

REPORT ON THE ASSESSMENT OF BUDGET DEVELOPMENTS IN AUSTRIA IN 2015 AND 2016

NOVEMBER 2015

EXECUTIVE SUMMARY

Fiscal Advisory Council: Austrian federal government expected to miss 2016 budgetary objective but comply with fiscal rules in 2015

According to the **fall forecast of the Fiscal Advisory Council**, Austria will reach the **medium-term budgetary objective** (MTO) of a **structural** budget deficit of no more than 0.45% of GDP in 2015 (as in 2014), which would make it one of the EU Member States that are currently **in essential compliance with the EU's fiscal rules**. The Fiscal Advisory Council's forecast for **2015** – budget deficit (Maastricht definition) of 1.6% of GDP and structural deficit of 0.2% of GDP – is lower than the Austrian finance ministry's deficit estimate of 1.9% of GDP (Maastricht definition) and 0.5% of GDP (structural deficit).

For **2016**, however, the Fiscal Advisory Council anticipates a **significant deviation** from the **medium-term budgetary objective** according to EU definition: The assessment outlined in its spring forecast – a **significant deviation** from the **structural budget rule** in 2016 – still stands after the presentation of the federal government's Draft Budgetary Plan 2016 of October 14, 2015, and in light of the Fiscal Advisory Council's fall forecast.

The marked **decline** of the Maastricht budget deficit in **2015** by 1.1 percentage points to 1.6% of GDP is primarily attributable to **temporary one-off factors** (2014 expenditures in connection with the establishment of HETA, the wind-down vehicle for Hypo Alpe Adria AG are no longer factored in). In **2016**, the Maastricht deficit is expected to **widen** again sharply to 2.2% of GDP despite a slight improvement in the economic environment. This deterioration in 2016 is mainly due to the additional cost of accommodating **refugees and asylum-seekers** (+0.3% of GDP), a net drop in revenues associated with the **2015/2016 tax reform** (+0.3% of GDP) and the expansion of **proactive measures** (+0.2% of GDP) e.g. with regard to universities, broadband infrastructure projects and family support measures. In addition, the deficit reduction in 2015 may have been overstated by anticipatory effects triggered by the 2015/2016 tax reform (e.g. frontloaded property transfers).

Based on current budget developments (excluding the banking package) and a narrowing of the negative output gap, the fall forecast of the Fiscal Advisory Council expects the **structural deficit of the general government** to widen to 1.4% of GDP in 2016 (2015: 0.2% of GDP). Excluding the additional expenditure for accommodating refugees and asylum-seekers, Austria's structural deficit would grow to 1.2% of GDP in 2016. In both scenarios, Austria will “significantly” deviate from the medium-term budgetary objective according to EU fiscal rules (–0.45% of GDP).

The Fiscal Advisory Council in principle welcomes the reduction of the **tax burden on labor** as part of the tax reform. However, the envisaged compensatory measures will fully cover the loss in tax revenues triggered by the tax relief measures only in the medium term.

Summary

The **Fiscal Advisory Council's forecasts** are intended as an **early warning mechanism** to help avoid Austria's noncompliance with the fiscal rules.

The **risks to these projections** include the **economic environment** in 2016, changes in the **number of refugees** coming to Austria, the extent to which the effects of the **compensatory measures adopted to fund the 2015/2016 tax reform** materialize as well as the volume of funds granted under the **banking package**.

The **federal government's Draft Budgetary Plan (DBP)** for 2016, which was submitted on October 14, 2015, is considered optimistic with regard to budget developments in 2016. The Fiscal Advisory Council expects the budget deficit to be higher by around 0.8 percentage points (Maastricht definition) and 0.9 percentage points (structural deficit), respectively. In the past, the Maastricht deficit as estimated by the ministry deviated 0.1 to 0.7 percentage points from the Maastricht deficit established by Statistics Austria (estimated results for the year t of March of the year t compared with the Statistics Austria results of March of the year $t+1$). The forecast of the Fiscal Advisory Council is based on the assumption of no policy change, i.e. no potential consolidation measures in the form of budget reallocations.

To ensure compliance with fiscal requirements in the years to come, Austria must renew its commitment to **budget consolidation without negatively affecting growth and to the implementation of proactive measures**, with a **greater emphasis on structural reform**. Despite the somewhat more favorable economic outlook, there is still very little room for deficit-increasing measures, such as higher spending to stimulate growth or reducing the tax-to-GDP ratio.

The **accuracy of budget forecasts** is clearly limited owing to changes in the economic environment, output gap revisions as well as government measures drawn up after the date of the forecast. Still, highlighting potential budgetary slippages is one of the **Fiscal Advisory Council's core tasks**.