COUNCIL OPINION

of 18 January 2005

on the updated stability programme of Austria, 2004-2008

(2005/C 79/03)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community,

Having regard to Council regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies ([1]), and in particular Article 5(3) thereof,

Having regard to the recommendation of the Commission,

After consulting the Economic and Financial Committee,

HAS DELIVERED THIS OPINION:

On 18 January 2005 the Council examined the updated stability programme of Austria, which covers the period 2004-2008. The programme complies with the data requirements of the 'code of conduct on the content and format of stability and convergence programmes'.

The macroeconomic scenario underlying the programme envisages that real GDP growth will pick up from 1,9 % in 2004 to 2,5 % in 2005 and 2006 and remain at around 2½ % over the remainder of the programme period. On the basis of the currently available information this scenario seems to reflect plausible growth assumptions for the first years, but appears rather favourable for the final years, as the forecast remains above potential output for four years in a row. The programme's projections for inflation are realistic.

Austria aims to achieve a balanced budget by 2008. From a ratio of 1,3 % of GDP in 2004, the deficit is expected to rise to 1,9 % of GDP in 2005, after which it first declines slowly to 1,7 % in 2006, and then drops to zero in 2008 in two equally large reduction steps. This trajectory reflects a budgetary strategy that combines a sustained lowering of the tax burden with a return to a balanced budget over the medium term. In ESA 95 terms, the tax burden is planned to fall from 43,1 % in 2003 to 40 % in 2008, while total expenditures are planned to fall by 4,8 percentage points. The consolidation path has been enshrined in a National Stability Pact between the territorial authorities, which is to be enforced at all levels of government via a penalty system.

The budgetary outcome could be worse than projected in the programme. In particular, the budgetary path front-loads tax relief but back-loads the corresponding restraint on expenditure. Risks are balanced for 2005 and 2006, when deficit developments are dominated by the sizeable tax cuts that will become effective on 1 January 2005, and in view of a realistic underlying macroeconomic scenario. However, for the outer years 2007/08, risks appear to be downward-biased as, first, GDP growth is assumed to remain above potential and, second, the envisaged substantial fall in the expenditure/GDP ratio remains largely unspecified in the programme. In view of this risk assessment, the budgetary stance in the programme may not be sufficient to achieve the Stability and Growth Pact's medium-term objective of a budgetary position of close-to-balance in cyclically-adjusted terms by 2008. However, it seems to provide a sufficient safety margin against breaching the 3 % of GDP deficit threshold with normal macroeconomic fluctuations over the programme period.

The debt ratio is estimated to have reached 64,2 % of GDP in 2004, above the 60 %-of-GDP Treaty reference value. The programme projects the debt ratio to decline by 5 percentage points over the programme period. The evolution of the debt ratio may be less favourable than projected given the risks to the budgetary targets mentioned above. On the other hand, Austria could potentially compensate for this risk with large-scale privatisations.

([1]) OJ L 209, 2.8.1997.

Austria appears to be in a relatively favourable position with regard to the long-term sustainability of public finances, in spite of important projected budgetary costs of an ageing population. The pension reforms of 2003 and 2004 are set to provide substantial budgetary relief in the long-term. After the pension reform of 2003, Austria passed a further pension reform in 2004 (*Pensionsharmonisierung*), with the aim of bringing all groups of private and public sector employees into a harmonised pension system. The significant contribution of the 2004 law to long-term financial sustainability is being back-loaded to take effect only after 2030, while the medium-term savings from the 2003 law are partly reduced.

The economic policies outlined in the programme are partly consistent with the country-specific broad economic policy guidelines in the area of public finances. Although Austria will lower its high tax burden, this does not go hand-in-hand with expenditure restraint, so that the cyclically-adjusted position strongly deteriorates in 2005 and a close-to-balance position is projected to be reached only in the final year of the programme.

In view of the above assessment, Austria is recommended to achieve a higher degree of front loading in the overall budget consolidation path. Furthermore, Austria should lay out in greater detail the specific measures through which a significant budget consolidation could be achieved in the last two years of the programme.

Comparison of key macroeconomic and budgetary projections

		2004	2005	2006	2007	2008
Real GDP (% change)	**SP Dec 2004**	**1,9**	**2,5**	**2,5**	**2,2**	**2,4**
	COM autumn 2004	1,9	2,4	2,4	n.a.	n.a.
	SP Nov 2003	*1,9*	*2,5*	*2,5*	*2,4*	*n.a.*
HICP inflation (%)	**SP Dec 2004**	**2,1**	**1,8**	**1,4**	**1,5**	**1,6**
	COM autumn 2004	2,1	1,8	1,4	n.a.	n.a.
	SP Nov 2003	*1,2*	*1,5*	*1,7*	*1,8*	*n.a.*
General government balance (% of GDP)	**SP Dec 2004**	**– 1,3**	**– 1,9**	**– 1,7**	**– 0,8**	**0,0**
	COM autumn 2004	– 1,3	– 2,0	– 1,7	n.a.	n.a.
	SP Nov 2003	*– 0,7*	*– 1,5*	*– 1,1*	*– 0,4*	*n.a.*
Primary balance (% of GDP)	**SP Dec 2004**	**1,9**	**1,2**	**1,3**	**2,2**	**2,9**
	COM autumn 2004	1,7	0,9	1,2	n.a.	n.a.
	SP Nov 2003	*2,8*	*1,9*	*2,2*	*2,8*	*n.a.*
Cyclically-adjusted balance (% of GDP)	**SP Dec 2004** [1]	**– 0,9**	**– 1,7**	**– 1,6**	**– 0,8**	**– 0,1**
	COM autumn 2004	– 1,0	– 1,9	– 1,7	n.a.	n.a.
	SP Nov 2003 [1]	*– 0,4*	*– 1,4*	*– 1,1*	*– 0,5*	*n.a.*
Government gross debt (% of GDP)	**SP Dec 2004**	**64,2**	**63,6**	**63,1**	**61,6**	**59,1**
	COM autumn 2004	64,0	63,9	63,4	n.a.	n.a.
	SP Nov 2003	*65,8*	*64,1*	*62,3*	*59,9*	*n.a.*

[1] Commission services' calculations on the basis of the information in the programme

Sources:

Stability programme (SP); Commission services' autumn 2004 economic forecasts (COM); Commission services' calculations.