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Assessment of the 2011 national reform programme and stability programme for AUSTRIA

Accompanying the document

Recommendation for a

COUNCIL RECOMMENDATION

on the National Reform Programme 2011 of Austria and delivering a Council Opinion on the updated stability programme of Austria, 2011-2014

{SEC(2011) 801 final}

1. INTRODUCTION

With a small economy, heavily dependent on net exports, Austria was hard hit by the collapse in world trade in 2008-2009. Benefiting from a relatively favourable public finances situation prior to the crisis, the Austrian authorities introduced a sizeable stimulus package in order to alleviate the consequences of the downturn. Since the bulk of stimulus measures were of a permanent nature, there was a need to consolidating as soon as economic conditions improved. The consolidation plans underpinned by some structural reforms are presented in the Stability Programme (SP) and the National Reform Programme (NRP) submitted to the Commission in spring 2011.

2. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

2.1. RECENT ECONOMIC DEVELOPMENTS

The Austrian economy entered the crisis on sound fundamentals, without having suffered major imbalances or distortions in the period preceding it. Unsustainable housing, asset or credit booms were avoided. Price stability was consistently maintained. Indebtedness of households and corporations was not particularly high as it had been sharply reduced after 2002, while private savings were high. One contributing factor was the series of pension system reforms introduced in the 2000s which might have triggered precautionary saving.

In spite of that, the financial and economic crisis has pushed the Austrian economy into the deepest recession for decades. The favourable public finances situation prior to the crisis (with a government deficit of 0.9% of GDP and public debt of 60.7% of GDP in 2007) left room for manoeuvre which made it possible to introduc sizeable and timely stimulus packages to the tune of 1.5% of GDP, which helped alleviate the consequences of the crisis. The downturn started in the third quarter of 2008 and was primarily transmitted to Austria by falling exports, reflecting the collapse in world trade and weaker economic activity in Germany. The export-oriented manufacturing sector has suffered most, as merchandise exports declined by nearly 18% in 2009. Private investment in equipment fell by over 12% on the back of subsiding corporate profits, low capacity utilisation and tighter credit conditions. Thanks to a series of fiscal measures (e.g. infrastructure investment and subsidies for energy-saving renovation of buildings), the decline in construction investment was less severe. Drops in both categories of investment, although quite large, were relatively benign in comparison with other euro-area countries. Overall, real GDP contracted by almost 4% in 2009.

The crisis halted the continuous growth of Austria's current account surplus, which went down from 3.7% of GDP in 2008 to 2.6% in 2009 and 2010. Private consumption turned out to be a stabilising factor, supported by the resilience of the Austrian labour market. Giving way to the crisis, employment fell by about 1% in 2009, lifting unemployment to 4.8% (from 3.8% a year earlier). Short-time work and extended training helped rein in job losses that otherwise would have been more severe in view of the scale of the contraction in economic activity.

The Austrian banking sector, has weathered the current financial and economic downturn relatively well. Capital adequacy has stood at reassuring levels throughout the downturn. Profitability, which plunged in 2008, has recovered since the second half of 2009. In spite of this apparent resilience, the crisis has brought to the fore several vulnerabilities related to the high exposure of Austrian banks to Central, Eastern Europe and South-Eastern Europe (CESEE), and the need to repay the capital injected in distressed banks by the government and to mitigate the risks associated with foreign currency lending (CHF and JPY).

Since the third quarter of 2009, the Austrian economy has been steadily recovering on the back of improved foreign demand and stronger economic activity in Germany. Real GDP grew by 2% in 2010. The main contribution to growth has come from net exports. In spite of the continued growth of investment in equipment since the second quarter of 2010, overall fixed capital formation fell in annual average terms in 2010 because of negative carry-over from the previous year and an ongoing decline in construction. Private consumption grew moderately but steadily, providing a stabilising effect as a result of a positive surprise on the labour market. Annual employment growth resumed in March 2010 and the employment losses for 2009 were fully reversed. As labour supply was also growing, the unemployment rate has been declining only gradually. Nevertheless, Austria reported the lowest unemployment rate in the EU with 4.4% in 2010.

The recent crisis took its toll on Austrian public finances. As a result of the stimulus packages and automatic stabilisers operating fully, the general government deficit reached 4.1% of GDP in 2009 and 4.6% of GDP in 2010. Public debt went up to 72.3% of GDP in 2010. Since most of the stimulus measures were of a permanent nature, there was a need for fiscal consolidation as soon as economic conditions improved. A consolidation package, adding up to less than 1% of GDP, has been adopted in the budget law for 2011. Almost half of the consolidation effort is planned on the revenue side.

2.2. Outlook

In spite of the planned fiscal consolidation, the outlook for the Austrian economy is rather favourable. Real GDP is projected to grow by 2.4% in 2011 and 2% in 2012 (according to the Commission services' spring 2011 forecast). Rather than depending primarily on net exports, the recovery will become more broad-based. Investment in equipment is expected to pick up against the background of the revival in industrial production and rising capacity utilisation. Growth of private consumption is forecast to remain restrained at just above 1% in 2011 and 2012. Higher energy and food prices at the onset of 2011 have worked their way into consumer price inflation and are likely to weigh on household real disposable income and consumer demand. Employment is likely to grow by slightly less than 1% in the near future, resulting in the unemployment rate gradually decreasing from 4.4% in 2010 to 4.2% at the end of the forecast horizon. Unit labour cost growth paused in 2010 and is projected to stay moderate in 2011 and 2012 as the economic recovery seems to be encouraging additional labour supply. Thus, a deterioration of cost competitiveness is unlikely and strong export growth is projected to carry on accompanied by a gentle continued rise in the current account surplus. On the back of favourable macroeconomic developments and the planned fiscal consolidation, the general government deficit is expected to fall to 3.7% of GDP in 2011 and again to 3.3% of GDP in 2012. Gross government debt is thus forecast at 75.4% of GDP in 2012.

3. MONITORING, PROCEDURAL ISSUES AND GOVERNANCE

The Austrian Government submitted the 2011 update of the Stability Programme (SP) to the European Commission on 27 April 2011 and the 2011 National Reform Programme (NRP) on 2 May 2011. Austria has ensured close coherence between its NRP and SP. The two documents outline in an integrated manner the fiscal consolidation efforts on the one hand and key structural reforms underpinning macro-economic stabilisation on the other. They build on a common macroeconomic outlook. The SP covers the period 2011-2014 and builds on the 2011 budget law. The NRP set the national targets in the fields of employment, R&D, energy and climate change, education and poverty reduction. These targets map out the long-term development trajectory for the Austrian economy up to 2020. The NRP also presents 2011 Austrian Action Programme 2011 for the Euro Plus Pact with a view to enhancing competitiveness, employment, public finance sustainability and financial stability.

The Ministry of Finance is responsible for preparing the SP, which was submitted to the national Parliament at the time of submission to the European Commission. The responsibility for the NRP lies with the Federal Chancellery. A wide-spread consultation took place in the process of drafting of the NRP. All ministries were involved as well as the social partners (Chamber of Labour, Agriculture Chamber, Trade Unions Association, Chamber of Commerce), NGOs and provinces ("Länder"). The Parliament was not consulted on the draft.

4. POLICY CHALLENGES AND ASSESSMENT OF POLICY AGENDA

4.1. CHALLENGES

Austria faces a range of inter-related policy challenges. An overarching one is to achieve a growth-friendly consolidation of public finances. Since most of the crisis-related fiscal stimulus measures were of a permanent nature, there was a need to embark on budgetary consolidation as soon as the crisis abated. The main challenge in this context is to maintain the momentum of the recovery and raise Austria's long-term growth potential by shifting resources towards growth-enhancing expenditure.

Ensuring the stability of the financial system is of great importance, especially in the light of Austria's high exposure to the CESEE countries and the degree of public (fiscal) involvement in supporting the sector through the crisis.

Impending demographic developments press for raising labour market participation. key aspects that need to be addressed are the low employment rate of older workers, the high tax and social security burden on labour income, the underutilised potential of people with a migration background and the relatively high degree of gender segmentation in the labour market.

In contrast to manufacturing, services have been relatively sheltered from competition and productivity growth has lagged behind. Opening up markets, enhancing competition and promoting the creation of new businesses would boost productivity and benefit consumer demand. Other major aspects to address are also the relative scarcity of venture capital, administrative obstacles to business start-ups, especially for SME's, and still restrictive sectoral regulations in the network industries and professional services.

Austria has established a solid record in R&D expenditure/intensity but is falling short of fully harnessing its innovative potential. The share of technology and knowledge-intensive products in exports and output has been disappointingly low. The country faces the challenge of invigorating innovation activity in businesses and enhancing practical application of R&D products. In this regard, the scarcity of venture capital may also prove to be a constraint.

Another priority related to innovation but also with economy-wide implications is the quality of education. The challenge here is to keep ensuring the ongoing relevance of the school curriculum and vocational skills to the needs of businesses so that they can make use of, and, more importantly, generate innovation.

Austria has set itself the following 2020 targets :

Table 1. Austrian Europe 2020 targets

Europe 2020 targets	Current situation in Austria[1]	Austrian Europe 2020 target in the NRP
R&D investment (% of GDP)	2.76% (2010)	3.76%, of which 66% (poss.70%) to be borne by the private sector
Employment rate (%)	74.70%	77-78%
Early school leaving (%)	8.70%	9.50%
Tertiary education attainment (%)	23.50%[2]	38%
Reduction of number of people in or at risk of poverty or exclusion	1,406,000 persons	-235,000 persons
Energy efficiency – reduction of energy consumption in MToe[3]	4.8 MToe reduction in the years 2000-2008	Reduction in primary energy consumption: 7.16 Mtoe
Reduction in greenhouse gas emissions (from sources not covered by the Emission Trading System)	-9%[4]	-16%[5]
Renewable energy (% of total energy use)	28.5% (2008)	34%

Box 1: 2011 Austrian Action Programme 2011 for the Euro-Plus-Pact

The latest Austrian NRP contains the Action Programme that Austria committed to in the context of the Euro-Plus-Pact (EPP). In line with the objectives set by the EPP, the Action Programme 2011 contains measures to foster the following areas.

(i) Competitiveness: the focus is on R&D and education. Additional resources will be provided on an annual basis over 2011-2014 for financing and stimulating research activity, for opening additional places in university equivalent technical colleges and for the development of all-day school models.
(ii) Employment: the focus is on combating youth unemployment by means of guaranteed apprenticeship training and other qualification measures.
(iii) Public finance sustainability: the focus is on raising the effective retirement age, through discouraging early retirement and maintaining the employability of older workers and on the reform of the Austrian Stability Pact by reviewing the binding upper limits on the deficits of the various layers of government (federal, provincial and municipal), enhancing transparency and strengthening the enforcement mechanism.

The measures broadly correspond to the macroeconomic bottlenecks endorsed by the ECOFIN Council in June 2010 in the context of the Europe 2020 strategy. The Stability Programme initiatives form an integral part of the NRP and are in compliance with the Federal Budgetary Framework Law and the Stability Programme.

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[1] Eurostat figures
[2] This includes ISCED 4a attainment, which was at 13,4% in 2009 (Eurostat, LFS)
[3] As estimated by the Commission. MToe = Million tonnes of oil equivalent.
[4] This quantity corresponds to the 2005-2008 evolution of the emissions not covered by the EU Emissions Trading System. As the scope of the Emissions Trading System evolved between 2005 and 2008, these emissions are estimated on the basis of the main relevant UNFCCC source categories (as opposed to the difference between total emissions and EU ETS verified emissions).
[5] The national emissions limitation target defined in Decision 2009/406/EC (or "Effort Sharing Decision") concerns the emissions not covered by the EU Emissions Trading System. It is expressed as the minimum relative decrease (if negative) or the maximum relative increase (if positive) compared to 2005 levels.

Although the measures presented are coherent and address the bottlenecks to some extent, further measures could be needed to tackle outstanding challenges fully in the respective areas such as stimulating private sector involvement in innovation activity; raising the effectiveness of education spending and establishing a quality assurance system in education and training, especially with a view to integrating disadvantaged students; the limited effectiveness of retraining of older workers and the need to move from seniority to performance based remuneration schemes; the remaining complexity of fiscal relations between various layers of government.

4.2. ASSESSMENT OF THE POLICY AGENDA

4.2.1. Macroeconomic policies

4.2.1.1. Public finances

The latest update of the Austrian Stability Programme is based on a macroeconomic scenario that is broadly in line with the Commission services' 2011 spring forecast for the period 2011-2012 (see Table II in the annex). There is close agreement on the GDP growth rates and components of final use as well as on the contributions of domestic demand and the external sector. The most notable differences in comparison to the Commission forecast include: (1) a higher GDP deflator in the two forecast years, including a higher private consumption deflator in 2012; (2) stronger growth of compensation of employees in 2011 on the back of a more optimistic employment growth projection. The difference in deflators is primarily attributable to views on import prices. The Commission forecast assumes somewhat stronger and persistent inflation of import prices stemming from energy and raw materials, hence a lower overall GDP deflator.

For 2013 and 2014, the programme envisages sustained GDP growth of above 2% and a strengthening contribution of domestic demand. This contrasts with the AWG projections for more subdued growth in the neighbourhood of 1.5%. Austrian government is optimistic about potential growth over the programme horizon. Its estimate exceeds that of the Commission services by 0.2 percentage points in 2011 and 2012 and that of the AWG projections for 2013 and 2014 by the same margin. The difference for 2011 and 2012 is accounted for by stronger trend total factor productivity (TFP) growth. Accordingly, the negative output gap as recalculated by Commission services based on the information in the programme, following the commonly agreed methodology, is somewhat more persistent than that suggested by the spring 2011 forecast.

All in all, the macroeconomic scenario underpinning the budgetary projections is plausible turning to slightly favourable towards the end of the programme period. The contributions of private consumption, investment and net trade are commensurate, and real unit labour costs are easing down[6], hence the projection is not overly biased towards tax-rich growth-drivers. Still, the outcome relies on sustained and significant TFP gains, and there is a risk that these might not materialise.

The 2010 general government deficit turned out at 4.6% of GDP, which was 0.1 percentage point lower than foreseen by the previous update of the Stability Programme in spite of a significant statistical upward revision of the deficit series from 1995 onwards. The revision took place in March 2011, following the outcome of the discussions between the Austrian authorities and Eurostat on the implementation of rules contained in the "Manual on Government Deficit and Debt". The 2010 deficit was revised upwards by 1% of GDP. The revision stems from three sources: 1) the assumption by the government of 70% of the costs

[6] Compensation of employees is growing more slowly than nominal GDP; hence the profit share is rising.

of infrastructure financing of the Austrian Federal Railways (0.4% of GDP), 2) the costs of financing the regional public hospitals (0.2%), and 3) the assumption of a part of the liabilities of the "bad bank" KA Finanz (0.4%), the latter qualified by the Commission services but not by the Stability Programme as a one-off measure. Since the 2009 deficit was also revised upwards, by 0.6% of GDP, the difference in the statistical revision in the two years explains almost fully the widening in the nominal deficit by 0.5% of GDP in 2010. Thus without the revision the deficits would turn out at about 3.5% of GDP in both years. Other factors which almost offset each other in the 2010 budget were on the one hand the parts of the fiscal stimulus introduced only in that year (relief for families with children and tax cuts for the self-employed) and on the other hand tax windfalls due to the unexpectedly favourable economic conditions.

The main goal of the medium-term budgetary strategy, presented in the latest update of the Stability Programme, is to gradually reduce the general government deficit from 4.6% of GDP in 2010 to 2.4% of GDP in 2014. The primary balance is projected to gradually turn from a 1.1% of GDP deficit in 2011 into a 0.5% of GDP surplus in 2014. The programme states explicitly that in spite of the continuously shrinking structural deficit (from 3.3% of GDP in 2011 to 2.3% of GDP in 2014), the medium-term objective (defined by Austria as a balanced budget over the business cycle) will not be achieved within the programme period. According to the programme, the general government deficit is to fall below the 3% reference value in 2013, which is in line with the deadline set by the Council in its recommendation under Article 126(7) TFEU of 2 December 2009. However, the annual average fiscal effort of 0.35% of GDP foreseen by the programme in the period 2011-2013 is significantly lower than the ¾% of GDP effort that the Council invited Austria to provide.

The budgetary adjustment presented in the programme is quite evenly spread over time with the exception of the year 2011, for which no adjustment is foreseen in the programme (see Table III in the annex). This has to do with the fact that the year 2011 is negatively influenced by the one-off measure in 2010 mentioned above. Up until 2013, the projected decline in the structural balance is fairly well underpinned by the measures listed in the programme. For 2014 the planned structural improvement slightly surpasses that implied by the consolidation measures presented in the programme.

The deficit targets in the latest update of the programme are similar to those cited in the previous programme in spite of the sizeable upward revision mentioned above as better than expected economic conditions make up for negative impact of the revision. The deficits are expected to turn out lower by 0.1 pp in 2011, unchanged in 2012 and higher by 0.2 ppin 2013.

Looking from the medium-term perspective, the budgetary adjustment is expected to be driven by expenditure as the expenditure-to-GDP ratio is projected to go down by 2.4 pp between 2010 and 2014. The biggest part of this expenditure adjustment falls into the category described as “other”, which is not fully explained in the programme. Other important areas of adjustment are compensation of employees, intermediate consumption and subsidies.

In terms of the evolution of the nominal balance by government level, the programme foresees that the bulk of the consolidation will fall on the federal government. The deficits of the provincial governments (Länder) are expected to diminish very gradually (by 0.1% of GDP a year) and those of municipal governments to stay unchanged (close to balance) after a 0.3% of GDP consolidation in 2011. This arrangement is anchored in the recently reinstated Austrian Stability Pact, which prescribes fiscal targets for all three layers of government and which was suspended during the crisis. It should be noted that in comparison with the past editions of the pact, the budgetary goals currently prescribed for the sub-national governments are significantly less ambitious, slowing the overall consolidation.

There are some risks to the budgetary strategy presented in the programme. As mentioned above the arrival at the set goals requires a continuous consolidation in the budgets of provinces (Länder) and municipalities. However, the programme does not spell out in what way this consolidation at the sub-national level is to be achieved and in the past the sub-national governments often failed to fulfil their commitments under the pact. There is also a risk that saving from some of the measures presented in the programme will not materialise, e.g. gains from the anti-tax-fraud campaign the predicted impact of which seems to be highly speculative. A positive risk factor is the multi-annual expenditure framework introduced for the federal government in 2009, which seems to have contributed to the predictability of the budgetary process in the medium term, albeit only at the federal level.

Box 2: Main measures

At the end of December 2010, the Austrian parliament adopted a budget law for 2011, which contained a package of measures (amounting to around 0.75% of GDP) aimed at bringing Austrian public finances back to a sustainable path. Almost half of the consolidation effort is to take place on the revenue side. The biggest item is a bank levy, designed in response to the latest global financial crisis and intended to collect a contribution from financial institutions to the costs of stabilising the financial sector borne by the Austrian authorities. The effect of the latter is being mitigated, however, by the withdrawal of a fee on loans. Another substantial element in the package is a rise in the fuel tax and in the tax on cigarettes. Apart from this, the set of agreed measures comprises inter alia: the introduction of a tax on airline tickets, a rise in the tax on property sales by private foundations and an increase in registration fees for less environment-friendly vehicles, the total effect of which should have only a modest budgetary impact.

The measures on the expenditure side consist mainly in reductions in administrative costs across the board, cuts in family allowances and pension entitlements. However, the consolidation effort will partly be offset by additional spending on education, R&D and energy-saving renovation of buildings.

The measures presented by the programme for the period 2012-2014 are of a much smaller magnitude and stem from the incremental nature of the 2011 package of measures. The consolidation effort on the revenue is expected to amount to 0.2%, 0% and 0.1% of GDP in 2012, 2013 and 2014 respectively. On the expenditure side, the programme foresees a consolidation effort of about 0.4%, 0.2% and 0.1% of GDP.

Main budgetary measures (% of GDP)

Revenue	**Expenditure**
2011	
• bank levy (0.2%) • rise in the fuel tax and in the tax on cigarettes (a combined effect of around 0.2%)	• reductions in administrative costs across the board (-0.2%) • cuts in family allowances (-0.1%) • cuts in pension entitlements (-0.1%) • additional growth-enhancing spending on education, R&D and energy-saving renovation of buildings (0.1%)

Note: The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign implies that revenue / expenditure increases as a consequence of this measure.

Having stayed on a declining path until 2007, the debt-to-GDP ratio has been growing continuously since 2008 on the back of the substantially increased general government deficits and massive government support for the banking sector. Due to statistical revisions for the period from 1999 onwards, gross government debt surpassed 72% of GDP in 2010. The revision stemmed from both the above-mentioned adjustment to the general government deficit series and, less significantly, a reclassification of other items impacting only on debt (e.g. treatment of cash collaterals and regional public housing unit). The latest update of the programme stipulates that the debt-to-GDP ratio will continue its upward trend until 2013 and will start declining thereafter (see Table IV in the annex). However, there are some risks attached to this projection. Firstly, a source of concern is the growing debt of state-owned companies classified outside the government sector (such as the Austrian Federal Railways and the Austrian highway authority). Secondly, further burden on the debt level flowing from the banking sector government support measures cannot be excluded. At the same time, though, the debt ratio might turn out lower as it is probable that the banks which received the public support during the crisis will pay it back ahead of the schedule assumed in the programme.

Austria is at medium risk with regard to the long-term sustainability of public finances. The long-term cost of ageing is somewhat below the EU average, with pension expenditure projected to increase only slightly as a share of GDP over the long-term. The current budgetary position compounds the cost of ageing. Based on the current fiscal position, debt would increase to 96.8% of GDP by 2020. However, the full implementation of the programme would be not enough to put debt on a downward path by 2020. Ensuring sufficient primary surpluses over the medium-term would improve the sustainability of public finances.

The execution of the consolidation plan should be facilitated by some amendments (except for the relaxed deficit targets) to the above-mentioned Austrian Stability Pact agreed on in March 2011. These include: strengthening the Pact's enforcement mechanism, making it more transparent by enhancing publication obligations and streamlining the financing of long-term care across the central, provincial and local governments. However, there is still a need to further reform the fiscal relations between various layers of government (set out in the Fiscal Equalisation Law "Finanzausgleichsgesetz") which would bring in substantial savings, support fiscal consolidation and free up resources for growth-enhancing investment in areas such as R&D and education. It is widely acknowledged that current relations are rather complex and somewhat opaque. Not only are revenues from most individual taxes shared among the different territorial levels by fixed proportions, but also decision-making in many areas is divided among various levels of authority. For a number of activities revenue-raising and spending responsibilities do not reside within the same level of government. The programme refers to some reforms in the education system to be adopted in the course of 2011, steps taken in order to align the pension system of Länder officials with the general pension system as well as the introduction of the data bank on subsidies aimed at enhancing their transparency. However, more concrete measures are needed in order to further enhance the efficiency of public finances, in particular in the health care and education sectors.

4.2.1.2. Financial sector

The Austrian financial sector has weathered the current economic and financial downturn relatively well. It faces challenges stemming from the Austrian banks exposure to the economies of the Central and Eastern European countries where non-performing loans have, as of mid-2011, not yet peaked. Further challenge consists in the mitigation of risks associated with foreign currency lending, especially the outstanding stock of loans in Swiss francs and Japanese yen and the need for the banks which benefited from public sector support to repay the capital injections received from the state during the financial crisis.

The Austrian banking sector's exposure to the troubled peripheral euro area countries has remained relatively limited. By contrast, the high exposure to Central, Eastern and South Eastern Europe[7] (CESEE) has remained relatively stable throughout the period 2008-2010. At the end of September 2010, it amounted to USD 290 billion or 73% of Austria's GDP. In the framework of the European Bank Coordination Initiative, Austrian banks have largely honoured their exposure commitments to the countries of the region and this contributed to financial stability. The exposure to CESEE is being closely monitored and further progress has been made to strengthen cross-border supervision, including via supervisory colleges. In this context, both the SP and the NRP mention Cross Border Stability Groups to be established between Austria and individual countries of the region in order to improve the cross-border cooperation in the event of a crisis. In line with the general market recovery, the sovereign risk premium has declined significantly since 2009 and stabilised at around 30 basis points, which is among the lowest in the euro area.

Banking sector profitability, which plunged in 2008, has been recovering since the second half of 2009. Albeit still below the pre-crisis level, it has remained slightly above the euro-area average. The capitalisation of the banking sector has remained at reassuring levels throughout the downturn period. The capital adequacy ratio of the banking sector increased from 11.0% at the end of June 2008 to 13.3% at the end of June 2010. At the same time, the Tier 1 capital ratio also went up due to both an increase in eligible capital and a decline in risk-weighted assets. The results of EU-wide stress test performed by the Committee of European Banking Supervisors[8] (CEBS) in July 2010 proved to be satisfactory for the Austrian banks. The most recent stress test performed by the Austrian National Bank in autumn 2010, confirmed the resilience of the Austrian banks.

The support measures[9] for the financial sector adopted by the Austrian government (at the end of 2008 and throughout the crisis) have significantly contributed to safeguarding financial stability and improving market confidence. They constituted one of the most sizeable financial sector support packages in the euro area, and amounted to 32.7 % of GDP in 2008, 11.5% of GDP at the end of 2009 and 11.6% of GDP at the end of October 2010. Two banks (Kommunalkredit and Hypo Alpe Adria) were taken over by the government in 2008 and 2009 respectively. The clearing house established at the end of 2008 to reinvigorate the interbank market has helped improve the liquidity position of the banking sector and facilitated access of smaller credit institutions to liquidity. As a result, the Austrian financial sector has weathered the current financial and economic downturn relatively well.

Foreign currency lending (predominantly in Swiss franc and Japanese yen) to households and corporations, has been very high in European comparison. Although moderating in recent years, the outstanding stock of loans (roughly EUR 55 billion at the end of September 2010), remains an area of concern for the banking sector. The appreciation of the Swiss franc in the first half of 2010 has confronted non-hedged borrowers (i.e. households) with significant book losses. In March 2010, authorities adopted regulatory measures restricting new foreign currency lending and denying access to non-hedged borrowers. Furthermore, credit institutions are required to develop strategies for reducing the outstanding volume of foreign currency denominated loans. These measures have also contributed to the further decline of this type of lending in recent months.

Both the SP and the NRP refer to a bank levy which Austria introduced recently with the declared aim of enhancing the stability of the banking sector. This "stability tax" levied on

[7] Including CIS and Western Balkan countries

[8] Succeeded by the European Banking Authority as of 2011.

[9] Those took the form of capital and liquidity injections, asset relief measures and guarantees for bank liabilities.

credit institutions and subsidiaries of foreign-owned banks operating in the Austrian market came into effect at the beginning of 2011. According to the SP, this levy is expected to generate revenue of roughly EUR 500 million per year. The stability tax is levied on the total balance sheet of banks by end-December 2010, excluding own funds and deposits.

4.2.2. Labour market policies

The overall performance of the Austrian labour market has been satisfactory as demonstrated by the high employment rate (74.9%) and the lowest unemployment rate (4.4%) in the EU in 2010. However, several aspects need addressing so that the country can fully tap its labour force potential in the face of an ageing population and projected skilled labour shortages. The Austrian labour market is characterised by low employment of older workers, a high tax and social security burden on labour income, an underutilised potential of people with migration background and a high degree of gender segmentation.

Low employment rate of older workers

The employment rate of older workers is below EU average (42.4% compared 46.3%) in spite of a rise in the last decade. The average exit age from the labour force of 62.6 years for men and 59.4 years for women is below the statutory retirement age (65 for men and 60 for women) and below EU average (2007). 72% of new pensions in 2010 were either early retirement or disability pensions. The number of pensioners under the "Hacklerregelung" scheme, allowing deduction-free early retirement due to long insurance records, increased steeply in the last years. Another factor contributing to the low employment rate of older workers is the low (60) statutory retirement age for women[10], which increases their poverty risk in old age. Given demographic developments, raising the effective retirement age is important with a view to the sustainability of public finances, the adequacy of pensions and to boosting labour supply.

Both the SP and the NRP mention two areas of reform in 2010. First, as of 2014 stricter rules will apply for early retirement on the basis of long-term insurance records by increasing the qualifying age by 2 years and only counting active employment as contributory time. A considerable reduction of early retirements in this scheme can thus be expected as of 2014. The originally planned phasing out of the "Hacklerregelung" is, however, not foreseen in the programmes. Second, as from 2011 invalidity pensions have become conditional on participation in a rehabilitation measure. In addition, a centralised system for assessing applications for this type of pensions, is being introduced. These reforms have potential for avoiding or postponing disability pensions, although their real impact is yet to be assessed.

Moreover, there is scope for improvement in providing appropriate conditions and incentives for older people to work longer and for companies to employ them. Participation in and effectiveness of training for older workers have shown to be limited. Another issue is the steep age-income profile of salaried employees. A more performance-based instead of seniority-based wage scheme would be favourable for the employment of older workers.

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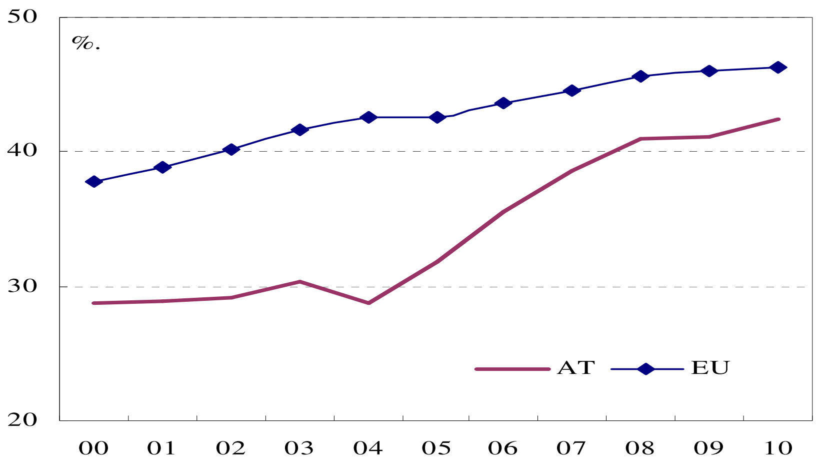
[10] It is scheduled to be increased only from the current 60 to 65 years between 2024 and 2033.

Figure 1: Employment Rate (Age 55-64)



Source: Commission services, LFS.

Tax wedge

The average tax wedge[11] in Austria is among the highest in the EU, which has a negative impact on employment, in particular in the low-income sector. The lowering of unemployment insurance contributions of low-wage earners in 2008 and the income tax reform of 2009 reduced the labour tax burden, but could not prevent the tax wedge from increasing for low and average earners from 2001 to 2009. Thus further lowering labour taxation could be beneficial. The fiscal effect can be offset by reducing public expenditure or by raising real estate, consumption or environment-related taxes.

Underutilised potential of people with a migration background

The share of people with a migration background in the labour force in Austria is high by EU standards. The problems which migrants face on the labour market are twofold: on the one hand, pupils with a migration background have lower education outcomes than their peers without such a background; on the otherhand, migrants are three times more often employed below their qualification levels than Austrians. The main challenge is low education outcomes: migrants are 3.5 times more likely to be early school leavers than natives (22.1% compared 6%). One of the reasons for this is the strong influence of socio-economic background on educational achievement in Austria, which can partly be explained by “early tracking” into two different schooling streams at the age of 10. In particular in urban regions this tends to cause "downward" selection of pupils with a disadvantageous socio-economic background and reduces de facto permeability between upper secondary education and training streams. This, combined with widespread half-day schooling, seems to have a negative effect on educational attainment of vulnerable youth.

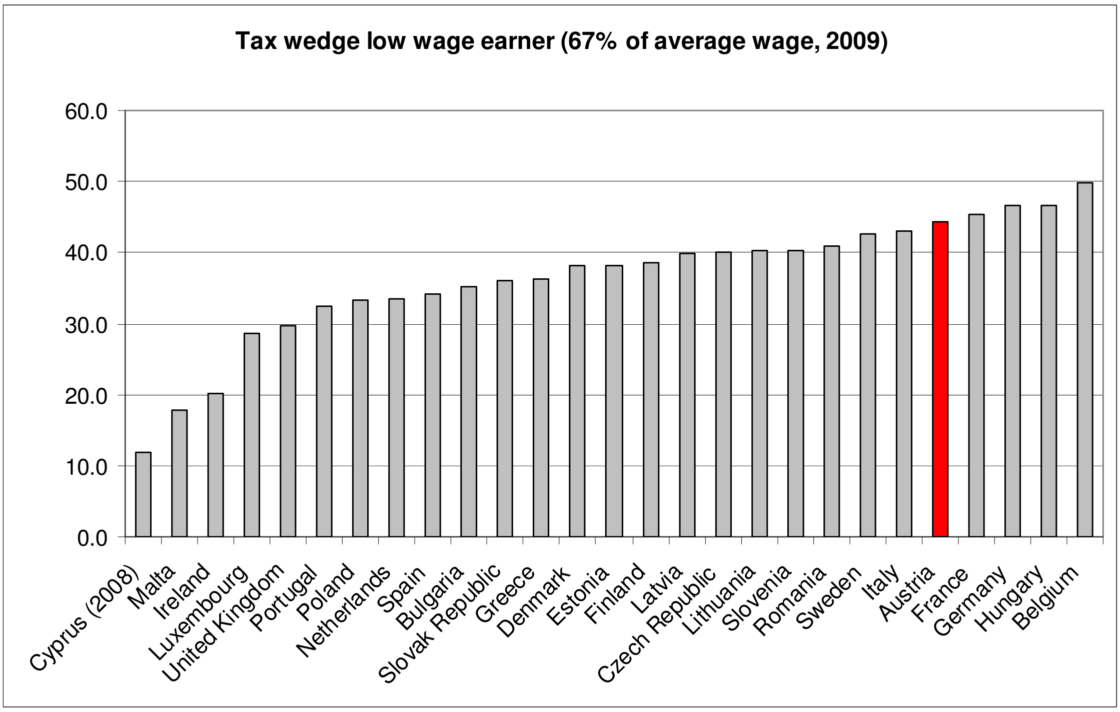
Several measures have been implemented or are planned in order to improve qualification levels, such as a compulsory free-of-charge last year of kindergarten with special support for children with poor knowledge of German; the pilot project of the New Middle School to diminish the consequences of early tracking through new pedagogical concepts and individualised support; expansion of all-day school places; more counselling and social work in schools. These measures help to address the challenge but have not brought about a sustainable structural reform. As young people with a migration background face special difficulties in their transition to the labour market, additional support adapted to their needs,

[11] Income taxes plus total social security contributions minus cash transfers as a percentage of total labor costs.

such as counselling that involves social workers, immigrant parents and communities would be helpful.

One of the obstacles to the best use of migrants' skills is linked to the recognition of diplomas. In this context, focusing on issues such as bureaucratic burden, costs and the organisation of qualification courses could improve the situation. The Austrian Action Plan on Integration published in 2010 addresses these issues. Measures to meet the objectives of the plan have, however, not been sufficiently implemented so far.

Figure 2: Tax wedge for low wage earner



Source: Joint EC OECD project on taxes and wages. Single person without children.

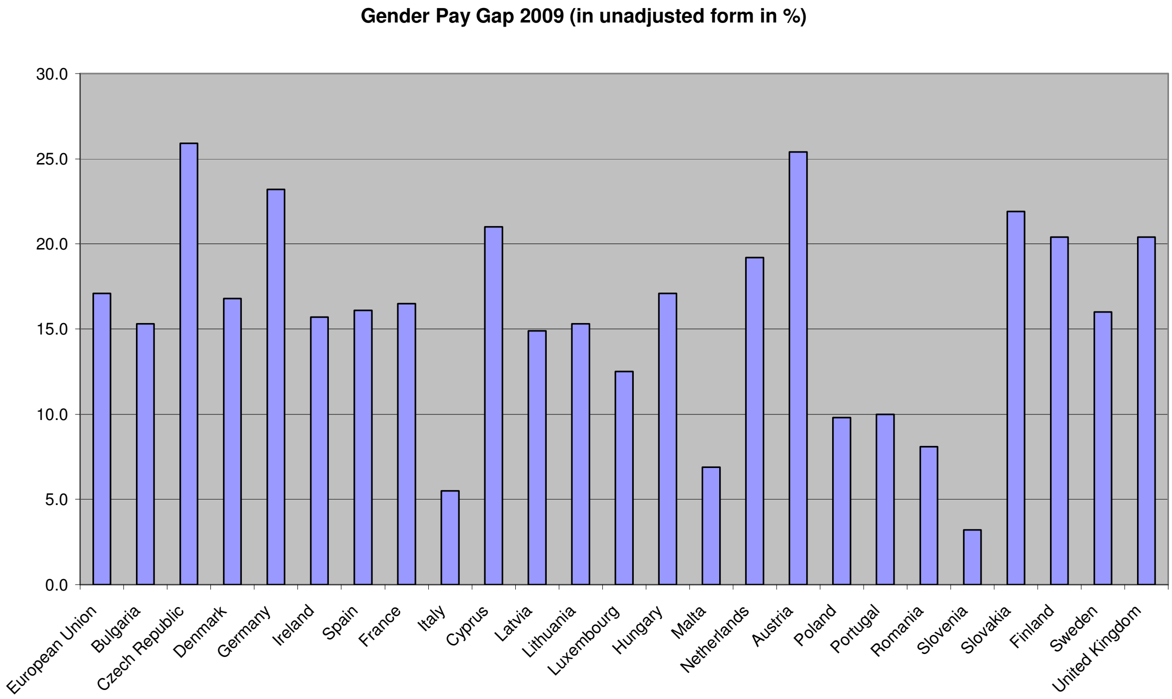
Gender segmentation

Although the female employment rate in Austria is relatively high (69.6% compared. 62.1% in EU), there is scope for increasing female labour force participation by reducing gender segmentation in the labour market. Austria's gender-specific concentration of part-time employment is among the highest and female employment rates measured in full-time equivalents suggest that Austria faces particular challenges with making a full utilisation of the economy's labour potential. Women are found almost twice as often in marginal[12] employment and are highly concentrated in low-wage employment. These patterns result in a gender pay gap of 25.4% which is the second highest in the EU (17.1%) and one of the factors leading to a relatively high poverty risk for women, especially for single mothers and women aged 65+. The main reason for the lower labour market participation of women is the unequal distribution of care obligations between women and men and a limited availability of childcare facilities and long-term care services. Austria does not meet the Barcelona targets for childcare and its long-term care system is characterised by a large informal sector in which

[12] Employment not exceeding a certain income threshold ("Geringfügigkeitsgrenze"; currently 374 EUR per month or 28.7 EUR per working day) where employees themselves take care of pension and health insurance and pay contributions on their own account

women perform the bulk of unpaid care work. According to 2008 data, Austria is one of the few EU Member States with a high impact of childcare costs on net income gain for second earners, which weakens the financial incentives to take up employment (OECD, 2011). In the meantime fees have, however, been abolished for the last year of kindergarten and in some regions even for other age groups.

Figure 3: Gender Pay Gap (in unadjusted form in %)



Source: Commission services, LFS.

The NRP presents some measures to create incentives for women to work such as the recent further diversification of childcare benefit schemes which seeks to encourage fathers' participation in childcare and the introduction of a compulsory free-of-charge last year of kindergarten. The NRP also provides concrete information on the extension of all-day care in school. It does, however, not indicate concrete plans regarding pre-school childcare places. The issue of long-term care is not tackled either. The Austrian Action Plan for the equal treatment of women and men on the labour market adopted last year presents a comprehensive package of measures. However, only some of them have been implemented so far.

Combat poverty and promote social inclusion

Considering the main indicators for the Europe 2020 poverty reduction target, Austria is among the best performers within the EU with 17% of the population at-risk of poverty or exclusion against 23.1% in the EU. Yet, important challenges need to be tackled in order to reach the Austrian national target: addressing the above-average poverty risk of women, in particular of single mothers and women in old age, reducing the particularly strong intergenerational transmission of education achievements, addressing the high poverty risk of migrants (who represent 17% of the people at risk of poverty or exclusion in Austria), and tackling in-work poverty (6% of those employed in 2009).

Education

Austria's economy is gradually beginning to face mismatches in the labour market. The quality[13] of primary and secondary education and the outcomes as regards disadvantaged learners are not as good as they could be given the relatively high expenditure on education (see also 4.2.2). The importance attached to the highly developed vocational education and training sector may have affected the number of tertiary graduates. There is a relatively low number of new tertiary graduates in math, science and technology (MST, 11.8 per 1000 people aged 20-29 compared with 14.5 on average for the EU in 2008). Strengthening links between education (especially post-secondary), research and innovation, ensuring a stronger contribution of all levels of the educational system to human capital formation, and, not least, a properly balanced skills structure of graduates, e.g. by raising the number of MST graduates, would support innovation. It would also facilitate the translation of the high spending on R&D into upgrading of the structure of the economy towards knowledge-intensive sectors.

The government aspires to raise the share of higher education graduates in the 30 to 34 year-old age group, which is currently below EU average and in the past has progressed less than the EU average, to 38%[14] by 2020. To that end, the NRP puts forward a comprehensive set of initiatives facilitating the access to higher education, and attracting more pupils to mathematics, informatics, natural science and technology studies (the MINT[15] initiative). These range from prevention of exclusion and segregation, guidance on choice of studies and professions and better mobility of international students in the tertiary sector. It remains to be seen whether these measures will be sufficient. With a view to improving the overall skills and competences level of its population, Austria would benefit from increasing the overall effectiveness of government spending on education and improving its quality assurance system.

4.2.3. Growth-enhancing structural measures

Austria scores well on the overall competitiveness of its economy. Labour productivity lies above the EU average, the business environment is generally favourable, and there are no major short-term structural problems. For a developed high-income economy however, Austria faces relative structural weaknesses in several areas, which may harm the long-term potential of its economy.

Austria's GDP growth in the last decade was based on the competitiveness of its manufacturing. Meanwhile, productivity in services has been sluggish and failed to support domestic demand. Although expenditure on R&D is high by European standards, Austria may not be fully exploiting its innovative potential. Another key challenge in this respect is increasing the relevance of vocational skills by strengthening the link between education and innovation.

Competition and business environment

Despite liberalisation of the retail sector and communications, regulation of services remains relatively restrictive. The requirements for market entry and business start-ups do not seem to

[13] PISA 2006, 2009

[14] This includes ISCED 4a attainment, which is currently at 13.4% (Eurostat, LFS 2009)

[15] Mathematics, Computer science (Informatik), Natural sciences, Technology

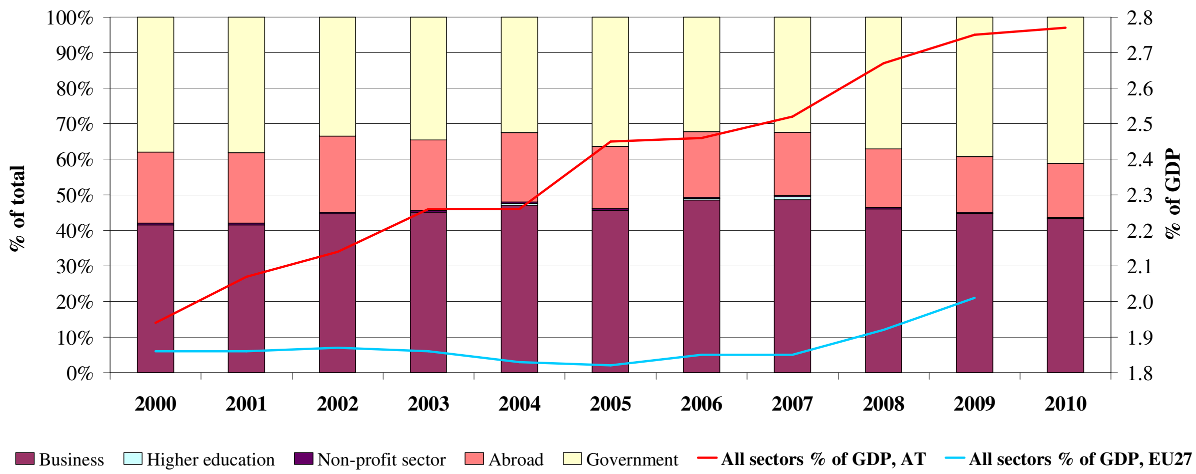
offer sufficient support for entrepreneurship, competition and innovation. The activities affected range from trades and professional services to network industries. Impact assessment of new regulation tends to be limited to the estimation of administrative rather than the overall cost to businesses. Austria has accumulated a transposition deficit, including with respect to the Services Directive. There is room for strengthening competition policy and its implementation by the Federal Competition Authority and sector regulators. Stronger competition, especially in network sectors would increase purchasing power and the overall competitiveness of the economy.

The Austrian government has shown awareness of a number of these issues. The latest NRP is set to promote the creation of new businesses by boosting the attractiveness of the Austrian limited liability company (*GmbH)* as a form of incorporation, including plans to lower the costs of establishing one-person companies. The reform efforts however do not sufficiently tackle licensing procedures[16], obligations for notary certification and the compulsory announcement requirements[17], which all in all remain quite time-consuming and would benefit from further streamlining. A reform of the structure of the Competition Authority is envisaged, enhancing its competence and optimising synergy with other regulatory bodies. The transposition backlog however remains unaddressed. In view of the many legal and technical challenges involved, government efforts in these areas need to be stepped up.

Research and innovation

Austria ranks among the top five in the EU in R&D intensity. In spite of the substantial level of total R&D expenditure however, the economic structure is still largely based on low R&D intensive sectors, and the output and export of knowledge-intensive products remain low. Although many enterprises tend to occupy the high-tech end in the traditional low-to-mid technology-intensive sectors, it seems that the R&D policy has not yet significantly contributed to the structural change towards high-tech industry and services. In addition, the governance and performance of the portfolio of public R&D funding needs to be improved. Since 2008, increases in R&D have primarily been driven by countercyclical government spending.

Figure 4: R&D expenditure in Austria by origin of funds



[16] Betriebsanlagegenehmigungen

[17] Veröffentlichungspflichten

Source: Eurostat.

The NRP sets the ambitious goal of raising R&D intensity to 3.76% of GDP by 2020, with at least 2/3 private sector involvement and puts emphasis on strengthening the knowledge and innovation nexus. It foresees three groups of measures. First, it is the reinforcement of the innovation capacity of enterprises through targeted support of R&D activity, stimulating the establishment of foreign innovative companies, and fostering the cooperation between the science base and the business sector including internationally. The need to improve the implementation of the findings of research into marketable innovations is also acknowledged. Second, the creation of globally competitive research infrastructures and advancement of university and extramural research institutions are formulated as important national objectives in the Research Technology and Innovation Strategy. The third group of measures concerns information and communication technology, in particular the implementation of a "real time" prioritisation mechanism as well as reaping growth and agglomeration benefits from the high performance communication networks. The programme indicates awareness of challenges and spells out numerous initiatives. However, to achieve the goal of sustained private sector investment will require improving framework conditions (e.g. with respect to venture capital) and streamlining Austria's complex governance system.

A key aspect for strengthening of the role of the private sector is support to the creation and growth of innovative companies. The relatively small stock market and venture capital (VC) sector do not offer sufficient opportunities for raising capital. Total VC investment in 2009 was at 0.05% of GDP, against the average of 0.19% for EVCA[18] members, while Austria ranked 57th in the world in Equity Market Development[19]. The banking sector prevails as the main source of financing for industry. The forthcoming additional capital needs of the banking sector related to Basel III create the risk of limiting corporate lending, in particular to SMEs. The access to and supply of private non-banking financing would benefit from improving the legal and regulatory framework for venture capital, e.g. by increasing the attractiveness and transparency of legal forms used for (i) venture capital funds and for (ii) investments vehicles, including measures mitigating possible tax disincentives. In addition, studies indicate that there is room for improvement to the corporate governance code, in order to strengthen investor protection, in particular for minority shareholders[20].

Energy and climate change

To meet its national 2020 target of 34% of renewable energy sources, Austria needs to advance the development of a coherent, transparent and predictable renewable energy policy, step up the implementation of the National Renewable Energy Action Plan and ensure full transposition of Directive 2009/28/EC on the promotion of the use of energy from renewable sources. Support schemes must be oriented towards a long-term cost-effective renewable energy mix and be adaptable to cost reductions as technology develops, while avoiding retroactive changes to preserve investor confidence. For the development of trans-border electricity transmission networks, a precondition for stronger penetration of renewable energies, the internal electricity grid needs reinforcement and further coordination with the neighbouring member states would be required. Reverse-flow projects need to be completed in the area of gas infrastructure and permitting procedures need to be streamlined to reduce delays for infrastructure project implementation. Regarding energy efficiency, the target

[18] European Private Equity and Venture Capital Association

[19] Indicator based on (1) stock market capitalization relative to GDP, (2) stock market liquidity, and (3) changes in the number of listings. *Source: Milken Institute 2009*

[20] Doing business in Austria 2011, World Bank

formulation is clear, realistic and ambitious. Nevertheless, regular reviewing of the national energy efficiency strategy is essential as is the removal of delays in the correct transposition of the Directives of the Third Energy Package. In particular, the rules on effective unbundling of transmission system operators for electricity and gas need to be implemented in practice.

The recent trend in greenhouse gas emissions does not appear in contradiction with the 2020 national target defined at the European level (-16% compared to 2005 levels) but as the economic crisis tends to have reduced emissions, caution is needed.

5. SUMMARY

The economic and financial crisis has taken its toll on Austria's public finances. Benefitting from a relatively favourable fiscal situation prior to the crisis, the Austrian authorities introduced a sizeable stimulus package aimed at alleviating the consequences of the downturn. In the latest update of the Stability Programme, the Austrian government confirmed its willingness to embark on a consolidation path, as from 2011. However, taking into account the favourable economic conditions projected in the programme, there seems to be scope for raising the consolidation pace. One acknowledged potential source of substantial savings and increasing the effectiveness of public expenditure is reforming the fiscal relations between the federal, provincial and municipal governments. At the moment the complexity of these relations results in inefficiencies. However, the efficiency of public finances could be further enhanced, in particular in the areas of health care and education.

The reform agenda of the Austrian government presented in the latest NRP addresses the policy challenges through a comprehensive set of coherent measures. However, there is scope for fully tackling outstanding challenges in areas such as labour markets, competition in services, innovation and education policy. Further tightening of access to early retirement or disability pensions would raise Austria's low employment rate of older workers. Issues regarding conditions and incentives for older people to work longer or for employers to employ older workers remain unaddressed. Potential labour supply seems to suffer also from impaired incentives of low-wage earners facing a high tax wedge. The implementation of measures promoting equality of opportunity for disadvantaged students and workers, most notably migrants and women, has been partial. Barriers to competition in services and the delayed transposition of EU legislation have prevented consumers from benefiting fully from the internal market. Further reform measures could help increase the key competences of pupils at primary and secondary level and the quality of the educational system in general.

STATISTICAL ANNEX

Table I. Macro economic indicators

	1995-1999	2000-2004	2005-2008	2009	2010	2011	2012
Core indicators							
GDP growth rate	2.8	1.8	3.0	-3.9	2.0	2.4	2.0
Output gap [1]	0.2	0.0	1.3	-2.7	-2.1	-1.2	-0.8
HICP (annual % change)	1.2	1.8	2.3	0.4	1.7	2.9	2.1
Domestic demand (annual % change) [2]	2.1	1.1	2.0	-2.3	0.9	1.6	1.5
Unemployment rate (% of labour force) [3]	4.2	4.1	4.6	4.8	4.4	4.3	4.2
Gross fixed capital formation (% of GDP)	23.8	22.7	21.6	21.1	20.7	21.1	21.5
Gross national saving (% of GDP)	22.7	24.2	26.1	23.8	25.2	24.8	25.4
General Government (% of GDP)							
Net lending (+) or net borrowing (-)	**-3.3**	**-1.7**	**-1.3**	**-4.1**	**-4.6**	**-3.7**	**-3.3**
Gross debt	**66.6**	**66.1**	**62.6**	**69.6**	**72.3**	**73.8**	**75.4**
Net financial assets	**-37.6**	**-36.3**	**-34.0**	**-38.5**	**n.a**	**n.a**	**n.a**
Total revenue	51.5	50.3	48.1	48.8	48.3	48.7	48.7
Total expenditure	54.7	52.0	49.4	52.9	53.0	52.4	52.0
of which: Interest	3.7	3.2	2.8	2.8	2.7	2.8	3.0
Corporations (% of GDP)							
Net lending (+) or net borrowing (-)	**-2.9**	**-1.3**	**-0.8**	**0.9**	**1.4**	**0.6**	**0.5**
Net financial assets; non-financial corporations	**-69.1**	**-79.9**	**-87.4**	**-87.6**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**-3.6**	**-1.6**	**1.9**	**6.5**	**n.a**	**n.a**	**n.a**
Gross capital formation	16.4	16.5	16.5	14.6	15.5	16.0	16.5
Gross operating surplus	20.4	22.5	24.3	21.7	22.4	22.6	22.8
Households and NPISH (% of GDP)							
Net lending (+) or net borrowing (-)	**3.9**	**4.0**	**5.1**	**5.3**	**4.7**	**4.7**	**4.7**
Net financial assets	**96.1**	**99.9**	**108.4**	**116.0**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	42.2	41.0	39.5	41.4	40.9	40.6	40.6
Net property income	6.3	6.4	7.8	5.8	4.7	5.2	5.0
Current transfers received	23.8	23.8	22.1	23.9	23.9	23.7	23.7
Gross saving	9.1	8.6	9.9	10.4	9.5	9.4	9.4
Rest of the world (% of GDP)							
Net lending (+) or net borrowing (-)	**-2.3**	**0.9**	**3.2**	**2.7**	**3.3**	**1.7**	**2.1**
Net financial assets	**15.9**	**19.5**	**13.0**	**6.8**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	-0.3	3.2	5.2	4.5	4.9	4.9	5.1
Net primary income from the rest of the world	-1.3	-1.4	-1.2	-1.0	-0.8	-1.2	-1.2
Net capital transactions	-0.1	-0.2	-0.1	0.1	0.1	-0.9	-0.7
Tradable sector	44.7	44.6	43.6	42.4	42.8	n.a	n.a
Non tradable sector	45.1	45.7	46.8	48.1	47.9	n.a	n.a
of which: Building and construction sector	7.1	6.5	6.3	6.6	6.3	n.a	n.a
Real effective exchange rate (index, 2000=100)	110.1	99.8	100.1	101.8	100.4	100.5	100.7
Terms of trade goods and services (index, 2000=100)	102.2	101.1	99.7	99.0	97.4	96.0	95.5
Market performance of exports (index, 2000=100)	99.7	104.0	105.3	100.4	100.2	100.8	101.0

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2000 market prices.

[2] The indicator on domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source:

Commission services' spring 2011 forecast

Table II. Comparison of macroeconomic developments and forecast

	2010		2011		2012		2013	2014
	COM	SP	COM	SP	COM	SP	SP	SP
Real GDP (% change)	2.0	2.0	2.4	2.5	2.0	2.0	2.1	2.2
Private consumption (% change)	1.0	1.0	1.1	1.1	1.1	1.1	1.3	1.3
Gross fixed capital formation (% change)	-1.3	-1.3	3.0	2.6	2.9	2.7	2.9	3.3
Exports of goods and services (% change)	10.8	10.8	7.0	7.4	6.8	6.5	6.2	6.1
Imports of goods and services (% change)	9.2	9.2	5.9	6.1	6.3	6.0	6.0	5.9
Contributions to real GDP growth:								
- Final domestic demand	-0.2	0.7	1.4	1.5	1.4	1.4	1.6	1.7
- Change in inventories	1.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
- Net exports	1.2	1.2	0.9	1.0	0.6	0.6	0.5	0.5
Output gap[1]	-2.1	-2.1	-1.2	-1.3	-0.8	-1.0	-0.6	-0.3
Employment (% change)	1.0	0.9	0.8	1.6	0.7	0.9	0.8	0.8
Unemployment rate (%)	4.4	4.4	4.3	4.4	4.2	4.5	4.5	4.4
Labour productivity (% change)	1.0	1.1	1.6	0.9	1.3	1.1	1.3	1.3
HICP inflation (%)	1.7	1.7	2.9	2.9	2.1	2.4	2.0	2.0
GDP deflator (% change)	1.5	1.5	1.7	2.0	1.8	2.1	1.7	1.8
Comp. of employees (per head, % change)	1.6	1.5	2.5	2.6	2.7	2.8	2.6	2.8
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	3.3	3.2	1.7	3.7	2.1	4.3	4.4	4.7

Note:

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

Source :

Commission services' spring 2011 forecasts (COM); Stability programme (SP).

Table III. Composition of the budgetary adjustment

(% of GDP)	2010	2011		2012		2013	2014	Change: 2010-2014
	COM	COM	SP	COM	SP	SP	SP	SP
Revenue	**48.3**	**48.7**	**48.3**	**48.7**	**48.2**	**48.2**	**48.1**	**-0.2**
of which:								
- Taxes on production and imports	14.6	14.7	14.7	14.7	14.6	14.5	14.4	-0.2
- Current taxes on income, wealth, etc.	12.8	13.1	13.0	13.3	13.4	13.6	13.8	1.0
- Social contributions	16.4	16.3	16.2	16.3	16.0	16.0	15.9	-0.5
- Other (residual)	4.6	4.5	4.4	4.4	4.3	4.1	4.0	-0.6
Expenditure	**53.0**	**52.4**	**52.2**	**52.0**	**51.6**	**51.0**	**50.6**	**-2.4**
of which:								
- Primary expenditure	50.3	49.6	49.3	49.0	48.6	48.0	47.6	-2.7
of which:								
Compensation of employees	9.7	9.5	9.5	9.4	9.3	9.2	9.1	-0.7
Intermediate consumption	4.6	4.5	4.4	4.4	4.4	4.3	4.2	-0.4
Social payments	25.5	25.4	25.3	25.4	25.3	25.4	25.4	-0.2
Subsidies	3.5	3.5	3.5	3.4	3.4	3.2	3.1	-0.4
Gross fixed capital formation	1.2	1.1	1.1	1.1	1.1	1.1	1.0	-0.1
Other (residual)	5.8	5.5	5.5	5.3	5.2	4.9	4.8	-1.0
- Interest expenditure	2.7	2.8	2.8	3.0	2.9	3.0	3.0	0.3
General government balance (GGB)	**-4.6**	**-3.7**	**-3.9**	**-3.3**	**-3.3**	**-2.9**	**-2.4**	**2.2**
Primary balance	**-2.0**	**-0.9**	**-1.1**	**-0.3**	**-0.4**	**0.1**	**0.5**	**2.5**
One-off and other temporary measures[4]	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.4
GGB excl. one-offs	**-4.3**	**-3.7**	**-3.9**	**-3.3**	**-3.3**	**-2.9**	**-2.4**	**1.8**
Output gap[2]	-2.1	-1.2	-1.3	-0.8	-1.0	-0.6	-0.3	1.8
Cyclically-adjusted balance[2]	-3.7	-3.2	-3.3	-2.9	-2.8	-2.6	-2.3	1.4
Structural balance[3]	**-3.3**	**-3.2**	**-3.3**	**-2.9**	**-2.8**	**-2.6**	**-2.3**	**1.0**
Change in structural balance		*0.1*	*0.0*	*0.3*	*0.4*	*0.3*	*0.3*	
Structural primary balance[3]	-0.6	-0.4	-0.5	0.0	0.1	0.4	0.7	1.3
Change in structural primary balance		*0.3*	*0.2*	*0.4*	*0.6*	*0.3*	*0.2*	

Notes:

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

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

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

[4]Including for 2010 the impact of the assumption of a part of the liabilities of the "bad bank" KA Finanz.

Source:

Stability programme (SP); Commission services' spring 2011 forecasts (COM); Commission services' calculations

Table IV. Debt dynamics

(% of GDP)	average 2005-09	2010	2011		2012		2013	2014
			COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**64.0**	**72.3**	**73.8**	**73.6**	**75.4**	**75.0**	**75.5**	**75.1**
Change in the ratio	1.0	2.6	1.6	1.4	1.6	1.4	0.4	-0.3
Contributions[2]*:*								
1. Primary balance	**-0.9**	**2.0**	**0.9**	**1.1**	**0.3**	**0.4**	**-0.1**	**-0.5**
2. "Snow-ball" effect	**0.8**	**0.3**	**0.0**	**-0.3**	**0.3**	**0.0**	**0.3**	**0.1**
Of which:								
Interest expenditure	2.8	2.7	2.8	2.8	3.0	2.9	3.0	3.0
Growth effect	-0.9	-1.3	-1.6	-1.7	-1.4	-1.4	-1.5	-1.6
Inflation effect	-1.0	-1.0	-1.2	-1.4	-1.3	-1.5	-1.2	-1.3
3. Stock-flow adjustment	**1.1**	**0.4**	**0.7**	**0.7**	**1.0**	**1.0**	**0.3**	**0.1**
Of which:								
Cash/accruals diff.	0.2	-0.6						
Acc. financial assets	0.8	0.6						
Privatisation	n.a.	n.a.						
Val. effect & residual	0.0	0.4						

Notes:

[1]End of period.

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

Source:

Stability programme (SP); Commission services' spring 2011 forecasts (COM); Commission services' calculations

Table V. Long-term sustainability

Austria	Baseline scenario (2010)			Programme scenario		
	S1		S2	S1		S2
Value	5.0		5.4	3.2		3.7
of which:						
Initial budgetary position (IBP)	2.3		2.4	0.6		0.7
Debt requirement in 2060 (DR)	0.3		-	0.2		-
Long-term change in the primary balance (LTC)	2.4		3.0	2.4		3.0
	2010	2015	2020	2010	2015	2020
Debt as % of GDP	72.3	80.6	96.8	72.3	75.6	80.7

Note: The 'baseline' scenario (2010) depicts the sustainability gap under the assumption that the 2010 budgetary position remains unchanged over the medium–term (until the end of the period covered by the programme). The 'programme' scenario depicts the sustainability gap under the assumption that the budgetary plans of the programme are fully implemented.

Figure. Medium-term debt projection

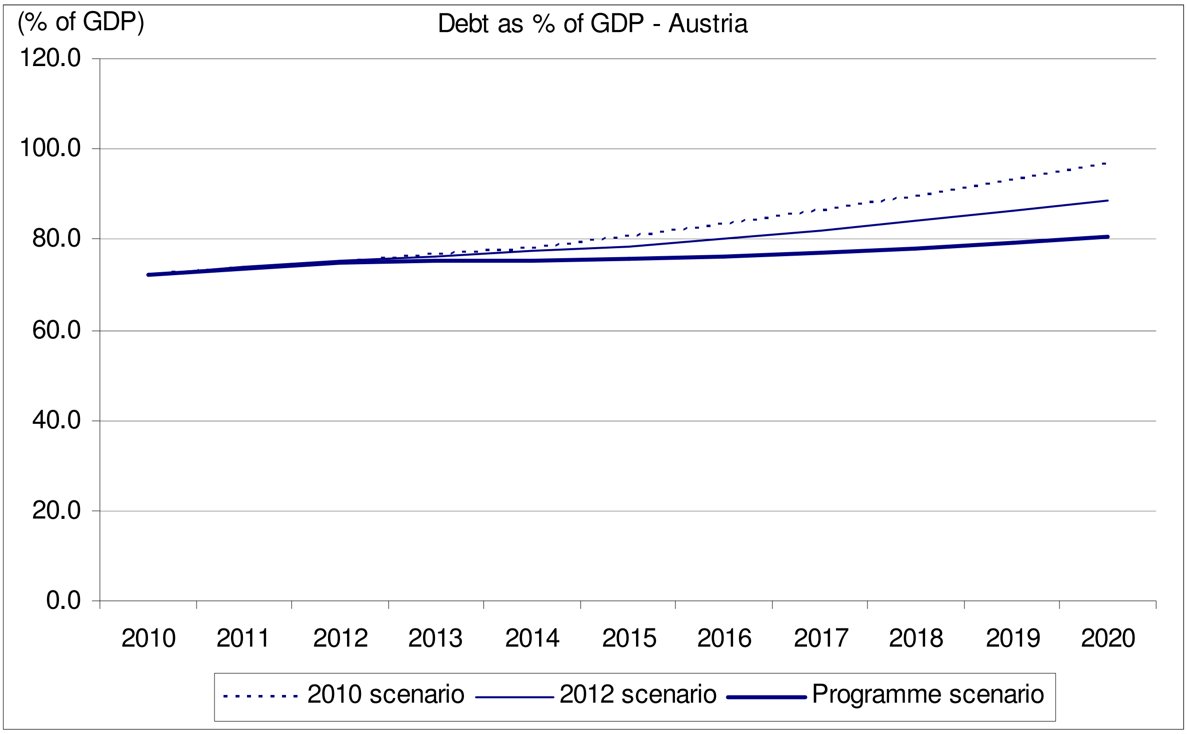


Table VI. Financial markets indicators

	2006	2007	2008	2009	2010
Total assets of the banking sector (% of GDP)	295,5	309,9	344,1	382,0	356,1
Share of assets of the five largest banks (% of total assets)	43,8	42,8	39,0	37,2	…
Foreign ownership of banking system (% of total assets)	19,5	26,9	23,4	19,4	…
Financial soundness indicators:					
- non-performing loans (% of total loans) [1]	2,7	2,2	1,9	2,3	2,8
- capital adequacy ratio (%) [2]	13,2	12,7	12,9	15,0	17,4
- profitability - return on equity (%) [3]	16,8	17,0	2,6	1,5	7,9
Private credit growth (annual % change)	10,4	5,7	9,2	5,4	1,1
Residential property prices (y-o-y % change)	4,0	4,1	1,2	3,6	5,7
Exposure to countries receiving/repaying official financial assistance (% of GDP) [4]	22,4	24,2	24,8	23,7	21,7
Private debt (% of GDP)	118,2	121,2	129,0	134,5	134,6
Gross external debt (% of GDP)					
- Public	51,3	50,3	56,4	54,4	57,5
- Private	29,6	33,6	38,2	41,4	41,1
Long term interest rates spread versus Bund (basis points)*	3,7	8,1	37,4	71,4	48,2
Credit default swap spreads for sovereign securities (5-year)*	…	…	99,4	108,4	78,7

Notes:

[1] Does not include subsidiaries and branches abroad of foreign controlled deposit takers.

[2] The capital adequacy ratio is defined as total capital devided by risk weigthed assets.

[3] Net income to equity ratio; after extraordinary items and taxes; Tier 1 capital.

[4] Covered countries are IE, EL, PT, RO, LV and HU.

* Measured in basis points.

Source:

Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission services (long-term interest rates), World Bank (gross external debt) and ECB (all other indicators).

Table VII. Labour market and social indicators

Labour market indicators	2005	2006	2007	2008	2009	2010
Employment rate (% of population aged 20 - 64)	71.7	73.2	74.4	75.1	74.7	74.9
Employment growth (% change from previous year)	1.5	1.4	1.8	1.8	-0.9	1.0
Employment rate of women (% of female population aged 20 - 64)	64.9	66.4	67.2	68.6	69.4	69.6
Employment rate of men (% of male population aged 20 - 64)	78.5	80.0	81.6	81.7	80.1	80.2
Employment rate of older workers (% of population aged 55 - 64)	31.8	35.5	38.6	41.0	41.1	42.4
Part-time employment (% of total employment)	21.1	21.8	22.6	23.3	24.6	25.2
Fixed term employment (% of employees with a fixed term contract)	9.1	9.0	8.9	9.0	9.1	9.3
Unemployment rate[1] (% of labour force)	5.2	4.8	4.4	3.8	4.8	4.4
Long-term unemployment[2] (% of labour force)	1.3	1.3	1.2	0.9	1.0	1.1
Youth unemployment rate (% of youth labour force aged 15-24)	10.3	9.1	8.7	8.0	10.0	8.8
Youth NEET[3] rate (% of population aged 15-24)	8.3	7.5	7.0	7.1	7.8	:
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	9.1	9.8	10.7	10.1	8.7	:
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	20.5	21.2	21.1	22.2	23.5	:
Labour productivity per person employed (annual % change)	1.2	2.6	2.2	0.5	-2.3	1.0
Hours worked per person employed (annual % change)	-1.0	-0.5	-0.7	-0.3	-2.3	0.2
Labour productivity per hour worked (annual % change; constant prices)	2.0	2.7	2.6	0.7	-0.7	0.8
Compensation per employee (annual % change; constant prices)	0.3	1.6	0.9	1.4	1.5	0.0
Nominal unit labour cost growth (annual % change)	1.4	0.8	1.1	2.8	5.0	0.6
Real unit labour cost growth (annual % change)	-0.7	-1.0	-0.9	0.9	4.2	-0.9

Notes:

[1] According to ILO definition, age group 15-74)

[2] Share of persons in the labour force who have been unemployed for at least 12 months.

[3] NEET are persons that are neither in employment nor in any education or training.

Sources:

Comission services (EU Labour Force Survey and European National Accounts)

Table VII. Labour market and social indicators (continued)

Expenditure on social protection benefits (% of GDP)	2004	2005	2006	2007	2008
Sickness/Health care	7.17	7.14	6.99	7.03	7.14
Invalidity	2.51	2.40	2.30	2.17	2.12
Old age and survivors	13.62	13.47	13.40	13.22	13.43
Family/Children	3.06	2.98	2.87	2.75	2.82
Unemployment	1.71	1.63	1.61	1.44	1.37
Housing and Social exclusion n.e.c.	0.39	0.40	0.42	0.41	0.43
Total	28.5	28.0	27.6	27.0	27.3
of which: Means tested benefits	1.84	1.82	1.86	1.81	1.87
Social inclusion indicators	**2005**	**2006**	**2007**	**2008**	**2009**
Risk-of-poverty or exclusion[1] (% of total population)	16.8	17.8	16.7	18.6	17.0
Risk-of-poverty or exclusion of children (% of people aged 0-17)	18.5	19.3	18.5	20.4	17.5
Risk-of-poverty or exclusion of elderly (% of people aged 65+)	15.9	17.3	15.1	17.3	16.4
At-Risk-of-Poverty rate[2] (% of total population)	12.3	12.6	12.0	12.4	12.0
Value of relative poverty threshold (single HH per year) - in PPS	10452	10452	10692	11124	11316
Severe Material Deprivation[3] (% of total population)	3.0	3.6	3.3	6.4	4.8
Share of people living in low work intensity households[4] (% of people aged 0-59 not student)	6.5	8.0	8.1	7.8	7.2
In-work at-risk-of poverty rate (% of persons employed)	6.7	6.3	6.1	6.4	6.0

Notes:

[1] People at-risk-of poverty or social exclusion (AROPE): individuals who are at-risk-of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in household with zero or very low work intensity (LWI).

[2] At-risk-of poverty rate: share of people with an equivalised disposable income below 60% of the national equivalised median income.

[3] Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour tv, or ix) have a telephone

[4] People living in households with very low work intensity: Share of people aged 0-59 living in households where the adults work less than 20% of their total work-time potential during the previous 12 months.

Sources:

For expenditure for social protection benefits ESSPROS; for social inclusion EU-SILC.

Table VIII. Product market performance and policy indicators

Performance indicators	2001-2005	2006	2007	2008	2009	2010
Labour productivity[1] total economy (annual growth in %)	**1.0**	**2.5**	**2.0**	**0.7**	**-3.4**	**1.3**
Labour productivity[1] in manufacturing (annual growth in %)	**2.4**	**6.0**	**6.3**	**1.7**	**-9.5**	**8.8**
Labour productivity[1] in electricity, gas, water (annual growth in %)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Labour productivity[1] in the construction sector (annual growth in %)	**2.3**	**-1.1**	**0.6**	**-0.3**	**-4.2**	**-6.5**
Patent intensity in manufacturing[2] (patents of the EPO divided by gross value added of the sector)	**3.4**	**3.5**	**1.6**	n.a.	n.a.	n.a.
Policy indicators	**2001-2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Enforcing contracts[3] (days)	n.a.	**397**	**397**	**397**	**397**	**397**
Time to start a business[3] (days)	n.a.	**28**	**28**	**28**	**28**	**28**
R&D expenditure (% of GDP)	**2.2**	**2.5**	**2.5**	**2.7**	**2.8**	**2.8**
Tertiary educational attainment (% of 30-34 years old population)	**20.8**	**21.2**	**21.1**	**22.2**	**23.5**	n.a.
Total public expenditure on education (% of GDP)	**5.6**	**5.5**	**5.4**	n.a.	n.a.	n.a.
	2003	**2005**	**2006**	**2008**	**2009**	**2010**
Product market regulation[4], Overall (Index; 0=not regulated; 6=most regulated)	**1.8**	n.a.	n.a.	**1.5**	n.a.	n.a.
Product market regulation[4], Retail (Index; 0=not regulated; 6=most regulated)	**4.5**	n.a.	n.a.	**3.6**	n.a.	n.a.
Product market regulation[4], Network Industries[5] (Index; 0=not regulated; 6=most regulated)	**2.5**	**1.9**	**1.7**	**1.7***	n.a.	n.a.

Notes:

[1]Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.

[2]Patent data refer to applications designated to the European Patent Office (EPO). They are counted according to the year in which they were filed at the EPO. They are broken down according to the inventor's place of residence, using fractional counting if multiple inventors or IPC classes are provided to avoid double counting.

[3] The methodologies, including the assumptions, of this indicator is presented in detail at the website http://www.doingbusiness.org/methodology.

[4] The methodologies of the Product market regulation indicators are presented in detail at the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html. The latest available product market regulation indicators refer to 2003 and 2008, except for Network Industries.

[5] Aggregate ETCR.

*figure for 2007.

Source:

Commission services, World Bank Doing Business (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).