AUSTRIA´S FISCAL POSITION AND COMPLIANCE WITH EU FISCAL RULES (EXTRACT FROM THE FISCAL ADVISORY COUNCIL´S FISCAL RULES COMPLIANCE REPORT 2020-2025 FOR AUSTRIA, JUNE 2021)

In this section, we evaluate the general government's fiscal path defined in Austria's current stability program and compare it with the Fiscal Advisory Council's own budget forecast for 2020 to 2022 – which corresponds to the period reviewed by the European Commission's overall assessment[1] – with a view to assessing Austria's compliance with EU fiscal rules.

Given the 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**. Against this backdrop, we will only present a short outlook on rules compliance for the years 2023 to 2025 instead of a numerical evaluation.

Results related to the **2012 Austrian Stability Pact (2012 ÖStP)**, which is an agreement between the central, regional and local governments in accordance with Article 15a Federal Constitutional Law, are not discussed in this section. Our assessment of compliance with these national fiscal rules (for the central government sector as well as for regional governments and local governments in each province) can be found in section 5 of the German version of the Fiscal Rules Compliance Report.

Pandemic causes strong deterioration in budget balance and debt ratio; "general escape clause" remains activated until 2022

As described previously, the Stability and Growth Pact (SGP) provides for the activation of the "general escape clause" in a situation of generalized crisis in order to allow Member States to deviate from the EU's standard fiscal requirements in a coordinated and orderly manner, provided that this does not endanger fiscal sustainability in the medium term. The "general escape clause" was activated for 2020 to 2022 in response to the COVID-19 crisis. Therefore, there will be no numerical analysis of the fiscal position with a view to its compliance with the structural fiscal rules (structural budget balance, expenditure rule). However, the "general escape clause" does not apply 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 created by 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). In spring 2021, however, the European Commission reiterated that for the time being, it would not put any EU Member State under an EDP, even though budget deficits and debt ratios alike have been soaring because of the pandemic.[2]

The Austrian government has taken far-reaching support measures to counter the impact of the COVID-19 pandemic and the associated economic slump. As a result, the **Maastricht budget balance** deteriorated to –8.9% of GDP in 2020. In light of the ongoing pandemic, the Fiscal Advisory Council's spring forecast expects the Austrian budget balance to improve only slightly in 2021, to –7.6% of GDP. The deficit is projected to shrink to –3.4% of GDP in 2022 as the domestic economy will be recovering and aid and support measures expire. We see that, according to the current forecast, the deficit is expected to remain clearly above the threshold despite a reduction in 2020 to 2022. The European Commission's spring forecast, by contrast, sees Austria in compliance with the 3% deficit criterion as early as in 2022.

1 https://ec.europa.eu/commission/presscorner/api/files/document/print/en/qanda_21_2723/QANDA_21_2723_EN.pdf

2 https://ec.europa.eu/info/sites/default/files/economy-finance/com-2021-520-1_en_act_part1_v3.pdf

We project government debt to increase further, climbing from 83.9% of GDP in 2020 to 88.7% in 2021. After that, the Fiscal Advisory Council expects the ratio to drop continuously (2022: 86.6% of GDP). Due to the sharp increase of the debt ratio in 2020, Austria clearly failed to comply with any of the three benchmarks of the debt rule and will continue to do so in 2021 and 2022, according to our forecast. This assessment is in line with the figures provided in the federal government's stability program and the European Commission's spring forecast.

From 2023 to 2025, the general government deficit and the government debt ratio are set to decline further. The Fiscal Advisory Council's spring forecast puts the Maastricht budget balance at –2.7% in 2023, i.e. below the deficit ceiling. Austria is expected to easily meet the deficit criterion in 2024 and 2025. The debt-to-GDP ratio will drop in 2023 to 2025, reaching 83.7%, according to the Fiscal Advisory Council's forecast. This projected debt path means that Austria will fail to meet the debt criterion by a narrow margin in 2023 and 2025. Once the "general escape clause" is deactivated at end-2022, 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. That said, we do not expect Austria to meet its medium-term objective by the end of the forecast horizon. Our forecast sees a deviation from the expenditure rule from 2023, which, however, will not be "significant" according to the European Commission's definition.[3]

To sum up, the Fiscal Advisory Council projects that Austria will breach the deficit threshold of 3% of GDP and fail to meet the debt rule in 2020 to 2022, but these breaches will not trigger procedural steps. In addition, the pandemic-related activation of the "general escape clause" allows Member States to depart from structural budget requirements during this period. Once the "general escape clause" no longer applies, the budget is set to move toward a sustained path in line with SGP requirements. In its **country-specific recommendation** of June 2021,[4] the European Commission reiterated that Austria should take all necessary measures to effectively address the COVID-19 pandemic, sustain the economy during the crisis and support the ensuing recovery.

Table 1: Austria's fiscal position in relation to EU fiscal rules

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Austrian general government fiscal indicators (% of GDP)		EC estimate		FISK estimate		MoF estimate	
	2020	2021	2022	2021	2022	2021	2022
Budget balance (Maastricht definition)	-8.9	-7.6	-3.0	-7.6	-3.4	-8.4	-4.3
Structural budget balance 1)	general escape clause						
Total expenditure (nominal, adjusted, net of one-offs, change in %)	general escape clause						
Gross debt (year-end figures)	83.9	84.9	87.2	88.7	86.7	89.6	88.1
General government							
Maastricht deficit of no more than 3% of GDP	⊗	⊗	✓	⊗	⊗	⊗	⊗
MTO of no more than -0.5% of GDP 1)	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 2)

1) According to EC spring forecast 2021, including clauses: eligible deviations, e. g. costs related to refugees.

2) A deviation is deemed significant if the structural deficit deviates at least by 0.5% of GDP from the medium-term objective (MTO) or from the structural adjustment path toward the MTO, either in a given year or cumulatively over the period of two years.

Source: Fiscal Advisory Council (FISK; spring forecast, June 2021), European Commission (EC; spring forecast, May 2021), Ministry of Finance (MoF; stability programme, April 2021), Austrian Institute of Economic Research (WIFO; forecast, March 2021), authors´ calculations.

3 A deviation is deemed "significant" if a Member State's structural deficit deviates from the medium-term objective (MTO) or the adjustment path toward the MTO, either in a given year or cumulatively over the period of two years.

4 https://ec.europa.eu/info/sites/default/files/economy-finance/com-2021-520-1_en_act_part1_v3.pdf