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**COMMISSION STAFF WORKING DOCUMENT**

**Analysis of the draft budgetary plan of AUSTRIA**

*Accompanying the document*

**COMMISSION OPINION**

**on the draft budgetary plan of AUSTRIA**

{C(2014) 8811 final}

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### COMMISSION OPINION

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#### 1. INTRODUCTION

Austria submitted its Draft Budgetary Plan (DBP) for 2015 on 15 October 2014 in compliance with Regulation (EU) No 473/2013. The current DBP includes mainly an update of the DBP for 2014-2015 which was submitted on 29 April 2014, on the basis of the new measures adopted by the Austrian government since then and on the revision in the macroeconomic scenario.

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 on 29 April 2014 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.

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 strengthening the budgetary strategy in 2015 to reach and to 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. The Commission Staff Working Document (SWD) of 2 June 2014 highlighted risks to the structural improvement for 2015 planned in Austria's Stability Programme as compared to the Commission 2014 spring forecast (0.3% and 0.1% of GDP respectively) and the risk of significant deviation persisting also in 2015 based on both pillars on a two-year horizon, since both the two-year change in the structural balance and in the growth rate of expenditure were projected to deviate by 0.5% from the required adjustment. While the assessment carried out by the Commission last spring mainly focused on plans for 2014, the present Staff Working Document (SWD) aims at assessing the compliance with the obligations of the Stability and Growth Pact of both the update budgetary estimates for 2014 and more in details of the plans for 2015.

Austria is subject to the preventive arm of the Pact as from 2014, in light of the Council Decision of 17 June 2014 abrogating the Excessive Deficit on the basis of a Commission recommendation. According to the requirements of the preventive arm, Austria needs to

ensure compliance with the adjustment path towards its medium-term budgetary objective (MTO), set at a structural deficit of 0.45% of GDP. Austria is required to pursue an annual structural adjustment of above 0.5% of GDP in 2014 and 2015, which has been operationalized in consultation with Member States as an effort of 0.6% of GDP.

Section 2 of this document presents the macroeconomic outlook underlying the updated DBP and provides an assessment based on the Commission's most recent forecast<sup>1</sup>. Section 3 presents the recent and planned fiscal developments according to the DBP. Section 4 assesses the recent and planned fiscal developments in 2014 (also taking into account the risks to their achievement) against the obligations stemming from the Stability and Growth Pact. Section 5 provides an analysis of implementation of fiscal-structural reforms in response to the latest country-specific recommendations adopted by the Council on 8 July 2014, including those to reduce the tax wedge. Section 6 summarises the main conclusions of the present document.

## **2. MACROECONOMIC DEVELOPMENTS UNDERLYING THE DRAFT BUDGETARY PLAN**

The macroeconomic scenario underlying the DBP 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 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 DBP envisages a consolidation of the growth momentum to 1.2%, as exports strengthen and domestic demand improves somewhat.

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<sup>1</sup> Ad hoc forecast with cut-off date on 24.10.2014.

**Table 1. Comparison of macroeconomic developments and forecast**

	2013	2014		2015			
	COM	SP	DBP	COM	SP	DBP	COM
Real GDP (% change)	0.2	1.7	0.8	0.7	1.7	1.2	1.2
Private consumption (% change)	-0.1	0.8	0.4	0.4	1.0	0.8	0.6
Gross fixed capital formation (% change)	-1.5	3.0	0.9	0.5	2.1	1.5	2.0
Exports of goods and services (% change)	1.4	4.7	1.5	2.2	5.7	3.3	3.2
Imports of goods and services (% change)	-0.3	4.8	1.7	2.4	5.5	3.4	2.9
<i>Contributions to real GDP growth:</i>							
- Final domestic demand	-0.3	1.2	0.7	0.7	1.0	1.0	0.9
- Change in inventories	-0.7	0.3	0.1	0.0	0.3	0.2	0.0
- Net exports	0.9	0.2	0.0	0.0	0.4	0.1	0.3
Output gap <sup>1</sup>	-0.7	-0.8	-1.0	-1.1	-0.6	-0.7	-0.9
Employment (% change)	0.7	1.1	0.8	0.9	1.0	0.7	0.6
Unemployment rate (%)	4.9	5.2	5.0	5.3	5.3	5.2	5.4
Labour productivity (% change)	-0.5	0.6	0.0	-0.2	0.7	0.6	0.6
HICP inflation (%)	2.1	1.9	1.7	1.5	1.9	1.8	1.7
GDP deflator (% change)	1.5	1.8	1.6	1.5	1.9	1.6	1.6
Comp. of employees (per head, % change)	2.1	2.3	1.8	2.0	2.5	2.1	2.1
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	2.2	3.3	2.4	2.3	3.7	2.5	2.6
Note:							
<sup>1</sup> In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.							
<i>Source:</i>							
<i>Stability programme 2014 (SP); Draft Budgetary Plan 2015 (DBP); Commission 2014 autumn forecast (COM); Commission calculations.</i>							

Both the DBP and the Commission forecasts incorporate downward revisions to the global and domestic macroeconomic outlook in comparison to the ones produced around the time of submission of the Stability Programme in spring 2014. The Commission forecast projects a somewhat weaker recovery of private consumption and a more back loaded growth profile of investment in light of further deterioration of business and consumer confidence. The Commission forecast also underscores the role of net exports for inducing a recovery of investment demand and, subsequently of overall domestic demand. All in all, both scenarios envisage growth to remain much weaker than required for reducing unemployment.

### **Box 1: The macroeconomic forecast underpinning the budget in Austria**

The DBP for 2015 submitted by Austria states that the DBP is based on the macroeconomic forecast published by the Austrian Institute of Economic Research (WIFO) on 18 September 2014.

It is a long-standing practice in Austria that the Ministry of Finance bases its fiscal plans on the macroeconomic forecast that WIFO produces four times a year following an established, pre-announced calendar. The main features of WIFO's forecasts are freely available to the public.

WIFO was founded in 1927 and benefits from a reputation as one of Austria's prominent policy oriented economic research institutes. Its analytical infrastructure and staff allow it to carry out research in a broad range of economic issues. WIFO is recognised for high-quality economic research and realistic and unbiased forecasts. It is also charged with compiling the quarterly national accounts and the business/investment surveys.

WIFO is a non-profit association under Austrian law. The 16 member Governing Board (*Vorstand*) and the 34 member Supervisory Council (*Kuratorium*) comprise representatives of various NGO's, financial institutions, including the Austrian National Bank, businesses, business associations, the academia. Representatives of the central and regional government occupy 1 and 2 seats respectively on the Governing Board and 2 seats each on the Supervisory Council.

The Scientific Advisory Board comprising 17 renowned scholars ensures the strong integration of the Institute in the international scientific community and promotes knowledge transfer of research content and methods. The board also acts as an external quality control mechanism for WIFO's activities.

## **3. RECENT AND PLANNED FISCAL DEVELOPMENTS**

### **3.1. Deficit developments**

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 2014 deficit has risen by 0.1% of GDP mainly due to the downward revision of the macroeconomic scenario. The Commission's forecast is in line with the estimate in the Draft Budgetary Plan.

In 2015, the deficit is planned to decrease to 1.9% of GDP, reflecting in large part the diminishing impact of the one-off support to Hypo. At the same time, this deficit target is by 0.4% of GDP higher than announced in the April DBP, which can be explained by the downward revision of GDP growth projections for 2015. The Commission's forecast for the year 2015 expects the deficit at 1.8% of GDP, broadly in line with the DBP.

The revenue-to-GDP ratio is projected to increase both in 2014 and 2015, while the expected deceleration in GDP growth is estimated to drive down nominal revenue by more than 0.1% of GDP in 2015, compared to target in the April 2014 DBP. The rise in the revenue ratio is caused by revenue growth projections currently estimated to exceed GDP growth in both years while, according to previous projections, revenue was expected to move in line with GDP growth in 2014 and slightly below in 2015. Thus, tax revenue is expected to prove somehow resilient to the deceleration in output growth, in particular in 2014, while higher non-tax revenue (mainly sales from entities now included inside the general government sector), is also expected to have a non-negligible impact. The effect of the additional revenue measures announced by the Austrian authorities after the submission of the DBP in April 2014 has also had a positive impact on revenues in 2014.

**Table 2. Composition of the budgetary adjustment**

(% of GDP)	2013	2014			2015			Change: 2013-2015
	COM	SP	DBP	COM	SP	DBP	COM	DBP
<b>Revenue</b>	<b>49.5</b>	<b>49.7</b>	<b>50.0</b>	<b>49.9</b>	<b>49.3</b>	<b>49.9</b>	<b>50.0</b>	<b>0.4</b>
<i>of which:</i>								
- Taxes on production and imports	14.4	14.5	14.6	14.5	14.4	14.6	14.6	0.2
- Current taxes on income, wealth, etc.	13.3	14.0	13.7	13.6	14.0	13.7	13.8	0.4
- Capital taxes	0.2	0.2	0.3	0.1	0.1	0.2	0.0	0.0
- Social contributions	15.3	16.7	15.4	15.5	16.6	15.5	15.5	0.2
- Other (residual)	6.2	4.3	6.0	6.2	4.2	5.9	6.2	-0.3
<b>Expenditure</b>	<b>50.9</b>	<b>52.4</b>	<b>52.8</b>	<b>52.8</b>	<b>50.7</b>	<b>51.8</b>	<b>51.9</b>	<b>0.9</b>
<i>of which:</i>								
- Primary expenditure	48.4	49.8	50.3	50.3	48.2	49.3	49.4	0.9
<i>of which:</i>								
Compensation of employees	10.6	9.3	10.7	10.6	9.2	10.7	10.6	0.1
Intermediate consumption	6.4	4.4	6.4	6.5	4.3	6.4	6.5	0.0
Social payments	23.0	25.3	23.3	23.5	25.2	23.5	23.5	0.5
Subsidies	1.4	3.3	1.4	1.4	3.2	1.4	1.3	0.0
Gross fixed capital formation	2.9	1.0	2.9	3.0	1.0	2.9	3.0	0.0
Other (residual)	4.0	6.5	5.6	5.4	5.3	4.4	4.5	0.4
- Interest expenditure	2.6	2.6	2.5	2.5	2.5	2.5	2.5	-0.1
<b>General government balance (GGB)</b>	<b>-1.5</b>	<b>-2.7</b>	<b>-2.8</b>	<b>-2.9</b>	<b>-1.4</b>	<b>-1.9</b>	<b>-1.8</b>	<b>-0.4</b>
<b>Primary balance</b>	<b>1.1</b>	<b>-0.1</b>	<b>-0.3</b>	<b>-0.4</b>	<b>1.2</b>	<b>0.6</b>	<b>0.7</b>	<b>-0.5</b>
One-off and other temporary	0.2	-1.3	-1.2	-1.2	-0.3	-0.3	-0.3	-0.5
<b>GGB excl. one-offs</b>	<b>-1.7</b>	<b>-1.4</b>	<b>-1.6</b>	<b>-1.8</b>	<b>-1.1</b>	<b>-1.6</b>	<b>-1.5</b>	<b>0.1</b>
Output gap <sup>1</sup>	-0.7	-0.8	-1.0	-1.1	-0.6	-0.7	-0.9	-0.1
Cyclically-adjusted balance <sup>1</sup>	-1.1	-2.3	-2.2	-2.3	-1.1	-1.5	-1.3	-0.4
<b>Structural balance (SB)<sup>2</sup></b>	<b>-1.3</b>	<b>-1.0</b>	<b>-1.0</b>	<b>-1.1</b>	<b>-0.8</b>	<b>-1.2</b>	<b>-1.0</b>	<b>0.1</b>
Structural primary balance <sup>2</sup>	1.3	1.5	1.5	1.4	1.8	1.3	1.5	0.1
<b>Notes:</b>								
<sup>1</sup> Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology.								
<sup>2</sup> Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.								
<b>Source:</b>								
Stability programme 2014 (SP); Draft Budgetary Plan 2015 (DBP); Commission 2014 autumn forecast (COM); Commission calculations.								

The expenditure-to-GDP ratio is projected to increase significantly in 2014 due to financial sector support, while in 2015 the vanishing effect of this one-off measure will allow the expenditure ratio to decrease. Nevertheless, the expenditure ratio is projected to be higher than in the April 2014 DBP in both years. This is mainly caused by the denominator effect linked to lower nominal GDP growth, although higher nominal expenditure is also a source for the increase in the expenditure ratio. Furthermore, it has to be noticed that all expenditure categories have been affected by the methodological changes produced by the changeover to ESA2010. In particular the reclassification into the general government sector of several

companies, classified outside the government sector under ESA95, has modified the composition of public expenditure. Hospitals and other entities' expenditure as well as transfers to these entities now classified within the general government account, were previously reported mainly as "Social Transfers in Kind", "Subsidies" and "Capital transfers", whereas these are now recorded mainly under "Compensation of employees" and "Intermediate consumption". At the same time, the revenues raised by these entities are now classified under "Sales and other current revenue". Excluding the effect due to ESA2010, higher nominal expenditure with respect to the April DBP, is estimated to amount approximately to 0.3% of GDP in 2014 and 0.2% of GDP in 2015.

The DBP points to an improvement in the structural balance (as recalculated by the Commission<sup>2</sup>) amounting to 0.3% of GDP in 2014, leading to a structural deficit of 1.0% of GDP. The structural balance is then expected to deteriorate by roughly 0.1% in 2015 pointing to a structural deficit of approximately 1.2% of GDP. The recalculated structural balance signals a stronger deterioration in 2015 compared to the non-recalculated figures of the DBP. This is due to a different computation of the output gap arising from the recalculation based on the commonly agreed methodology.

Despite a slightly higher nominal deficit expected in 2014, the Commission spring forecast projects an improvement in the structural balance by 0.2% leading to a structural deficit of 1.1% of GDP. This is due to larger output gap estimated according to the Commission's forecast. In 2015, the Commission's forecast expects the structural balance to improve by 0.1% of GDP, due to a more negative output gap and slightly lower deficit expectations.

### **3.2. Debt developments**

The level of public debt has been revised upward as a result of the introduction of ESA2010. Under ESA2010, Austria's general government debt includes in its perimeter the balance sheets of the companies reclassified under the government sector, such as the national railways operator, KA Finanz and many public hospitals, which were previously recorded outside the general government sector. This effect, accounting for 6.7% of GDP in 2013, drives the 2013 debt level up to 81.2% of GDP. The debt-to-GDP ratio is projected to increase further in 2014 by roughly 5.3% of GDP to 86.5% of GDP. This is linked to the inclusion within the general government debt of those liabilities incurred in connection with the transfer of Hypo's impaired assets in the balance sheet of the Liquidation Entity, responsible for a negative stock-flow adjustment accounting for roughly 4.4% of GDP. Eurostat's guidelines for the recording of impaired assets operation envisage that both assets and liabilities of public wind-down entities have to be included in the government balance sheet and therefore public debt has to include the relevant debt instruments of the entity. The general government debt is further affected by the winding down of Hypo 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 DBP projects the debt level to decrease to 85.6% of GDP.

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<sup>2</sup> Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the updated DBP, using the commonly agreed methodology.



**Table 3. Debt developments**

(% of GDP)	2013	2014			2015		
		SP	DBP	COM	SP	DBP	COM
<b>Gross debt ratio<sup>1</sup></b>	<b>81.2</b>	<b>79.2</b>	<b>86.5</b>	<b>87.0</b>	<b>77.6</b>	<b>85.6</b>	<b>86.1</b>
Change in the ratio	-0.5	4.7	5.3	5.8	-1.7	-0.9	-0.9
<i>Contributions<sup>2</sup>:</i>							
<b>1. Primary balance</b>	<b>-1.1</b>	<b>0.1</b>	<b>0.3</b>	<b>0.4</b>	<b>-1.2</b>	<b>-0.6</b>	<b>-0.7</b>
<b>2. “Snow-ball” effect</b>	<b>1.2</b>	<b>0.1</b>	<b>0.6</b>	<b>0.8</b>	<b>-0.3</b>	<b>0.2</b>	<b>0.1</b>
<i>Of which:</i>							
Interest expenditure	2.6	2.6	2.5	2.5	2.5	2.5	2.5
Growth effect	-0.2	-1.2	-0.6	-0.5	-1.3	-1.0	-1.0
Inflation effect	-1.2	-1.3	-1.3	-1.2	-1.5	-1.3	-1.3
<b>3. Stock-flow adjustment</b>	<b>-0.6</b>	<b>4.6</b>	<b>4.4</b>	<b>4.6</b>	<b>-0.2</b>	<b>-0.4</b>	<b>-0.3</b>
<i>Of which:</i>							
Cash/accruals difference			n.a.		n.a.	n.a.	
Net accumulation of financial <i>of which privatisation proceeds</i>			n.a.		n.a.	n.a.	
Valuation effect & residual			n.a.		n.a.	n.a.	

**Notes:**

<sup>1</sup> End of period.

<sup>2</sup> The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual

**Source:**

*Stability programme 2014 (SP); Draft Budgetary Plan 2015 (DBP); Commission 2014 autumn forecast (COM); Commission calculations.*

### 3.3. Measures underpinning the DBP

The majority of the discretionary measures underpinning the current DBP mirror the measures already implemented and included in the DBP of 29 April 2014. In addition to the measures included in the April DBP, the Austrian authorities on 14 May 2014 publicly announced the implementation of a set of additional measures estimated at 0.2% of GDP in 2014. Taking into account the information provided by the Austrian authorities on the implementation of the additional measures announced in May, it appears, that Austria has implemented measures accounting for an amount that is close to the 0.2% of GDP announced. Additional reductions in the execution of spending in 2014 have partly offset some measures that have been delayed or not implemented, including some which were intended to be of a permanent character. Some other measures have been re-specified. Thus, the current DBP includes new discretionary measures compared to the DBP of 29 April 2014, amounting to EUR 290 million (around 0.1% of GDP) and the overall size of discretionary measures is therefore estimated to amount to 0.5% of GDP in 2014. The small discrepancy between the size of the discretionary measures reported in the DBP and the amounts of measures announced refers to spending reductions in the execution of the budget which are not reported in the list of discretionary measures. In 2015, the DBP points to a marginal deficit-increasing effect of discretionary measures which amount to EUR 109 million (0.03% of GDP).

**Table 4. Main discretionary measures reported in the DBP**

**Discretionary measures taken by General Government - revenue side**

Components	Budgetary impact (% GDP) (as reported by the authorities)	
	2014	2015
Taxes on production and Current taxes on income, wealth, Capital taxes	0.1	0.05
Social contributions	0.2	0.05
Property Income	0	-0.04
Other	0	n.a.
<b>Total</b>	<b>0.3</b>	<b>0.1</b>

Note:  
The budgetary impact in the table is the aggregated impact of measures as reported in the DBP, i.e. by the national authorities. A positive sign implies that revenue increases as a consequence of this measure.  
*Source: Draft Budgetary Plan 2014*

**Discretionary measures taken by General Government - expenditure side**

Components	Budgetary impact (% GDP) (as reported by the authorities)	
	2014	2015
Compensation of employees	-0.03	-0.03
Intermediate consumption	-0.09	0.03
Social payments	-0.15	0
Interest Expenditure	0	0
Subsidies	0.01	0.03
Gross fixed capital formation	0.03	0
Capital transfers	n.a.	0
Other	n.a.	0.1
<b>Total</b>	<b>-0.23</b>	<b>0.13</b>

Note:  
The budgetary impact in the table is the aggregated impact of measures as reported in the DBP, i.e. by the national authorities. A positive sign implies that expenditure increases as a consequence of this measure.  
*Source: Draft Budgetary Plan 2015*

On 28 October 2014, the Austrian authorities announced their commitment to take additional discretionary measures, not included in the DBP, that amount to close to EUR 1 bn in 2015 (0.3% of GDP).

One additional measure relates to lower than planned pensions and wages expenditure, following a downward revision of the expected inflation compared to the one underlying the budgetary estimates, given the agreement to index these expenditure categories to inflation in 2015. Additional savings measures relate to the implementation of reforms aimed at simplifying administrative procedures and using E-Government services, reduction in subsidies from different schemes, tightening the eligibility for long-term care cash benefits for new recipients, combatting social and tax fraud, and ad-hoc reduction in discretionary spending through decision of the Council of Ministers. Furthermore, the Austrian government has committed to reach an agreement with Lander and Municipalities which would require them to achieve a balanced budget in 2015, thereby resulting in additional savings.

The Commission has evaluated the nature and possible yield of these measures. According to its assessment, those measures that are of a structural nature, have plausible yields also in relation to possible implementation risks, and have an adequate legal basis, could effectively amount to EUR 772 million (0.2% of GDP) in 2015, provided that they are fully implemented.

**Table 5. Additional measures announced by the government**

<b>Description of the measures</b>	<b>Austria yield estimate (EUR mln)</b>	<b>COM yield estimate COM (EUR mln)</b>
Moderation of increases of pensions and public salaries	65	65
Implementing the reform aimed at simplifying administrative procedures and additional use of E-Government services implying savings in public employees wages.	150	75
Reduction in subsidies from different schemes	100	100
Tightening the eligibility for long-term care cash benefits for new recipients	20	20
Commitment subject to reaching an agreement with Lander and Municipalities to achieve a balanced budget in 2015 implying 300 million savings	300	150
Measures to combat social and tax fraud	150	112
Ad-hoc reduction in discretionary spending through decision of the Council of Ministers	Up to 250	250
<b>Total</b>	<b>1035</b>	<b>772</b>
<b>Total (% of GDP)</b>	<b>0.3</b>	<b>0.2</b>

#### 4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT

##### 4.1. Compliance with the debt criterion

Since the abrogation of the EDP by the Council on 21 June 2014, Austria is in a transition period under the debt rule as from 2014 and will have to make sufficient progress towards compliance with the debt criterion. According to the Commission's forecast, Austria respects the minimum linear structural adjustment required to satisfy the debt rule both in 2014 and 2015.

**Table 6. Compliance with the debt criterion\***

	2014		2015	
	DBP	COM	DBP	COM
Gap to the debt benchmark <sup>1,2</sup>	n.r.	n.r.	n.r.	n.r.
Structural adjustment <sup>3</sup>	0.3	0.2	-0.1	0.1
<i>To be compared to:</i>				
Required adjustment <sup>4</sup>	n.a.	0.0	n.a.	-0.1

Notes:

<sup>1</sup> Not relevant for Member States that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

<sup>2</sup> Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

<sup>3</sup> Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

<sup>4</sup> Defines the remaining annual structural adjustment over the transition period which ensures that – if followed – Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (DBP) budgetary projections for the previous years are achieved and that GDP growth follows COM (DBP) forecast.

Source:  
*Stability programme 2014 (SP); Draft Budgetary Plan 2015 (DBP); Commission 2014 autumn forecast (COM); Commission calculations.*

\* An ex-ante assessment of planned compliance with the debt criterion can be assessed based on the DBP only for the concerned countries providing extended data series in the DPB on a voluntary basis, as agreed at the EFC-A on 22 September.

##### 4.2. Compliance with the required adjustment towards the MTO

Austria is subject to the preventive arm of the SGP as from 2014 and should ensure sufficient progress towards its MTO. With a debt ratio above 60% and normal cyclical conditions (the output gap is in the interval between -1.5% and 1.5% of GDP), Austria is required to pursue an annual structural adjustment toward the MTO of above 0.5% in 2014 and in 2015, which has been operationalized in consultation with Member States as an effort of 0.6% of GDP.

Article 5(1) of Regulation (EC) No 1466/97 stipulates that "sufficient progress towards the medium-term objectives shall be evaluated on the basis of an overall assessment with the structural balance as reference, including an analysis of expenditure net of discretionary

revenue measures". Furthermore, the Regulation sets thresholds for significant observed deviation based on one-year figures as well as on two-year averages.

The DBP points to an improvement in the structural balance (as recalculated by the Commission using the common methodology) by 0.3% of GDP in 2014, falling short of the 0.6% of GDP required adjustment. The deviation does not exceed the 0.5% threshold for a significant observed deviation as set out in Regulation 1466/97. The Commission's forecast projects a structural adjustment of 0.2% of GDP resulting in a 0.4% of GDP deviation from the requirement.

The growth rate of government expenditure, net of discretionary revenue measures is not expected to be consistent with an annual structural improvement of 0.6% of GDP in 2014. The growth rate of net expenditure is above the lower rate of expenditure growth allowed under the expenditure benchmark, (-0.1%) in the case of Austria, and contributes to a deviation from the required adjustment by around 2.0% of GDP. This is predominantly due to the cost of proceeding with the winding down of Hypo. In addition, there is a large base effect in 2013, as the expenditure aggregate used for the computation of the expenditure benchmark points to a reduction in expenditure by 4.2% between 2012 and 2013, which contributes to stronger expenditure growth in 2014. The expenditure benchmark computed by the Commission on the basis of its forecast projects a deviation of 1.8% of GDP in 2014.

An overall assessment of the Member State's Draft Budgetary Plan, with the structural balance as a reference, including an analysis of expenditure net of discretionary revenue measures, points to a deviation from the adjustment path towards the MTO in 2014, albeit below the threshold for significant deviation. This is confirmed by the Commission forecast.

**Table 7: Preventive arm**

(% of GDP)	2013	2014		2015	
<b>Initial position<sup>1</sup></b>					
Medium-term objective (MTO)	-0.5	-0.5		-0.5	
Structural balance <sup>2</sup> (COM)	-1.3	-1.1		-1.0	
Structural balance based on freezing (COM)	-1.1	-1.1		-	
<b>Position vis-a-vis the MTO<sup>3</sup></b>	Not at MTO	Not at MTO		Not at MTO	
(% of GDP)	<b>2013</b>	<b>2014</b>		<b>2015</b>	
	<b>COM</b>	<b>DBP</b>	<b>COM</b>	<b>DBP</b>	<b>COM</b>
<b>Structural balance pillar</b>					
Required adjustment <sup>4</sup>	n.a. in EDP in 2013	0.6		0.6	
Change in structural balance <sup>5</sup>		0.3	0.2	-0.1	0.1
<i>One-year deviation from the required adjustment after considering the relevant factors<sup>6</sup></i>		-0.3	-0.4	-0.7	-0.5
Two-year average change in structural balance <sup>5</sup>		n.a. in EDP in 2013		0.1	0.1
<i>Two-year average deviation from the required adjustment after considering the relevant factors<sup>6</sup></i>				-0.5	-0.5
<b>Expenditure benchmark pillar</b>					
Applicable reference rate <sup>7</sup>	n.a. in EDP in 2013	-0.1		-0.1	
<i>One-year deviation<sup>8</sup></i>		-2.0	-1.8	0.5	0.3
<i>Two-year average deviation<sup>8</sup></i>		n.a. in EDP in 2013		-0.7	-0.7
<b>Conclusion</b>					
Conclusion over one year	n.a. in EDP in 2013	Overall assessment	Overall assessment	Overall assessment	Overall assessment
Conclusion over two years		n.a. in EDP in 2013		Significant deviation	Significant deviation
Notes					
<sup>1</sup> The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between Spring forecast (t-1) and the latest forecast, determines whether there is a need to adjust towards the MTO or not in year t. A margin of 0.25 percentage points (p.p.) is allowed in order to be evaluated as having reached the MTO.					
<sup>2</sup> Structural balance = cyclically-adjusted government balance excluding one-off measures.					
<sup>3</sup> Based on the relevant structural balance at year t-1.					
<sup>4</sup> Based on the position vis-à-vis the MTO, the cyclical position and the debt level (See European Commission: Vade mecum on the Stability and Growth Pact, page 28.).					
<sup>5</sup> Change in the structural balance compared to year t-1. Ex post assessment (for 2013) is carried out on the basis of Commission 2014 spring forecast.					
<sup>6</sup> The difference of the change in the structural balance and the required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers. Please note, that the average deviation from the requirement over two years cannot be directly used to determine the additional fiscal effort to ensure compliance.					
<sup>7</sup> Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A lower rate applies as long as the country is adjusting towards its MTO, including in year t. The reference rates applicable to 2014 onwards have been updated in 2013.					
<sup>8</sup> Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.					
<i>Source:</i>					
<i>Draft Budgetary Plan 2015 (DBP), Commission 2014 autumn forecast (COM), Commission calculations</i>					

Regarding 2015, the one-year assessment of the DBP points to a deterioration by 0.1% of GDP in the recalculated structural balance resulting in significant deviation from the requirement, while the net expenditure growth is expected to contribute to the requirement by a larger adjustment than required, also due to the vanishing effect of the one-off expenditure for Hypo's winding down. The Commission's forecast points to an improvement in the structural balance by 0.1% of GDP in 2015 while the expenditure benchmark is broadly in line with the DBP. The difference compared to the deterioration in the structural balance indicated in the DBP relies in a more negative output gap estimated by the Commission's forecast.

However, the assessment of the DBP scenario over two-years (2014-15), indicates that the average change in the structural balance over 2014-2015 is around 0.1% of GDP. This adjustment implies an average deviation of 0.5% on average over two years, well above the average of 0.25% set as a threshold for significance for the two-year assessment. The average development of expenditure growth over 2014-2015 also points to a deviation of 0.7% of GDP from the expenditure benchmark contributing to a deterioration of the structural balance in excess of the 0.25% threshold for significant deviation. This assessment is confirmed by the Commission's forecast which over the two-year horizon points to a significant deviation in the structural balance of 0.5% on average over two years while also the expenditure benchmark is expected to deviate by 0.7% of GDP over 2014-2015.

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, i.e. 0.23% of GDP in 2015. They would lead to an adjustment in the structural balance of 0.1% of GDP in 2015, reducing the average deviation from the required adjustment over the two-year horizon to 0.4% of GDP, still above the threshold for significant deviation. The expenditure benchmark also points to a significant deviation after having taken into account the additional expenditure savings included in the announced measures. Finally, the Commission notices that even by taking into account the full amount of additional measures announced by the Austrian authorities (0.3% of GDP), the two indicators would still point to a significant deviation.

Following an overall assessment of the Member State's Draft Budgetary Plan, including the additional announced measures, with the structural balance as a reference, including an analysis of expenditure net of discretionary revenue measures, a significant deviation from the adjustment path towards the MTO could materialise over 2014-2015.

## **5. IMPLEMENTATION OF FISCAL-STRUCTURAL REFORMS**

In the context of the European Semester, Austria was issued the recommendation to improve the long-term sustainability of the pension system, in particular by bringing forward the harmonisation of the statutory retirement age for men and women, by increasing the effective retirement age and by aligning the retirement age to changes in life expectancy. In addition, the Council also recommended to monitor the implementation of recent reforms restricting access to early retirement and to further improve the cost effectiveness and sustainability of healthcare and long-term care services.

The current Draft Budgetary Plan estimates at 0.1% of GDP in 2015 the expected savings related to the increase in the actual retirement age. This amount appears lower than the initial savings expected from the reforms adopted in this field. The Draft Budgetary plan does not

contain information about the result of a preliminary monitoring exercise over the effectiveness of these reforms. Additional information in this respect will be needed in the course of the European Semester process. The outcome of the study is crucial to evaluate whether additional measures are needed to deliver the amount of structural savings expected in line with the commitment taken by the current government in its coalition programme. The Draft Budgetary Plan does not contain any measure to align the retirement age to change in life expectancy and to harmonise the statutory retirement age for man and women.

### **Box 2: Addressing the tax wedge**

The tax burden on labour in the euro area is relatively high, which weighs on economic activity and employment. Against this background, the Eurogroup has expressed its commitment to effectively reduce the tax burden on labour. It will take stock of Member States' plans for reductions of the tax burden when discussing the draft budgetary plans.

The tax wedge in Austria is well above the EU average. The tax wedge for a single person without children earning 50% of the average wage was 39.8% compared to an EU average of 34% in 2013, for 67% of the average wage it was 44.5% (EU average: 37.7%) and for the average wage it was 49.1% (EU average: 41.1%).<sup>3</sup> While the overall employment rate is well above the EU average, the employment rate of the low-skilled was more than 20 percentage points lower than the overall employment rate in 2013.

In the context of the European Semester, Austria was issued the recommendation to reduce the high tax wedge on labour for low-income earners by shifting taxation to sources less detrimental to growth, such as recurrent taxes on immovable property, including by updating the tax base.

The Draft Budgetary Plan indicates that a reform to reduce the tax wedge by EUR 5 billion (1.5% of GDP) is planned to be adopted by the cabinet of ministers on 17 March 2015 and further information will be needed before this can be assessed and whether it has a budget-neutral impact as required. A working group is dealing with the design of the reform, in particular with respect to its financing sources.

## **6. OVERALL CONCLUSION**

Based on the Commission 2014 autumn forecast, Austria respects the minimum linear structural adjustment required to satisfy the debt rule both in 2014 and 2015. The DBP does not include sufficient information to assess compliance with the transitional arrangements of the debt benchmark.

With regard to the adjustment path towards the MTO, the assessment of the DBP points to a deviation although non-significant from the required adjustment towards the MTO in 2014. However, over the years 2014-2015 the DBP, after taking into account the announced measures, is at risk of a significant deviation from the required adjustment path based both on the structural adjustment and expenditure benchmark pillar.

The DBP includes only limited measures to address the structural part of the fiscal recommendations issued by the Council in the context of the 2014 European Semester.

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<sup>3</sup> The arithmetic average is used to calculate the average tax wedge for the EU; recent data for Cyprus and Croatia are not available; data from 2012 were used for Bulgaria, Latvia, Lithuania, Malta and Romania. The employment rate is for the age group 20-64.