FISKALRAT
Austria

REPORT ON THE ASSESSMENT OF BUDGET DEVELOPMENTS IN AUSTRIA IN 2014 AND 2015

NOVEMBER 2014

EXECUTIVE SUMMARY

Fiscal Advisory Council Sees Attainment of Austria's Medium-Term Objectives for 2015 within Reach

The Austrian Fiscal Advisory Council is presenting a **budget forecast for the first time**. This forecast allows budget developments to be monitored in a timely manner, with a view to ensuring Austria's compliance with the EU's fiscal rules, and checking Austria's official draft budget plans for plausibility. The forecast moreover helps to better assess the **fiscal situation in Austria** in terms of both the multi-dimensional EU fiscal rules and Austria's fiscal policy objectives, as well as to comply with the statutory requirements.

The Fiscal Advisory Council has based its budget forecast on **current macroeconomic forecasts** compiled by **independent institutions** (as defined by the EU) and **forecasts the individual categories** of **general government** expenditures and revenues according to ESA 2010. The November 2014 budget forecast builds on the September 2014 **macroeconomic forecast of the Austrian Institute of Economic Research** (WIFO), which projects real GDP to grow by 0.8% in 2014, and to rise moderately by 1.2% in 2015. Taking a **prudent approach**, the Fiscal Advisory Council has considered only such budget-related measures in its forecast that have already been approved and clearly specified.

For **2014**, the Fiscal Advisory Council forecasts an increase of the **general government budget deficit to 2.5% of GDP**, which is attributable primarily to the establishment of the Hypo Alpe-Adria wind-down entity. For **2015**, the forecast sees a noticeable decline of the **general government deficit** to **1.4% of GDP**.

General government revenues are projected to grow, year on year, by **3.2%** in **2014** and by **2.9%** in **2015**. At 3.1%, average revenue growth over these two years will fall slightly short of the long-term average of 3.4%, i.e. the average growth rate over the past 15 years. This underperformance in historical terms is attributable primarily to the weak economic performance, which has been dampening revenue categories sensitive to the macroeconomic development, such as direct and indirect taxes as well as social contributions. Discretionary measures, above all those that have taken effect in 2014, are at the root of the slowdown in revenue growth expected for 2015.

General government **expenditures** are projected to increase, year on year, by **5.2%** in **2014** and by **0.8%** in **2015**. The volatility of these developments is due, above all, to capital transfers related to the bank support package (EUR 4.2 billion in 2014 and EUR 1.0 billion in 2015) and the absence of proceeds from the mobile spectrum auction (EUR 2 billion), as were effected in 2013, which were recorded as negative expenditure. One-off effects aside (bank support package, flood protection projects and the proceeds from the mobile spectrum auction), general government expenditures are expected to remain relatively stable in 2014 and 2015, with year-on-year growth rates pegged at 2.6% and 2.7%, respectively. These rates more or less correspond to the rates seen in previous years.

As to the **structural budget deficit**, the Fiscal Advisory Council projects a **structural improvement** of **0.6 percentage points in 2014** and one of **0.2 percentage points in 2015**.

Under the given assumptions, Austria should thus be able to comply with its medium-term objective (MTO) of attaining an almost balanced structural budgetary position of –0.5% of GDP already in 2015. Austria's general government debt is projected by the Fiscal Advisory Council to stand close to 86% of GDP at end-2014, and to decline in 2015. Accordingly, **Austria would, in essence, fulfill the EU fiscal rules in 2014 and 2015**.

The Fiscal Advisory Council deems the **federal government's** most recent **fiscal plan** (Austrian Draft Budgetary Plan 2015 of October 15, 2014 – DBP) to be plausible but conservative in the light of the underlying economic fundamentals. The figures for the actual and the structural budget balance set out in the official budgetary plan and those of the more favorable forecast of the Fiscal Advisory Council differ by 0.3% of GDP (2014) and 0.5% of GDP (2015). General government **revenues**, as projected by the Fiscal Advisory Council, are lower than those given in the DBP, namely EUR 0.4 billion or 0.12% of GDP lower in 2014 and EUR 0.2 billion or 0.06% of GDP lower in 2015. General government **expenditures** in said forecast undercut the path depicted in the DBP by 0.4% of GDP in 2014 and by 0.5% of GDP in 2015.

To ensure compliance with fiscal requirements in years to come, Austria must resolutely stay on course, i.e. continue to **consolidate the budget without heavily affecting growth** and, at the same time, **take proactive measures**, with special **emphasis on structural reform**. However, the room for taking deficit-increasing measures, such as economic stimuli on the revenue side or the reduction of the tax-to-GDP ratio, remains very limited, the current economic outlook notwithstanding.