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The Fiscal Advisory Council calls for stricter limitation of financial risks and comparable fiscal data for regional and local governments

Some Austrian cities and municipalities as well as some Austrian provinces report high **contingent liabilities resulting from the issuance of guarantees, warranties, letters of comfort, etc.** and high levels of **foreign currency-denominated debt**. In the view of the Fiscal Advisory Council, such instruments ought to be subject to stricter limitations, regular risk monitoring and transparent disclosure.

As pointed out repeatedly by the **Court of Audit** and the **Fiscal Advisory Council,** the inconsistent use of terminology and reporting/accounting standards by regional and local governments does not permit a comprehensive view of the actual amount of financial risks incurred. The latest findings of the **Court of Audit** regarding the caps imposed for regional and local government guarantees under the Austrian Stability Pact 2012 would underline once more that the existing caps for guarantees do not limit risk-taking sufficiently, and that there is a need for comparable data on the fiscal positions of regional and local governments.

Two studies commissioned by the **Fiscal Advisory Council** in 2009 and 2013 on **risk management by local governments and supervisory control of municipalities in Austria** and **the effectiveness of caps on government guarantees** have highlighted several deficiencies with regard to risk limitation and transparency:

- In the majority of **provinces,** the **volume of contingent liabilities arising from guarantees, etc.** was a multiple (up to 20 times the amount) of public tax revenues in 2011 (section 92 of the budgeting and accounts regulation) . Hence, higher calls on guarantees might pose an excessive burden on public households.

- Evidently, the implementation of the commitment to **limit contingent liability risks from guarantees at the regional government level** as agreed in the Austrian Stability Pact 2012 did not live up to the original intention of providing for an effective limitation of risks. Regional or local government guarantees for regional or local government-controlled entities, which tend to dominate the contingent liability portfolio, have been assigned a low default risk (in some instances, risk weights are as low as 0.0 or 0.1). This approach allows regional and local governments to meet the caps imposed for guarantees without limiting risk in a meaningful manner.

- With regard to **local governments, contingent liabilities arising from equity ownership**, which are not covered by the cap for guarantees because they constitute implicit guarantees, account for a substantial share of the budgetary risk.

- **The share of foreign currency-denominated debt of local governments,** while probably playing a minor role on average, is high in some municipalities. Yet **foreign exchange risks** are risks that **public debt managers** are in a position to avoid, which is not an option with other risks.

- So far, there is no **official overview** of the amount and composition of regional and local government **foreign currency-denominated debt** (for Austria as a whole and for each province individually).