
Debt requirement in 2050 (DR)	0.4	-	-	-0.8	-	-
Long-term change in the primary balance (LTC)	1.4	1.4	-	0.9	1.4	-

Source: Commission services.

Figure 4: Long-term projections for the government debt ratio



Note: Being a mechanical, partial-equilibrium analysis, the long-term debt projections are bound to show highly accentuated profiles. As a consequence, the projected evolution of debt levels should not be seen as a forecast similar to the Commission services' short-term forecasts, but as an indication of the risks faced by Member States.

Source: Commission services.

Table 6: Additional factors

	Impact on risk
Debt and pension assets	-
Decline in structural balance until 2010 in COM spring 2009 forecast	-
Significant revenues from pension taxation	na
Alternative projection of cost of ageing	-
Strong decline in benefit ratio	na
High tax burden	na
Non-age related budgetary measures with intertemporal effect	na

Note: '-': factor tends to increase the risk to sustainability, '+': factor tends to decrease the risk to sustainability.
'na': not applicable.
Alternative projections are often presented in the programmes, whose assumptions often diverge from the common method. Projections currently discussed in the Economic Policy Committee but not yet published, are for the time being also considered "unofficial".
An explanation on these factors can be found in chapter IV of: European Commission (2006), The long-term sustainability of public finances in the European Union, European Economy No. 4/2006.
Source: Commission services.

ANNEX 3. COMPLIANCE WITH THE CODE OF CONDUCT AND TABLES FROM THE PROGRAMME

This annex provides an assessment of whether the programme respects the requirements of Section II of the code of conduct (guidelines on the format and content), notably as far as (i) the model structure (Annex 1 of the code of conduct); (ii) the formal data provisions (Annex 2 of the code of conduct); and (iii) other information requirements is concerned.

(i) Model structure

In terms of its table of contents, the update follows the model structure presented in Annex 1 of the code of conduct.

(ii) Data requirements

The update adheres broadly to the code of conduct as far as data requirements are concerned. The programme provides nearly all compulsory data and has some gaps in the optional data. In particular, the programme does not provide (compulsory) levels for 2007 in Table 8 (external assumptions). Of the optional data, the following series are also missing:

- Table 1d (sectoral balances): data for detailed categories of net lending vis-à-vis rest of the world (sub-items 1).

- Table 4 detailed categories of stock-flow adjustment (sub-items 5) and "other relevant variables" (items 6 and 7).

- Table 7 (long-term sustainability of public finances): some detailed items on long-term sustainability.

.The tables on the following pages show the data presented in April 2009 update of stability programme, following the structure of the tables in Annex 2 of the code of conduct. Missing data are indicated with grey-shading.

Table 1a. Macroeconomic prospects

	ESA Code	2007	2007	2008	2009	2010	2011	2012	2013
		Level	rate of change	rate of change	rate of change	rate of change	rate of change	rate of change	rate of change
1. Real GDP	B1*g	*240.2*	3.1	1.8	-2.2	0.5	1.5	2.0	2.3
2. Nominal GDP	B1*g	*270.8*	5.3	4.2	-0.7	1.3	2.8	3.5	4.2
Components of real GDP									
3. Private consumption expenditure	P.3	*127.5*	1.0	0.9	0.4	0.8	1.5	1.5	1.6
4. Government consumption expenditure	P.3	*43.0*	1.8	0.5	0.5	1.0	0.2	0.2	0.3
5. Gross fixed capital formation	P.51	*54.2*	4.7	1.8	-5.1	0.3	2.7	2.7	3.6
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	*n.a.*	0.6	1.3	1.1	0.9	1.0	1.1	1.3
7. Exports of goods and services	P.6	*148.5*	8.8	2.0	-5.6	0.6	3.9	5.2	5.9
8. Imports of goods and services	P.7	*134.5*	7.5	1.6	-4.2	0.6	3.5	4.8	5.4
Contributions to real GDP growth									
9. Final domestic demand		*n.a.*	1.9	1.0	-0.8	0.7	1.4	1.5	1.7
10. Changes in inventories and net acquisition of valuables	P.52 + P.53	*n.a.*	0.0	0.4	-0.4	-0.2	-0.3	0.1	0.0
11. External balance of goods and services	B.11	*n.a.*	1.2	0.4	-1.0	0.0	0.4	0.4	0.6

Table 1b. Price developments

	ESA Code	2007	2007	2008	2009	2010	2011	2012	2013
		Level	rate of change	rate of change	rate of change	rate of change	rate of change	rate of change	rate of change
1. GDP deflator		*n.a.*	2.1	2.4	1.4	0.8	1.3	1.5	1.9
2. Private consumption deflator		*n.a.*	2.1	3.0	0.6	1.1	1.3	1.5	1.9
3. HICP[1]		*n.a.*	2.2	3.2	0.6	1.1	1.3	1.5	1.9
4. Public consumption deflator		*n.a.*	2.5	2.3	2.7	2.0	1.3	1.4	1.8
5. Investment deflator		*n.a.*	2.9	3.1	0.8	0.8	1.3	1.9	2.1
6. Export price deflator (goods and services)		*n.a.*	1.8	1.1	-0.6	0.6	1.4	1.1	1.5
7. Import price deflator (goods and services)		*n.a.*	1.8	2.4	-1.4	1.3	2.2	1.3	1.6

[1] Optional for stability programmes.

Table 1c. Labour market developments

	ESA Code	2007	2007	2008	2009	2010	2011	2012	2013
		Level	rate of change	rate of change	rate of change	rate of change	rate of change	rate of change	rate of change
1. Employment, persons[1]		*3623249.3*	1.9	2.4	-1.1	-0.5	0.0	0.6	0.7
2. Employment, hours worked[2]		*7253.4*	2.0	0.7	-1.2	-0.6	0.0	0.6	0.7
3. Unemployment rate (%)[3]		*185600.0*	4.4	3.8	5.0	5.8	6.1	6.3	6.2
4. Labour productivity, persons[4]		*66304.0*	1.2	-0.6	-1.1	1.0	1.5	1.4	1.6
5. Labour productivity, hours worked[5]		*33.1*	1.0	1.0	-1.0	1.1	1.5	1.4	1.6
6. Compensation of employees	D.1	*130.5*	4.3	5.1	1.6	0.5	1.7	2.5	3.2
7. Compensation per employee		*36021.5*	2.4	2.6	2.6	1.0	1.7	1.9	2.5

[1]Occupied population, domestic concept national accounts definition.

[2]National accounts definition.

[3]Harmonised definition, Eurostat; levels.

[4]Real GDP per person employed.

[5]Real GDP per hour worked.

Table 1d. Sectoral balances

% of GDP	ESA Code	2007	2008	2009	2010	2011	2012	2013
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	3.2	2.9	1.6	0.6	1.0	1.3	1.4
of which :								
- Balance on goods and services		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
- Balance of primary incomes and transfers		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
- Capital account		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
2. Net lending/borrowing of the private sector	B.9	3.7	3.3	5.1	5.3	5.7	6.0	5.3
3. Net lending/borrowing of general government	EDP B.9	-0.5	-0.4	-3.5	-4.7	-4.7	-4.7	-3.9
4. Statistical discrepancy		0.0	0.0	0.0	0.0	0.0	0.0	0.0

Table 2. General government budgetary prospects

	ESA Code	2007	2007	2008	2009	2010	2011	2012	2013
		Level	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
Net lending (EDP B.9) by sub-sector									
1. General government	S.13	*-1.5*	-0.5	-0.4	-3.5	-4.7	-4.7	-4.7	-3.9
2. Central government	S.1311	*-1.7*	-0.6	-0.6	-3.2	-4.1	-4.1	-4.2	-3.7
3. State government	S.1312	*0.2*	0.1	0.1	-0.2	-0.4	-0.3	-0.2	-0.1
4. Local government	S.1313	*0.3*	0.1	0.1	-0.1	-0.1	-0.1	-0.1	0.0
5. Social security funds	S.1314	*-0.3*	-0.1	0.0	0.0	-0.1	-0.2	-0.2	-0.1
General government (S13)									
6. Total revenue	TR	*130.0*	48.0	48.2	47.5	46.5	46.4	46.1	46.1
7. Total expenditure	TE[1]	*131.8*	48.7	48.7	51.1	51.3	51.1	50.9	50.1
8. Net lending/borrowing	EDP B.9	*-1.5*	-0.5	-0.4	-3.5	-4.7	-4.7	-4.7	-3.9
9. Interest expenditure	EDP D.41	*7.8*	2.9	2.6	2.9	3.0	3.3	3.4	3.6
10. Primary balance[2]		*6.3*	2.3	2.2	-0.6	-1.7	-1.4	-1.3	-0.4
11. One-off and other temporary measures[3]		*0.0*	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Selected components of revenue									
12. Total taxes (12=12a+12b+12c)		*74.9*	27.6	28.2	27.0	26.2	26.3	26.2	26.2
12a. Taxes on production and imports	D.2	*38.2*	14.1	14.1	14.1	13.9	13.8	13.6	13.5
12b. Current taxes on income, wealth, etc	D.5	*36.5*	13.5	14.0	12.9	12.3	12.5	12.6	12.7
12c. Capital taxes	D.91	*0.2*	0.1	0.1	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D.61	*43.0*	15.9	16.0	16.3	16.2	16.1	16.0	16.0
14. Property income	D.4	*4.0*	1.5	1.2	1.3	1.2	1.1	1.1	1.1
15. Other[4]		*8.4*	3.1	2.9	3.0	2.9	2.9	2.8	2.8
16=6. Total revenue	TR	*130.0*	48.0	48.2	47.5	46.5	46.4	46.1	46.1
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)[5]		*114.7*	42.4	43.0	42.1	41.2	41.2	41.1	41.2
Selected components of expenditure									
17. Compensation of employees + intermediate consumption	D.1+P.2	*36.3*	**13.4**	**13.6**	**14.0**	**13.9**	**13.7**	**13.5**	**13.1**
17a. Compensation of employees	D.1	*24.7*	9.1	9.1	9.6	9.5	9.4	9.3	9.1
17b. Intermediate consumption	P.2	*11.6*	4.3	4.5	4.4	4.4	4.3	4.2	4.1
18. Social payments (18=18a+18b)		*63.5*	23.4	23.6	25.0	25.4	25.4	25.4	25.2
18a. Social transfers in kind supplied via market producers	D.6311, D.63121, D.63131	*14.8*	5.4	5.5	5.7	5.7	5.7	5.7	5.6
18b. Social transfers other than in kind	D.62	*48.7*	18.0	18.1	19.3	19.7	19.7	19.7	19.6
19=9. Interest expenditure	EDP D.41	*7.8*	2.9	2.6	2.9	3.0	3.3	3.4	3.6
20. Subsidies	D.3	*9.0*	3.3	3.5	3.5	3.4	3.3	3.2	3.1
21. Gross fixed capital formation	P.51	*2.8*	1.0	1.0	1.1	1.0	1.1	1.1	1.1
22. Other[6]		*12.6*	4.6	4.4	4.7	4.4	4.4	4.4	4.1
23=7. Total expenditure	TE[1]	*131.8*	48.7	48.7	51.1	51.3	51.1	50.9	50.1
p.m.: Government consumption (nominal)	P.3	*49.4*	18.2	18.0	18.7	19.0	18.7	18.4	18.0

[1]Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9.

[2]The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).

[3]A plus sign means deficit-reducing one-off measures.

[4] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

[5]Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D.995), if appropriate.

[6] D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8.

Table 3. General government expenditure by function

% of GDP	COFOG Code	**2001** [2]	**2007**
1. General public services	1	7.9	6.9
2. Defence	2	0.9	0.9
3. Public order and safety	3	1.5	1.4
4. Economic affairs	4	5.2	4.6
5. Environmental protection	5	0.5	0.5
6. Housing and community amenities	6	0.8	0.6
7. Health	7	6.9	7.5
8. Recreation, culture and religion	8	1.0	1.0
9. Education	9	5.9	5.2
10. Social protection	10	21.0	19.9
11. Total expenditure (=item 7=23 in Table 2)	TE [1]	51.6	48.4

[1] Adjusted for the net flow of swap-related flows, so that TR-TE=EDP B.9.

[2] Austria uses 2001 and 2007 instead of 2006 and 2011.

Table 4. General government debt developments

% of GDP	ESA Code	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
1. Gross debt [1]		59.4	62.5	68.5	73.0	75.7	77.7	78.5
2. Change in gross debt ratio		-4.1	5.2	9.6	6.5	3.7	2.6	1.1
Contributions to changes in gross debt								
3. Primary balance [2]		2.3	2.2	-0.6	-1.7	-1.4	-1.3	-0.4
4. Interest expenditure [3]	EDP D.41	2.9	2.6	2.9	3.0	3.3	3.4	3.6
5. Stock-flow adjustment		0.0	5.1	2.0	0.7	0.0	-0.1	0.0
of which:								
- Differences between cash and accruals [4]		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
- Net accumulation of financial assets [5]		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
of which:		-	-	-	-	-	-	-
- privatisation proceeds		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
- Valuation effects and other [6]		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
p.m.: Implicit interest rate on debt [7]		4.8	4.2	4.2	4.2	4.3	4.4	4.5
Other relevant variables								
6. Liquid financial assets [8]		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
7. Net financial debt (7=1-6)		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

[1] As defined in Regulation 3605/93 (not an ESA concept).

[2] Cf. item 10 in Table 2.

[3] Cf. item 9 in Table 2.

[4] The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.

[5] Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.

[6] Changes due to exchange rate movements, and operation in secondary market could be distinguished when relevant.

[7] Proxied by interest expenditure divided by the debt level of the previous year.

[8] AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted in stock exchange; including mutual fund shares).

Table 5. Cyclical developments

% of GDP	ESA Code	2007	2008	2009	2010	2011	2012	2013
1. Real GDP growth (%)		3.1	1.8	-2.2	0.5	1.5	2.0	2.3
2. Net lending of general government	EDP B.9	-0.5	-0.4	-3.5	-4.7	-4.7	-4.7	-3.9
3. Interest expenditure	EDP D.41	2.9	2.6	2.9	3.0	3.3	3.4	3.6
4. One-off and other temporary measures[1]		0.0	0.0	0.0	0.0	0.0	0.0	0.0
5. Potential GDP growth (%)		1.8	1.7	1.4	1.3	1.5	1.8	1.7
contributions:								
- labour		0.2	0.2	0.0	0.0	0.1	0.3	0.1
- capital		0.8	0.8	0.7	0.6	0.6	0.7	0.7
- total factor productivity		0.8	0.8	0.8	0.8	0.8	0.9	0.9
6. Output gap		2.2	2.2	-1.4	-2.2	-2.2	-2.1	-1.5
7. Cyclical budgetary component		0.9	1.0	-0.6	-1.0	-1.0	-0.9	-0.6
8. Cyclically-adjusted balance (2 - 7)		-1.5	-1.3	-2.9	-3.8	-3.7	-3.8	-3.3
9. Cyclically-adjusted primary balance (8 + 3)		1.4	1.3	0.0	-0.7	-0.5	-0.4	0.2
10. Structural balance (8 - 4)		-1.5	-1.3	-2.9	-3.8	-3.7	-3.8	-3.3

[1]A plus sign means deficit-reducing one-off measures.

Table 6. Divergence from previous update

	ESA Code	2007	2008	2009	2010	2011	2012	2013
Real GDP growth (%)								
Previous update		3.4	2.4	2.5	2.5	n.a.	n.a.	n.a.
Current update		3.1	1.8	-2.2	0.5	1.5	2.0	2.3
Difference		-0.3	-0.6	-4.7	-2.0	n.a.	n.a.	n.a.
General government net lending (% of GDP)	EDP B.9							
Previous update		-0.7	-0.6	-0.2	0.4	n.a.	n.a.	n.a.
Current update		-0.5	-0.4	-3.5	-4.7	-4.7	-4.7	-3.9
Difference		0.2	0.2	-3.3	-5.1	n.a.	n.a.	n.a.
General government gross debt (% of GDP)								
Previous update		59.9	58.4	57.0	55.4	n.a.	n.a.	n.a.
Current update		59.4	62.5	68.5	73.0	75.7	77.7	78.5
Difference		-0.5	4.1	11.5	17.6	n.a.	n.a.	n.a.

Table 7. Long-term sustainability of public finances

% of GDP	2007 [1]	2020	2030	2040	2050	2060
Total expenditure	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Of which: age-related expenditures	25.9	26.0	27.6	28.6	29.3	29.0
Pension expenditure	12.8	13.0	13.8	13.9	14.0	13.6
Social security pension	9.2	9.9	11.0	12.0	12.6	12.3
Old-age and early pensions	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other pensions (disability, survivors)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Occupational pensions (if in general government)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Health care	6.5	7.0	7.5	7.9	8.1	8.0
Long-term care *(this was earlier included in the*	1.3	1.4	1.7	2.1	2.5	2.6
Education expenditure	4.6	4.0	4.0	4.1	4.1	4.2
Other age-related expenditures	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Interest expenditure	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total revenue	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Of which: property income	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Of which : from pensions contributions (or social contributions if appropriate)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pension reserve fund assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Of which : consolidated public pension fund assets (assets other than government liabilities)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Assumptions						
Labour productivity growth	1.6	1.7	1.7	1.7	1.7	1.7
Real GDP growth	2.2	1.9	1.5	1.5	1.5	1.5
Participation rate males (aged 15-64) [2]	78.4	77.6	78.1	79.1	78.7	78.8
Participation rates females (aged 15-64)	64.5	67.7	68.1	69.9	69.6	69.6
Total participation rates (aged 15-64)	71.5	72.7	73.1	74.6	74.2	74.3
Unemployment rate	4.5	4.3	4.3	4.3	4.3	4.3
Population aged 65+ over working-age population [3]	25.0	29.2	38.1	46.0	48.3	50.6

[1] Austria uses 2007, 2020, 2030, 2040, 2050, 2060 instead of 2000, 2005, 2010, 2020, 2030, 2050.

[2] Austria uses 15-64 instead of 20-64.

[3] Austria uses working-age population instead of total population.

Table 8. Basic assumptions

	2007	2008	2009	2010	2011	2012	2013
Short-term interest rate [1] (annual average)	n.a.	4.6	1.7	2.0	2.5	3.0	3.0
Long-term interest rate (annual average)	n.a.	4.3	3.8	3.8	4.0	4.0	4.0
USD/€ exchange rate (annual average) (euro area and ERM II countries)	n.a.	1.47	1.25	1.25	1.25	1.25	1.25
Nominal effective exchange rate	n.a.	1.2	-1.0	0.0	0.0	0.0	0.0
(for countries not in euro area or ERM II) exchange rate vis-à-vis the € (annual average)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
World, GDP growth [2]	n.a.	2.5	-1.0	1.7	2.2	2.5	3.0
EU GDP growth	n.a.	0.9	-3.0	0.0	1.0	1.5	2.0
Growth of relevant foreign markets	n.a.	3.8	-7.5	0.0	3.0	4.5	5.5
World import volumes, excluding EU	n.a.	4.9	4.1	5.8	5.8	5.8	5.8
Oil prices (Brent, USD/barrel)	n.a.	97.0	45.0	55.0	60.0	60.0	60.0

[1] If necessary, purely technical assumptions.

[2] Austria uses World instead of World excluding EU.