MAIN RESULTS AND CONCLUSIONS

Economic and Institutional Framework in 2012

- In the **reporting year 2012** the monetary and real economic development in the **euro area** was once again characterized by the **fiscal, economic and sovereign debt crises**. Standard & Poor´s downgraded the **credit rating** of nine countries of the euro currency area – and Austria was one of the nine. At the end of July 2012, in the framework of his **monetary-policy mandate**, ECB President Draghi made the announcement that all necessary steps will be taken in order to preserve the euro, and only then did calming on financial markets take place. In 2012 in the **euro area,** real GDP contracted by 0.6% on a yearly basis and that of the EU-27 by 0.3% (2011: +1.4%, +1.6% resp.; source: Eurostat).

- At the end of January, 25 heads of state and government of the EU (EU-27, not including the United Kingdom and the Czech Republic) agreed on the **Fiscal Compact**. In March 2012, debt restructuring took place in **Greece**. On June 29, 2012, a resolution was passed to **set up** a **"bank union"** for the currency union with a single supervisory mechanism involving the ECB, a uniform resolution and recovery regime, as well as a harmonized deposit-guarantee scheme for banks. In August 2012, the program of **Outright Monetary Transactions** (unlimited government bond purchases under strict conditionality – OMT) was announced by the ECB. Then on October 8, 2012, the treaty to set up **ESM** went **into effect**.

- On the backdrop of **very volatile market conditions** and a strong widening of spreads **in the first half-year** of 2012, the long-term interest-rate level (maturities: 9 to 10 years) in the euro area fell from 3.8% in January to 2.7% in December 2012. At the beginning of the year, the yield spread of **Austria to Germany** reached the highest level (with short-term peaks of up to 1.8 percentage points), which had again contracted to an average of 0.4 percentage points (∅ 2012: +0.8 percentage points) by December 2012.

- The **various levels of government in Austria** were able to cover **their funding requirements** at historically low costs in 2012: Three-month interest rates on the **money market** (EURIBOR) were at an average of 1.2% in January and in December at 0.2%. In 2012 the **10-year interest rate** of **government bonds** fell, characterized by a volatile path during the year, to 2.4% on an annual average (2011: 3.3%). The **government-bond yield curve** shifted downward for all maturities.

- In 2012, on an annual basis, the **expansion of the Austrian economy** showed a weak development at **0.8%** (2011: +2.7%) and lost momentum in the course of the year. In the fourth quarter, real GDP was even lower than in the previous quarter (adjusted seasonally and for working-days) by 0.1%. In spite of the cyclical slowing, the domestic economy once again showed a better development than most other EU countries.

- In light of the fiscal, economic and sovereign debt crises, reformed **fiscal governance mechanisms in the EU** were set by means of **three legislative packages**:

    - **"six pack"** of the EU, which includes five EU regulations and one directive: stricter fiscal rules in **SGP,** directives on **national budget frameworks** and **macro-economic monitoring**. They took effect in December 2011.

    - **Fiscal Compact** ("Treaty on Stability, Coordination and Governance in the EMU") among the 25 heads of state and government of the EU to strengthen **budget discipline on a national level** (in effect since the beginning of 2013).

    - **"two pack"** of the EU: strengthened ex ante and current **budgetary control** of **euro-area countries** with the support of **independent bodies on the national level** (fiscal council) to monitor the current and medium-term budget paths (in effect since May

2013).

- Particular emphasis should be put on the following aspects of the **"six pack of the EU"**:

  - Within the preventative arm of the SGP, budget rules on the **structural budget deficit** (structural deficit reduction of 0.5% of GDP p.a.) and the **expenditure rule** (real expenditure growth below that of the potential growth rate) complement each other. If **revenue elasticity** is **less than 1** (as, for example, is normally the case in Austria), it can be assumed that the **structural budget rule** is predominantly binding.

  - Applying the **debt rule** excluding stock-flow adjustments does not normally require any additional need for consolidation **if** the **adjustment path to achieve MTO** according to EU directive requirements is **adhered to** and the **nominal GDP** expands by at least 3% per year.

  - **Complying with fiscal requirements** is to be accelerated by a stronger **automatic process** (EC proposal in connection with sanctions becomes effective unless the Council opposes it by a qualified majority) and by a **schedule tightening of the procedure** in cases of excessive deficit.

  - **Minimum standards for fiscal architecture in the EU member states** (among other things, more transparency in the budget management of public units and units with close government ties, national fiscal rules, budget frameworks with a planning horizon of at least three years, national monitoring and coordinating mechanisms) are to be implemented on a national level by the end of 2013.

  - In case of **exceptional occurrences** that have a significant impact on government finances, stipulations take effect in all fiscal EU requirements that allow **a temporary deviation from budget rules**.

- The **Fiscal Compact** provides for **translating essential elements** of the **SGP into national law** and **tightened** the regulations of the **"six pack"** mainly to the extent that limiting the medium-term objective (MTO) to a **structural** budget deficit rate of **0.5% of GDP** and translating **the Fiscal Compact into national law** – **preferably** on the **constitutional level** – **became obligatory**. Adoption of the Fiscal Compact is a prerequisite for making use of the permanent rescue package ESM.

- The **"two pack" of the EU** regulates the coordination and monitoring of **national budget processes of euro-area countries**:

  - The first regulation includes provisions **on general-government budget planning** (e.g. **uniform timeframes** for publishing national budget plans as well as their evaluations by the European Commission). Additionally, by the end of October 2013, **independent national bodies** ("**fiscal council**") are to be set up to **monitor compliance with numerical fiscal rules on the national level** (including ensuring independent macroeconomic and budget forecasts and the evaluation of compliance with fiscal rules).

  - The second regulation provides for **strengthened** economic and budgetary **monitoring of the crisis countries in the euro area** by the European Commission (among other things, a quarterly report of the respective member countries on developments in the financial system including results of stress tests and sensitivity analyses).

The Fiscal Position of Austria in 2012 according to Maastricht

Budget Development of the General Government

- In spite of the **weak economy** (real GDP 2012: +0.8%) **in the reporting year 2012**, the set **medium-term consolidation path of Austria**, which provides for a balanced budget of the general government by 2016, was **surpassed**. The **budget deficit of the general government** did not increase **in 2012** and was 2.5% of GDP. The **deviation** between the estimated results of **September 2012** (–3.1% of GDP) and the **preliminary results of March 2013** (–2.5% of GDP) was due to a deviation of about 40% on the federal level (including social security funds) and about 60% on the provincial and local-government level.

- As a result of the economic slowdown in the year under review, the **cyclical components of the budget** showed a slight negative value (of –0.3% of GDP according to the Stability Program of April 2013). Additionally, **one-off measures** (mainly expenditures to restructure Austrian banks minus the ex ante income tax on private pension insurance) caused a considerable increase (0.8% of GDP) in the budget deficit. The **structural budget deficit of Austria** in 2012 (cyclically adjusted and excluding one-off effects) was thus only 1.4% of GDP.

- **On an international comparison** in 2012, at 2.5% of GDP, Austria's budget deficit according to Maastricht was clearly below the average values of the EU (EU-27: 4.0% of GDP and Euro-17-countries: 3.7% of GDP). In 2012, in addition to Austria, five other member states achieved the fiscal criterion of 3% of GDP (Germany, Estonia, Luxemburg, Finland, Italy); in 2012 Germany even achieved a slight budget surplus.

- Legislators passed **two stability acts** in 2012 that included comprehensive **expenditure and revenue measures**. The First Stability Act 2012 contained changes in tax law that already generated additional revenues in the year under review. The Second Stability Act 2012 contained consolidation measures that will become effective starting with 2013.

- In 2012, at EUR 6.4 billion or 4.4%, the **growth** of all **revenues of public budgets** was **substantial** and in spite of the weak economy significantly above the **long-term average** (20-year average: +3.2% p.a.). In Austria – in contrast to other countries in the euro area – the level of public revenues before the crisis was again surpassed as early as 2010 and in 2012 reached EUR 150.9 billion. **Discretionary additional revenues** were mainly the result of the ex ante income tax on private pension insurance, elimination of energy tax rebates for services companies in 2011, the agreed-upon special contribution to the bank stability levy (until 2017) in the course of the aid measures for the Österreichische Volksbanken-Aktiengesellschaft (ÖVAG) and anticipatory and one-off effects of the land-transfer tax.

- The medium-term **revenue growth of the government** from 2008 to 2012 was on average 2.5% p.a., with a decrease of 2.0% in 2009. However, from **2010 to 2012** growth **increased dramatically** at 4.7% p.a. (10-year average: 3.4% p.a.; 20-year average: 3.2% p.a.).

- In 2012 **the tax revenue of the government** (ESA 95 basis) expanded by a total of EUR 3.8 billion or 4.7% on the previous year. The greatest increase was due to **direct taxes** (ESA 95-Code D5; 2012: +5.5%). In particular, **payroll tax** (including the one-off effect of the ex ante income tax on private pension insurance: +8.6%) had a dynamic development. But also the amount of revenue from **corporation tax** (+4.5%) and from the **bank stability levy** (including the new special contribution +14.3%) showed a brisk rise. Additionally there was also a marked increase in **indirect taxes** in 2012 (+4.0%).

- On an **international comparison** in 2012 with a **tax rate** of 44.3% of GDP (including imputed social security contributions and EU contributions) Austria ranked well above the **Euro-17- and EU-27-averages** of 41.6% and 40.7% of GDP (Source: European Commission, May 2013). Of the 27 EU countries only Denmark (49.1% of GDP), Belgium (47.5% of GDP), France (47.1% of GDP) and Sweden (44.8% of GDP) recorded higher tax rates.

- In 2012 **total expenditures of all public budgets** reached a volume of EUR 158.6 billion and thus were EUR 6.8 billion or 4.4% above the previous year's level. This sharp increase (20-year average: +3.0% p.a.) was due to **higher crisis-related supporting measures to restructure Austrian banks,** which, at EUR +2.1 billion, accounted for approximately one-third of expenditure growth in 2012. If the expenditures for the bank sector are not taken into account, government expenditures in the year under review, with an increase of 3.1% on a time comparison, showed growth that was only slightly above average.

- In 2012 once again **nationalized or partially nationalized banks** made use of the federal government's aid measures in accordance with the **Financial Markets Stability Act (**Finanzmarktstabilitätsgesetz) (Kommunalkredit Austria AG, Hypo Alpe-Adria-Bank International AG, Österreichische Volksbanken AG). Also the province of Tirol provided aid to the Hypo Tirol Bank (expenditures for banks 2012: EUR 3.1 billion: 2011 EUR 1.0 billion). At the same time **revenues** from the **bank package** (dividend payments on participation capital, fees for guarantees) decreased slightly to EUR 0.5 billion (2011: EUR 0.6 billion). There were no **repayments of participation capital.** In addition to these payments for aid measures specifically for banks as of January 1, 2011, the **stability levy for banks** (2012: EUR 0.6 billion including a special contribution) was introduced as a general crisis contribution.

- The **cost-cutting efforts** of all levels of government were reflected in the **personnel and material expenditures** in 2012. At a price-increase rate of 2.6% (HICP) and of 2.2% (GDP deflator), **intermediate consumption** rose on a comparison with the previous year by 2.2% and **compensation of employees** by 2.6%. Consolidation measures included a slight **reduction in employment** and **special funding forms**, such as **leasing** and **investive non-government expenditures**.

- Also in the period 2008 to 2012, **personnel expenditures** of the government (compensation of employees) showed a below-average increase of 2.8% p.a. to most recently 18% of total expenditures. In this category expenditures of the government for the **education system** were the dominant factor at almost 40%, followed by **general administration** at 19%.

- In 2012 **above-average expenditure increases** were evident – in addition to the crisis-related expenditures for banks in the form of capital transfers (+6.1%) – mainly in the areas of **subsidies** (+5.5%); funding of **provincial hospitals** seems to be responsible for this increase.

- Within the period 2008 to 2012 **transfers to market producers** (subsidies and capital transfers according to ESA 95) with a most recent share of 13% of total expenditures showed the sharpest increase of 5.5% p.a. on average. In recent years, the cause was (deficit-relevant) **grants to banks** within the framework of the Austrian aid measures. The largest expenditure areas within this category were **health care** (mainly the in-patient sector; provincial hospitals) and **transport** (enterprises of the provincial and local governments with close government ties).

- The main ESA 95 subcomponent, **monetary social benefits to private households**, with a most recent share of 37% of government expenditure volume, increased at an above-average rate of 3.7% p.a. in the years 2008 to 2012. In this category of monetary transfer benefits, in particular **pension payments** and government **unemployment benefits** rose sharply. As early as 2012, pension payments accounted for 66% and benefits in the framework of unemployment for 6.2% of monetary transfers of the government (2008: 65%, 5.2% resp.).

- The dynamics of **social payments in kind to private households** (mainly **home-attendance care** and **health care**) with an expenditure share of 11% leveled off. While increases in the years before 2008 of more than 6% p.a. were recorded, the expenditure rise in 2009 and 2010 decreased to about 2% and in 2011 and 2012 stood at 4.2%. Cost-cutting measures (mainly in the area of medicinal products) and lowering the VAT rate for medicinal products (to 10%) as of 2009 reduced the expenditure dynamics temporarily. A comprehensive **structural reform of the health system** including the extramural area was resolved at the end of 2012 and introduced and, according to expectations, should lead to a **maximum expenditure development on the level of the nominal GDP increase**.

- For years **direct expenditures of the government for investments** have been extremely low, in particular as a result of **spin-offs** (e.g. the motorway operator ASFINAG, the Federal Real Estate Company (BIG), fee-based municipal services, hospitals, public utilities companies, real-estate companies, etc.) but also due to **special funding** (e.g. leasing). At the end of 2012, the **leasing volume** of the public (especially real-estate leasing used by the provinces) is likely to have reached a scale of at least EUR 4.6 billion (end of 2011: EUR 5.0 billion). Also the (revised) recording of the Austrian Federal Railways (ÖBB) infrastructure investments is not reflected as government gross investments, but mainly in transfers (2012: capital transfers of approximately EUR 1.4 billion). Additionally, infrastructure investments on the municipal level are carried out by local-government owned real estate enterprises in the corporate sector (Hauth/Grossmann 2011/12). In 2012 the amount in the **expenditure category for gross capital formation based on ESA 95** was at a level of only EUR 3.0 billion.

- At an average of 3.3% p.a. the **medium-term growth of the total expenditures of all public budgets** in Austria in the years 2008 to 2012, which are attributed to the financial, economic and government debt crisis are slightly below 3.6% p.a., which is the 10-year average. The **nominal GDP** increase in the years 2008 to 2012 was 2.3% p.a. on average, and the increase in the years 2003 to 2012 was 3.6% p.a.

Sub-sectorial Budget Developments[1]

- The fiscal position of the **provincial and local government** levels improved in 2012, while the budget deficit of the **federal government** rose on the previous year: The budget deficit on the federal level rose in the reporting year 2012 to 2.6% of GDP and that of the provincial level (not including Vienna) fell to 0.1% of GDP. There was even a slight surplus of 0.1% of the budget balance on the **local level**. **Social security funds** also recorded a slight budget surplus in 2012.

- This differing budget development among the various levels of government was mainly due to the previously mentioned **additional expenditures of the federal government** (bank packages) **caused by the crisis.** In 2012 on the **provincial and local government levels**, the moderate expansion of expenditure (2.0%) was accompanied by considerable additional revenues (e.g. increase of shared federal government revenues, interim settlement of shared revenues, fee increases in Vienna).

- The **consolidation success** (improvement in the fiscal balance) on the provincial level in 2012 measured on the number of inhabitants was most obvious in Carinthia (EUR 242 per capita), followed by Burgenland (EUR 210 per capita) and Vorarlberg (EUR 195 per capita). The highest **per capita budget deficit** in the year under review was recorded in Styria (EUR 198), followed by Salzburg (EUR 143) and Lower Austria (EUR 129).

- In making sectorial analyses of the government, in general it needs to be taken into consideration that the sectors are dependent on **the institutional and legal circumstances** (task allocation, taxation competences, fiscal equalization regulations) within the public sector. There are three points to be mentioned for the year 2012: firstly the transfer of the legislative and implementation powers regarding the **provincial long-term care allowance** to the federal government, resulting in savings of the provinces and local governments, as the compensation payable to the federal government was frozen to the amount of their annual expenditure of 2010, secondly the phased

1 The data reflect preliminary results for the year 2012 as of March 2013.

increase in the federal-government **grant** for the **long-term care fund** to the provinces (to net EUR 233 million until 2016), thirdly the increase and the extension of the **earmarked subsidy** of the federal government to the local governments for **child care** until 2014, which is co-financed by the provincial governments in the same amount.

Public Debt and Structure of Creditors

- The **public debt of Austria according to Maastricht** reached EUR 227.4 billion or 73.4% of GDP at the end of 2012 (end of 2011: 217.9 billion EUR or 72.5% of GDP). The debt expansion in the year under review was EUR 9.6 billion or 0.9 percentage points of GDP and was considerably higher than the deficit of the general government at EUR 7.7 billion. **Debt-increasing effects** came to bear that are not reflected the government's net borrowing (stock-flow adjustments), mainly on the **federal government level** due to **international measures to stabilize the euro** in the amount of EUR 4.6 billion.

- The **debt level** that resulted from the measures of the **Austrian bank package** (participation capital, holdings) amounted to a total of EUR 8.7 billion at the end of 2012. Additionally, since 2008, **European aid measures** (loans granted to Greece, EFSF rerouting, ESM capital) have raised the debt level of the federal government in the form of **stock flow adjustments** by a further EUR 6.7 billion.

- A higher **primary surplus** than EUR 0.2 billion (not including stock-flow effects) would have been required in the year under review in order to **stabilize the public debt rate** (debt-increasing interest effect: 3.6%; debt-reducing growth effect: 3.1%). Economic growth that is above the average interest rate of the public debt is an **exception** for the first time in over 20 years and is not even a matter of course in the case of an extremely low market interest-rate level, as is the true at present.

- The **creditor structure of the public debt** in Austria is dominated by the **federal debt**, which accounts for almost 90% of the total public debt according to Maastricht. In 2012 the **share of foreign debt** decreased slightly and was 73.6% at the end of the year 2012. **Domestically,** in 2012, the Austrian **banking sector** became slightly more significant as creditor of the public debt (end of 2012: 14%). **Private investors** (companies and private households) held about EUR 1.5 billion of the total public debt through direct ownership of securities or federal treasury bills and continued to play a subordinate role in the financing of the state.

- **On an international comparison**, at the end of 2012, at 73.4%, the public debt of Austria was below the average values of the EU (EU-27: 86.9% of GDP; Euro-17: 92.7% of GDP) but considerably higher than the EU maximum limit of 60% of GDP.

Financial Debt of the Federal Government

- In the federal budget estimate 2013, the **overall target** for the **debt management of the federal government** was stated as "providing the required funding with a **risk-averse focus** at costs **for medium to long-term funding** that are as **low** as possible". According to the Federal Budget Act 2013 (Bundeshaushaltsgesetz) targets are to be defined for each subdivision.

- On January 13, 2012, the **rating agency Standard & Poor´s** (S&P) downgraded the long-term country ratings of nine countries of the euro area (**among them also Austria**) – on the backdrop of increasing risk premiums. Austria **still** has the **best creditworthiness rating** with **other significant rating agencies** (including Fitch und Moody´s).

- **Demand** for debt instruments of the **Republic of Austria** (and by means of intergovernmental funding, for provinces as well) was consistently **brisk** in 2012 in spite of difficult conditions on the financial markets. At times Austria was even able to sell its **money market instruments** at **negative interest rates**.

- At the **end of 2012** the **adjusted federal government debt** (not including own holdings of federal securities) reached the amount of EUR 189.6 billion or 61.2% of GDP (end of 2011: EUR 183.2 billion or 60.9% of GDP). By the end of 2012, liabilities with **exchange rate risks,** taking account of derivative transactions (foreign exchange forward transactions, swaps), had been eliminated entirely. The **federal government debt** accounted for about 83% of the total public debt according to Maastricht at the end of 2012.

- The portfolio of **federal loans receivable** (after swaps) from the **provinces** (Burgenland, Carinthia, Lower Austria, Upper Austria, Salzburg, Vienna) rose by a total of EUR 0.5 billion to EUR 8.0 billion in 2012. This form of funding covered approximately **60%** of the total recorded **financial debt of the provinces including Vienna** in administrative terms (preliminary figure at the end of 2012: EUR 13 billion).

- The risk averse orientation of the federal government was mainly obvious in the **interest and maturity structure** of the federal government debt: At the end of 2012, the adjusted debt (after swaps) showed a long remaining term to maturity of 8.5 years and 96% of the liabilities have fixed interest rates. As of the end of 2012 the **effective duration** reached the value of 6.9 (end of 2011: 6.4) and thus was at the upper end of the range determined in autumn 2011 of 5.0 to 7.0.

- In 2012, at EUR 26.3 billion the **funding volume (federal government gross borrowing)** turned out to be higher than in the previous year (2011: EUR 18.9 billion). **Euro government bonds with very long terms** of up to **50 years** and an average time to maturity of 16.1 years (2011: 11.5 years) constituted the main source of finance also in 2012. Federal bond issues reached a share of 81% of total gross borrowing (taking account of swaps).

- The **interest servicing of the federal government** (**including miscellaneous expenditures**) amounted to a total of EUR 6.6 billion in 2012 and was EUR 0.2 billion less than the previous year's value, as a result of **above-par issues** (2011: EUR 6.8 billion). As even in the previous years, the amount was considerably less than in the federal budget estimate. The **net lesser amount in interest servicing** in comparison with the **budget estimate** (differing amount 2012: EUR 1.4 billion) contributed by more than one-third to the lesser net deficit of the federal government in the amount of EUR 3.3 billion.

- **Parameters on the budgetary burden of the interest servicing** of the federal government show the following: The **interest-to-net-tax ratio of the federal government** (interest payments including miscellaneous expenditures measured against the net tax revenue of the federal government) was 15% in 2012 and the **interest-servicing ratio of the federal government** (table 29) was 2.1% of GDP.

- According to the **Federal Budget Estimate 2013**, payments for interest (including miscellaneous costs) will amount to a **total** of EUR 6.5 billion. A considerably higher amount of EUR 7.3 billion for 2013 was estimated in the **operating budget** for the **period-adjusted interest servicing** of the federal debt, as the revenues from above-par issues will only have a marginal effect in this connection.

Conclusions and Outlook

- In spite of the weak economy and higher additional expenditures for banks as a result of the crisis, **in 2012, the year under review,** Austria more than **adhered to** its **moderate consolidation course**, which provides for a balanced public budget by 2016. Based on improved basic data for 2012, the medium-term **consolidation path** was **not tightened**.

- The extremely **low market interest-rate level** supports the **current** and – in combination with the **risk-averse focus of the debt management of the federal government** (long duration, high fixed-interest component) – the **medium-term consolidation path** of Austria. However, in general it is to be noted that debts should be repeatedly refinanced (at the current market interest-rate level) unless there is a reduction in debt (in absolute terms).

- In 2009, as a result of the **financial and economic crisis** and the **tax reform of 2009**, a distinctive decrease in tax revenue (–4.9%) was recorded. In the following years, 2010 to 2012, **however, the tax loss** was more than compensated **by means of new taxes** (mainly bank fees, CO_2 surcharge on the mineral oil tax, airline ticket tax, ex ante income tax on private pension insurance, increased taxation of foundations) and **economic development** until the middle of 2011, that was, as a whole, **brisk**. There are limitations on additional **consolidation measures on the revenue side**, which would cause an overall increase in the tax rate, in light of already high level (2012: 42.7% of GDP not including imputed social security contributions and including EU contributions).

- The planned **deficit reduction in 2013** in the **current stability program** of 0.2 percentage points of GDP (budget deficit of the general government 2013: 2.3% of GDP) **is slight** in comparison to the years 2014 to 2016 (average improvement of the deficit rate at 0.7 percentage points p.a.). Starting with the year 2014, the budget consolidation course is expected to be supported by the improved economic environment. However, future economic frameworks will be afflicted with high **insecurities** on the background of the public debt crises in the euro area and the fragility of international banking and financial systems.

- For 2013 initially an increase in the **structural budget deficit of 1.4% of GDP to 1.8% of GDP** is part of the stability program and then not until the following years is it to be reduced to 0.4% of GDP (2017). This course **may be oversubscribed** due to the base effect of the year 2012.

- The shift to the (revised) ESA 2010 as of September 2014 will, among other things, raise the GDP level and result in a reclassification of institutional units in the government sector (including ÖBB-Infrastruktur (Austrian Federal Railways infrastructure provider) federal real estate company (BIG), provincial hospitals and spun-off municipals enterprises).

- In May 2013 the **European Commission** determined that, considering the difficult economic conditions, **Austria** managed to **assert itself well** and that **progress towards complying with** the multi-dimensional **fiscal rules** is likely to take place in the coming years. However, it would be necessary to carry out **structural reforms in Austria** (including reforms in connection with pensions, fiscal equalization, disentangling competencies, education, home-attendance, tax structure, state-owned banks). Additionally, among other things, the markedly declining **expenditure rate** and the **macro-economic growth scenario** in **the most recent stability program** are considered to be **too optimistic.** These assessments of the European Commission are, to a large extent, in keeping with those of the Government Debt Committee.

- The **new fiscal architecture in the EU (six pack, Fiscal Compact, two pack, European Semester, etc.)** and the **Excessive Deficit Procedure for Austria** (since December 2009 according to Article 126(6) of the Treaty on the Functioning of the European Union) are determining Austria's fiscal framework. The **economic necessity** of a **budget policy that focuses on stability** and has the goal of a balanced budget over the economic cycle should therefore, in consideration of the high government debt in Austria, the instable international environment and the current legal framework, be uncontested.

- **High public debt** restricts **budgetary leeway** and may cast doubt on the **long-term sustainability** of a country's budget. The instable international situation is also contributing to greater risk aversion on financial markets, which can more rapidly trigger negative debt-interest spirals.