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COMMISSION OPINION

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING AUSTRIA

3. On the basis of the Draft Budgetary Plan for 2015 submitted on 15 October 2014 by Austria, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013. The current Draft Budgetary Plan includes only an update of the budgetary plan for 2014-2015 on the basis of the new measures adopted by the Austrian government and on the revision in the macroeconomic scenario and therefore there is no parliamentary procedure envisaged at this stage.

4. On 29 April 2014, Austria submitted to the Commission an updated Draft Budgetary Plan for 2014 jointly with a Draft Budgetary Plan for 2015. Subsequently, a budget for 2014 and 2015 was adopted by the Austrian Parliament on 23 May 2014. The Commission adopted on 16 May 2014 an opinion on the updated Draft Budgetary Plan for 2014 where it argued that only a strictly and timely implementation of the additional measures announced by the Austrian authorities after the submission of the Draft Budgetary Plan would prevent Austria from planning a significant deviation from the adjustment path towards the MTO in 2014. At the same time, the Commission was of the opinion that risks of not fulfilling the requirements of the preventive arm of the Stability and Growth Pact remained in 2014 and therefore invited the authorities to take all necessary measures to ensure full compliance with the preventive arm of the Pact in 2014 and beyond

5. Austria is currently subject to the preventive arm of the Stability and Growth Pact. As the debt-to-GDP ratio was 81.2% in 2013 (the year in which Austria corrected its excessive deficit), exceeding the 60% reference value, during the three years following the correction of the excessive deficit, Austria is subject to the transitional arrangements as regards compliance with the debt rule. In this period it should ensure sufficient progress towards compliance with the debt reduction benchmark. On 8 July 2014, the Council recommended Austria to reinforce the budgetary measures for 2014 in the light of the emerging gap of 0.5 % of GDP based on the Commission

2014 spring forecast and after taking into account additional consolidation measures announced by Austria. The Council also recommended to significantly strengthen the budgetary strategy in 2015 to reach and maintain thereafter the medium-term objective, and ensure that the debt rule is met in order to keep the general government debt ratio on a sustained downward path.

6. The macroeconomic scenario underlying the October Draft Budgetary Plan for 2015 assumes GDP growth to remain positive at 0.8% in 2014 reflecting the carryover from relatively favourable growth dynamics in the second half of 2013. According to the latest available data, quarterly GDP growth turned out at just 0.1% and 0.2% in the first and second quarter of 2014, significantly weaker than expected, due to slowing exports and stagnating domestic demand. For 2015, the Draft Budgetary Plan envisages an acceleration of growth to 1.2% as exports strengthen and domestic demand improves somewhat. The macroeconomic scenario of the Draft Budgetary Plan and the Commission 2014 autumn forecast share broadly similar projections for nominal and real GDP over 2014 and 2015 and are comparable regarding the growth components and drivers. Both forecasts incorporate downward revisions to the global and domestic macroeconomic outlook in comparison to the ones from spring, i.e. at the time of submission of the Stability programme.

7. Regulation (EU) No 473/2013 requires the draft budget to be based on independently endorsed or produced macroeconomic forecasts. The macroeconomic forecast underlying the Draft Budgetary Plan has been produced by the Austrian Institute of Economic Research (WIFO). It has been a long-standing practice in Austria that the Ministry of Finance bases its fiscal plans on the macroeconomic forecast produced by the Institute. WIFO is a non-profit association and its governing board is composed of representatives of NGO's, financial institutions, the Austrian National Bank, business associations, academia as well as representatives of the central and regional government.

8. According to the Draft Budgetary Plan, the general government deficit is forecast to increase to 2.8% of GDP in 2014, mainly due to the effect of the establishment of a Liquidation Entity (*Abbaueinheit*) to wind-down the impaired assets of the Hypo group Alpe Adria bank (Hypo). The impact of this measure, which was legislated on 8 July 2014 is currently estimated to amount to 1.2% of GDP, even though a further asset quality review to be carried out by an independent body will take place in the following months and will serve the purpose of establishing the final statistical recording of this operation. Compared to the April Draft Budgetary Plan, the estimate of the deficit has risen by 0.1% of GDP in 2014 and 0.4% of GDP in 2015, mainly due to the downward revision of the macroeconomic scenario. The decline in the headline deficit to 1.9% of GDP in 2015 reflects in large part the diminishing impact of the one-off support to Hypo. The Commission 2014 autumn forecast of the general government deficit is broadly in line with the Draft Budgetary Plan in 2014 while it expects the deficit at 1.8% of GDP in 2015 slightly better than the estimate of the Austrian government.

9. The debt-to-GDP ratio is projected to increase by 5.3% of GDP in 2014 to 86.5%. This is linked to the inclusion within the general government debt of liabilities incurred in connection with the transfer of Hypo's impaired assets in the balance sheet of the Liquidation Entity, which result in a negative stock-flow adjustment accounting for roughly 4.4%. The general government debt is further affected by

Hypo’s Liquidation Entity through the latter's impact on the deficit. Overall, the increase in government debt due to this operation is expected to amount to 5.5% of GDP in 2014. In 2015, the Draft Budgetary Plan projects the debt level to decrease to 85.6% of GDP. The overall level of public debt has been revised upward as a result of the introduction of ESA2010 due to the reclassification of several companies into the government sector, such as the national railways operator, KA Finanz and many public hospitals, which were previously recorded outside the general government sector. The Commission projects a slightly higher debt ratio in 2014 and 2015.

10. The majority of the discretionary measures underpinning the current Draft Budgetary Plan mirrors measures already implemented and included in the Draft Budgetary Plan of 29 April 2014. Moreover, on 14 May 2014 the Austrian authorities publicly announced the adoption of further measures estimated at 0.2% of GDP in 2014. Taking into account the information provided by the Austrian authorities on the implementation of these additional measures, it appears that Austria has implemented measures for an order of magnitude that is close to the 0.2% of GDP announced. Additional reductions in the execution of spending have partly offset some measures which have been delayed or not implemented. The current Draft Budgetary Plan includes an overall size of discretionary measures estimated to amount to 0.5% of GDP in 2014 while in 2015 a marginal deficit-increasing impact is envisaged. After the submission of the October Draft Budgetary Plan the Government has announced additional deficit-reducing measures of 0.3% of GDP.

11. The Draft Budgetary Plan does not include sufficient information to assess compliance with the transitional arrangements for the debt reduction benchmark. However, according to the Commission 2014 autumn forecast, Austria is making sufficient progress towards compliance with the debt rule in 2014 and 2015 as the projected change in the structural balance (0.2% and 0.1% of GDP respectively) is above the requirement (0.0 and -0.1% of GDP respectively).

12. Regarding 2014, the Commission is of the opinion that an overall assessment based on Austria's Draft Budgetary Plan points to a deviation, although non-significant, from the required adjustment towards the MTO, which has been set at a structural deficit of 0.45% of GDP. The Commission 2014 autumn forecast confirms this conclusion since the improvement in the structural balance by 0.2% of GDP falls short of the 0.6% of GDP adjustment that is required for countries like Austria with a debt level exceeding 60% of GDP and are in normal cyclical conditions. The deviation by around 1.8% of GDP on the basis of the expenditure benchmark is predominantly due to the cost of proceeding with the winding down of Hypo, as well as to a base effect. The same conclusion is reached for 2015, with the one-year assessment pointing to an improvement by 0.1% in the structural balance according to the Commission 2014 autumn forecast (the Draft Budgetary Plan shows a deterioration of the recalculated structural balance by 0.1% of GDP), but both the Commission 2014 autumn forecast and the Draft Budgetary Plan suggesting full compliance with the expenditure benchmark. However, the assessment over 2014-2015 points to a significant deviation based on both the structural balance and the expenditure benchmark pillar: the average deviation in the structural balance over 2014-2015 amounts to 0.5% of GDP according to both the Commission 2014 autumn forecast and the Draft Budgetary Plan while the expenditure benchmark deviates by an average of 0.7% of GDP according to both the Commission 2014 autumn forecast

and the Draft Budgetary Plan, i.e. well above the threshold for significant deviation of 0.25% of GDP per year on average for a two-year period.

13. On 28 October 2014, the Austrian government publicly announced, and confirmed in a letter to the Commission, a set of additional measures amounting to approximately EUR 1 billion in 2015 (0.3% of GDP). According to its assessment, the Commission is of the opinion that the package includes structural measures of about EUR 770 million, or 0.2% of GDP in 2015. They would reduce the average deviation from the required adjustment over the two-year horizon to 0.4% of GDP (according to both the Commission 2014 autumn forecast and the Draft Budgetary Plan), which is however still above the threshold for significant deviation. The expenditure benchmark also points to a significant deviation after taking into account the additional measures.

14. The Draft Budgetary Plan announced a plan to reduce the tax wedge. A reform to reduce the tax wedge by 1.5% of GDP is currently being designed and is planned to be adopted by the government on 17 March 2015. It will have to be ensured that this reform has a budget-neutral impact. While the Draft Budgetary Plan indicates that different monitoring exercises are taking place to evaluate the effect of the reforms in the pensions system, no information on the results has been provided. The assessment of this reform is crucial to evaluate whether they are delivering the expected savings. However, additional reforms seem needed to significantly increase the effective retirement age and address age-related expenditure.

15. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Austria, which is currently under the preventive arm and subject to the transitional debt rule, is at risk of non-compliance with the provisions of the Stability and Growth Pact. In particular, the Commission is of the opinion that, after taking into account the measures announced in October, there is a risk of a significant deviation from the adjustment path towards the MTO over 2014-2015 based on both the structural balance and the expenditure benchmark pillar. The Commission therefore invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2015 budget will be compliant with the Stability and Growth Pact.

    The Commission is also of the opinion that Austria has made limited progress with regard to the structural part of the fiscal recommendations issued by the Council in the context of the 2014 European Semester and thus invites the authorities to accelerate implementation.

Done at Brussels, 28.11.2014

For the Commission
Pierre MOSCOVICI
Member of the Commission