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Austrian Fiscal Advisory Council - press release - March 17, 2015

Fiscal Advisory Council: Austria risks violation of fiscal rules

In view of the pronounced weakness of the Austrian economy, which is greater than anticipated in the fall of 2014, the majority view of the Fiscal Advisory Council is that Austria risks a "significant deviation" from the required adjustment path under the preventive arm of the Stability and Growth Pact in 2015. This assessment is in line with the Eurogroup statement published on March 3, 2015.

According to the latest forecast of the European Commission (February 2015), Austria's structural fiscal effort in 2015 will be a mere 0.1% of GDP, with no improvement of the structural deficit to be expected for 2016. Furthermore, these assessments do not take into account the fiscal burden that may arise from tax reform measures.

The tax reform package which the Austrian federal government has just presented is aimed at cutting income taxation rates, with a view to reducing taxes on labor and stimulating demand as a driver of growth. To fund the tax cuts, the reform package contains measures to increase revenues (among other things by intensifying measures to combat tax fraud, raising the rate at which capital gains are taxed and eliminating tax exemptions). As a result, the proposed tax reform is unlikely to achieve a sustainable reduction of the tax burden in Austria, which is high by international standards. Overall, there are some signs of a change in the tax structure with a view to improving the growth perspectives of the Austrian economy.

The Fiscal Advisory Council takes the view that once the tax reform has been adopted, the Austrian government will need to take swift action to reform also the federalist framework, transfers, public administration as well as education and health services. These additional reform measures would need to aim above all at increasing efficiency, in order to reduce expenditure growth and to create the preconditions for sustained compliance with the fiscal rules. Moreover, the government must be prepared for budgetary shortfalls that the tax reform is expected to create in the initial years following implementation in 2016, as a result of mismatches in the timing of tax cuts and compensatory measures.

Under the preventive arm of the Stability and Growth Pact, Austria is required to improve its structural budget balance (i.e. its cyclically adjusted budget balance as corrected for one-off and temporary measures) by 0.6% of GDP on an annual basis until it has managed to balance its budget in structural terms. A "significant deviation" from the required adjustment path (a minimum annual improvement of 0.5% of GDP, or a cumulative improvement of 0.5% of GDP over two years in a row) triggers the early warning mechanism of the Stability and Growth Pact and ultimately – in the absence of adequate consolidation measures – financial sanctions in the form of an interest-bearing deposit amounting to 0.2% of GDP.

In late May 2015, the Fiscal Advisory Council will publish a comprehensive analysis of fiscal developments for Austria.