

Budgetary outlook for Austria for 2020 and 2021

A quick assessment by the Office of the Austrian Fiscal Advisory Council

Supposing that the assumptions for GDP growth (2020: -6.8%; 2021: +4.4%) hold true, the Office of the Fiscal Advisory Council estimates that Austria's general government budget balance will come to -9.2% of GDP in 2020 and -5.8% of GDP in 2021. These substantial budget deficits are primarily attributable to the budgetary impact of the COVID-19 pandemic. Austria's debt-to-GDP ratio will climb to 83.6% in 2021. Government revenue is expected to fall by EUR 13.2 billion, i.e. much more sharply than during the economic and financial crisis of 2008–2009, which had brought the strongest decline seen since World War II – until now. The budgetary impact of the economic policy response to the current health crisis has reached unprecedented levels: COVID-19-related expenditure will total EUR 34.6 billion in 2020 and EUR 19.2 billion in 2021. At EUR 1.2 billion and EUR 0.4 billion, respectively, the Office of the Fiscal Advisory Council expects government revenue in 2020 and 2021 to be slightly higher than suggested by the Federal Ministry of Finance's 2020 budget plan. Government expenditure, on the other hand, is expected to exceed the budgeted value by EUR 0.2 billion in 2020 and fall below it by EUR 1.4 billion in 2021. This means that the Office of the Fiscal Advisory Council expects both the 2020 and 2021 budget deficits to be slightly smaller than budgeted by the Federal Ministry of Finance.

Macrolevel

According to the economic outlook presented by the Austrian Institute of Economic Research (WIFO), in 2020 the Austrian economy stands to experience the sharpest decline since World War II, with real GDP growth dropping by 6.8% as a result of the COVID-19 pandemic and the related restrictions on social life and economic activity. Aggregate demand has contracted sharply, and in line with this development, the positive labor market dynamics seen in recent years have come to an end. Despite a strong decline in employment, employee compensation has decreased only slightly, given high participation in short-term work schemes and last year's robust wage settlements. For 2021, WIFO predicts a strong recovery, with real GDP growth coming in at 4.4%. This will also be reflected in gradually improving labor market conditions – a scenario that rests on the assumption that the COVID-19 pandemic takes a positive turn.

Government revenue and expenditure

Both current and expected government revenue and expenditure will be largely determined by the effects of the COVID-19 pandemic. The

slump in economic activity will reduce government revenue significantly. In particular, the contributions from corporate income tax, assessed personal income tax and VAT will contract sharply. At the same time, spending for unemployment benefits will go up markedly. The fiscal policy measures implemented by the federal government, on the one hand, directly address ways to overcome the health crisis (e.g. via additional health care spending). To a much larger extent, however, they aim to tackle the economic and social fallout of the crisis. While the economic downturn is strongly affecting government revenue, the measures the federal government is taking to combat this downturn are mostly driving up government spending.

Moreover, the earlier implementation of a reduced personal income tax rate will make the sharp contraction of government revenue even more pronounced in 2020. At EUR 13.2 billion, current government revenue losses are much worse than those recorded in 2009 (EUR 1.5 billion) as a result of the global financial and economic crisis of 2008–2009. Likewise, the current rise in government spending by EUR 24.4 billion clearly surpasses the comparable 2009 figure (EUR 9.5 billion). A variety of factors have contributed to driving up government expenditure: higher expenses

(mainly on short-term work and the fixed cost grant) in response to the COVID-19 pandemic, payments under the deposit guarantee scheme in connection with the insolvency of Commercialbank Mattersburg and Anglo Austrian Bank, and a series of new government measures such as the graduated increase in pension benefits. For 2021, WIFO expects the Austrian economy to recover and government revenue to rise accordingly. With the expected inflow of tax payments deferred in 2020, total government revenue stands to increase by EUR 7.0 billion in 2021, i.e. at a rate that is clearly above the average rise recorded between 2015 and 2019 (EUR 5.7 billion). At the same time, government spending will decrease by EUR 4.5 billion, mainly because crisis response measures will be discontinued.

Table 1: Discretionary measures

Discretionary measures (budgetary impact, year on year ¹)		
EUR billion	2020	2021
Measures taken before 2020	-2.9	-0.9
Economic stimulus and COVID-19-related	-19.4	11.6
Other measures	-2.5	-1.5
Total	-24.8	9.2
of which: revenue side	-6.4	-0.5
of which: expenditure side	-18.4	9.7
Overall impact (% of GDP)	-6.2	2.3

¹ Negative values imply a reduction in the budget balance.

Source: Estimation by the Austrian Fiscal Advisory Council based on official budget data (e.g. impact assessment).

Overall results

According to calculations by the Office of the Fiscal Advisory Council, Austria's general government budget balance will come to -9.2% of GDP in 2020 and -5.8% of GDP in 2021. The general government debt ratio stands to rise from 70.5% in 2019 to 83.4% of GDP in 2020 and to 83.6% in 2021.

Table 2: Overall results

% of GDP	2019	2020	2021
Government revenue	49.1	48.2	47.2
<i>(annual change)</i>	<i>(3.6%)</i>	<i>(-6.8%)</i>	<i>(3.9%)</i>
Government expenditure	48.4	57.4	53.0
<i>(annual change)</i>	<i>(2.5%)</i>	<i>(12.7%)</i>	<i>(-2.1%)</i>
Budget balance	0.7	-9.2	-5.8
Government debt	70.5	83.4	83.6

Source: Statistics Austria and authors' calculations.

According to calculations by the Office of the Fiscal Advisory Council, Austria's budget deficit in 2020 and 2021 will be slightly smaller than set out in the fiscal path defined by the Federal Ministry of Finance in its 2020 budget plan. Given the current COVID-19-related difficulties in calculating the output gap, it is impossible to calculate a structural budget balance that can be interpreted in any meaningful way. For this reason, the Office of the Fiscal Advisory Council will not publish this key figure at the present juncture and recommends a cautious interpretation of structural budget balance figures published by other institutions.

Budgetary impact of the COVID-19 pandemic

The overall impact of the COVID-19 pandemic on Austria's general government budget will not only consist of the direct costs of support measures but will also include fiscal effects caused indirectly by the economic downturn (above all, through tax shortfalls and higher expenses for social transfers). To quantify the overall extent of the budgetary impact of the COVID-19 pandemic, we compared this quick assessment with a counterfactual estimate based on WIFO's macroeconomic outlook of December 2019 (which did not anticipate the COVID-19 pandemic). According to this comparison, the overall impact on the budget balance will be -EUR 34.6 billion for 2020 and another -EUR 19.2 billion for 2021. Our comparison also shows that, without the COVID-19 pandemic, the 2020 budget could have been expected to be in balance despite the implementation of the first stage of the personal income tax reform.

Table 3: Budgetary impact of the COVID-19 pandemic

Budget balance: deviation owing to COVID-19 pandemic				
Per annum	EUR billion		% of GDP ¹	
	2020	2021	2020	2021
Discretionary measures	-19.4	-7.8	-0.1	0.0
of which: revenue side	-4.0	-3.7	0.0	0.0
of which: expenditure side	-15.4	-4.1	0.0	0.0
Macroeconomic shock	-15.2	-11.4	0.0	0.0
of which: revenue side	-14.8	-11.3	0.0	0.0
of which: expenditure side	-0.4	-0.1	0.0	0.0
Overall impact	-34.6	-19.2	-0.1	0.0

¹ Measured in % of GDP including the effects of the COVID-

Source: Budget data and authors' calculations.

Fiscal policy conclusions

The Fiscal Advisory Council will publish its fall forecast, including its fiscal policy conclusions and recommendations, in its Annual Report in December 2020. Please note that this budgetary outlook rests on the assumptions made in WIFO's economic outlook, which in the present situation, naturally, is subject to higher uncertainty than in previous years.

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