

RECOMMENDATIONS OF THE FISCAL ADVISORY COUNCIL FOR CURRENT AND MEDIUM-TERM BUDGET POLICIES

Budget policy must aim to ensure macroeconomic stability, sustainable public finances and real gender equality. Achieving these objectives has become more difficult because of the disruptions and crises that have marked the past few years. The historically weak cumulative economic growth we have seen in Austria since 2019 has also contributed to the high deficit and rising debt-to-GDP ratio. The Fiscal Advisory Council therefore recommends that any consolidation efforts be designed, to the extent possible, in a way that does not weigh on economic activity. Furthermore, the public capital stock, i.e., public productive assets, need to be taken into account in terms of both quality and quantity.

The Fiscal Advisory Council's assessment of the sustainability of public finances is primarily based on EU rules. These rules demand that the public debt-to-GDP ratio be reduced to below 60% in the long term by committing to medium-term planning that ensures an average annual decrease of the debt ratio by at least 0.5% of GDP. This rule is translated into a maximum net expenditure growth rate that serves as the actual budgetary target.

Austria's debt ratio stood at 81.5% of GDP in 2025, significantly above the 60% ceiling enshrined in the Stability and Growth Pact. This figure has repeatedly fluctuated strongly since Austria's accession to the EU in 1995, when its debt ratio was 68.6% of GDP. In particular in 2014 and 2015, the ratio increased sharply temporarily on account of the 2007-08 financial and economic crisis and the nationalisation of banks under the banking package. Its historic peak was recorded in 2015 at 85.6% of GDP; by 2019, the debt ratio had come down to 71.0%. Contrary to this episode, the COVID-19 pandemic and the period of high inflation caused an increase in the debt ratio that became entrenched, even when temporary support measures had expired.

The high budget deficits that we expect until 2030, with rates clearly exceeding the 3% Maastricht ceiling in each forecast year, will further add to the debt-to-GDP ratio. In fact, the Fiscal Advisory Council expects that Austria's debt ratio will climb to 88.0% of GDP by 2030 despite the consolidation measures adopted in 2025 and 2026. This is well above the all-time high recorded in 2015.

Stabilising the debt ratio and preventing it from rising further would require an average budget deficit of no more than 2.5% of GDP in the years 2026 to 2030. However, the federal government's current budget plan exceeds this ratio by far even in the medium term, indicating that presently, the government is not planning to stabilise the debt-to-GDP ratio.

However, keeping the debt ratio stable over the medium term must be the baseline fiscal objective, regardless of national or European budget rules (that said, the Fiscal Advisory Council strongly advocates strict compliance with these rules). In particular, the budget deficit should be no higher than around 2.5% of GDP over the medium term. This figure needs to be included in the government's medium-term budget planning as a binding "anchor", which will be necessary to achieve the compulsory reduction of the debt ratio by 0.5% of GDP annually after the abrogation of the excessive deficit procedure (EDP). The current path of the debt ratio also illustrates that the targets Austria has to meet under the ongoing EDP are not sufficient to ensure a sustainable stabilisation and reduction of the debt-to-GDP ratio.

Therefore, it is crucial that the government continues consolidation after the 2027-2028 budget. Also, current efforts need to be complemented by structural measures. The aim is not only to comply with the fiscal rules but also to restore fiscal agency. The budgetary situation is challenging today, and it will become even more difficult on account of rising interest expenses, additional expenditure associated with demographic developments, the weak growth outlook as well as the need for additional investment in Austria's quality as a business location, climate protection as well as energy and network

infrastructure. Austria did not take full advantage of the low interest rate period to implement structural reforms and promote sustainable investment for the future. Now it is all the more necessary to align consolidation, structural reform and growth-promoting measures.

The Fiscal Advisory Council therefore recommends a medium- and long-term consolidation strategy that is significantly more far-reaching than the current government plans and makes it possible to stabilise the debt ratio in the medium term and reduce it in the long term. Furthermore, the government needs to create some fiscal leeway. Given the current macroeconomic conditions and uncertainties, the focus needs to be on implementing reforms that do not hinder but support economic growth. Priority should be given to reforms that deliver double dividend: reducing structural expenditure growth in a sustained manner and at the same time strengthening employment, productivity and the growth potential.

The Fiscal Advisory Council therefore recommends:

Fast and decisive growth-friendly consolidation

Consolidation must focus on areas where it raises the growth potential, makes better use of limited labour supply and reduces structural expenditure growth. Measures that may weigh on growth should be avoided wherever possible, given the significant need for consolidation, demographic trends and the weak medium-term growth outlook. Rather, the government should frontload reforms that combine budgetary relief with strengthening employment, productivity and Austria's quality as a business location.

Moreover, priority should also be given to measures that make better use of the available labour potential. Given current demographic trends, increased labour market participation is crucial, especially among older workers, women, people with health conditions and people on the margins of the labour market. This can help achieve both budgetary relief and stimulate growth. In this context, we have identified the following key points:

Labour market: activation and incentives

Measures should aim to shorten the duration of unemployment, encourage additional working hours and discourage premature withdrawal from employment. The Fiscal Advisory Council advises, for instance:

- improving people's ability to work;
 - promoting health and well-being;
 - promoting education and training;
 - creating conditions that allow people to balance work and family duties (e.g. child-care, long-term care);
 - creating better conditions for full-time work;
- improving integration in the labour market;
 - specific programmes aimed at bringing disadvantaged groups into employment;
 - improving conditions for employing older workers (addressing potential barriers to employment);
 - creating more incentives to take up employment, addressing disincentives to work more hours;
- securing long-term employment;
 - creating accessible workplaces;

Recommendations (June 2026)

- reinforcing initiatives for qualification in
 - early-years education: including German language education;
 - primary and secondary education: basic skills needed for accessing the labour market;
 - ongoing professional development also for older workers;

Health, prevention and ability to work

Measures in this field should reduce avoidable health-related costs and maintain productivity and people's ability to work. The Fiscal Advisory Council advises, for instance:

- giving more priority to prevention and health promotion;
- expanding workplace health promotion;
- taking early action to prevent incapacity for work and disability;
- aligning health, rehabilitation, labour market and pension policies more effectively;
- reinforcing the use of evidence-based prevention programmes;
- looking into health-related corrective policy tools, for instance as regards nutrition or addiction prevention;

Pensions and rehabilitation

Measures should raise the de facto retirement age, reduce the take-up of early retirement and keep people in employment as long as possible. The Fiscal Advisory Council advises, for instance:

- taking any measures possible to raise the de facto retirement age;
- reviewing the adjustment of key pension parameters to reflect rising life expectancy while also adjusting options to retire early on health grounds;
- expanding early detection and intervention as rehabilitation often begins too late – after people have already left the labour market;
- introducing a case management system that includes all social security institutions (i.e. health insurance funds - including the ÖGK - and the public pension insurance fund PVA) and the Public Employment Service Austria (AMS) to reduce coordination issues, procedural delays and redundant parallel structures;
- expanding telehealth and teleconsultation also in rehabilitation;

Reduction of red tape and productivity-enhancing regulation

Efficient regulation is a key factor in successful business operations. It should provide for a legal framework that is reliable, proportionate and business-friendly. Measures in this sphere should cut administrative costs for businesses, citizens and public administration and facilitate investment. The Fiscal Advisory Council advises, for instance:

Recommendations (June 2026)

- implementing in a timely manner the measures included in the formal proposal entitled “Cutting red tape, boosting the economy” submitted to the Council of Ministers, which was adopted on 3 December 2025;
- simplifying regulation while at the same time supporting growth through, e.g.,
 - faster approval procedures;
 - a reduction of overlaps and redundancies;
- more digital one-stop procedures;
- systematic reviews of existing regulations with a view to costs, use and growth impact;
- obligatory impact assessments of new regulations with a view to administrative costs and Austria’s quality as a business location;
- the use of digitalisation and artificial intelligence to simplify processes in public administration;
- linking digitalisation with reviews of tasks and responsibilities and a restrictive policy in filling vacancies in public administration;

Subsidies: limited duration, systematic evaluation, structural adjustments

Direct federal government subsidies amounted to EUR 12.6 billion in 2024 (according to a 2024 Federal Ministry of Finance report). Government transactions that are subsidies in nature (as defined by the ESA) totalled EUR 33.0 billion (6.7% of GDP) in Austria in 2024. Subsidies need to be reduced and their efficiency and effectiveness need to be enhanced – the necessary budget consolidation is one of the reasons why.

The Fiscal Advisory Council recommends that the system of subsidies be fundamentally streamlined. Effective coordination is required for subsidies administered by authorities across different levels of government. Blanket cuts across all areas of government are not appropriate in the Fiscal Advisory Council’s view, because they do not take into account different starting levels. Also, such costs do not necessarily enhance efficiency since they may decrease the quality of public services without reducing expenditure growth permanently. What is needed is a systematic analysis of tasks and impacts for all subsidies. Such an analysis should examine whether subsidies reach those who need them, deliver the desired effects and are administered on the appropriate level of government. Also, it should assess subsidies’ distributional and climate impact and administrative efficiency. The existing transparency database should play an important role in this context; it should be expanded, and its data should be used more effectively.

The Fiscal Advisory Council advises, in particular:

- a mandatory regular evaluation of all subsidies;
- phasing out subsidies that have not been shown to achieve their objectives;
- including subsidies administered by local authorities in the transparency database so that these data can also be evaluated;
- reviewing multiple subsidies and overlaps across the federal, regional and local levels of government and eliminating them, if deemed necessary;
- gradually reducing climate-damaging subsidies;

Recommendations (June 2026)

- channelling subsidies increasingly to areas where they generate positive external effects, e.g. research, innovation, decarbonisation, education and infrastructure;
- assessing which subsidies could be replaced by guarantees and implementing such a substitution where possible;
- taking advantage of the new medium-term EU financial framework that has not yet been negotiated to make best use of available EU funds;

The Fiscal Advisory Council advises that subsidies should not be used to avoid or postpone necessary structural reforms. Subsidies should have a defined duration, a clearly specified objective and measurable outcomes. Unlimited subsidies that are not subject to evaluations increase the structural expenditure base and make it more difficult to pursue a sustainable budget policy.

Healthcare reform: increasing efficiency in the short run, implementing structural reforms

The Fiscal Advisory Council recommends that the government adopts, without delay, efficiency-enhancing measures with a short-term impact on the budget and simultaneously initiates structural reforms. According to the Fiscal Advisory Council's sustainability report, healthcare expenditure will rise more strongly than any other expenditure category in the medium to long term. This is due to demographic trends, advances in medicine and the healthcare system's current organisational structure. If there are no reforms, the pressure on public finances will continue to rise.

In the short term, the Fiscal Advisory Council advises, for instance:

- consistently strengthening joint procurement and consolidated purchasing;
- the mandatory prescription of lowest-cost therapeutic equivalents; wider use of generics and biosimilars;
- harmonising remuneration practices and services covered by health insurance funds;
- systematically identifying and reducing treatments and services with low medical benefit (low-value care);
- improving the redirection of patients to areas/services appropriate to their needs and creating optimised clinical pathways;
- further expanding telehealth and teleconsultation, accompanied by information campaigns;
- making better use of digital processes and shared data infrastructures;
- ongoing monitoring to prevent the misuse of benefits under the social security system;
- optimising Austria's electronic health records system ELGA so that it includes all relevant health data, not least to help avoid multiple examinations;

As regards structural issues, the Fiscal Advisory Council advises, for instance:

Recommendations (June 2026)

- a system of planning and funding by a single entity so that the fragmentation of responsibilities across federal, regional and local levels of government as well as social security funds can be reduced and efficiency improved;¹
- cross-regional planning of hospital care;
- analysing and improving hospital efficiency;
- systematically linking service catalogues with health technology assessments;
- promoting increased outpatient care; creating and expanding day clinics;
- implementing international best practice in prevention and health promotion;
- establishing telehealth and teleconsultation in the entire healthcare system by developing a uniform technical solution and creating the necessary legal basis;
- redirecting patients to areas/services appropriate to their needs, e.g. by expanding the “1450 hotline” health advice service (by appointment booking, video consultations);

The Fiscal Advisory Council points out that healthcare reforms should not primarily be viewed as cost-cutting programmes. The objective should be to safeguard the provision of necessary medical services and to even improve the quality of healthcare while removing inefficient structures and curbing expenditure growth in the long term.

A database for means-tested transfers

The Fiscal Advisory Council recommends that future crisis support for households be more targeted in terms of income, need and outcomes. In the past, much of the crisis-related support provided in Austria took the form of lump-sum payments or was not particularly well targeted. This resulted in high budgetary costs, while the funds did not necessarily go to those that needed them most. Often, this was due to the lack of information on households’ incomes.

To be better prepared for future crises, the Fiscal Advisory Council therefore recommends:

- creating a comprehensive, validated database on household incomes so that in future, fiscal measures can be designed in a more evidence-based and targeted manner;
- ensuring that there are no disincentives to working generated through the interplay of taxes and social security contributions on the one hand and social transfers, such as (long-term) unemployment benefits, means-tested minimum income, etc., on the other;

Involving businesses and regional and local authorities in budget consolidation

The Fiscal Advisory Council recommends that consolidation measures not be limited to the federal government level. It is essential that consolidation is undertaken collaboratively by all stakeholders: federal, regional and local authorities, social security funds and off-budgetary entities. A sustainable stabilisation of the debt-to-GDP ratio is only possible when all levels of government are involved.

¹ This item was not adopted unanimously, but with three votes against. The “votum separatum” is published on the website of the Fiscal Advisory Council.

Recommendations (June 2026)

The Fiscal Advisory Council advises, for instance:

- increased coordination between federal, regional and local authorities to ensure better alignment of consolidation measures at all levels;
- optimising liquidity management at all levels of government by making more use of available low-risk instruments (e.g. Bundesschatz government bonds), which can support the reduction of government debt;
- safeguarding national fiscal rules by evaluating and further developing the data and reporting requirements set out in the Austrian Stability Pact (ÖStP 2025) and also including data from off-budgetary government entities;
- carrying out a structured and comprehensive national review to examine the scope, purpose and organisation of government functions and their costs; spending reviews, in combination with benchmarking systems implemented primarily for responsibilities shared by different levels of government, appear to be particularly suitable in this respect;
- better aligning responsibilities for tasks, expenditure and funding and adjusting the fiscal sharing framework accordingly;
- expanding joint procurement at all levels of government;
- systematically reviewing and reducing administrative expenses at all levels;
- leveraging retirements in the public sector as an opportunity to reform task allocation and clarify responsibilities and to improve efficiency;
- not automatically filling vacancies as they arise;
- streamlining administrative procedures through digitalisation and artificial intelligence.

Particular attention should be paid to employees' remuneration, benefits in kind, procurement, the administration of subsidies and administrative procedures. Cost savings must not be achieved solely through across-the-board staff cuts but must be linked to a reorganisation of responsibilities. Digitalisation and artificial intelligence can only deliver cost savings if, at the same time, processes are simplified, redundancies in responsibilities are eliminated and jobs that become vacant are not automatically filled.

The Fiscal Advisory Council also recommends that the fiscal sharing system be aligned more closely with objectives relating to efficiency, transparency and consolidation. Authorities that are responsible for spending public funds need to also take greater responsibility for the financing and impact of the measures they implement.

Investments for the future despite consolidation

The Fiscal Advisory Council recommends that in its consolidation efforts, the government should distinguish, in particular, between consumption expenditure, transfers and growth-promoting investments for the future. A sustainable budget policy must not neglect necessary investments in the country's quality as a business location, housing quality, climate protection and resilience, education, research, digitalisation, energy infrastructure and military defence; however, it should prioritise these areas strategically.

In particular, there is a need for high investment and additional stimulus in electricity grids, storage infrastructure, renewable energy, public transport, building renovation and upgrading, digitalisation,

Recommendations (June 2026)

security infrastructure and skilled labour. The federal government's current plans do not provide for sufficient investment in these fields. If these investments continue to be postponed, significant risks may arise in the medium to long term. Consolidation must therefore aim to reduce inefficient expenditure and create financial scope for productive investment.

The Fiscal Advisory Council advises, for instance:

- clearly prioritising investments for the future in budget planning;
- improving conditions for innovation to make better use of Austria's high R&D ratio;
- promoting key technologies on a broad scale so that they can be applied in as many fields and sectors as possible;
- strategic planning for digitalisation and the coordination of allocated funds;
- strengthening digital sovereignty;
- prioritising investment projects according to their macroeconomic benefit and societal preferences (also from a long-term perspective);
- improving the effectiveness and efficiency of education policy measures;
- effectively designing and sufficiently funding labour market, education and training policies that ensure the supply and qualification of skilled workers. Securing the dual vocational training system is crucial in this context.
- increasingly replacing or supplementing subsidies with market-based incentives;
- pursuing a climate policy that is based on cost-efficient measures;
- transparently reflecting long-term investment needs in the budget.

Strengthening the transparency and monitoring of off-budgetary entities

The Fiscal Advisory Council recommends significantly strengthening the transparency and oversight of off-budgetary entities. The budgets at the federal, regional and local levels of government do not in detail reflect public enterprises, equity interests and other partly state-controlled entities that carry out activities outside the core budgets. This contributes to a situation where public benefits, budgetary risks and obligations are not sufficiently evident, or only become evident with a time lag. It is crucial that these entities be systematically identified and incorporated into sustainability assessments of public finances. Only then can such assessments produce realistic outcomes.

The Fiscal Advisory Council advises, for instance:

- drawing up a complete list of particularly relevant off-budget entities and regularly updating this list;
- disclosing these entities' debts, guarantees, funding obligations and ongoing funding needs;
- introducing standardised reporting requirements;
- taking greater account of risks from equity interests and guarantees in the budgetary process;
- improving parliamentary oversight of outsourced entities;

Recommendations (June 2026)

- ensuring that additional outsourcing is undertaken only when it is clearly demonstrated to be the more efficient option;
- considering insourcing or consolidating activities when there is no longer an objective justification for outsourcing.

The Fiscal Advisory Council emphasises that a sustainable budget policy is only possible on the basis of complete information. Strain on the budget must not be obscured by institutional outsourcing. What counts is the general government perspective.

Summary recommendation

The Fiscal Advisory Council recommends that stabilising the debt ratio and reducing it by 0.5% of GDP p. a. be incorporated into the budget plans as a binding medium-term budgetary anchor. This implies that the general government budget deficit must be kept below 2.5% of GDP in the medium term. To achieve this objective, the government needs to implement, without delay, consolidation measures that have a structural impact and support growth.

In particular, consolidation efforts should prioritise:

1. growth-friendly measures that raise labour force participation, keep people longer in employment, give more weight to prevention in healthcare and reduce red tape;
2. the systematic evaluation and streamlining of subsidies;
3. structural efficiency improvements in the healthcare sector;
4. the creation of a database for means-tested transfers;
5. the involvement of regional and local authorities, social security funds and off-budget entities;
6. the creation of budgetary leeway and securing growth-promoting investments for the future;
7. the improvement of transparency, monitoring and general government budgetary management.

The Fiscal Advisory Council notes that any delay in consolidation would add to the adjustments required in subsequent years. The longer structural measures are delayed, the greater the risk that consolidation will have to be achieved through short-term cuts that reduce growth and potentially create new problems. A timely, credible and growth-oriented consolidation strategy is therefore essential to restore the sustainability of public finances and secure fiscal scope to meet future challenges.