

Austrian

Stability Programme

for the period 2010 to 2014

Federal Ministry of Finance (BMF)

Vienna, 27 April 2011

This programme can be retrieved from the website of the BMF (<http://www.bmf.gv.at>).

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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 2010 to 2014. The programme's structure reflects the agreements reached by the ECOFIN Council on 7 September 2010 (Code of Conduct).

The Austrian Federal Government

- is pursuing a sustainable budgetary and financial policy that is reacting to cyclical fluctuations in an appropriate manner and balancing the budget over the business cycle,
- pays attention to the joint budgetary responsibility of all regional authorities within the terms of art. 13 (2) Federal Constitutional Law (B-VG) and the Austrian Stability Pact (ÖStP) and
- has set a sustainable budgetary consolidation and a public debt reduction in the medium term as its highest priorities. In that context, growth and employment as well as distributional effects are to be taken into account.

Therefore, the Austrian Federal Government follows a **three pillar strategy**:

- Reduction of the budget deficit and thereby a reduction of public debt in the medium term
- Fostering economic growth and employment by strengthening future oriented investments
- Continuation of structural reforms (see Austrian National Reform Programme (NRP) 2011)

The figures for public households presented in this Stability Programme are based on a growth forecast until the year 2014, which follows the medium term outlook by the Austrian Institute of Economic Research (WIFO) and the BMF, respectively.

2. The Austrian economy

The underlying baseline scenario of the Stability Programme is based on System of National Accounts (SNA) data until 2010 provided by Statistics Austria (STAT) as well as on forecasts and estimates by the WIFO and the BMF.

The medium term risks to the forecast stem primarily from uncertainties about oil-, commodity- and food prices, the debt crisis in some peripheral countries of the Euro area and the sustained fragility of the international banking- and financial system.

2.1. Economic developments from 2010 to 2014

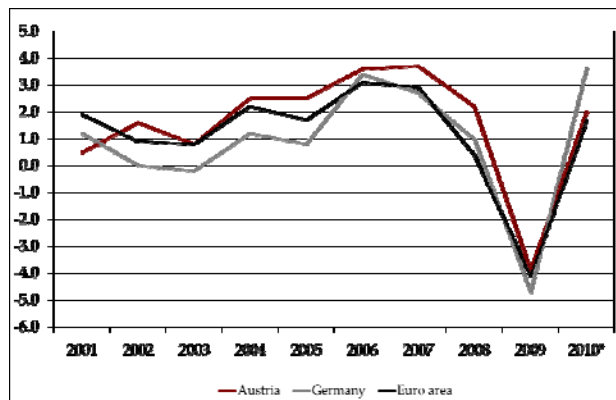
With a small lag the economic recovery in the EU27 and the Euro area accelerated in the 2nd quarter of 2010. Growth driver in the Euro area is - due to the strong demand from the Asian economies and the dynamic world trade - particularly the export industry of Germany. However the economic recovery process in the Euro area is quite heterogeneous. Whereas the notably export oriented countries as Germany, Austria, as well as the Scandinavian countries were able to achieve robust growth rates (due to price competitiveness), Ireland and some Southern European countries remained in a recessionary environment.

Austria took advantage from the strong economic recovery in Germany and indirectly from the intense import demand from Asia and in the 4th quarter of 2010 the real growth rate of 0.8% (Q2/2010: 1%, Q3/2010: 1.1%, quarter on quarter, seasonal- and working-day adjusted) was higher than the growth rates of the EU27 and the Euro area (+0.2% and +0.3%). In 2010 the nominal GDP of Austria was € 284 bn (+3.5% in nominal terms; +2% in volume terms; year-on-year).

The dynamics of the recovery in Austria are primarily driven by the export economy and have already translated into higher investment (after a decline of gross fixed capital formation in 2009 and 2010). In particular equipment investment has seen significant expansion. The building sector, however, stagnates at a high level.

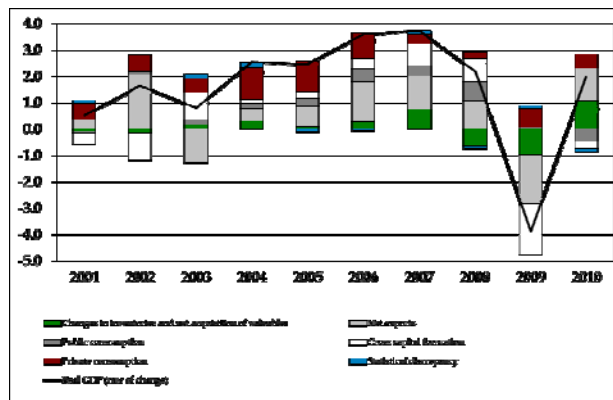
At the moment a self-sustained upswing and a positive growth contribution from private consumption to real GDP can be expected. Private consumption expenditures were a stabilising factor during the economic- and financial crisis.

Figure 1: Real GDP growth



LHS: Rate of change (yoy) in %
Source: EUROSTAT, WIFO (*)

Figure 2: Contribution to growth



LHS: Contribution to real growth in percentage points
Source: STAT

Table 1: Macroeconomic prospects

		2010	2010	2011	2012	2013	2014
	ESA Code	in bn €					Rate of change
1. Real GDP	B1*g	262.1	2.0	2.5	2.0	2.1	2.2
2. Nominal GDP	B1*g	284.0	3.5	4.5	4.1	3.8	4.0
Components of real GDP							
3. Private consumption expenditure	P.3	141.0	1.0	1.1	1.1	1.3	1.3
4. Government consumption expenditure	P.3	48.2	-2.4	1.0	1.0	1.2	1.3
5. Gross fixed capital formation	P.51	52.4	-1.3	2.6	2.7	2.9	3.3
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53		1.2	1.3	1.3	1.3	1.3
7. Exports of goods and services	P.6	145.0	10.8	7.4	6.5	6.2	6.1
8. Imports of goods and services	P.7	127.6	9.2	6.1	6.0	6.0	5.9
Contributions to real GDP growth							
9. Final domestic demand			0.7	1.5	1.4	1.6	1.7
10. Changes in inventories ¹⁾	P.52 + P.53		0.0	0.0	0.0	0.0	0.0
11. External balance of goods and services	B.11		1.2	1.0	0.6	0.5	0.5

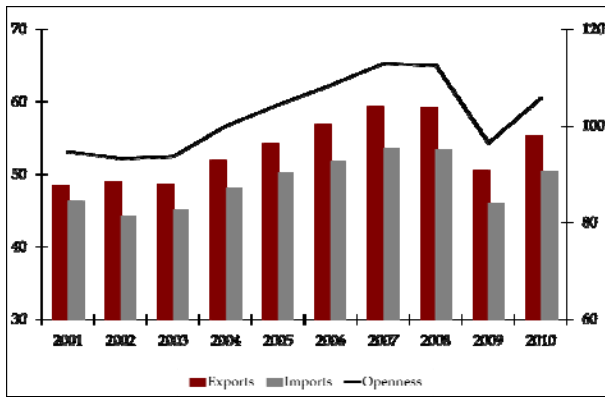
1) incl. net acquisition of valuables and statistical discrepancy

Positions may not sum up due to rounding errors.

Source: BME, STAT, WIFO

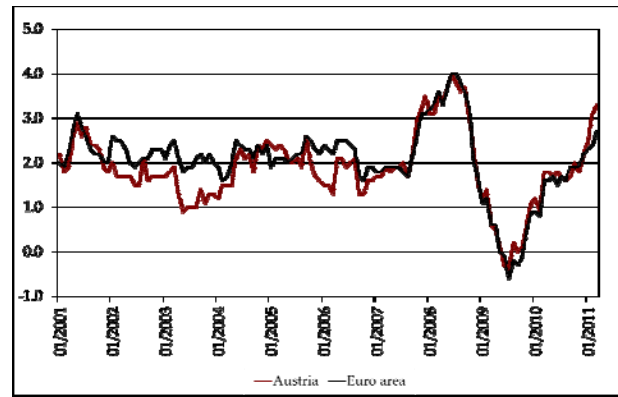
The inflation rate (HICP) of Austria is expected to stay above the medium-term inflation goal of the European Central Bank (ECB) in 2011 and 2012. This is primarily due to price pressures with respect to oil, industrial raw commodities and food/beverages/tobacco. After 2012 price stability according to the ECB definition should be achieved once again.

Figure 3: 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 4: Inflation (HICP)



LHS: Monthly values, in %
 Source: Reuters EcoWin Pro

Table 2: Price developments

	2010	2011	2012	2013	2014
	Rate of change				
1. GDP deflator	1.5	2.0	2.1	1.7	1.8
2. Private consumption deflator	1.6	2.8	2.4	2.0	1.9
3. HICP	1.7	2.9	2.4	2.0	2.0
4. Public consumption deflator	2.3	1.5	1.5	2.0	1.9
5. Investment deflator	2.9	2.5	2.5	2.0	1.9
6. Export price deflator (goods and services)	2.3	2.0	1.5	1.6	1.5
7. Import price deflator (goods and services)	4.0	2.7	1.6	1.9	1.7

Positions may not sum up due to rounding errors.
 Source: BMF, EUROSTAT, STAT, WIFO

Already in March 2010 a trend reversal in the Austrian labour market was observed owing to the economic recovery process since the second half of 2009. Since then the number of registered unemployed persons is declining, while dependent employment is steadily growing (year-on-year). Until 2014 a continued increase of employment and a further decline of the unemployment rate (EU definition) from 4.8% in 2009 to 4.4% are expected.

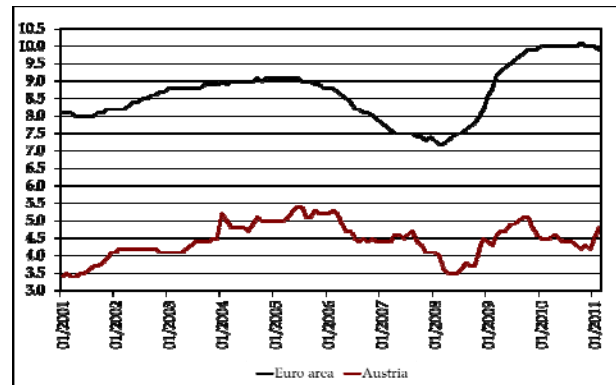
With respect to the above mentioned economic developments a real growth rate for 2011 of 2.5% and an average growth rate of around 2.1% for the years 2012 to 2014 is anticipated, after -3.9% in 2009.

Figure 5: Employed persons (total)



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

Figure 6: Unemployment rate (according to Eurostat)



LHS: Monthly values, in %
Source: Reuters EcoWin Pro

Table 3: Labour market developments

		2010	2010	2011	2012	2013	2014
	ESA Code	Level	Rate of change				
1. Employment, persons		3,686,413.2	0.9	1.6	0.9	0.8	0.8
2. Employment, hours worked (in m)		6,977.1	0.1	1.4	0.0	-0.3	-0.2
3. Unemployment rate (EUROSTAT, %)		188,200.0	4.4	4.4	4.5	4.5	4.4
4. Labour productivity, persons ¹⁾		71,101.0	1.1	0.9	1.1	1.3	1.3
5. Labour productivity, hours worked ²⁾		37.6	1.9	1.1	2.0	2.4	2.4
6. Compensation of employees (in bn €)	D.1	143.0	2.4	4.2	3.7	3.4	3.6
7. Compensation per employee		38,797.4	1.5	2.6	2.8	2.6	2.8

1) Real GDP per employee

2) Real GDP per hour worked

Positions may not sum up due to rounding errors.

Source: BMF, STAT, WIFO

Table 4: Sectoral balances

	ESA Code	2010	2011	2012	2013	2014
in % of GDP						
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	3.2	3.7	4.3	4.4	4.7
2. Net lending/borrowing of the private sector	B.9	7.8	7.6	7.6	7.3	7.1
3. Net lending/borrowing of the general government	EDP B.9	-4.6	-3.9	-3.3	-2.9	-2.4
4. Statistical discrepancy		0.1	0.0	0.0	0.0	0.0

Positions may not sum up due to rounding errors.

Source: BMF, STAT, WIFO

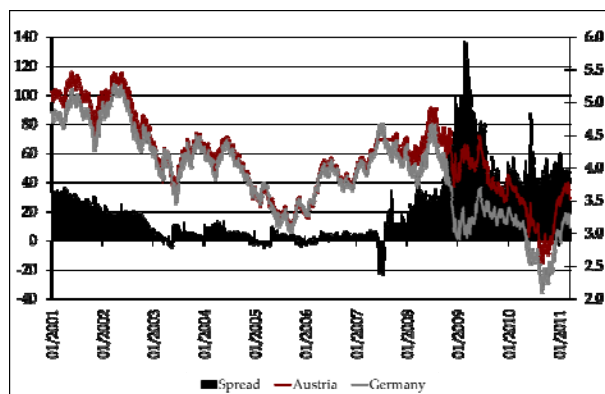
2.2. Financial market developments

In 2010 the improvement in international financial markets has continued, after upward tendencies were observed since March 2009. The expansive monetary policy was sustained globally and the economic recovery accelerated. The debt crisis of some euro countries and the strong interdependencies of the public- and the banking sector have, nevertheless, increased risks to future developments.

In the government bond markets of the Euro area a stronger differentiation of countries was noticeable. Countries with higher deficits and/or public debts had to cope with significantly higher risk premiums with respect to Germany. After the interest spread of Austria versus Germany increased further in spring 2009, the situation has - from an Austrian perspective - calmed down significantly in 2010. The Austrian spread versus Germany still stays above the long-term average for the period 1999-2010 of around 20 basis points. The above-average spread can be explained by the liquidity premium (sustained global uncertainties) and potential risks of Austrian banks in Eastern Europe.

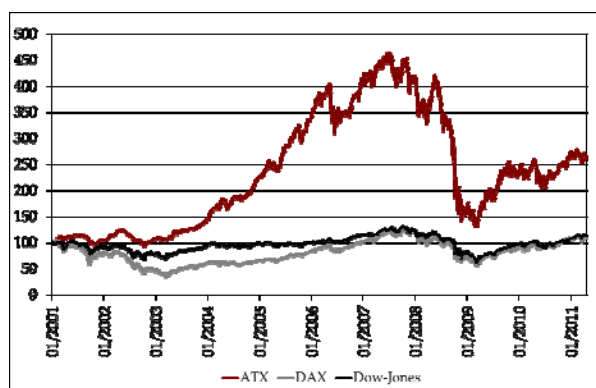
The Austrian Stock Exchange (ATX-Index) increased by +16% in 2010, after a rise of +43% in 2009. Especially since autumn 2010 a significant upward trend was observed at the Austrian Stock Exchange and in February 2011 the level of fall 2008 was achieved temporarily.

Figure 7: Long-term interest rate



RHS: Long-term interest rate, in %
 LHS: Spread in basis points
 Source: Reuters EcoWin Pro

Figure 8: Performance of the financial markets



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

3. Financial market measures

Despite the continuing uncertain international environment, **Austrian banks** were able to increase their operating profit in 2010. The surplus in 2010 amounted to € 4.2 bn, resulting in a non-consolidated return on assets (RoA) of 0.4%. Risk costs of the Austrian banking sector in 2010 remained well below the level of the previous two years. By end of September 2010 the consolidated capital ratio amounted to 13.2%. Furthermore, the volume of foreign currency loans (adjusted for exchange rate changes) decreased by € 3.8 bn or 6.6% compared to the preceding year. The CESEE¹ foreign claims of Austrian banks declined slightly in the third quarter 2010, compared with the previous quarter.

The Austrian **package of support measures for the banking sector** was well received by the financial markets. On 31 December 2010 the effective state guarantees for bond issues by commercial banks amounted up to € 21.2 bn. In addition, the central government has subscribed for participation capital of five Austrian banking groups amounting to about € 5.9 bn. Furthermore, the central government has assumed liabilities for obligations to banks (€ 1.2 bn) and provided capital injections amounting to € 384 m. In 2010, dividends amounting to € 236 m were paid to the Federal Government for the subscribed participation capital. Revenues from guarantee fees amounted to € 310 m. For 2011 annual dividend payments amounting to € 289 bn. and revenues amounting to € 237 m are being expected. Furthermore in 2011, the repayment of participation capital is expected to amount to at least € 900 m, and higher redemption payments are not unlikely. Where the state has acquired shares (Kommunalkredit and Hypo Alpe Adria Group) sustainable restructuring and realignment of business policy take place in accordance with EU state aid rules. In addition to the restructuring, a strategy for the sale of the acquired shares is being developed.

The **exit from state support measures** is takes into account EU developments and the impact on the stability of the Austrian financial market. In this context, the Interbank Market Support Act which provided for the possibility of state-guaranteed bond issues of credit institutions and

guarantees for loans of the “Oesterreichische Clearing Bank AG” expired on 31 December 2010. The instrument “clearing bank” was shut down as planned by the end of February 2011.

With regard to the involvement of Austrian banks in CEE² countries Austrian authorities plan to establish a regional **Cross Border Stability Group** with Bulgaria, Slovenia, Slovakia, Czech Republic, Romania and Hungary, in order to improve cross-border cooperation in crisis situations. The signing of the Cross Border Agreements will take place by end of June 2011.

The **bank levy (Stabilitätsabgabe)** which entered into force on 1 January 2011, envisages the participation of the financial system in the costs of the crisis. By taking into account the risks in the tax assessment process the bank levy gives an incentive for risk-conscious acting. Overall, annual revenue of around € 500 m is being expected.

¹ Central, Eastern and Southeastern Europe (CESEE)

² Central and Eastern Europe (CEE)

4. Budget 2010 and 2011

The **Federal Government Budget Proposal (BVA) for 2010** predicted for the general household expenditures of € 70.8 bn, revenues of € 57.6 bn and an administrative deficit of € 13.2 bn. The preliminary budget figures for 2010 indicate expenditures of € 67.3 bn, receipts of € 59.4 bn and an administrative deficit of € 7.9 bn. Hence, expenditures are € 3.5 bn lower and receipts € 1.8 bn higher than projected. The administrative balance has improved by € 5.3 bn. This improvement is due to the favourable economic environment, exogenous factors (lower interest rates, drawings of guarantees) and a restrictive budget execution.

On the revenue side the economic recovery boosted income taxes by € +0.8 bn, the capital gains tax by € 0.25 bn, the corporate income tax by € 0.1 bn and the value added tax revenue by € 0.4 bn compared to the budget. Moreover, growing employment generated additional revenues of € 0.2 bn for the unemployment insurance. Due to lower market interest rates, the receipts from the capital gains tax on interest fell behind projections by € 0.5 bn. Public charges (UG16) exceeded the Federal Budget amounts by € 1.4 bn and by € 1.2 bn in gross and net terms, respectively. On the expenditure side the unemployment insurance system could lower spending due to the favourable economic environment by € 0.2 bn compared with the budget. Both, the increase in tax revenues and the lower expenditures of the unemployment insurance, demonstrate the successful economic policy of the Federal Government to overcome the economic crises.

In consequence of the lower market interest rate levels and higher premium agios for bond emissions, the costs for financing and currency swaps (UG 58) were € 2.3 bn lower than the budgeted amounts.

The budget implementation for personal expenditures and administrative tangible expenses was rather strict and the planned expenditure limits could be achieved. The new budget law reform (see chapter 7.1.) with its extended room and incentives for creating reserves was a crucial element to the undershooting of the planned expenditures and promoted thus budget discipline.

The central government Maastricht deficit for 2010 amounted to 3.7% of GDP. The general government Maastricht deficit amounted to 4.6% of GDP according to Statistics Austria. The general government debt level in 2010 reached 72.3% of GDP. These figures take account of the latest EUROSTAT decision concerning the inclusion of parts of the debts and deficits of the Austrian Federal Railway (ÖBB) Infrastructure Stock Company, parts of the KA-Finanz Stock Company and the hived out hospitals.

The **BVA for 2011** is part of a comprehensive multi-annual consolidation plan which was designed in autumn 2010. For the Federal Government, the plan foresees savings of € 2.3 bn (0.8% of GDP) in 2011 which will increase to € 4.7 bn (1.4% of GDP) in 2014. The consolidation plan follows a balanced mix of expenditure cuts and additional revenues. All ministries and kinds of expenditures were covered by the plan (personnel expenses, tangible expenses, transfer payments, discretionary payments and mandatory payments). Special priority funds will be extended to universities and universities of applied science (€ 80 m), to schools including full-day care (€ 80 m), to R&D (€ 100 m), to thermal insulation (€ 100 m) and to the structural fund of health funds (€ 40 m).

Against this background the BVA for 2011 allows for the general household expenditures amounting to € 70.2 bn, revenues amounting to € 62.5 bn and an administrative deficit of € 7.6 bn, that is 2.6% of GDP. The execution of the budget will be rather strict and aims at outperforming the planned deficit for 2011. This will be fostered by the economic rebound.

On ESA basis the general government Maastricht deficit (including central, state and local governments and social insurance) will drop to 3.9%. The general government debt will increase to 73.6% of GDP.

Table 5: Consolidation measures (in m €)

	2011	2012	2013	2014
Social				
Family				
Lump sum instead of 13th-month family allowance	-168	-168	-168	-168
Cancellation of the family allowance after vocational training	-15	-18	-18	-18
Cancellation of the family allowance for job seekers	-12	-14	-14	-14
Reduction of the acquisition period of the family allowance (24 years)	-27	-54	-54	-54
Reduction of the multi-children addition ("Mehrkinderzuschlag")	-26	-26	-26	-26
Increase of "Zuverdienstgrenze"	2	2	2	2
<i>Total</i>	-246	-278	-278	-278
Pensions				
Moderate increase of pensions in 2011	-62	-62	-62	-62
Abolition of the pension adjustment in the first year	-19	-52	-86	-120
Factoring of special payments	-64	-65	-66	-67
Abolition of the compensation allowance (in the case of no legal residence)	-6	-7	-9	-10
Price increase in repurchase of pension entitlements for school- and study years	-14	-12	-12	-11
Increased contributions for self-employed	-75	-65	-55	-44
Disability pension (measures)	-1	-12	-42	-76
Reduction of cross-subsidisation, especially for health insurance carriers	-50	-49	-53	-64
Increase of default interest	-24	-25	-25	-26
Other measures	-2	-2	-2	-2
Equivalent measures for federal civil servants	-40	-49	-58	-67
<i>Total</i>	-356	-400	-469	-549
Long-term care				
Tightening of entry criteria for nursing level 1 and 2 and increase in nursing level 6	-19	-64	-109	-153
Unemployment insurance				
Improvement of placement	-84	-71	-57	-56
Health care				
Reduction of federal contributions to accident insurance	-29	-29	-29	-29
Charge adjustment	0	-19	-28	-28
<i>Total</i>	-29	-47	-57	-57
Total (social)	-733	-860	-969	-1,093
State aid				
Foreign affairs (development cooperation, contributions)	-14	-24	-33	-47
Labour market policy	-36	-75	-94	-113
Social projects (UG 21)	-5	-25	-18	-5
Economy (UG 40)	-11	-19	-22	-24
Transport	-10	-12	-22	-31
Agriculture and Forestry	-26	-31	-45	-55
Environment	-26	-32	-36	-46
Liabilities	-31	-62	-72	-70
Other	-31	-50	-63	-67
<i>Total (state aid)</i>	-190	-330	-404	-458
Administrative burden incl. changes in project plans	-486	-791	-868	-963
Measures on the revenue side	846	1,239	1,351	1,503
Interest savings due to consolidation	-86	-229	-454	-712
Total (federal government)	-2,341	-3,449	-4,046	-4,729
<i>in % of GDP</i>	-0.8	-1.1	-1.3	-1.4

Positions may not sum up due to rounding errors.

Source: BMF, WIFO

Table 6: Offensive measures (in m €)

	2011	2012	2013	2014
Universities	80	80	80	80
Schools (increase of full-day care)	80	80	80	80
Thermal insulation	100	100	100	100
R&D	100	100	100	100
Health funds (UG 24)	40	40	40	40
Long-term care funds ¹⁾	100	150	200	235
New secondary school	2	12	34	66
Total	502	562	634	701
<i>in % of GDP</i>	<i>0.2</i>	<i>0.2</i>	<i>0.2</i>	<i>0.2</i>

1) incl. state government proportion

Positions may not sum up due to rounding errors.

Source: BMF, WIFO

Table 7: Tax measures (in m €)

	2011	2012	2013	2014
Stability levy (bank levy)	500	500	500	500
Abolition of duty on credit contracts	-150	-150	-150	-150
Withholding tax on income of securities	30	50	100	250
Taxation of foundations (increase of interim tax from 12,5% to 25,5%)	50	50	50	50
Taxation of foundations (taxation of income from real estate investments)	0	30	30	50
Introduction of Reverse Charge System (RCS) for cleaning businesses	17	20	20	20
Increase of tobacco tax	100	150	150	150
Air ticket duty	60	90	90	90
Revision of lump-sum deduction for commuters	-20	-30	-30	-30
CO ₂ -supplement to car registration tax (NOVA)	25	25	55	55
Refund of energy taxes	0	100	100	100
CO ₂ -supplement to mineral oil tax	417	470	470	470
Additional higher VAT revenues	66	66	66	66
Motor vehicles tax	-30	-30	-30	-30
Abolition of deduction of interest for acquisition of participation within the group	0	200	200	200
Anti fraud package	100	200	300	400
Total	1,164	1,741	1,921	2,191
<i>in % of GDP</i>	<i>0.4</i>	<i>0.6</i>	<i>0.6</i>	<i>0.7</i>

Positions may not sum up due to rounding errors.

Source: BMF, WIFO

5. Budgetary and economic policy objectives

The biggest financial and economic crisis since the 1930ies made quick and resolute actions necessary. By such actions a permanent loss of production capacity and jobs could be avoided. Nevertheless the crisis had a remarkable impact on public households. In 2008 Austria's general government deficit was 0.9%. In 2009 it grew to 4.1% of GDP. Out of those, 3.7 percentage points (PP) fell onto the Federal Government. But also the state governments (0.7 PP) and the local governments (0.5 PP) - distinguished according to ESA - had to bear high deficits. The social security funds showed, nevertheless, a surplus of 0.2 PP already in 2010.

5.1. Sustainable fiscal policy to regain room for manoeuvre

A sustainable consolidation of the budget and a reduction of public debt in the medium term are central tasks for fiscal policy after overcoming the financial and economic crisis. A successful consolidation of public households reduces the dynamics of the annual debt servicing costs. At the same time, only a consolidated budget can assure the necessary room for manoeuvre for future tasks. Moreover a strict budget consolidation is an important contribution of fiscal policy to continue the furthering of the economy and for the overcoming of prospective challenges. Inversely, a balanced economic growth and a rise in employment are the best inputs for healthy and sustainable public finances. Therefore it is necessary to complement consolidation with future oriented policies by putting emphasis on selected policy areas.

Therefore, the Austrian Federal Government follows a **three pillar strategy**:

- Reduction of the budget deficit and thereby a reduction of public debt in the medium term
- Fostering economic growth and employment by strengthening future oriented investments
- Continuation of structural reforms (see NRP 2011)

5.2. Continuation of the consolidation path

With the Federal Budgetary Framework 2012-2015 the consolidation that was started with the budget for 2011 will be pursued with determination. The aim is to lower the general government deficit from 4.6% of GDP in 2010 to 2% of GDP in 2015. The Maastricht deficit of the central government will decline from 3.7% (2010) to 1.6% of GDP (2015). The public debt ratio will increase until 2013 to 75.5% and should then decline again. According to current estimations the public debt ratio will amount to 74.4% of GDP in 2015.

The basis for the budget consolidation was agreed by the Federal Government at its conclave of 22 and 23 October 2010. Its main part contains those actions that were implemented with the Budget Law 2011 (BGBl I Nr. 111/2010) and whose impact can be seen in the following years (see chapter 4.). It could be managed to reach a balance between necessary consolidation and shaping policies. Despite a restrictive spending policy and new revenues there is additional funding for tasks with important impacts in the future - mainly education, research, health and environment.

A package of measures was agreed upon in order to reduce the deficit. The focus was set on the expenditure side by decelerating the growth of spending in a wide range of subjects and ministries - however in a way not to endanger important social and economic objectives. Important subjects like education and research, homeland security and active labour market policy will be less affected by consolidation than others. Although spending on administration and manpower is reduced, the quality of public administration is kept high and structural reforms within the administration have been initiated. Savings are made on subsidies and projects.

The Family Burdens Equalisation Fund was subject to socially balanced adjustments while maintaining the disbursements on a high level when compared internationally. Family allowance will henceforth be paid only until 24th birthday (until now: 26th). Persons who are enrolled to studies of exceptional duration, who have passed the military or alternative service or spent a year with voluntary social work as well as mothers are eligible for one additional year. Persons who receive state scholarships will receive higher scholarships to equalize the loss of family allowance.

Table 8: Budgetary prospects 2010 to 2014

		2010	2010	2011	2012	2013	2014
	ESA Code	in bn €	in % of GDP				
	EDP B.9	Net lending by sub-sector					
1. General government	S.13	-13.2	-4.6	-3.9	-3.3	-2.9	-2.4
2. Central government	S.1311	-10.4	-3.7	-3.1	-2.7	-2.4	-1.9
3. State government (excl. Vienna)	S.1312	-1.9	-0.7	-0.6	-0.5	-0.4	-0.4
4. Local government (incl. Vienna)	S.1313	-1.4	-0.5	-0.2	-0.1	-0.1	-0.1
5. Social security funds	S.1314	0.5	0.2	0.0	0.0	0.0	0.0
General government (S.13)							
6. Total revenue	TR	137.3	48.3	48.3	48.2	48.2	48.1
7. Total expenditure	TE	150.4	53.0	52.2	51.6	51.0	50.6
8. Net lending/borrowing	EDP B.9	-13.2	-4.6	-3.9	-3.3	-2.9	-2.4
9. Interest expenditure	EDP D.41	7.6	2.7	2.8	2.9	3.0	3.0
10. Primary balance		-5.6	-2.0	-1.1	-0.4	0.1	0.5
11. One-off and other temporary measures		0.0	0.0	0.0	0.0	0.0	0.0
Selected components of revenue							
12. Total taxes		77.8	27.4	27.7	28.0	28.1	28.3
12a. Taxes on production and imports	D.2	41.4	14.6	14.7	14.6	14.5	14.4
12b. Current taxes on income, wealth etc.	D.5	36.3	12.8	13.0	13.4	13.6	13.8
12c. Capital taxes	D.91	0.0	0.0	0.0	0.0	0.0	0.0
13. Social contributions	D.61	46.5	16.4	16.2	16.0	16.0	15.9
14. Property income	D.4	3.6	1.3	1.2	1.1	1.1	1.1
15. Other		9.5	3.3	3.3	3.1	3.0	2.9
16. Total revenue	TR	137.3	48.3	48.3	48.2	48.2	48.1
p.m.: Tax burden		119.9	42.2	42.4	42.5	42.6	42.7
Selected components of expenditure							
17. Compensation of employees + intermediate consumption	D.1 + P.2	40.7	14.3	13.9	13.7	13.4	13.3
17a. Compensation of employees	D.1	27.6	9.7	9.5	9.3	9.2	9.1
17b. Intermediate consumption	P.2	13.1	4.6	4.4	4.4	4.3	4.2
18. Social payments		72.5	25.5	25.3	25.3	25.4	25.4
18a. Social transfers in kind	D.6311, D.63121, D.63131	16.2	5.7	5.6	5.6	5.5	5.5
18b. Social transfers other than in kind	D.62	56.3	19.8	19.7	19.7	19.8	19.9
19. Interest expenditure	EDP D.41	7.6	2.7	2.8	2.9	3.0	3.0
20. Subsidies	D.3	9.9	3.5	3.5	3.4	3.2	3.1
21. Gross fixed capital formation	P.51	3.3	1.2	1.1	1.1	1.1	1.0
22. Other		16.4	5.8	5.5	5.2	4.9	4.8
23. Total expenditure	TE	150.4	53.0	52.2	51.6	51.0	50.6
p.m.: Government consumption (nominal)	P.3	54.7	19.2	18.9	18.6	18.5	18.3

Positions may not sum up due to rounding errors.

Source: BMF, STAT, WIFO

Table 9: General government debt developments 2010 to 2014

	ESA Code	2010	2011	2012	2013	2014
in % of GDP						
1. Gross debt		72.3	73.6	75.0	75.5	75.1
2. Change in gross debt ratio (in %)		3.8	1.9	1.9	0.6	-0.5
Contributions to changes in gross debt						
3. Primary balance		-2.0	-1.1	-0.4	0.1	0.5
4. Interest expenditure	EDP D.41	2.7	2.8	2.9	3.0	3.0
5. Stock-flow adjustment		0.4	0.7	1.0	0.3	0.1
p.m.: Implicit interest rate on debt		3.7	3.8	3.9	4.0	4.0

Positions may not sum up due to rounding errors.

Source: BMF, STAT, WIFO

Table 10: Divergence from previous update (January 2010)

	ESA Code	2010	2011	2012	2013	2014
Real GDP growth (%)						
SP January 2010		1.5	1.5	1.9	2.0	
SP April 2011		2.0	2.5	2.0	2.1	2.2
<i>Difference</i> ¹⁾		0.5	1.0	0.1	0.0	
General government net lending (% of GDP)						
SP January 2010	EDP B.9	-4.7	-4.0	-3.3	-2.7	
SP April 2011		-4.6	-3.9	-3.3	-2.9	-2.4
<i>Difference</i> ¹⁾		0.1	0.1	0.0	-0.2	
General government gross debt (% of GDP)						
SP January 2010		70.2	72.6	73.8	74.3	
SP April 2011		72.3	73.6	75.0	75.5	75.1
<i>Difference</i> ²⁾		2.1	1.0	1.2	1.2	

1) Limited comparability due to data revision (a positive sign denotes an improvement).

2) Limited comparability due to data revision (a positive sign denotes a deterioration).

Positions may not sum up due to rounding errors.

Source: BMF, STAT, WIFO

The 13th-month family allowance will become a lump sum payment of € 100 only for all 6-15 year olds. The multi-children addition was cut. Also the single earner's tax credit was abolished for those couples who don't grow children (anymore). However it remains for those pensioner couples whose income is below € 1,555.

Actions to slow down the growth of spending for pensions and care were taken which improve the sustainability of the social security and welfare system: The one year waiting period for the first pension adjustment was reintroduced. Additionally the extra monthly payments will be

adjusted pro rata for eligible periods. The transfers of the Federal Government to the pension funds of the farmers and the self-employed in commerce, trade and industry were reduced but the minimum pension for farmers increased. The pension contribution needed to make the times spent in school or university eligible to be accounted for the pension calculation was increased for the special pension scheme for long-term insured ("Hacklerreglung"). The minimum requirements for being eligible for nursing care have been increased for level 1 and 2 and the payments in level 6 were increased. The entry criterion for level 1 is now 60 hours of care per month (instead of 50), for level 2 85 instead of 75. The Federal Governments consolidation package creates savings of about € 1.5 bn in 2011. These will increase to 3.2 bn € by 2014.

The medium to long term challenge of achieving the Austrian climate-goals was tackled also by revenue sided measures. A series of actions have the aim to strengthen the environmental pillar of the Austrian tax system. Additionally, further measures to abolish distortionary effects of certain taxes were agreed upon. In combination with the new anti-fraud package these measures will increase efficiency of the tax system.

The financial sector will contribute to bearing the cost of the crises via a new bank levy, which should yield revenues of € 500 m. The tax rate is depending on the size of the banks. Income from interest within foundations is now charged with the full rate of capital income tax of 25%. The tax-free period of one year for income from bonds like stocks - called speculative period - was abolished. That means that capital income tax is now due from day one, but losses can be used to set gains off. Further revenue shall be achieved from stricter application of anti-fraud legislation.

Personal flights are now charged with € 8 for short, € 20 for medium and € 35 for long distance flights per ticket. Furthermore mineral oil tax was increased by a special carbon-surcharge equivalent to 4 cents per litre gasoline and 5 cents per litre diesel. The carbon-premium on newly registered cars (Normverbrauchsabgabe) was extended by two categories for new cars with rather high exhaust of pollutants (between 180 and 220 gram of carbon). In 2013 existing thresholds for the carbon-premium will be lowered by 10 gram each.

Excise duties on tobacco will also increase stepwise up to 25 to 35 cents by the end of 2011.

Additional revenues in 2011 sum up to € 1.2 bn. Until 2014 they will increase to € 2.2 bn of

which one third is redistributed to state and local governments.

5.3. Consolidation and shaping

Despite the necessary consolidation measures, the BVA 2011 and the Federal Budgetary Framework 2012-2015 set a clear focus on future-related issues. Budget plans (see chapter 4.), decided on 22 and 23 October last year, foresee additional € 80 m for universities, universities of applied sciences and schools (increase of full-day care). There are also € 100 m for thermal insulation. R&D receive supplementary € 100 m, health funds another € 40 m. The offensive measures will be further pursued in 2015. In addition, € 216 m will be spent on the new secondary school until 2015. A new special fund for financing of nursing care was created that will be filled up to € 685 m by 2014 and of which two thirds will be contributed by the Federal Government, one third by the Länder and municipalities.

The Budget Law Reform is a strong foundation for the consolidation of public households (see chapter 7.1.). Because individual ministries are able to build up reserves and keep savings, budgetary discipline is strongly reinforced within the new framework. Remaining means can now be used in a later period in case funds were lacking for special projects. Thereby spending departments become more independent and flexible and have an incentive to use money more efficiently. This can already be seen by recent experiences. Incentives become even stronger as the possibility to build up reserves will be extended to the level of agencies, when the second phase of the reform becomes effective in 2013.

Consolidation of public finances is a challenge for the whole state, the central government, all state governments, local governments and the social insurance system. The central element of the strategy is the ÖStP, which was recently prolonged until 2014 (see chapter 7.2). The ÖStP foresees maximum deficits of 0.75% in 2011 (Note: around 1.2% in 2010), 0.6% in 2012 and 0.5% in 2013 and 2014 for the Länder (including Vienna). Local governments committed to deliver balanced budgets. The ÖStP also contains new automatic and stricter sanctions.

Consolidation and medium term orientation are improved for state and local governments; the introduction of binding liability ceilings increases transparency. The budget deficit will be further decreased by 2015. The burden sharing has still to be negotiated between the different government levels for 2015. The ÖStP covers the same period as the fiscal equalization law.

5.4. Structural reforms

Further structural reforms (long-term care, education, public administration, pensions, health, subsidies, etc.) are currently part of ongoing negotiations between the Federal, state and local governments. For instance, legal and execution rights for state governments nursing care funds will be transferred to the federal level in 2012. By the end of 2011, reforms in the education systems - agreed upon in the coalition treaty - are going to be implemented. Central elements of this reform are the expansion of full-day schools and of the new secondary school. These measures aim to provide equal opportunities in the education system and quality of instruction.

Attractiveness of the business environment, full employment and distributional questions are in the focus of policy measures. Improvement of the international competitiveness is a priority for the Federal Government. Details for the individual measures are specified in the NRP 2011.

5.5. Cyclical developments and budget balances

The cyclical downturn in 2009 as well as the substantial stimulus programs to cope with the negative consequences of the international financial and economic crisis stressed public households substantially. The structural deficit (cyclically-adjusted and excluding one-off measures) is continuously decreasing; however the medium term goal (MTO) cannot be achieved over the forecast period. Austria is defining its MTO as (structurally) balanced budget over the business cycle. The European Commission uses a benchmark of 0 to -0.5% of GDP for Austria.

Table 11: Cyclical developments and general government balances 2010 to 2014

	ESA Code	2010	2011	2012	2013	2014
in % of GDP						
1. Real GDP (rate of change)		2.0	2.5	2.0	2.1	2.2
2. Net lending of general government	EDP B.9	-4.6	-3.9	-3.3	-2.9	-2.4
3. Interest expenditure	EDP D.41	2.7	2.8	2.9	3.0	3.0
4. One-off and other temporary measures ¹⁾		0.0	0.0	0.0	0.0	0.0
5. Potential GDP growth (%)		1.7	1.8	1.7	1.7	1.7
6. Output gap		-3.2	-2.5	-2.2	-1.9	-1.4
7. Cyclical budgetary component		-1.4	-1.1	-1.0	-0.8	-0.6
8. Cyclically-adjusted balance		-3.2	-2.8	-2.4	-2.1	-1.9
9. Cyclically-adjusted primary balance		-0.6	0.0	0.6	0.9	1.1
10. Structural balance		-3.2	-2.8	-2.4	-2.1	-1.9

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

Positions may not sum up due to rounding errors.

Source: BME, STAT, WIFO

6. Sensitivity analysis

In comparison 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.

The first (second) scenario builds on the assumption of higher (lower) growth rates of the Austrian export markets (starting in 2011). Under these circumstances a budget deficit below the 3% Maastricht reference value would be reached by 2012, hence, one year in advance compared to what is required by the ECOFIN Council. Moreover, the debt ratio would increase considerably less over the programme period and would start to decline already in 2013.

In scenario 2 the budget deficit would also decrease, but it would still be above the Maastricht reference value of 3% by 2014. In contrast, the debt ratio would continuously increase (to slightly below 80%).

Table 12: Economic growth and public finances in 3 scenarios

	2010	2011	2012	2013	2014
Baseline scenario					
GDP, nominal in bn €	284.0	296.9	309.2	320.9	333.8
GDP, real, rate of change in %	2.0	2.5	2.0	2.1	2.2
Net lending/borrowing in % of GDP	-4.6	-3.9	-3.3	-2.9	-2.4
Gross debt in % of GDP	72.3	73.6	75.0	75.5	75.1
Scenario 1					
GDP, nominal in bn €	284.0	298.3	312.8	327.4	343.5
GDP, real, rate of change in %	2.0	3.0	2.6	2.6	2.7
Net lending/borrowing in % of GDP	-4.6	-3.8	-2.9	-2.1	-1.3
Gross debt in % of GDP	72.3	73.1	73.7	72.9	70.8
Scenario 2					
GDP nominal in bn €	284.0	295.5	305.6	314.6	324.2
GDP, real, rate of change in %	2.0	2.0	1.4	1.6	1.7
Net lending/borrowing in % of GDP	-4.6	-4.0	-3.7	-3.7	-3.5
Gross debt in % of GDP	72.3	74.1	76.3	78.1	79.4

Positions may not sum up due to rounding errors.

Source: BMF, STAT, WIFO

7. Quality of public finances

7.1. Budget law reform

As already mentioned in the stability programme for 2008-2013, the reform of the federal budget law was unanimously enshrined in constitutional law in 2007 and comprises two stages.

The **first stage** is being implemented since 2009 and has the following objectives:

- The Parliament adopts legally binding expenditure ceilings for the upcoming four years in the Federal Budgetary Framework Law (multi-annual expenditure framework). A supplementary strategy report is provided by the Federal Government containing political declarations of intent and explanations. The multi-annual expenditure framework is annually updated and extended by adding the fourth year to the planning horizon and is subsequently adopted
- Currently, the multi-annual expenditure framework covers the period 2011 to 2014. Approximately 74% of the expenditure ceilings are fixed in nominal terms, about 26 % are variable. The variable part mainly comprises expenditure areas that are highly dependent on the business cycle or on tax revenues. These variable ceilings are determined according to certain pre-defined indicators. As a result, funds for these expenditure areas increase or decrease adequately, thus contributing to a counter-cyclical budgetary policy and, hence, to a stabilisation of the economy.
- Funds that have not been spent by the end of the year, do not expire, but are rather added to a non-earmarked reserve fund and can be spent by the respective ministry at a later point in time. As a result, tax payers' money is spent more efficiently since unnecessary expenditures at the end of the year in order to exploit the whole annual budget ("December fever") is avoided.

The **second stage**, which will come into effect as of 2013, is aimed at the following goals:

- Due to performance budgeting, the budget is becoming an integrated governing document containing resources as well as intended outcomes and outputs. Gender Budgeting is an integrated part of the performance budgeting system.

- The federal budgeting and accounting system is enhanced, moving from a modified cash-based to a full accrual system while at the same time taking into account public sector requirements.
- Effective incentives and sanctioning mechanisms enhance compliance with the budget law. A multi-annual planning of resources, outcome objective and outputs on department and agency level supports an integrated input- and outcome/output-based budget management system.
- A mandatory long-run budget forecast covering at least 30 years is going to be introduced and conducted on a regular basis, thus improving the budgetary planning.
- A comprehensive regulatory impact assessment (RIA) system for rules and regulations is put in place based on Austrian experience from the current financial impact assessment and the ex-ante measurement of administrative burdens for businesses and citizens

The necessary legal basis for the second stage of the budget reform - the Federal Organic Budget Law (BHG) 2013 – was unanimously adopted by the Austrian Parliament in December 2009. From the year 2010 on, extensive preparations are being made in order to accomplish the comprehensive cultural change in the whole federal administration. In the year 2011 detailed guidelines for the implementation of the Federal Organic Budget Law 2013 will be finalized and preparatory work for the Budget 2013 is intensified. Subsequent to the transition period of the first stage from 2009 to 2012, the federal state – from 2013 on – is going to apply an up to date budgetary system in line with international best practice.

7.2. Austrian Stability Pact (2011-2014)

The ÖStP implements the legal rules of the European Union concerning budgetary discipline of the Member States and regulates Austria's internal budgetary coordination for the Federal, state and local governments. Background of the ÖStP is the obligation to avoid excessive public deficits.

On the 16 March 2011, a political consensus between the respective governments on a new ÖStP was achieved. It includes in particular the following new rules:

- New target definitions of the necessary budgetary objectives (stability contributions) of the Federal, state and local governments.
- Tighter sanctions in case of non-compliance:
 - Ex officio expert opinion of the Court of Audit (reputational sanction) in case of potential non-compliance
 - Expert opinion results (if necessary) in automatic institution of an excessive deficit procedure
 - Strengthening of the arbitration committee deciding on a financial sanction (decision cannot be hindered by nonappearance)
 - No moving-average assessment of budgetary discipline, the numerical fiscal rules have to be met each fiscal year
- Improvements of budgetary coordination and medium-term budgeting (discussion of the draft stability programme in the Coordination Committee of Federal, state and local governments; target-performance evaluation during the fiscal year; standardization of exchanged data for medium-term budgetary planning; reconciliation tables between cash-based and ESA³ results incl. extra budgetary funds and bodies; obligation to register new extra-budgetary general government units with Statistics Austria)
- Mandatory limits for government guarantees set autonomous by central and state governments (for local by state governments), incl. procedural rules and provisions for risks.
- Transparency by publication of essential information about budgetary coordination on the homepage of the BMF
- Rendez-vous clause for changes of relevant European Union standards (negotiations for the adaptation of the ÖStP).

The ÖStP will be ratified with the rank of a law by the Federal and by the state parliaments and enter into force retroactively.

³ European System of National Accounts (ESA)

7.3. Administrative reform

An essential goal of the Austrian Federal Government is a lean, dynamic and effective public administration. From a budgetary point of view, the following goals are to be aimed for: Fostering outcome-oriented processes, providing high quality services in a cost efficient manner and supporting fiscal consolidation.

Therefore, the Federal Government set into charge a special working group ("Consolidation"), including representatives of the Länder. This group develops proposals for a reform of the public administration on the basis of work undertaken by the Court of Audit and the Government Debt Committee. Eleven work packages are being discussed successively: pensions; human resource management; education; science and research; efficient subsidizing; service orientation and deregulation; efficiency in public administration; reform of tasks and structures; revenue allocation between the central government and the state governments and budget law; healthcare and long-term care; environmental issues; infrastructure; public enterprises and funds

The working group "Consolidation" has appointed a group of experts, to carry out problem analysis for the individual work packages. Currently, 6 problem analysis concerning the areas of education, efficiency in public administration, pensions, efficient subsidizing, healthcare and reform of tasks and structures have been completed.

As follow-up, the working group assigned individual bodies with the development of proposals of solutions for the problems recognized by the working group. Concrete solution proposals have been presented for the areas of education, efficiency in public administration, pensions and efficient subsidizing. Further proposals for the areas of healthcare and reform of tasks and structures are currently being developed.

On the basis of the proposals, concrete measures are defined and implemented. These include:

- **Working Package „Efficiency in Public Administration“:** 45 concrete projects from the areas „Shared Services“ and „eGovernment“, as well as concrete measures stated by the ministries themselves, are currently being implemented or respectively have been completed. Further measures include the improvement of public administration management, the evaluation of 40 hived-off bodies, the creation of a possible agreement in accordance with Art. 15a B-VG between the Federal and state governments over common principles of outcome orientation and solutions for procurement.

- **Working Package „Pensions“:** State governments, that have not implemented their pension reform according to the central government pension reform, were asked to undertake the necessary measures. Since then some state governments have taken the necessary steps. Also organizations such as the Österreichische Nationalbank (OeNB) or the ÖBB were requested to set respective measures.
- **Working Package „Education“:** Problem analysis and proposals of solutions are currently being discussed on a political level.
- **Working Package „Efficient Subsidizing“:** The transparency database, which has already been decided upon, will provide the systematic acquisition and coordination of individual public services, from 2012 onwards.

Independent of the working group „Consolidation“, a working group was established, that has taken propositions of the state governments concerning deregulation and has launched necessary measures. Concerning health care work is in progress. Regarding fiscal equalisation, better regulation and budget reform, reference is made to the relevant sections.

7.4. Better Regulation

In spring 2006, the Federal Government started an initiative so as to reduce the administrative burden for businesses by 25%. Thereby, Austrian business should save € 1 bn per year. The reduction target will be achieved in two steps: in 2010 the first part of the target - € 564 m - was met. By 2012, another € 512 m of admin burden shall be reduced. In the 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.

The initiative is currently being implemented: during the planning of the budget for 2011 the simplification plan was updated. A special brochure attached to the official documents accompanying the budget, called "Reduction of Administrative Burden for Citizens and Businesses" was published. It reports on the progress of the initiative. Currently, 165 simplification measures with a total reduction potential just below one billion € are planned, will be implemented or are already realised. Now the focus is on the implementation of the second part of the target by 2012.

One of the flagship measures is the Austrian Business Service Portal (USP), online on <http://www.usp.gv.at> as an information portal since 1 January 2010. The portal aims to serve as a single entry point for businesses to the administration. Until 2013, the portal will become a one-stop-shop by offering information and transaction services. Currently a pilot project with a few chosen businesses is taking place. The participating businesses are able to test various features in order to prepare the planned all-access operation.

In April 2009, the Federal Government initiated a programme to reduce administrative burden for citizens. It is based on a research on the 100 most time-consuming information obligations for citizens using the standard cost model. Further actions were taken concerning the administration of birth, marriage and death. Simplification measures based on the findings of this programme were identified and the implementation decided by the Council of Ministers on 24 August 2010. Until June 2011, an update of the simplification plan will take place and necessary preparations will be finished for the most important measures. Key measures are amongst others the electronic identification via mobile phone ("mobile citizen card") for administrative procedures and the implementation of a civil status register. The simplification plan for citizens can be downloaded via the website <http://www.verwaltungskostenenken.at>.

7.5. Structural changes in public spending

In 2010 public expenditures as a percentage of GDP were 4 PP higher compared to 2007. The increase resulted amongst others from higher expenditure on "social security" (+2 PP) and "economic affairs" (+0.8 PP) in the course of the international economic and financial crisis. However, also public expenditure on "health" (+0.6 PP) and "education" (+0.6 PP) increased.

The largest shares of public expenditure are still spent on "social security" (21.9% of GDP) and "health care" (8.2% of GDP).

Table 13: General government expenditures by function

	COFOG Code	2007	2008	2009	2010
in % of GDP					
1. General public services	1	6.9	6.5	6.9	6.8
2. Defence	2	0.9	1.0	0.8	0.7
3. Public order and safety	3	1.4	1.5	1.6	1.5
4. Economic affairs	4	5.0	5.3	5.4	5.8
5. Environmental protection	5	0.5	0.4	0.5	0.5
6. Housing and community amenities	6	0.6	0.6	0.7	0.7
7. Health	7	7.6	7.8	8.3	8.2
8. Recreation, culture and religion	8	1.1	1.0	1.1	1.1
9. Education	9	5.2	5.4	5.8	5.8
10. Social protection	10	19.9	20.0	21.9	21.9
11. Total expenditure	TE	49.0	49.3	53.0	53.0

Positions may not sum up due to rounding errors.

Source: STAT

8. Sustainability of public finances

Public finances face various challenges. During the financial and economic crisis tax revenues decreased, while discretionary spending and automatic stabilizers increased, with marked impacts on the budget. The public expenditure side must at the same time handle existing liabilities due to past public borrowing and the fiscal burden related to population ageing.

According to the EU long-term projections from 2009⁴ public age-related expenditures – mainly for pensions, health- and long-term care – are expected to rise sharply until 2060 due to demographic changes, peaking between 2040 and 2050. While the recession in 2009 has had an impact on the expenditure path, the main cost driver is population ageing. Age-related spending is expected to increase from 27.6% of GDP in 2010 to 30.7% of GDP in 2060 (and slightly decrease afterwards), which would lead to budgetary tensions if no countermeasures were implemented.

Both, the worse budgetary starting position as a consequence of the crisis and the ageing driven increase in pension-, health- and long-term-care expenditures by approximately 3-4 PP of GDP until 2060 lead to a widening fiscal sustainability gap in Austria. This is being illustrated in detail in the Sustainability Report 2009⁵ of the European Commission. As a first step, consolidation measures have been implemented in the 2011-budget in order to counteract these adverse budgetary effects.

Eligibility criteria for invalidity pension have been tightened. Applying for rehabilitation before applying for invalidity pension is compulsory now. Furthermore, the access to invalidity pension has been restricted by loosening occupational protection. Apart from these restrictions, there are also incentives like enhanced social security if rehabilitation measures are adopted.

⁴ For further information see: European Commission, Economic Policy Committee: 2009 Ageing Report - Economic and budgetary projections for the EU-27 Member States (2008-2060), Brussels, European Economy 2/2009

⁵ For further information see: European Commission: Sustainability Report 2009, Brussels, European Economy 9/2009

The retirement age of the long-term insurance scheme (“Hacklerreglung”) is going to be increased by 2 years as from 2014 onwards, purchasing study and schooling contributory years has been rendered more expensive and is going to be abolished by 2014.

Further cost reducing measure include delayed price adjustment of the first pension, changes concerning the default interest for delayed contributions, measures to reduce the abuse of the minimum pension scheme and the reduction of the federal funds contribution rate for self-employed and farmers.

Table 14: Long-term sustainability of public finances

	2007	2010	2020	2030	2040	2050	2060
	% of GDP						
1. Total age-related expenditure	26.1	27.6	27.8	29.4	30.2	31.0	30.7
1a. Total pension expenditure	12.8	13.6	13.7	14.5	14.6	14.7	14.3
<i>Social security pensions</i> ¹	9.2	10.0	10.3	11.4	12.5	13.1	12.8
<i>Old-age pensions</i> ¹	6.0	6.7	7.0	7.9	8.7	9.3	9.1
<i>Other pensions (disability, survivors, one-off payments)</i> ¹	3.2	3.3	3.3	3.5	3.8	3.8	3.7
<i>Pensions für civil servants</i> ²	3.6	3.6	3.4	3.1	2.1	1.6	1.5
1b. Health care ²	6.5	7.1	7.5	7.9	8.3	8.6	8.5
1c. Long-term care ²	1.3	1.4	1.5	1.8	2.1	2.5	2.6
1d. Education expenditure ²	4.8	4.8	4.4	4.5	4.5	4.5	4.6
1e. Unemployment expenditure ²	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Contributions to social security pensions ³	9.0	8.9	9.1	9.1	9.1	9.2	9.3
Assumptions							
2. Labour productivity growth (in %) ⁴	1.7	1.9	1.7	1.7	1.7	1.7	1.7
3. Real GDP growth (in %) ²	3.7	2.0	1.9	1.5	1.5	1.5	1.5
4. Participation rate males (aged 15-64) ⁵	78.4	77.2	76.9	76.8	78.0	77.9	78.2
5. Participation rate females (aged 15-64) ⁵	64.4	66.4	66.9	69.0	70.8	70.6	70.9
6. Total participation rates (aged 15-64) ⁵	71.4	71.8	71.9	72.9	74.4	74.2	74.6
7. Unemployment rate ²	4.4	4.4	3.9	3.9	3.9	3.9	3.9
8. Population aged 65+ over total population ⁶	17.0	17.6	19.4	23.7	27.2	28.2	29.0

1) Based on data by Statistics Austria and projections by EPC/EC, WIFO and own calculations, gross amounts excl. minimum pensions, administrative costs and rehabilitation and health care expenditures

2) Based on data by Statistics Austria and projections by EPC/EC and WIFO

3) Based on projections by BMASK and WIFO/IHS, incl. "contributions" from federal funds (approximately 0.5% of GDP p.a.)

4) Based on data by Statistics Austria and projections by EPC/EC, hours worked divided by real GDP

5) Based on data by Statistics Austria and projections by WIFO/IHS

6) Based on data by Statistics Austria and projections by EPC/EC

Positions may not sum up due to rounding errors.

Source: BMASK, BMF, EK/WPA, STAT, WIFO

Regarding the health care sector, the Federal Government and the public health funds agreed upon a cost reduction volume of € 1.725 bn in the years 2010 up to the end of 2013. The 2011 budget for the health care sector amounts to € 868.2 m, which is € 125.5 m less than in the previous year. Spending decreases due to the elimination of the contribution to the accident insurance scheme and the reduction of payments to the „Kassenstrukturfonds“. The reduction has been facilitated, since the social security fund (incl. pension and accident insurance) showed

a preliminary surplus in 2010. Additional expenditures arise from allowances to hospitals and sanatoriums and due to the means-tested minimum income scheme.

9. Institutional factors and the Stability Programme within the fiscal framework

With regard to medium-term budget planning, three instruments are in place in Austria.

- The B-VG and the BHG prescribe a multi-annual and compulsory federal budget planning by means of a **Federal Budgetary Framework Law** and an accompanying **strategy report**. The Austrian Federal Government has to submit the draft Federal Budgetary Framework Law by 30 April. This deadline is consistent with the corresponding EU regulations for stability programmes.
- With a view to a stability-oriented budget policy, state and local governments have committed themselves to contribute to budgetary discipline. This national budgetary coordination process encompasses all administrative units and is based on the **ÖStP**.
- In the context of the Stability and Growth Pact, an update of the **Austrian Stability Programme** is presented annually. This programme is an integral component of the European semester, which is in force since 1 January 2011. Under the terms of the **ÖStP**, it is endorsed by the Federal Government, giving due consideration to the national budgetary coordination process. The Stability Programme together with the NRP is submitted to the Council of the European Union, the European Commission, the Austrian Parliament, social partners and financial equalisation partners. The Finance Minister's report on the Austrian Stability Programme for the period 2009 to 2013 was submitted to Parliament on 26 April 2009 and examined by the Budget Committee in a public hearing on 10 February 2010.

Additionally, the BHG of 2013 will provide for budgetary planning over a 30-year period from 2014 onwards at the latest.

10. Excessive deficit procedure

On 2 December 2009, the ECOFIN Council concluded that according to Article 126(6) of the Treaty on the functioning of the European Union an excessive deficit exists in Austria. On the basis of a recommendation under Article 126(7) and due to sound initial budgetary conditions, Austria was nevertheless able to implement the budget for 2010 as planned.

Fiscal consolidation should start in 2011 at the latest in order to reduce the deficit to below 3% of GDP by 2013, which requires an annual consolidation effort of $\frac{3}{4}$ PP of GDP in the years 2011 to 2013.

Council recommendation to Austria:

- “(1) Recognising that the Austrian budgetary position in 2009 resulted from measures amounting to 1½% of GDP, which were an appropriate response to the European Economic Recovery Plan, and the free play of automatic stabilisers, the Austrian authorities should implement the fiscal measures in 2010 as envisaged and, starting consolidation in 2011, to put an end to the present excessive deficit situation by 2013.*
- (2) The Austrian authorities should bring the general government deficit below 3% of GDP in a credible and sustainable manner by taking action in a medium-term framework. Specifically, to this end, the Austrian authorities should:*
- a) ensure an average annual fiscal effort of $\frac{3}{4}$ % 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;*
 - b) 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.*
- (3) In addition, the Austrian authorities should seize opportunities beyond the fiscal effort, including from better economic conditions, to accelerate the reduction of the gross debt ratio back towards the reference value.*
- (4) The Council establishes the deadline of 2 June 2010 for the Austrian government to take effective action to implement the fiscal measures in 2010 as planned and to outline the consolidation*

strategy in some detail that will be necessary to progress towards the correction of the excessive deficit. The assessment of effective action will take into account economic developments compared to the economic outlook in the Commission services' autumn 2009 forecast.

The Austrian authorities should report on progress made 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.

Furthermore, the Council invites the Austrian authorities to implement reforms with a view to raising potential GDP growth. This includes reforms conducive to enhancing the quality of public finances, in particular by improving its budgetary framework to strengthen fiscal discipline at all levels of government through enhanced transparency and accountability notably by aligning legislative, administrative and financing responsibilities between the different levels of government as well as reforms improving incentives for older workers to continue working by implementing a comprehensive strategy including enhanced job-related training, adaptation of working conditions, and tightening the conditions for early retirement."

The Austrian Federal Government took note of the Council's recommendations and provided, as a first step, new budgetary targets until the year 2013 in the Stability Programme for the period 2009 to 2013. Furthermore, Austria was invited to present necessary consolidation steps in terms of an addendum until 2 June 2010. This was done in due time on 1 June 2010. Both the government bill concerning the Federal Budgetary Framework Law for 2011-2014 (enacted on 19 May 2010 in parliament) as well as the budget execution January to April 2010 were communicated.

In view of this, the European Commission concluded that the recommendation under Article 126(7) TFEU was met and no further steps are necessary under the excessive deficit procedure.

Despite the Maastricht revision in spring 2011 (general government deficit was revised by 1 PP to 4.6% of GDP), Austria will reduce its deficit below 3% of GDP until 2013 - as demanded by the ECOFIN council - due to the substantial consolidation measures (see chapter 4.).

Also the debt to GDP ratio was revised upwards by 3.4 PP and reached 72.3% of GDP. However, by taking into account the borrowing for the Greek support, the debt ratio for 2010 would have been 0.3 PP less.

Table 15: Borrowing for Ireland and Greece

	2010	2011	2012	2013	2014
in m €	607	2,099	2,964	3,063	3,063
in % of GDP	0.2	0.7	1.0	1.0	0.9
Debt-to-GDP ratio incl. borrowing	72.3	73.6	75.0	75.5	75.1
Debt-to-GDP ratio excl. borrowing	72.0	72.9	74.1	74.5	74.2

Positions may not sum up due to rounding errors.

Source: BMF, STAT, WIFO

Source/Links

- Arbeitsmarktservice Österreich (AMS)
<http://www.ams.at/>
- Budget 2011
<https://www.bmf.gv.at/Budget/Budgetsimberblick/Sonstiges/Budgetsimberblick/Budget2011/ start.htm>
- Bundesfinanzrahmengesetz 2011 bis 2014 (BGBl. I Nr. 33/2010)
https://www.bmf.gv.at/Budget/Budgetsimberblick/Sonstiges/Bundesfinanzrahmeni_11557/Bundesfinanzrahmen2_11567/BFRG_2011-2014_BGBl_I_Nr._33.pdf
- Bundeskanzleramt (BKA)
<http://www.bundeskanzleramt.at/>
- Bundesministerium für Arbeit, Soziales und Konsumentenschutz (BMAŠK)
<http://www.bmask.gv.at/>
- Bundesministerium für Finanzen (BMF)
<https://www.bmf.gv.at/>
- ECOFIN Council: *Specifications on the implementation of the Stability and Growth Pact and guidelines on the format and content of Stability and Convergence Programmes*, Brussels, 7 September 2010
[http://ec.europa.eu/economy_finance/sgp/pdf/coc/2010-09-07_code_of_conduct_\(consolidated\)_en.pdf](http://ec.europa.eu/economy_finance/sgp/pdf/coc/2010-09-07_code_of_conduct_(consolidated)_en.pdf)
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<http://ec.europa.eu/>
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http://ec.europa.eu/economy_finance/publications/publication14992_en.pdf
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http://ec.europa.eu/economy_finance/sgp/deficit/countries/austria_en.htm
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- Eurostat (EUROSTAT)
<http://epp.eurostat.ec.europa.eu/>
- Finanzbeziehungen zu Ländern und Gemeinden
https://www.bmf.gv.at/Budget/BesondereBudgetthemen/Finanzbeziehungenzu_658/_start.htm
- Communiqué des Budgetausschusses über den Bericht des Bundesministers für Finanzen über das Österreichische Stabilitätsprogramm für die Jahre 2009 bis 2013, Wien, 10. Februar 2010
http://www.parlament.gv.at/PAKT/VHG/XXIV/KOMM/KOMM_00058/fnameorig_179866.html
- Österreichische Bundesfinanzierungsagentur (OeBFA)
<http://www.oebfa.co.at/>
- Österreichische Nationalbank (OeNB)
<http://www.oenb.at/>
- Österreichisches Institut für Wirtschaftsforschung (WIFO)
<http://www.wifo.at/>
- Österreichisches Stabilitätsprogramm für die Jahre 2009 bis 2013, Wien, 26. Jänner 2010
http://ec.europa.eu/economy_finance/sgp/pdf/20_scps/2009-10/01_programme/at_2010-01-26_sp_de.pdf
- Parlament der Republik Österreich
<http://www.parlament.gv.at/PD/HP/show.psp>
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<http://www.rechnungshof.gv.at/>
- Regierungsprogramm für die XXIV Gesetzgebungsperiode (2008-2013)
<http://www.bka.gv.at/DocView.axd?CobId=32965>
- Reuters EcoWin Pro
http://thomsonreuters.com/products_services/financial/financial_products/a-z/ecowin_pro/
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http://www.statistik.at/web_de/presse/055883
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- Verwaltungskosten senken für Bürger/innen und Unternehmen
<http://www.verwaltungskosten senken.at>
- Wirtschaftspolitischer Ausschuss (WPA)
http://europa.eu/epc/index_en.htm
- Wirtschafts- und Finanzausschuss (WFA)
http://europa.eu/efc/index_en.htm