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Austrian Stability Programme for the period 2008 to 2013

Austrian Federal Ministry of Finance

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Austrian Stability Programme

for the period 2008 to 2013

Federal Ministry of Finance

Vienna, 21 April 2009

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¹ This is a working translation. In comparison to the official German version, the English one contains tables starting in 2007 instead of 2008 – however the main text body is unchanged.

1. Introduction

In accordance with Regulation (EC) No 1466/97, amended by Regulation 1055/2005, Member States are required to submit a stability programme (members of EMU) or a convergence programme (non-members). Austria herewith submits its stability programme for the period 2008 to 2013. The programme's structure reflects the agreements reached by the ECOFIN Council on 11 October 2005 (Code of Conduct).

The Austrian government is committed to pursuing a sustainable budgetary and financial policy with a balanced budget over the business cycle, ensuring the possibility to react to cyclical fluctuations in an appropriate manner. The central government pays attention to the joint budgetary responsibility of all regional authorities within the terms of the Austrian stability pact. **Therefore the Austrian government continues to follow the successful budgetary and financial three-pillar strategy:**

- **A balanced budget over the business cycle**
- **Investment in the fields of R&D, infrastructure, education and tertiary education for more growth and employment as well as protection of the social system as a location and productive factor**
- **Structural reforms in the field of public administration**

The figures for public households presented in this stability programme are based on the agreed measures with regard to the medium term expenditure framework law, the fiscal equalization pact 2008 to 2013 enacted on 10 October 2007, as well as on a growth forecast until the year 2013 based on the medium term outlook for growth by the Austrian Institute of Economic Research (WIFO).

In order to avoid the threat of a longer-lasting excess over the 3% of GDP reference value – especially in the light of the current economic forecasts – the Austrian government will take all measures needed to achieve a correction until 2012.

This document can be retrieved from the website of the Austrian Federal Ministry of Finance at:
(<http://www.bmf.gv.at>).

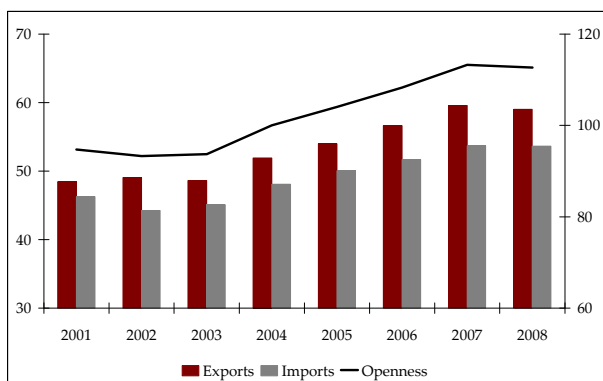
2. The Austrian economy

The underlying baseline scenario of the stability programme is based on ESA-data until 2008 provided by Statistics Austria as well as on forecasts and estimates by the Austrian Ministry of Finance and the Austrian Institute of Economic Research (WIFO).

2.1. Economic developments in 2008

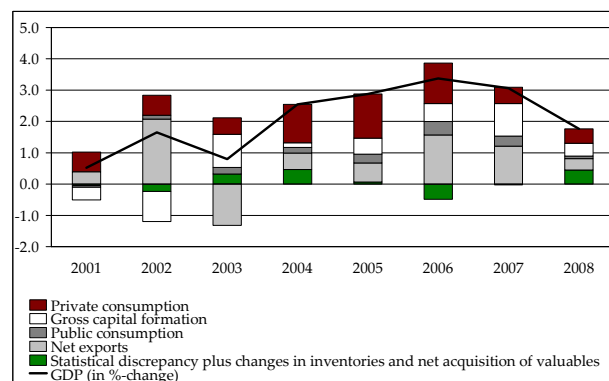
Since 2005 Austria experienced annual GDP growth rates of slightly under 3%, but this period ended in the 1st quarter of 2008. The weaker external dynamic triggered by the financial crisis intensified at the end of 2008. After reaching a GDP growth rate of 3.1 % in 2007, in 2008 – despite a strong first half – GDP-growth slowed down to 1.8 %. Notably the Austrian export economy was hit severely by the deep global slowdown.

Figure 1: Openness of the Austrian economy



RHS: Openness of the Austrian economy (exports and imports in % of GDP)
 LHS: Exports and imports (in % of GDP)
 Source: STAT

Figure 2: Contribution to growth



LHS: Contribution to growth in %
 Source: STAT

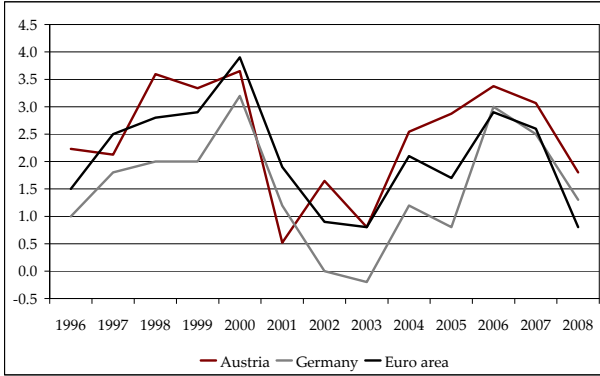
In addition, investment activity declined significantly as a result of the sharp weakening of new orders, decreasing capacity utilisation and moderate credit supply by banks.

As was the case in the past years, in 2008 Austria was not only able to grow significantly above euro area average but also faster than Germany, which is the most important trading partner. During the period 2005 to 2008 the Austrian economy grew by 2.8% on average and thus ¾ percentage points above the euro area average.

With an inflation rate (HICP) of 3.2% the highest price increase since more than 15 years was observed in 2008. Based on strong demand and commodity speculation (especially oil and

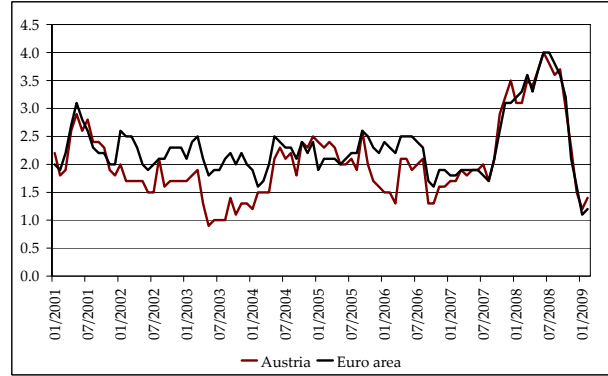
agricultural products) a notable inflation spike occurred until mid 2008, with the peak of 3.9% in June 2009. As the financial crisis spilled-over to the real economy, this led to a reversal of the trend and a significant slowdown of the inflation rate from October 2008 onwards.

Figure 3: Real GDP growth (Austria, Germany and Euro area)



LHS: Rate of change in %
Source: STAT, EUROSTAT

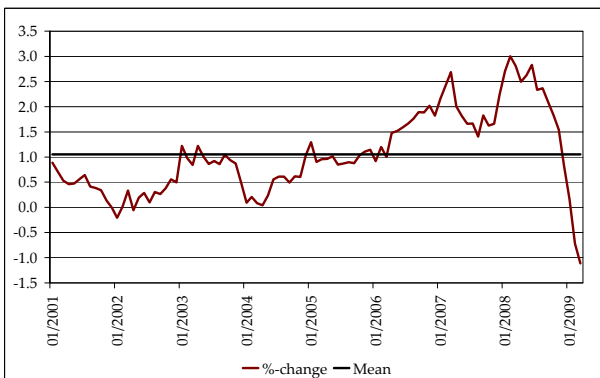
Figure 4: HICP (Austria and Euro area)



LHS: Monthly values, rate of change in %
Source: EcoWin

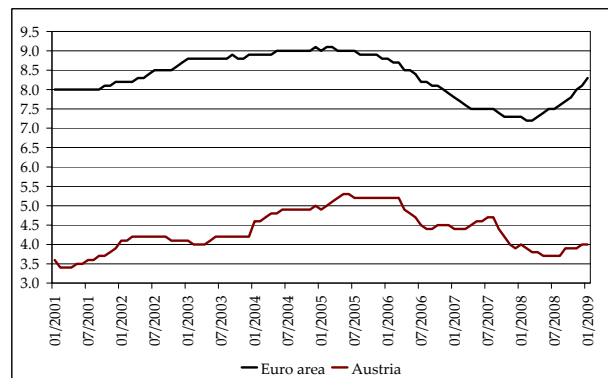
In most parts of the past year the labour market performed well and the crisis was hardly felt. After the number of registered unemployed persons having declined for 32 consecutive months to the lowest level since 2001, this positive trend changed only in November 2008. While in the 3rd quarter of 2008 unemployment still decreased by 7% year-on-year, towards the rest of the year this decline of unemployment vanished.

Figure 5: Employment (employed persons – total)



LHS: Monthly values, rate of change in %
Source: WIFO

Figure 6: Unemployment rate according to Eurostat (Austria and Euro area)



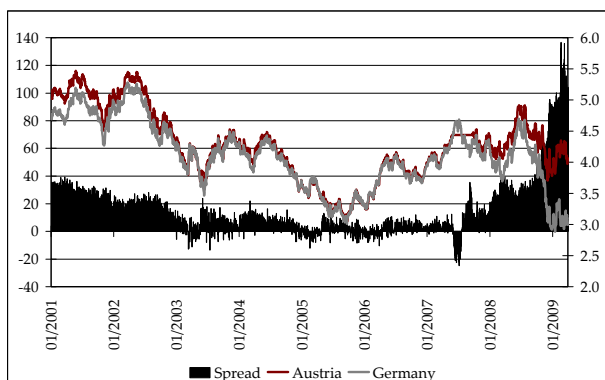
LHS: Monthly values in %
Source: EcoWin

The number of (non-self)employed persons has increased throughout the year 2008, but in December 2008 the increase slowed down to +0.8%. During 2008 3.71 mill. persons were employed on average, 162,300 persons were unemployed (according to Eurostat definition) and

50,509 persons were in training. In 2008 the Austrian unemployment rate was 3.8% according to EUROSTAT (EU27: 7%, EA16: 7.5%) and 5.8% according to the national calculation method. At the end of 2008 and the beginning of 2009 the situation on the labour market deteriorated significantly.

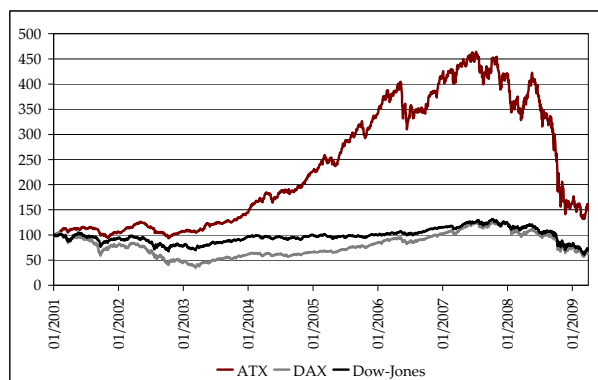
The financial crisis was further exacerbated in September 2008 by the insolvency of the US investment bank Lehman Brothers and market liquidity dried up. The interest rate spread of long-term benchmark bonds of Austria against Germany increased during 2008, which was partly due to the fact that in times of high uncertainty a flight into very liquid bonds (e.g. German government bonds) can be observed, leading to a wider spread with respect to less liquid bonds (Austrian government bonds), the so-called "liquidity premium". After the Lehman insolvency the financial markets increasingly became sensitive as regards the engagement of Austrian enterprises in Central- and South-Eastern Europe, leading to a further rise of the interest rate spread against Germany (currently around 90 basis points, as of mid-April 2009).

Figure 7: Long-term interest rates



RHS: Long-term interest rates in %
LHS: Spread in basis points
Source: EcoWin

Figure 8: Performance of the financial markets



LHS: Index, 01/01/2001 = 100
Source: EcoWin

After reaching an all-time-high in July 2007 the Austrian stock exchange (ATX-Index) showed relatively strong equity price declines since the beginning of 2008 and the market capitalisation fell back to the level of 2004. The ATX-Index decreased by around 60% in 2008, the volume of sales of domestic equities declined by 20% and volatility was exceptionally high.

2.2. Economic developments in 2009 and 2010

In 2009, the Austrian economy will, like most European countries, stay in recession. A negative real GDP growth rate of -2.2% is projected. The economic slump will especially be driven by a

noticeable decline of exports (total trade according to Statistics Austria). The export volume will decline by -5.6 % in 2009 (according to WIFO), the first slump since the year 1993 (-2.4%). Moreover, a significant decrease of investment has to be expected (-5.1% in real terms) – especially in plant, machinery, equipment (-10% in volume terms), which arises from tightened credit supply and decreasing capacity utilisation. Moreover, a pessimistic sentiment on the economic outlook will dampen investment activity of domestic enterprises. By means of the tax reform, which took effect retroactively in January 2009, the anti-inflation measures of 2008 and the two stimulus packages the Austrian government sets the necessary impulses to revive the economy. In addition, the 2009 wage round and the inflation slowdown will increase real disposable income and thus domestic demand. WIFO expects that the stimulus measures of around 2% of GDP could support growth by 0.75 percentage points. For 2010 a slow recovery of the Austrian economy with a real GDP growth rate of +0.5% is expected, assuming that the comprehensive, globally coordinated stimulus packages will be effective and that trust in the financial markets as well as between banks will be restored. Moreover, the developments in Germany will be of special importance for the Austrian economy (especially for the automotive industry).

Notwithstanding this unfavourable economic circumstances, Austria will maintain its growth and competitiveness advantage. Numerous reforms in the economic, fiscal and social sphere in the last years have increased the attractiveness of the Austrian economy and have improved price competitiveness significantly (as measured by unit labour costs). Moreover the R&D-ratio has been increased and the labour supply will continue to grow.

Especially in the year 2009 short-shift-labour and unemployment will increase. At the beginning of April 2009 47,158 employed persons were covered by short-shift-labour schemes and probably additional 5,180 persons will enter short-shift-schemes until end of April/beginning of May. In March 2009 the number of unemployed persons increased by 60,671 persons year on year (+28.8%) to 271,172 persons (data according to the Labour Market Service statistics). The main causes were the very weak global economic environment and bad weather conditions in

comparison with last year. WIFO expects an unemployment rate (Eurostat definition) of 5% in 2009 and 5.8% in 2010.

Due to the strong global downturn and the declining prices of oil and commodities inflation (HICP) will slow down significantly to 0.6% in 2009, well below the level of 2008 and below the inflation target of the ECB. According to latest projections inflation will not accelerate strongly in 2010 (1.1%) and a deflation scenario seems unlikely.

2.3. Economic developments and strategy until 2013

According to the baseline projections, real GDP growth will on average amount to only 0.8% per year from 2009-2013. The export sector should regain strength after 2010 and investment will recover, also due to public infrastructure projects. Positive growth contributions can also be expected from private consumption, assuming that precautionary savings will not go up on a broader scale.

The inflation rate will accelerate gradually from 2009 and should approach the ECB-inflation target of below but close to 2% at the end of the programme horizon.

The unemployment rate (Eurostat definition) will increase to around 6.3% until 2012. In absolute numbers around 269,000 persons, i.e. +107,000 persons (Eurostat definition) compared to 2008 will be without work in 2012. A trend reversal can only be expected in 2013. Employment should, however, start to increase already in 2012, albeit modestly.

Table 1: Macroeconomic prospects

		2007	2007	2008	2009	2010	2011	2012	2013
	ESA Code	in bn. €	Rate of change in %						
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		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
Contribution to real GDP growth									
9. Final domestic demand			1.9	1.0	-0.8	0.7	1.4	1.5	1.7
10. Changes in inventories and net acquisition of valuables ¹⁾	P.52 + P.53		0.0	0.4	-0.4	-0.2	-0.3	0.1	0.0
11. External balance of goods and services	B.11		1.2	0.4	-1.0	0.0	0.4	0.4	0.6

1) incl. statistical discrepancy

Positions may not sum up due to rounding errors.

Source: STAT, WIFO, Federal Ministry of Finance

Table 2: Price developments

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

Positions may not sum up due to rounding errors.

Source: STAT, WIFO, Federal Ministry of Finance

Table 3: 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
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

Positions may not sum up due to rounding errors.

Source: STAT, WIFO, Federal Ministry of Finance

Table 4: Labour market developments

		2007	2007	2008	2009	2010	2011	2012	2013
	ESA Code	Level	Rate of change in %						
1. Employment, persons		3,623,249.3	1.9	2.4	-1.1	-0.5	0.0	0.6	0.7
2. Employment, hours worked (in mill.)		7,253.4	2.0	0.7	-1.2	-0.6	0.0	0.6	0.7
3. Unemployment rate (%)		185,600.0	4.4	3.8	5.0	5.8	6.1	6.3	6.2
4. Labour productivity, persons		66,304.0	1.2	-0.6	-1.1	1.0	1.5	1.4	1.6
5. Labour productivity, hours worked		33.1	1.0	1.0	-1.0	1.1	1.5	1.4	1.6
6. Compensation of employees (in bn. €)	D.1	130.5	4.3	5.1	1.6	0.5	1.7	2.5	3.2
7. Compensation per employee		36,021.5	2.4	2.6	2.6	1.0	1.7	1.9	2.5

Positions may not sum up due to rounding errors.

Source: STAT, WIFO, Federal Ministry of Finance

3. Economic policy

In the past few years, comprehensive reforms have been undertaken in the fields of economic, budgetary and social policy. The reforms have contributed to improving the attractiveness of Austria as a business location, to increasing the employment rate, and to strengthening international competitiveness. In 2008 Austria ranked high in international comparisons of fundamentals, being among the top European countries in the areas of economic growth, unemployment, etc. On this account, the Federal Government will continue the successful Austrian “Three-Pillar-Strategy”:

- A balanced budget over the business cycle
- Investment in the fields of R&D, infrastructure, education and tertiary education for more growth and employment as well as protection of the social system as a location and productive factor
- Structural reforms in the field of public administration

3.1. Budgetary and economic policy objectives

In light of the expected weak economic environment the Austrian Federal Government aims at securing economic growth and employment. The good budgetary starting position of the year 2008 allows for large-volume economic stimulus packages and for a financial relief for all wage and personal income tax payers and families. These measures altogether aim at stimulating purchasing power and aggregate demand, especially in the years 2009 and 2010, and thereby contribute to the European Economic Recovery Plan (European Council, 12 December 2008). The measures will be complemented by a strategy coordinated at European Union level for re-establishing the functioning of domestic capital markets. This shall avoid the economy drifting off too far from its equilibrium, which could have a sustainable negative impact on the economic growth potential.

Major medium-term targets are the protection of the business location and full employment (especially avoiding any kind of youth unemployment) as well as the re-establishment of budgetary discipline. A substantial aim of the Austrian Federal Government is the advancement and improvement of international competitiveness in terms of economy and employment in line with the European partnership for economic growth and employment

(Lisbon Strategy). Furthermore, measures have been implemented in order to stimulate business investment, which are particularly necessary in the current economic situation. Moreover, the forceful development of a modern infrastructure as well as a sustainable environmental-, climate protection- and agricultural policy will help to maintain the high quality of life in Austria and are part of the overall strategy. The Austrian Federal Government is committed to the EU targets 20-20-20 by 2020 (In 2020 20% of greenhouse gases shall be reduced, energy efficiency shall be increased by 20% and 20% of the overall energy mix shall come from renewable energy.).

This active policy to strengthen the Austrian business location as well as to secure Austria's growth potential is supported by

- cutting back barriers to competition, for instance concerning the access to liberal professions,
- improving the regulation to foster a functioning competition,
- supporting the export strategy through an active trade policy as well as
- encouraging Austrian entrepreneurs to do international business, especially concerning expansion through market development and investment in markets with high growth potentials.

The Federal Government is committed to the EU Guidelines for Growth and Jobs. In the past, Austria experienced a long period with continuously declining numbers of job seekers and significantly rising overall employment. Now, all efforts must focus on targeted measures to facilitate the creation of jobs, to support the take up of employment and to further push labour market integration. The cornerstones of the Austrian labour market policy are: activation, target-group-oriented promotion, integration of the young, low-skilled and disabled persons as well as detached persons, migrants and receiver of social welfare benefits into the labour market and finally the improvement of the efficiency and effectiveness of Austrian-wide mobility when it comes to place job-seekers.

At the same time the government aims at strengthening public finances, both in terms of medium-term orientation and quality. In this context a stronger emphasis is put on future-oriented budgetary tasks. More funds for education, science and research provide the basis for future welfare and improve the starting position of the youth when it comes to entering work life. Concrete measures range from the compulsory (half-day) and cost-free last year of

kindergarten and further school reforms to measures that strengthen tertiary education, for instance universities. The R&D expenditures will be raised to 3% of GDP in 2010, and should reach 4% of GDP in 2020. Establishing gender equality and equal opportunities is a further priority.

The Federal Government is committed to sound and stable public finances as a basis for a functioning state. Thus, it is a common goal to achieve a balanced budget over the business cycle. In order to reach this goal, consolidation measures are necessary.

In summer 2007 the Austrian Court of Auditors announced about 200 proposals which aim at reforming public administration and dismantling bureaucracy. In the course of the fiscal equalisation (“Finanzausgleich”) it was decided to establish a specific working group which should examine and implement concrete proposals. In the meantime, the Court of Auditors together with the president of the government debt committee (“Staatsschuldenausschuss”) presented common proposals to reform the public administration. Based on these proposals a working group under the leadership of the Federal Chancellor as well as of the Federal Vice Chancellor has been installed to deal with the following subjects in order to contribute to the budgetary consolidation effort:

- reduce administrative costs
- public health sector
- school system and science
- efficient state-aid policy
- pensions
- human resources management

The implementation of those proposals will lead to a contained increase of public expenditures, a greater impact-orientation and higher efficiency. Thereby, the performance of the public administration as well as the consolidation of budget can be pushed forward.

Table 5: General government budgetary prospects 2007 until 2013

		2007	2007	2008	2009	2010	2011	2012	2013
	ESA Code	in bn. €	% of GDP						
	EDP B.9		Net lending 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 (excl. Vienna)	S.1312	0.2	0.1	0.1	-0.2	-0.4	-0.3	-0.2	-0.1
4. Local government (incl. Vienna)	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									
6. Total revenue	TR	130.0	48.0	48.2	47.5	46.5	46.4	46.1	46.1
7. Total expenditure	TE	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		6.3	2.3	2.2	-0.6	-1.7	-1.4	-1.3	-0.4
11. One-off and other temporary measures									
Selected components of revenue									
12. Total taxes		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		8.4	3.1	2.9	3.0	2.9	2.9	2.8	2.8
16. Total revenue	TR	130.0	48.0	48.2	47.5	46.5	46.4	46.1	46.1
p.m.: Tax burden		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		63.5	23.4	23.6	25.0	25.4	25.4	25.4	25.2
18a. Social transfers in kind	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. 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		12.6	4.6	4.4	4.7	4.4	4.4	4.4	4.1
23. Total expenditure	TE	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

Positions may not sum up due to rounding errors.

Source: STAT, WIFO, Federal Ministry of Finance

3.2. Economic stimulus measures since 2008 and stabilisation package for the banking sector

In 2008 the Austrian Federal Government has already responded to the global financial and economic crises and enacted several economic stimulus packages (banking sector package, economic stimulus package 2008 and 2009). The following measures have been taken since mid-2008.

a.) Non wage labour costs relief:

As of 1 July 2008, for gross wages up to 1,350 Euro per month the employee's contribution to the unemployment insurance has been either completely removed or reduced by one or two thirds. About one million employees in the low wage sector have benefited from this relief from 1 July 2008, onwards. The employees captured by this relief gain on average about 300 Euro per year disposable income. The maximum net wage increase is 462 Euro per year (on the basis of a monthly gross wage of 1100 Euro). Simultaneously, the negative tax for commuters with low income was lifted from 110 to 240 Euro (will become effective as of the personal income tax statement for 2008).

b.) Increase in mileage and commuter lump sum:

As of 1 July 2008, the mileage and commuter lump sum have been increased by a total amount of 60 million Euro. Both low as well as high mileage lump sums have been increased by 15% (about 35 million Euro). The increase in the mileage lump sum will amount to 25 million Euro, by raising the mileage lump sum per kilometre from 37.6 cent to 42 cent.

c.) Abolition of the inheritance and gift tax:

As of 1 August 2008, the inheritance tax and the gift tax phased out.

d.) Measurements implemented on 24 September, 2008:

On 24 September 2008, a number of bills have passed Parliament which will support the purchasing power:

- Abolition of the university tuition fees
- Introduction of a 13th family allowance per year

- Increase of the nursing allowance
- Public pensions: a 3.4 % pension increase; one off payments in 2008; abolition of the waiting period for the first pension increase; grant for energy costs of “Ausgleichszulagenbezieher” in October 2008, prolongation of the entitlements for the long-time insured as well as extension of the eligible pension contribution period.
- Amendment of the federal highways – toll law
- Preferential tax treatment of certain professions
- Halving of the value added tax rate for medication

e.) Measures for securing and stabilization the Austrian financial markets:

Based on decisions on the stabilization of financial markets at the European level Austria has adopted a comprehensive and sustainable package of measures to protect the savings deposits and to strengthen the banks and insurance companies. The package entered into force on 27 October 2008. The package’s state aid approval by the European Commission took place on 10 December 2008.

The central aspects of the Austrian package of measures encompass three main topics:

- Stimulation of the interbank-market
- Equity-strengthening measures for individual banks
- Restoring confidence in financial markets (deposit guarantee)

Stimulation of the interbank-market

The objective of the *Interbankmarktstärkungsgesetz* (Interbank Market Support Act – IBSG) is to reinvigorate the interbank market, which at present is only functioning to a limited extent, and thereby to strengthen the banks’ confidence in the interbank market. To this end, the banks established a dedicated organization named *Oesterreichische Clearingbank AG* (OeCAG) ", in which the insurance companies can also participate.

The main task of the OeCAG is to acquire funds on the interbank market and to forward them to those banks and insurance companies which exhibit a need for refinancing. For the OeCAG’s services fees in line with the market have to be paid. The Federal Minister of Finance accepts liability for possible losses of OeCAG. In order for the OeCAG to be able to issue bonds so as to

create liquidity itself, the Federal Government can attach a guarantee to these loans. Furthermore, federal guarantees can also be provided for bond issues of credit institutions. For all these measures an amount of 75 bn. Euro is available.

Equity-strengthening measures for individual banks

Whilst the objective of the *Interbankmarktstärkungsgesetz* (Interbank Market Support Act – IBSG) is to restore the functioning of the interbank market, the measures of the *Finanzmarktstabilitätsgesetz* (Financial Market Stability Act) lay focus on the individual institutes. The Act enables the Federal Minister of Finance in accordance with the Federal Chancellor to take recapitalization measures on credit institutions and insurance companies. This could be by means of state guarantees for potential credit loss or by means of provision of capital, especially participation capital. A further form of recapitalization is the purchase of bank/insurance companies' shares by the Federal Government. For these measures an amount of 15 bn. Euro is available.

Restoring confidence in financial markets

As a third pillar of the package, natural persons' deposits shall be guaranteed in full in order to strengthen confidence. This unlimited guarantee exists until 31 December 2009, but it will be limited to an amount of EUR 100,000 from 1 January 2010 onwards. Furthermore bank deposits of SMEs will be guaranteed up to 50,000 Euro (the coinsurance of 10% remains unchanged). Coverage of deposits, exceeding the amount of 50,000 Euro, will be guaranteed directly by the state. For this measure 10 bn. Euro are available in the package.

f.) Economic stimulus package 2008:

The economic recovery package 2008 (“Mittelstandsmilliarde”) should spur growth in Austria and foster business investment. The recovery package is focused on the following areas:

- Improving investment incentives – safeguard financing conditions
- Continuing the internationalization of the Austrian economy
- Stimulation of research and development

- Forcing environmental protection
- Increasing government support for home purchase saving
- Improving public infrastructure

The focus of the measures is to provide more capital by public provision of extended guarantees for the SME's (SME's employ two third of all employees), as the access to financial means is limited by the present financial crises and the resulting distrust in capital markets.

g.) Economic stimulus package 2009:

The economic stimulus package is focussing on investment activity and includes the following measures:

- Advanced capital depreciation
- Infrastructure investments
- Thermal insulation and energy saving
- Regional employment initiative
- Research and Development
- One year free of charge admittance to the Kindergarten

h.) Tax reform:

The tax reform comprises the following changes:

- A significant cut in the personal income and wage tax (reduction of the entry tax rate from 38.3 % to 36.5%; reduction of the middle tax rate from 43.6 % to 43.2 %, increase of the tax thresholds for the lowest and highest income segment).
- Increase in the monthly child tax credit from 50.9 to 58.4 Euro
- Increase of the annual income tax free income threshold from 10,000 Euro to 11,000 Euro
- Launch of an annual child allowance of 220 Euro per year
- Tax allowance for the care of children up to 2,300 Euro per year
- Transfers of employers for the care of children of their employees will be free of tax and social contributions up to 500 Euro annually

- Extension of the tax allowance for reinvested profits (“Gewinnfreibetrag”) to all enterprises; increase of the allowance from 10 % to 13 % and abolition of the necessity to reinvest profits lower than 30,000 Euro
- Abolition of the preferential tax treatment for non-distributed profits
- Abolition of the preferential treatment for stock option as of 1 April 2009
- Tax allowance for donations for charitable expenses, for the purpose of development cooperation and emergency relief
- Increase of the maximum tax credit for church contributions from 100 Euro to 200 Euro

These measures increase the purchasing power of wage and income earners by up to 1,350 Euro annually and investment activity of enterprises will be supported; in addition the financial burden for families has been eased. The small and medium sized enterprises with their high potential for investment, their role for employment and their contribution to growth have also been made more resilient. In the upcoming years, Austria’s international competitiveness will to a high degree determine economic prosperity. Therefore, an improvement of the attractiveness of the business location is an essential goal for the tax reform 2009. The economic stimulus packages 2008 and 2009 (including the tax reform) together amount to about 2% of the Austrian GDP.

i.) Extension of short-shift working:

Because of the expected economic recession in 2009, the instrument of short shift working has been made more flexible, combined with generally usable qualification measurements and the eligible duration was extended from 12 months to 18 months.

j.) Eco Premium:

Between 1 April and 31 December 2009, for a purchase of a new car a premium of 1,500 Euro is granted, when at the same time an at least 13 year old car is evidently being scrapped. The car dealer has to bear half of the premium. The old car as well as the new car has to be registered for the same person and the new car has to fulfil a good emission standard (“Euro 4”). The measure is limited to 30,000 automobiles.

Table 6: Budgetary effects of the stabilisation measures

in mill. €	2008	2009	2010	2011	2012	2013
Decisions of Parliament of 24th September	623	1,062	1,149	1,375	1,606	1,753
Abolish university fees		157	157	157	157	157
13th -month family allowance	250	250	250	250	250	250
Increase of care benefits		127	135	143	151	159
Increase of pensions 2009 (3.4% instead of 3.2%)		53	53	53	53	53
Earlier increase of pensions	130					
Energy costs allowance (one-off)	50					
Increase of pensions (one-off)	193					
Extension "Hacklerregelung"				150	300	360
Abolition waiting year for first pension adjustment		43	88	136	186	238
Extension of eligible contribution periods for "Hacklerregelung"		24	27	27	28	32
Halving of VAT-rate on medication		270	289	309	331	354
Tax exemptions		138	150	150	150	150
Economic stimulus programme 2008	105	105	75	75	75	75
Prolongation of offensive for internationalisation		25	25	25	25	25
Capital donation for SME capital fund at aws		40	40			
Railroad investments		10	20	30	30	30
Internet (broad band)		10				
Increase housing savings scheme ("Bausparförderung")		20	20	20	20	20
Economic stimulus programme 2009	250	448	423	173	73	
Accelerated depreciation of 30% for 2 years			250	350	100	
Regional economic stimulus package		75	75			
Mandatory kindergarten-year, starting autumn 2009		25	73	73	73	73
R&D		50	50			
Energy voucher		100				
Tax reform 2009	2,135	2,858	3,000	3,060	3,060	3,060
Tariff reduction		1,900	2,300	2,300	2,300	2,300
Relief of families with children		235	488	510	510	510
profit allowable deduction				110	150	150
Charitable donation deduction			70	80	100	100
Employment market package		220	220			
Eco premium on the purchase of new cars		23				
Anti-inflation package (spring 2008)	179	338	308	308	308	308
Reduction of unemployment insurance contribution	144	288	288	288	288	288
Increase of "Kilometergeld" and "Pendlerpauschale"	35	50	20	20	20	20
Total	802	4,133	5,088	5,181	5,222	5,269
Stabilisation package for the banking sector	900	10,130	-255	-720	-690	-660
Expenditures (non-voting share capital etc.)	900	10,300	500			
Revenues (liability fee, dividends)		-170	-755	-720	-690	-660
Total	1,702	14,263	4,833	4,461	4,532	4,609

Source: Federal Ministry of Finance

3.3. Business cycle and government balance

The weak economic development as well as the massive economic recovery measures will burden public finances throughout the programme period.

Table 7: Cyclical developments and government balance until 2013

% 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								
5. Potential GDP growth (%)		1.8	1.7	1.4	1.3	1.5	1.8	1.7
<i>Contributions:</i>								
- 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		-1.5	-1.3	-2.9	-3.8	-3.7	-3.8	-3.3
9. Cyclically-adjusted primary balance		1.4	1.3	0.0	-0.7	-0.5	-0.4	0.2
10. Structural balance		-1.5	-1.3	-2.9	-3.8	-3.7	-3.8	-3.3

Positions may not sum up due to rounding errors.

Source: STAT, WIFO, COM, Federal Ministry of Finance

3.4. Evolution of general government debt

The public debt ratio has fallen continuously over the last years. This is the result of both a dynamic economic development and decelerating dynamics of public expenditures.

Table 8: General government debt developments 2007 until 2013

% of GDP	ESA Code	2007	2008	2009	2010	2011	2012	2013
1. Gross debt		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 balances		2.3	2.2	-0.6	-1.7	-1.4	-1.3	-0.4
4. Interest expenditure	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
p.m.: Implicit interest rate on debt		4.8	4.2	4.2	4.2	4.3	4.4	4.5

Positions may not sum up due to rounding errors.

Source: STAT, WIFO, Federal Ministry of Finance

Due to the banking rescue package that has become necessary in the course of the financial and economic crises, public debt was again lifted to 62.5% in 2008. A further increase to slightly below 80% is expected until 2013. Five percentage points of which have to be attributed to temporary banking measures, which will be cut back in the following years.

4. Sensitivity analysis and comparison with the previous update

4.1. Sensitivity of baseline scenario to exogenous shocks

With respect to the main underlying scenario (baseline scenario) the effects of two alternative scenarios for the budgetary balance and the debt ratio are analysed in the following paragraphs.

In scenario 1 it is assumed that financial markets are stabilizing at a faster pace and that the real economy is to a lesser extent negatively affected. Precisely, compared to the baseline scenario a higher growth rate of annually 0.5 percentage points in real terms is assumed from 2009 onwards. Under these circumstances a budget deficit below the 3% Maastricht reference value would be reached towards the end of the programme period. Moreover, the debt ratio would increase considerably less over the programme period and start to decline again already in 2013.

Table 9: Economic growth and public finances in 3 scenarios

	2007	2008	2009	2010	2011	2012	2013
Baseline scenario							
GDP, nominal in bn. €	270.8	282.2	280.1	283.9	291.9	302.2	315.0
GDP, real, rate of change in %	3.1	1.8	-2.2	0.5	1.5	2.0	2.3
Net lending/borrowing in % of GDP	-0.5	-0.4	-3.5	-4.7	-4.7	-4.7	-3.9
Gross debt in % of GDP	59.4	62.5	68.5	73.0	75.7	77.7	78.5
Scenario 1							
GDP, nominal in bn. €	270.8	282.2	281.5	286.7	296.3	308.2	322.9
GDP, real, rate of change in %	3.1	1.8	-1.7	1.0	2.0	2.5	2.8
Net lending/borrowing in % of GDP	-0.5	-0.4	-3.3	-4.3	-4.0	-3.8	-2.9
Gross debt in % of GDP	59.4	62.5	68.0	71.7	73.5	74.3	73.8
Scenario 2							
GDP, nominal in bn. €	270.8	282.2	278.7	281.0	287.5	296.2	307.3
GDP, real, rate of change in %	3.1	1.8	-2.7	0.0	1.0	1.5	1.8
Net lending/borrowing in % of GDP	-0.5	-0.4	-3.7	-5.1	-5.3	-5.5	-5.0
Gross debt in % of GDP	59.4	62.5	69.1	74.3	78.0	81.1	83.2

Positions may not sum up due to rounding errors.

Source: STAT, WIFO, Federal Ministry of Finance

In scenario 2, a continuation of uncertainties in financial markets and a stronger economic downturn than depicted in the baseline scenario are assumed. Here, GDP-growth rates turn out

0.5 percentage points in real terms lower each year compared to the baseline. As a result the budget deficit would amount to approximately 5.2% on average between 2010 and 2013 and the debt ratio would increase to more than 80% until 2013.

4.2. Comparison with the previous update

The general government deficit for 2008 was lower than anticipated in the update of November 2007 and amounted to -0.4% of GDP. However, due to the rescue package for banks the debt ratio increased again to 62.5% in 2008.

Against the background of the current economic situation, the actual status of financial markets and the implemented stimulus measures, it is not feasible to comply with the consolidation path depicted in the stability programme of November 2007. In 2010, instead of a slight budget surplus current projections show a budget deficit amounting to just below 5%. Furthermore, the debt ratio is expected to increase to approximately 80% of GDP until 2013.

Table 10: Divergence from the previous update (November 2007)

	ESA Code	2007	2008	2009	2010	2011	2012	2013
Real GDP growth (%)								
SP November 2007		3.4	2.4	2.5	2.5			
SP April 2009		3.1	1.8	-2.2	0.5	1.5	2.0	2.3
<i>Difference</i> ¹⁾		-0.3	-0.6	-4.7	-2.0			
General government net lending (% of GDP)								
	EDP B.9							
SP November 2007		-0.7	-0.6	-0.2	0.4			
SP April 2009		-0.5	-0.4	-3.5	-4.7	-4.7	-4.7	-3.9
<i>Difference</i> ¹⁾		0.2	0.2	-3.3	-5.1			
General government gross debt (% of GDP)								
SP November 2007		59.9	58.4	57.0	55.4			
SP April 2009		59.4	62.5	68.5	73.0	75.7	77.7	78.5
<i>Difference</i> ²⁾		-0.5	4.1	11.5	17.6			

1) A positive sign denotes an improvement.

2) A positive sign denotes a deterioration.

Positions may not sum up due to rounding errors.

Source: STAT, WIFO, Federal Ministry of Finance

5. Quality of public finances

5.1. Fiscal equalization 2008 until 2013

The recent Fiscal equalization act for 2008 until 2013 entered into force on 1 January 2008 and ends by December 31 2013.

The cornerstones of the agreement concern the distribution of tax revenues (reorganization of all essential transfers of the central state to the federal states and municipalities into non-earmarked revenue shares; increase of these shares by 209 million Euro in the first years and by 418 million Euro in the last three years; increase of the contribution of the federal state to the financial means of the health service; increase of the 1st unit of the gradual population remuneration); financing of major common programmes (24 hours old age care, means tested minimum income, child care and special language courses); most notably the reform of public administration (reduction of public servants; harmonisation of pension legislation by federal states and municipalities; creation of a single administrative procedure for taxes).

Over the period 2008-2013, the coordination of the public households of the central state, the federal states and municipalities is carried out and regulated in the "Austrian Stability Pact 2008", which is also set to be in force until the end of 2013. However, the new Federal Government has brought forward – in the light of the current economic developments – a tax reform to 2009 and concluded on a new budgetary path in the government's programme for this legislative period. The revenue shortfalls that affects all regional authorities, as well as the additional spending due to stimulus measures will trigger a modification of the obligations included in the stability pact 2008 towards the budgetary path of the Federal Government. Working groups will prepare further reforms of the fiscal equalisation act as well as of the structure and of the financing of health and elderly care. First results should be due in 2011.

5.2. Administrative reform

A lean, dynamic and effective public administration is a major goal of the Austrian government. From a budgetary point of view, the following goals are to be aimed for:

- Fiscal consolidation by reforming public administration
- Foster result-oriented processes in the public administration
- To render high quality services for citizens in a cost efficient manner

Therefore, the government set into charge a special working group, including representatives of the federal states. This group should develop proposals for a reform of the public administration on the basis of work undertaken by the board of audit and the board of national debt surveillance. The focus lies, amongst others, on merging responsibilities of spending, tasks and financing in the education sector, strategic planning and controlling in the health sector, harmonisation of pension legislation of central state, federal states and municipalities, as well as further consolidation of the level of public employment by planning in a forward looking and responsible way.

5.3. Better Regulation

In spring 2006 the Federal Government started an initiative so as to reduce the administrative burden for companies by 25%. Thereby Austrian business should gain one billion € per year. In current times of economic uncertainty this measure should free capital of firms for productivity enhancing activities. It should ease the administrative burden and make it less time-consuming to handle. It should also ease the procedures for undertaking investment and thereby foster employment. In the framework of the Lisbon Agenda, this initiative is a main pillar to bring forward economic growth and job creation.

Between November 2006 and summer 2007 the Federal Ministry of Finance coordinated a major survey of all information obligations embodied by federal law valid by the end of 2006. Concluding from this, 5,687 legal information obligations arising from 561 legal acts and regulations caused costs of 4.3 bn. € for companies operating in Austria.

In November 2007 the Federal Government agreed to reduce the administrative burden by 25% for each federal ministry, corresponding to a reduction of total cost of one billion for the Austrian economy. This goal shall be attained in two steps: the obligations based on federal law

will be adjusted by 2010, those based on European legislation by 2012. This approach coincides with the European programme for the reduction of administrative burden for companies.

In March 2008, the Federal Government adopted its first measures, another update was undertaken when planning the federal budget for 2009. This plan contains around 200 actions for the reduction of administrative burdens of all federal ministries concerned in different states of implementation. The Federal Ministry of Finance publishes a special brochure attached to the official documents accompanying the federal budget, called "Reduction of Administrative Burden for Companies", and reports on the progress of the initiative to Parliament and the broader public.

One core measure is the creation of a central internet-accessible contact point. This One-Stop-Shop should substantially facilitate the compliance with information obligations for firms. Higher quality in the provision of information will ensure that firms properly get to know legal alterations, intentions and technical details.

Not only existing laws but also amendments and new legislations are checked for their impact on administrative burden. The Federal Ministry of Finance has to check that the mandatory calculations are carried out in a correct manner and it supports other ministries during implementation.

In 2008 the initiative was extended to the federal states. In a first stage, three federal states, namely Upper Austria, Styria and Tyrol, undertook pilot projects in order to measure the administrative burden based upon legislation of the federal states. First results are expected for the second quarter in 2009.

In 2009 citizens will be spotlighted, so to get a picture of the administrative burden that emerges for citizens. Hence ways to facilitate the contact with public authorities and to improve the quality of public services should be identified.

5.4. Structural changes in public spending

In 2007 public expenditure as percentage of GDP could be lowered by 3 percentage points compared to 2001. The largest shares of public expenditure are still spent on "social security",

"health care" and "education". Of these, the biggest part continues to be allocated to social spending. Whereas public expenditure for health care as percentage of GDP increased compared to 2001, expenditures for general public services were significantly reduced, amongst others due to administrative reforms, the abolition of dual responsibilities, the use of new information technology as well as reduction of staff.

Table 11: General government expenditures by function

% of GDP	COFOG Code	1995	2001	2007
1. General public services	1	8.5	7.9	6.9
2. Defence	2	1.0	0.9	0.9
3. Public order and safety	3	1.6	1.5	1.4
4. Economic affairs	4	5.7	5.2	4.6
5. Environmental protection	5	1.2	0.5	0.5
6. Housing and community amenities	6	1.6	0.8	0.6
7. Health	7	7.7	6.9	7.5
8. Recreation, culture and religion	8	1.0	1.0	1.0
9. Education	9	6.2	5.9	5.2
10. Social protection	10	21.9	21.0	19.9
11. Total expenditure	TE	56.3	51.6	48.4

Positions may not sum up due to rounding errors.

Source: STAT

6. Sustainability of public finances

At present, the Austrian government has to deal with a great number of short- and medium-term challenges for public finances. Prevailing are financial measures to spur growth and to stabilize the Austrian capital markets in light of the economic crisis.

Demographic changes will cause a doubling of the share of 65+ year-olds in the working-age population from 25% now to over 50% in 2060.

The Austrian government is convinced that a sustainable fiscal policy is an important location factor and basis for economic growth and welfare. A stable public debt ratio at a low level is a precondition for financing essential public services in a sustainable manner as well as for creating rooms for manoeuvre in order to allow for important investments in future growth. The government orients itself at the three-pronged strategy at EU level which aims at ensuring fiscal sustainability²:

1. Balanced budget throughout the economic cycle

The government sticks to a balanced budget throughout the economic cycle in order to guarantee solid, healthy and sustainable public finances.

2. Financial safeguarding of pension-, health- and long-term care systems

Following the most recent long-run projections from 2009³ (on basis of EC and EPC projections) overall public pension expenditures will rise from 12.8% of GDP in 2008 to a peak level of 14% of GDP in 2046, after which they will fall to 13.6% of GDP in the year 2060. A considerable dampening effect on pension expenditures stems from parametric pension reforms of recent years. The Austrian government is keen on the sustainability of the public pension system being secured. The first pension pillar should aim at providing an adequate pension for pensioners. Thus, the purchasing power of pensions should be safeguarded. In order to maintain the sustainable financing of the public pay-as-you-go system a long-run monitoring becomes essential. In order to ensure an effective monitoring the government intends to develop clear

² Stockholm European Council 2001. This strategy is an integral part of the Lisbon strategy.

³ For further information see: "Austrian pension projections for 2007-2060", BMF Working Papers 2009

indicators and analytical methods within the current legislative period. In the future also the second and third pension pillars will take on an important and complementary role in old-age provision in Austria.

According to the most recent EU long-run projections expenditures for health-care in Austria will rise by 1.5 percentage points due to the population ageing by 2060. Also in the health-care area the Austrian government aims at safeguarding solidarity-based health-care provision. For this purpose the efficiency of financing of hospitals is going to be assessed within the current legislative period. Based on the final assessment appropriate measures will be developed until 2011 in order to tap the full efficiency potential. The government already helped to improve the financial situation of Austrian public health funds by halving value-added tax on medication. Nevertheless, the Austrian government will further support public health funds in reducing their debt. Measures will in the first instance aim at dampening expenditure dynamics considerably as well as designing new allocation models by considering structural measures more intensively.

Following the most recent EU long-run projections expenditures for long-term-care in Austria indicate a rise by 1.3 percentage points until 2060. The Austrian government aims at safeguarding the sustainable financing of long-term care provision.

3. Increase in employment rates and a rise in the growth of productivity

As a result of the ageing population and according to the most recent EU long-run projections the average rate of potential growth will decline to 1.5 % by 2060, compared to about 2¼ % today. The government takes measures to foster economic growth and employment as well as to strengthen the competitiveness of the Austrian economy (e.g. expenditures for R&D, infrastructure and education plus structural reforms in the area of public administration). Initial successes of this strategy are already noticeable: in 2007 the Austrian overall employment rate reached 71.4% and 64.4% for women. Both rates already fulfil the Lisbon employment targets. Since 2005, also the employment rate of older workers considerably rose by about 7 percentage points to 38.6% in 2007. Targeted measures are implemented in order to better integrate young, low-skilled and disabled persons as well as persons returning to work, migrants and receiver of social welfare benefits in the labour market. In addition, the rise in employment rates and

employability of older workers is a priority objective of the Austrian economic policy (e.g. intensifying measures to activate older workers, offering special support for older workers).

Table 12: Long-term sustainability of public finances

% of GDP	2007	2020	2030	2040	2050	2060
Age-related expenditures	25.9	26.0	27.6	28.6	29.3	29.0
Total pension expenditures ¹⁾	12.8	13.0	13.8	13.9	14.0	13.6
of which: Social security pension	9.2	9.9	11.0	12.0	12.6	12.3
of which: Public servants	3.6	3.1	2.8	1.9	1.4	1.3
Health care ²⁾	6.5	7.0	7.5	7.9	8.1	8.0
Long-term care ²⁾	1.3	1.4	1.7	2.1	2.5	2.6
Education ²⁾	4.6	4.0	4.0	4.1	4.1	4.2
Unemployment benefit ²⁾	0.7	0.6	0.6	0.6	0.6	0.6
Revenue from pensions contributions ³⁾	9.0	9.0	9.0	9.1	9.1	9.1
Assumptions						
Real GDP (potential growth in %)	2.2	1.9	1.5	1.5	1.5	1.5
Labour productivity (rate of change in %)	1.6	1.7	1.7	1.7	1.7	1.7
Employment rate males (aged 15-64) ²⁾	78.4	77.6	78.1	79.1	78.7	78.8
Employment rate females (aged 15-64) ²⁾	64.5	67.7	68.1	69.9	69.6	69.6
Employment rate total (aged 15-64) ²⁾	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+ as a percentage of the working-age population	25.0	29.2	38.1	46.0	48.3	50.6

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

2) Based on EPC/COM forecasts

3) Social security and public servants, according to EPC forecasts

Source: COM; EPC, Federal Ministry of Finance; Federal Ministry of Labour, Social Affairs and Consumer Protection; STAT

7. Institutional factors and the stability programme within the fiscal framework

7.1. Medium term budget planning

Concerning medium-term budget planning three instruments are in place in Austria.

The federal budget law prescribes a multi-annual and compulsory federal budget planning. In this regard, the Federal Budgetary Framework Law (“Bundesfinanzrahmengesetz”) and an accompanying strategy report constitute elementary instruments (detailed information is provided in chapter 7.2 Budget law reform).

In line with the European Stability and Growth Pact a stability programme is presented annually. This document is submitted to the Council of the European Union, the European Commission as well as to the national parliament, the national social partners and to the participants of the fiscal equalisation. The Federal Minister of Finance’s report on the Austrian stability programme for the period 2007 to 2010 was submitted to the Austrian Parliament on 22 November 2007, and examined by the budgetary committee at a public meeting on 1 April 2008.

In the light of a stability-oriented budget policy, states and communes have committed to contribute to sound public finances. The national co-ordination of public budgets is based on the rules of the national stability pact. Due to the new revenue sharing agreement (2008 to 2013), the Federal Government, states and communes agreed on a new stability pact that is based on regulations of the stability pacts of the years 2001 and 2005, respectively.

7.2. Budget law reform

The reform of the budget law is implemented in two steps. The first stage, the implementation of which is in progress since 1 January 2009, has the following objectives:

- Starting in 2009, a multi-annual government budget plan, fixed for four years in advance and updated on a rolling basis with fixed expenditure ceilings for five broad spending categories, is implemented. The majority of these expenditure ceilings have fixed nominal

values. Only for specific cyclically or revenue-dependent expenditures there are variable limits, which are in addition determined by clearly defined parameters. Consequently, the budget contributes to stabilise the economy. The spending ceilings are adopted by Parliament and Parliament can change them. In this way policy will be able to exert spending discipline, but it can also react flexibly to changing priorities. The final decision on the federal budget is still the sole responsibility of Parliament.

- The multi-annual budgeting offers a stable framework for all participants and contributes thereby to sustainable public finances.
- Budget appropriations which have not been disbursed by the end of a year remain within the respective ministry's disposal. These resources are then available at a later date without any earmarking, but according to the ministry's priorities. This will also contribute to a more efficient use of tax revenues.

The second stage, which is coming into effect from 2013 onwards, aims at the following goals:

- Aspired impacts of political strategies and the performance of the public administration will be reflected in the budget procedure. The concept of "performance budgeting" will provide for cost transparency for the broad public by depicting the relation between the amount of financial and personnel resources that have been used for a special field of administration and its outcome.
- A central aspect of the new budget procedure is gender budgeting, a concept which has been introduced in the context of the budget law reform. The legal basis of it has become part of the Federal Constitution. The Federal Government, states and municipalities are obliged to aim at factual gender equality via budget execution.
- In the second stage of the budget reform the accounting system of the administration will also be further fundamentally developed. The accurate description of the financial situation of the government, as inserted as new budgeting principle in the constitution, will bring about a change from the traditional way of accounting (cameralistics) to a modern business-oriented accounting, without, however, neglecting the special features of public administration.

The reform of the central government budgeting procedure has been influenced by international experience of other countries as well as by national experience with the so-called flexibility-clause. By implementing the second stage of the budget reform Austria will obtain a modern budget law informed by best international practice.

Source/Links

- Federal Ministry of Finance
Link: <https://www.bmf.gv.at/>
- Federal Ministry of Labour, Social Affairs and Consumer Protection
Link: <http://www.bmask.gv.at/>
- Austrian Parliament
Link: <http://www.parlinkom.gv.at/PD/HP/show.psp>
- Austrian Institute of Economic Research (WIFO)
Link: <http://www.wifo.at/>
- Government programme for the XXIV. legislation period
Link: <http://www.austria.gv.at/DocView.axd?CobId=32965>
- 2nd National Reform Programme 2008 until 2010
Link: http://ec.europa.eu/growthandjobs/pdf/member-states-2008-2010-reports/2_%20NRP_2008-2010_07102008_final_MR%2008102008.pdf
- Statistics Austria (STAT)
Link: <http://www.statistik.at/>
- European Commission (COM)
Link: <http://ec.europa.eu/>
- Eurostat
Link: <http://epp.eurostat.ec.europa.eu/>
- Economic Policy Committee (EPC)
Link: http://ec.europa.eu/economy_finance/epc/epc_en.htm
- EcoWin
Link: <http://www.ecowin.com/>
- Communiqué des Budgetausschusses über den Bericht des Bundesministers für Finanzen über das Österreichische Stabilitätsprogramm für die Jahre 2007 bis 2010, 139/KOMM XXIII. GP, Wien, 01.04.2008
Link: http://www.parlament.gv.at/PG/DE/XXIII/KOMM/KOMM_00139/fname_104935.pdf