AUSTRIA'S FISCAL STANCE 2015 TO 2017 AND KEY RESULTS OF THE AUSTRIAN FISCAL ADVISORY COUNCIL'S 2016 REPORT ON PUBLIC FINANCES[1]

Fiscal position from 2015 to 2017 and fiscal stance of the general government

Revenue windfall led to a higher-than-expected reduction of the general government deficit in 2015

In 2015, Austria's general government[2] deficit ratio declined to 1.0% of GDP (2014: 2.7% of GDP). In the face of subdued economic growth and rising unemployment, this contraction was considerably stronger than that envisaged by the federal government in fall 2014 or what could have been expected later on given the surge in refugees and continued rising unemployment. At 1% of GDP, the 2015 **Maastricht deficit** was 0.9 percentage points lower than projected by the federal government in October 2014 (draft budgetary plan 2015, table 1). The **divergence from the finance ministry's forecast** was mainly due to a **lower budget deficit** on the **federal level**, but even on the **regional level** (excluding Vienna) a budget surplus of 0.1% of GDP exceeded the draft budgetary plan's projections, which assumed a balanced budget.

The decline in the general government deficit in the **year 2015** was primarily related to the **unexpected increase in revenues** due to the **2015/2016 tax reform** (anticipatory and one-off effects of approximately EUR 1 billion) and the **establishment of HETA in 2014**, which **eliminated** the need to provide extra capital (EUR 4.7 billion). These two special effects together accounted for a deficit reduction of about 1.7 percent of GDP in 2015. In addition, fiscal consolidation was aided by the extremely low nominal **market interest rates**, which decreased even further. The **reduction in effective interest expenses**[3] for federal government debt in 2015 provided a relief in the order of EUR 0.5 billion over 2014.[4] Thus, at EUR 8.1 billion (table 2), the interest expenditure for Austria's government debt was lower in 2015 than in 2008 – despite the crisis-related increase in government debt (2015: +EUR 90 billion or +45% against 2008). At the same time, the **surge in refugees** that began in 2015, the implementation of new **service regulations for physicians**, and the implementation of a number of **security-related measures** contributed to a significant increase in the following ESA expense categories: compensation of employees, intermediate consumption, social benefits in kind, and social benefits in cash. This increase was reflected by disproportionately high growth in spending for social security, health care, and general administrative services. Overall, the year 2015 saw better-than-expected **government revenues** (+EUR 6.6 billion or 4.0%) and extremely low growth of **public expenditure** (+EUR 1.1 billion or +0.6%), compared with 2014.

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1 Budget data up to 2015 reflect the data of September 2016. Budgetary outcomes for 2016 and 2017 are forecasts (generally the 2016 fall forecast of the Fiscal Advisory Council).

2 Central, state and local governments and social security funds as defined in the European System of Accounts (ESA 2010).

3 The effective annual interest rate is the total cost of debt in percent per year and is essentially a function of the nominal interest rate, the issue price (premium, discount), and repayment.

4 This calculation is based on data of the Austrian Treasury on the 2015 federal government debt and the average monthly effective interest expenses year to year from 2014 to 2015. Also in 2012 and 2013, a reduction in effective interest expenses for federal government debt had led to annual interest savings of about EUR 500 to 600 million. In 2016, longer-term Austrian government bonds at times recorded negative interest rates.

Table 1: Assessment and preliminary results of Austria's budget path for 2015

% of GDP	Net lending/borrowing[1] MoF	FISK	EC	Structural budget balance[2] MoF	FISK	EC
October/November 2014	-1.9	-1.6	-1.8	-1.0	-0.2	-1.0
April/May 2015	-2.2	-1.8	-2.0	-0.5	-0.6	-0.8
October/November 2015	-1.9	-1.6	-1.9	-0.5	-0.2	-0.6
April/May 2016	-1.2	-1.2	-1.2	0.0	0.0	0.0
October/November 2016	-1.0	-1.0	-1.0	0.1	0.1	0.0

1) General government budget balance according to the ESA 2010.
2) Including additional cost of assistance to refugees and of counterterrorism measures.
Source: Ministry of Finance (Stability Programme and Draft Budgetary Plan), FISK (fiscal forecast), EC (economic forecast), Statistics Austria.

Table 2: Budget balances and interest payments of the general government, 2013 to 2017

	Net lending/borrowing		Interest payments		Primary balance		Structural budget balance	
							FISK	EC[1]
	bn EUR	% of GDP	bn EUR	% of GDP	bn EUR	% of GDP	% of GDP	
2013	-4.4	-1.4	8.4	2.6	4.0	1.2	-1.2	-1.2
2014	-9.1	-2.7	8.2	2.5	-0.9	-0.3	-0.7	-0.7
2015	-3.5	-1.0	8.1	2.4	4.5	1.3	0.1	0.0
2016	-5.2	-1.5	7.4	2.1	2.2	0.6	-1.1	-1.0
2017	-4.6	-1.3	6.6	1.8	2.0	0.6	-1.0	-0.9

1) European Commission (autumn forecast 2016).
Source: Statistics Austria, Ministry of Finance, Austrian Institute of Economic Research (GDP), European Commission's and Fiscal Advisory Council's fall forecast (2016 and 2017).

Table 3: Budget balances of the subsectors of the general govt., 2013 to 2017

	Central government		State governments (excl. Vienna[1])		Local governments (incl. Vienna[1])		Social security funds		Total	
	bn EUR	% of GDP	bn EUR	% of GDP	bn EUR	% of GDP	bn EUR	% of GDP	bn EUR	% of GDP
2013	-4.6	-1.4	-0.1	0.0	-0.2	-0.1	0.4	0.1	-4.4	-1.4
2014	-9.3	-2.8	0.1	0.0	-0.1	0.0	0.3	0.1	-9.1	-2.7
2015	-4.0	-1.2	0.2	0.1	0.0	0.0	0.3	0.1	-3.5	-1.0
2016	.	.	.	.	.	.	.	.	-5.2	-1.5
2017	.	.	.	.	.	.	.	.	-4.6	-1.3

1) In the Austrian Stability Pact, Vienna (as state and local government) is included in the state government level.
Source: Statistics Austria, Austrian Institute of Economic Research (GDP) and Fiscal Advisory Council's fall forecast (2016 and 2017).

In 2015, Austria largely fulfilled the EU-wide fiscal rules, but did not implement structural reforms and budget reallocations to increase sustainability

In 2015, Austria was one of **nine EU countries** (together with Germany, Estonia, Lithuania, Luxembourg, Romania, Sweden, the Czech Republic, and Cyprus) that reached their "**medium-term budgetary objective** (MTO)" and **largely adhered to the various EU-wide fiscal rules**[5]. In 2015, for the first time since the onset of the financial and economic crisis, the structural budget balance of Austria was slightly positive at 0.1% of GDP (table 2).

From a cyclical standpoint, Austria's **"fiscal stance"** (**change in the structural primary balance in % of GDP)**[6] showed a **slightly restrictive budget path** in 2013 to 2015. The 2015/2016 tax reform and the reduction of nonwage labor costs have reversed this trend, with Austria entering a slightly **expansionary, economically stimulating phase** in 2016 and 2017. Austria is expected to exhibit a marginally negative output gap signifying underutilization of economic resources in the 2015 to 2017 period.

Budgetary parameters alone, however, say little about the **sustainability of the budget path** or the **quality of the structure of government revenue and expenditure**. What matters here is the balance between reducing the historically high debt ratio and promoting economic growth, as well as a structure of government revenue and expenditure that is aligned with these objectives and reflects socio-political preferences. International organizations such as the OECD and the IMF urge wealthy EU countries to take advantage of the low interest rate environment to implement growth-stimulating measures and adjust their government revenue and expenditure structure. Public investment, e.g., in digital networks, transport infrastructure, climate protection, but also in the education sector and in childcare services, is meant to ensure that economic growth in Europe gains momentum. To what extent such a proactive fiscal stance should be funded by compensatory measures is in dispute.[7] There is broad consensus, however, that the debt ratios of most EU countries are too high already. The Fiscal Advisory Council encourages the implementation of **future-oriented public incentives** while remaining committed to **budget consolidation** and complying with **fiscal rules** (see the latest recommendations of the Fiscal Advisory Council).

A look at the development of **gross public investment in Austria** in the past 20 years shows that the public investment-to-GDP ratio, which amounted to up to 3.4% of GDP after the crisis years (2008 and 2010), currently (2015 to 2017) stands at 2.9% and is thus marginally below the long-term average of 3.1% of GDP. Spending for **government investment projects** (e.g. the expansion of the broadband infrastructure or the Austrian railway ÖBB investment framework) was **below target** in 2015 and 2016. The crisis-related decline in gross fixed capital formation in Austria is largely the result of a **decrease in private rather than public investment spending** most likely caused by a heightened level of uncertainty among companies. Similarly, the reduction of the **government expenditure ratio** starting in 2015 (table 4) is primarily due to the drop in spending for the support package for banks. Excluding the banking package, government expenditure is expected to show a year-on-year increase in 2016 and 2017 of 2.6% and 2.7%, respectively, according to the Fiscal Advisory Council's forecast.

With respect to the **output gap** and the **structural budget balance**, it should be added that **no uniform method of estimation** is used by the European Commission, the OECD, the IMF or the ECB and that (even historical) data are commonly revised irrespective of the method used. A recent **study by the Office of the Austrian Fiscal Advisory Council**, however, shows that in Austria, revisions of the structural budget balance for the years 2010 to 2015 were primarily driven by **revisions of the Maas-**

5 Given that Austria fulfilled its MTO, noncompliance with the spending rule did not trigger any procedures.

6 Structural budget balance excluding interest as a percentage of nominal GDP.

7 While it can be assumed that the multiplier effect of government spending is currently quite high, total self-funding through more growth and higher taxes is still likely to be the exception rather than the rule.

tricht deficit (inaccurate revenue and expenditure estimates) and not by **revisions of the output gap or one-off measures**.[8]

Significant increase in budget deficits to be expected in 2016 and 2017; funding measures of the 2015/2016 tax reform below plan

Despite the economic recovery, the **Fiscal Advisory Council** expects very little **additional government revenue** for the **years 2016 and 2017**, most especially this year (2016: +EUR 1.4 billion or +0.8%; 2017: +EUR 4.9 billion or +2.8%). This year's revenue growth is dampened by the 2015/2016 **tax reform**, both directly as a result of the planned net tax loss and indirectly due to the absence of the anticipatory effects of last year. A first ex post analysis shows that official **funding measures** are unlikely to reach the target level in 2016. In addition, the agreed **reduction of nonwage labor costs**, the delayed effects of the **tax reform**, and the agreed revision of the **tax on bank liabilities** (reduction of annual revenue to EUR 0.1 billion and special payments in the amount of EUR 1 billion divided equally among the next four years) will lead to revenue growth in **2017** that trails the growth of nominal GDP. **Social contributions**, which previously made up 30% of total revenue, are expected to grow at a significantly higher rate than taxes, namely at 3.6% and 3.1% in 2016 and 2017, respectively. This is due to a robust increase in employment, measures to combat tax fraud, and raises of the maximum assessment base for social security contributions. Lowering the insolvency contingency fund contribution by 0.1 percentage points dampens the 2016 revenue slightly, however. According to the fall forecast of the Fiscal Advisory Council, **Austria's tax ratio** (national definition) is expected to drop to 42.5% of GDP in 2016 and 2017, down from 43.8% of GDP in 2015. Even after the tax reform, Austria's tax-to-GDP ratio remains high by **international standards**.

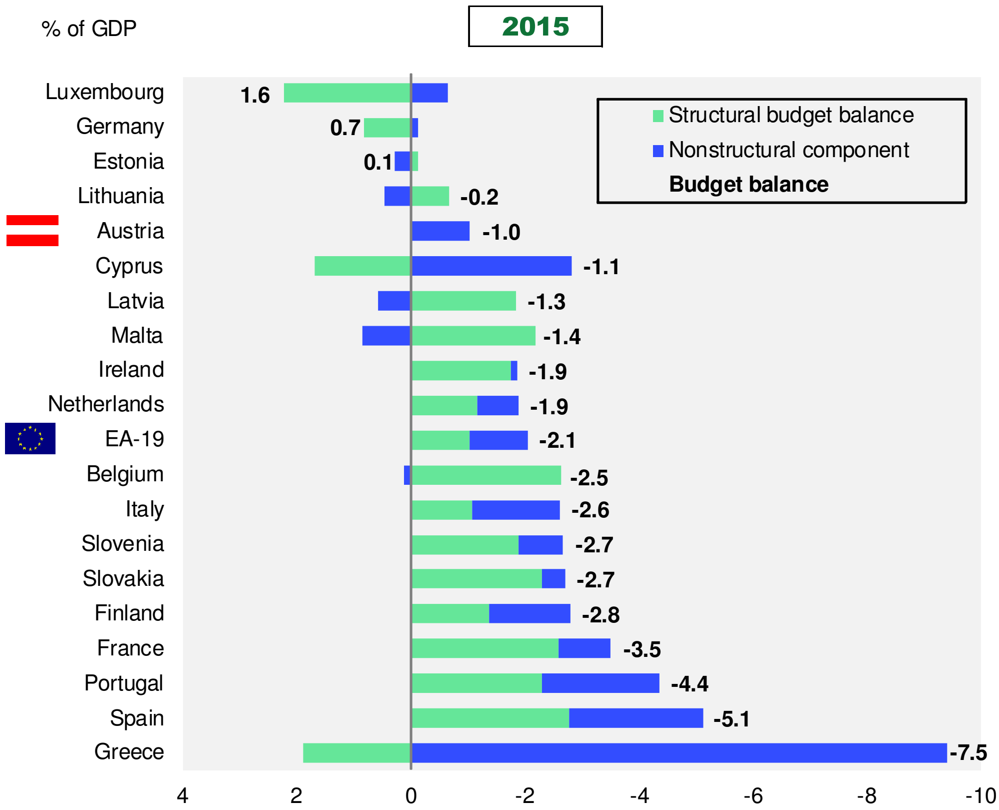
Over the forecast horizon 2016 and 2017, **public expenditure** is expected to rise, on average, by a moderate 2.1% year on year (2016: +EUR 3.1 billion or +1.7%; 2017: +EUR 4.2 billion or +2.4%) amid an anticipated nominal GDP of 3.3%. This increase will be **dampened** in particular by **lower capital transfers** under the **support package for banks**, coupled with a drop in **interest expenditure** given the low interest environment (2016: totaling roughly –EUR 2.3 billion). For the first time since 2009, the Fiscal Advisory Council's forecast assumes a very low burden on the budget from expenditures under the Austrian banking package. Not all of the funds thus freed up will translate into lower expenditures as they will be partly displaced by dynamic expenditure categories (e.g. health care, unemployment benefits, social security or pensions). As a result of the high number of **refugees** arriving in Austria beginning last year, government spending is expected to increase from EUR 1.1 billion (2015) to a total of EUR 2.3 billion per year both in 2016 and in 2017, according to the Fiscal Advisory Council's current estimate. This notwithstanding, the latest forecast of the Fiscal Advisory Council is still predicting an overall decline in the general government's expenditure ratio (2015: 51.6% of GDP; 2017: 50.3% of GDP).

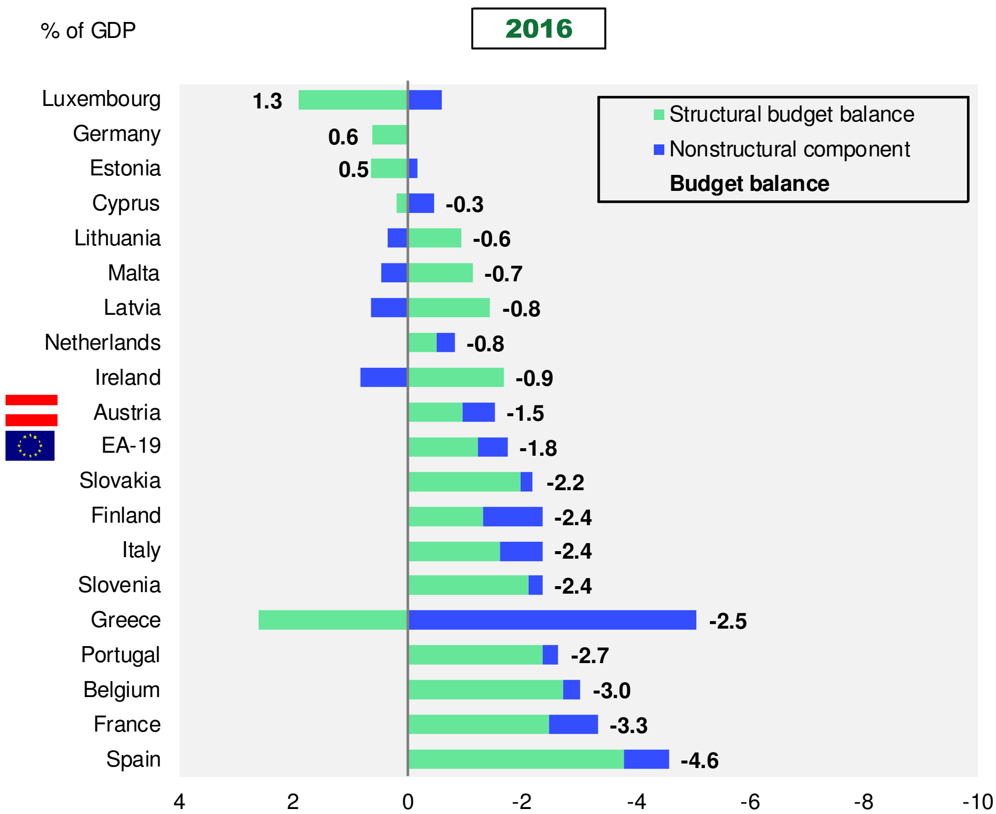
Though higher than in 2015, the relatively low growth of public expenditure over the forecast horizon 2016 and 2017 cannot fully offset the extremely weak development of revenues. On balance, these developments result in a notable **increase in the general government deficit (Maastricht definition)** to 1.5% of GDP in **2016** (2015: 1.0% of GDP). Even in **2017**, the deficit ratio is currently expected to edge down only slightly, namely to 1.3% of GDP (table 2). This significant deterioration of Austria's fiscal position is also reflected by the general government's structural budget balance (cyclically adjusted balance excluding one-off measures).

8 See Grossmann B. et al (2016). Komplexität der EU-weiten Fiskalregeln und Gestaltungsoptionen für die subsektorale Anwendung in Österreich. https://www.fiskalrat.at/Publikationen/Sonstige.html (German only; chapter 5, p. 26ff).

Chart 1

2015 and 2016 budget balances in the euro area





Source: European Commission (fall forecast as of November 2016).

The **structural budget deficit ratio**[9] is projected to increase to **1.1% of GDP in 2016** as the Maastricht budget balance deteriorates by 0.5 percentage points despite lower spending needs for one-off measures (banking package) and an economic recovery. In **2017**, the **structural budget deficit ratio** is expected to decrease to **1.0% of GDP**.

Table 4: Government ratios: general government total expenditure, revenue and taxes[1)] 2013 to 2017 (% of GDP)

in % of GDP	2013	2014	2015	2016	2017
Expenditure[1]	51.2	52.8	51.6	50.7	50.3
Gross capital formation	3.1	3.0	2.9	2.9	2.9
Interest payments	2.6	2.5	2.4	2.1	1.8
Revenue	49.9	50.0	50.6	49.2	49.1
Tax revenue (national definition)[2]	42.9	43.1	43.8	42.5	42.5
Tax revenue (international definition)[3]	43.6	43.8	44.4	43.1	43.1

1) Interest payments excluding swap transactions.
2) General government tax revenue including actual social contributions (compulsory contributions only; ESA codes: D2+D5+D611+D91-D995); including EU own resources.
3) National tax revenue and imputed social contributions.
Source: Statistics Austria, Austrian Institute of Economic Research (GDP) and Fiscal Advisory Council's fall forecast (2016 and 2017).

General government debt rose again in 2015 on account of the banking package but is expected to decline considerably in 2016 and 2017

The significant **increase in government debt in 2015** was largely ascribable to the measures of the bank support package. Cases in point are:

- the deficit-increasing effects of the capital transfers (liabilities that had been extinguished through the law on the **restructuring** of **Hypo Alpe-Adria-Bank International AG** [**HaaSanG**] were reinstated by the Austrian constitutional court's decision; EUR 1.8 billion) and associated refinancing cost,
- the merger of the unsold parts of **Kommunalkredit Austria AG** with the state-owned KA-Finanz AG (EUR 6.2 billion),
- the classification of the **immigon portfolioabbau ag** (wind-down company of ÖVAG; EUR 3 billion) as part of the general government sector, and
- the out-of-court settlement with the **Free State of Bavaria** (agreed down payment of EUR 1.2 billion).

Altogether, government debt increased by EUR 11.8 billion to EUR 291 billion **in 2015**. **In 2016**, the fall forecast of the Fiscal Advisory Council predicts a slight **reduction of gross government debt** for the first time since 1997 (end-2016: EUR 290 billion). The **general government debt ratio** will drop significantly in 2016 and 2017 – from 85.5% of GDP at the end of 2015 to 82.3% and 80.3% of GDP in 2016 and 2017, respectively. This reduction of the debt ratio in 2016 (3.2 percentage points) and 2017 (2.0 percentage points) is primarily attributable to the nationalized banks' wind-down of assets, the

9 Structural budget deficit ratio including additional cost of assistance to refugees and counterterrorism measures.

agreement reached with HETA's creditors, the low interest rate environment with a declining interest expenditure ratio, and high premiums. At EUR 38.5 billion or 11.3% of GDP, the **effect of the banking package on** Austria's **debt level** appears to have peaked at the end of 2015, and it should recede to about EUR 33 billion or 8.8% of GDP by year-end 2017.

Budget policy priorities

Austria to pursue stability and growth-oriented budget and economic policies

The **federal government's strategy** has the following objectives:

- comply with EU-wide fiscal rules,
- strengthen investment in the areas of education, universities, research and development, and infrastructure to support growth and employment,
- give impulses in the areas of internal and external security, as well as take measures to cope with the influx of refugees, and
- continue structural reforms in the fields of pensions, health care policy, public administration, subsidies, labor markets, and taxes.

In order to implement the strategy, numerous **taxation and expenditure-related consolidation measures, proactive measures**, and some **structural reforms** were carried out the effects of which are felt in the period from 2015 to 2017. Outlined below are the most important current measures which will in many areas influence fiscal developments beyond 2017:[10]

- **The 2015/2016 tax reform** with an estimated volume of more than EUR 5 billion, which took effect on January 1, 2016: most of the **tax relief** is due to **wage and income tax** reductions. In addition, the tax burden on the corporate sector has been lowered by increasing the research premium and the tax allowance for the issue of employee shares. The tax reform is meant to be **funded** primarily **by revenue-side measures to combat tax fraud** in the order of EUR 1.9 billion (in particular the obligation to issue receipts and use a cash register and the ability for fiscal authorities to inspect bank accounts), through **tax increases** (such as a partial VAT increase, increase in capital gains tax on capital gains and dividends, real estate tax, and abolition of tax exemptions), and through **self-financing** (tax revenue through higher growth). **On the expenditure side**, around EUR 1.1 billion in spending are to be cut through a "cost containment path for the administration" as well as through cost-cutting measures in relation to subsidies to finance the tax reform.
- **Reduction of nonwage labor costs:** after reducing the employer contribution to the **insolvency contingency fund** by 0.1 percentage points (–EUR 0.1 billion) as from January 1, 2016, employer contributions to the **family burden equalization fund** will be reduced as well in two stages from currently 4.5% to 3.9% in 2018 (2017: –EUR 0.5 billion; 2018: –EUR 0.9 billion). Furthermore, the **burden on farms is to be lowered** by suspending one quarterly social insurance contribution (for health and accident insurance and the public pension funds; assessment for the fourth quarter of 2016 = January 2017).
- **Expenditures for refugees:** the federal government is planning to increase budgetary funds to cover rising expenses for **basic public care and integration policies**, as well as for **internal security** and **border management** (including border control). According to estimates of the Fiscal Advisory

10 Not mentioned here are measures that were taken in previous years and that may have sustained effects, such as the 2011 "Loipersdorf package," the 2012 First and Second Stability Act, and the 2014 Tax Code Amendment Act.

Council, in 2016 and 2017, funds in the amount of around EUR 2.3 billion are allocated to these areas on the national level. The Austrian finance ministry's 2017 draft budgetary plan envisages slightly lower general government spending of EUR 2.0 billion for the year 2016.

- **Proactive measures:** proactive funding has been earmarked for **universities and universities of applied science** from 2016 to 2020 (EUR 1.1 billion in total). According to a Ministerial Council decision of November 8, 2016, EUR 700 million will be provided for **research** for 2017 to 2021. In addition, a so-called "**broadband billion**" will be used to expand broadband infrastructure in Austria (originally until 2020, recently extended to the year 2021). Furthermore, a **housing sector program** involving both nonprofit and private investors (housing cooperatives, private residential investors) will be funded through a housing bank and the European Investment Bank. Moreover, in 2017 and 2018, **additional investment** activity **by local governments** to modernize the infrastructure will be promoted, similar to the additional investment premium for small and medium-sized businesses. The subsidy is capped at EUR 2 million per investment project, with a maximum eligible amount of 25% of the cost.

- **Economic policy packages:** after a **start-up package** (EUR 185 million in total, of which EUR 30 million in 2017) was adopted in the summer of 2016, an **investment premium** was adopted in October 2016, which allows **small and medium-sized businesses** to receive up to 10% of their additional investment costs in the years 2017 and 2018, at a budgetary cost of EUR 87.5 million each; an initiative to facilitate share ownership by employees was also adopted.

- **Education reform:** this includes a strengthening of **school autonomy** and increased funds for **all-day schools**. According to draft legislation, from 2017 to 2025, a total of EUR 428 million are to be allocated to infrastructure and after-school programs, EUR 248 million to teachers at compulsory schools, and EUR 74 million to teachers above all at secondary schools.

- **Administrative reform:** measures are to be implemented on the basis of reports by the **Committee for the Reform of Competencies and Deregulation**, which was established in 2014 (final report of June 2015), and proposals by the Austrian **Court of Audit**. The reform is expected to focus on smaller projects with low financial savings. Originally, the implementation was supposed to be regularly reviewed by an independent **monitoring unit** and to be documented twice a year in a progress report (in cooperation with the Court of Audit). The project has **not yet** been **implemented**.

- **Pensions and the labor market: structural reforms** encompass, among other measures, the introduction of a **part-time pension** scheme (reduced working hours for older employees with partial compensation for lost income) and a **bonus-malus system** as an incentive to employ older workers. Labor-market policy instruments such as integration subsidies and combined wages serve to reintegrate older workers into the labor market. From 2017 onward, young adults who are unemployed will be able to benefit from the **training guarantee** up to the age of 24, and a **skilled workers stipend** or up to three years will be available for people who have completed compulsory education or less. In addition, the Council of Ministers decided in November 2016 to increase the **means-tested top-up** for low-income pensioners to EUR 1,000 starting in 2017 and to pay out an additional **pension benefit** (EUR 100 per retiree) for 2017 (cost: approximately EUR 180 million).

- **Fiscal sharing arrangement:** in 2016, a new **fiscal sharing arrangement** was adopted for the period 2017 to 2021, which, beginning in 2017, provides **additional funds** for state and local governments amounting to EUR 300 million a year, as well as a one-time grant of EUR 125 million for expenses related to migration and integration. Beginning in 2018, the **promotion of residential building** will be entirely under the control of regional governments. At the same time, **building regulations** shall be unified throughout Austria. Early steps toward greater **task orientation** were taken as well. The amount of funding for **preschools**, for example, will be tied to certain criteria, starting in 2018. And in 2019, the same will be true for **after-school programs** at schools. An agreement was also reached regarding technical safety features at **railway crossings**. Here, the federal government, the local governments, and the railway operators have agreed to split the cost. In addition, **transparent limits for state guarantees**, together with a uniform calculation method, have been agreed upon for all government levels starting at the beginning of 2019. Moreover, a **ban on speculation** has been agreed. However, the chosen objectives of disentangling joint tasks, mixed funding, and transfers of funds, as well as defining ways to strengthen the provinces' autonomous tax management have not been adequately reflected in the current fiscal sharing rules for 2017 to 2021. Nonetheless, central, regional, and local governments have agreed to prepare a **federal government reform** by the end of 2018, based on the work of the Austrian Convention, and to analyze the question of **tax autonomy** in several working groups.

- **Nursing care:** a **value adjustment** is planned for the **long-term care fund** (currently EUR 350 million), beginning in the year 2018 (+4.5% per annum). As a **cost containment path** for nursing, an annual increase of 4.6% was agreed upon for the period from 2017 to 2021.

- **Health care:** the newly adopted health sector arrangement between the central, regional, and local authorities for the years 2017 to 2021, in accordance with Article 15a of the Federal Constitutional Act (B-VG), is in large part quite similar to previous agreements. The Austrian Health Care Structure Plan (ÖSG) and the Regional Health Care Structure Plans (RSG) are the key planning tools for providing health care services on both the federal and the regional level. What is new is that the ÖSG und RSG will now apply to private practice as well. The establishment of primary care units (PVEs) will in future be guided by the RSG. PVEs are to be established in the form of practice networks, but also as central group practices or as PVEs that are integrated into hospitals. The central and complex question of cross-sectoral financing was not resolved. The **cost containment path** for the **health sector**, however, was extended as part of the fiscal sharing negotiations. The current rise in expenditure of 3.6% per annum is to be reduced to 3.2% per annum by 2021.

- **Debt brake**: the **2012 Austrian Stability Pact** introduced a multidimensional system of **national fiscal rules ("debt brake")**, which will go into effect **in 2017**. These national fiscal rules, which support compliance with the EU requirements, establish not only subsectoral and regional contributions to the maximum permissible structural deficit (central government and social insurance institutions: 0.35% of GDP; state and local governments: 0.1% of GDP), but also a budget buffer ("control account") that can be used to temporarily fund a deficit overrun of up to 1.6% of GDP.[11]

The Fiscal Advisory Council's reform recommendations to safeguard Austria's stability-oriented budget path[12]

Even though Austria has largely fulfilled the EU fiscal rules in 2014 and 2015, the Fiscal Advisory Council believes that several key reforms have yet to be implemented. The **Fiscal Advisory Council**, and also other organizations (such as the Austrian Court of Audit, the European Commission, the IMF, and the Committee for the Reform of Competencies and Deregulation), have called for these reforms **for years**, but due to their complexity, differing interests and widespread concerns, they have been delayed repeatedly. In particular, these include:

- Introducing **greater transparency** regarding the transfer of funds between public entities of the state (including, in particular, extra-budgetary entities),

- **disentangling public tasks undertaken jointly by different levels of government** (stronger coherence of tasks, revenue, and spending responsibilities) in tandem with measures to **reduce the administrative burden**,

11 The 2012 Austrian Stability Pact legally established the requirement to achieve a balanced budget in structural terms (–0.45% of GDP) from 2017 onward. Since the new medium-term objective (MTO) for the period 2017–2019 has been established at –0.5% of GDP, there is a discrepancy between these two objectives.

12 www.fiskalrat.at/en/publications/recommendations-and-statements.html.

- **implementing further structural reforms**, in particular in the **fields of health care, nursing, pensions, public transportation, subsidies,** and **education**,

- designing a comprehensive **tax reform plan** that aims to **reduce the tax burden on labor**, close **tax loopholes**, and **harmonize tax bases**.

In addition, an **"integration package"** should be established quickly that offers **integration programs as well as integration** and **work incentives for refugees,** and **asylum procedures** need to be accelerated. Successful integration into the labor market or the education and training system is a necessary precondition for a sustainable management of migration, preventing higher follow-up costs for the public sector and society as a whole.

To strengthen **Austria's resilience to crises** by fostering sustainable growth and high employment, the **Fiscal Advisory Council** recommends the allocation of **additional budget funds** to stimulate the economy. At the same time, **structural reforms** are to be implemented that improve the efficiency of public services, thereby increasing budgetary flexibility. Such a fiscal policy stance is consistent with EU fiscal requirements and reduces the government debt ratio. The low interest rate environment, which reduces interest payments for government debt, and the gradual expiry of bank aid measures currently facilitate important reforms that reallocate budget expenditure toward future-oriented areas, such as research and development, education or climate protection, and which may require additional funding. The welcome budgetary effects of the low interest environment will, however, decrease in the coming years. In addition, today's low interest rate level should not be assumed to hold in the long run.

Hence, the phase of fiscal consolidation in Austria can also be a period of investment. Furthermore, the **flexibilization of the currently applicable EU fiscal rules** supports **combining consolidation and proactive measures** (European Fund for Strategic Investments; investment and structural reform clauses). Austria could, for instance, launch a **structural reform plan** which could, in its initial stages, be supported by additional public funds in accordance with EU fiscal rules, provided that the reforms can be expected to lead to a sustainable increase in potential output growth (deviations from the rules are permissible for up to three years).

Federal government reform should be aimed at implementing broad-based transparency and begin with a critical **task and spending review** , followed by a **reform of competencies and structures** undertaken jointly by different levels of government. The latter should be guided by the goal of unifying the responsibility for public functions, spending, and funding for public services such as education, child care, health care, and social services in individual administrative units. Such a reform may not only reinforce incentive mechanisms for sustainable budget management, but also achieve simpler structures allowing for the disentangling of transfers. At present, the provinces have spending power, but their revenues are determined largely by fiscal sharing and intergovernmental transfers. The Fiscal Advisory Council endorses the **preparation of federal government reform** based on the work of the Austrian Convention, which was agreed in the new **fiscal sharing arrangement** for 2017 to 2021. To keep to the agreed timeframe (completion of reform by end-2018), it is, however, imperative to **rapidly kick off** this project, to develop a **plan and timetable** for the reform process, and to **clarify the strategic objectives on a political level**. Almost all of the **areas of reform to be tackled (health care, nursing, pensions in the public sector, public transportation, subsidies and education)** involve various levels of government.

Monitoring compliance with fiscal rules[13]

EU flexibility clauses set to ensure Austria's compliance with EU fiscal rules in 2016 and 2017

According to the **federal government's draft budgetary plans** (draft budgetary plan 2017, stability program 2015 to 2020), **Austria** will continue on its **stability-oriented budget path** in the coming years and **comply with the EU fiscal rules with the help of flexibility clauses**, which have been built into the EU-wide fiscal rules since 2015 (European Commission, 2015a) and which, under certain circumstances, temporarily ease the fiscal targets.

Table 5: EU fiscal rules as applied to Austria

Staat insgesamt	EK 2015[1)]	FISK-Schätzung 2015	FISK-Schätzung 2016	FISK-Schätzung 2017	BMF-Schätzung 2015	BMF-Schätzung 2016	BMF-Schätzung 2017
Maastricht-Defizit von max. 3% des BIP	✓	✓	✓	✓	✓	✓	✓
MTO (inkl. tolerierter Abweichung und anrechenbarer Klauseln)[2)]	✓	✓	✓	✓	✓	✓	✓
Strukturelle Anpassung der Defizitquote	✓	✓	⊗	⊗	✓	⊗	⊗
Ausgabenzuwachs des Staates	⊗	⊗	✓	⊗	⊗	✓	⊗
Rückführung der Schuldenquote	✓	✓	✓	✓	✓	✓	✓
Gesamtstaatliche Fiskalindikatoren Österreichs (in % des BIP)							
Finanzierungssaldo laut Maastricht	-1,0	-1,0	-1,5	-1,3	-1,0	-1,4	-1,2
Struktureller Budgetsaldo	0,0	0,1	-1,1	-1,0	0,1	-0,9	-0,9
Struktureller Budgetsaldo inkl. anrechenbarer Klauseln	0,1	0,2	-0,7	-0,6	0,2	-0,5	-0,5
Gesamtausgaben (real, adaptiert, Veränderung in %)	.	-1,1	1,2	1,8	-1,0	1,1	1,9
Verschuldung (Jahresendstände)	85,5	85,5	82,3	80,3	85,5	83,2	80,9

Legende: ✓ ... Fiskalregel erfüllt, ⊗ ... Fiskalregel nicht erfüllt, ⊗ ... Fiskalregel nicht erfüllt und erhebliche Abweichung[3)]
1) Die Ex-post-Bewertung für 2015 basierte auf der EK-Frühjahrsprognose 2016, die für 2015 ebenfalls einen strukturellen Budgetüberschuss von 0,0% des BIP auswies.
2) Tolerierte Abweichung (0,25 Prozentpunkte) und erlaubte Abweichungen z. B. im Ausmaß der Flüchtlingszusatzkosten.
3) Eine Abweichung ist erheblich, wenn das strukturelle Defizit in einem Jahr oder kumuliert über zwei Jahre zumindest um 0,5% des BIP vom strukturellen Anpassungspfad bzw. MTO abweicht. Bei der Schuldenregel im Übergangszeitraum, wenn die strukturelle Anpassung die erforderliche Mindestanpassung (MLSA) um mehr als 0,25% des BIP verfehlt.
Quelle: BMF (Haushaltsplan, Oktober 2016), WIFO (Prognose, September 2016), EK-Herbstprognose (November 2016) und eigene Berechnungen.

The **extraordinary increase in refugees coming to Austria** represents an "exceptional event" as defined in the corrective and preventive arm of the Stability and Growth Pact and permits the use of the flexibility clauses. The **temporary easing of fiscal rules** is granted to the extent of their budgetary impact (additional expenditure compared with the previous year) **for three years** and may also be granted **more than once**. In the case of Austria, and considering the **surge in refugees**, these **temporarily eligible additional costs** were granted twice, namely **in 2015 and 2016**. **For 2015**, the eligible additional costs over 2014 make up 0.1% of GDP, and for 2016, until actual data are available, the EU forecasts additional costs of 0.3% of GDP, which will also be considered for three years. Because of the temporal overlap of these two eligible **additional costs**, the (**"cumulative"**) permissible deviation from the base year 2014 adds up to around 0.4% of GDP for 2016 and 2017. Similarly, the additional cost of counter-terrorism measures in 2016 of 0.1% of GDP (rounded) are taken into account within the framework of the flexibility clauses from 2016 to 2018. Thus, Austria may deviate from the MTO by about 0.5% of

13 The following discussion is limited to structural budget developments against the backdrop of the EU fiscal rules. For information on the other rules and compliance with them, see chapter 7.

GDP in both 2016 and 2017 (with a maximum structural deficit ratio of –0.45% of GDP in 2016 and –0.5% of GDP in 2017), while still complying with the fiscal target.

According to the **federal government's 2017 draft budgetary plan** of October 2016, the structural deficit will amount to about 0.9% of GDP (rounded) in both 2016 and 2017. Thus, Austria will achieve compliance with the **MTO in 2016 and 2017** adjusted for the **flexibility clauses** and the **margin of tolerance**. **Slight** (but not "significant") **deviations from the target values** will remain in relation to **needed structural adjustments**, based on a one-year assessment in 2016 and a two-year assessment in 2017.

To encourage budget discipline, not just the EU, but many countries are implementing **new budget management methods**. In addition to improved budget processes, such as medium-term budget planning, controlling processes and output orientation, this includes in particular the use of **numerical fiscal rules** and **independent institutions** to monitor compliance. In early November 2013, the Austrian Government Debt Committee was legally assigned the mandate of monitoring Austria's compliance with the EU fiscal rules (Fiscal Advisory Act, Federal Law Gazette Part I No. 149/2013) and formally established as "Fiskalrat Österreichs" according to the so-called "Two-Pack" (Regulation (EU) No 473/2013).

Fiscal Advisory Council's fall forecast shows no "significant deviations" from structural budget targets in 2016 and 2017

According to the **fall 2016 forecast of the Fiscal Advisory Council**, the 2016 structural budget deficit comes to 1.1% of GDP, a deterioration by 1.2 percentage points compared with 2015. Since the EU's fiscal rules, including the flexibility clauses, allow for a deterioration of a **maximum of 1.0% of GDP** (change from the MTO 2015: 0.5% of GDP plus 0.5% of GDP to take into account the additional costs related to refugees and counterterrorism measures), the structural adjustment of the deficit deviates **from the EU benchmark** by a rounded amount of 0.3 percentage points in 2016, according to the Fiscal Advisory Council's fall forecast. However, the **deviation** in 2016 is **lower than the "significance threshold"** of 0.5% of GDP (one-year assessment). The Fiscal Advisory Council's forecasted reduction of the structural **budget deficit for 2017** by 0.1 percentage points to 1.0% of GDP is **in line with the structural adjustment path of the EU** (one-year assessment), as long as the 2015 and 2016 additional costs related to refugees and the 2016 additional costs of counterterrorism measures of 0.5% of GDP are taken into consideration.[14] The fall forecast (adjusted for the flexibility clauses) also shows that **Austria** should be able to achieve **compliance with the MTO** (including the margin of tolerance) **in 2016 and 2017**.

Altogether, based on the Fiscal Advisory Council's **fall forecast**, there is **no reason to expect** that **any procedural steps due to "significant deviations"** from the requirements of the Stability and Growth Pact would be taken against Austria in **2016 or 2017**.

The **Fiscal Advisory Council welcomes** the markedly **improved outlook for Austria's budget management** compared with spring 2016, as it signals broad compliance with the **EU's fiscal rules** in **2016 and 2017** under the prevailing framework conditions. However, compliance with the EU fiscal rules will become more difficult **in the coming years** once the flexibility clauses expire (about 0.5% of GDP in 2016 and 2017). The fiscal flexibility, which was temporarily granted by the EU owing to outlays to manage both the surge in refugees and counterterrorism activities in Austria, will **decrease** to about 0.4% of GDP in **2018** and **cease to be applicable in the years thereafter**.

14 Should a stronger need for adjusting the 2017 MTO become apparent in spring 2018, this aspect would be considered in the following year and increase the Commission's requirements for 2018 ("freezing").