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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 2017 submitted on 12 October 2016 by Austria, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

4. The Commission opinion is to be seen in light of the latest economic and budgetary data. In this context, as indicated in the Commission recommendation for a Council Recommendation on the economic policy of the euro area as well as in the Commission Communication 'Towards a positive fiscal stance for the euro area', it is important that the aggregate fiscal stance of the euro area is positive and supports the ongoing recovery, while ensuring the long-term sustainability of national public finances.

5. Austria is subject to the preventive arm of the SGP and should preserve a sound fiscal position which ensures compliance with the medium-term budgetary objective (MTO), set at -0.45% of GDP until 2016 and -0.5% of GDP from 2017. In particular, the Council on 12 July 2016 recommended to Austria to limit the deviation from the medium-term budgetary objective in 2016 and in 2017 and achieve an annual fiscal adjustment of 0.3 percentage points of GDP in 2017. As the debt ratio was 80.9% of GDP in 2013 (the year in which Austria corrected its excessive deficit), exceeding the 60% of GDP reference value, during the three years following the correction of the excessive deficit Austria is also subject to the transitional arrangements as regards compliance with the debt reduction benchmark (2014-2016). In that period it should ensure sufficient progress towards compliance.

6. Overall, the macroeconomic outlook of the Draft Budgetary Plan is based on plausible macroeconomic projections. The macroeconomic scenario underlying the Draft Budgetary Plan projects GDP growth to accelerate from 1.0% in 2015 to 1.7% in 2016, and then to stabilise at 1.5% in 2017. The Draft Budgetary Plan is slightly more positive in 2016 and slightly more conservative in 2017 compared to the 2016 Stability Programme, which expected an increase of 1.6% in both years. The Draft Budgetary Plan projection is broadly in line with the Commission 2016 autumn forecast, which expects GDP growth at 1.5% in 2016 and 1.6% in 2017. Both the Draft Budgetary Plan and the Commission forecast expect GDP growth in 2017 to be

mainly driven by domestic demand, and they both project inflation in Austria to remain above the euro area average. Although both the Draft Budgetary Plan and the Commission forecast expect an increase in employment, they also both expect an increase in the unemployment rate, due to the increasing labour supply.

7. Austria complies with the requirement of Regulation (EU) No 473/2013 that the draft budget has to be based on independently endorsed or produced macroeconomic forecasts. The macroeconomic forecasts underlying the Draft Budgetary Plan have been produced by the Austrian Institute of Economic Research (WIFO). It is a long-standing practice in Austria that the Ministry of Finance bases its fiscal plans on the macroeconomic forecast produced by WIFO. WIFO is a non-profit association and its governing board is composed of representatives of non-governmental organisations, financial institutions, the Austrian National Bank, business associations, academia and representatives of the central and regional governments. WIFO is recognised for high-quality economic research and realistic and independent forecasts.

8. The Draft Budgetary Plan projects the general government headline balance at -1.4% of GDP in 2016 and -1.2% of GDP in 2017. This represents an upward revision compared to the Stability Programme (-1.6% of GDP in 2016 and -1.5% of GDP in 2017). For 2016 the revision is due to lower projected expenditure on social and unemployment benefits, while no explanations are provided for the revision for 2017. The Draft Budgetary Plan expects the (recalculated) structural balance to deteriorate from a balanced position in 2015 to -0.9% of GDP in 2016 and to remain stable in 2017. The strong deterioration in 2016 is mainly due to the budgetary impact of the 2016 tax reform. The Draft Budgetary Plan expects the debt-to-GDP ratio to decline by 2.3 percentage points both in 2016 and 2017, to 83.2% and 80.9% respectively. This represents a downward revision compared to the Stability Programme, which projected the debt-to-GDP ratio at 84.3% and 82.6% in 2016 and 2017 respectively.

   Due to the low interest rate environment, the costs for servicing debt have declined significantly in Austria in recent years. Over the forecast horizon, the Draft Budgetary Plan expects interest expenditure to decline further by 0.2 percentage points of GDP both in 2016 and 2017, to 2.2% of GDP and 2.0% of GDP respectively. In 2014 and 2015, the lower interest expenditure has helped Austria to reach and over-perform its MTO despite sizable bank support measures. According to the information provided in the Draft Budgetary Plan, the expected interest windfall will contribute to counterbalance the impact of the tax relief started in 2016 and help cover the expenditure on refugees.

9. The Draft Budgetary Plan for 2016 indicated that the budgetary impact of the exceptional inflow of refugees is significant and should be considered as an unusual event outside the control of the government, for the purposes of Article 5(1) and Article 6(3) of Regulation (EC) No 1466/97. The 2017 Draft Budgetary Plan estimates the costs for 2016 at 0.58% of GDP, which corresponds to a requested temporary deviation from the medium-term objective of 0.34% of GDP in 2016. Moreover, as Austria was at its medium-term budgetary objective in 2015 and therefore did not make use of the possible temporary deviation in that year, Austria can deviate from its medium-term budgetary objective in 2016 and 2017 by the amount considered eligible for 2015. This will ensure that Austria is allowed the same temporary deviation as countries not yet at their medium-term budgetary objective. The Draft Budgetary Plan for 2017 also indicates that the budgetary impact of additional security costs related to the threat of terrorism is significant and

should be considered as an unusual event outside the control of the government, for the purposes of Article 5(1) and Article 6(3) of Regulation (EC) No 1466/97. More specifically, that expenditure is estimated at 0.06% of GDP in 2016, which corresponds to the requested temporary deviation from the medium-term objective. The provisions set out in Article 5(1) and Article 6(3) of Regulation (EC) No 1466/97 cater for this additional expenditure, in that the inflow of refugees and the threat of terrorism are exceptional events, their impact on Austria`s public finances is significant and sustainability would not be compromised by allowing for a deviation from the adjustment path towards the medium-term budgetary objective. The Commission will make a final assessment, including on the eligible amounts, in spring 2017 on the basis of observed data as provided by the Austrian authorities.

10. The Draft Budgetary Plan reports several measures aimed at supporting growth and employment. The measures affect both revenues and expenditure and in all cases are expected to be deficit financed, though the overall impact on deficit is limited. The estimates of the deficit impact of the measures seem plausible. The Draft Budgetary Plan assumes one-off expenditures amounting to 0.1% of GDP in 2016 and 0.2% of GDP in 2017. Those one-off expenditures represent preventive provisions for costs related to bank support measures[1].

11. The main risk to the Draft Budgetary Plan targets stems from the lower than expected effectiveness of the measures against tax fraud, which are to support the recovery of the revenue-to-GDP ratio after the income tax relief implemented in 2016. Mainly due to more conservative assumptions on the yields expected from those measures, the Commission 2016 autumn forecast expects the headline balance in 2016 and 2017 to be slightly worse compared to the projections of the Draft Budgetary Plan, at -1.5% and -1.3% of GDP respectively. The Draft Budgetary Plan projections also assume a declining implicit interest rate on debt, while the Commission forecast takes a more prudent view and assumes a broadly stable implicit interest rate over the forecast horizon, which results in higher interest expenditure than in the Draft Budgetary Plan. The Commission forecast also makes slightly more conservative assumptions on GDP growth in 2016, resulting in a slightly higher debt-to-GDP ratio in 2016 compared to the Draft Budgetary Plan. In addition, the possibility of further contingent costs for bank support measures cannot be excluded, although the probability that such costs may exceed the provisions budgeted by the Draft Budgetary Plan is low.

12. The Draft Budgetary Plan does not include sufficient information to assess compliance with the transitional arrangements for the debt reduction benchmark in 2016 or with the debt reduction benchmark in 2017. According to the Commission 2016 autumn forecast, Austria is making sufficient progress towards compliance with the debt rule in 2016, as the projected change in the structural balance (-1.0 percentage point of GDP) is above the requirement (-1.9 percentage points of GDP). In 2017, Austria is projected to meet the debt reduction benchmark as its debt-to-GDP ratio is expected to be below the debt benchmark (gap to the debt benchmark of -1.8% of GDP).

13. In 2016, according to the information provided in the Draft Budgetary Plan, the (recalculated) structural balance points to some deviation from the MTO (gap of

[1] The preventive provisions for costs related to bank support measures have been treated as one-off measures in the Commission 2016 autumn forecast. The treatment of these measures may change if it proves to be unwarranted.

-0.4% of GDP) while the expenditure benchmark points to compliance. This calls for an overall assessment. The difference between the two indicators is mainly due to fluctuations in one-off expenditures, which have a positive effect on the expenditure benchmark but are excluded from the structural balance. Therefore, the overall assessment points to a risk of some deviation in 2016. If the current estimate of the budgetary impact in 2016 of the exceptional inflow of refugees and security measures is deducted, the assessment would point to compliance. That conclusion is confirmed based on the Commission 2016 autumn forecast.

In 2017, according to the information provided in the Draft Budgetary Plan, the (recalculated) structural balance points to a risk of some deviation from the adjustment path towards the MTO (gap of -0.2% of GDP), while the expenditure benchmark points to a risk of significant deviation (gap of -0.9% of GDP). This calls for an overall assessment. According to the information provided in the Draft Budgetary Plan, the structural balance will be impacted by a significant revenue windfall. When correcting for that factor, the structural balance would point to significant deviation. Therefore, the overall assessment points to a risk of significant deviation in 2017. If the current estimate of the budgetary impact in 2016 of the exceptional inflow of refugees and security measures is deducted, the overall assessment would point to a risk of some deviation. That conclusion is confirmed based on the Commission 2016 autumn forecast.

14. The Draft Budgetary Plan contains several measures that affect the tax wedge on labour, namely the reduction of non-wage labour costs for employers and the refund of non-wage labour costs for start-ups during the first three years. The Draft Budgetary Plan also includes additional resources for active labour market policies. Concerning the country-specific recommendations to Austria directly linked to structural fiscal measures (sustainability of the pension and healthcare systems, reform of the fiscal framework), the Draft Budgetary Plan reports only limited progress. Concerning the financial sustainability of the pension system, only reforms undertaken in the past are mentioned, while the initiatives targeting the sustainability of the healthcare system appear limited in scope. No concrete proposals for reforming the fiscal framework are reported.

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 until 2016 and to the debt rule from 2017 is broadly compliant with the provisions of the SGP if the current estimate of the budgetary impact in 2016 of the exceptional inflow of refugees and security measures is deducted from the requirement. In line with the Commission Communication 'Towards a positive fiscal stance for the euro area', the Commission invites the authorities to take the necessary measures within the national budgetary process to ensure that the 2017 budget will be compliant with the SGP.

The Commission is also of the opinion that Austria has made limited progress with regard to the structural part of the fiscal country-specific recommendations issued by the Council in the context of the 2016 European Semester and thus invites the authorities to accelerate progress. A comprehensive assessment of progress made in the implementation of the country-specific recommendations will be made in the 2017 Country Reports and in the context of the country-specific recommendations to be adopted by the Council in 2017.

Done at Brussels, 16.11.2016

For the Commission
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Member of the Commission