

## Austria's fiscal position and compliance with EU fiscal rules

(extract from the Fiscal Advisory Council's Fiscal Rules Compliance Report 2021–2026 for Austria, June 2022)

In this section, we evaluate Austria's general government fiscal path as projected in the latest stability program update for Austria and compare it with the Fiscal Advisory Council's budget forecast for 2021 to 2023 – i.e. the period reviewed by the European Commission<sup>1</sup> – with a view to assessing compliance with EU fiscal rules.

Given heightened uncertainty about the future course of the COVID-19 pandemic and about the fiscal implications of the associated macroeconomic shock and support measures, the projected **fiscal path** is also surrounded by particularly **high uncertainty**. We will therefore only present a short outlook on rules compliance for the years 2024 to 2026 instead of a numerical evaluation.

Moreover, we are not going to discuss results related to the **2012 Austrian Stability Pact (2012 ÖStP)**, as agreed between the central, regional and local governments in accordance with Article 15a Federal Constitutional Law. For an assessment of compliance with national fiscal rules by the central government as well as by regional governments and local governments per province, see section 5 of the German version of the Fiscal Rules Compliance Report.

### Austria complies with Maastricht criteria from 2022 onward – application of “general escape clause” extended until end-2023

As described in section 3.2, the Stability and Growth Pact (SGP) provides for the activation of the “general escape clause” in a situation of generalized crisis. The clause allows member states to deviate from the EU's normal fiscal requirements in a coordinated and orderly manner, provided that this does not endanger fiscal sustainability in the medium term. The “general escape clause” has applied since 2020, when it was activated in response to the COVID-19 crisis. In May 2022, the clause was extended to apply until the end of 2023. Therefore, compliance with the structural fiscal rules (structural budget balance, expenditure rule) is not being assessed for the time being. However, the “general escape clause” does not relate to the Maastricht criteria (deficit ceiling of 3% of GDP, general government debt ratio not exceeding 60% or sufficiently fast reduction toward the reference rate). This means that any breach of these criteria due to the extraordinary conditions resulting from the COVID-19 pandemic may prompt the European Commission to issue an in-depth analysis in a report under Article 126 (3) TFEU and, possibly, to open an excessive deficit procedure (EDP). On this point, the European Commission reiterated in spring 2022 that, for the time being, no EU member states would be put under an EDP, even though in some countries budget deficits and debt ratios have been soaring amid the pandemic.<sup>2</sup>

Austria's **budget balance (Maastricht definition)** deteriorated to –8.0% of GDP in 2020. Since then, it has been improving steadily, driven by a robust economic recovery and supported by the successive unwinding of the aid and support measures adopted in view of the COVID-19 pandemic. According to our spring forecast, Austria's budget deficit should dip back below the 3% benchmark already in 2022 (–2.9% of GDP). For 2023, we project the budget deficit to go down further (–1.4% of GDP). Thus, we see Austria in compliance with the deficit criterion over the entire forecast horizon – unlike the forecast of the latest stability program update and the European Commission's spring forecast for 2022, which both indicate a minor breach of the benchmark (–3.1% of GDP).

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<sup>1</sup> See [https://ec.europa.eu/info/publications/2022-european-semester-country-reports\\_en](https://ec.europa.eu/info/publications/2022-european-semester-country-reports_en).

<sup>2</sup> See [https://ec.europa.eu/info/publications/2022-european-semester-country-specific-recommendations-commission-recommendations\\_en](https://ec.europa.eu/info/publications/2022-european-semester-country-specific-recommendations-commission-recommendations_en).

## Austria's compliance with fiscal rules (June 2022)

Likewise, we forecast the **debt ratio** to keep going down in line with SGP rules: We see the debt ratio declining from its temporary peak in 2020 (83.3% of GDP) to 79.9% of GDP in 2022 and 76.6% of GDP in 2023, and hence in compliance with the forward-looking benchmark in both years. This assessment is in line with the figures provided in the federal government's stability program and the European Commission's spring forecast.

From 2024 to 2026, we expect the general government deficit and the government debt ratio to decline further, which likewise points to continued compliance with the Maastricht criteria. Subject to a no-policy-change assumption, our spring 2022 forecast yielded a budget deficit of 0.4% of GDP in 2024 and minor surpluses in 2025 and 2026. Thus, the debt-to-GDP ratio should drop to 67.4% in 2026. Once the "general escape clause" is deactivated at end-2023, the structural deficit will be reduced continuously in line with SGP requirements based on current potential output estimates, provided that the fiscal rules are not adjusted. According to our spring 2022 forecast, Austria stands to realign with its medium-term budgetary objective (MTO) of -0.5% of GDP already in 2024 and will return to a structurally balanced budget in 2025.

**Summing up**, the Fiscal Advisory Council's forecast sees no breach of EU fiscal rules from 2022 onward: Austria stands to comply with both the Maastricht criteria (budget balance, debt ratio reduction) and with the requirements for structural budget adjustment – even though the pandemic-related activation of the "general escape clause" would allow for deviations from the structural budget requirements in the period under review. Once the "general escape clause" ceases to apply at the end of 2023, the budget is set to move toward a sustained path in line with SGP requirements. In its **country-specific recommendations** published in May 2022,<sup>3</sup> the European Commission advised Austria to ensure that the growth of nationally financed expenditure is in line with an overall neutral policy stance – taking into account continued and targeted temporary support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Furthermore, Austria was encouraged to expand public investment for the green and digital transition and for energy security. In addition, the European Commission called for a fiscal policy aimed at achieving prudent medium-term fiscal positions. This would require structural reforms, in particular of the long-term care system, a realignment of financing and spending responsibilities across layers of government and an improved tax mix to support inclusive and sustainable growth.

**Table: Austria's fiscal position in relation to the EU fiscal rules**

Austrian general government fiscal indicators (% of GDP)	EC estimate		FISK estimate		MoF estimate		
	2021	2022	2023	2022	2023	2022	2023
Budget balance (Maastricht definition)	-5,9	-3,1	-1,5	-2,9	-1,4	-3,1	-1,5
Structural budget balance <sup>1)</sup>	general escape clause						
Total expenditure (nominal, adjusted, net of one-offs, change in %)	general escape clause						
Gross debt (year-end figures)	82,8	80,0	77,5	79,9	76,6	80,0	77,1
<b>State total</b>							
Maastricht deficit of no more than 3% of GDP	⊗	⊗	✓	✓	✓	⊗	✓
MTO <sup>1)</sup> of no more than -0.5% of GDP	general escape clause						
Government expenditure growth	general escape clause						
Reduction of debt ratio	⊗	✓	✓	✓	✓	✓	✓

Legend: ✓ ... compliant with fiscal rule, ⊗ ... not compliant with fiscal rule, ⊗ ... not compliant with fiscal rule and significant deviation<sup>2)</sup>

1) Medium-term objective.

2) With regard to the structural deficit, a deviation is deemed significant if the deficit deviates by 0.5% of GDP or more from the structural adjustment path or from the MTO within one year or cumulatively over two years. With regard to the Maastricht criteria, a deviation is deemed significant in a given year if the deficit exceeds the upper limit by 0.5% of GDP and if the debt ratio exceeds the upper limit and fails to meet the reduction target.

Source: Fiscal Advisory Council 2022, European Commission (EC; Spring forecast, May 2022), Ministry of Finance (MoF; stability programme, April 2022), Austrian Institute of Economic Research (WIFO; forecast, March 2022) and authors' calculations.

<sup>3</sup> [https://ec.europa.eu/info/sites/info/files/2020-european-semester-csr-comm-recommendation-austria\\_en.pdf](https://ec.europa.eu/info/sites/info/files/2020-european-semester-csr-comm-recommendation-austria_en.pdf)