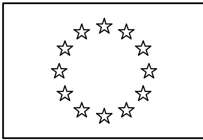

EUROPEAN COMMISSION
DIRECTORATE GENERAL
ECONOMIC AND FINANCIAL AFFAIRS

Brussels, 31 March 2010
ECFIN F2 Ares(2010)172926

AUSTRIA: MACRO FISCAL ASSESSMENT

AN ANALYSIS OF THE JANUARY 2010 UPDATE OF THE STABILITY PROGRAMME

The Stability and Growth Pact requires each EU Member State to present an annual update of its medium-term fiscal programme, called 'stability programme' for countries that have adopted the euro as their currency and 'convergence programme' for those that have not. The most recent update of Austria's stability programme was submitted on 26 January 2010.

The attached technical analysis of the programme prepared by the staff and under the responsibility of the Directorate-General for Economic and Financial Affairs (DG ECFIN) of the European Commission was finalised on 17 March 2010. Comments should be sent to Monika Sherwood (monika.sherwood @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' autumn 2009 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 10 November 2009) and (iii) the commonly agreed methodology for the estimation of potential output and cyclically-adjusted balances.

Based on this analysis, the European Commission adopted a recommendation for a Council opinion on the programme on 17 March 2010. The ECOFIN Council is expected to discuss the opinion on the programme on 16 April 2010.

* * *

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/sgp/index_en.htm

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1. INTRODUCTION

This document assesses the latest update of Austria's stability programme, which was submitted on 26 January 2010[1] and covers the period 2009-2013. The programme builds on the 2010 budget law, the 2008-2013 Fiscal Equalisation Law and the 2009-2013 central government spending limits decision. It was approved by the government and presented to the national parliament for a debate without a vote.

This assessment is structured as follows. Section 2 discusses the key challenges for public finances in Austria. Section 3 assesses the plausibility of the macroeconomic scenario underpinning the public finance projections of the stability programme against the background of the Commission services' economic forecasts[2]. Section 4 analyses budgetary implementation in the year 2009, the budgetary plans for 2010 and the medium-term budgetary strategy. It also assesses risks attached to the budgetary targets. Section 5 reviews recent debt developments and medium-term prospects, as well as the long-term sustainability of public finances. Section 6 discusses institutional features of public finances. Finally, Section 7 concludes with an overall assessment of the programme. The annex provides a detailed assessment of compliance with the code of conduct, including an overview of the summary tables from the programme.

[1] The English language version was submitted on 29 January 2010.

[2] This assessment uses the Commission services' 2009 autumn forecast, as published on 3 November 2009, as a benchmark. However, more recent information that has become available has also been taken into account to assess the risks to the programme scenarios.

Table 1. Comparison of key macroeconomic and budgetary projections

		2008	2009	2010	2011	2012	2013
Real GDP (% change)	**SP Jan 2010**	**2.0**	**-3.4**	**1.5**	**1.5**	**1.9**	**2.0**
	COM Nov 2009	2.0	-3.7	1.1	1.5	n.a.	n.a.
	SP Apr 2009	*1.8*	*-2.2*	*0.5*	*1.5*	*2.0*	*2.3*
HICP inflation (%)	**SP Jan 2010**	**3.2**	**0.4**	**1.3**	**1.5**	**1.8**	**1.9**
	COM Nov 2009	3.2	0.5	1.3	1.6	n.a.	n.a.
	SP Apr 2009	*3.2*	*0.6*	*1.1*	*1.3*	*1.5*	*1.9*
Output gap[1] (% of potential GDP)	**SP Jan 2010**	**2.8**	**-1.8**	**-1.6**	**-1.5**	**-1.3**	**-1.0**
	COM Nov 2009[2]	2.8	-2.2	-2.6	-2.7	n.a.	n.a.
	SP Apr 2009	*2.6*	*-0.9*	*-1.7*	*-1.6*	*-1.2*	*-0.5*
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	**SP Jan 2010**	**3.2**	**2.3**	**2.4**	**2.7**	**2.8**	**2.9**
	COM Nov 2009	3.6	1.4	1.3	1.7	n.a.	n.a.
	SP Apr 2009	*2.9*	*1.6*	*0.6*	*1.0*	*1.3*	*1.4*
General government revenue (% of GDP)	**SP Jan 2010**	**48.4**	**48.0**	**46.9**	**46.8**	**46.9**	**46.9**
	COM Nov 2009	48.4	47.9	47.1	47.1	n.a.	n.a.
	SP Apr 2009	*48.2*	*47.5*	*46.5*	*46.4*	*46.1*	*46.1*
General government expenditure (% of GDP)	**SP Jan 2010**	**48.9**	**51.5**	**51.6**	**50.9**	**50.2**	**49.7**
	COM Nov 2009	48.9	52.3	52.6	52.4	n.a.	n.a.
	SP Apr 2009	*48.7*	*51.1*	*51.3*	*51.1*	*50.9*	*50.1*
General government balance (% of GDP)	**SP Jan 2010**	**-0.4**	**-3.5**	**-4.7**	**-4.0**	**-3.3**	**-2.7**
	COM Nov 2009	-0.4	-4.3	-5.5	-5.3	n.a.	n.a.
	SP Apr 2009	*-0.4*	*-3.5*	*-4.7*	*-4.7*	*-4.7*	*-3.9*
Primary balance (% of GDP)	**SP Jan 2010**	**2.2**	**-0.7**	**-1.8**	**-1.2**	**-0.4**	**0.2**
	COM Nov 2009	2.1	-1.4	-2.5	-2.1	n.a.	n.a.
	SP Apr 2009	*2.2*	*-0.6*	*-1.7*	*-1.4*	*-1.3*	*-0.4*
Cyclically-adjusted balance[1] (% of GDP)	**SP Jan 2010**	**-1.7**	**-2.7**	**-3.9**	**-3.3**	**-2.7**	**-2.2**
	COM Nov 2009	-1.8	-3.3	-4.3	-4.0	n.a.	n.a.
	SP Apr 2009	*-1.6*	*-3.1*	*-3.9*	*-4.0*	*-4.1*	*-3.7*
Structural balance[3] (% of GDP)	**SP Jan 2010**	**-1.7**	**-2.7**	**-3.9**	**-3.3**	**-2.7**	**-2.2**
	COM Nov 2009	-1.8	-3.3	-4.3	-4.0	n.a.	n.a.
	SP Apr 2009	*-1.6*	*-3.1*	*-3.9*	*-4*	*-4.1*	*-3.7*
Government gross debt (% of GDP)	**SP Jan 2010**	**62.6**	**66.5**	**70.2**	**72.6**	**73.8**	**74.3**
	COM Nov 2009	62.6	69.1	73.9	77.0	n.a.	n.a.
	SP Apr 2009	*62.5*	*68.5*	*73.0*	*75.7*	*77.7*	*78.5*

Notes:

[1]Output gaps and cyclically-adjusted balances from the programmes as recalculated by Commission services on the basis of the information in the programmes.

[2]Based on estimated potential growth of 1.7%, 1.2%,1.4% and 1.6% respectively in the period 2008-2011

[3]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' November 2009 forecast.

Source:

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

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

This section describes recent economic and budgetary developments for Austria, which form the background against which the current programme assessment should be viewed, and outlines the key challenges to be addressed by future economic policies.

The global financial and economic crisis has pushed the Austrian economy into the deepest recession in post-war history. The downturn has primarily been transmitted to Austria by falling exports, reflecting the collapse in world trade, and shrinking fixed investment on the back of declining demand as well as tighter credit market conditions. The crisis gained momentum in the first quarter of 2009 (GDP -2.2% q-o-q) and subsided in the third quarter (GDP +0.5% q-o-q). Overall, according to the latest estimate (made after the programme's submission) GDP shrank by about 3.6% in 2009. The strongly

export-oriented manufacturing sector has suffered most. Private consumption growth, although much lower than in recent years, became a stabilising factor. Consumer prices rose by a mere 0.4% in 2009, mainly due to strong base effects from declining fuel and heating oil prices and the downward pressure on profit margins from weak demand conditions. As the recession began to take its toll on the labour market, employment decreased by 1.4% in 2009, pushing unemployment rate up to 5% (from 3.8% in the previous year).

The Austrian government undertook a sizeable fiscal counter-action in accordance with the European Economic Recovery Plan (EERP). Two economic recovery programmes, income tax cuts and two labour market support packages were adopted, focussing on income support, avoiding lay-offs and improving access to training, sustaining investment and private access to finance. Support for credit-constrained enterprises came mainly in off-budget form as guarantees and subsidised loans. To support the automotive industry, a premium was offered for scrapping old cars on the purchase of new ones. Both recovery programmes included the front-loading of infrastructure projects of state-owned enterprises to stimulate construction activity. In addition to such discretionary measures, automatic stabilisers were allowed to operate freely.

In addition, the Austrian authorities adopted several measures to stabilise financial markets. In particular, these include stimulation of the interbank-market via the newly founded Austrian Clearing Bank (OeCAG), strengthening the equity of individual banks, deposit guarantees and support to companies' liquidity in order to restore the confidence of market participants.

As a result of the above-described measures and the automatic stabilisers operating freely, public finances deteriorated significantly in 2009, with the general government deficit reaching 3.5% of GDP (up from 0.4% of GDP the year before) and public debt 66.5% (up from 62.6% of GDP in the previous year). The Council decided on 2 December 2009 that an excessive deficit existed in Austria[3] and issued a recommendation to correct the deficit by 2013.

Unlike in other EU countries, the bulk of the fiscal stimulus introduced in Austria was of a permanent nature. Most of the measures were conducive to long-term growth, but adoption of the measures brought the general government deficit and debt to unsustainable levels. Even though Austria entered the crisis with a budgetary position close to balance, this significant deterioration in public finances calls for sizeable consolidation measures.

3. MACROECONOMIC OUTLOOK

Against the background of the current macroeconomic situation and the main policy challenges set out in the previous section, this section makes an assessment of the plausibility of the macroeconomic scenario underpinning the public finance projections of the programme.

As presented in Table 2, the macroeconomic scenario underlying the January 2010 update of the stability programme envisages a pick up in real GDP growth from -3.4% in 2009[4] to 1.5% in 2010-11 and around 2% thereafter. Assessed against currently available

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[3] Please refer to Box 1 for more information.

[4] According to the estimate made after the submission of the programme, the decline in real GDP growth in 2009 amounted to 3.6%.

information[5], this scenario appears to be somewhat optimistic in 2010 and based on plausible growth assumptions in the years 2011-2013. The difference in the growth projection for 2010 stems from the programme's higher contribution from net exports than that in the Commission services' autumn 2009 forecast. For the years 2010-2011, the programme foresees slightly higher private consumption growth.

The output gap, as recalculated by Commission services based on the information in the programme, following the commonly agreed methodology, is set to diminish over the update's period, but nevertheless stays negative till the end of it[6], reflecting the sluggish recovery.

Table 2: Comparison of macroeconomic developments and forecasts

	2009		2010		2011		2012	2013
	COM	**SP**	**COM**	**SP**	**COM**	**SP**	**SP**	**SP**
Real GDP (% change)	-3.7	-3.4	1.1	1.5	1.5	1.5	1.9	2.0
Private consumption (% change)	0.5	0.4	0.5	0.7	0.6	0.9	1.2	1.3
Gross fixed capital formation (% change)	-6.6	-7.6	-0.3	-1.0	3.0	2.0	2.5	3.1
Exports of goods and services (% change)	-13.7	-13.4	2.1	4.0	3.5	5.0	6.6	6.5
Imports of goods and services (% change)	-9.8	-10.9	1.6	2.8	3.1	4.3	5.9	6.2
Contributions to real GDP growth:								
- Final domestic demand	-1.0	-1.2	0.5	0.4	1.2	0.9	1.2	1.3
- Change in inventories	0.1	-0.5	0.2	0.3	0.0	0.0	0.0	0.1
- Net exports	-2.9	-1.8	0.3	0.8	0.3	0.6	0.7	0.5
Output gap[1]	-2.2	-1.8	-2.6	-1.6	-2.7	-1.5	-1.3	-1.0
Employment (% change)	-1.5	-0.9	-0.7	-0.2	0.3	0.3	0.5	0.7
Unemployment rate (%)	5.5	5.0	6.0	5.4	5.7	5.7	5.7	5.7
Labour productivity (% change)	-2.3	-2.5	1.8	1.6	1.2	1.2	1.4	1.3
HICP inflation (%)	0.5	0.4	1.3	1.3	1.6	1.5	1.8	1.9
GDP deflator (% change)	1.6	1.8	0.9	0.7	1.7	1.4	1.5	1.5
Comp. of employees (per head, % change)	3.0	2.7	2.0	1.3	2.6	2.1	1.9	2.5
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	1.4	2.3	1.3	2.4	1.7	2.7	2.8	2.9

Note:

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

Source:

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

The programme envisages a smaller decline in employment in 2010 than the Commission services' autumn 2009 forecast, which is in line with the programme's slightly higher growth projection for that year. For 2011, they both predict a very small pick up in employment, which according to the update will then increase further only slightly in 2012-13. One reason for employment not increasing faster on the back of stronger growth is the labour hoarding encouraged by the extension of the short-term work scheme, adopted as one of the measures aimed at combating the economic crisis. In spite of the gradual recovery starting in 2010, the programme foresees a continued increase in the unemployment rate, which is then expected to stabilise at 5.7% from 2011 onwards (up from 3.8% in 2008). Apart from the developments in the domestic labour force, this could have to do with the expiry of the temporary restrictions governing the access to the Austrian labour market for citizens of the new EU Member States in 2011.

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

6 In contrast, the negative output gap presented by the programme is expected to grow over the 2010-2013 period.

The programme's inflation forecast of 1.3% and 1.5% in 2010 and 2011, respectively, appears to be realistic. Both the programme and the Commission services' autumn 2009 forecast foresee first a pick up in labour productivity growth in 2010, but a slowdown in 2011 on the back of gradually growing employment. The programme suggests a much lower rise in wages in 2010 and 2011 than the Commission services' autumn 2009 forecast.

4. General government balance

This section consists of four parts. The first three parts discuss the budgetary implementation in the year 2009, the budgetary plans for 2010 and the medium-term budgetary strategy in the programme. The final part analyses the risks attached to the budgetary targets.

4.1. Budgetary implementation in 2009

The 2009 general government budget deficit turned out at 3.5% of GDP, matching the target set by the previous update of the stability programme (and lower than the 3.9% of GDP presented in the October 2009 EDP notification). In comparison to 2008, the 2009 deficit was higher by over 3% of GDP. This significant deterioration was mainly a consequence of the economic downturn. On top of the automatic stabilisers being allowed to operate freely, the Austrian authorities introduced several sizeable packages of measures aimed at alleviating the impact of the recession. Benefitting from the close-to-balance budgetary position in 2008, Austria adopted one of the biggest stimuli among the EU Member States, which amounted to around 1½% of GDP.

Table 3 compares the projected outcome for the general government balance, revenue and expenditure (as a percentage of GDP) in 2009 as presented in the new stability programme with the targets from the previous update of the programme. Differences between outcome and targets (excluding the impact of an unanticipated GDP developments which may have affected the ratio, referred to as the ‘denominator effect’) are decomposed into the impact of a different starting position (i.e. the outcome of 2008 may also have been different from what was anticipated in the previous programme update) and the impact of differences in the revenue / expenditure growth rate from the planned growth rates[7].

Both revenue and expenditure were about ½% of GDP lower than initially expected. Excluding the denominator effect (nominal GDP decline at 1.7% was 1 percentage point more pronounced than estimated earlier) both categories were very close to the projections in the previous update of the programme.

On the expenditure side, the execution of the budget went according to the plan in terms of primary and interest expenditure. The former turned out to be marginally higher and the latter slightly lower than anticipated as financing conditions turned out to be more favourable than previously assumed.

[7] Mathematically, the difference in the revenue ratio in Table 3 can be expressed as:

$$\rho^o - \rho^p = \underbrace{\frac{1+r^p}{1+g^p}\Delta\rho_{-1}}_{\text{Base effect}} + \underbrace{\frac{\rho^o_{-1}}{(1+g^o)(1+g^p)}\Delta r}_{\text{Revenue growth effect}} - \underbrace{\frac{\rho^o_{-1}}{(1+g^o)(1+g^p)}\Delta g}_{\text{Denominator effect}} + \underbrace{\frac{\rho^o_{-1}(r^o g^p - r^p g^o)}{(1+g^o)(1+g^p)}}_{\text{Residual}}$$

where r is the growth rate of revenue and g is the growth rate of GDP. The subscript -1 refers to the previous year’s value. Superscripts o and p refer to the outcome and the planned value respectively. Similar for the expenditure ratio.

However, there were some surprises in terms of the composition on the revenue side. The biggest one was in the category "other revenue", which turned out higher by more than 1½% of GDP than previously projected. However, the programme does not provide any explanation of this phenomenon. Taxes on production and imports were also higher by around ½% of GDP than initially planned, whereas taxes on income and wealth surprised on the negative side (by about ¾% of GDP). The latter was mainly due to dramatic underperformance of corporate tax (unexpected tax losses of around 20%) combined with small revenue shortfalls related to personal income tax.

Table 3: Budgetary implementation in 2009

	2008		2009	
	Planned SP Apr 2009	**Outcome** SP Jan 2010	**Planned** SP Apr 2009	**Outcome** SP Jan 2010
Government balance (% of GDP)	-0.4	-0.4	-3.5	-3.5
Difference compared to target [1]	0.0		0.0	
Difference excluding denominator effect [1,2]			**0.1**	
Of which : due to a different starting position end 2008			-0.1	
due to different revenue / expenditure growth in 2009			0.2	
p.m. Residual [3]			0.0	
p.m. Nominal GDP growth (planned and outcome)			*-0.7*	*-1.7*
Revenue (% of GDP)	48.2	48.4	47.5	48.0
Revenue surprise compared to target [1]	0.2		0.5	
Revenue surprise excluding denominator effect [1,2]			**0.0**	
Of which : due to a different starting position end 2008			0.2	
due to different revenue growth in 2009			-0.2	
p.m. Residual [3]			0.0	
p.m. Revenue growth rate (planned and outcome)			*-2.2*	*-2.5*
Expenditure (% of GDP)	48.7	48.9	51.1	51.5
Expenditure surprise compared to target [1]	-0.2		-0.4	
Expenditure surprise excluding denominator effect [1,2]			**0.1**	
Of which : due to different starting position end 2008			-0.2	
due to different expenditure growth rate in 2009			0.3	
p.m. Residual [3]			0.0	
p.m. Expenditure growth rate (planned and outcome)			4.2	3.5

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 and expenditure separately, on the balance they usually largely cancel against each other.

[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

Box 1: The excessive deficit procedure (EDP) for Austria

On 2 December 2009 the Council adopted a decision stating that Austria had an excessive deficit in accordance with Article 126(6) of the Treaty on the Functioning of the European Union (TFEU). At the same time, the Council addressed a recommendation under 126(7) TFEU specifying that the excessive deficit had to be corrected by 2013.

In particular, Austria was recommended to implement the fiscal measures in 2010 as envisaged and, starting consolidation in 2011, put an end to the excessive deficit by 2013. This should be done in a credible and sustainable manner by taking action in a medium-term framework. Austria is invited to ensure an average annual fiscal effort of ¾% of GDP over the period 2011-2013, which should also contribute to bringing the government gross debt ratio back on a declining path that approaches the reference value at a satisfactory pace by restoring an adequate level of the primary surplus. The Austrian authorities should specify the measures that are necessary to achieve the correction of the excessive deficit by 2013, cyclical conditions permitting, and accelerate the reduction of the deficit, if economic or budgetary conditions turn out better than currently expected. The Council established a deadline of 2 June 2010, to take effective action to implement the fiscal measures in 2010 as planned and to outline in some detail the consolidation strategy that will be necessary to progress towards the correction of the excessive deficit. Finally, the Austrian authorities should report on progress in the implementation of these Recommendations in a separate chapter in the updates of the stability programmes which will be prepared between 2010 and 2013.

4.2. The programme's budgetary strategy for 2010

According to the programme, the nominal general government deficit will increase from 3.5% in 2009 to 4.7% in 2010. This prediction matches the deficit projected in 2010 budget law adopted by the Austrian parliament in May 2009. The programme foresees almost no change in the level of expenditure in 2010, with the over 1% of GDP deterioration coming from the revenue side.

The update does not outline any measures additional to those that were already known at the time of Austria's latest examination under the EDP procedure. In that sense, Austria is respecting the Council recommendation that it "should implement the fiscal measures in 2010 as envisaged".

The projected deterioration is partly due to the automatic stabilisers being allowed to operate freely and partly due to some discretionary measures. In particular, further elements of the 2009 tax reform, namely relief for families with children and tax cuts for the self-employed, are coming into force only in 2010 and are expected to burden the budget by about ¼% of GDP. This also applies to the accelerated depreciation provision adopted in January 2009, worth about 0.1% of GDP. The 2010 budget will also be burdened by the extension of the short-work scheme, which was adopted in June 2009 (worth less than 0.1% of GDP).

The expected fiscal stance is expansionary as the deterioration in the nominal balance is mirrored in an increase by 1¼ % of GDP in the cyclically adjusted and structural balance as recalculated by the Commission services on the basis of the information in the programme according to the commonly agreed methodology. This change differs from the change explained by the information on the discretionary measures effective in 2010 (bottom-up approach) estimated by the Commission services at around ½ % of GDP. Part of that discrepancy can be explained by the negative composition effects, with growth drivers shifting towards net exports and lagged effects on corporate tax income.

The programme foresees that the deficit of the local and regional authorities stays at unchanged level of about ¼ % of GDP each. Thus the whole budget deterioration is set to occur on the federal level.

Table 4. Main budgetary measures for 2010

Revenue measures[1]	Expenditure measures[2]
• Tax reform 2009 (-0.3% of GDP): relief for families with children and tax cuts for the self-employed • Accelerated depreciation (-0.1% of GDP)	

Notes:

[1] Estimated impact on general government revenue
[2] Estimated impact on general government expenditure

Source: Commission services and Austrian Ministry of Finance

4.3. The programme's medium-term budgetary strategy

This section describes the medium-term budgetary strategy outlined in the programme as well as the composition of the budgetary adjustment, including the broad measures envisaged.

The main goal of the medium-term budgetary strategy is to bring the deficit below the 3% of GDP reference value by the end of the programme horizon, in line with the Council recommendation under Article 126(7) TFEU of 2 December 2009. As presented in Box 2, Austria's MTO, as outlined in the programme, is a balanced structural budget. The programme does not mention a target year for achieving the MTO.

As mentioned above, the programme foresees a widening of the nominal general government deficit from 3.5% of GDP in 2009 to 4.7% of GDP in 2010. Thereafter, a consolidation (evenly distributed in time) is planned, leading to the correction of the excessive deficit in 2013. In that sense, the programme respects the deadline established by the latest Council recommendation under the excessive deficit procedure. However, the underpinning measures outlined in the programme explain only a small fraction of the projected consolidation.

According to Commission services' estimate, in cyclically-adjusted and structural terms, the general government deficit is expected to widen from 2.7% of GDP in 2009 to 3.9% of GDP in 2010. The gradual consolidation planned for the rest of the programme period is to result in the structural deficit reaching 2.2% of GDP in 2013. The structural primary deficit is expected to turn from a 1.2% of GDP deficit in 2010 into a 0.7% of GDP surplus in 2013. The fiscal policy is expansionary in 2010 and restrictive thereafter.

As presented in Table 5, the envisaged consolidation is to be achieved primarily on the expenditure side. According to the programme, the expenditure ratio will stay almost unchanged between 2009 and 2010 and is expected to decline by almost 2% of GDP in the period 2010-2013. The bulk of the drop in expenditure falls on compensation of employees (around ¾% of GDP). Some decrease is also to occur in the categories "subsidies" and "social payments".

The update assumes that the revenue will decrease significantly between 2009 and 2010 (by over 1% of GDP), with taxes on income and wealth mainly responsible for the drop. Thereafter, the revenue is planned to stay largely unchanged.

The only measure outlined in the programme to underpin the planned consolidation is a drop in expenditure on the health care sector to the tune of about 1.7 billion euro between 2010 and 2013, which the federal government agreed on with the public health funds. The social health care insurer is supposed to report twice a year on the progress in the implementation of the agreement. The public health funds are requested to come up with additional proposals for cost-cutting measures at the occasion of the implementation report; however the programme does not quantify the potential of any of these. As the agreed savings amount to only about 0.6% of GDP, this measure provides for less than one third of the consolidation foreseen between 2010 and 2013. The rest of the consolidation relies, then, on unspecified measures.

Box 2: The medium-term objective (MTO) for Austria

As noted in the Code of Conduct[8], the MTO aims to (a) provide a safety margin with respect to the 3% of GDP deficit limit; (b) ensure rapid progress towards fiscal sustainability; and (c) allow room for budgetary manoeuvre, in particular taking into account the needs for public investment. The MTO is defined in cyclically adjusted terms, net of one-off and other temporary measures. On 7 July 2009, the ECOFIN Council took note of a new methodology for setting MTOs, ensuring that implicit liabilities (costs related to ageing populations, in particular projected healthcare and pension expenditure) are also accounted for.

Specifically, the country-specific MTOs should take into account three components: (i) the debt-stabilising balance for a debt ratio equal to the (60% of GDP) reference value (dependent on long-term potential growth), implying room for budgetary manoeuvre for Member States with relatively low debt; (ii) a supplementary debt-reduction effort for Member States with a debt ratio in excess of the (60% of GDP) reference value, implying rapid progress towards it; and (iii) a fraction of the adjustment needed to cover the present value of the future increase in age-related government expenditure. This implies a partial frontloading of the budgetary cost of ageing irrespective of the current level of debt. In addition to these criteria, MTOs should provide a safety margin with respect to the 3% of GDP deficit reference value and, for euro area and ERM II Member States, in any case not exceed a deficit of 1% of GDP.

As communicated by the authorities, the MTO of Austria is balanced budget. In view of the new methodology and given the most recent projections and debt level, the MTO more than adequately reflects the objectives of the Pact.

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[8] "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 on 10 November 2009, available at: http://ec.europa.eu/economy_finance/sgp/legal_texts/index_en.htm

Table 5: Composition of the budgetary adjustment

(% of GDP)	2008	2009		2010		2011		2012	2013	Change: 2009-2013
	COM	COM	SP	COM	SP	COM[1]	SP	SP	SP	SP
Revenue	**48.4**	**47.9**	**48.0**	**47.1**	**46.9**	**47.1**	**46.8**	**46.9**	**46.9**	**-1.1**
of which:										
- Taxes on production and imports	14.2	14.3	14.6	14.3	14.5	14.2	14.6	14.5	14.5	-0.1
- Current taxes on income, wealth, etc.	14.0	12.9	12.4	12.2	11.6	12.3	11.8	12.0	12.3	-0.1
- Social contributions	15.9	16.5	16.4	16.3	16.3	16.3	16.2	16.1	16.0	-0.4
- Other (residual)	4.3	4.3	4.6	4.3	4.5	4.3	4.2	4.3	4.1	-0.5
Expenditure	**48.9**	**52.3**	**51.5**	**52.6**	**51.6**	**52.4**	**50.9**	**50.2**	**49.7**	**-1.8**
of which:										
- Primary expenditure	46.3	49.4	48.8	49.6	48.8	49.2	48.0	47.3	46.8	-2.0
of which:										
Compensation of employees	9.2	9.7	9.7	9.6	9.7	9.5	9.5	9.2	9.0	-0.7
Intermediate consumption	4.6	4.8	4.4	4.9	4.4	4.9	4.3	4.3	4.2	-0.2
Social payments	23.6	25.5	25.2	25.8	25.5	25.6	25.4	25.2	25.2	0.0
Subsidies	3.5	3.6	3.5	3.5	3.5	3.4	3.4	3.2	3.1	-0.4
Gross fixed capital formation	1.1	1.2	1.1	1.2	1.1	1.2	1.1	1.1	1.1	0.0
Other (residual)	4.4	4.6	4.7	4.6	4.6	4.5	4.4	4.4	4.3	-0.4
- Interest expenditure	2.5	2.9	2.7	3.0	2.8	3.2	2.9	2.9	2.9	0.2
General government balance (GGB)	**-0.4**	**-4.3**	**-3.5**	**-5.5**	**-4.7**	**-5.3**	**-4.0**	**-3.3**	**-2.7**	**0.8**
Primary balance	**2.1**	**-1.4**	**-0.7**	**-2.5**	**-1.8**	**-2.1**	**-1.2**	**-0.4**	**0.2**	**0.9**
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
GGB excl. one-offs	**-0.4**	**-4.3**	**-3.5**	**-5.5**	**-4.7**	**-5.3**	**-4.0**	**-3.3**	**-2.7**	**0.8**
Output gap[2]	2.8	-2.2	-1.8	-2.6	-1.6	-2.7	-1.5	-1.3	-1.0	0.8
Cyclically-adjusted balance[2]	-1.8	-3.3	-2.7	-4.3	-3.9	-4.0	-3.3	-2.7	-2.2	0.4
Structural balance[3]	**-1.8**	**-3.3**	**-2.7**	**-4.3**	**-3.9**	**-4.0**	**-3.3**	**-2.7**	**-2.2**	**0.4**
Change in structural balance		*-1.5*	*-0.9*	*-1.0*	*-1.3*	*0.2*	*0.6*	*0.6*	*0.5*	
Structural primary balance[3]	0.8	-0.4	0.0	-1.3	-1.1	-0.8	-0.4	0.2	0.7	0.6
Change in structural primary balance		*-1.2*	*-0.7*	*-0.9*	*-1.2*	*0.4*	*0.7*	*0.6*	*0.5*	

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' autumn 2009 forecasts (COM); Commission services' calculations

4.4. Risk assessment

This section discusses the plausibility of the programme's budgetary projections by analysing various risk factors. For the period until 2011, Table 5 compares the detailed revenue and expenditure projections in the Commission services' autumn 2009 forecast, which are derived under a no-policy change scenario, with those in the updated programme. However, although the assessment uses the Commission services' forecast as a benchmark, it also takes explicitly into account all available information about more recent developments.

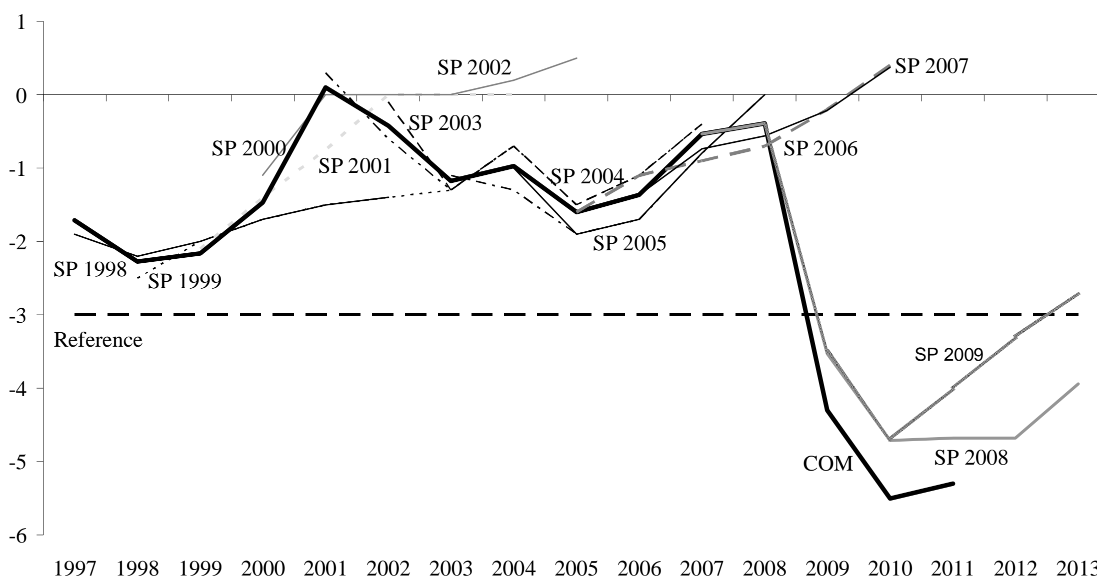
The developments on the revenue side, as outlined by the update, are roughly in line with those projected by the Commission services' forecast. However, there is a significant divergence on the expenditure side. The 1% of GDP difference in expenditure projections for 2010 between the Commission services' forecast and the programme is mainly explained by the 0.8% of GDP difference in 2009. But whereas the Commission services expect a small decline in expenditure in 2011 (0.2%), the one assumed by the programme is much bigger (0.7% of GDP). As already mentioned above, the consolidation outlined by the programme for 2011 and the years beyond relies mostly on unspecified measures.

In addition, there is still risk stemming from the fact that the legal envelope for the financial market stabilisation package, granted to the banking sector, has not been exhausted so far. It 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[9] or the purchase price of assumed risks being higher than the assets' market value. However, some of the cost of government support to the financial sector could also be recouped in the future.

A small positive risk factor is the potential introduction of a special bank levy from 2011, which might bring about 0.2% of GDP in revenue. The government coalition partners agreed on this provision in principle, but the rules governing the levy and in particular its base is not yet known.

Overall, the budgetary outcomes are subject to downside risks described above. However, it should also be noted that in the recent past, Austria had a reasonably good track record in terms of meeting its budgetary targets. While both expenditure and revenue often turn out higher than planned in nominal terms, revenue windfalls generally exceed expenditure overruns. On 1 January 2009, the first stage of the reform of budgetary legislation came into force, which consisted in the introduction of a multi-annual expenditure framework for the federal government with fixed ceilings set for four consecutive years. This new framework is intended to make budgetary outcomes more predictable in the medium term.

Figure 1: Government balance projections in successive programmes (% of GDP)



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

9 The capital injection undertaken at the market conditions is accompanied by a similar increase in government assets and would therefore be neutral in terms of net liabilities.

5. GOVERNMENT DEBT AND LONG-TERM SUSTAINABILITY

This section is in two parts. A first part describes recent debt developments and medium-term prospects, including risks to the outlook presented in the programme. A second part takes a longer-term perspective with the aim of assessing the long-term sustainability of public finances.

5.1. Recent debt developments and medium-term prospects

5.1.1. Debt projections in the programme

According to the programme, the debt-to-GDP ratio increased from 62.6% in 2008 to 66.5% of GDP in 2009. For the period 2010-2013, the update foresees a continuous, even if decelerating, growth in the ratio, with debt reaching 74.3% of GDP in 2013. This evolution reverses the declining path until 2007, when gross debt briefly fell below the 60% of GDP Treaty reference value for the first time since 1992.

The 2009 debt ratio turned out 2 percentage points of GDP lower than the projection in the previous update. According to the programme, this is mainly due to the cost of the measures aimed at alleviating the consequences of the financial market crisis turning out lower than initially planned.

The fact that the debt-to-GDP ratio nevertheless increased by almost 4 percentage points, as compared to the previous year, is mainly due to the "snow-ball" effect. In the recent past, this effect was close to zero as the rise in interest expenditure was counterbalanced by growth and inflation effect. However, as nominal growth turned out negative in 2009, the "snow-ball" effect became a driving force behind the growing debt-to-GDP ratio. Its impact on the debt is expected to wear off during the programme period, as GDP growth is forecast to pick up.

In 2009, for the first time since 1996[10], Austria registered a primary deficit, which additionally increased the debt burden. The update assumes that the situation will persist during most of the programme period as a primary surplus will only be achieved again in 2013.

The update stipulates that 2009 is the only year in the programme period in which the stock-flow adjustment is negative and therefore diminishing debt. According to the Austrian authorities it is due to the fact that some funds spent on recapitalisation of banks in 2009 were already accounted for as liabilities in 2008.

As depicted in Figure 2, Austria has a mixed track record in respecting its commitments in terms of debt targets. The stability programmes submitted in the years 1998-2001 were systematically undershooting the targets, whereas those stemming from the period 2002-2006 seem to have set more realistic goals. The financial crisis explains to a large extent slippages in meeting the targets of the most recent programmes.

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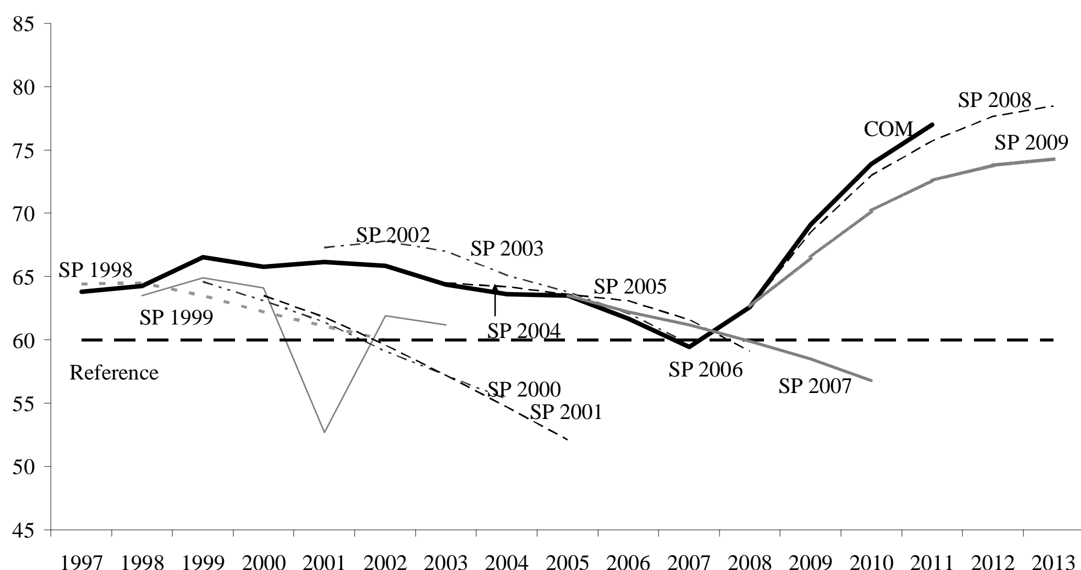
[10] Austria also registered a primary deficit in 2004, but it was mainly due to a one-off measure worth 3.3% of GDP.

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



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

Table 6: Debt dynamics

(% of GDP)	average 2003-07	2008	2009		2010		2011		2012	2013
			COM	SP	COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**63.2**	**62.6**	**69.1**	**66.5**	**73.9**	**70.2**	**77.0**	**72.6**	**73.8**	**74.3**
Change in the ratio	-1.4	3.2	6.5	3.9	4.8	3.7	3.1	2.4	1.2	0.5
Contributions [2] :										
1. Primary balance	**-0.9**	**-2.1**	**1.4**	**0.7**	**2.5**	**1.8**	**2.1**	**1.2**	**0.4**	**-0.2**
2. "Snow-ball" effect	**0.2**	**0.2**	**4.3**	**3.8**	**1.7**	**1.5**	**0.9**	**0.8**	**0.5**	**0.4**
Of which:										
Interest expenditure	2.8	2.5	2.9	2.8	3.0	2.9	3.2	2.8	2.9	2.9
Growth effect	-1.6	-1.2	2.4	2.2	-0.7	-1.0	-1.1	-1.0	-1.3	-1.4
Inflation effect	-1.1	-1.1	-1.0	-1.1	-0.6	-0.4	-1.2	-0.9	-1.0	-1.1
3. Stock-flow adjustment	**-0.6**	**5.1**	**0.7**	**-0.7**	**0.7**	**0.4**	**0.1**	**0.4**	**0.3**	**0.4**
Of which:										
Cash/accruals diff.	-0.1	0.7		n.a.		n.a.		n.a.	n.a.	n.a.
Acc. financial assets	-0.4	3.9		n.a.		n.a.		n.a.	n.a.	n.a.
Privatisation	-0.1	n.a.		n.a.		n.a.		n.a.	n.a.	n.a.
Val. effect & residual	-0.2	0.4		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' autumn 2009 forecasts (COM); Commission services' calculations

5.1.2. *Assessment*

The debt projections for the years 2010 and 2011 in the programme are significantly lower than those in the Commission services' autumn 2009 forecast (by over 3.5 pp. and almost 4.5 pp. of GDP in 2010 and 2011, respectively). To a large extent, this is explained by the 2.6 pp. of GDP difference in the debt ratio in 2009. However, the rest of the divergence is mostly due to the programme's much more optimistic projections concerning primary deficits. There is a risk that – as discussed in Section 4.4 – deficits outlined in the update will turn out higher than planned also in 2012 and 2013 as they rely to a large extent on unspecified consolidation measures, thereby resulting in higher debt ratios.

In addition, the programme refers to the measures adopted in October 2008 (and modified in August 2009), which aimed at stabilising the situation in the financial markets. In particular, these contain the stimulation of the interbank-market via the newly founded Austrian Clearing Bank (OeCAG), equity support for individual banks as well as deposit guarantees and strengthening of companies' liquidity to restore the confidence of market participants. These all constitute a potential source of additional debt. While the debt-reducing impact of liability fees and dividends related to these measures is spelled out in the programme for 2009 and 2010, it does not include any mention of potential expenditure incurred in relation to them in 2010 or beyond.

As witnessed by the drop in the risk premium on Austrian government bonds (measured by the spread vis-à-vis German bonds) closer to the pre-crisis levels, the markets do not seem to be betting on major turmoil in the Austrian banking system anymore - turmoil stemming either from domestic imbalances or Austria's heavy involvement in the financial markets of the Central and Eastern Europe. However, there are uncertainties surrounding the cost of future functioning of the country's fifth largest bank, Hypo Group Alpe Adria, initially majority-owned by the Austrian state of Carinthia. Following a purchase of a majority stake in it by the German BayernLB and successive recapitalisations, Hypo Group Alpe Adria was finally nationalised in an emergency operation in December 2009 as its financial situation deteriorated dramatically, mainly due to its exposure to the financial markets in the Balkans.

An additional source of potential debt assumptions is the financial situation of the Austrian highway authority (ASFINAG) and Austrian Federal Railways (ÖBB). The State guarantees issued for the debt of these two corporations amount to about 10% of GDP. The Ministry of Finance has prepared a legislative proposal for a measure that would introduce an upper limit on the amount of State guarantees for the two entities.

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

5.2.1. *Sustainability indicators and long-term debt projections*

This section presents sustainability indicators based on the long-term age-related government spending as projected by the Member States and the EPC in 2009 according to an agreed methodology[11].

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[11] Economic Policy Committee and the European Commission (2009), '2009 Ageing Report: Economic and budgetary projections for the EU-27 Member States (2008-60)', *European Economy* No. 2/2009. European Commission (2009), 'Sustainability Report 2009, European Economy No. 9/2009. European Commission (2008), 'Public finances in EMU – 2008', *European Economy* No. 4/2008..

Table 7 shows that age-related spending is projected to rise by 3.3 percentage points of GDP between 2010 and 2060, which is below the EU average (4.6 pp.). Sustainability indicators for two scenarios are presented in Table 8. 'The 2009 scenario' is based on a no-policy-change assumption and the 2009 structural primary balance as a starting point, while 'the programme scenario' takes into account the consolidation planned in the programme up to 2012 and is based on the projected 2012 structural primary balance as a starting position. Assuming that the structural primary balance remained at its 2009 level and including the increase in age-related expenditure, the sustainability gap (S2)[12] would amount to 4.6% of GDP; about 1⅔ pp. of GDP more than in last year's assessment, which is due to both a lower estimated structural primary balance in the starting year and a higher cost of ageing in the 2009 projections than in the previous ones. The starting budgetary position is not sufficient to stabilize the debt ratio over the long-term and entails a risk of unsustainable public finances even before considering the long-term budgetary impact of ageing.

In contrast to the "2009 scenario", the "programme scenario" shows a smaller sustainability gap. If the budgetary consolidation planned in the programme was achieved, risks to long-term sustainability of public finances would be mitigated but would remain larger than the long-term impact of the age-related expenditure because the improvement in the structural primary balance would not be sufficient to close the gap stemming from the initial budgetary position.

Table 7: Long-term age-related expenditure: main projections

(% of GDP)	**2007**	**2010**	**2020**	**2030**	**2040**	**2060**	**Change 2010- 60**
Total age-related spending	**26.0**	**25.7**	**26.2**	**27.7**	**28.6**	**29.0**	**3.3**
- Pensions	12.8	12.7	13.0	13.8	13.9	13.6	1.0
- Healthcare	6.5	6.6	7.0	7.4	7.8	8.0	1.4
- Long-term care	1.3	1.3	1.4	1.7	2.0	2.5	1.2
- Education and unemployment benefits	5.5	5.2	4.8	4.8	4.9	5.0	-0.2
Property income received	1.5	1.4	1.2	1.0	0.9	0.8	-0.6

Source: Economic Policy Committee and Commission services.

Table 8: Sustainability indicators and the required primary balance

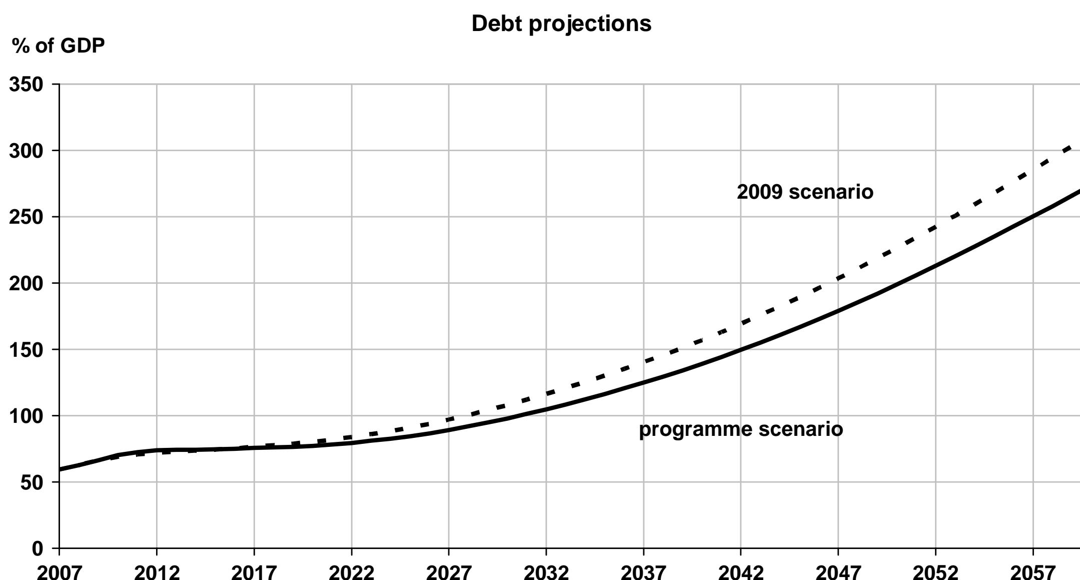
	2009 scenario			**Programme scenario**		
	S1	**S2**	**RPB**	**S1**	**S2**	**RPB**
Value	3.8	4.6	4.4	3.2	4.0	4.4
of which:						
Initial budgetary position (IBP)	1.2	1.4	-	0.6	0.8	-
Debt requirement in 2060 (DR)	0.2	-	-	0.2	-	-
Long-term change in the primary balance (LTC)	2.3	3.2	-	2.3	3.2	-

Source: Commission services.

[12] 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.

Based on the assumptions used in the projection of age-related expenditure and the calculation of the sustainability indicators, Figure 3 displays the projected debt/GDP ratio over the long-term.

Figure 3: Long-term projections for the government debt ratio

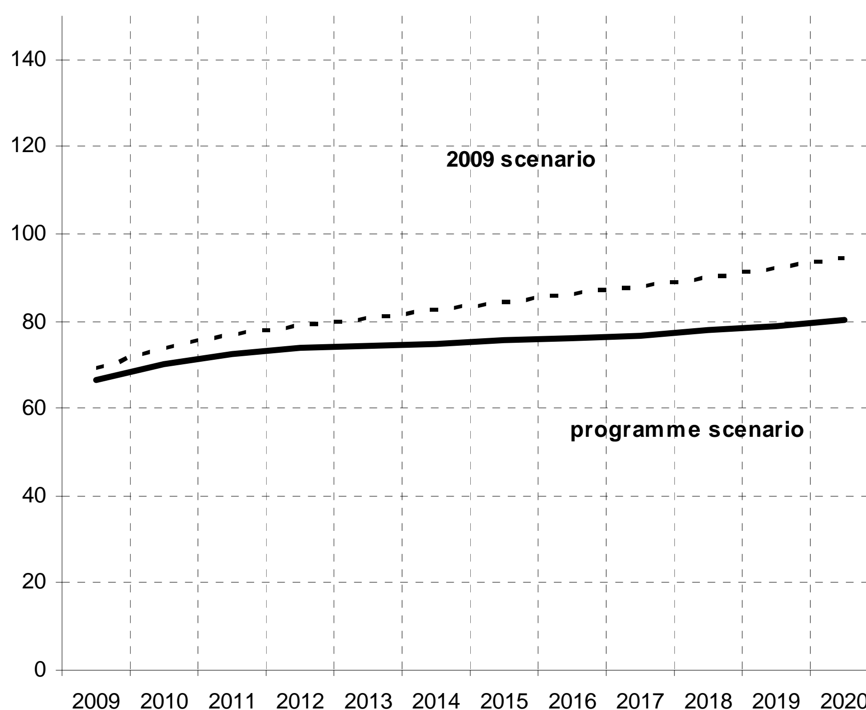


Note: Being a mechanical, partial-equilibrium analysis, the long-term debt projections are bound to show highly accentuated profiles. As a consequence, the projected evolution of debt levels should not be seen as a forecast similar to the Commission services' short-term forecasts, but as an indication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

Based on the alternative assumptions of economic developments presented in the commission services' autumn 2009 forecast publication[13], Figure 4 shows projected medium-term trajectory of the debt/GDP ratio.

[13] Section 3.5 in European Commission (2009), 'European Economic Forecast – autumn 2009', European Economy No. 10/2009. This economic scenario assumes that the output gap caused by the crisis will be closed by 2017.

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



Source: *Commission services calculations*

5.2.2. Assessment

The long-term budgetary impact of ageing in Austria is slightly lower than the EU average, with pension expenditure projected to increase only slightly as a share of GDP over the long-term. The budgetary position in 2009, as estimated in the programme, compounds the budgetary impact of population ageing. Achieving primary surpluses in the medium term would contribute to reducing the medium risks to the sustainability of public finances. Medium-term debt projections that assume GDP growth rates to only gradually recover to the values projected before the crisis and tax ratios to return to pre-crisis levels show that the budgetary strategy envisaged in the programme, taken at face value, would be almost sufficient to stabilise the debt-to-GDP ratio by 2020.

6. FISCAL FRAMEWORK AND QUALITY OF PUBLIC FINANCES

This section is subdivided into two elements: the fiscal framework and the quality of public finances in a broader sense.

6.1. Fiscal framework

Government responsibilities in Austria are shared among three different territorial levels: federal, regional and local. The relations between the three layers are based on the Fiscal Equalisation Law (Finanzausgleichsgesetz - FAG) and the Austrian Stability Pact (ASP). The rules, set out in the FAG and ASP, are rather complex and lacking in transparency.

Not only are revenues from most individual taxes shared among the different territorial levels by fixed proportions, but also decision-making in many areas is divided among various levels of authority. Revenue-raising and spending responsibilities for different activities do not reside within the same level of government. In its present form, the system does not encourage the agents involved to use resources in the most efficient way and keep firm control over spending. Therefore, there is considerable potential for increasing efficiency in the public sector.

Recently, Austria has embarked on a far-reaching reform of the budgetary framework law at the federal level. The first part of the reform, 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.[14] The second part, legally already enacted to come into force in 2013, involves the introduction of output-based budgeting ("performance budgeting"), the modernisation of the public administration's accounting system and long-term projections. 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.

6.2. Quality of public finances

There is scope for efficiency gains in several areas of the Austrian public spending, in particular in health care and education. The 2010 programme outlines the savings planned in the health care sector, worth about 0.6% of GDP over the 2010-2013 period. Moreover, it states that an expert working group has been created in order to find ways of enhancing the effectiveness of public spending in many areas. However, the update does not point to any concrete legislative proposals being imminent.

According to different health output measures (e.g. life expectancy at birth, survival rate and infant survival rate), Austria's performance is similar to the euro-area average, however, at a higher cost. This has to do with the complex way, in which the Austrian health care system is organised. The social security system funds practising physicians. In terms of hospitals, the federal government sets out framework conditions, but the real decision-making powers lie with the States, even though they provide less than half of the government outlays for hospitals (the rest comes from social insurance as well as from the federal and local governments). In running hospitals, the States and municipalities do not always pursue an exclusively health services provision agenda. There are also economic and political interests at stake, which make closing down of redundant hospitals literally impossible. Since different agents are responsible for the in-patient and out-patient services, there is no incentive to move workload from costly hospitals to practising physicians whose services are cheaper. The 2005 Health Reform Act introduced several measures aimed at decreasing health care costs, i.e. new forms of organisation of hospitals, better coordination between hospitals and practitioners in the public and private sectors and a reduction of the administrative costs[15], but additional organisational changes and improved health governance are urgently needed.

The Austrian education system performs well in terms of quantity as it assures almost a universal enrolment rate to primary and secondary education. In fact, Austria enjoys

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[14] OECD (2009), *2009 Economic Review – Austria*

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

large attainment rates in relation to the money spent on primary and secondary education. However, the quality of education provided needs improvement as performance of Austrian pupils in PISA is rather poor. Taking into account environmental factors such as GDP per head and parental educational attainment, Afonso and St. Aubyn (2005) estimate that educational output in Austria could be increased by 17 percent while using the same amount of inputs[16]. This situation is mostly caused by overlapping in financing and administrative responsibilities between the various layers of government (e.g. federal government funding the salaries of teachers, who are formally employed by the States), the relatively early selection of children's education paths, insufficient integration of immigrants into the system and lack of schools' autonomy in deciding over organisation and staff management.

7. OVERALL ASSESSMENT

Taking into account risks attached to the budgetary targets discussed above, this section assesses the appropriateness of the fiscal strategy in relation to the Council Recommendations under Article 126(7) of 2 December 2009 with a view to correcting the excessive deficit and the budgetary objectives of the Stability and Growth Pact, against the background of the current economic situation, the debt and long-term sustainability position of the country, and the institutional features of its public finances.

The Austrian 2010 update of the programme foresees a widening of the nominal general government deficit from 3.5% of GDP in 2009 to 4.7% of GDP in 2010. As it does not outline any measures additional to those that were already known at the time of the country's latest examination under the excessive deficit procedure, Austria is respecting the Council recommendation that it "should implement the fiscal measures in 2010 as envisaged". Thereafter, a consolidation (evenly distributed in time) is planned, leading to the correction of the excessive deficit by reducing the deficit to 2.7% of GDP in 2013. In that sense, the programme respects the deadline established by the latest Council recommendation under the excessive deficit procedure. However, the underpinning measures outlined in the programme explain only a small fraction of the projected consolidation. In addition, there is still risk stemming from the financial market stabilisation package granted to the banking sector which would have a direct impact on the debt, 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, in 2010 the budgetary strategy set out in the programme is consistent with the Council recommendation under Art. 126(7). However, from 2011 on, taking into account the risks, the budgetary strategy may not be consistent with the Council recommendation under Art. 126(7). In particular, the strategy foresees the correction of the excessive deficit by 2013, but the average annual fiscal effort over the period 2011-2013 is somewhat below the prescribed ¾% of GDP and the consolidation path outlined in the programme, starting in 2011 is not underpinned by appropriate measures.

The bulk of the fiscal stimulus introduced in Austria in 2009-2010 was of a permanent nature. Most of the measures were conducive to economic growth, but their adoption brought the general government deficit and debt to unsustainable levels. Even though Austria entered the crisis with a budgetary position close to balance, this significant

[16] 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.

deterioration in public finances calls for sizeable consolidation measures, which should be introduced as from 2011.

Many significant reforms to the public expenditure have already been undertaken in Austria in the recent past. However, there is still room for improvement in areas such as health care and education, where Austria's performance is comparable or slightly worse than the average of the EU countries, but comes at a significantly higher cost. Substantial efficiency gains in these areas could be obtained by reforming the fiscal relations between the various layers of government.

* * *

ANNEX. COMPLIANCE WITH THE FORMAT AND CONTENT REQUIREMENTS FOR STABILITY AND CONVERGENCE PROGRAMMES

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. It also assesses to what extent Country followed up on the Council's recommendation to report on progress made in the correction of the excessive deficit, in a separate chapter of the programme.

(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 all compulsory data, but has some gaps in the optional data.

In terms 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 3: all data provided for the years 1996, 2002 and 2008, but not for 2007 and 2012 as prescribed by the code of conduct.

- 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 the January 2010 update of stability programme, following the structure of the tables in Annex 2 of the code of conduct. Compulsory data are in bold, missing data are indicated with grey-shading.

(iii) Separate chapter on progress made in the correction of the excessive deficit

In its recommendations under Article 126(7) of 2 December 2009 with a view to bring the excessive deficit situation to an end, the Council also invited Austria to report on progress made in the implementation of the Council's recommendations in a separate chapter in the updates of the stability programmes. Austria did not comply with this recommendation. In particular, the dedicated chapter only repeats the Council's recommendations and confirms the authorities' commitment to bring the deficit below the reference value by 2013, but it does not contain any reporting on progress made as requested by the Council.

(iv) Other information requirements

The table below provides a summary assessment of the adherence to the other information requirements in the code of conduct.

* * *

The SCP…	Yes	No	Comments
a. Involvement of parliament			
… mentions status vis-à-vis national parliament.		x	
… indicates whether Council opinion on previous programme has been presented to national parliament.		x	

The SCP…	Yes	No	Comments
b. Economic outlook			
… (for euro area and ERM II Member States) uses "common external assumptions" on main extra-EU variables.	x		
… explains significant divergences with Commission services' forecasts[1].		x	
… bears out possible upside/downside risks to economic outlook.		x	
… analyses outlook for sectoral balances and, especially for countries with high external deficit, external balance.		x	
c. Monetary/exchange rate policy			
… (CP only) presents medium-term monetary policy objectives and their relationship to price and exchange rate stability.			n.a.
d. Budgetary strategy			
… presents budgetary targets for general government balance in relation to MTO and projected path for debt ratio.	x		
… (in case new government has taken office) shows continuity with respect to budgetary targets endorsed by Council.			n.a.
… (when applicable) explains reasons for deviations from previous targets and, in case of substantial deviations, whether measures are taken to rectify situation (+ provides information on them).			n.a.
… backs budgetary targets by indication of broad measures necessary to achieve them and analyses their quantitative effects on balance.		x	
… specifies state of implementation of measures.		x	
e. "Major structural reforms"			
… (if MTO not yet reached or temporary deviation is planned from MTO) includes comprehensive information on economic and budgetary effects of possible 'major structural reforms' over time.			n.a.
… includes quantitative cost-benefit analysis of short-term costs and long-term benefits of reforms.			n.a.
f. Sensitivity analysis			
… includes comprehensive sensitivity analyses and/or develops alternative scenarios showing impact on balance and debt of: a) changes in main economic assumptions b) different interest rate assumptions c) (for CP only) different exchange rate assumptions d) if common external assumptions are not used, changes in assumptions for main extra-EU variables.	x		
… (in case of "major structural reforms") analyses how changes in assumptions would affect budget and potential growth.			n.a.
g. Broad economic policy guidelines			
… provides information on consistency with broad economic policy guidelines of budgetary objectives and measures to achieve them.		x	
h. Quality of public finances			
… describes measures to improve quality of public finances, both revenue and expenditure sides.	x		
i. Long-term sustainability			
… outlines strategies to ensure sustainability.	x		
… includes common budgetary projections by the AWG and all necessary additional information (esp. new relevant information).	x		
j. Other information (optional)			
… includes information on implementation of existing national budgetary rules and on other institutional features of public finances.	x		

Notes: SCP = stability programme; CP = convergence programme

[1]To the extent possible, bearing in mind the typically short time period between the publication of the Commission services' autumn forecast and the submission of the programme.

Source:
Commission services

Tables from Annex 2 of the code of conduct

Table 1a. Macroeconomic prospects

	ESA Code	2008	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
1. Real GDP	B1*g	*266.3*	2.0	-3.4	1.5	1.5	1.9	2.0
2. Nominal GDP	B1*g	*281.9*	4.1	-1.7	2.1	2.9	3.4	3.6
Components of real GDP								
3. Private consumption expenditure	P.3	*138.3*	0.8	0.4	0.7	0.9	1.2	1.3
4. Government consumption expenditure	P.3	*48.7*	3.2	0.8	1.0	0.1	0.0	0.0
5. Gross fixed capital formation	P.51	*56.7*	1.0	-7.6	-1.0	2.0	2.5	3.1
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	*n.a*	0.9	0.7	1.1	1.1	1.1	1.2
7. Exports of goods and services	P.6	*156.4*	0.8	-13.4	4.0	5.0	6.6	6.5
8. Imports of goods and services	P.7	*137.1*	-0.7	-10.9	2.8	4.3	5.9	6.2
Contributions to real GDP growth								
9. Final domestic demand		-	1.2	-1.2	0.4	0.9	1.2	1.3
10. Changes in inventories and net acquisition of valuables[1]	P.52 + P.53	-	0.0	-0.5	0.3	0.0	0.0	0.1
11. External balance of goods and services	B.11	-	0.8	-1.8	0.8	0.6	0.7	0.5

[1] incl. statistical discrepancy

Table 1b. Price developments

	ESA Code	2008	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
1. GDP deflator		*n.a.*	2.0	1.8	0.7	1.4	1.5	1.5
2. Private consumption deflator		*n.a.*	2.6	0.5	1.3	1.5	1.8	1.9
3. HICP[1]		*n.a.*	3.2	0.4	1.3	1.5	1.8	1.9
4. Public consumption deflator		*n.a.*	3.0	3.0	1.0	1.5	1.8	1.9
5. Investment deflator		*n.a.*	3.0	1.4	0.9	1.5	1.8	1.9
6. Export price deflator (goods and services)		*n.a.*	2.6	-2.4	1.1	0.6	1.6	1.6
7. Import price deflator (goods and services)		*n.a.*	4.3	-4.4	2.1	0.7	2.2	2.2

[1] Optional for stability programmes.

Table 1c. Labour market developments

	ESA Code	2008	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
1. Employment, persons[1]		*3717928.1*	2.4	-0.9	-0.2	0.3	0.5	0.7
2. Employment, hours worked[2]		*7306.1*	0.7	-2.4	-0.1	0.1	0.6	0.4
3. Unemployment rate (%)[3]		*162287.5*	3.8	5.0	5.4	5.7	5.7	5.7
4. Labour productivity, persons[4]		*71625.0*	-0.3	-2.5	1.6	1.2	1.4	1.3
5. Labour productivity, hours worked[5]		*36.4*	1.3	-1.0	1.6	1.4	1.3	1.6
6. Compensation of employees	D.1	*138.5*	5.3	1.8	1.1	2.4	2.5	3.2
7. Compensation per employee		*37252.6*	2.9	2.7	1.3	2.1	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	2008	2009	2010	2011	2012	2013
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	3.2	2.3	2.4	2.7	2.8	2.9
of which :							
- Balance on goods and services		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.
- Capital account		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
2. Net lending/borrowing of the private sector	B.9	3.6	5.8	7.1	6.7	6.1	5.6
3. Net lending/borrowing of general government	EDP B.9	-0.4	-3.5	-4.7	-4.0	-3.3	-2.7
4. Statistical discrepancy		0.1	0.0	0.0	0.0	0.0	0.0

Table 2. General government budgetary prospects

	ESA Code	2008 Level	2008 % of GDP	2009 % of GDP	2010 % of GDP	2011 % of GDP	2012 % of GDP	2013 % of GDP
Net lending (EDP B.9) by sub-sector								
1. General government	S.13	*-1.3*	-0.4	-3.5	-4.7	-4.0	-3.3	-2.7
2. Central government	S.1311	*-1.6*	-0.6	-3.0	-4.1	-3.7	-3.2	-2.7
3. State government	S.1312	*0.3*	0.1	-0.3	-0.3	-0.2	-0.1	0.0
4. Local government	S.1313	*0.2*	0.1	-0.2	-0.2	-0.1	0.0	0.0
5. Social security funds	S.1314	*-0.1*	0.0	0.0	-0.1	0.0	0.0	0.0
General government (S13)								
6. Total revenue	TR	*136.5*	48.4	48.0	46.9	46.8	46.9	46.9
7. Total expenditure	TE[1]	*137.9*	48.9	51.5	51.6	50.9	50.2	49.7
8. Net lending/borrowing	EDP B.9	*-1.3*	-0.4	-3.5	-4.7	-4.0	-3.3	-2.7
9. Interest expenditure	EDP D.41	*7.3*	2.6	2.7	2.8	2.9	2.9	2.9
10. Primary balance[2]		*6.1*	2.2	-0.7	-1.8	-1.2	-0.4	0.2
11. One-off and other temporary measures[3]		*n.a.*	0.0	0.0	0.0	0.0	0.0	0.0
Selected components of revenue								
12. Total taxes (12=12a+12b+12c)		*79.5*	28.2	27.0	26.1	26.3	26.6	26.9
12a. Taxes on production and imports	D.2	*39.9*	14.2	14.6	14.5	14.6	14.5	14.5
12b. Current taxes on income, wealth, etc	D.5	*39.5*	14.0	12.4	11.6	11.8	12.0	12.3
12c. Capital taxes	D.91	*0.1*	0.0	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D.61	*44.9*	15.9	16.4	16.3	16.2	16.1	16.0
14. Property income	D.4	*3.3*	1.2	1.3	1.2	1.2	1.1	1.1
15. Other[4]		*8.8*	3.1	3.2	3.2	3.1	3.1	3.0
16=6. Total revenue	TR	*136.5*	48.4	48.0	46.9	46.8	46.9	46.9
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)[5]		121.1	43.0	42.2	41.3	41.4	41.5	41.8
Selected components of expenditure								
17. Compensation of employees + intermediate consumption	D.1+P.2	*38.7*	13.7	14.2	14.1	13.8	13.5	13.2
17a. Compensation of employees	D.1	*25.9*	9.2	9.7	9.7	9.5	9.2	9.0
17b. Intermediate consumption	P.2	*12.9*	4.6	4.4	4.4	4.3	4.3	4.2
18. Social payments (18=18a+18b)		*66.6*	23.6	25.2	25.5	25.4	25.2	25.2
18a. Social transfers in kind supplied via market producers	D.6311, D.63121, D.63131	*15.6*	5.5	5.8	5.8	5.7	5.7	5.7
18b. Social transfers other than in kind	D.62	*51*	18.1	19.5	19.7	19.6	19.5	19.5
19=9. Interest expenditure	EDP D.41	*7.3*	2.6	2.7	2.8	2.9	2.9	2.9
20. Subsidies	D.3	*9.8*	3.5	3.5	3.5	3.4	3.2	3.1
21. Gross fixed capital formation	P.51	*3.1*	1.1	1.1	1.1	1.1	1.1	1.1
22. Other[6]		*12.3*	4.4	4.7	4.6	4.4	4.4	4.3
23=7. Total expenditure	TE[1]	*137.9*	48.9	51.5	51.6	50.9	50.2	49.7
p.m.: Government consumption (nominal)	P.3	*52.6*	18.6	19.7	19.7	19.4	19.1	18.8

[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	1996[2]	2002	2008
1. General public services	1	8.6	7.6	6.5
2. Defence	2	1.0	0.9	1.0
3. Public order and safety	3	1.6	1.5	1.5
4. Economic affairs	4	5.4	4.7	4.9
5. Environmental protection	5	1.2	0.5	0.4
6. Housing and community amenities	6	1.6	0.8	0.6
7. Health	7	7.7	7.0	7.7
8. Recreation, culture and religion	8	1.0	1.0	1.0
9. Education	9	6.1	5.9	5.3
10. Social protection	10	21.8	21.2	20.0
11. Total expenditure (=item 7=23 in Table 2)	TE[1]	55.9	51.0	48.9

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

[2]Austria uses 1996, 2002 and 2008 instead of 2007 and 2012.

Table 4. General government debt developments

% of GDP	ESA Code	2008	2009	2010	2011	2012	2013
1. Gross debt[1]		62.6	66.5	70.2	72.6	73.8	74.3
2. Change in gross debt ratio		5.3	6.2	5.5	3.5	1.6	0.7
Contributions to changes in gross debt							
3. Primary balance[2]		2.2	-0.7	-1.8	-1.2	-0.4	0.2
4. Interest expenditure[3]	EDP D.41	2.6	2.7	2.8	2.9	2.9	2.9
5. Stock-flow adjustment		5.1	-0.6	0.4	0.4	0.2	0.3
of which:							
- Differences between cash and accruals[4]		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.
of which:		-	-	-	-	-	-
- privatisation proceeds		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.
p.m.: Implicit interest rate on debt[7]		4.2	4.1	4.0	3.9	3.9	3.9
Other relevant variables							
6. Liquid financial assets[8]		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.

[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	2008	2009	2010	2011	2012	2013
1. Real GDP growth (%)		2.0	-3.4	1.5	1.5	1.9	2.0
2. Net lending of general government	EDP B.9	-0.4	-3.5	-4.7	-4.0	-3.3	-2.7
3. Interest expenditure	EDP D.41	2.6	2.7	2.8	2.9	2.9	2.9
4. One-off and other temporary measures[1]		0.0	0.0	0.0	0.0	0.0	0.0
5. Potential GDP growth (%)		1.7	1.2	1.4	1.6	2.0	2.1
contributions:							
- labour		0.0	-0.3	-0.1	0.1	0.5	0.5
- capital		0.7	0.5	0.5	0.5	0.4	0.4
- total factor productivity		1.0	1.0	1.0	1.1	1.1	1.1
6. Output gap		2.8	-1.8	-1.7	-1.9	-2.0	-2.0
7. Cyclical budgetary component		1.3	-0.9	-0.8	-0.9	-0.9	-1.0
8. Cyclically-adjusted balance (2 - 7)		-1.8	-2.6	-3.9	-3.1	-2.4	-1.7
9. Cyclically-adjusted primary balance (8 + 3)		0.8	0.1	-1.0	-0.3	0.5	1.1
10. Structural balance (8 - 4)		-1.8	-2.6	-3.9	-3.1	-2.4	-1.7

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

Table 6. Divergence from previous update

	ESA Code	2008	2009	2010	2011	2012	2013
Real GDP growth (%)							
Previous update		1.8	-2.2	0.5	1.5	2.0	2.3
Current update		2.0	-3.4	1.5	1.5	1.9	2.0
Difference		0.2	-1.2	1.0	0.0	-0.1	-0.3
General government net lending (% of GDP)	EDP B.9						
Previous update		-0.4	-3.5	-4.7	-4.7	-4.7	-3.9
Current update		-0.4	-3.5	-4.7	-4.0	-3.3	-2.7
Difference		0.0	0.0	0.0	0.7	1.4	1.2
General government gross debt (% of GDP)							
Previous update		62.5	68.5	73.0	75.7	77.7	78.5
Current update		62.6	66.5	70.2	72.6	73.8	74.3
Difference		0.1	-2.0	-2.8	-3.1	-3.9	-4.2

Table 7. Long-term sustainability of public finances

% of GDP	2008[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	25.8	26.2	27.7	28.6	29.3	29.0
Pension expenditure[4]	12.7	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
Public servants	3.5	3.1	2.8	1.9	1.4	1.3
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[5]	6.5	7.0	7.4	7.8	8.1	8.0
Long-term care[5]	1.2	1.4	1.6	1.9	2.2	2.4
Education expenditure[5]	4.2	3.9	3.9	3.9	4.0	4.1
Unemployment benefits[5]	0.8	0.6	0.6	0.6	0.6	0.6
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 [6]	8.9	9.0	9.0	9.1	9.1	9.1
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)	65.0	67.7	68.1	69.9	69.6	69.6
Total participation rates (aged 15-64)	71.7	72.7	73.1	74.6	74.2	74.3
Unemployment rate	4.4	4.3	4.3	4.3	4.3	4.3
Population aged 65+ as a percentage of working-age population[3]	25.4	29.2	38.1	46.0	48.3	50.6

[1]Austria uses 2008, 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.

[4]Based on data from the Federal Ministry of Finance; Federal Ministry of Labour, Social Affairs and Consumer Protection and STAT excl. additional social assistance benefits and pension expenditures for administration, rehabilitation, etc.

[5]Based on EPC/COM forecasts

[6]Social security and public servants, according to EPC forecasts

Table 8. Basic assumptions

	2008	2009	2010	2011	2012	2013
Short-term interest rate[12] (annual average)	4.6	1.2	1.1	1.2	2.0	2.5
Long-term interest rate (annual average)[3]	4.3	3.9	3.7	3.8	4.0	4.3
USD/€ exchange rate (annual average) (euro area and ERM II countries)[4]	1.471	1.400	1.500	1.550	1.600	1.600
Nominal effective exchange rate	1.2	0.5	1.2	0.6	0.6	0.6
(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.
World excluding EU, GDP growth	3.1	-1.0	3.0	3.5	4.1	4.1
EU GDP growth	0.8	-4.0	0.9	1.5	1.8	1.8
Growth of relevant foreign export markets [5]	3.6	-15.0	4.5	6.5	6.5	6.5
World import volumes, excluding EU	3.1	-12.4	2.4	3.2	4.4	4.4
Oil prices (Brent, USD/barrel)	97.0	60.0	80.0	82.0	103.0	103.0

[1]If necessary, purely technical assumptions.

[2] 3 month interest rate

[3] Bondyield, secondary market, federal 10 years bonds (benchmark)

[4] Monthly averages

[5] Import growth in partner countries, real, weighted by Austrian export share