SUMMARY AND CONCLUSIONS

Weak Economic Environment and Declining Country Risk Premiums in 2013

- Real GDP in the **euro area** contracted by 0.4% year on year (Eurostat data) in 2013, whereas EU-28 GDP stagnated at +0.1%. During the second or third quarter of 2013, most euro area countries returned to positive **growth rates**.

- The **Austrian economy** passed through a phase of slow growth (real GDP in 2013: +0.4%). Having shrunk during the first three quarters of 2013, private consumption and gross fixed capital formation started to provide a positive contribution to GDP growth in the fourth quarter. **Net exports** made the largest contribution to **Austria's economic growth** in 2013.

- The Austrian **unemployment rate** (Eurostat definition) climbed to 4.9% and remained the lowest rate in the EU throughout 2013. Developments in the **labor market** were still characterized by simultaneous employment growth and rising unemployment, with unemployment augmenting more than employment.

- Progress in implementing **banking union** helped stabilize the financial markets in 2013. The regulation **conferring specific tasks on the ECB in connection with the prudential supervision of credit institutions** in the euro area (Single Supervisory Mechanism) entered into force in November 2013. In March 2014, a compromise on a **Single Resolution Mechanism** for credit institutions was achieved. Agreement was also reached on the establishment of harmonized national **deposit guarantee schemes** at the end of 2013, which paved the way for an amendment of the EU Directive on deposit guarantee schemes.

- The **decline in country risk premiums** was a clear sign that Europe is gradually overcoming the economic, financial and debt crisis. The **issuing yield** for **Austrian government bonds** fell to a **historically low average** of 1.8%. The annual average country-specific risk premium for Austrian ten-year government bonds fell to 36 basis points below the German premium in 2013 (2012: +80 basis points). In November 2013, the Governing Council of the ECB cut the **key interest rate on main refinancing operations** to 25 basis points.

New EU Fiscal Governance in Force since 2013

- The **EU fiscal governance** was strengthened against the background of the financial, economic and sovereign debt crisis and was laid down in three legislative packages. Several elements came into force in 2013 (section 3.1 of the Annual Report):

  - The **EU's "sixpack,"** consisting of five EU Regulations and one Directive. The **minimum standards for the fiscal architecture** (including greater transparency, national fiscal rules, a budget framework with a planning horizon of at least three years, national control and coordination mechanisms) were scheduled for transposition into national law by the end of 2013.

  - **Fiscal Compact** (Treaty on Stability, Coordination and Governance in the Economic and Monetary Union – Fiscal Stability Treaty) to strengthen **budget discipline at the national level**, in which the structural deficit medium-term budgetary objective (MTO) was set at 0.5% of GDP (in force since the beginning of 2013).

  - The **EU's "twopack"**: more stringent ex ante and regular **control procedures for monitoring and surveillance of euro area countries' budgets** (in force since May 2013). These two regulations include, among other things, provisions on **draft budgetary plans** (for example, the evaluation of the draft budgets by the European

Commission every October prior to enactment of the budgets). Moreover, independent **national institutions** (**“independent fiscal institutions**”) to monitor compliance with the **current and the medium-term budget path** and compliance with the **numerical fiscal rules** were to be established by the end of October 2013.

- In Austria, the **Government Debt Committee** was entrusted with monitoring Austria’s compliance with the EU fiscal rules on the basis of an amendment (Federal Law Establishing the Fiscal Advisory Council; Federal Law Gazette I No. 149/2013) and was reestablished as the **Fiscal Advisory Council**. A first report on compliance with the fiscal rules from 2013 to 2018 (**Fiscal Rules Compliance Report 2014**) was published in May 2014. The **national fiscal rules**, which are largely identical with the EU fiscal rules, were enshrined in law in the **2012 Austrian Stability Pact** (section 3.2 of the Annual Report).
- Stronger corrective action under the reinforced corrective arm of the Stability and Growth Pact (SGP), i.e. an **excessive deficit procedure (EDP)**, will only be initiated if the **Maastricht criteria** are violated (i.e. if the **deficit threshold** of 3% of GDP is permanently exceeded or if the **debt ratio** is above 60% and no sufficient corrections are taken).
- The new fiscal rules on the **development** of the **structural balance** (= cyclically adjusted budgetary position net of one-off and temporary measures) and (real) **government expenditure** determine the budget path which must be observed. In the event of a **“significant deviation”** from the defined fiscal path (EU definition), **early warning mechanisms** will be triggered (e.g. a catalogue of EU measures with deadlines, an automatically triggered correction mechanism at the national level, opinions by fiscal advisory councils, etc.).
- Once the MTO of a structurally balanced budget has been reached, maintaining this level should contribute to a **cyclically adequate, countercyclical orientation of fiscal policy** in the Member States, which used to be the exception. In **Austria**, the maximum target of a **structural budget deficit** of no more than **0.45% of GDP** was established.
- The **structural budget balance** calculated is subject to **considerable uncertainty**, and the previous years’ result is frequently **revised**. These uncertainties result from the different calculation methods and from economic forecasts, but also from the fact that potential output is not a directly observable aggregate but much rather an analytical indicator. The reasons for these uncertainties also explain why the structural budget balance figures of the different institutions – European Commission, IMF, OECD, Austrian Institute of Economic Research – differ.

2013 General Government Budget Deficit Lower than Projected

- Despite the **weak economy** (real GDP in 2013: +0.4%), the **budget outturn in the review year 2013 outperformed the target in the medium-term consolidation path**, which provides for a balanced budget in Austria by 2016. According to the preliminary result of March 2014, the **general government budget deficit for 2013** came to just 1.5% of GDP instead of the projected 2.3% of GDP. Roughly half of the **improvement** between the estimated result of **March 2013** (–2.3% of GDP) and the **preliminary result of March 2014** (–1.5% of GDP) may be attributed to the federal authorities (including social security funds), the other half to the (summed up) state and local authorities.

- A **tendency to overestimate the Maastricht deficit** at the federal level at the budget planning stage followed by **stricter budget execution**, were observed in previous years as well: From 2005 to 2011, the (planned) Maastricht deficit at the federal level in the respective EDP notification of March was on average EUR 1.6 billion or 46% higher than the preliminary budget result in the finalized accounts of the next year. This cautious overestimation of the Maastricht deficit applies to the overall result for all state and local governments from 2011.

- Whereas **temporary effects** in 2012 (bank support package, ex ante income tax on private pension insurance) had resulted in an increase of the Maastricht deficit by EUR 2.4 billion on balance, such effects **drove down** the Maastricht deficit by EUR 0.8 billion in 2013 (bank support package, revenue from the sale of mobile phone licenses, and tax agreement with Switzerland). In total, these temporary effects reduced the Maastricht deficit by EUR 3.2 billion or 1% of GDP in 2013 compared to 2012.

- The **gap** between real GDP and estimated potential output ran to 0.7% of potential output in 2013 (according to the short-and medium-term forecast of the Austrian Institute of Economic Research of March and February 2014). Given an assumed budget sensitivity of 0.49, **0.4 percentage points (rounded) of the Maastricht deficit** of 1.5% of GDP were attributable to the **cyclical component** (spring 2014 European Economic Forecast of the European Commission: 0.5% of GDP). Once the deficit had also been adjusted for **temporary measures**, which increased the deficit by 0.1% of GDP net, the **structural deficit** in 2013 came to –1.3% of GDP (or, according to the European Commission, –1.1% of GDP). In a year-on-year comparison, the structural budget deficit contracted by 0.5 percentage points.

Government Revenues Grow Faster than GDP in 2013

- Even though economic growth languished in 2013, the additional revenue generated by tax increases and windfalls (above all the tax agreement with Switzerland: EUR 0.7 billion) resulted in a **rise of general government tax revenues according to ESA 95** that, at EUR 3.1 billion or +3.5%, was slightly **above the average** of the past ten years (+3.3% per annum). **Indirect taxes** rose by EUR 0.5 billion or 1.1%. Direct taxes increased somewhat faster, growing by 4.5% or EUR 1.9 billion. In absolute figures, the **volume of tax revenue** amounted to EUR 89.2 billion in 2013.[1]

- The 3.4% year-on-year rise in government revenue at 2.0% nominal economic growth in 2013 further raised the **tax ratio** by 0.7 percentage points to 43.7% of GDP (2012: +0.8 percentage points). The one-off revenues generated by the tax agreement with Switzerland hiked the tax ratio by 0.2 percentage points. The **consolidation-linked revenue measures first introduced in 2011** totaled EUR 3.5 billion in 2013 (Fiscal Rules Compliance Report, table 6 in the German report).

Increase in Government Expenditure is Marginal on Account of Temporary Effects and Consolidation Measures

- General government expenditure totaled EUR 160 billion in 2013, up by EUR 1.9 billion or 1.2% from 2012. This very moderate rise may be attributed in particular to the **proceeds** of EUR 2.0 billion from the **sale of mobile telecommunications licenses**, which reduce expenditure according to ESA. **Without this one-off effect**, expenditure increased by 2.5% in the 2013 reporting year.

- The **moderate rise in expenditure** was also the result of additional **expenditure consolidation measures** (like moderate adjustments of pensions, the increase in the effective age of retirement, the healthcare reform, a wage freeze for some government employees), a **cut** of EUR 0.7 billion of **public funding for nationalized banks** and **strict budget execution**. The measures taken by the federal government since 2011 (net of proactive investment measures) and health reform are likely to have dampened public spending by a total of EUR 1.7 billion in 2013 (Fiscal Rules Compliance Report, table 6 in the German report).

1 Government tax revenue according to ESA 95 (codes: D2, D5 and D91) excluding social security contributions and tax revenues earmarked for the EU budget (EU contributions).

Social Security Expenditure Rises Relatively Strongly in 2013

- **Intermediate consumption** (among other things, education and military spending; total increase of +4.0% or +EUR 0.5 billion) exhibited the highest percentage expenditure increase by ESA sector in 2013, followed by **social benefits**. **Social benefits in cash** augmented by 3.9% (+EUR 2.3 billion), attributable to expenditure on old-age pensions (+4.0% or +EUR 1.6 billion) and unemployment benefits (+12.7% or +EUR 0.5 billion). Structural pension reforms and moderate increases in **pensions** have slowed the momentum of expenditures on pensions. The rise in expenditure was nevertheless significantly higher in this area than in others and may partly reflect frontloaded spending on persons with long-term insurance periods or contributions who opted for (early) retirement before this type of early retirement scheme is phased out beginning in 2014 on account of the pension reforms. Section 4.6 of the Annual Report (in German) describes the **projected development of federal expenditure on pensions** and **healthcare**.

- The 3.0% (+EUR 0.5 billion) growth rate of **social benefits in kind** can be pinpointed to **healthcare spending** (+3.3%); expenditure on outpatient treatment surged by +4.9%.

- Outlays for **subsidies** and **capital transfers** (e.g. related to the bank support package) diminished in 2013 compared to 2012. Although subsidies declined in the aggregate, they rose – in part sharply – in some categories of the Classification of the Functions of Government (COFOG). Agricultural subsidies, for example, burgeoned by 9.5% (EUR 60 million) and subsidies to rail transportation widened by 12.7% (EUR 175 million).

- Benefiting from record low interest rates, **government debt service payments** also posted a slight **decline** of 0.9% year on year in 2013. Interest payments ran to EUR 8.0 billion or 5% of total government expenditure.

- Direct investment expenditure of the government has been extremely low for years, in particular because of the removal, from the government budget, of services such as the highway operator ASFINAG, the federal facility management company BIG, the water and sewerage utilities, hospitals, municipal utilities or real estate entities, but also on account of **special financing transactions** (e.g. leasing transactions) and **assumptions of liability**. **Gross fixed capital formation as defined in ESA 95** edged up from 2012 to 2013 (+1.0% or +EUR 32 million). Including investment made by **organizational units formerly classified under general government**, the public investment volume nearly doubled to EUR 5.6 billion or +1.8% of GDP (table 7 in the German report).

Fiscal Burden of the Bank Support Package Diminishes from 2012 to 1013

- Revenues and expenditures related to the **bank support package** and with an impact on the budget added EUR 1.9 billion (2012: EUR 2.6 billion) to the **general government budget deficit (Maastricht definition)** in 2013. Total federal government **revenues** on recourse to the bank support package funds fell marginally to EUR 0.5 billion in 2013 (lower liability charges for guarantees). **Total expenditure** related to the bank support package amounted to EUR 2.4 billion in 2013.

- The increase in **gross government debt (Maastricht definition)** attributable to the bank support package came to EUR 0.6 billion in 2013; as stock-flow adjustments (repayment of participation capital) were high, this fell well short of the fiscal burden. At the end of 2013, the cumulative effects of the bank support package on the Maastricht deficit came to to EUR 6.2 billion, and Austria’s gross debt rose by EUR 9.3 billion (table 8).

Austria's Excessive Deficit Procedure Abrogated from Mid-2014

- Taking into account the EU-compliant supplementary rules to the national fiscal rules, Austria fulfilled all three criteria in line with the EU's rules, so that to was possible to abrogate the EDP against Austria mid-2014. These fiscal criteria had to be met:
  - Reduction of the general government deficit ratio to below 3% of GDP by 2013;
  - Reduction of the structural general government deficit by an average of 0.75% of GDP per annum for the years from 2011 to 2013; and
  - Declining debt ratio as determined in the debt rule.
- Austria had already endeavored to reduce the **general government deficit ratio** to **below 3%** of GDP from 2011. A **falling debt ratio as determined in the debt rule** may be expected from 2014, as funds used to stabilize the financial markets are not taken into account.
- The **structural adjustment of Austria's general government deficit** from 2011 to 2013 came to only 0.6% of GDP per annum (0.7% of GDP according to the European Commission), which was high enough to meet the requirements, though: Within the framework of an EDP, in addition to observing the structural budget deficit (as a percentage of GDP), **correction factors** are used to adjust for revisions of economic and budgetary forecasts. Above all, the revision of potential output, which developed less dynamically than when the Council issued the EDP recommendation, increased the "effective structural adjustment" of the budget deficit toward the MTO.

Austria's Fiscal Position Is Good, Its Tax Ratio High in an International Comparison

- Austria's **key deficit indicators** "Maastricht deficit" and "structural deficit" were low compared to those of other countries in 2013 at 1.5% of GDP and 1.1% of GDP, respectively (spring forecast of the European Commission). The euro-18 **structural deficit** averaged 1.3% of GDP in 2013, the EU-28 average ran to 1.8% of GDP. Austria's **Maastricht deficit** contracted by 2.6 percentage points from 2009 to 2013 to 1.5% of GDP, whereas the euro area country average fell by 3.3 percentage points to 3.0% of GDP (EU country average: –3.5 percentage points to 3.3% of GDP). Five EU countries posted a **structural budget surplus** in 2013 (Germany, Greece, Luxembourg, Denmark and Sweden).
- However, revenue-side consolidation measures taken in 2013 widened the gap between the Austrian **tax ratio** and the **euro area average** (euro-18), which came to 42.1% in 2013 according to figures of the European Commission. Featuring a tax ratio of 45.3% (European Commission), Austria is among the five euro area countries (Belgium, France, Finland, Austria, Italy) with the highest tax ratios ranging from 44.1% to 48.7% of GDP. Only a limited comparison of tax ratio levels is possible, as for example benefit systems differ from one EU Member State to the other and as the economic situation in the respective country also has an effect on tax revenue.
- In the review year 2013, **only five euro area countries** fell below the **upper limit for the debt ratio** of 60% of GDP. These countries were Estonia (10.0% of GDP), Luxembourg (23.1% of GDP), Latvia (38.1% of GDP), Slovakia (55.4% of GDP) and Finland (57.0% of GDP). The euro area average exceeded the reference value by 35.0 percentage points at the end of 2013. **Austria's debt ratio** ran to 74.5% at the end of 2013, which is 14.5 percentage points above the upper limit. All in all, six euro area countries had debt ratios of over 100% of GDP (Greece, Italy, Portugal, Ireland, Belgium and Cyprus).

All Subsectors Support Consolidation Path[2]

- The fiscal position of the **subsectors** improved at all levels in 2013: The **federal government's** budget deficit eased by 1.0 percentage points to 1.6% year on year in 2013; the budget deficit of the **state authorities** (excluding Vienna) was cut by half. Rounding brought it to 0.1% of GDP once again, however. **Local budgets** were balanced in 2013, just like in 2012. The **social security funds** again closed with a marginal budget surplus of 0.1% of GDP.

- In 2013, all levels of government **met the targets laid down in the 2012 Austrian Stability Pact** on the general government budget balance (Maastricht); the federal government closed with –1.75% of GDP, the state authorities (including Vienna) with –0.44% of GDP, the local authorities excluding Vienna with 0.0% of GDP.

- **One-off effects**, especially revenues from the sale of mobile telecommunications licenses (0.6% of GDP) and the withholding tax on capital gains in Switzerland (0.2% of GDP) contributed significantly to the budget balance at the federal level. At the **state level**, above all **higher** (net) **intergovernmental revenues** (such as higher federal funds from the disaster relief fund) of 0.2% of GDP had a positive impact.

- In a regional breakdown, **consolidation** (improvement of the budget balance) was most **successful** in population terms in Styria in 2013 (EUR 209 per person), followed by Upper Austria (EUR 63 per person) and Carinthia (EUR 27 per person). Conversely, the budget balance deteriorated by EUR 126 per person in Vorarlberg (above all because of increases in the number of employees and the wage reform in hospitals) and by EUR 94 in Burgenland (among other things because financial support to the hospital operating company KRAGES was boosted). Burgenland nevertheless again posted a budget surplus in 2013 (EUR 136 per person).

- The highest per capita budget deficits were reported by Salzburg (EUR 144), Lower Austria (EUR 116) and Styria (EUR 103) in 2013. Vienna (as a state and as a local authority) also ranked among the subsectors with high net expenditures, with the budget deficit in 2013 coming to EUR 129 per person.

- The different **institutional and legal settings** (distribution of tasks, tax powers, financial equalization arrangements) applicable to different sectors of government must be taken into account in sectoral analyses of the public sector. In the review year 2013, the following structural breaks occurred: For instance, earmarked subsidies to the state authorities from the **Pflegefonds** (long-term care fund) were increased (increase in stages to EUR 233 million net from 2016), intergovernmental transfers from the federal government's **Katastrophenfonds** (natural disaster relief fund) were raised (by EUR 0.1 billion) in 2013, and the federal funds for the **Neue Mittelschule** (new middle school) were boosted to EUR 34 million (2012: EUR 12 million).

General Government Debt Ratio Edged up Marginally in 2013, Foreign Demand Was Strong

- **Austria's general government debt ratio (Maastricht definition)** amounted to EUR 233.3 billion or 74.5% of GDP at the end of 2013 (end-2012: EUR 228.4 billion or 74.4% of GDP). The **rise** by EUR 4.9 billion consists of the general government deficit of EUR 4.8 billion (primary surplus of EUR 3.2 billion, interest payments EUR 8 billion) and stock-flow adjustments of EUR 0.1 billion.

- The stock-flow adjustments are made up of the following items: Debt-increasing effects include in particular measures to stabilize the euro area (EUR 0.9 billion payment of equity for the **European Stability Mechanism**, EUR 1.1 billion for **lending by the European Financial Stability Facility**, EFSF), **accruals** of tax and interest payments and the **capital increase of the**

2 Data as in the EDP notification of March 2014 with the preliminary results for 2013.

European Investment Bank. Debt-decreasing effects include in particular the **repayment of participation capital** (Erste Group Bank AG and BAWAG P.S.K. BA AG: EUR 1.4 billion) as well as **premiums** of EUR 0.9 billion from bond issues or increases of bonds.

- In **2013**, Austria's **government debt increased** at the federal level (+EUR 6.0 billion) and at the local level (+EUR 0.3 billion), especially in Vienna (table 13). At the state level, the positive development of the previous year continued through 2013, so that debt was cut by EUR 1.4 billion. 88% of total general government debt was attributable to the **federal** government at end-2013, 7% to the **state** government, 4% to the **local** government (including Vienna), and 1% to the **social security** funds.

- Measures to **stabilize the financial markets** augmented Austria's debt by a total of EUR 17.9 billion or 5.7% of GDP from the **2008 through 2013**. The **Austrian bank support package** accounted for EUR 9.3 billion, Austrian contributions to **European support measures** (loans to Greece, ESFS loans, ESM equity payments) for EUR 8.6 billion of this amount.

- The **creditor structure of Austria's debt** is determined by the structure of the **federal debt**, which makes up 90% of total general government debt. Since 2011, the **share of foreign debt** has remained fairly constant and came to 73.5% at end-2013. In parallel to the decline in the share of foreign debt in 2009 and 2010, the importance of domestic banks as creditors of the government expanded again. At the end of 2013, domestic banks' share stood at 14.3%. The growing share of banks as creditors for the government partly stems from the fact that since the onset of the crisis, **Austrian government securities have become an attractive investment product** for banks again.

- **Private investors** (enterprises and households) played only a minor role in public sector financing; their direct holdings of securities and holdings of federal treasury bills and notes coming to around EUR 1.3 billion of total government debt as at December 31, 2013.

Risk-Averse Approach Determines the Federal Government Financial Debt Structure

- The **overriding objective** of the **federal government's debt management** was laid down in the annual budget statement for 2013 as "providing the needed funds applying a **risk-averse basic approach** at the **lowest possible medium- to long-term financing costs**." In the review year 2013, the refinancing volume was kept at a low level compared to total debt. A high **duration** of 5 to 7 years was sought, and liquid reference yield curves for **various maturities** from 2 to 30 years were secured.

- **Demand** for debt securities issued by the **Republic of Austria** (and via intergovernmental financing also for the Austrian states) was **brisk** in 2013. For a time, Austria even sold **money market paper at negative interest**.

- **Austria's liquidity and risk premium** for ten-year government bonds on German government bonds shrank by 5 basis points to 30 basis points in the course of 2013 (Ø December 2012 compared to Ø December 2013). The risk premium was lower in Austria in 2013 than in all other euro area countries with the exception of the Netherlands and Finland.

- The favorable financing conditions demonstrate the **Republic of Austria's high creditworthiness.** Austria is one of the few euro area countries that has been given the best rating by at least two of the top three rating agencies.

- The **adjusted federal government debt** (adjusted for own holdings) amounted to EUR 193.9 billion or 61.9% of GDP at the **end of 2013** (end-2012: EUR 189.6 billion or 61.7% of GDP). **Net federal government borrowing** (net change in the financial debt) ran to EUR 4.4 billion or +2.3% in 2013, markedly below the rates of increase in the preceding years.

- The stock of federal financing (adjusted for swaps) to the **state governments** augmented by about EUR 0.2 billion to EUR 8.3 billion in 2013. This type of financing accounted for the bulk, i.e. **about 60%**, of the state governments' total disclosed **financial debt including Vienna** in administrative budget accounting (provisional level of end-2013: roughly EUR 14 billion). All state governments with the exception of those of Vorarlberg and Tyrol accessed this source of federal financing. Total borrowing by state governments and other legal entities had a **residual maturity** of 6.8 years, and the **effective yield** fell from 2.29% in 2012 to 1.31% in 2013.

- The extension of federal financing to state governments is subject to requirements: The state governments must fulfill reporting requirements stipulated in the Austrian Stability Pact. The use of funds is also subject to stringent requirements: No borrowing to make investments, no borrowing to make arbitrage deals, no use of funds for entities not subsumed under general government as defined in ESA 95.

- The interest rate and maturity structure of federal government debt also reflects the federal government's **risk-averse basic approach**: The adjusted federal government debt (adjusted for swaps) had a residual maturity of 8.6 years, and 96% of the debt was at fixed interest rates.

- The **interest expenditure of the federal government (including other expenditure) according to the cash flow budget** totaled EUR 6.4 billion in 2013, EUR 0.2 billion lower than in 2012 (EUR 6.6 billion) as a result of above par issues and lower coupons. The **annual budget statement** provided for **payments to service the federal government debt totaling** EUR 6.5 billion (thereof interest: EUR 7.6 billion; other expenditure: EUR –1.1 billion) in 2013.

- **Interest expenditure on an accrual basis (operating budget)** was EUR 0.7 billion higher than in the cash flow budget, where it came to EUR 7.1 billion. This increase resulted from the uniform distribution of negative expenditure (premiums) over the entire maturity of the bond. The **reduction in interest expenditure in the operating budget compared to the budget statement** came to EUR 0.2 billion in 2013.

- **Indicators on the budgetary burden of interest expenditure** by the federal government show the following results: The **federal government's interest-to-net-tax ratio** (interest payments including other revenue as a percentage of the federal government's net tax receipts) came to 14% in 3013 (2012: 15%), the **federal government's interest expenditure ratio** ran to 2.0% of GDP (2012: 2.2% of GDP).

Conclusions and Outlook

- In the face of a weaker than expected economy, Austria nevertheless succeeded in **surpassing** its **moderate consolidation targets** (a balanced budget by 2016) in the **review year 2013**. All levels of government and the social security funds contributed to this result.

- The **reduction of the general government deficit** by 1.1 percentage points to 1.5% of GDP in **2013** is attributable mainly to **temporary effects** (lower net payments under the bank support package, revenues from the sale of mobile telecommunications licenses, tax revenue under the agreement with Switzerland) that will dampen the deficit level only to a small degree after 2013.

- The extremely **low level of market interest rates** together with the **federal government's risk-averse basic approach to debt management** supports the Austrian **medium-term consolidation course**. However, it must be borne in mind that debt must always be refinanced (at market interest rates) as long as debt is not reduced in absolute terms.

- Currently, the **budget situation does not allow for tax relief without revenue-side measures**: The Council of the European Union again observed mid-2014 that while Austria had corrected its excessive deficit in a sustainable manner, the **danger of a significant deviation from the structural adjustment path** toward the MTO in 2014 and 2015 continued to exist on the basis of the current consolidation path (including additions to the budget execution). In such a case,

Austria would have to expect the EU to trigger an early warning mechanism and greater scrutiny of financial markets. This assessment by the European Commission is in line with the May 2014 **results of the Fiscal Advisory Council** in its Fiscal Rules Compliance Report (Bericht über die Einhaltung der Fiskalregeln).

- The abrogation of the excessive deficit procedure (EDP, corrective arm of the Stability and Growth Pact) for Austria means that from 2014, the provisions of the **preventive arm** apply. Compliance with the preventive arm means that the following provisions come to bear (unless special provisions take effect in the case e.g. of natural disasters or of a severe economic downturn):
    - An annual **adjustment of the structural balance by more than 0.5% of GDP** is required as long as the medium-term objective (MTO) has not been achieved and as long as the debt ratio exceeds the reference value of 60% of GDP.
    - Annual (real-term) **government expenditure growth is to be limited** to the reference medium-term rate of **potential output** growth (less a **haircut**) unless the excess is matched by discretionary revenue measures.
    - The **government debt ratio** is to be **reduced** in line with the debt rule. After an EDP procedure has been abrogated, the country is still under observation during a transition period of three years after the correction of the deficit, at the end of which compliance with the debt rule must be ensured.
- If the structural deficit is reduced by the amount stipulated in Council Regulation No 1177/2011, i.e. by more than 0.5% of GDP (that is, by 0.6% of GDP according to the European Commission) in 2014, Austria would have to cut the structural balance by 0.6% of GDP rather than 0.1% as provided for in the current Austrian Stability Programme. An evaluation would be required to determine the degree to which the traditionally cautious budgeting, the strict budget execution and the additional measures announced by the finance ministry in May 2014 will reduce the **gap of 0.5% of GDP**.
- The primary **challenge** to **public finances** is to promote **growth-enhancing** expenditure on education, research, innovation and material infrastructure and to contain **cost dynamics** triggered by **population ageing**, in particular the rise in the cost of pension, long-term care and healthcare systems.
- The Fiscal Advisory Council strongly advocates implementing indispensable **structural reforms on the revenue and expenditure side** rapidly to **sustainably achieve** a balanced budget (with or without **tax relief**). The government program contains plans for the following important structural reforms:
    - Assessment of the distribution of fulfillment of tasks, deregulation;
    - Elimination of the duplication of tasks and responsibilities across the subsectors;
    - Reforming the fiscal equalization system by disentangling joint tasks and mixed funding, and introducing task-adequate funding;
    - **Implementing structural tax reform**, i. a. by simplifying the tax system (e.g. reducing the initial rate to close to 25% while at the same time flattening progression).