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(Resolutions, recommendations, guidelines and opinions)

OPINIONS

COUNCIL

COUNCIL OPINION

of 10 July 2007

on the updated stability programme of Austria, 2006-2010

(2007/C 182/01)

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:

(1) On 10 July 2007 the Council examined the updated stability programme of Austria, which covers the period 2006 to 2010. Following the general elections in October 2006, a new government was formed in January 2007, which presented the twin budget for 2007/2008 to Parliament on 29 March 2007. On the same day, the updated stability programme was submitted, two and a half months after the 15 December deadline for Austria in the code of conduct.

(2) The macroeconomic scenario underlying the programme envisages that real GDP growth will decelerate from a cyclical peak of 3,1 % in 2006 to 2½ % on average over the rest of the programme period. Assessed against currently available information, this scenario appears to be based on somewhat cautious growth assumptions until 2008, as recent data point to more robust growth. For the outer years of the programme period, the projection seems plausible, even if the growth rates are slightly higher than the average potential growth rate calculated by the Commission services. The programme's projections for inflation appear realistic.

(3) For 2006, the general government deficit amounted to 1,1 % of GDP, against a target of 1,7 % of GDP set in the previous update of the stability programme. This improvement over the target results from the better-than-expected cyclical developments. Although the revenue-to-GDP ratio fell slightly compared with the previous year, it turned out higher by more than one percentage point over the target. Higher-than-expected GDP growth contributed to the decline in the expenditure ratio compared with the previous year. However, the expenditure ratio increased by more than ½ percentage point over the target, indicating that budgetary execution was not as tight as planned.

[1] OJ L 209, 2.8.1997, p. 1. Regulation as amended by Regulation (EC) No 1055/2005 (OJ L 174, 7.7.2005, p. 1). The documents referred to in this text can be found at the following website:
http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm

(4) The main goal of the budgetary strategy is to reach a balanced budget over the cycle, reaping the benefits of administrative reform while reinforcing expenditure in several categories. In comparison with the previous update, the latter is reflected in the postponement of the budgetary consolidation to the outer years of the programme period. The update projects the general government position to improve from a deficit of 1,1 % of GDP in 2006 to a surplus of 0,4 % in 2010. The consolidation, which is back-loaded to the last two years of the programme period, is planned to be expenditure-based, with restraint in social spending and the gradual phasing-out of some specific expenditure being the main factors. Compared with the previous programme, the new update back-loads further the planned adjustment against a broadly more favourable macroeconomic scenario.

(5) The postponement of the budgetary adjustment is reflected also in the structural balance (i.e. the cyclically-adjusted balance net of one-off and other temporary measures) calculated according to the commonly agreed methodology, which improves only very gradually from a deficit of around 1 % of GDP in 2006 and swings to a slight surplus only by the end of the programme period. According to the programme, the profile of the adjustment is affected by the purchase of military equipment between 2007 and 2009, which, unlike the Commission services' spring forecast, it considers being a deficit-increasing one-off measure. As in the previous update of the stability programme, the medium-term objective (MTO) for the budgetary position presented in the programme is a balanced position in structural terms. However, the programme aims to nearly reach the MTO by 2009 and to surpass it slightly in 2010, rather than to achieve it already in 2008 as in the previous update. As the MTO is more demanding than the minimum benchmark (estimated at a deficit of around 1½ % of GDP), achieving it should fulfil the aim of providing a safety margin against the occurrence of an excessive deficit. The MTO lies within the range indicated for euro-area and ERM II Member States in the Stability and Growth Pact and the code of conduct and adequately reflects the debt ratio and average potential output growth in the long term.

(6) The risks to the budgetary projections in the programme appear broadly balanced for 2007 and 2008, but for 2009 and 2010, the budgetary outcomes could be worse than projected, despite plausible macroeconomic assumptions. Indeed, the expenditure-to-GDP ratio is foreseen to fall significantly in the two final years. The phasing out of specific expenditures, in particular on military equipment, and the expenditure savings on unemployment benefits and on pensions, as a result of the 2004 pension reform, should contribute to the decline in the expenditure ratio in the outer years. On the other hand, additional spending would be made on education, R&D and infrastructure over the programme period, while the expected efficiency gains in public administration remain uncertain. Finally, the programme hints at the possibility of further tax cuts financed by the planned expenditure savings.

(7) In view of this risk assessment, the budgetary stance in the programme may not be sufficient to ensure that the MTO is achieved by 2010, as envisaged in the programme. The Commission services' spring forecast estimates the structural deficit to widen in 2007 and 2008. However, a sufficient safety margin against breaching the 3 % of GDP deficit threshold with normal macroeconomic fluctuations is maintained throughout the programme period. The pace of the adjustment towards the MTO implied by the programme is insufficient and should be strengthened, especially in 2007 and 2008, to be in line with the Stability and Growth Pact, which specifies that, for euro-area and ERM II Member States, the annual improvement in the structural balance should be 0,5 % of GDP as a benchmark and that the adjustment should be higher in good economic times and could be lower in bad economic times. In particular, only a limited improvement in the structural balance is planned between 2007 and 2009, when Austria is expected to experience good times. This conclusion is confirmed even if one considers the purchase of military equipment to constitute a deficit-increasing one-off measure, as the programme does.

(8) Government gross debt is estimated to have declined to 62,2 % of GDP in 2006, still being above the 60 % of GDP Treaty reference value. The programme projects the debt ratio to fall below the reference value by 2008 and to decline further to 56,8 % of GDP by the final year of the programme period. In view of the risk assessment, the debt ratio seems to be sufficiently diminishing towards the reference value in the early part of the programme period and is planned to approach it by 2007.

(9) The long-term budgetary impact of ageing in Austria is well below the EU average, with pension expenditure projected to decrease as a share of GDP over the long term, as a consequence of the significant expenditure containment expected from the 2004 pension reform. The initial budgetary position, with a structural primary surplus, contributes to easing the long-term budgetary impact of ageing. Increasing primary surpluses over the medium term, as announced in the programme, as well as an increase in the employment rate of older workers would contribute towards containing risks to the sustainability of public finances. Overall, Austria appears to be at low risk with regard to the sustainability of public finances.

(10) The stability programme contains a qualitative assessment of the overall impact of the September 2006 implementation report of the National Reform Programme within the medium-term fiscal strategy. In addition, it provides some information on the direct budgetary costs or savings of the main reforms envisaged in the National Reform Programme and the public finance implications of the actions outlined in the National Reform Programme are broadly consistent with its budgetary projections. The measures in the area of public finances envisaged in the stability programme seem consistent with those foreseen in the National Reform Programme. In particular, expected savings from administrative reform and the reinforcement of spending on R&D are put forward in both programmes.

(11) The budgetary strategy in the programme is partly consistent with the broad economic policy guidelines included in the integrated guidelines for the period 2005-2008.

(12) As regards the data requirements specified in the code of conduct for stability and convergence programmes, the programme provides all required and most of the optional data ([1]).

Overall, the Council considers that, in a context of robust growth prospects, the programme envisages slow progress towards the MTO through a relatively back-loaded adjustment that is based mainly on not-fully-specified expenditure restraint. Despite Austria being in good times and not having reached its MTO, the structural deficit is not projected to improve before 2009. There are risks to the achievement of the budgetary targets after 2008 and the MTO might not be reached by the end of the programme period. Government debt would approach the 60 % of GDP reference value in 2007 and continue to decline in subsequent years.

In view of the above assessment, the Council invites Austria to exploit the good economic conditions and the lower-than-targeted deficit in 2006 to frontload and strengthen the adjustment in 2008 and to continue the fiscal consolidation towards the MTO thereafter, in particular by rigorously implementing expenditure restraint and by using any unexpected tax revenues for consolidation.

Comparison of key macroeconomic and budgetary projections

		2005	2006	2007	2008	2009	2010
Real GDP (% change)	**SP Mar. 2007**	**2,0**	**3,1**	**2,7**	**2,3**	**2,5**	**2,6**
	COM May 2007	2,0	3,1	2,9	2,5	n.a.	n.a.
	SP Nov. 2005	*1,7*	*1,8*	*2,4*	*2,5*	*n.a.*	*n.a.*
HICP inflation (%)	**SP Mar. 2007**	**2,1**	**1,5**	**1,6**	**1,7**	**1,7**	**1,8**
	COM May 2007	2,1	1,7	1,8	1,7	n.a.	n.a.
	SP Nov. 2005	*2,3*	*2,1*	*1,7*	*1,5*	*n.a.*	*n.a.*
Output gap (% of potential GDP)	**SP Mar. 2007** ([1])	**– 1,1**	**– 0,3**	**0,1**	**– 0,1**	**0,1**	**0,3**
	COM May 2007 ([5])	– 1,1	– 0,2	0,5	0,8	n.a.	n.a.
	SP Nov. 2005 ([1])	*– 0,7*	*– 1,1*	*– 0,9*	*– 0,5*	*n.a.*	*n.a.*

([1]) However, optional data on employment and hours worked as well as public sector wages are not provided.

		2005	2006	2007	2008	2009	2010
General government balance (% of GDP)	**SP Mar. 2007**	**– 1,6**	**– 1,1**	**– 0,9**	**– 0,7**	**– 0,2**	**0,4**
	COM May 2007	– 1,6	– 1,1	– 0,9	– 0,8	n.a.	n.a.
	SP Nov. 2005	*– 1,9*	*– 1,7*	*– 0,8*	*0,0*	*n.a.*	*n.a.*
Primary balance (6) (% of GDP)	**SP Mar. 2007**	**1,3**	**1,9**	**2,0**	**2,1**	**2,6**	**3,1**
	COM May 2007	1,3	1,6	1,8	1,7	n.a.	n.a.
	SP Nov. 2005	*1,1*	*1,2*	*2,0*	*2,7*	*n.a.*	*n.a.*
Cyclically-adjusted balance (% of GDP)	**SP Mar. 2007** (1)	**– 1,1**	**– 1,0**	**– 0,9**	**– 0,7**	**– 0,2**	**0,2**
	COM May 2007	– 1,1	– 1,0	– 1,1	– 1,2	n.a.	n.a.
	SP Nov. 2005	*– 1,6*	*– 1,2*	*– 0,4*	*0,2*	*n.a.*	*n.a.*
Structural balance (2) (% of GDP)	**SP Mar. 2007** (3)	**– 1,1**	**– 1,0**	**– 0,8**	**– 0,4**	**– 0,2**	**0,2**
	COM May 2007 (4)	– 1,1	– 1,0	– 1,1	– 1,2	n.a.	n.a.
	SP Nov. 2005	*– 1,6*	*– 1,2*	*– 0,4*	*0,2*	*n.a.*	*n.a.*
Government gross debt (% of GDP)	**SP Mar. 2007**	**63,5**	**62,2**	**61,2**	**59,9**	**58,5**	**56,8**
	COM May 2007	63,5	62,2	60,6	59,2	n.a.	n.a.
	SP Nov. 2005	*63,4*	*63,1*	*61,6*	*59,5*	*n.a.*	*n.a.*

Notes:

(1) Commission services calculations on the basis of the information in the programme with potential growth estimated at 2,3 %, 2,3 %, 2,4 %, 2,4 % and 2,3 % respectively in the period 2006-2010.

(2) Cyclically-adjusted balance (as in the previous rows) excluding one-off and other temporary measures.

(3) Deficit-increasing one-off and other temporary measures as interpreted in the programme (purchase of military aircraft of 0,2 % of GDP in 2007, 0,4 % in 2008 and 0,1 % in 2009).

(4) The Commission services' spring 2007 forecast does not consider the purchase of military aircraft as one-offs.

(5) Based on estimated potential growth of 2,3 %, 2,0 %, 2,2 % and 2,2 % respectively in the period 2005-2008.

(6) Data on the primary balance in the programme and in the Commission services' forecasts are not directly comparable because of a different treatment of FISIM. Data in the programme follow the definitions required by the code of conduct. To be comparable with data in the programme, Commission data on the primary balance need to be adjusted by around 0,1-0,2 % of GDP.

Source:

Stability programme (SP); Commission services' spring 2007 economic forecasts (COM); Commission services' calculations.