**Statement by Johann Prader, Alternate Executive Director
for Austria
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The authorities agree with the staff's assessment of Austria's economic situation and its growth and inflation prospects. They also agree with the general thrust of the Fund's recommendations, and consider that the staff report accurately reflects the sense of the policy discussions conducted during the mission's visit to Vienna in mid-May.

1. Some Major Changes in Economic Policy

Since the time of the mission, however, there have been significant changes in policies, especially fiscal policy. The government has speeded up the budget consolidation process in order to take advantage of the economy's present strength to put the public budgets on a sustainable path. The federal government's new four-year draft budget was sent to Parliament on July 17. This program revises the coalition's originally agreed deficit of 1.3 percent of GDP for 2003 (the end of the legislative term). The new commitment is that this year's general government deficit of 1.7 percent of GDP will be followed by a 1.3 percent deficit in 2001 and balanced budgets in 2002 and 2003.

Meeting these targets will put Austria solidly back among the mainstream EU countries in the one area--budget consolidation--where it has recently fallen behind. The new targets are consistent with the Fund staff's assessment, which in turn largely agrees with the EU Commission's appraisal of Austria's stability program at the beginning of May.

The government has already taken several steps to ensure that these more ambitious fiscal targets are reached. Measures which the staff paper describes as "planned" have already been approved by Parliament, such as the introduction of strong disincentives to early retirement: beginning in October this year, a gradual increase of 1.5 years in the minimum age for early retirement will begin; the pension reduction for early retirement was increased by 50 percent; early retirement due to reduced ability to work was abolished; and survivor benefits are to be reduced based on total income of the survivor. The harmonization of the differences in pension systems has been stepped up: specifically, the more generous scheme for civil servants will gradually be aligned with the system for the general public.

Since Austria's GDP share of public spending is one of the highest in the EU, the government's budget consolidation goals will primarily be pursued through spending reductions. A major reformation of the government sector will be accompanied by a reduction of the public sector's share in total employment. Over the legislative period, the public payroll will be reduced by 9,000 jobs (and an additional 4,000 in public enterprises). As the staff suggested, this will require reviews of all the tasks the government currently performs, to determine their necessity or utility and discover what level of government can best carry them out. Among other advantages, this should make it possible to identify overlaps whose elimination will make the government more effective and efficient.

The federal government is presently negotiating with the other levels of government about how to realign fiscal relations at the various levels for the next four years. The federal government hopes to persuade states and municipalities that they should also claim "ownership" of the consolidation and engage in efforts of their own in parallel with those of the federal government.

Other major elements of the consolidation program include reducing remaining subsidies, a stronger emphasis on investments in research and development (R&D), improved targeting of social transfers, reducing the interest costs of federal debt by using the proceeds of privatization and license sales for debt reduction; reducing the practice of earmarking for special funds; and making more money available for families, R&D, and innovation; and international benchmarking of market regulation.

The government is determined to bring Austria's budget performance back in line with that of its EU partners. It sees the present favorable economic situation as an opportunity that must not be squandered. Coordinating the consolidation efforts of the federal government, states, municipalities, and social security administration will make it possible to balance the budget by 2002. Budget consolidation and structural reform are the most important elements in the effort to prepare Austria's economy for the challenges of globalization and the New Economy. Austria's past performances have been among the most outstanding in Europe. Recent obstacles to change have been overcome by the present government. The newly agreed consolidation path is evidence of the government's willingness to accept the necessary changes and take the appropriate measures.

The government is likewise determined to accelerate the restructuring of the product and factor markets, so that the present favorable external environment can translate into sustainable high employment growth. The reformation of financial market supervision is a case in point. Faster, more comprehensive privatization and deregulation are major objectives for the new government. Privatization is being undertaken for its structural rather than its budgetary advantages. The goal is to better prepare the Austrian economy to meet the demands of globalization. Social consensus and cooperation with the social partners are still important, but must now defer to the need for speed in adapting to changes in the world economy.

2. A Positive Role for the IMF

The IMF's advice has played an important role in this consolidation effort. The Austrian authorities have sought special advice from the Fund concerning intergovernmental fiscal relations and pension reform. The aim is to make these issues transparent and promote their public discussion, and in this way preserve the momentum of fiscal and social reform. The Austrian authorities are confident that the broad international experience of the Fund staff will make valuable contributions to the restructuring of Austria's economy. I wish to convey my authorities' thanks for the IMF's swift response to Austria's request.