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Brief evaluation of the Austrian government's 2007 programme

January 2007

Stefan Bruckbauer

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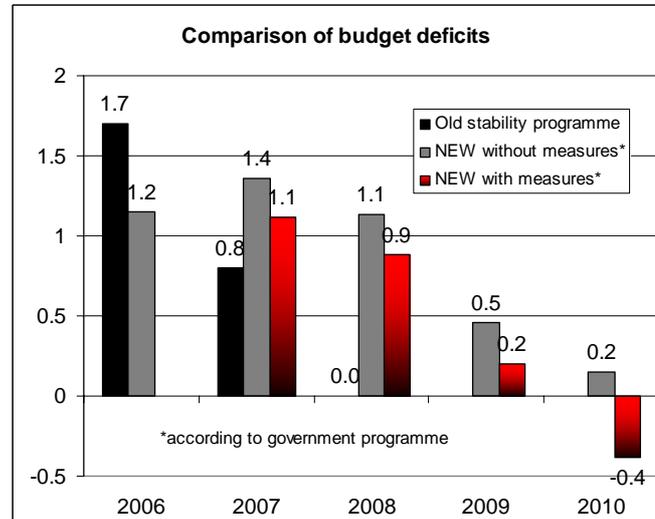
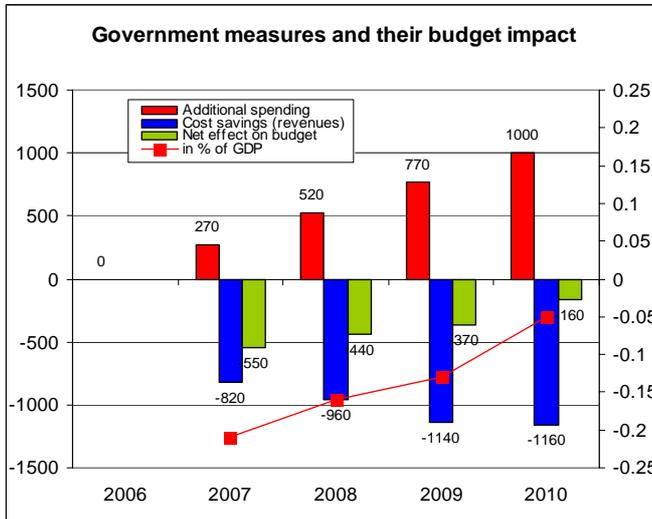
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Highlights



- As expected, the government programme includes many statements of intent but relatively few concrete announcements.
- For 2007, the government is planning to reduce the public sector deficit by 0.2 percentage points while increasing public spending by about € 300 m (0.1% of GDP). This is to be achieved mainly through revenue increases (between € 300 m and € 350 m per year from mineral oil tax and toll charges for trucks, and € 200 m from social security contributions), the fact that charges resulting from economic measures introduced in previous years will cease to be effective, and through the currently favourable economic trend, with a small contribution also coming from cost savings (as indicated in the programme).
- The public sector deficit is to be reduced to nil by 2010, and there are plans for a tax reform with no financing arrangements to offset the effect. This will require strong efforts to reduce public expenditure, which are not explicitly mentioned in the programme.
- The introduction of a minimum wage of € 1,000 will benefit between 200,000 and 300,000 employees in Austria.
- A basic subsistence allowance of € 726 is not tantamount to a "guaranteed basic income" because it will be linked to a means test; moreover, a basic condition will be a person's willingness to accept a job. The unemployment benefit system will be standardised in all Austrian provinces.
- There will be few changes in the transitional periods for admission of workers from CEE countries which are EU member states. The Austrian government intends to support Croatia in its efforts to join the EU. A referendum will be held on a possible accession of Turkey to the European Union.

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Summary

The programme of Austria's new federal government contains many general statements of intent and few concrete plans for implementation or time schedules. Nevertheless, some specific announcements have been made. The following summary presents the most important points. A final assessment can only be made on the basis of future practice. The summary covers only those areas which are closely connected with the business sector.

Austria and Europe

While affirming its basic commitment to Europe, the government has agreed that protective measures will be maintained.

Croatia's efforts to join the EU are to be supported.

With regard to **Turkey**, the programme includes the following paragraph: "Providing specific and careful guidance to Turkey and its population on how to move closer to European values and standards is in the interests of all member states of the European Union."

Agreement has also been reached on holding a referendum on Turkey's accession when the negotiation results are available.

As to the Stability and Growth Pact, the Austrian government aims to reduce the deficit by reducing the debt ratio to below 60% (currently 62.3%).

In this context the Austrian government will continue to support the introduction of a **tax on foreign exchange transactions (Tobin tax)**. Such a tax should be implemented in the entire European Union, not just at a national level.

Public administration

This chapter includes a large number of proposals for administrative reforms, with a reference to the results of the "Österreich-Konvent" consultation process which are expected to be available by mid-2007.

Explicit demands include the elimination of overlap in the area of school administration. A unified legal framework is to be created for civil servants employed by the Federal Republic of Austria, with changes in the distribution of life earnings. Here the programme again refers to the "Österreich-Konvent" consultation process and, in the context of cost reductions, to changes in the respective tasks.

A major challenge will be the creation, announced in the government programme, of a **single point of contact for social welfare benefits and labour market issues**. (It is explicitly added that benefits may also be paid through banks in the future.)

The **voting age** for parliamentary elections is **to be lowered to 16**. The legislative period is planned to be extended to 5 years.

Economy / Austria as a business location / work

The chapter dealing with economic policy and growth lists many objectives and measures without presenting concrete plans for their implementation. (See Annex 1.)

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Special mention should be made of assistance planned to be provided to Austrian companies for their **international expansion, especially in CEE**, and plans to remove **restraints of competition imposed on independent professionals**, with no indication of specific measures (this topic is mentioned several times, also in a demand for more competition among notaries public and lawyers).

The government is planning to adopt the following framework for **shop opening hours**: Monday to Friday from 6 a.m. to 9 p.m., and Saturday from 6 a.m. to 6 p.m., with shops closed on Sundays, and an extension from 66 hours to 72 hours (consensus reached by social partners).

There are only general statements as to ways to strengthen Austria as a financial centre (see Annex 2).

Concrete details are given in respect of the **Euro 2008** European football championship (€ 12 m) and the establishment of a Habsburg Museum at **Schönbrunn Palace**.

While supporting further negotiations on **GATS**, the Austrian government will oppose any further liberalisation of public services such as health and education, water supply and disposal, art and culture (including films) and local public transport in the current GATS negotiations.

The Austrian government also supports the proposals made by the social partners in the **WIFO White Paper** "Towards Higher Employment via Economic Growth Based on Innovation and

Qualification" prepared by the Austrian Institute of Economic Research; these good proposals need to be expressed in more concrete terms for implementation.

The social partners in Austria will be entrusted with the task of implementing a **minimum wage of € 1,000** on a full-time basis. From a current perspective it is difficult to assess the consequences of these measures. € 1,000 per month multiplied by 14 gives a gross amount of € 14,000 per year. At present, between 200,000 and 300,000 Austrians working on a full-time basis earn less than € 14,000 per year.

The government envisages changes in part-time working arrangements for employees nearing retirement age (no concrete details).

It is planned to make full use of the **transitional arrangements for the labour market** applicable to nationals of the new EU member states. Selective immigration of key workers subject to demand tests will continue to be possible. In this area the government seems to take a more flexible approach reflected in the concrete measures that have been proposed:

- Seasonal workers: priority for EU nationals without freedom of movement. For those persons who have been employed as seasonal workers in the agricultural sector for three years, the period of employment is to be extended to nine months starting from the fourth year.
- Bilateral agreements between states: there are plans to conclude bilateral employment agreements with the new member states,

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primarily with neighbouring countries, during the transitional periods.

- Cross-border cooperation between national employment agencies, especially in border regions.
- Key workers: more flexible arrangements within the existing quota for key workers. Demand is to be ascertained by the government, the social partners, the Austrian National Employment Agency (AMS) and the Austrian Institute of Economic Research (WIFO) for the next 24 months.
- Skilled workers: The government will take a flexible approach to issuing work permits to skilled workers from the new EU member states in those industries where demand for workers cannot be met with the available potential workforce. In this context, the government will conduct labour market reviews, consulting the social partners for the purpose of proposing any accompanying measures that may be required.
- Researchers are to be granted broader exemption from the rules of the Austrian Employment of Foreign Workers Act, enabling them to become active in all sectors of the economy, without being restricted to specific research organisations. Moreover, amendments are to be made to the Austrian Right of Residence Act with a view to giving researchers the same status as key workers in terms of right of residence.
- Comprehensive integration of migrants living in Austria.
- Services Directive: The Austrian government supports the introduction of an EU-wide

agreement on effective implementation as part of the national transposition of the Services Directive in order to effectively combat wage dumping.

The government is also planning to make changes to the Austrian regulations on **working hours**; concrete proposals have been agreed in this respect (see Annex 2).

Research, innovation, technology

Financial assistance is to be increased by €400 m by 2010 (this measured was planned by the previous government).

Infrastructure

The Austrian government supports the overall plans covering a six-year period for investment projects (€10 bn) of **ÖBB**, the Austrian Federal Railways, and of **Asfinag**, the Austrian company financing motorways and trunk roads. The government envisages the transfer of ownership of motorways and trunk roads to Asfinag while demanding a 10% reduction of the construction costs for all projects. A comparison with financing arrangements already agreed under the previous government, these measures will probably affect ÖBB to a lesser extent than Asfinag, which may have to reduce the planned investment volume.

To finance these projects, the government intends to **increase the toll charge for trucks by 4 cents** and **mineral oil tax by 1 cent** on petrol and by **3 cents** on diesel. The motor vehicle tax payable for trucks is to be reduced by half. The combined effect of these measures will be **addi-**

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Additional public revenue totalling between €300 m and €350 m.¹

In the transport sector, the government aims to further expand local public transport without disclosing any details. It demands a **"review to optimise the corporate structure of ÖBB"**.

The government programme also includes a statement on air transport calling for "... the strengthening of AUA as a national carrier and the development of Vienna International Airport into a major international hub".

The government calls for the rapid expansion of the 380 kV power transmission network and aims to establish centres of competence for **PPP projects**. In this respect, as reported earlier, the previous government carried out preparatory work. Environmental costs associated with road and rail traffic are to be reduced.

Education and science

The **maximum number of pupils in a class** is to be reduced to 25; implementation of this measure will start in the first class.

Austria's government will set up expert groups to deal with questions concerning education at pre-school and kindergarten levels.

The Austrian media have extensively covered the possibility for students to earn the university fees

¹ Mineral oil tax on petrol + €26 m, on diesel + €225 m, giving a total of €300 m including VAT; there will be refunds for farmers. The toll charge for trucks will be increased (+ €110 m), while the motor vehicle tax on trucks will be reduced by half (- €50 m). The combined effect of these measures will be about €350 m in additional public revenue.

payable by them by "rendering services of benefit to the public".

Social challenges and health

Further development of home care services.

The following agreement has been reached on **adjusting the 2003/2004 pension reform**:

Experts, the social partners and the government are to evaluate the current rules applied in determining and calculating pensions. The pension rules for persons who have paid pension contributions for at least 45 years (men) or 40 years (women) will remain in effect for a longer period. The double reduction of so-called "corridor" pensions is to be mitigated. A person's pension account should adequately reflect years during which the person raised children. Experts will harmonise rules for disability pensions. The Austrian federal government intends to call upon the representatives of provincial governments and local authorities to work towards harmonising the pension systems.

Combating poverty

Step-by-step introduction of **basic subsistence allowance in case of need** (€726 per month, 14 times a year), to be achieved by initially increasing the cost-of-living allowance for pensions and subsequently standardising social welfare benefit schemes in the Austrian federal provinces and fixing benefit payments at €726. The government also intends to introduce a minimum level for unemployment benefit. A basic condition will

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be a person's willingness to accept a job, so the **idea of a guaranteed "basic income" has been abandoned**. Participation in social welfare projects and further training will be required. Additionally, there will be a means test.

Health

The deficit is to be financed in equal parts (50:50) by cuts in expenditure and by increases in **social security contributions (+0.15 percentage points)**. The government wants to save EUR 300 m (by increasing efficiency) by 2008, and a further EUR 100 m by 2010. This will curtail the services provided by the health sector; there are no plans to increase personal contributions.

The **0.15% increase in social security contributions** (it is not yet clear how this will be shared between the employer and employee) will generate about € 200 m.

A ceiling of 2% of incomes will moreover be introduced as of 2008 for personal contributions by persons with a chronic illness.

Family

One can choose the type of child allowance:

- EUR 436 for a period of 36 months (of which at least 6 by the other partner), or
- EUR 800 for 18 months (of which at least 3 by the other partner).

The additional allowances for 3 or more children will be raised slightly (to EUR 35, and EUR 50 for 4 or more children). The ceiling for additional income will also be raised slightly (to EUR 16,200).

Integration

Agreement has been reached on controlling immigration to take account of the needs of the labour market. Otherwise, hardly any concrete arrangements have been made for ensuring more effective integration (integration platform).

Judiciary

Beside many other considerations, one proposal is that "A package of measures should also be developed in cooperation with lenders **with a view to combating the growing indebtedness of households** and private individuals."

The housing construction assistance scheme is to be retained. Agreement was reached **for the abolition of the contract fee for housing/rental agreements**.

Within the framework of economic law there are plans for legal improvements in connection with cross-border company constructions, and improvements are envisaged for corporate governance (strengthening supervisory board functions, public accountants, transparency in regard to stock option plans). There are also plans for amendments to the Insolvency Law (no concrete details provided).

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Finance

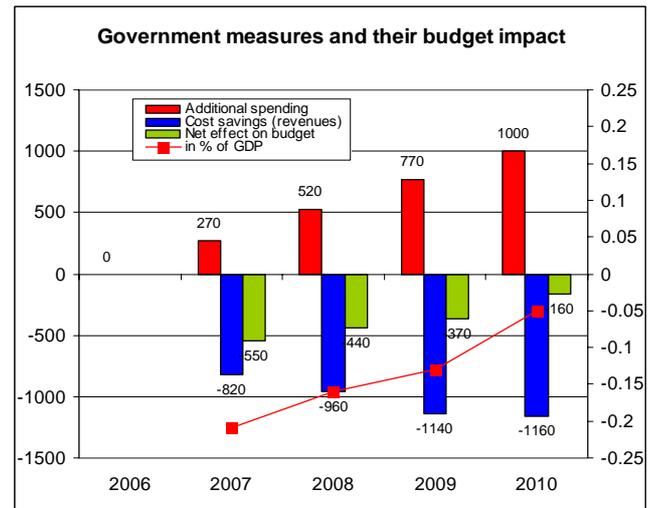
Little concrete information and very few changes are provided under Finance. **Changes to group taxation were not agreed.** Agreement was in principle reached for the achievement of a nil deficit over and beyond the economic cycle, and for an active budget policy in times of economic recession.

It has been agreed that the **Austrian Financial Market Authority** is to be evaluated. The feasibility of founding a development bank (with due consideration being given to Oesterreichische Kontrollbank) is being examined.

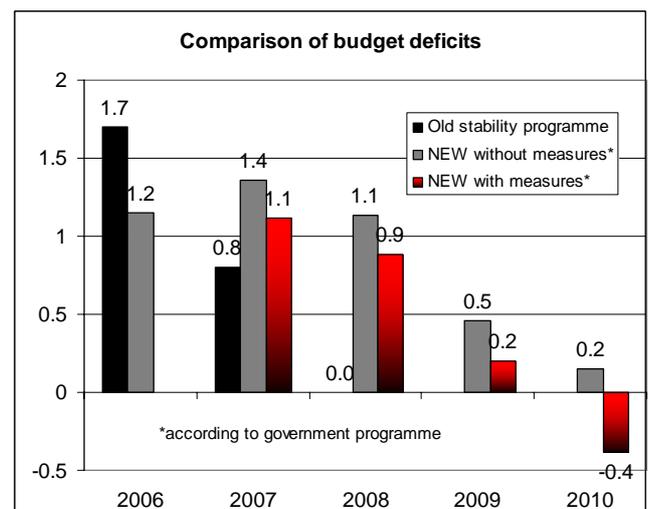
The following statement was made in regard to **pension funds**: "In order to improve the credibility of, and confidence in, the Austrian capital market, efforts will focus on improving the overall benefits of the pension funds for current and future pensioners, also by taking into account the consequences of the poor investment results of past years. In this context the investment rules and policies of the pension funds will be evaluated, with due consideration being given to transparency and the interests of the investors."

It is not yet clear what this will entail in concrete terms.

No concrete agreement has been reached in regard to a **planned tax reform**, except that measures are to be implemented to provide visible tax relief for the taxpayer and industry, with no financing arrangements to offset the effect.



Overall, the government programme states that **additional expenditures of EUR 270 m** are planned for 2007, while **costs are to be reduced** and **additional revenue** (toll charges, mineral oil tax, social security contributions) totalling EUR 820 m is to be generated; the cost savings are not specified. The EUR 820 m will for the most part probably be **generated by increases in revenue (between EUR 500 and 550 m)**. According to the government programme this would reduce the deficit by 0.21 percentage points.



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According to the government programme the deficit for 2007 would then decline from 1.36% to 1.12%. In its stability programme for 2007 the previous government had planned to cut the deficit to 0.8%, although this was based on assumptions of lower economic growth (2.4% compared with a current 2.8% according to the government programme). In light of the buoyant growth, the deficit is likely to be 1.2% instead of the 1.7% that was originally planned.

The planned savings for 2007 and 2008 are below the level foreseen in the old stability programme. A deficit of about 1.1% for 2007, as stated in the government programme, seems feasible, even if savings are not agreed until the budget negotiations. An assurance in this regard is provided by favourable economic growth, by measures adopted in the past and already implemented, and especially measures relating to economic measures and the tax reform which are nearing completion (according to the stability programme about EUR 1 bn, i.e. 0.4% of GDP). As the additional revenues could total up to EUR 550 m, the rest can be easily achieved.

In the medium term, the government is now aiming to achieve a balanced budget by 2010 (instead of previously 2008). This would however require savings of at least EUR 3 bn (given sound economic growth). At the same time, there are plans for tax relief. This calls for even more ambitious cuts in expenditure.

It is somewhat odd that the government programme envisages a positive GDP effect of

0.1 percentage points despite a 0.24 percentage point reduction of the public deficit in 2007. This can usually not be expected.

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Annex 1 – Fundamental principles of economic policy

- The further development and modernisation of the country's infrastructure; programme for infrastructure investments (railways, roads, energy supply, communications networks), a renovation programme for old buildings with a focus on saving energy, an energy infrastructure development programme including the further development of environmentally-friendly energy, and taking advantage of opportunities to save energy;
- Facilitating the application of PPP models by adjusting the relevant provisions for tenders;
- Providing relief for the work factor;
- Improving education and further training;
- Creation of an innovative environment capable of competing at a global level (Research & Development, education); **raising** the R&D quota to a short-term level of 3% of GDP by 2010, and a qualitative improvement of R&D policy by focusing on the creation of clusters between the economy and science;
- Greater emphasis on an active labour market policy;
- Austrian industry, as customer, e.g. of SMEs as suppliers of components, plays a key role in developing Austria as a business location. For this reason, economic measures and measures promoting Austria as a business location must consider leading competence units and headquarter policy as well as the services sector which is continuing to grow strongly;
- Special measures for SMEs;
- Removal of restraints of competition, by for example making it easier for independent professionals to set up a business, or by improving regulations for promoting a functioning, competitive economy;
- An innovative, cooperative and high-quality public administration; increasing the efficiency of public administration; implementation of a standard cost model;
- Stimulating and supporting the Austrian capital market;
- Pursuing an active foreign trade policy to support an export campaign;
- Supporting the internationalisation efforts of Austrian companies, especially when they expand by opening up new markets or take over foreign companies and undertake investments in Central and Eastern Europe;
- Accompanying Austrian companies with their projects in third world countries by providing development assistance;
- A focus-oriented business relocation policy and the promotion of direct investments;

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- Taking into consideration the interests of Austrian SMEs as far as possible when awarding contracts, and for this purpose checking the legal framework applicable within Austria;
- An assistance programme for the tourism and leisure industry;
- Projects for promoting bordering regions to improve and develop Austria's economic relations with the EU enlargement countries;
- A structure and policy geared to achieving a regional level playing field; an optimal utilisation of EU structural funds; developing Austria as a business location in cooperation with the EU by making full use of the benefits offered by EU programmes;
- A balanced economic structure reflecting the highest possible degree of value added in Austria;
- A business location based on ecological criteria, with a high standard of living for Austria's inhabitants;
- Assuring the availability of high-quality services that are of general interest;
- Sustained emphasis on employee participation with the possibility for all employees to participate (employee profit-sharing and/or participation in the capital).

Annex 2 – Enhancing Austria's status as a financial centre

The federal government wants to create the best possible conditions for the Austrian capital market, and for the successful Vienna Stock Exchange in particular, in order to support the successful expansion of Austrian companies in Central and Eastern Europe.

The most important goals are:

- To strengthen the Austrian capital market as a regional financial centre;
- A broadly-based and needs-oriented financing of investments, i.e. providing the economy with sufficient (risk) capital;
- A strong core shareholder base and a broad distribution of shares;
- An efficient Financial Market Authority and an effective regulatory framework for the financial market;
- Measures against insider trading and the abuse of insider information;
- An improvement in the commitment to corporate governance;
- Linking economic success to corporate social responsibility (CSR);
- Better protection for investors.

Annex 3 – Measures to make working time arrangements more flexible

- Increasing the maximum number of daily and weekly working hours (12/60) by adjusting the current rule in Section 7 (4) of the Austrian Working Hours Act (raising the maximum of 12 weeks to up to 24 weeks – 3 times 8, between these periods no additional overtime for at least 2 weeks); businesses where there is no employees' council may make individual arrangements in writing if there are no objections from a medical point of view).
- 12-hour shifts regulated by collective agreement if there are no objections from a medical point of view.
- Scope for individual arrangements in collective agreements: general authority to raise the daily number of normal working hours to up to 10 hours in the collective agreement.
- Strengthening the individual company level: introducing general authority to make arrangements at individual company level if the employer is not represented by a body having authority to conclude collective agreements.
- More flexible working time arrangements: in the case of flexitime, the daily number of normal working hours is planned to be increased to 10 hours.
- 4-day week: Under the Austrian Working Hours Act, it should be possible to make an internal agreement with the employer on a 4-day week (4 times 10 working hours); in businesses where there is no employees' council, this may be based on individual arrangements.
- Working extra hours on a regular basis to make up for absences in connection with public holidays: the period allowed for extra hours is planned to be extended to 13 weeks (instead of 7 weeks), daily number of normal working hours up to 10.
- More flexible arrangements for week-end rest in shift operation.
- Annual working time arrangements possible on the basis of collective agreement.
- Extra pay for overtime worked by part-time workers (there will be no extra pay if the contractually agreed number of working hours is adjusted).
- Measures against violations of regulations governing working hours.
- Simpler rules for reducing working time surplus (Section 19f of the Austrian Working Hours Act).

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Annex 4 – Ministers and Secretaries of State

Austrian Federal Chancellor – Alfred Gusenbauer (SPÖ)

Minister for Women's Affairs in the Federal Chancellery - Doris Bures (SPÖ)

Secretary of State in the Federal Chancellery (Social Affairs) – Heidrun Silhavy (SPÖ)

Secretary of State (Sport) – Reinhold Lopatka (ÖVP)

Minister of Finance and Vice-Chancellor – Wilhelm Molterer (ÖVP)

Secretary of State – Christoph Matznetter (SPÖ)

Minister of Defence – Norbert Darabos (SPÖ)

Minister of Foreign Affairs – Ursula Plassnik (ÖVP)

Secretary of State – Hans Winkler (independent)

Minister for Infrastructure, Technology and Research – Werner Feymann (SPÖ)

Secretary of State – Christa Kranzl (SPÖ)

Minister for Economic Affairs and Labour – Martin Bartenstein (ÖVP)

Secretary of State (Social Affairs) – Christine Marek (ÖVP)

Minister of Justice – Maria Berger (SPÖ)

Interior Minister – Günther Platter (ÖVP)

Minister for Social Affairs – Erwin Buchinger (SPÖ)

Minister for Science and Research – Johannes Hahn (ÖVP)

Minister for Education, Art and Culture – Claudia Schmied (SPÖ)

Minister of Agriculture and the Environment – Josef Pröll (ÖVP)

Minister of Health – Andrea Kdolsky (ÖVP)