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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

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1. INTRODUCTION

Austria submitted its Draft Budgetary Plan for 2020 on 15 October 2019 in compliance with Regulation (EU) No 473/2013. Given the caretaker nature of the government in place on 15 October 2019, the budgetary projections for 2019 and 2020 in the Draft Budgetary Plan are based on the assumption of unchanged policies and include only measures that have been adopted before the national elections of 29 September 2019. Austria is subject to the preventive arm of the Pact and should preserve a sound fiscal position which ensures compliance with the mediumterm budgetary objective. As the debt ratio was 74.0% of GDP in 2018, exceeding the 60% of GDP reference value of the Treaty, Austria also needs to comply with the debt reduction benchmark.

Section 2 of this document presents the macroeconomic outlook underlying the Draft Budgetary Plan and provides an assessment based on the Commission 2019 autumn forecast. The following section presents the recent and planned fiscal developments, according to the Draft Budgetary Plan, including an analysis of risks to their achievement based on the Commission 2019 autumn forecast. In particular, it also includes an assessment of the measures underpinning the Draft Budgetary Plan. Section 4 assesses the recent and planned fiscal developments in 2019-2020 (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 in the context of the European Semester adopted by the Council in July 2019, 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 Draft Budgetary Plan projects GDP growth to decelerate from 2.4%[1] in 2018 to 1.7% in 2019 and 1.4% in 2020. This represents a more negative projection compared to the 2019 Stability Programme, which expected growth to increase by 1.7 and 1.8% for 2019 and 2020, respectively.

[1] On the 25 September 2019, an important data revision was performed by Statistik Austria, the Austrian statistical office, affecting GDP growth rates and its components for the years 2015 until 2018. This led to a downward revision of GDP growth in 2018 to 2.4% as compared to 2.7% based on the EDP notification in spring.

For 2019, the Draft Budgetary Plan growth projection is slightly more optimistic than the Commission 2019 autumn forecast, which expects GDP to grow by 1.5%. According to the Draft Budgetary Plan, growth is expected to remain broad-based, with domestic demand as the key driver. It is supported by strong private consumption, fuelled by increases in wages and employment, but also the tax relief from the 'Family Bonus plus'. Investment growth is expected to decrease gradually amid rising uncertainties and a cool down in global trade. Compared to the Draft Budgetary Plan, the Commission forecast expects a somewhat higher growth of services imports and weaker growth in public consumption. While the Draft Budgetary Plan expects a positive contribution of net exports to GDP in 2019, the Commission's higher import expectations lead to a negative contribution. While the Draft Budgetary Plan's GDP growth projection has not changed with respect to the Stability Programme, there are differences in the composition of growth. The Stability Programme projects markedly higher exports and slightly higher private consumption growth but also substantially lower investment growth.

For 2020, the Draft Budgetary Plan forecasts GDP to grow by 1.4%, which is in line with the Commission autumn 2019 forecast. Both the forecast underlying the Draft Budgetary Plan and the Commission 2019 autumn forecast expect GDP growth to be mainly driven by private consumption as announced fiscal measures relieve especially low-income earners and are therefore expected to translate more promptly into consumption. However, the Commission expects slightly lower growth in private consumption and gross fixed capital formation, which in turn leads to lower expectations for import growth. This also explains why the Commission expects a small contribution of net exports to GDP growth while the Draft Budgetary Plan expects no contribution.

While the Stability Programme expected growth to accelerate to 1.8% in 2020, the Draft Budgetary Plan assumes a moderation of growth to 1.4%. Again, the main difference lies in markedly higher exports and import growth in the Stability Programme as well as slightly higher investment growth expectations.

The Commission forecasts slightly lower inflation for 2019 and 2020 than the Draft Budgetary Plan and both are slightly below the expectations of the Stability Programme. However, in line with the Draft Budgetary Plan, strong domestic demand is expected to sustain the domestic price pressures, leading to higher core than headline inflation.

For 2019, the Draft Budgetary Plan expects stronger employment growth (1.4%) than the Stability Programme (1.2%) and the Commission forecast (1.1%). For 2020, the Draft Budgetary Plan expects employment growth to moderate, along with the economic slowdown and is roughly in line with the expectations of the Stability Programme and the Commission 2019 autumn forecast. Both the Draft Budgetary Plan and the Commission autumn forecast foresee unemployment to decrease to 4.6% in 2019 and to stabilise at that level afterwards. Again, this is in line with the projections underlying the 2019 Stability Programme.

Overall, the Draft Budgetary Plan's macroeconomic assumptions are plausible.

Box 1: The macro economic forecast underpinning the budget in Austria

The Draft Budgetary Plan for 2020 submitted by Austria is based on the macroeconomic forecast published by the Austrian Institute of Economic Research (WIFO) on 4 October 2019. WIFO is a non-profit association under Austrian law, recognised for high-quality economic research and realistic and unbiased forecasts. 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.

Table 1. Comparison of macroeconomic developments and forecasts

	2018	2019			2020		
	COM	SP	DBP	COM	SP	DBP	COM
Real GDP (% change)	2.4	1.7	1.7	1.5	1.8	1.4	1.4
Private consumption (% change)	1.1	1.7	1.5	1.5	1.7	1.6	1.5
Gross fixed capital formation (% change)	3.9	2.3	2.9	2.9	1.8	1.5	1.2
Exports of goods and services (% change)	5.9	3.1	2.3	2.3	3.6	2.3	2.3
Imports of goods and services (% change)	4.6	2.5	2.4	2.6	3.0	2.5	2.3
Contributions to real GDP growth:							
- Final domestic demand	1.7	1.6	1.7	1.6	1.4	1.4	1.3
- Change in inventories	0.0	-0.3	-0.1	0.0	-0.1	0.0	0.0
- Net exports	0.9	0.4	0.1	-0.1	0.4	0.0	0.1
Output gap[1]	0.9	0.7	0.8	0.8	0.6	0.5	0.4
Employment (% change)	1.7	1.2	1.4	1.1	0.8	0.8	0.7
Unemployment rate (%)	4.9	4.6	4.6	4.6	4.6	4.6	4.6
Labour productivity (% change)	0.7	0.4	0.3	0.5	0.9	0.6	0.7
HICP inflation (%)	2.1	1.7	1.6	1.5	1.8	1.7	1.6
GDP deflator (% change)	1.7	2.0	1.9	1.9	1.9	1.7	1.7
Comp. of employees (per head, % change)	2.9	2.6	2.9	2.8	2.3	1.8	2.0
Net lending/borrowing vis-à-vis the rest of	2.4	1.9	2.5	2.1	1.8	2.3	2.0

Note:

[1]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.

Source:

Stability Programme 2019 (SP); Draft Budgetary Plan for 2020 (DBP); Commission 2019 autumn forecast (COM); Commission calculations

3. RECENT AND PLANNED FISCAL DEVELOPMENTS

3.1. Deficit developments

For 2019, the Draft Budgetary Plan expects the general government headline balance to reach a surplus of 0.3% of GDP in 2019, which corresponds to the projection of the Stability Programme. The Commission 2019 autumn forecast points to a surplus of 0.4% of GDP in 2019. The reason for this difference lies mainly in higher projections of taxes on production and imports, current taxes on income and wealth as well as social contributions. On the expenditure side, the Commission autumn forecast expects slightly lower levels of gross fixed capital formation and capital transfers.

For 2020, the Draft Budgetary Plan reports a headline deficit of 0.1% of GDP, while the Stability Programme projected a budgetary surplus of 0.2% of GDP. According to the Draft Budgetary Plan, this deterioration by 0.3 percentage points of GDP is due to a series of recently adopted expenditure-increasing measures on the one hand and the economic slowdown on the other hand. On the revenue side, lower growth prospects materialise in

downwards revised projections of consumption and income taxes, while the budgetary impact of new fiscal measures increases mainly social payments, intermediate consumption and the compensation of employees. In contrast to the Draft Budgetary Plan and notwithstanding the additional budgetary impact of the recently adopted measures, the Commission 2019 autumn forecast points to a budgetary surplus of 0.2% of GDP in 2020.

Table 2. Composition of the budgetary adjustment

(% of GDP)	2018		2019			2020			Change: 2018-2020
	COM	DBP	SP	DBP	COM	SP	DBP	COM	DBP
Revenue	**48.8**	**48.8**	**48.3**	***48.5***	**48.8**	**47.7**	***48.2***	**48.7**	**-0.6**
of which:									
- Taxes on production and imports	13.8	13.8	13.7	*13.6*	13.7	13.6	*13.6*	13.6	-0.2
- Current taxes on income, wealth,	13.5	13.5	13.5	*13.5*	13.6	13.5	*13.4*	13.7	-0.1
- Capital taxes	0.0	0.0	0.1	*0.0*	0.0	0.1	*0.0*	0.0	0.0
- Social contributions	15.2	15.2	15.1	*15.2*	15.3	14.8	*15.2*	15.2	0.0
- Other (residual)	6.2	6.2	5.9	*6.2*	6.2	5.7	*6.0*	6.1	-0.2
Expenditure	**48.6**	**48.6**	**47.9**	**48.2**	**48.3**	**47.5**	**48.3**	**48.4**	**-0.3**
of which:									
- Primary expenditure	47.0	47.0	46.5	46.8	46.8	46.1	46.9	47.1	-0.1
of which:									
Compensation of employees	10.4	10.4	10.4	10.4	10.5	10.2	10.4	10.4	0.0
Intermediate consumption	6.2	6.2	6.0	6.2	6.2	5.9	6.1	6.2	-0.1
Social payments	21.8	21.8	21.7	21.7	21.7	21.6	21.9	22.0	0.1
Subsidies	1.5	1.5	1.5	1.5	1.6	1.5	1.5	1.5	0.0
Gross fixed capital formation	3.0	3.0	2.9	3.0	3.0	3.0	3.0	3.0	0.0
Other (residual)	4.1	4.1	4.0	4.0	3.9	3.9	4.0	3.9	-0.1
- Interest expenditure	1.6	1.6	1.5	1.5	1.5	1.4	1.4	1.4	-0.2
General government balance (GGB)	**0.2**	**0.2**	**0.3**	**0.3**	**0.4**	**0.2**	**-0.1**	**0.2**	**-0.3**
Primary balance	**1.8**	**1.8**	**1.8**	**1.7**	**1.9**	**1.6**	**1.3**	**1.6**	**-0.5**
One-off and other temporary measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GGB excl. one-offs	**0.2**	**0.2**	**0.3**	**0.3**	**0.4**	**0.2**	**-0.1**	**0.2**	**-0.3**
Output gap[1]	0.9	0.9	0.7	0.8	0.8	0.6	0.5	0.4	-0.4
Cyclically-adjusted balance[1]	-0.3	-0.3	-0.1	-0.2	0.0	-0.1	-0.4	0.0	-0.1
Structural balance (SB)[2]	**-0.3**	**-0.3**	**-0.1**	**-0.2**	**0.0**	**-0.1**	**-0.4**	**0.0**	**-0.1**
Structural primary balance[2]	1.3	1.3	1.4	1.3	1.5	1.3	1.0	1.4	-0.3

Notes:

[1] Output gap (in % of potential GDP) and cyclically-adjusted balance according to the DBP/Programme as recalculated by Commission on the basis of the DBP/Programme scenario using the commonly agreed methodology.

[2] Structural (primary) balance corresponds to cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source:

Stability Programme 2019 (SP); Draft Budgetary Plan for 2020 (DBP); Commission 2019 autumn forecast (COM); Commission calculations

Again, this is largely the result of a higher revenue forecast, which is driven by strongly increasing income and payroll tax receipts and somewhat lower projections of gross fixed capital formation, capital transfers and social payments.

According to the Draft Budgetary Plan, in 2019, all sectors of government are expected to report a budgetary surplus, with the surplus generated at the level of the Länder and the social insurance funds being the main driver of this positive development. In 2020, all sectors but the central government are expected to realise budgetary surpluses in the order of 0.2% of GDP, while the central level is expected to realise budgetary deficit in the order of 0.3% of

GDP. The national fiscal rules embedded in the 2012 Austrian Stability Pact require Austria to achieve a structural balance of -0.45% of GDP from 2017 onwards, with the upward limit set at -0.35% of GDP for the federal government (including social security funds) and -0.1% of GDP for federal states and municipalities. An assessment of compliance with national fiscal rules for the year 2018 will be undertaken on the basis of notified outturn data in autumn 2019 by Statistik Austria. The results of this assessment will be discussed in the Annual Report of the Austrian Fiscal Council, which is expected in December this year.

Over the forecast horizon, the revenue projections underlying the Draft Budgetary Plan seem overly cautious given the underlying macroeconomic forecast. As a result and despite the somewhat higher growth forecast for 2019, no specific risks to the Draft Budgetary Plan budgetary projections can be identified.

Euro area sovereign bond yields remain at historically low levels, with 10-year rates in Austria currently standing at -0.11[2]. As a consequence, total interest payments by the general government have continued to decrease as a share of GDP. Based on the information included in the Draft Budgetary Plan, interest expenditure in Austria is expected to fall from 1.6% of GDP in 2018 to 1.5% in 2019 and is projected to decrease further next year, at 1.4% of GDP, well below the 2.7% recorded in 2012 at the peak of the euro area sovereign debt crisis. The picture stemming from Member States' plans is confirmed by the Commission forecast.

For 2019, the Draft Budgetary Plan expects the (recalculated) structural balance[3] to improve to -0.2% of GDP. This deterioration by 0.1 percentage points with respect to the Stability Programme is due to a slightly higher output gap than previously expected, which is in turn the result of a lower estimate of potential growth. The Commission 2019 autumn forecast projects the structural balance at 0.0% of GDP in 2019. This difference of 0.2 percentage points compared to the (recalculated) structural balance is largely the result of the more favourable forecast of the headline balance and a slightly smaller estimated output gap.

For 2020, the (recalculated) structural balance is expected to deteriorate to -0.4% of GDP, while the Commission autumn forecast expects at stabilisation at 0.0% of GDP. This is mainly the result of different projections of the headline balance.

3.2. Debt developments

According to the Draft Budgetary Plan, government debt is projected to decline markedly from 74.0% of GDP in 2018 to 70.0% of GDP in 2019, and also in absolute terms. This decline is mainly driven by an improvement of the primary balance and supported by stock-flow adjustments stemming from the divestment of impaired assets from bad banks included into government accounts. In 2020, government debt is expected to decline further to 67.5% of GDP, which is largely due to the improvement of the primary balance. Both in 2019 and 2020, declining interest expenditure support the favourable development of debt. Based on the Commission 2019 autumn forecast, government debt is expected to follow similar dynamics, declining to 69.9% of GDP in 2019 and to 67.2% of GDP in 2020. The decline in the debt ratio is somewhat higher compared to the Draft Budgetary Plan projections, which is mainly the result of the more favourable forecast of the government headline balance in both 2019 and 2020.

[2] 10-year bond yields as of 28 October 2019. Source: Bloomberg.

[3] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

Table 3. Debt developments

(% of GDP)	2018	2019			2020		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio[1]	**74.0**	**69.6**	**70.0**	**69.9**	**66.5**	**67.5**	**67.2**
Change in the ratio	-4.3	-4.4	-4.0	-4.0	-3.1	-2.4	-2.7
Contributions[2]:							
1. Primary balance	**-1.8**	**-1.8**	**-1.7**	**-1.9**	**-1.6**	**-1.3**	**-1.6**
2. "Snow-ball" effect	**-1.5**	**-1.2**	**-1.1**	**-0.9**	**-1.1**	**-0.8**	**-0.7**
Of which:							
Interest expenditure	1.6	1.5	1.5	1.5	1.4	1.4	1.4
Real growth effect	-1.8	-1.2	-1.2	-1.1	-1.2	-1.0	-0.9
Inflation effect	-1.3	-1.5	-1.4	-1.3	-1.3	-1.2	-1.1
3. Stock-flow adjustment	**-1.0**	**-1.3**	**-1.1**	**-1.1**	**-0.4**	**-0.4**	**-0.4**
Of which:							
Cash/accruals difference							
Net accumulation of financial							
of which privatisation proceeds							
Valuation effect & residual							

Notes:

[1] End of period.

[2] 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 effects.

Source:

Stability Programme 2019 (SP); Draft Budgetary Plan for 2020 (DBP); Commission 2019 autumn forecast (COM); Commission calculations

3.3. Measures underpinning the draft budgetary plan

With the publication of the 2019 Stability Programme, the Austrian government announced the details of broad tax relief reform '*Entlastung Österreich*', which aimed at reducing the tax ratio towards 40% of GDP. The reform envisaged a cumulative tax relief in the order of EUR 6.5 billion in the form of simplifications and step-wise reductions of personal and corporate income taxes as well as lower health contributions targeted towards low-income earners and pensioners.[4] However, following the governmental crisis in June and the formation of a caretaker government, not all measures foreseen by the previous government have been adopted by the National Council. Instead, several other measures were adopted during the parliamentary sessions in July and mid-September that is, shortly before the snap elections at the end of September.

On the revenue side, an increase of the pensioners' tax credit as well as reduced health contributions for farmers and self-employed will result in forgone tax revenues of about EUR 300 million (0.07% of GDP) in 2020. In addition, tax reductions to support more climate-friendly consumer choices and small entreprises will reduce tax revenues further in the order to EUR 65 million (0.02% of GDP). New taxes on the digital economy, measures against tax fraud, new provisions regarding corporate restructuring and an increase of the tobacco tax

[4] See the Assessment of the 2019 Stability Programme for Austria.

will, however, partly counter-finance the revenue loss of the adopted relief measures by approximately EUR 194 (0.05% of GDP).

The total budgetary impact of fiscal measures on the expenditure side amounts to approximately EUR 842 million (0.2% of GDP) in 2020 and is mainly the result of increased cash social benefits in the form of pensions. With EUR 400 million, the largest budgetary impact arises from the Pension Adjustment Act 2020, which provides for a staggered increase of pensions with adjustment rates above the inflation adjustment factor.

The Commission 2019 autumn forecast includes all discretionary fiscal measures adopted before the national elections and adpots a no policy change assumption as of 2020.

Table 4. Main discretionary measures reported in the Draft Budgetary Plan

A. Discretionary measures taken by General Government - revenue side

Components	Budgetary impact (% GDP) (as reported by the authorities)	
	2019	**2020**
Taxes on production and imports		-0.01
Current taxes on income, wealth, etc.		-0.03
Capital taxes		
Social contributions		-0.02
Property Income		
Other		
Total		**-0.06**

Note:

The budgetary impact in the table is the aggregated impact of measures as reported by the national authorities. A positive sign implies that revenue increases as a consequence of this measure.

Source:

Draft Budgetary Plan for 2020

B. Discretionary measures taken by general Government- expenditure side

Components	Budgetary impact (% GDP) (as reported by the authorities)	
	2019	**2020**
Compensation of employees		-0.04
Intermediate consumption		
Social payments		-0.15
Interest Expenditure		
Subsidies		-0.02
Gross fixed capital formation		
Capital transfers		0.00
Other		
Total		**-0.20**

Note:

The budgetary impact in the table is the aggregated impact of measures as reported by the national authorities. A positive sign implies that expenditure increases as a consequence of this measure.

Source:

Draft Budgetary Plan for 2020

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

Austria is subject to the preventive arm of the Pact and should ensure compliance with its medium-term budgetary objective. Austria is also subject to the debt reduction benchmark.

4.1. Compliance with the debt criterion

As the debt ratio was 74.0% of GDP in 2018, Austria needs to comply with the debt reduction benchmark. The Draft Budgetary Plan does not include sufficient information to assess compliance with the debt reduction benchmark in 2019 and 2020. According to the Commission 2019 autumn forecast, Austria is expected to meet the debt reduction benchmark both in 2019 and 2020, as its debt-to-GDP ratio is expected to be below the debt benchmark with a gap to the debt benchmark of -6.5% of GDP in 2019 and -5.3% of GDP in 2020.

Table 5. Compliance with the debt criterion*

	2018	2019			2020		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio	**74.0**	**69.6**	**70.0**	**69.9**	**66.5**	**67.5**	**67.2**
Gap to the debt benchmark [1,2]	-5.8	-6.8		-6.5	-5.8		-5.3

Notes:

[1] Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[2] 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.

Source:

Stability Programme 2019 (SP); Draft Budgetary Plan for 2020 (DBP); Commission 2019 autumn forecast (COM); Commission calculations

* An ex-ante assessment of planned compliance with the debt criterion can be based on the DBP only for the Member States concerned providing extended data series (i.e. covering years up to t+4) in the DPB on a voluntary basis, as agreed at the EFC-A on 22 September 2014 and reflected in the updated Code of Conduct of the two-pack.

4.2. Compliance with the medium-term budgetary objective

The medium-term budgetary objective for Austria corresponds to a structural balance of -0.5% of GDP.

In 2019, according to the information provided in the Draft Budgetary Plan, Austria is projected to respect its medium-term budgetary objective with a recalculated structural balance of -0.2% of GDP. The Commission 2019 autumn forecast broadly points to the same conclusion. Thus, the current assessment for 2019 points to compliance.

In 2020, according to the information provided in the Draft Budgetary Plan, Austria is projected to continue respecting its medium-term budgetary objective with a recalculated structural balance of -0.4% of GDP, which is broadly confirmed by the Commission 2019 autumn forecast. Thus, the current assessment for 2020 points to compliance.

Table 6: Compliance with the requirements of the preventive arm

(% of GDP)	2018	2019		2020	
Initial position[1]					
Medium-term budgetary objective (MTO)	-0.5	-0.5		-0.5	
Structural balance[2] (COM)	-0.3	0.0		0.0	
Structural balance based on freezing (COM)	-0.8	0.0		-	
Position vis-a -vis the MTO[3]	At or above	At or above the MTO		At or above the MTO	
	2018	**2019**		**2020**	
(% of GDP)	**COM**	**DBP**	**COM**	**DBP**	**COM**
Structural balance pillar					
Required adjustment[4]	0.0	0.3		0.0	
Required adjustment corrected[5]	-0.2	0.3		-0.5	
Change in structural balance[6]	0.3	0.1	0.3	-0.1	0.0
One-year deviation from the required adjustment [7]	0.3	-0.2	0.0	0.4	0.5
Two-year average deviation from the required	0.3	0.1	0.2	0.1	0.3
Expenditure benchmark pillar					
Applicable reference rate[8]	3.3	2.9		4.6	
One-year deviation adjusted for one-offs [9]	-0.6	-0.4	-0.4	0.4	0.4
Two-year average deviation adjusted for one-offs [9]	-0.1	-0.5	-0.5	0.0	0.0

Notes

[1] 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 is allowed in order to be evaluated as having reached the MTO.

[2] Structural balance corresponds to cyclically-adjusted government balance excluding one-off measures.

[3] Based on the relevant structural balance at year t-1.

[4] 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 ed. 2018, page 38.).

[5] Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.

[6] Change in the structural balance compared to year t-1. Ex post assessment (for 2018) was carried out on the basis of Commission 2019 spring forecast.

[7] The difference of the change in the structural balance and the corrected required adjustment.

[8] 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 corrected rate applies as long as the country is adjusting towards its MTO, including in year t.

[9] Deviation of the growth rate of public expenditure net of discretionary revenue measures, revenue increases mandated by law and one-offs 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.

Source :

Draft Budgetary Plan for 2020 (DBP); Commission 2019 autumn forecast (COM); Commission calculations.

5. COMPOSITION OF PUBLIC FINANCES AND IMPLEMENTATION OF FISCAL STRUCTURAL REFORMS

The deterioration of the general government balance from 0.3% to -0.1% of GDP projected by the Draft Budgetary Plan is driven by the fact that the year-on-year growth of public expenditures is expected to outweigh that of revenues (3.2% versus 2.5%) in 2020. On the expenditure side, recent parliamentary decisions affect mainly the compensation of employees and social payments in the form of pensions. In addition, revenues are expected to develop less dynamically due to adopted tax relief measures and the economic slowdown. Based on the Draft Budgetary Plan projections, in 2020 public investment is expected to remain broadly stable at around 3% of GDP, which is the same rate observed since 2011.

On 9 July 2019, the Council addressed recommendations to Austria in the context of the European Semester. In particular, the Council recommended Austria to ensure the sustainability of the health, long-term care, and pension systems, including by adjusting the

statutory retirement age in view of expected gains in life expectancy. As mentioned above, the budgetary projections underlying the Draft Budgetary Plan include several measures that will increase public pension expenditures, such as the pension bonus, the undiscounted pension after 45 contribution years and the pension adjustment. While these measures will improve pension adequacy, they do not address risks to fiscal sustainability in the long term.

In addition, the Council recommended Austria to simplify and rationalise fiscal relations and responsibilities across layers of government and align financing and spending responsibilities. The Draft Budgetary Plan highlights the amendment of the Transparency Data Bank Act ("*Transparenzdatenbankgesetz*"). The objective of this data base is to improve the efficiency and transparency of public funding by monitoring the appropriate use of public funds. The amendment provides, among others, for improved query rights and a standardisation of the purpose of the funding. An assessment of the amendment of the law goes beyond the scope of this document. However, a recent study commissioned by the Austrian Fiscal Council, suggests that the current design of the data base suffers mainly from an incomplete coverage of subsidies and a limited access for stakeholders (the latter has, however, been improved with the recent amendment).[5] Furthermore, several initiatives included in the 2017 Financial qualisation Law are still ongoing. These include spending reviews, benchmark systems and task-oriented financing at the subnational level. Finally, the law on the reorganisation of social insurance funds is currently subject to examinations by the Austrian Constitutional Court.

The Council also recommened to Austria to shift taxes away from labour to sources less detrimental to inclusive and sustainable growth. Austria's tax structure relies heavily on taxes on labour with social contributions representing the largest share of the tax wedge. Against that background, several adopted measures in the context of the Personal Income Tax Act 2020 will contribute to lower the tax burden on labour income (see Box 2).

6. OVERALL CONCLUSION

According to the Commission 2019 autumn forecast, Austria is expected to meet the debt reduction benchmark both in 2019 and 2020.

Based on both the information contained in the Draft Budgetary Plan and the Commission 2019 autumn forecast, the structural balance is expected to meet the medium-term budgetary objective both in 2019 and 2020.

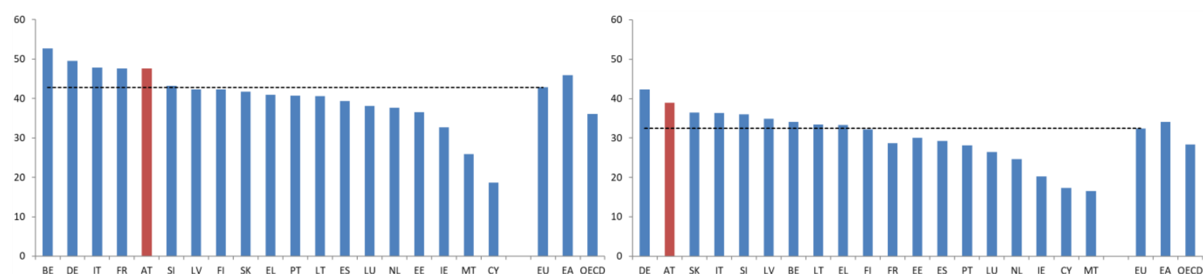
[5] See Grossmann (2018): Subsidies in Austria: Definitions, spending levels and suggestions for improving efficiency, Study commissioned by the Austrian Fiscal Council, https://fiskalrat.at/en/publications/other-studies.html.

Box 2. Addressing the tax burden on labour in the euro area

The tax burden on labour in the euro area is relatively high, which weighs on economic activity and employment. Against that background, the Eurogroup has expressed a commitment to reduce the tax burden on labour. On 12 September 2015, the Eurogroup agreed to benchmark euro area Member States' tax burden on labour against the GDP-weighted EU average, relying in the first instance on indicators measuring the tax wedge on labour for a single worker at average wage and a single worker at low wage. It also agreed to relate those numbers to the OECD average for purposes of broader comparability.

The tax wedge on labour measures the difference between the total labour costs to employ a worker and the worker's net earnings. It is made up of personal income taxes and employer and employee social security contributions. The higher the tax wedge, the higher the disincentives to take up work or hire new staff. The graphs below show the tax wedge in Austria for a single worker earning respectively the average wage and a low wage (50% of the average) compared to the EU average.

The tax burden on labour in Austria at the average wage and at low wage (2018)



Notes: EU and EA averages are GDP-weighted. The OECD average is not weighted.
Source: European Commission Tax and Benefit Indicator database based on OECD data.

Benchmarking is only the first step in the process towards firm, country-specific policy conclusions. The tax burden on labour interacts with a wide variety of other policy elements such as the benefit system and the wage-setting system. A good employment performance indicates that the need to reduce labour taxation may be less urgent while fiscal constraints can dictate that labour tax cuts should be fully offset by other revenue-enhancing or expenditure-reducing measures. In-depth, country-specific analysis is necessary before drawing policy conclusions.

In the context of the 2019 European Semester, Austria received the country-specific recommendation to shift taxes away from labour to sources less detrimental to inclusive and sustainable growth.

Against that background, Austria's Draft Budgetary Plan contains the following new measures that reduce the tax wedge on labour. Firstly, as of January 2020, the tax wedge for low-income earners will decrease by reduced health contributions for self-employed and farmers as well as an increased pensioners' tax credit. In addition, tax allowances for disabled people will increase. Secondly, as of 2021, an increase of the traffic tax credit and a higher reimbursement of social security contribution for employees and pensioners (so called negative tax) will further decrease personal income tax payments. The cumulative budgetary impact of these measures amounts approximately to 0.08% and 0.07% of GDP in 2020 and 2021, respectively.