KEY RESULTS OF THE REPORT ON PUBLIC FINANCES 2018 TO 2020 AND RECOMMENDATIONS OF THE FISCAL ADVISORY COUNCIL ON AUSTRIA'S BUDGET POLICY FOR 2020 (AS OF DECEMBER 2019)

Assessment of the fiscal situation from 2018 to 2020

Austria's budget performance for 2018 to 2020 is shaped by **initially strong economic growth**, **low interest rates** and **fiscal policy measures**. In 2018, the economic boom led to a ten-year high in the growth rate of government revenues, which, in 2019, was still above the average of the last ten years. For 2020, we expect revenues to rise moderately, reflecting the cooling economy. The strong decline in interest expenditure is dampening the growth of government spending in the period from 2018 to 2020. The Fiscal Advisory Council forecasts a budget balance of 0.6% of GDP in 2019 and 0.4% of GDP in 2020 (Maastricht definition). In structural terms (i.e. adjusted for cyclical effects and one-off measures), the budget will be more or less balanced in both years. In our opinion, both the **expected budget path** as assumed in the Fiscal Advisory Council's 2019 fall forecast and the budget estimate of the Federal Ministry of Finance are **in line with the EU's fiscal rules**.

The **impact of fiscal policy measures** will increase from –0.3% to –0.5% of GDP over the forecast horizon (2019–2020). In 2019, the growth of government revenues is being dampened by tax cuts (e.g. tax relief for some families with children under the heading "family bonus"). The impact of discretionary measures on expenditure growth, on the other hand, will remain more or less unchanged as spending increases, e.g. in the areas of pensions and education, are mostly offset by the discontinuation of subsidies. Several decisions taken by parliament in the summer of 2019, e.g. in the area of state pensions and long-term care benefits, will result in government spending rising again in 2020.

As discretionary measures are very important for budget forecasts and for assessing compliance with EU fiscal rules, the Fiscal Advisory Council dedicated a **workshop** to estimating the **immediate budget effects and the macroeconomic consequences of such measures**. The results of this workshop underline the importance of precise estimates and consistent model design, e.g. as regards the size of fiscal multipliers assumed for specific fiscal policy impulses and will help us further develop our forecasts methodologically.

Revenue and spending dynamics are shaped by economic slowdown and measures related to families, pensions and subsidies

In 2018, general government revenues grew by 5.2% year on year. **Revenue growth was above average** and higher than the growth of nominal GDP (+4.2%). This was mainly attributable to a strong increase in direct taxes and social contributions that was caused by cyclical factors. Discretionary measures reduced tax revenues by a total of EUR 0.2 billion. While there were some revenue-increasing measures, e.g. to fund the 2015/2016 tax reform, these were canceled out by the effect of revenue-decreasing measures, including the reduction of the contribution to the family burden equalization fund. For **2019 and 2020,** the Fiscal Advisory Council's forecast projects a **clear decline in the annual growth rates of general government revenues** to 3.3% in 2019 and 2.8% in 2020. Despite the slowing economy, revenue growth in 2019 is being driven by the persistently high growth of employee compensation and private consumption. On the other hand, revenue growth is being dampened by discretionary measures, above all the family bonus, whose overall impact is estimated at –EUR 1.0 billion. The moderate economic growth expected for 2020 will cause a decline in growth in almost all tax-relevant areas. Furthermore,

discretionary measures will decrease revenues by an estimated EUR 0.7 billion. In addition to the fully unfolding effect of the family bonus, other factors will also dampen revenue growth: measures decided based on parliamentary motions, some of them in the context of the 2020 tax reform, such as higher tax deductibles for pensioners and lower health insurance contributions to be paid by the self-employed and farmers. The tax ratio rose from 41.8% in 2017 to 42.3% in 2018 (national definition) because of strong revenue growth. It will slightly decline over the forecasting period, reaching 42.1% in 2020 (table 1).

Table 1: Government ratios: General government expenditure and revenues, 2016 to 2020

% of GDP	2016	2017	2018	2019	2020
Expenditure[1]	50.1	49.1	48.6	48.1	48.1
Gross capital formation	3.0	3.1	3.0	3.0	3.1
Interest payments	2.1	1.8	1.6	1.4	1.3
Revenue[1]	48.6	48.4	48.8	48.7	48.5
Tax revenue (national definition)[2]	41.9	41.8	42.3	42.2	42.1
Tax revenue (international definition)[3]	42.5	42.4	42.8	42.7	42.6

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.

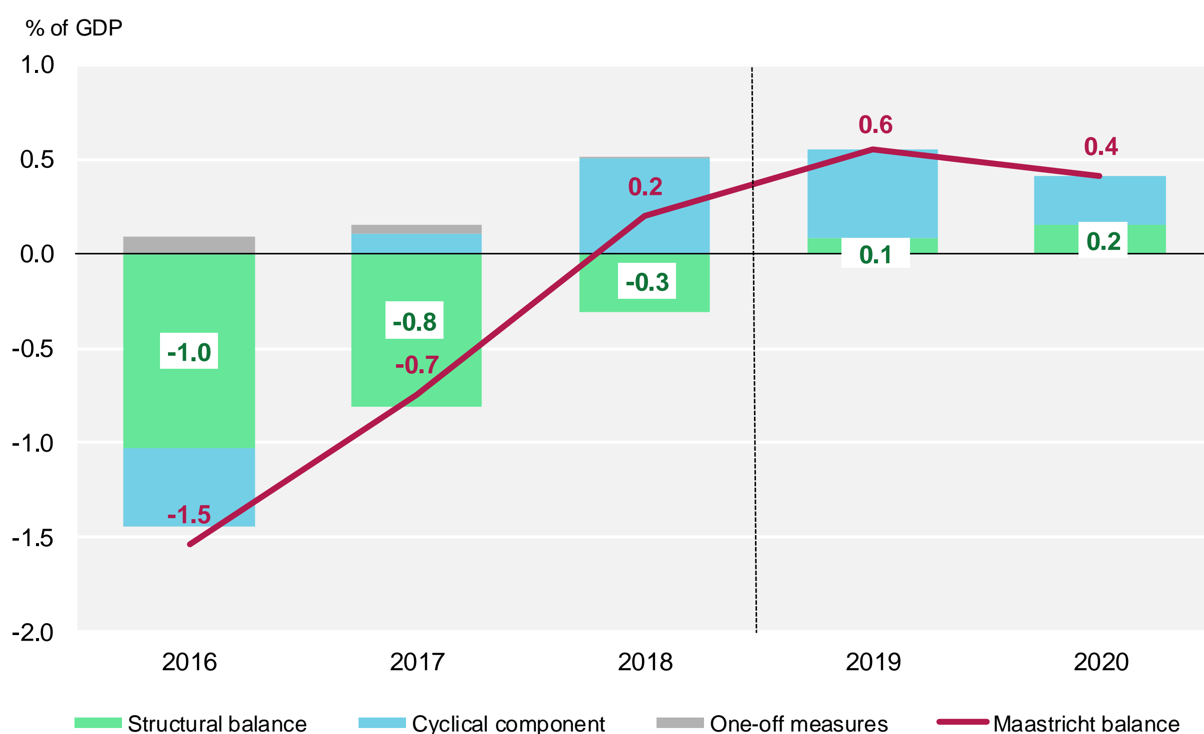
Source: Statistics Austria, Austrian Institute of Economic Research (GDP) and Fiscal Advisory Council's fall forecast (2019 and 2020).

In **2018**, **general government expenditure** increased by 3.2% year on year. This increase was mainly driven by unexpectedly high amounts drawn by the European Commission from the Article 9 account to cover Austria's EU payment contributions, a rise in pension expenditure because of an income-dependent graduated increase in state pensions in excess of the statutory inflation adjustment, and by discretionary measures, like abolishing public long-term care providers' recourse to patients' assets and discontinuing the employment bonus, which had been introduced with the aim of creating new jobs. In the forecasting period 2019 and 2020, we expect expenditure to grow by 2.5% and 3.1%, respectively. In **2019,** the **total effect of discretionary measures on effective spending is low** as expenditure-increasing measures with lasting effect, such as the graduated increase in state pension benefits, were introduced, and temporary, measures (employment bonus, investment subsidy programs) are coming to an end. Growth is primarily attributable to higher inflation rates in the two preceding years, which determine the increase in state pension benefits and significantly influence wage increases in the public sector. In **2020, discretionary measures** will show a more **marked effect on expenditure**. In addition to earlier measures driving up spending by some EUR 0.4 billion, the parliamentary decisions of summer 2019 will cause a further increase of an estimated EUR 0.9 billion. The largest quantitative effect will relate to **pension expenditure**: a further graduated increase in pension benefits, full pension entitlement after 45 years of contributory service, higher minimum pension benefits for retirees with long contributory service and the abolition of the traditional waiting period preceding the first increase in pension benefits. On the other hand, **much lower interest expenses** will clearly dampen spending growth in 2018 to 2020, thanks to a rollover of high-interest bonds and the reduction of liabilities of state-owned banks. As nominal GDP has grown faster than government expenditure up to 2019, the government expenditure ratio is expected to drop from 49.1% in 2017 to 48.1% in 2019 and to remain unchanged in 2020 (table 1).

Much better budget balance owing to cyclical factors

For **2019**, the Fiscal Advisory Council's forecast expects a year-on-year **improvement of the general government budget balance** by 0.4 percentage points to 0.6% of GDP (chart 1), owing to **moderate spending growth** coupled with **dynamic revenue growth**. The moderation in spending growth is mainly caused by lower interest payments and the base effect of the unexpectedly high transfer to the EU in the previous year. Revenue growth, on the other hand, is being fueled by a continuously positive labor market environment (when viewing the year as a whole) that has favored a strong increase in direct taxes – despite factors such as the family bonus decreasing tax revenues. In 2020, the positive result based on the Maastricht definition will shrink to 0.4% of GDP because economic growth will slow down further, and fiscal policy measures will cause high budgetary costs (–EUR 2.0 billion or –0.5% of GDP).

Chart 1: General government balance and its components, 2016 to 2020



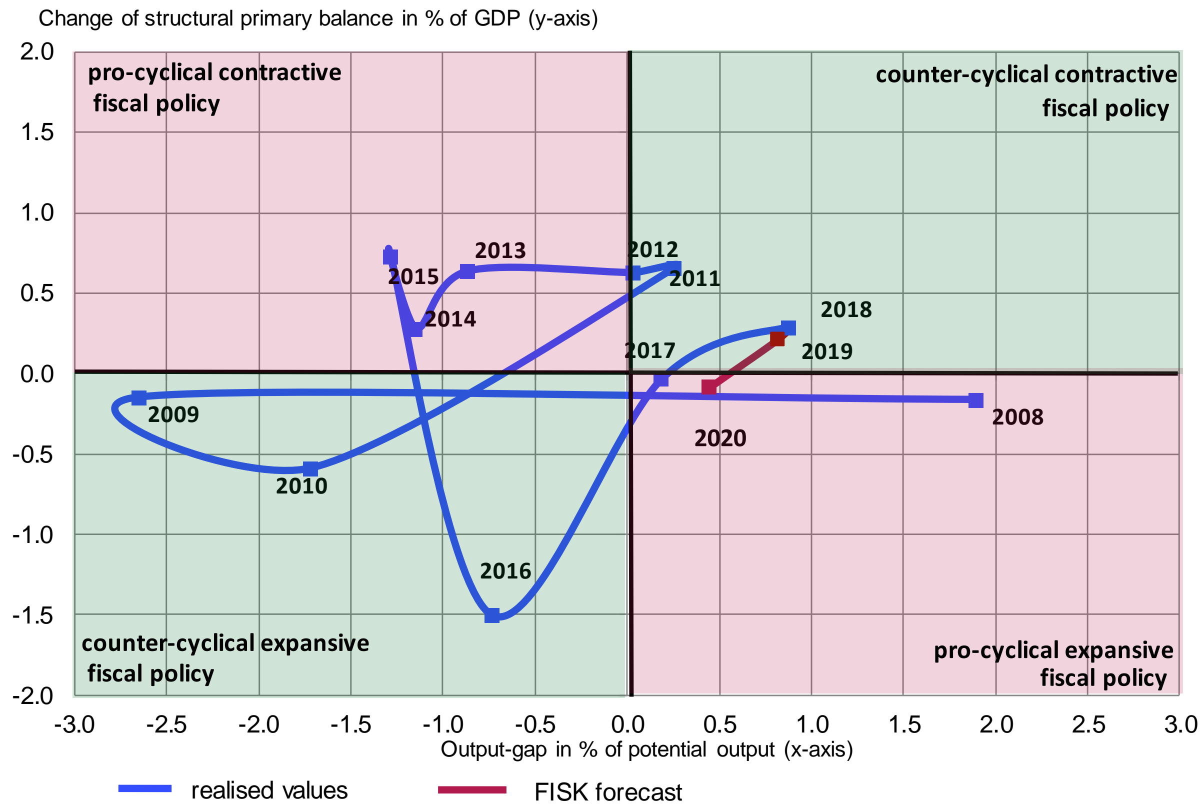
Source: Statistics Austria, WIFO and FISK fall forecast (for 2019 and 2020).

Following the economic boom phase evident up to 2018, real GDP growth is now subdued; nevertheless, real GDP remains above potential output, causing a positive output gap. This cyclical development is reflected in the cyclical budget component, which will remain positive in 2018 to 2020, coming down to 0.3% of GDP in 2020 from 0.5% of GDP in the years 2018 and 2019. Accordingly, the Fiscal Advisory Council forecasts that a large portion of the general government budget surplus will still be caused by cyclical factors in the forecasting period. Since we expect no one-off measures, the cyclically adjusted budget balances correspond to the **structural budget balances**, which will come in **slightly positive** in **2019 and 2020** at 0.1% and 0.2% of GDP, respectively. The federal government's budget plans thus reflect a **mostly neutral fiscal policy stance** based on the structural budget balance. If we look at the international standard indicator[1] for the change of the structural primary balance (chart 2), we see an improvement of the balance for 2019 by 0.2 percentage points. However, this improvement is attributable to the reduction in transfers to the EU – following extraordinarily high transfers in the previous year.

1 See e.g. European Fiscal Board (2019), Assessment of the fiscal stance appropriate for the euro area in 2020, page 8.

Without this one-off effect, fiscal policy in 2019 would appear neutral. For the year 2020, too, the change in the balance shows an almost neutral fiscal policy.

Chart 2: General government structural primary balance and output gap, 2008 to 2020

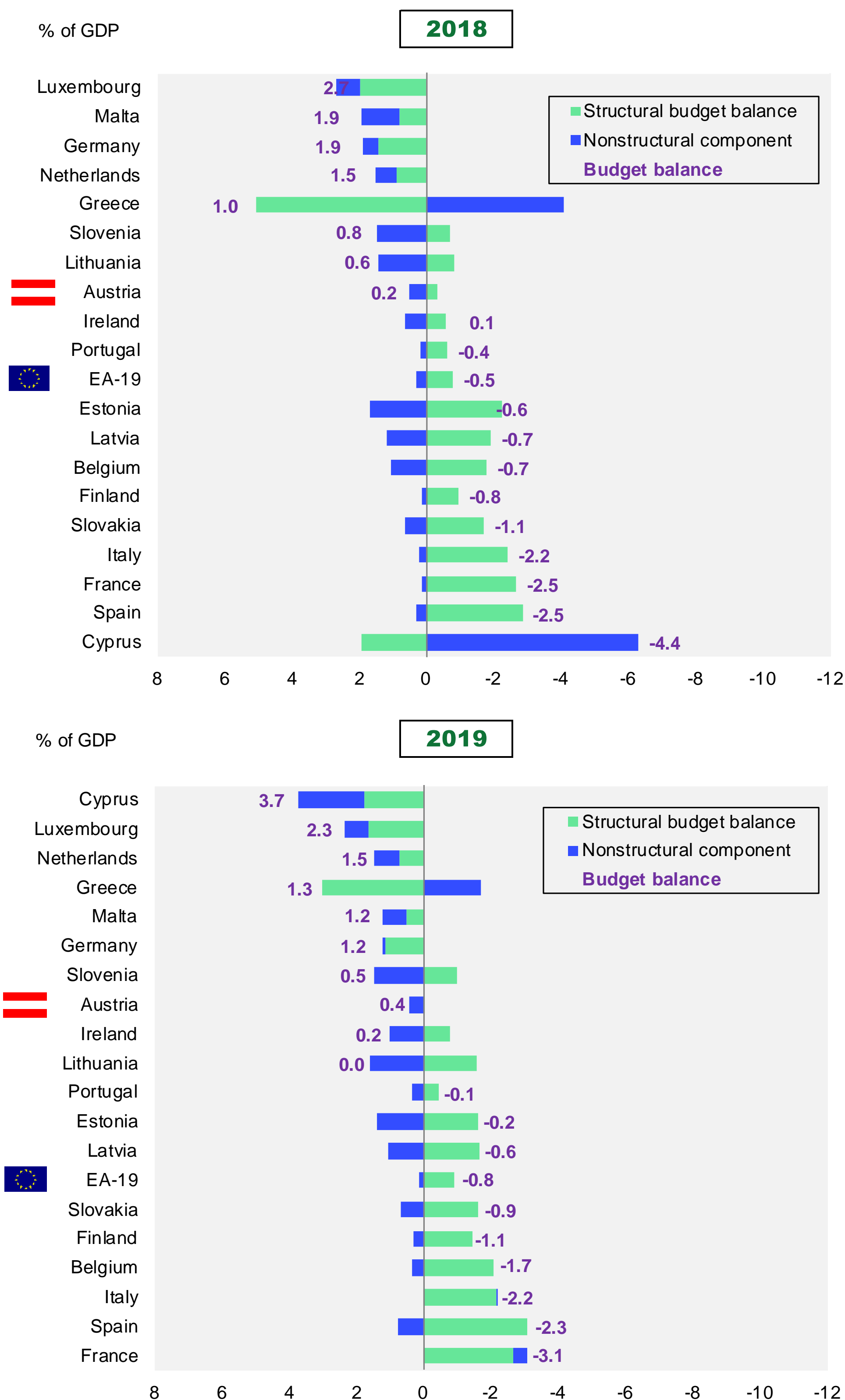


Source: Statistics Austria, WIFO and FISK fall forecast (for 2019 and 2020).

Fiscal Advisory Council expects more favorable budget development than anticipated by the Federal Ministry of Finance

Like the European Commission, we have more optimistic expectations regarding the budget path in 2019 and 2020 than the Federal Ministry of Finance, which projects a general government budget balance of 0.3% of GDP for 2019 and –0.1% of GDP for 2020 (Maastricht definition). In structural terms, the Federal Ministry of Finance expects a deficit for both years (0.2% and 0.3% of GDP, respectively). The **difference** between the scenarios expected by the Fiscal Advisory Council and the Federal Ministry of Finance is explained by differences in **estimated revenues and expenditures**. The Fiscal Advisory Council estimates that revenues will be 0.2% of GDP higher in 2019 than anticipated by the ministry and 0.3% higher in 2020, and we expect lower expenditure than projected by the ministry (0.1% of GDP for 2019 and 0.2% of GDP for 2020). The greatest deviations in assumed revenue relate to direct and indirect taxes; in terms of spending assumptions, the largest differences are found in the area of subsidies and interest expenditure. The different estimates of the budget path are also reflected in the budget balance estimates.

Chart 3: General government budget balances*) in the euro area, 2018 and 2019, European Commission



Source: Fall 2019 forecast, European Commission (as of November 2019).

*) The general government budget balance is composed of a structural and nonstructural component.
Euro-19 (EA-19): nominal GDP-weighted average of individual country results.

The European Commission expects a budget balance (Maastricht definition) of 0.4% of GDP for 2019 and 0.2% of GDP for 2020 as well as a (nearly) balanced structural budget for both years. According to the results of the European Commission's 2019 fall forecast, Austria's structural budget balance (excluding eligible clauses) will be higher than the average value of the EA-19 (weighted by GDP) in 2018 (–0.8% of GDP) and 2019 (–0.9% of GDP). In both years, seven countries of the EU-19 group have a higher budget surplus than Austria (chart 3).

General government balance improved in 2018 thanks to positive contributions by all levels of government

In **2018, all levels of government** contributed to **improving the general government budget balance (Maastricht definition)** (table 2): The **federal government** markedly reduced its deficit in Maastricht terms from 0.9% (2017) to 0.1% of GDP (2018). At the **regional level,** the budget surplus increased to 0.2% of GDP in 2018 (2017: 0.1% of GDP). This positive development at the regional level was observed in all provinces in 2018 except Vorarlberg, where the deficit widened year on year in Maastricht terms. Most regional governments generated surpluses in 2018 – above all Upper Austria with EUR 0.3 billion. Styria only recorded a very small deficit, which clearly shrank by EUR 0.1 billion year on year in Maastricht terms.

Table 2: Budget balances of subsectors of the general government, 2016 to 2020

	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
2016	-4.4	-1.2	-1.3	-0.4	-0.3	-0.1	0.4	0.1	-5.5	-1.5
2017	-3.2	-0.9	0.2	0.1	-0.3	-0.1	0.5	0.1	-2.8	-0.7
2018	-0.5	-0.1	0.7	0.2	0.1	0.0	0.6	0.1	0.8	0.2
2019	.	.	.	.	.	.	.	.	2.2	0.6
2020	.	.	.	.	.	.	.	.	1.7	0.4

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 (2019 and 2020).

The **local government level (including Vienna)** also recorded a surplus in Maastricht terms in 2018 and hence a marked improvement in its fiscal position (2018: +EUR 0.1 billion or +0.0% of GDP; 2017: –EUR 0.3 billion or –0.1% of GDP). Two-thirds of this improvement were accounted for by the City of Vienna, which managed to post a surplus in Maastricht terms for the first time since 2008. Only the local governments in Styria, Tyrol and Vorarlberg recorded a deterioration against the previous year.

The improved budget situation at the **regional and local government level** in 2018 resulted primarily from the **marked increase in federal tax revenues to be shared with regional and local governments** – an increase that was caused by **favorable economic developments**. The marked growth in revenues (2018: +4.9% or +EUR 2.9 billion) was clearly able to compensate for the **above-average increase in spending** (2018: +3.5% or +EUR 2.1 billion). The **expenditure side** was characterized by large increases in **social transfers to households,** which were partly offset by **lower gross capital formation** and **interest payments** and by **strict budget execution**.

Debt ratio to decline markedly by end-2020

The Fiscal Advisory Council projects that the **general government debt ratio** will drop to 69.7% and 66.8% of GDP in **2019** and **2020**, respectively, after 74.0% at end-2018. The **strong reduction in the**

debt ratio by 4.3 (2019) and 2.9 percentage points (2020) is being driven by a decline in government debt coupled with an expected **increase in nominal GDP (GDP denominator effect)**, which will bring down the debt ratio by 2.6 and 2.1 percentage points in 2019 and 2020, respectively. The nominal decline in government debt seen since 2017 is mainly attributable to the **reduction of state-owned banks' liabilities** in the course of stock-flow adjustments: In addition to the EUR 1.2 billion reduction that was already realized following the 2019 payback of the down payment by the Republic of Austria to the Free State of Bavaria, an additional EUR 3.7 billion and EUR 1.8 billion are expected in 2019 and 2020, respectively.

Austria will comply with EU fiscal rules in 2018 to 2020

The **medium-term budgetary objective** (MTO) set for Austria envisages a **structural budget deficit of –0.5% of GDP**, and compliance with the MTO signals that fiscal policy is sound. According to the **Fiscal Advisory Council's forecast**, the structural budget balance will improve from –0.3% of GDP in 2018 to +0.1% of GDP in 2019 and to +0.2% of GDP in 2020. Accordingly, Austria will clearly comply with the **MTO in the years 2018 to 2020** (table 3), which puts breaches of the spending rule into perspective. Austria's general government deficit will also remain below the limit of 3% of GDP (Maastricht) in 2018 to 2020.

Table 3: EU fiscal rules as applied to Austria

General government	2018	Fiscal Advisory Council Estimates 2019	Fiscal Advisory Council Estimates 2020	Federal Ministery of Finance Estimates 2019	Federal Ministery of Finance Estimates 2020	European Commission Estimates 2019	European Commission Estimates 2020
Maastricht deficit of no more than 3% of GDP	✓	✓	✓	✓	✓	✓	✓
MTO (incl. eligible clauses)[1)]	✓	✓	✓	✓	✓	✓	✓
Government expenditure growth [2)]	⊗	⊗ [3)]	✓	⊗ [3)]	✓	⊗	✓
Reduction of debt ratio	✓	✓	✓	✓	✓	✓	✓
Austrian general government fiscal indicators (% of GDP)							
Budget balance (Maastricht definition)	0.2	0.6	0.4	0.3	-0.1	0.4	0.2
Structural budget balance	-0.3	0.1	0.2	-0.2	-0.3	0.0	0.0
Structural budget balance incl. eligible clauses	0.0	0.1	0.2	-0.2	-0.3	0.0	0.0
Total expenditure (nominal, adjusted, net of one-offs, change in %)	4.3	3.5	3.6	3.7	3.7	.	.
Gross debt (year-end figures)	74.0	69.7	66.8	70.0	67.5	69.9	67.2

Note: ✓… fiscal rule has been met, ⊗… fiscal rule has not been met, ⊗… fiscal rule has not been met and significant deviation [4)]

1) Tolerated deviation (0.25 percentage points) and eligible deviations, e.g. due to costs related to refugees or terrorist threat.

2) The deviation of expenditure shall not be considered significant if the Member State concerned has overachieved the MTO.

3) It can be expected that the ex-post evaluation will relax the expenditure benchmark due to a lower than expected structural deficit in 2018 and thereby the deviation will not be considered significant.

4) A deviation is deemed significant if the structural deficit deviates at least by 0.5% of GDP from the structural adjustment path or the MTO within one year or cumulated over two years.

Source: FISK (Forecast, December 2019), MoF (Draft budgetary plan, October 2019), WIFO (Forecast, October 2019), EC (Forecast, November 2019), and own calculations.

In addition, Austria will **clearly comply** with the three-pronged **debt rule** in all years under review. According to the current Fiscal Advisory Council's forecast, the general government debt ratio will decline from 74.0% of GDP at end-2018 to 69.7% at end-2019 and 66.8% at end-2020. The strong decline in the debt ratio is mainly driven by the still robust, if cooling, economy and persistently low interest rates as well as the stock-flow adjustments resulting from the reduction of state-owned banks' liabilities. According to the Fiscal Advisory Council's and the European Commission's assessment, the Federal Ministry of Finance's 2019 budget plan for Austria also complies with the EU's fiscal rules.

Limited incidents of negative control account balances at year-end 2018 will not cause any sanctions under Austria's 2012 Stability Pact

Judging from the **control account balances for 2018**, we **do not expect sanctions** to be imposed under article 19 of Austria's 2012 Stability Pact (ASP 2012). However, the **local governments in Tyrol** need to **correct** the negative **control account balance** recorded at end-2018 **without undue delay** within the meaning of article 7 ASP 2012 to ensure that the requirement is complied with from 2020 to year-end 2021. Against this background, the noncompliance issues identified for 2019 and 2020 at the level of the local governments of Tyrol are also already being addressed. Moreover, according to medium-term budgetary planning, from **2019 onward,** the preliminary control account balances in isolated cases (**regional government of Vorarlberg and local governments in Vorarlberg, local governments in Lower Austria**) are set to breach the pro-rata thresholds. If this is confirmed in the fall of 2020, **the negative control account balances will need to be corrected from 2021 onward without undue delay**. This will not trigger any sanctions unless the threshold of –0.367% of GDP is breached by regional and local governments in an aggregate perspective.

2.1 Recommendations of the Fiscal Advisory Council on Austria's budget policy for 2020

New government will need to continue a determined and stability-oriented budget policy and ensure sustained compliance with the medium-term budget objective

Background: From today's perspective, Austria's fiscal stance in 2019 is slightly contractionary and countercyclical (i.e. stabilizing in macroeconomic terms); in 2020, it will be mostly neutral. We expect that the medium-term budget objective (MTO) will be fulfilled in 2019 and 2020, even if the decisions taken by parliament since summer 2019 that affect the budget deficit have limited the fiscal leeway for the next government. Following the recent economic boom, the economy will cool down further in 2020, which means that real GDP growth will once more approach the average of recent years.

Recommendations:

- Austria needs a determined, **stability-oriented budget policy**, as seen in recent years, which at the same time ensures **sustained compliance with the MTO**, that is a maximum structural budget deficit of 0.5% of GDP. For this to happen, automatic stabilizers need to be allowed to operate fully, and a countercyclical stance is required. Any new government needs to be guided by this fundamental budget strategy.

- The new government should make prudent use of the still robust economic conditions and the remaining fiscal leeway (within the limits of the fiscal rules) to **make the Austrian economy more resilient and sustainable**, e.g. by strengthening competitiveness, taking labor qualification measures that also address structural change on the labor market, or investing into climate protection.

Correcting negative control account balances without undue delay and improving the framework for an ex ante evaluation of the regional spending rule

Background: The Fiscal Advisory Council has the legal mandate to issue recommendations on activating, extending or discontinuing the "correction mechanism" under Austria's 2012 Stability Pact (ASP 2012). This relates to the evaluation of the control account balances, which are kept to record deviations between the realized structural budget balances at the different levels of government and the corresponding annual target values. If control account deficits breach certain limits (regular limits, thresholds), they must be corrected in line with specified criteria. Our current evaluation shows a negative control account

balance at end-2018 for the local governments in Tyrol, which has breached the pro-rata threshold value. Some other regional and local governments may breach the pro-rata threshold values by end-2020. However, the validity of the local governments' medium-term financial estimates on which this assessment is based is limited due to political-economic aspects. These estimates serve as a mere basis for decision-making for investment projects that are subject to approval and that are financed with external funds and for the granting of subsidies by the regional government; they usually reflect maximum figures. What is more, due to a lack of relevant disaggregated data in the context of medium-term budget planning, it is currently not possible to conduct an ex ante evaluation of compliance with the regional spending rule, which also has a very limited steering effect due to its high complexity.

Recommendations:

- The **year 2020** should be used to **improve the starting point for correcting deficits** (which will become necessary because of breaches in 2019) through strict budget discipline and timely counter-measures. Based on the current financial estimates, we see breaches of the pro-rata threshold values at end-2019 in the control accounts of the province of Vorarlberg and the local governments of Lower Austria, Tyrol and Vorarlberg.

- To **avoid** a **procyclical effect** when correcting control account deficits, an approach that takes into account the current economic cycle should be considered. Depending on the extent of the breach, it might be sensible to differentiate in terms of time horizon granted for deficit correction.

- The **negative control account balance** of the local governments in Tyrol must be **reduced without undue delay**. The local government breach does not trigger any financial sanctions since the rule is complied with on the aggregate level of regional and local governments.

- To enable an **ex ante evaluation of compliance with the spending rule,** we need an **accurate data basis** that reflects reliable expenditure estimates and contains detailed information for calculating the relevant spending aggregate.

- The level of detail required under the spending rule could be avoided if the **complexity of the spending rule were to be reduced**. Such a simplification could also increase its relevance as a steering instrument in budget planning and monitoring.

Sustainable design and funding of long-term care in Austria

Background: The European Commission's Ageing Report analyzes the long-term growth of age-dependent costs. For Austria, the report predicts a marked increase in costs for long-term care to 3.8% of GDP (+1.9 percentage points) over the long run. The automatic inflation-linked rise in long-term care benefits that was decided in the run-up to the latest parliamentary elections will additionally drive up costs. Previously, these benefits had been raised irregularly and on a discretionary basis. In addition to cost increases, there are other challenges for the sustainable funding of long-term care in Austria, i.e. the discontinuation of the temporary federal subsidies to the regional and local governments (long-term care fund) and the fragmentation of responsibilities between the different levels of government.

Recommendations:

- The **sustainable design and funding** of long-term care in Austria needs to be ensured. This requires fundamental decisions regarding the **financing model** for covering public expenses on long-term care.

- The **power to tax and spend** must be more closely aligned within individual levels of government.

Making the Austrian pension system more sustainable and resilient [2]

Background: According to the European Commission's Ageing Report, Austria's pension expenditure, which is high by international comparison, will increase moderately until 2070, growing by 0.5 percentage points to 14.3% of GDP. Given an aging population, such a stabilization of pension-related expenditure can either be achieved by reducing pension benefits or by raising the effective retirement age.

The fact that the anticipated spending increase in Austria is so low despite clearly progressing population aging (old-age dependency ratio will rise from 27.6% in 2016 to 54.4% in 2070) is primarily attributable to a marked decrease in average pension income as related to average work income (benefit ratio). Pensioners' relative income loss vis-à-vis the employed population will reach more than 12 percentage points by 2070 according to the Ageing Report (benefit ratio will drop from 50.5% in 2016 to 38.3% in 2070).

However, the sustainability of the Austria's pension system rests not only on the amount of spending on the pension system, which is primarily dependent on the amount of individual pension benefit payments, the effective retirement age and demographic factors (birth rate, life expectancy and net migration); any analysis must also consider pension system-related revenues. These primarily depend on macroeconomic and demographic factors and the size of pension contributions. Important factors include productivity, potential output growth, labor force participation and retirement age. For this reason, the Ageing Report shows pension-related expenditure as a share of GDP, which summarizes developments on the revenue side.

The fiscal measures that were decided by parliament in summer 2019 were not included in the cited cost estimates and imply a marked, unfunded increase in pension expenditure. In the short run, the abolition of the traditional waiting period preceding the first increase in pension benefits only causes relatively small spending increases (+EUR 30 million in 2020); in the long run, however, it will put large strain on the budget as compared to 2019 (in 2040, we are already looking at +EUR 600 million). The graduated pension increase that was decided for the year 2020 implies pension benefit increases in excess of the automatic statutory increase (price indexation), as already seen in 2019, and will raise annual pension expenditure by a total of EUR 0.5 billion per year. There will be further annual spending increases of EUR 130 million based on the additional pension-related measures decided in summer 2019 (e.g. receipt of full pension entitlement after 45 years of contributory service and "pension bonus," i.e. higher minimum pension benefits for retirees with long contributory service). To summarize: Over the last two years, policymakers have decided measures, which will increase pension-related spending by an annual EUR 0.7 billion (0.18% of GDP) and, which cause much higher spending increases in the long run. Also, these measures imply clearly preferential treatment of some population groups and disadvantages for others.

Recommendations:

- The anticipated strong decline in average pension income relative to average employment income will increase the risk of lower living standards and poverty for older people. The **resilience of the Austrian pension system** needs to be strengthened.

- **Raising the effective retirement age** must be a priority. Measures that make it possible to remain an active member of the workforce until later in life should be strengthened, discretionary measures that counteract a closing of the gap between effective and legal retirement age should be avoided.

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2 Because of the Fiscal Advisory Council's orientation, we only look at the immediate fiscal effects of the public pension system here, even if elements of the 2nd and 3rd pillar of the pension system could be relevant for net replacement rates.

- To ensure the long-term **stability of the pension system**, discretionary measures that raise expenditure but are not immediately directed at combating **old-age poverty** should be avoided.

- The design of measures affecting the pension system should be guided by **inter- and intragenerational fairness**.

Ensuring the quality of regulatory impact assessment (costing) and improving its transparency

Background: Estimating the budgetary effects of statutory amendments plays a central role in economic governance. This is reflected in the federal government's fiscal framework, which requires the responsible ministries to conduct a regulatory impact assessment (RIA) for draft bills and reform projects. To be able to determine if the RIA is suited to ensure the optimal allocation of scarce budget resources, the assumptions and models underlying the RIA's cost estimates must be clear. There are publicly accessibly instruments that make it easier to conduct plausibility checks, such as the RIA IT tool provided by the Federal Ministry for the Civil Service and Sport and the "SORESI" social reform microsimulation model provided by the Federal Ministry of Labour, Social Affairs, Health and Consumer Protection. If legislative bills are put forward as parliamentary motions, less detailed information with regard to the impact and financing of reform plans must be provided. In the summer of 2019, parliament used this procedure to decide on measures – without transparent impact assessment – causing additional budget expenses of more than EUR 1 billion (tax relief for lower incomes and reduced health insurance contributions for the self-employed and farmers, graduated increase of pension benefits, receipt of full pension entitlement after 45 years of contributory service).

Recommendations:

- Policymakers should use tried and tested **quality assurance models** when calculating the budgetary impact of economic policy measures, first and foremost:

    - **microsimulation models** for estimating the immediate budgetary effect,

    - suitable **multipliers and macromodels** for estimating macroeconomic effects.

- The new government needs to continue efforts to **make models and assumptions used in RIAs more transparent.** The public should continue to have access to any models used.

- Austria needs suitable measures to ensure high-quality RIAs for legislative initiatives that have not been subject to strict RIAs so far (parliamentary motions, applications filed by parliamentary committees, legislative proposals submitted by the upper chamber of parliament and referendums). Moreover, if legislative proposals are adjusted during the legislative procedure, any such adjustments also need to be made subject to an updated RIA before the final version of the legislative proposal is decided on – to ensure that that there is a suitable basis for evaluation.