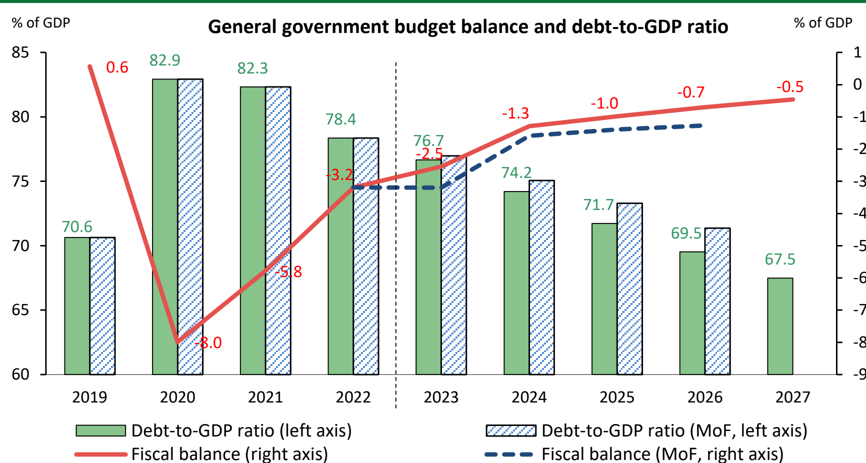
EXECUTIVE SUMMARY, RECOMMENDATIONS AND MAIN RESULTS OF THE FISCAL RULES COMPLIANCE REPORT FOR AUSTRIA FOR 2022 TO 2027 (JUNE 2023)

- In view of the marked improvement in the medium-term economic outlook since fall 2022, the Austrian Fiscal Advisory Council has reassessed Austria's budget path. Unlike in its fall 2022 forecast, the Fiscal Advisory Council now considers a continuous improvement of Austria's fiscal balance possible as long as the Austrian federal government does not approve any new expenditure increases or revenue cuts. Starting from 3.2% of GPD in 2022, Austria's budget deficit will shrink to 2.5% of GDP in 2023 under this "no policy change" assumption and is assumed to continue to decline, reaching 0.5% of GDP by 2027.
- Strong nominal GDP growth will drive up government revenue significantly in 2023 although real GDP growth remains weak. According to the latest forecast published by The Austrian Institute of Economic Research (WIFO), the Austrian economy will pick up between 2024 and 2027, supporting robust revenue growth in the medium term. High inflation, in contrast, will lead to higher expenditures, which will peak with a lag in 2024 given the indexation of cash social benefits.
- In 2023, the volume of expenditures for economic policy measures will remain high, at EUR 18.9 billion, with expenditures on inflation relief measures making up the lion's share. The Fiscal Advisory Council forecasts support measures to decline substantially in subsequent years and to result in a fiscal impact of EUR 7.4 billion, or 1.3% of GDP, in 2027, under current legislation.
- The Fiscal Advisory Council expects a significantly lower budget deficit in 2023 than the Austrian Federal Ministry of Finance, which forecasts a deficit of 3.2% of GDP under the current stability program. This difference is mainly due to the Fiscal Advisory Council's more optimistic assessment of direct tax revenues and its assumption of lower estimated costs of support measures needed to mitigate high energy prices.
- The Fiscal Advisory Council forecast projects Austria's government debt to come to 76.7% of GDP in 2023. In 2026, Austria's debt-to-GDP ratio will fall below 70% for the first time since the financial crisis of 2008/09. A key driver of this decline will be nominal GDP growth, which means that it will be largely attributable to inflation rather than economic policy.
- Already in 2023, Austria's budget deficit and the reduction of its general government debt ratio will be in line with the Maastricht criteria laid down in the European Union's Stability and Growth Pact. Moreover, the general escape clause, which allows member states to deviate from structural budget requirements in order to actively deal with crisis events in an adequate manner, still applies this year. At the same time, a reform of the European fiscal framework, which is to rely on net primary expenditure as a new key indicator, is currently in preparation.



Source: Statistics Austria, FISK spring forecast 2023 and Stability Programme 2022 to 2026. MoF = Ministry of Finance.

FISKALRAT
Austria

RECOMMENDATIONS BY THE FISCAL ADVISORY COUNCIL ON AUSTRIA'S BUDGET POLICY FOR 2023

Be ambitious in reducing budget deficits

Background: Austria has been running high annual budget deficits since 2000, due to necessary support measures during the COVID-19 pandemic and following the sharp rise in prices. Austria's Federal Ministry of Finance envisages continuous budget deficits also for the next three years, even though crisis-related measures are being phased out, the economic environment is expected to be favorable and labor market developments have been robust. The Ministry of Finance thus pursues an expansionary fiscal policy that goes beyond its cyclical stabilization function, as the high level of public spending cannot be justified by cyclical reasons. The Ministry of Finance also plans for significant structural budget deficits over the entire budgeting horizon. The projected decline in Austria's debt-to-GDP ratio is largely attributable to high nominal GDP growth and, thus, to high inflation. The continuous budget deficits will prevent faster debt reduction.

Recommendations:

- There is currently no need to use budgetary resources to support economic development in Austria. The Fiscal Advisory Council therefore recommends that the federal government implement an ambitious budget path to ensure the swift reduction of the debt-to-GDP ratio. Moreover, the coordination of monetary and fiscal policies should be improved.
- With temporary crisis-related measures being phased out, a rapid return to the medium-term objective (MTO) of balanced budgetary positions should be aimed for.
- Economic policy measures other than future-oriented investments should be financed through current budgets.

Create budgetary scope for addressing fiscal risks and medium-term challenges

Background: Austria's debt-to-GDP ratio increased significantly from 70.6% of GDP in 2019 to 78.4% in 2022 as a result of the latest multiple crises and the related government support measures. This rise was accompanied by a relative deterioration in Austria's credit rating, which contributed to higher spreads between Austrian and German government bonds and drove up financing costs. In addition, urgent climate action investments, climate-related budgetary risks, progressing demographic change and a further rise in interest expenditure will weigh heavily on public finances.

Recommendations:

- Priority should be given to the sustained reduction of government debt in order to regain the fiscal space needed to combat potential future crises and address the host of economic, health, climate and social policy challenges.
- The continuous rise in government spending on long-term care, which has demographic reasons, should be addressed by improving the organization of long-term care services (e.g. better coordination between local, regional and federal authorities) and implementing a sustainable financing model.
- There must not be any ad hoc legal interventions in the pension system that would endanger its sustainability and, thus, the sustainability of Austria's public finances.

Use new revenue sharing agreement to raise cost efficiency especially in health care

Background: Given the prolongation of the Revenue Sharing Act (Finanzausgleichsgesetz – FAG) 2017–2021 by two years, necessary reforms aimed to simplify the complex financing structure of federal, regional and local governments and social security funds have been postponed yet again. While regional governments cover the cost of inpatient treatment (including hospitals' outpatient departments), social security funds finance outpatient treatment by registered doctors. Steps taken to prepare a federal state reform, a reform of the property tax and efficiency-increasing measures for government functions have not yet yielded any results. In future, government spending on long-term care and health care is bound to rise significantly as demographic changes, climate change and medical technology advance. Health care costs are already elevated and will continue to rise, given that the health level of Austrians aged 65+ is below average by European standards (source: Eurostat, EU-SILC). Since access to studies at public medical universities in Austria was restricted in the 2005/06 academic year, the number of medical graduates has decreased significantly (Austrian Court of Audit, 2021).

Recommendations:

- Revenue sharing must contribute to making the organization and financing of health care more efficient. For instance, funding will have to be merged and the management and planning of all health care should be well coordinated and binding.
- Measures should be taken to strengthen public health, with a focus on disease prevention and health promotion, in order to reduce both the related fiscal pressure and the burden on Austria's health care infrastructure. In this context, the Court of Audit's recommendations for disease prevention and health promotion as well as Statistics Austria's evaluation of the fit2work project should be taken into consideration (e.g. ensuring sustainable financing for effective projects in priority action areas).
- To ensure the provision of health care in Austria, access to medical universities must be realigned with demand for health care in the various medical disciplines, and action must be taken to reduce the high share of medical graduates that do not work in their profession, neither in Austria nor abroad. Adequate framework conditions must be implemented to ensure that doctors are willing to work in public health care.
- Moreover, the revenue sharing negotiations have the potential to increase efficiency in a number of other areas apart from health care (see recommendations of December 2022).

Swiftly implement climate action and boldly expand related measures to reduce additional spending in the long term

Background: The Environment Agency Austria (2023) found that Austria is set to miss the EU-wide emission targets by a significant margin given the scope of climate protection measures adopted so far. Austria will not manage to reduce its greenhouse gas emissions by 48% by 2030 against 2005 levels, as required, even if it implements measures that have already been envisaged. This means that high costs must be expected for purchasing emission certificates or paying penalties. Moreover, climate change entails further budgetary risks (investment costs, follow-up costs in health care, economic consequences of extreme weather events, etc.).

Recommendations:

- To proceed toward achieving national and international climate targets, Austria needs to adopt a comprehensive set of measures and create the necessary legal basis. As a case in point, the Climate Protection Act, the Energy Efficiency Act and the Renewable Heat Act must be passed without delay.

- The draft national energy and climate plan, which Austria must submit to the European Commission by end-June 2023, must contain all measures that have already been taken to ensure clarity in assessing any need for additional action.
- The steering effects of higher energy prices should be used and reflected in designing regulation plans and calculating compensation payments.
- Purchases of emission certificates and penalty payments may become necessary and further climate-related costs will weigh on the budget. The necessary quantities of budgetary resources will have to be allocated to urgent climate investments considering cost efficiency. In addition, the necessary legal and administrative framework for absorbing public funds will have to be created.
- When choosing appropriate measures to achieve the additional greenhouse gas reduction needed, the cost efficiency of the various available technologies must be taken into account. Regulatory policymaking and awareness-raising measures that do not have a strong impact on the budget should be given priority, giving due consideration to the related adjustment costs for parties concerned. As regards subsidization strategies, care must be taken to avoid deadweight losses.
- It will take additional public and private sector investment in cost-efficient and effective emission reduction (e.g. in building renovation, restructuring mobility systems), and there is also a need for the respective legal frameworks to be put in place. However, the public sector should also focus on expanding public seed investments and complementary investments (e.g. in network infrastructure).
- With regard to the distribution of costs within Austria, a solution will have to be found in the revenue sharing negotiations. Ultimately, adequate involvement of the European institutions will need to be ensured as well.

Phase out broad temporary anti-inflationary measures and ensure that any future support measures effectively target the intended social groups

Background: The fiscal impact resulting from inflation relief measures was EUR 7.3 billion in 2022. The Fiscal Advisory Council expects the volume of these measures to rise to EUR 11.7 billion in 2023, above all due to the new support measures for businesses adopted at end-2022. Essentially, the temporary inflation relief measures have to be seen as stopgap measures, however. For households, they serve to secure real purchasing power until wage increases and social benefits are adjusted to inflation. Following pronounced losses in real wages in 2022, average wage-based incomes per capita have been going up more strongly than consumer prices in 2023, thus eliminating the need for broad-based support measures. Manifest poverty is on the rise in Austria, however, as has been confirmed by empirical evidence. For businesses, the support measures are intended to ensure competitiveness, which is threatened by high energy prices. With energy prices currently on the decline and businesses adjusting to the new market conditions, the need to support Austrian companies is diminishing as well. Moreover, support measures that are not well targeted might spur inflation.

Recommendations:

- Temporary anti-inflationary measures must be phased out consistently. Moreover, no new broad-based support measures should be adopted, and newly envisaged measures should be reconsidered before adoption.
- New support measures should strictly target only vulnerable groups (persons on unemployment benefits, long-term unemployment assistance, social assistance and means-tested top-up benefits). To be able to plan such measures, it is important to build a household income data base. Preparations for such a data base are well advanced and should be followed by rapid

implementation. If necessary, greater care must be taken to ensure that benefits are readily available and can be easily obtained.

- Furthermore, to actively fight poverty in Austria, the level of social transfers should be reviewed to ensure that income from transfers maintains its real purchasing power. Temporary support is needed to safeguard the real value of unemployment benefits until collectively agreed wage increases will be reflected in the level of unemployment benefits. In this context, it is key to keep persons on long-term unemployment assistance away from manifest poverty.
- The set of measures adopted by the federal government (anti-inflationary measures for families) is in line with the aim of fighting poverty risk, in particular of groups exposed to inflation. Whether this leads to a sustainable reduction of poverty in Austria remains to be seen.

Align domestic fiscal rules with EU rules as soon as possible and ensure that they support governance

Background: In the face of multiple crises and in line with the approach taken at EU level, Austria activated the "general escape clause," which allows for a temporary coordinated and orderly deviation from structural budget requirements. Accordingly, the evaluation of compliance with national fiscal rules under the Austrian Stability Pact (ÖStP) 2012 – and thus the determination of any breaches that would entail financial sanctions – was suspended for the years from 2020 to 2023. Once the general escape clause will be deactivated as of end-2023, relevant EU and national rules will become applicable again, pending the implementation of the legislative package reforming the EU's Stability and Growth Pact (SGP), which is currently under discussion. On the basis of the ÖStP 2012, structural improvements or structural budget surpluses should be projected in the 2024 budget for the regional government of Vorarlberg and the municipalities of Tyrol and Vorarlberg, provided that a positive change in the output gap is expected at the time of budget preparation.

Recommendations:

- Once the EU's SGP legislative package has been finalized, immediate consideration must be given to its implementation in Austria in order to establish a consistent and effective fiscal framework coordinating all levels of government. Providing a simplified set of rules and improved governance instruments, this fiscal framework should support the return to sound budgetary and debt paths for all levels of government.
- For the transition period (especially for 2024) between the deactivation of the general escape clause and the entry into force of the new EU fiscal framework, it must be examined whether the necessary, cyclically appropriate reduction of excessive control account deficits as of end-2019 is expedient or whether alternative procedures would be more appropriate.
- Debt reduction paths should take into account the new debt levels and debt composition resulting from the multiple crises.
- Compliance with the general government debt rule under the EU's SGP should not obscure the need for action at the subsectoral level in Austria. While compliance with the general government debt rule laid down in the SGP automatically means that Austria fulfills the debt criterion under Article 10(7) ÖStP 2012, the parties to the ÖStP 2012 should avoid relying on the fulfillment of the SGP requirements alone as this undermines the intention of Austria's fiscal framework of defining subsectoral contributions or budget requirements and requiring compliance therewith.

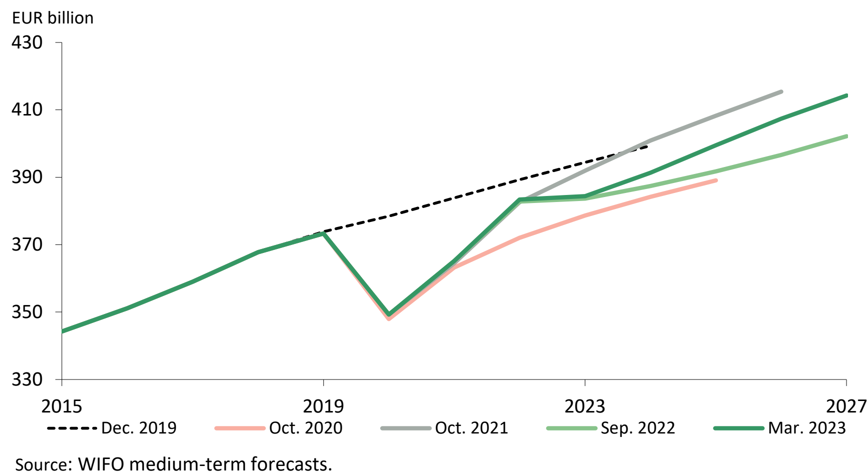
MAIN RESULTS OF THE FISCAL RULES COMPLIANCE REPORT

In recent years, economic policymaking has been driven by the need to respond to a succession of crises. At present, the focus of economic policy interventions is shifting from pandemic-related support measures to measures that help cushion the sharp rise in inflation and mitigate inflationary effects. As a consequence, the budgetary burden resulting from support measures will remain very high also in 2023. Based on current legislation, a significant reduction in support-related budgetary expenditures can therefore only be expected for 2024.

Given the improved medium-term economic outlook, Austria is likely to achieve its medium-term objective (MTO) by 2027

Geopolitical and economic uncertainties and related downside risks to economic growth are generally deemed to have diminished since the fall of 2022. The medium-term economic outlook – based on the latest medium-term forecast published by The Austrian Institute of Economic Research (WIFO) in March 2023 – has improved significantly since last fall as well. Therefore, there has been a qualitative change in the Fiscal Advisory Council's assessment of Austria's medium-term fiscal path: In its current forecast, the Council expects Austria's fiscal balance to improve continuously instead of moving sideways in the medium term, as was expected in the fall forecast. Starting from a general government deficit of 3.2% of GDP in 2022, Austria's fiscal balance is projected to decline to –2.5% in 2023 and –1.3% in 2024. Austria is likely to achieve its medium-term budgetary objective (MTO) of –0.5% of GDP (under current EU fiscal rules) by the end of the forecast horizon in 2027. This assessment is based on the current economic outlook for Austria and the assumption that the Austrian government will not take any further economic policy measures ("no policy change" assumption). Moreover, with inflation driving up nominal GDP, we expect Austria's debt-to-GDP ratio to decline continuously and significantly, dropping to below 70% from 2026 onward.

Chart 1: Medium-term real GDP forecasts since December 2019



Source: WIFO medium-term forecasts.

Robust labor market developments and high inflation will support Austria's fiscal performance in 2023 despite currently weak economic activity

After the current slowdown, the Austrian economy is anticipated to feel the global economic upswing as from the second half of 2023. For 2023 as a whole, much like in its last macroeconomic forecast, WIFO expects economic growth in Austria to remain weak (real GDP growth: +0.3%), with high inflation and a restrictive monetary policy stance hampering the recovery that is expected to result from easing tensions in energy markets. However, the pick-up in economic activity from 2024 onward will be much stronger than forecast in the fall, meaning that real GDP is estimated to be 3% higher at the end of the

forecast horizon in 2027 than estimated in the fall (Chart 1). Taken in isolation, this effect leads to an improvement in the fiscal balance by EUR 3.1 billion in 2024 and by as much as EUR 6.2 billion in 2026 in the Fiscal Advisory Council's spring forecast (compared with the latest fall forecast).

From a fiscal perspective, the current economic situation is more favorable than suggested, at first glance, by this year's real GDP growth. Nominal household consumption expenditure (2023: +8.3%) and nominal wage settlements – downstream of inflation developments – remain high and employment is robust (compensation of employees in 2023: +8.9%). This means that consumption-related taxes, such as value-added tax and other excise taxes, and wage-related taxes, such as social security contributions, wage taxes and contributions to the Family Burden Equalization Fund, will continue to rise significantly, but at a slowing pace, in subsequent years. As the Austrian Income Tax Act has been indexed to inflation since 2023 (thus eliminating bracket creep), wage tax revenues are now – apart from further discretionary intervention – more or less following the development of employee compensation. In the current high inflation environment, nonindexation would have resulted in historic wage tax revenue growth (2023: +11.6%, 2024: +15.6%). Despite a decline in unemployment figures, spending on unemployment benefits will still increase slightly in 2024 due to inflation-related wage increases in the current year. From 2025 onward, labor market recovery will also be reflected in declining expenditures. Despite a favorable profit performance, revenues from profit-related taxes (corporate income tax and assessed income tax) are expected to be less dynamic in the years ahead, as the release of crisis-induced pent-up demand led to exceptionally high revenues already last year.

Table 1: Budgetary impact of selected measures

Selected measures (absolute budgetary effect vs. 2019* in EUR billion)	2022	2023	2024	2025	2026	2027
Economic stimulus and COVID-19-related measures	-8.8	-4.2	-2.6	-1.7	-0.8	-0.5
Eco-social tax reform	-3.0	-4.4	-5.8	-6.2	-6.0	-6.0
Inflation relief measures	-7.3	-11.7	-2.0	-1.0	-1.0	-1.0
Solidarity contributions from energy sector	0.5	2.2	-0.4	0.0	0.0	0.0
Strategic gas reserve	-3.8	-0.1	-0.1	0.0	0.0	0.0
Defense budget increase	0.0	-0.7	-1.1	-1.5	-2.0	0.0
Total	**-22.5**	**-18.9**	**-12.0**	**-10.4**	**-9.8**	**-7.4**
Total (% of GDP)	**-5.0**	**-3.9**	**-2.4**	**-1.9**	**-1.7**	**-1.3**
of which: revenue-based (% of GDP)	-0.9	-1.0	-1.3	-1.2	-1.0	-0.9
of which: expenditure-based (% of GDP)	-4.1	-2.9	-1.1	-0.8	-0.7	-0.3

*) Negative values correspond to a deficit increase. This table only shows measures that had a budgetary impact in 2020 or later.
Source: FISK estimation based on official budget data (e.g. impact assessments).

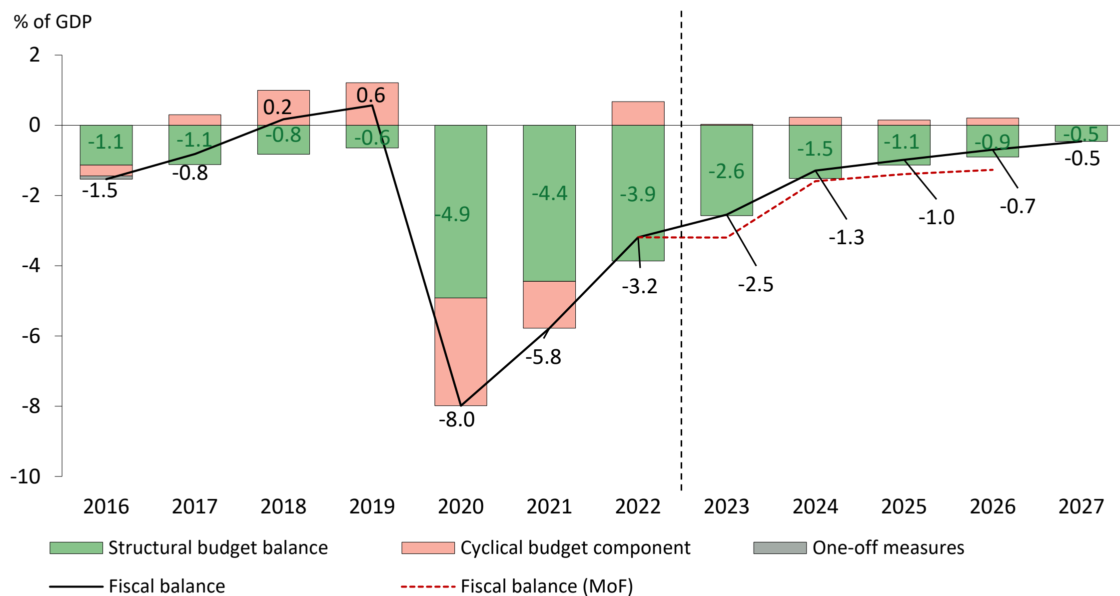
High inflation is also leading to stronger expenditure increases, e.g. of expenditures on cash social benefits such as pensions and family benefits, which will peak at +7.7% only with a lag, in 2024, given indexation on the basis of the inflation rates of the two preceding years. Social transfers in kind, such as health care provided by registered doctors, are also expected to experience lagged effects of high inflation, albeit to a lesser extent.

Interest expenditure on government debt will rise to EUR 8.4 billion by 2025, almost doubling from the level of 2022. This increase will be dampened only slightly by higher investment income received and investment income tax revenues. The main reason for this development is the projected level of long-term interest rates – according to WIFO, rates will rise to 6.0% and 5.7% in 2024 and 2025, respectively – which is well above the average interest rate for maturing government bonds observed during the low interest rate period in recent years. However, interest payments relative to GDP will remain at a historically moderate level of 1.7% until the end of the forecast horizon (2027).

Crisis management measures continue to have strong budgetary impact in 2023

The extensive fiscal measures taken in response to the crises will weigh on the budget with EUR 18.9 billion, or 3.9% of GDP (Table) in 2023. While the impact of economic stimulus measures and direct COVID-19-related action adopted during the pandemic has been declining significantly, the size of inflation relief measures will increase to EUR 11.7 billion in total. The focus here is on government spending that reduces, or compensates for, energy costs incurred by households and businesses, such as the electricity price cap and subsidies on energy bills for the year 2023. The budgetary impact of these inflation relief measures will be cushioned, however, by the temporary solidarity contributions collected from fossil fuel companies. Under current legislation, the volume of expenditure-side measures related to the COVID-19 and energy crises will decline significantly to EUR 4.6 billion in 2024.

Chart 2: Austria's structural balance and its components from 2016 to 2027



Sources: Statistics Austria, FISK spring forecast 2023 and Stability Programme 2022 to 2026.

In the subsequent years up to the end of the forecast horizon, the impact of fiscal measures on Austria's budget is projected to decrease to EUR 7.4 billion, or 1.3% of GDP, mainly on account of our "no policy change" assumption. The Fiscal Advisory Council's forecast assumes that, in addition to the eco-social tax reform, the long-term measures that will still have an impact in 2027 will include, above all, the increase in the defense budget as well as climate-related subsidies (e.g. under the housing renovation plan and the measures promoting energy efficiency and the use of photovoltaics).

Forecast for Austria's fiscal balance more optimistic than stability program

Given the reduction of the budgetary burden caused by temporary economic policy measures and the revenue gains resulting from high nominal GDP growth, we expect Austria's general government deficit to decline from 3.2% of GDP in 2022 to 2.5% in 2023 (Chart 2). A further significant improvement in the fiscal balance to –1.3% of GDP is anticipated for 2024. Assuming the discontinuation of the extensive crisis-related economic policy measures combined with decelerating inflation and stable economic activity, we expect the Austrian budget to continue to recover in the years from 2025 to 2027. We forecast Austria's fiscal balance to come to –0.5% of GDP at the end of the forecast horizon. At a growth rate of 2.1%, Austria's GDP in 2024 will slightly exceed potential output, thus creating a marginally positive output gap that will close in subsequent years[1]. Adjusted for the (also relatively minor) cyclical

[1] According to the European Commission's closing rule.

budget component, the structural balance will therefore come close to the fiscal balance; in 2027, the two will be identical.

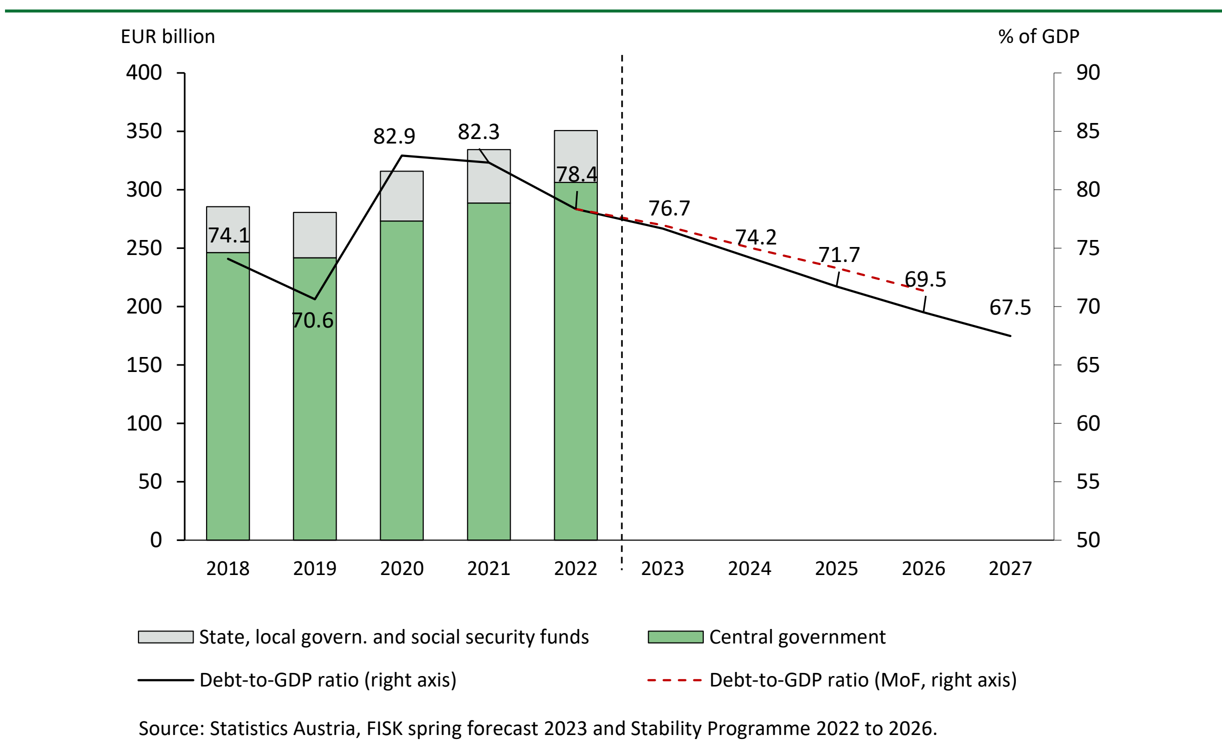
Chart 2 also shows the expected path of the fiscal balance in the stability program (dashed red line). In contrast to the Fiscal Advisory Council, the Austrian Federal Ministry of Finance expects Austria's public deficit to be significantly higher in 2023, coming to 3.2% of GDP. On the one hand, the Ministry's estimate of revenues from direct taxes is more pessimistic. On the other hand, assumptions differ as regards the budgetary costs of subsidies related to energy costs incurred by households and enterprises (energy bill subsidies for 2023 and electricity price cap): The Fiscal Advisory Council expects expenditures on subsidies to decline by 0.6% of GDP. For the years after 2023, the fiscal balance forecasts of the Fiscal Advisory Council and the Federal Ministry of Finance deviate to a smaller extent, namely by between 0.3 % (2024) and 0.6 % (2026).

Table 2: Main results of Fiscal Advisory Council spring forecast and the stability program

			FISK spring forecast 2023				
% of GDP	2021	2022	2023	2024	2025	2026	2027
Fiscal balance	**-5.8**	**-3.2**	**-2.5**	**-1.3**	**-1.0**	**-0.7**	**-0.5**
Cyclical budget component	-1.3	0.7	0.0	0.2	0.2	0.2	0.0
One-off and other temporary measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Structural budget balance	**-4.4**	**-3.9**	**-2.6**	**-1.5**	**-1.1**	**-0.9**	**-0.5**
Real GDP (%, year on year)	4.6	5.0	0.3	1.8	2.1	2.0	1.7
Potential output (%, year on year)	1.3	1.4	1.4	1.5	1.3	1.2	1.3
Output gap	-2.3	1.2	0.0	0.4	0.3	0.1	0.0
General government debt	**82.3**	**78.4**	**76.7**	**74.2**	**71.7**	**69.5**	**67.5**
Memo: Fiscal balance (MoF)	***-5.8***	***-3.2***	***-3.2***	***-1.6***	***-1.4***	***-1.3***	--
Memo: General government debt (MoF)	***82.3***	***78.4***	***77.0***	***75.1***	***73.3***	***71.4***	--

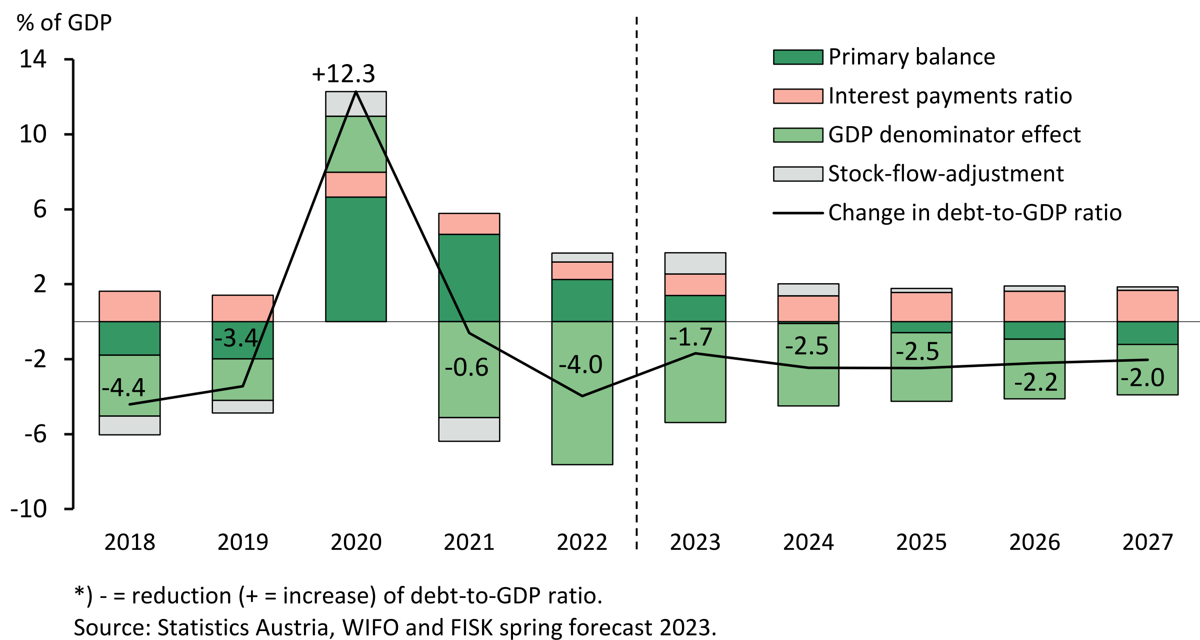
Source: FISK spring forecast 2023, Stability Programme 2022 to 2026, WIFO and Statistics Austria.

Chart 3: Austria's public debt (Maastricht definition) from 2018 to 2027



Source: Statistics Austria, FISK spring forecast 2023 and Stability Programme 2022 to 2026.

Chart 4: Components contributing to changes in Austria's debt-to-GDP ratio*) from 2018 to 2027



*) - = reduction (+ = increase) of debt-to-GDP ratio.
Source: Statistics Austria, WIFO and FISK spring forecast 2023.

Austria's debt-to-GDP ratio to drop below 70% in 2026 for the first time since 2008/09 financial crisis

The Fiscal Advisory Council's forecast projects Austria's public debt to come to 76.7% of GDP in 2023 and to go down substantially over the forecast horizon, dropping to below 70% of GDP in 2026 for the first time since the 2008/09 financial crisis (Chart 3) and remaining below that level thereafter. Austria's Federal Ministry of Finance, by comparison, expects a more moderate decline, projecting public debt to come to 71.4% of GDP in 2026. As Chart 4 shows, the decline in the debt-to-GDP ratio will be driven mainly by nominal GDP growth (GDP denominator effect). This effect outweighs rising interest payments, whose debt-increasing impact is set to increase to 1.7% of GDP by 2027. The primary balance, which was the main reason for the strong rise in Austria's public debt in 2020 and continued to hamper debt reduction even in 2021 and 2022, will be positive in 2024 and will help reduce the debt-to-GDP ratio until 2027. Table provides an overview of the main results of the Fiscal Advisory Council's spring forecast and a comparison with the Ministry of Finance's forecast.

Austria will comply with both Maastricht criteria from 2023 onward

According to the Fiscal Advisory Council's spring forecast, both Austria's general government fiscal path and the reduction of its general government debt ratio (Maastricht criteria) will comply with the requirements of the EU's Stability and Growth Pact (SGP) as from 2023. Once the general escape clause will have been deactivated, the structural budget requirements would start to apply again from 2024; they are not expected to be met in 2025 and 2026. However, it can be assumed that the reform of the fiscal framework will rely on net primary expenditure as the new key indicator. This reform is currently negotiated at EU level and could already make an impact on the European Semester of fiscal policy coordination in 2024.

Furthermore, it remains to be seen to what extent the Austrian Stability Pact (ÖStP) can be usefully applied in the transitional period between the deactivation of the general escape clause and the finalization and implementation of the new EU fiscal framework. The ÖStP regulates the contributions of local and regional authorities to meeting the general government budget targets required by the EU.