BMF
FEDERAL MINISTRY
OF FINANCE

Austrian Stability Programme

Update for the period 2015 to 2020

Federal Ministry of Finance

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This document is an unofficial translation of the German original version and can be accessed at the web page of the Federal Ministry of Finance (http://www.bmf.gv.at).

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1. Introduction

In accordance with Regulation (EC) No 1466/97, amended by Regulation (EU) No 1175/2011, euro area Member States are required to submit a Stability Programme each year, while other EU Member States submit a Convergence Programme.

The format and content of the Austrian Stability Programme (Update for the period 2015 to 2020) are in line with the requirements of the Code of Conduct as endorsed by the ECOFIN Council on 3 September 2012.

At the same time, this document covers the national medium-term budgetary plan according to Article 4 of Regulation (EU) No 473/2013 ("Twopack").

The Federal Government continues its stability-oriented and sustainable fiscal and economic policy strategy. The following key policy areas were identified:

- Implementation of the tax reform 2015/2016 and reduction of non-wage labour costs
- Additional stimuli in the areas of internal and external security and measures to address the refugee inflow
- Acceleration of future-oriented investment to strengthen the growth potential of the Austrian economy, including support to the digital economy agenda, the labour market and employment creation
- Continuation of structural reforms

This programme is based on the Federal Budgetary Framework Law 2017 to 2020 (BFRG) and the parameters of the Austrian Stability Pact (ÖStP), national accounts data from Statistics Austria (STAT) until 2015, the medium-term economic forecast by the Austrian Institute of Economic Research (WIFO) as of March 2016, and calculations and assessments by the Federal Ministry of Finance (BMF).

2. Economic situation in Austria

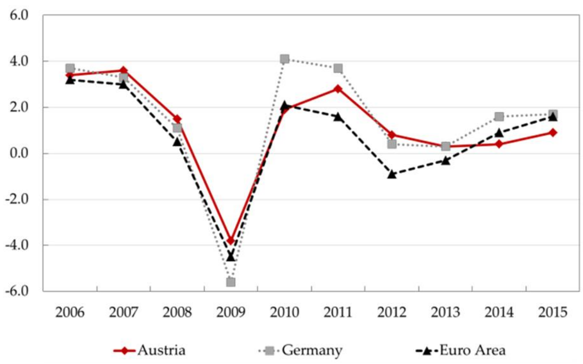
2.1. Economic development in 2015

In 2015, the Austrian economy grew by +0.9% in real terms – the fourth consecutive year with growth below 1%, yet a marked acceleration compared to the year before. The strongest contribution came from private and public consumption, while the contribution of net exports was also slightly positive. The contribution of investment was negative for the fourth consecutive year; however, the investment ratio was still among the highest in the EU. A large part of the increase in private and public consumption was due to expenditures for asylum seekers.

The number of persons in employment rose by more than 38,000 (+1%) in 2015; a large part of the increase was part-time employment. At the same time, the labour force expanded by approximately 73,000 persons. As a result, the unemployment rate as defined by Eurostat increased by +0.1pp to 5.7% in 2015.

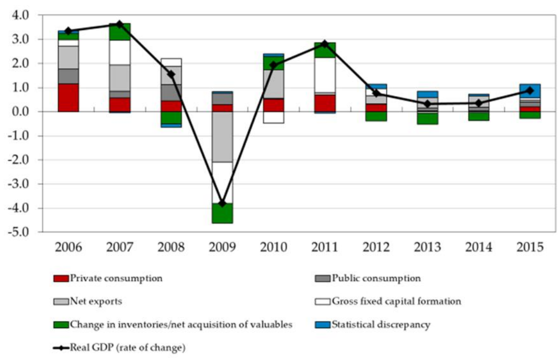
Austria continued to experience higher inflation than the euro area, with housing rents, restaurants and hotels being the main price drivers.

Figure 1: Real GDP growth



Left axis: Rate of change over previous year in%
Source: EUROSTAT

Figure 2: Contribution to growth



Left axis: Contribution to real GDP growth in percentage points
Source: STAT

2.2. Short to medium term perspective (2016 to 2020)

From 2012 to 2015, the Austrian economy expanded moderately by an average of +0.4% per annum in real terms. At the same time, the unemployment rate increased from 4.9% to 5.7%, while nominal wages grew at a stable rate. In 2016, growth-stimulating effects of the tax reform will boost activity by +0.4% of GDP, while expenditures for asylum seekers are estimated to add +0.3% of GDP.

Investment activity is expected to continue the acceleration, which started in the second half of 2015, whereas the growth contribution of the external sector will be largely neutral. For 2016 as a whole, real GDP is expected to grow by 1.6%.

In the following years, the stimulating impact of the tax reform will gradually fade out, while investment will continue to expand moderately and external demand will benefit from the acceleration of world trade. GDP is expected to grow at a pace slightly above the potential rate until the end of the projection horizon.

The labour market will continue to benefit from rising employment, in particular in the part-time segment. Labour supply will expand due to the increase in the effective retirement age, growing labour participation of women, and the immigration flow. As a result, the unemployment rate is expected to gradually increase to 6.3% in 2018 and likely stay at this level for some time.

2.3. Financial sector developments

Growing global macroeconomic risks (especially economic developments in China and several emerging markets), as well as monetary policy decisions and expectations played an important role in the development of long-term interest rates and equity markets during the past six months.

Long-term interest rates

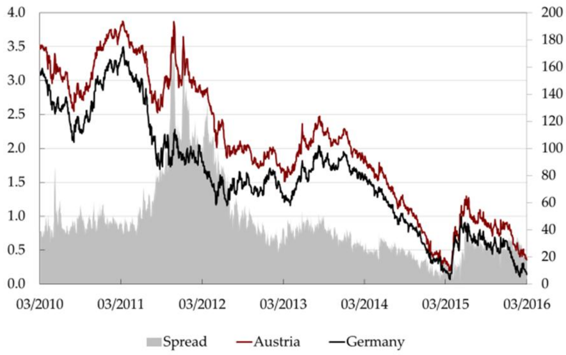
Austria’s long-term interest rate (10-year government benchmark bond yield) showed a significant downward trend since September 2015, decreasing from around 1% in September 2015 to around 0.35% in March 2016. Developments were influenced by expectations with regard to inflation and economic growth and monetary policy action by the European Central Bank (ECB). The spread of 10-year yields over similar-maturity German Bund yields has remained relatively stable since autumn 2015, at 20-30 basis points.

Equity market

The Austrian equity market (ATX) showed a very similar trend to the Euro-Stoxx-50-Index during the past six months. From December 2015, a price adjustment with increasing volatility was observed owing to macroeconomic risks in China and growing global uncertainty. The downward trend came to a halt in mid-February 2016, as the euro area economy has remained largely resistant to increasing global risks.

The total amount traded on the Vienna Stock Exchange rose in 2015 and reached around 58.44 bn €. As a result of the performance of the ATX, market capitalisation increased by 10.97% year-on-year to 87.93 bn €. Securities issuances could not keep pace with previous years. In the equity segment only minor capital increases took place. In the bond segment 36 corporate bonds with a total issuance volume of 5.3 bn € have been placed.

Figure 3: Long-term interest rates



Right axis: Spread in basis points
Left axis: Long-term interest rates in%
Source: Macrobond (as of 31 March 2016)

Figure 4: Financial market performance

Left axis: Index
Source: Macrobond (as of 31 March 2016)

Banks (data as of end September 2015)

The consolidated balance sheet of Austrian credit institutions continued to decline in 2015. As of end-September 2015, total assets amounted to 1,076 bn €, about 1.8% lower compared to 2014. This decline was due to adverse market conditions in several countries in Central and Eastern Europe, as well as to banks' efforts to improve their capital ratios.

The increase in lending to households and enterprises in Austria remained stable and overall positive in 2015. New lending to private households was increasingly driven by housing loans. The decline in foreign currency loans persisted in 2015. However, due to the unexpected appreciation of the Swiss franc in January 2015, the corresponding euro amount increased again.

The credit exposure in the CESEE region is highly diversified. Austrian banks continued to reduce their activities in less attractive countries during 2015.

In Austria, credit quality has improved significantly, whereas it has stabilised in the CESEE region, though at a lower level.

The profitability of the Austrian banking sector improved in 2015 due to declining credit risk provisions, which was partially offset by the decrease in net interest earnings caused by the low interest rate environment. The consolidated capital base of Austrian banks improved, but remains below the average by international standards. The core capital ratio stood at 12.2%. The strengthening of the capital base pursued during the past few years needs to continue.

Against this background and based on a recommendation by the Financial Market Stability Board (FMSG), the Financial Market Authority (FMA) requires twelve banks to build up a Systemic Risk Buffer of up to 2% of risk-weighted assets as of 1 July 2016.

Insurance sector (data as of end September 2015)

In 2015, the domestic insurance sector performed significantly better than in 2014 in terms of premiums earned. It recorded an increase in domestic premium income by about 2.4% to 13.4 bn €.

The technical account balance totalled 466 m €. The financial result amounted to 2.3 bn €. The result from ordinary activities was 1.1 bn €, down by -11.5 %. This development was mainly caused by the low-interest rate environment, coupled with the fact that earnings from investment declined more than expenditures for investments.

Investment funds, pensions funds und corporate provident funds (data as of end December 2015)

The investment volume of Austrian investment funds remained stable compared to the year before at around 157.8 bn €. The average performance of pension funds (“Pensionskassen”) stood at 2.3%, compared to 7.82% in 2014. Total assets of pension funds increased slightly to 19.65 bn €. The number of prospective beneficiaries rose to 880,441 persons, a 2.55% increase. Assets held by corporate provident funds (“Betriebliche Vorsorgekassen”) rose by 13.4% to 8.3 bn €, primarily as a result of inflows as a result of legal requirements. The performance stood at 1.2%, compared to 4.08% in 2014.

Assessment of rating agencies

In October 2015, the rating agency Moody´s downgraded the rating outlook (government bond rating) from “stable” to “negative” (the government bond rating was confirmed at the top rating of “Aaa”), arguing that potentially weak growth in the medium-term may negatively affect the relatively high public debt ratio.

Among the strengths of Austria Moody's mentioned the diversified economic structure, stable political institutions, the low debt ratio of private households and the absence of significant macroeconomic imbalances.

In February 2016, the rating agency Fitch confirmed the long-term rating of Austria at "AA+" (second-best rating) with an unchanged and stable outlook. In March 2016 Standard & Poor´s (S&P) also affirmed the Austrian long-term rating at "AA+" (second-best rating) and the rating outlook at "stable". S&P does not expect a deterioration of the rating due to decisions concerning the wind-down entity of Hypo Alpe Adria, the publicly-owned Heta Asset Resolution. According to S&P, economic growth during 2016-2019 may be slightly higher than expected, as Austria's competitive and export-oriented economy will overcome the stagnation during the past four years. The exposure of the Austrian banking sector to the CESEE region remains a potential risk factor. By contrast, euro area membership and a strong and independent judicial system were positive factors in S&P's assessment.

3. Economic and budgetary policy strategy

The Austrian Federal Government continues its stability-oriented, sustainable and growth-oriented fiscal and economic policy strategy. The budget balance adjusted for cyclical and one-off effects has steadily improved in recent years and turned positive in 2015. It remains the highest priority for Austrian budgetary policy to sustain these consolidation efforts and comply with EU fiscal rules.

The following key policy areas were identified by the Federal Government:

- Implementation of the tax reform 2015/2016 and reduction of non-wage labour costs
- Additional impetus in the areas of internal and external security and measures to address the refugee inflow
- Acceleration of future-oriented investment to strengthen the growth potential of the Austrian economy, including support to the digital economy agenda, the labour market and employment creation
- Continuation of structural reforms

The key policy areas education, science, research and development as well as infrastructure will continue to be given high priority. The proactive measures related to science, research and education implemented during the past few years will be continued. Child-care facilities will be expanded. Expenditure for early language training will be tripled. Additional funds will be provided for all-day schooling, aimed at increasing the number of all-day school places and provide after-school care for longer hours. The budget for universities for the contract period 2016-2018 will be raised significantly. The Federal Government will provide 1 bn € to support investment in broadband infrastructure and the digital economy, using revenues from the sale of mobile phone licences in 2013.

Compared to earlier budgetary plans, more financial means will be provided in particular in the areas of security and integration. Additional budgetary appropriations in the sub-category 11 (Ministry of the Interior) are due to rising expenditure for basic needs provision as well as for security and border management. Border control also requires additional resources for the Ministry of Defence (sub-category 14), which will conduct assistance missions. Personnel capacity in the Ministry of the Interior will be expanded to cope with the extra burden on the Federal Agency for Asylum and Migration Affairs, where additional posts will be provided. In addition, appropriations for international aid and bilateral cooperation will be expanded compared to earlier plans (sub-category 12).

Current challenges highlight again that Austria will not be able to address the refugee crisis on its own. Assuming that a European solution is going to take effect in the medium term, additional funds for border control and management have been budgeted for the years 2016 and 2017 only. From a budgetary perspective, these are temporary measures, which should be defined as one-offs. The additional expenditure on refugees and asylum seekers will thus be taken into account in the assessment of the 2016 structural deficit. The European Commission already clarified that this is possible for the years 2015 and 2016. The Federal Government will advocate the consideration as a one-off also in the year 2017. Budgetary appropriations to support the successful integration of refugees will also be increased. The Integration Fund, established last year and endowed with 75 m € for 2016, will be expanded. On 25 January 2016 the Ministerial Council agreed to provide extra funds out of the margins inherent in the medium-term expenditure framework law. The ministries involved are the Federal Ministry of the Interior, the Federal Ministry for Europe, Integration and Foreign Affairs, the Federal Ministry of Labour, Social Affairs and Consumer Protection and the Federal Ministry of Education and Women's Affairs. The 2016 financial resources of the Integration Fund will be distributed as follows: The Federal Ministry of the Interior is allocated 16.5 m €, the Federal Ministry for Europe, Integration and Foreign Affairs 25 m €, the Federal Ministry of Labour, Social Affairs and Consumer Protection 10 m € and the Federal Ministry of Education and Women's Affairs 23.75 m €. In addition to the already approved appropriations from the Integration Fund, the Federal Ministry of Education and Women's Affairs (sub-category 30) is allocated additional resources for language support, basic education and literacy. The Ministry for the Interior and the Federal Ministry for Europe, Integration and Foreign Affairs will expand German language training. The Public Employment Service Austria (AMS) will be allocated additional funds for labour market integration measures. In total, an additional 500 m € are provided for integration policy measures in 2016 and 2017. Medium-term developments of the refugee situation and the required integration measures are difficult to forecast. The situation needs to be monitored continuously and budgetary appropriations may have to be adjusted as required and subject to examination. It must be ensured that in consultation with the States ("Länder"), resources will be optimally allocated to all areas (for example: avoiding duplication, accurate allocation of funds under regional aspects). Optimal allocation of resources in all areas and in agreement with the States has to be ensured (e.g.: avoid doubling of efforts, targeted measures taking into account regional factors).

A continued relief for the budget are the favourable conditions for refinancing and new issuances of sovereign debt and the moderate inflation, which helps contain increases in pensions and public sector wages.

The Federal Government combines fiscal consolidation with continued progress on structural reforms in areas such as administration/better regulation, financial relations between levels of government, and education, as agreed in the government's work programme.

The Federal Government remains committed to an effective and efficient, performance-based administration. Administrative reform is progressing; bureaucracy is reduced wherever possible and reasonable, and administrative procedures are being modernised continuously. The Committee for the Reform of Competencies and Deregulation ("Aufgabenreform- und Deregulierungskommission") reviewed the competencies of the public administration and presented 245 specific reform proposals to the government. Subsequently, the government in the Reform Dialogue of June 2015 agreed to implement a number of measures to reduce the administrative burden, e.g. simplification of administrative steps, reduction of administrative burden to start a business and a further expansion of e-Government services. In addition, a package of measures to reduce red tape was agreed, including inter alia an acceleration of approval procedures and a relaxation of information and reporting requirements (see chapter 4.1. "Administrative Reform").

Another high-priority reform project by the Federal Government is the new financial equalisation agreement between the federal government, the States and the municipalities, which will take effect from 1 January 2017. Several working groups including representatives from the federal, State and municipal level have been established to generate specific proposals on how to improve intergovernmental relations in Austria (see chapter 4.2. "Reform of Financial Equalisation").

In November 2015 the Federal Government agreed on an education reform. The key element is an increase in the efficiency of the system through a strengthening of the autonomy of schools, the establishment of school clusters, the consolidation of federal and State level school administration under the so-called education directorates ("Bildungsdirektionen"), and an increase in transparency. In addition, the quality of elementary schooling will be increased and the school entry phase will be made more effective. The specific measures will be implemented in 2016.

In the area of public pensions, several budgetary improvements have taken place in recent years. The most important success is the increase in the effective retirement age and in the employment ratio of older workers. Measures have been taken to contain access to early retirement schemes and invalidity pensions. The effective retirement age continued to increase in 2015. Also the employment rate of older people and of women rose in 2015. This development was also a result of the targeted active labour market policies for people aged 50+ and the expansion of child care facilities. This contributes to the sustainability of public finances in general and of the public pension system in particular. Another measure to extend working careers was the introduction of a part time-pension scheme, which passed Parliament in mid-2015 and took effect on 1 January 2016. Moreover, in October 2015, the Government summit on the labour market and economic situation agreed a bonus-malus-system as an incentive for firms to employ older workers.

At the end of February 2016, the pension summit endorsed measures to increase the attractiveness of longer working careers. Thus, the public pension system will become more sustainable and labour market participation of older workers will increase.

The increase in the labour market participation of older workers is among the priority areas of active labour market policy. Restricted access to early retirement schemes have markedly raised labour supply among older workers. Important labour market policy instruments with a view to re-integrate older workers are the integration subsidy ("Eingliederungsbeihilfe"), the combined wage ("Kombilohn"), and subsidised employment in socio-economic and non-profit projects.

The tax reform 2015/2016 entered into force on 1 January 2016. The aim of the reform 2015/2016 is a marked relief of the tax burden on wages and direct income, the simplification of the Austrian tax system, a gradual move towards a fully-automatised tax assessment and the stimulation of the economy through additional measures for growth and jobs.

The budget neutrality of the reform was ensured by a number of financing measures. Half of the financing effort will come from the fight tax evasion and social fraud. The most important measures in this area are the compulsory introduction of electronic cash registers ("Registrierkassenpflicht"), the establishment of a central registry of bank accounts and easier access by the tax administration to taxpayers' bank accounts. Tax increases and a "solidarity package" are expected to generate 1.3 bn € in extra revenues. Another 1.1 bn € will be provided through the streamlining of public administration and subsidies. The tax reform 2015/2016 is expected to stimulate the economy, generating an increase in domestic demand, which in addition to the projected acceleration of export activity should have positive effects on the labour market.

In addition to the tax reform, the Federal Government has enacted measures that stimulate the economy and strengthen the business environment. A public building programme is expected to create 30,000 new residences, supported by a newly-founded residential construction bank. The R&D tax credit was increased from 10 to 12% to increase the attractiveness of the business environment and as an incentive for international firms to expand their R&D-activities in Austria. Tax incentives were also expanded for international researchers and scientists. In addition to existing benefits for researchers and scientists migrating to Austria, a lump-sum allowance was introduced was introduced. Domestic firms will be supported by a further reduction in non-wage labour costs and by providing for new and modern ways of financing such as crowd-funding and SME-financing companies.

In autumn 2015 a reduction in non-wage labour costs for employers in three phases was endorsed. As of January 2016, the employers' contribution to the insolvency contingency fund was reduced by 0.1 pp. From 2017 onwards, the employers' contribution to the family burden equalization fund will be reduced by 0.4 pp and from 2018 by another 0.2 pp. These measures will reduce non-wage labour costs for firms by almost 1 bn € per year.

The Federal Government's policy strategy creates significant financial incentives to consolidate the recovery of the economy. The measures strengthen the attractiveness of the business environment, while ensuring fiscal room for manoeuvre and sustainable public finances.

3.1. Medium-term budgetary objective

The medium-term budgetary objective (MTO) is the anchor of the preventive arm of the Stability and Growth Pact. The MTO is defined in structural terms, i.e. the nominal budget balance is adjusted for cyclical effects and one-off and other temporary measures. EU Member States specify their country-specific MTOs, which however must comply with the country-specific lower bounds for the MTOs as calculated by the European Commission, and the provisions specified in the European Fiscal Compact.

The calculation of the minimum requirement is updated every three years, most recently in February 2016. The calculation is based on pre-defined formula. In accordance with Regulation (EC) 1466/97, version Regulation (EU) 1175/2011, the following criteria have to be fulfilled: (i) provision of a safety margin with respect to the 3% of GDP deficit limit, (ii) ensuring budgetary sustainability or sufficient progress towards budgetary sustainability, and (iii) in compliance with (i) and (ii), allowing room for budgetary manoeuvre, in particular with regard to public investment.

In addition to the calculated limits, the MTO is also subject to political commitments under the European Fiscal Compact. According to the latter, Austria's MTO must be at least -0.5% of GDP as long as the public debt ratio exceeds 60% of GDP. The country-specific MTO has to comply with the more demanding requirement either from the calculation or the political commitment. In the case of Austria, the lower limit for the MTO is -0.5% of GDP for the period 2017-2019.

Austria defines its MTO for the general government at -0.5% of GDP for the period from 2017. Austria's MTO is consistent with the minimum requirement.

3.2. Budget execution in 2015

General government finances in 2015 developed better than expected in autumn 2015. According to the latest calculations by STAT, the general government deficit according to Maastricht stood at 1.2% of GDP, with the Maastricht-deficit of the federal government at 1.3% of GDP. The States and the municipalities together achieved a small surplus of 0.07% of GDP and the Austrian Social Insurance Institutions recorded a surplus of 0.05%. In 2014, the deficit according to Maastricht was 2.7% of GDP and in autumn 2015, a deficit for the general government of 1.9% of GDP was expected for 2015.

The structural deficit also improved significantly in 2015. A small structural surplus was recorded in 2015 at the general government level. In 2014 the structural deficit stood at 0.7% of GDP. Also the general government debt ratio, at 86.2% in 2015, was slightly lower than expected (86.5% of GDP according to plan).

Some exceptional effects for 2015 have to be considered. In anticipation of the tax reform 2015/2016, revenues from direct taxes benefitted from anticipation effects, especially with regard capital yields tax on dividends. By contrast, general government expenditure increased significantly as a result of the costs related to the refugee inflow. Another special factor also affected the Maastricht deficit of the federal government: In July 2015 the Austrian constitutional court annulled the law on the restructuring of Hypo Alpe Adria International AG (HaaSanG), which according to ESA 2010 rules led to an increase in expenditure and in the Maastricht deficit of about 1.7 bn € or 0.5% of GDP in 2015.

The economic environment in 2015 was characterised by low economic growth and high and rising unemployment. When the budget was planned in April 2014, real GDP was expected to grow by about 1.7%. However, real economic growth turned out just below 1%. Also unemployment developments were worse than expected. While unemployment was estimated at 8.1% (according to national definition) in April 2014, it turned out at 9.1% in 2015.

According to present data, net funding needs of the federal government were about 1.9 bn € in 2015. Cash outflows amounted to 74.6 bn € and cash inflows to 72.7 bn €. Compared to plan, cash inflows exceeded the projection by 1.2 bn € while cash outflows were about 0.1 bn € lower. The resulting net funding position was about 1.3 bn € better than budgeted.

Federal government expenditure developed overall according to plan. Lower interest rates on government bonds, but also lower than expected outlays on pensions reduced expenditure at the federal government level and improved the budget outcome.

Interest expenditure was 1.3 bn € lower than planned, as financing conditions in 2015 were very favourable and the interest rate at a historical low. The contribution from the federal budget to the statutory pension insurance fund was 0.5 bn € lower than budgeted. The main drivers were lower annual pension adjustments due to moderate inflation, rising employment, as well as the increase in the effective retirement age as a result of recent pension reforms. Also expenditure on pensions for civil servants developed less dynamically than expected and remained around 0.3 bn € below plan.

Rising unemployment in 2015 generated additional expenditure (+0.8 bn € compared to plan and +0.5 bn € compared to the previous year). Unanticipated extra outlays by the federal government (+0.3 bn €) were needed with regard to refugees. The unexpectedly strong refugee inflow required additional personnel expenditure with regard to the executive forces and the armed forces. A down payment to the State of Bavaria related to the settlement regarding Hypo-Alpe-Adria resulted in 1.23 bn € of extra expenditure in 2015. This amount is only accounted for in the cash flow statements, but is neutral in the Maastricht statements, as the amount had been accounted for in previous periods, in compliance with Maastricht rules.

Revenues developed significantly better than expected due to higher tax revenues. The two single most important taxes, VAT and wage tax, remained slightly below plan. However, revenues from other taxes developed significantly better than expected. Capital yields tax on dividends (+1.2 bn €) and the real estate property transfer tax (+0.1 bn €) came in higher than planned. In both cases, developments are regarded as temporary, caused by anticipation effects induced by tax increases from 1 January 2016 as part of the tax reform 2015/2016.

In 2015, the general government achieved a small structural surplus, i.e. after accounting for cyclical effects and one-off measures. One-off measures accounted for 1.7 bn € and are related to the above-mentioned impact on the Maastricht deficit of the annulment by the Austrian constitutional court of the law on the restructuring of Hypo Alpe Adria International AG (HaaSanG). However, general government debt rose to 86.2% of GDP in 2015 (from 84.3% of GDP in 2014). The increase was caused by the merger of some of the liabilities of Kommunalkredit Austria AG of 6.4 bn € with KA-Finanz AG. Moreover, EUROSTAT decided that immigon, the asset management company of Österreichische Volksbanken AG established in mid-2015, had to be included into the general government sector. As a result, public debt rose by another 2.3 bn € in 2015. The general government debt ratio will gradually decline in the coming years, as the asset management companies will draw down their liabilities through asset sales.

3.3. Budget 2016

In 2016, the Federal Government continues its strategy of a stability-oriented, growth-oriented and sustainable budgetary policy. The draft budgetary plan for 2016 aims at a structural deficit of 0.5% of GDP, taking into account additional expenditure from the exceptional inflow of refugees. At the same time, the federal budget 2016 includes measures to stimulate the growth potential. Expenditure in crucial areas such science, research, infrastructure and active labour market policy will be increased substantially. In addition, on 1 January 2016 the tax reform 2015/2016 has taken effect, with a final gross volume of 5.2 bn € per year.

According to current projections, the Maastricht deficit of the general government will be slightly higher than planned in autumn 2015, at 1.6% of GDP (compared to -1.4% of GDP). The structural deficit, adjusted for additional expenditure on refugees and asylum seekers, will, however, remain unchanged at 0.5% of GDP.

The upward revision of the Maastricht deficit compared to autumn 2015 is primarily due to additional expenditure on refugees and asylum seekers and additional resources are also required with regard to national defence. Furthermore, higher spending on unemployment support and active labour market policy is needed to mitigate the effects of the on-going difficult labour market situation and to stimulate employment.

By contrast, expenditure will remain markedly lower than budgeted with regard to the contribution by the federal budget to the statutory pension insurance fund and the pensions of civil servants. The federal budget also benefits from declining interest rates on long-term government bonds.

Tax revenues in 2016 will be strongly affected by the measures implemented as part of the tax reform 2015/2016. Several measures have been enacted to finance the reform. The measures are taking effect according to plan.

Revenues from social security contributions have been increasing markedly. Employment continues to grow primarily within the income band subject to social security contributions. In addition, as of 1 January 2016, the maximum assessment base for social security contributions has been increased extraordinarily.

The general government debt ratio is expected to decline in 2016, from 86.2% of GDP to 84.3% of GDP, after several years of rising public debt due to bank support measures.

The reduction is mainly due to the gradual and successful disposal of the portfolios of the asset management companies KA-Finanz and immigon, which have been established in the context of the financial crisis.

3.4. Restructuring the banking sector

State-owned banks and asset management companies

Based on the Austrian Financial Market Stability Act (FinStaG), Austrian Banks received capital and liquidity-strengthening funds totalling 21 bn € during the past couple of years, including participation capital subscribed by the Republic of Austria. Taking into account all repayments to date, the net amount was around 17.3 bn €. The legal upper ceiling for measures aimed at strengthening the Austrian financial market according to FinStaG is 22 bn €.

Out of FinStaG funds, 7.6 bn € have been used for the subscription of share capital, shareholder contributions and other capital measures. The general agreement between Austria and the Free State of Bavaria for settling legal disputes related to Heta Asset Resolution AG (HETA) included a payment of 1.23 bn €. Federal guarantees issued under FinStaG sum up to about 7.5 bn €. In addition, as of end-2015, Austria held participation capital issued by HETA and immigon portfolioabbau ag (immigon) as the legal successor of Österreichische Volksbanken AG (ÖVAG) totalling 1.1 bn €.

In 2015, revenues from guarantee fees and other income totalled 59.6 m €, while 194.2 m € came from reprivatisation receipts. There were no dividend payments on participation capital, because HETA, ÖVAG and Raiffeisen Bank International AG recorded a loss in the business year 2014. In 2016, an increase in revenues from guarantee fees is expected (especially from HETA).

In accordance with European state aid rules, the Republic of Austria does not consider itself as a long-term owner of banks. In 2015, parts of the state-owned banks (the South Eastern European network of the former Hypo Alpe Adria International AG as well as the performing banking business of Kommunalkredit Austria AG) were sold successfully. KA Finanz AG (KF) and immigon will wind down their assets within the time period agreed with the European Commission and eventually be liquidated. Within the framework of the state aid decision, it is also possible to sell certain operational units or portfolios.

In 2015, the performing banking business of Kommunalkredit Austria AG (KA) including all participations was sold in accordance with the Commission state aid decision. The purchase price was 144 m €. The remaining non-marketable portfolio of KA was merged with KA Finanz AG (KF). Due to the successful reprivatisation of KA, the bank is no longer subject to state aid restrictions. Residual state aid to KA under FinStaG was transferred to KF as a result of the merger.

KA Finanz remains committed to liquidate its portfolio in a value and capital-preserving manner. The merger with the non-marketable part of KA has doubled its balance sheet. KF continues to benefit from 4.5 bn € of federal FinStaG guarantees. In 2014, KF liabilities have been retroactively included in the government sector as of 2009.

In 2015, with the approval of the European Commission and the ECB, the Volksbankenverbund (Volksbanken association) was fundamentally restructured. The former ÖVAG withdrew from the association, was re-named immigon portfolioabbau ag, and now operates as an asset management vehicle with a view to winding down the entire portfolio until end-2017. Volksbank Wien AG has taken over the headquarter function. By 2017, the more than forty local credit cooperatives of the association will be merged into eight regional and two specialised banks, while the headquarter function will be strengthened.

The state-held participation capital of immigon was subject to a haircut of around 97%. This was compensated for by a 300 m € profit participation right issued by Volksbank Wien AG, which has to be serviced progressively until end-2023 by the association. The 100 m € federal guarantee provided to immigon has been extended until end-2017 to avoid over-indebtedness under the terms of the insolvency law. Since the 3rd quarter of 2015, the liabilities of immigon have been classified under general government.

The gratuitous transfer of 25%+1 shares of Volksbank Wien to the Republic of Austria in January 2016 serves as collateral for the 300 m € profit participation right in the medium-term. After its servicing is completed, the shares will be re-transferred to the Volksbanken association.

State aid to Hypo Alpe Adria International AG was approved by the European Commission in September 2013. The agreement established an upper ceiling for state aid in form of capital support of 5.4 bn € and of liquidity-strengthening measures of 3.3 bn €. As a result of several capital-strengthening measures, most recently in April 2014 to the amount of 750 m €, remaining scope for capital support under the state aid decision declined to 2.9 bn €.

In accordance with the state aid decision, the Austrian subsidiary of Hypo Alpe-Adria-Bank International was sold in December 2013. This was followed by the sale of the SEE network to an international consortium in late 2014. In autumn 2014, the Italian subsidiary HBI was transferred to a federal holding company established for this purpose and will be wound down. The remaining Hypo Alpe-Adria-Bank International returned its banking license in autumn 2014 and has since operated as an asset management vehicle under the name Heta Asset Resolution AG. Similar to KA Finanz AG, HETA has been classified under the government sector since 2014. The one-off impact on public debt amounted to 14 bn €.

Following the establishing of the asset management vehicle, assets had to be revalued under “gone concern” considerations, which revealed significant adjustments needs. The Republic of Austria decided against further capital-supporting measures, as this would have exceeded the approved limit for state aid. Subsequently, the Austrian Financial Market Authority FMA initiated the resolution of HETA in accordance with the resolution regime which took effect with the implementation of BaSAG (Federal Act on the Recovery and Resolution of Banks) on 1 January 2015. BaSAG transposes the Bank Recovery and Resolution Directive (BRRD) into Austrian law.

FMA imposed a moratorium on HETA liabilities until 31 May 2016, to prepare a liquidation plan in accordance with the objectives of the new regime. On 10 April 2016, further steps in the resolution process were communicated, including bail-in of creditors as a key element. Due of the non-acceptance of the offer placed by the Carinthian Compensation Fund (“Kärntner Ausgleichszahlungs-Fonds”), on the basis of § 2a FinStaG, to buy back HETA liabilities subject to deficiency guarantees by the Province of Carinthia, there is a risk that creditors claim compensation from the State of Carinthia for the amount of the haircut.

General settlement with the Free State of Bavaria

In November 2015, the Republic of Austria and the Free State of Bavaria concluded on an out-of-court settlement to resolve a series of legal disputes between Austria, HETA, Bayerische Landesbank and Kärntner Landesholding with respect to the emergency nationalisation of the Hypo Alpe-Adria-Bank International AG in 2009. The settlement included a down payment of 1.23 bn € by Austria to the Free State of Bavaria. Bavaria in turn undertook to repay the amount to Austria to the extent that Bayerische Landesbank receives payments from the resolution of HETA in the years to come.

3.5. Migration and integration

The crises and civil wars in the neighbourhood of Europe generated hundreds of thousands of refugees heading towards Europe in search for better living conditions. In the year 2015 there was a particularly drastic increase of the number of refugees and migrants which rushed to Central and Western Europe via Turkey, Greece and the Western Balkans.

The strikingly steep increase of the number of asylum procedures as well as the sheltering and nurturing of distressed people came as a surprise and the unforeseeable sequence of events were a big challenge for Austria. By stretching the resources to the limits and in an extraordinary demonstration of solidarity, Austria was one of the few EU Member States which actively contributed to avoiding a humanitarian catastrophe.

In 2015 close to 89,000 applications for asylum status were registered. This amounts to an increase of 214% or more than a tripling of the numbers compared to the year 2014. Already 2014 showed an above-average increase in asylum seekers, as some 28.000 applications were filed, 60 % more than 2013.

In comparison with other EU Member States, Austria was not only among the most affected countries in per-capita terms, but was also in the top league when comparing absolute numbers for the past ten years.

In autumn 2015, Austria requested that the European Commission should take into account the extraordinary refugee costs when assessing budgetary developments. The European Commission committed to take demonstrated costs into account ex-post, whilst only the increase compared to 2014 would be considered and the flexibility would only be applied in 2015 and 2016, respectively. It is, however, evident that public balance sheet will also be burdened significantly for several years in the future.

Tables 16, 17 and 18 in the annex show the respective data on costs caused by refugees and asylum seekers. The costs for public sector are on the one hand driven by the number of asylum seekers. The strong surge quickly reached the limits of available accommodations and caring personnel. As early as in the second half of 2015 the capacity of accommodations was almost exhausted and not all new applicants for asylum could quickly be provided accommodation. As a consequence, the public compensation for accommodation and shelter had to be increased.

Moreover, a Constitutional Law (Law Gazette I 120/2015) was passed to enable the Ministry of the Interior to take rigorous action to distribute and establish new accommodation for asylum seekers across Austria as of 1st October, 2015. Additional costs were incurred by providing an orderly and secure handling and border procedures of the vast stream of people.

4. Quality of Public Finances

4.1. Administrative reform

Reform of the public administration is a key element in the performance of public services for a number of reasons:

- The Federal Government combines the consolidation of the general government budget with continued structural reforms efforts, inter alia in the areas of public administration and subsidies, as specified in the government work programme.
- The public administration has to monitor and respond to societal, political and economic challenges developing in line with new demands.
- Prioritisation and structural changes are needed to address country-specific challenges such as demographic trends, and international developments such as the economic crisis or globalisation.

The Federal Government, setting political priorities, remains committed to an effective, efficient and performance-based federal administration. Administrative reform is progressing; bureaucracy is reduced wherever possible and reasonable, and administrative procedures are being modernised continuously.

The reform process requires the involvement of all levels of government, as the provision of public sector tasks involves different authorities with often overlapping competences. Successful reform of public administration therefore requires joint efforts at all administrative units.

The implementation of administrative reforms is an ongoing process involving all ministries. Examples are:

- The expansion and efficient use of E-government in order to simplify and reduce administrative procedures and expenses for the administration, citizens and enterprises.
- A critical assessment of public tasks/responsibilities and benchmark comparisons.
- Optimisation of competences, bundling of activities and increase in the efficiency of proceedings.
- Citizen-centred approach through creation of one-stop-shops, more customer-friendly services, measures to strengthen confidence among citizens, withdrawal of unnecessary regulation, implementation of uniform instruments at national level, and deregulation measures.

- Structural reforms responding to cost pressures, to provide high-quality, effective and efficient public services.

Reform of Competencies and Deregulation

In line with the Austrian federal government work programme for the period 2013-2018, a Committee for the Reform of Competencies and Deregulation ("Aufgabenreform- und Deregulierungskommission") was established. The objective was a critical review of the competences and processes of the public administration and the formulation of specific proposals to increase efficiency and effectiveness. The Committee took up the work in June 2014 and concluded it one year later. In four subgroups, covering "reduction administrative burden", "reform of competences", "businesses" and "subsidies", the Committee elaborated 245 specific reform proposals with considerable potential to reduce the administrative burden, and presented it the government.[1]

The implementation of some of the proposals put forward by the Committee was initiated in June 2015 within the so-called Reform Dialogue for the Simplification of Administration. For example, administrative steps will be simplified, the administrative burden for starting a business will be reduced and e-Government services will be further expanded. A comprehensive overview of the measures can be found in the „Better Regulation"-supplement to the 2016 Budget.[2]

In the following a few examples of reform measures:

<u>Harmonisation of the register of crafts and trades:</u> Since 30 March 2015 the Austrian Business Information System (GISA) has been put online. This uniform solution replaces the previously 14 decentralised registers of crafts and trades. With GISA, entrepreneurs can register their business electronically. Also, changes of name or address no longer require reporting to the trade authorities, as GISA uses electronic data exchange for automatic updates. Entrepreneurs save time, efforts and costs, as registration, relocation of business and business startups will be facilitated substantially.

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[1] Aufgabenreform- und Deregulierungskommission, Abschlussbericht, June 2015; http://cdn.aufgabenreform.at/pdf/abschlussbericht_der_adk.pdf.

[2] BMF, Verwaltungsreform, Übersicht gemäß § 42 Abs. 4 BHG 2013, December 2015; https://service.bmf.gv.at/BUDGET/Budgets/2016/beilagen/Verwaltungsreform_2016.pdf; and BMF, Better Regulation, Übersicht gemäß § 42 BHG 2013, December 2015; https://service.bmf.gv.at/BUDGET/Budgets/2016/beilagen/Better_Regulation_2016.pdf.

Starting a business electronically: For sole proprietorships, an entirely electronic start-up process via the Business Service Portal (USP.gv.at) is being developed, reducing the time required to start a business. Founders should be able to accomplish all required steps fully electronically; parallel reporting of the same data should be eliminated by using electronic interfaces. The latter includes facilitating access to information and registration with tax authorities and social insurance funds.

No-stop-shop family allowance: Since 1 May 2015, family allowance is granted without formal application by parents and without visiting the tax office. The verification of the eligibility criteria for family allowance and the payments will be automatized. The measure is expected to benefit about 80,000 families each year. In November 2015, the measure was awarded the European Public Sector Award as one of the most important best-practice solution among 266 projects submitted by 36 European countries and EU-Institutions.

No-stop-shop tax assessment for employees: In order to reduce the administrative burden for citizens with regard to their annual tax assessment, the tax assessment and payment of the tax credit will be automatised under certain conditions. Starting in 2017, eligible cases for the previous year will be identified by the tax office and the assessment completed automatically. This measure is expected to reduce the administrative burden for citizens by about 3.1 m hours per year.

Further development of the Business Service Portal (USP.gv.at): The business service portal is an information and transaction platform for firms. Through a single-sign-on, it offers access to the most important administrative procedures by the Federal Government. Currently about 25 E-government applications are available, e.g. the virtual tax office (FinanzOnline) or services provided by the social security fund. In addition, since 2014 an electronic invoicing function allows the electronic generation and transmission of invoices (without paper, postage or the danger of loss of documents) to the Federal Government, and since 2015, also to the State of Upper Austria. Phase 2 of the business service portal, which is currently being implemented, focusses on optimising reporting procedures and eliminating parallel reporting requirements. The support provided by the business service portal to the start-up process and the possibility to communicate electronically are key measures with a high potential to reduce the administrative burden to businesses.

Encouraging the usage of online-services: Incentives to use digital services offered by the public administration include the reduction of fees in case of use of online services, mobile phone signature or citizen card.

Further plans for reforms include a reduction of the time required to obtain operating licences for plants (“Betriebsanlagengenehmigung”) and the harmonisation of the rules governing construction permits (construction technology, certification of building material, construction products, building law) among the States.

4.2. Reform of financial equalisation

Due to overlapping structures and competences, almost all public activities in Austria are financed by more than one level of government. Within the Austrian intergovernmental relations, the bulk of tax revenues is collected by the Federal Government and subsequently allocated among the Federal Government, the States and the municipalities. Over time the rules became more and more complex. This resulted in complicated cash flows, strong revenue sharing and a complex system of transfers between different levels of government, in combination with a very low share of own revenues in the budgets of the States and municipalities.

The negotiations between the Federal Government, the States and the municipalities on a new fiscal equalisation scheme started on 27 of April 2015. Besides the allocation of the tax revenues, the main objective is a fundamental reform aiming at utilising public funds as efficiently and as close to the citizens as possible. The main issues discussed are possible tax autonomy for the States, review of competencies, task-oriented transfers, lower complexity und more transparency.

In accordance with the government programme, the Ministry of Finance aims at a stronger coherence of tasks and revenue and spending responsibilities. The new system should be simpler, more transparent and more task-oriented.

Issues under discussion are:

- Disentangling of tasks, co-financing and transfers
- Task-oriented allocation of financial means
- Increase in efficiency by elimination of unnecessary duplication

In 2015, working groups were implemented at the technical level to start prepare the reform. Their work focusses on the following areas:

- Increase in tax autonomy for States
- Review of competences and task-oriented transfers
- Intergovernmental transfers
- Financing of the health system
- Financing of elderly care (nursing)
- Inter-municipal cooperation
- Common rules for State guarantees and contingent liabilities

Since the spring 2016, the proposals put forward by the working groups are being discussed at the political level; they should lead to an improved system from 2017 onwards.

4.3. Harmonisation of the budget law

The reform of the budgetary framework in 2013 established performance-oriented budgetary control and transparent accounting, initially at the federal government level. A new Regulation ("Voranschlags- und Rechnungsabschlussverordnung 2015") requires States and municipalities to comply with the same accounting standards.

The reform of accounting standards is now in the implementation phase. Similar to the recent changes at the federal government level, by 2019 the States and large municipalities will modernise their budget system (rest of the municipalities by 2020) and implement the three key elements:

- Cash-flow statement
- Financial statement
- Balance sheet (only in the Statement of Accounts)

This will significantly improve transparency and comparability of the financial situation at all levels of government.

4.4. Restrictive spending policy

Expenditure policy will generally remain restrictive. At the federal level, restrictive hiring and modest increases in salaries will contain increases in compensation of employees. All line ministries have to contribute to dampen growth in administrative expenditure.

5. Institutional Framework

5.1. Debt rule

One of the key elements to safeguard the pace of fiscal consolidation is the debt rule enshrined in law (Public Law Gazette I No. 30/2013). Following a transition period, from 2017 the debt rule requires the Federal Government, the States ("Länder") and the municipalities to achieve structurally balanced budgets as a basic principle. The agreement covers the following key issues:

- Rule on the allowed annual deficit in Maastricht terms for the years up to 2016. Rule on a structurally balanced general government budget ("debt brake") from 2017 onwards, with the structurally balanced budget defined as a structural general government deficit not exceeding -0.45% of GDP
- Rule on the allowed annual expenditure growth (expenditure brake)
- Rule on public debt reduction as defined in ESA terms (adjustment of the debt ratio)
- Rule on ceilings for contingent liabilities
- Rules to strengthen budgetary coordination between the Federal Government, the States and the municipalities, medium-term budgetary planning, mutual exchange of information and transparency.

The fiscal rules are supported by adequate sanctions.

In Austria, the former Government Debt Committee has been legally assigned the role of monitoring compliance with EU fiscal requirements enshrined in Regulation (EU) 473/2013 of the European Parliament and the Council of 21 May 2013. Under the name "Fiscal Council", the committee monitors the achievement of the budgetary objectives according to European regulations, issues recommendations and – if deemed necessary – indicates adjustment paths. The Fiscal Council is independent and became operational on 1 November 2013. Adequately skilled and autonomous members are delegated by the Federal Government, social partners, parties involved in the fiscal equalisation, the Austrian National Bank and the parliamentary budget office. With regard to fiscal surveillance, the Fiscal Council`s central role is to strengthen budgetary discipline at the Federal, State and municipal level.

So far, the Fiscal Council has published seven recommendations and two reports on the compliance with fiscal rules on its web site.

5.2. Medium-term budgetary planning

The Federal Constitutional Law and the Federal Budget Law provide for legally binding medium-term budgetary planning at the federal level via the Federal Financial Framework Law (BFRG) and the Strategy Report. The former sets legally binding expenditure ceilings for the next four years, for the five main spending categories (“Rubriken”) representing the Federal Government’s main expenditure items. The Strategy Report contains political declarations of intent as well as annotations, inter alia regarding revenues. A draft BFRG has to be presented by the Federal Government by 30 April each year at the latest. This timing is in line with the rules in place at EU level for the submission of the Stability Programme.

5.3. Role of the Stability Programme

In the context of the Stability and Growth Pact, an update of the Austrian Stability Programme is presented each year. The Programme constitutes a key element in the European Semester process and is approved by the Federal Government, in accordance with intergovernmental fiscal coordination. The Stability Programme also represents the medium-term fiscal plan required under Article 4(1) of Regulation (EU) 473/2013. Together with the National Reform Programme (NRP), the Stability Programme is submitted to the Council of the European Union, the European Commission, the Austrian Parliament and the Social- as well as Financial Equalisation Partners.

The report by the Federal Minister of Finance on the Austrian Stability Programme Update for the period 2014 to 2019 was presented to Parliament on 21 April 2015 for consideration in the ensuing procedure. On 7 May 2015, the parliamentary budget committee discussed it in public session and then adopted a final report following the process laid down in paragraph 28b of the Law on Parliament’s Rules of Procedure (*GoG-NR*).

6. Annex

Table 1: Basic assumptions

	2015	2016	2017	2018	2019	2020
Short-term interest rate (annual average)	0.0	-0.2	0.0	0.2	0.4	0.7
Long-term interest rate (annual average)	0.7	0.8	1.1	1.5	1.9	2.3
USD/€ exchange rate (annual average)	1.1	1.1	1.1	1.1	1.1	1.1
Nominal effective exchange rate	-2.8	1.1	0.1	-	-	-
Real GDP growth (World excluding EU)[1)]	4.2	3.8	3.9	3.9	3.8	3.7
Real GDP growth (Eurozone)	1.6	1.4	1.6	1.6	1.5	1.5
Growth of relevant foreign markets	2.5	3.0	4.5	-	-	-
Import volumes (World excluding EU)	-	-	-	-	-	-
Oil prices (Brent, USD/barrel)	52.5	35.0	42.0	45.0	47.0	48.0

1) USA, CEEC 5, Japan, China; around 40% of World GDP

Positions may not sum up due to rounding errors.

Source: WIFO

Table 2: Macroeconomic prospects

		2015	2015	2016	2017	2018	2019	2020
	ESA Code	in bn €						rate of change
1. Real GDP	B1*g	309.9	0.9	1.6	1.6	1.6	1.5	1.5
2. Potential GDP			1.2	1.3	1.2	1.4	1.4	1.3
3. Nominal GDP	B1*g	337.2	2.4	3.7	3.2	3.1	3.1	3.1
								Components of real GDP
4. Private final consumption expenditure	P.3	161.8	0.4	1.8	1.4	1.4	1.3	1.2
5. Government final consumption expenditure	P.3	61.6	1.0	0.8	0.7	0.7	0.8	0.8
6. Gross fixed capital formation	P.51g	68.9	0.4	1.7	1.8	2.3	2.1	1.8
7. Changes in inventories and net acquisition of valuables (in % of GDP)	P.52 + P.53	0.6	0.2	0.2	0.2	0.2	0.2	0.3
8. Exports of goods and services	P.6	169.5	1.7	2.7	4.0	4.3	3.7	3.5
9. Imports of goods and services	P.7	155.4	1.7	2.9	3.8	4.3	3.7	3.4
								Contributions to real GDP growth
10. Final domestic demand			0.5	1.5	1.3	1.4	1.3	1.2
11. Changes in inventories[1)]	P.52 + P.53		0.3	0.1	0.0	0.0	0.0	0.0
12. External balance of goods and services	B.11		0.1	0.0	0.3	0.2	0.2	0.3

1) incl. net acquisition of valuables and statistical discrepancy

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 3: Price developments

	2015	2016	2017	2018	2019	2020
						rate of change
1. GDP deflator	1.5	2.0	1.6	1.5	1.6	1.6
2. Private consumption deflator	1.0	1.6	1.8	1.8	1.8	1.8
3. CPI	0.9	1.2	1.8	1.8	1.8	1.8
4. Public consumption deflator	1.7	1.8	1.8	1.8	1.7	1.7
5. Investment deflator	0.8	1.4	1.6	1.8	2.0	2.1
6. Export price deflator (goods and services)	1.0	0.8	1.3	1.5	1.4	1.3
7. Import price deflator (goods and services)	-0.4	-0.2	1.7	2.0	1.9	1.8

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 4: Labour market developments

		2015	2015	2016	2017	2018	2019	2020
	ESA Code	Level						rate of change
1. Employment, persons		3,926,645	1.0	1.2	1.2	1.1	1.1	1.0
2. Employment, hours worked (in m)		6,980.6	0.4	0.9	0.9	0.4	0.5	0.7
3. Unemployment rate, EUROSTAT definition			5.7	5.9	6.1	6.3	6.3	6.3
4. Labour productivity, persons		78,934.5	-0.1	0.4	0.4	0.4	0.5	0.4
5. Labour productivity, hours worked		44.4	0.5	0.7	0.7	1.1	1.0	0.8
6. Compensation of employees (in m €)	D.1	162,891.2	2.7	2.6	2.8	3.0	3.0	3.0
7. Compensation per employee		41,483.5	1.7	1.4	1.6	1.8	1.9	2.0

Positions may not sum up due to rounding errors.

Sources: BMF, EUROSTAT, STAT, WIFO

Table 5: Sectoral balances

		2015	2016	2017	2018	2019	2020
	ESA Code						in % of GDP
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	2.7	3.1	3.2	-	-	-
2. Net lending/borrowing of the private sector	B.9	3.9	4.7	4.6	-	-	-
3. Net lending/borrowing of the general government	B.9	-1.2	-1.6	-1.5	-0.9	-0.7	-0.4
4. Statistical discrepancy		-0.1	0.0	0.0	0.0	0.0	0.0

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 6: Budgetary targets

	ESA Code	2015	2016	2017	2018	2019	2020
		in % of GDP					
		Net lending/net borrowing by sub-sector					
1. General government	S.13	-1.2	-1.6	-1.5	-0.9	-0.7	-0.4
2. Central government	S.1311	-1.3	-1.8	-1.6	-1.1	-0.8	-0.6
3. State governments (excl. Vienna)	S.1312	0.1	0.0	0.0	0.0	0.0	0.0
4. Local governments (incl. Vienna)	S.1313	0.0	0.0	0.0	0.0	0.0	0.0
5. Social security funds	S.1314	0.1	0.1	0.1	0.1	0.1	0.1
6. Interest expenditure	D.41	2.4	2.2	2.1	1.8	1.8	1.7
7. Primary balance		1.2	0.6	0.6	1.0	1.1	1.2
8. One-off and other temporary measures		-0.5	-0.2	-0.2	-0.1	-0.1	-0.1
9. Real GDP growth		0.9	1.6	1.6	1.6	1.5	1.5
10. Potential GDP growth		1.2	1.3	1.2	1.4	1.4	1.3
11. Output gap		-1.2	-0.9	-0.5	-0.3	-0.2	0.0
12. Cyclical budgetary component		-0.7	-0.5	-0.3	-0.2	-0.1	0.0
13. Cyclically-adjusted balance		-0.5	-1.1	-1.2	-0.7	-0.6	-0.4
14. Cyclically-adjusted primary balance		1.9	1.1	0.9	1.2	1.2	1.2
15. Structural balance		0.0	-0.9	-1.0	-0.5	-0.5	-0.4

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 7: General Government debt developments

	ESA Code	2015	2016	2017	2018	2019	2020
		in % of GDP					
1. Gross debt		86.2	84.3	82.6	80.8	78.7	76.6
2. Change in gross debt ratio (in %)		2.3	-2.3	-1.9	-2.2	-2.6	-2.7
		Contributions to changes in gross debt					
3. Primary balance		1.2	0.6	0.6	1.0	1.1	1.2
4. Interest expenditure	D.41	2.4	2.2	2.1	1.8	1.8	1.7
5. Stock-flow adjustment		2.8	-0.5	-0.5	-0.2	-0.3	-0.2
p.m.: Implicit interest rate on debt		2.7	2.6	2.5	2.3	2.3	2.2

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 8: Contingent liabilities

	2014	2015	2016
			in % of GDP
Public guarantees	26.5	23.1	21.4
of which: Central government[1)]	13.6	12.3	12.7
of which: linked to the financial sector[2)]	0.4	0.2	0.2
of which: State and Local governments	12.9	10.8	8.7
of which: linked to the financial sector[2)]	8.7	6.7	4.8

1) Guarantees for exports without double count of funding guarantees.

Without liabilities for EFSF which are included in the debt quota.

According to ESA 2010 liabilities for SchiG, ÖBB according to BFG as well as those of ÖBB Infrastruktur AG and ÖBB Personenverkehr AG according to EurofimaG are included in the public sector and will here not be included in order to avoid double count.

Forecasts are based mainly on statistical values resulting from percentage change in history and are not based on political decisions.

2) Without double count of liabilities for KA Finanz AG und HETA.

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 9: Budgetary prospects (no-policy change scenario)

		2015	2016	2017	2018	2019	2020
	ESA Code						in % of GDP
							General government
1. Total revenue	TR	50.2	49.7	49.8	49.8	49.8	49.8
1.1. Taxes on production and imports	D.2	14.5	14.2	14.0	13.9	13.8	13.8
1.2. Current taxes on income, wealth etc.	D.5	14.0	14.0	14.3	14.6	14.7	14.8
1.3. Capital taxes	D.91	0.1	0.1	0.1	0.2	0.1	0.1
1.4. Social contributions	D.61	15.5	15.4	15.4	15.4	15.4	15.5
1.5. Property income	D.4	0.9	0.9	0.9	0.9	0.8	0.8
1.6. Other		5.1	5.0	5.0	4.9	4.9	4.8
p.m.: Tax burden		-	-	-	-	-	-
2. Total expenditure	TE	51.7	51.3	50.9	50.4	50.1	49.9
2.1. Compensation of employees	D.1	10.7	10.7	10.6	10.5	10.5	10.4
2.2. Intermediate consumption	P.2	6.3	6.3	6.2	6.2	6.1	6.1
2.3. Social payments	D.62, D.632	23.5	23.8	23.7	23.6	23.7	23.7
of which: Unemployment benefits		-	-	-	-	-	-
2.4. Interest expenditure	D.41	2.4	2.2	2.1	1.8	1.8	1.7
2.5. Subsidies	D.3	1.4	1.5	1.5	1.5	1.5	1.5
2.6. Gross fixed capital formation	P.51g	3.0	3.0	3.0	3.0	3.0	3.0
2.7. Capital transfers	D.9	1.3	0.9	0.9	0.8	0.8	0.8
2.8. Other		3.1	3.1	3.0	2.9	2.8	2.8

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 10: Budgetary prospects

	ESA Code	2015	2016	2017	2018	2019	2020
							in % of GDP
							General government
1. Total revenue	TR	50.6	49.4	49.2	49.2	49.2	49.2
1.1. Taxes on production and imports	D.2	14.5	14.7	14.4	14.2	14.2	14.1
1.2. Current taxes on income, wealth etc.	D.5	14.3	13.2	13.2	13.5	13.6	13.8
1.3. Capital taxes	D.91	0.1	0.1	0.1	0.2	0.1	0.1
1.4. Social contributions	D.61	15.5	15.5	15.5	15.5	15.5	15.6
1.5. Property income	D.4	0.9	0.9	0.9	0.9	0.8	0.8
1.6. Other		5.1	5.0	5.0	4.9	4.9	4.8
p.m.: Tax burden		43.9	42.9	42.7	42.8	42.9	43.0
2. Total expenditure	TE	51.7	51.0	50.6	50.1	49.8	49.6
2.1. Compensation of employees	D.1	10.7	10.6	10.5	10.4	10.4	10.3
2.2. Intermediate consumption	P.2	6.3	6.2	6.2	6.1	6.1	6.0
2.3. Social payments	D.62, D.632	23.5	23.8	23.7	23.6	23.7	23.7
of which: Unemployment benefits		1.5	1.6	1.7	1.7	1.7	1.7
2.4. Interest expenditure	D.41	2.4	2.2	2.1	1.8	1.8	1.7
2.5. Subsidies	D.3	1.4	1.4	1.4	1.4	1.4	1.4
2.6. Gross fixed capital formation	P.51g	3.0	2.9	3.0	2.9	2.9	2.9
2.7. Capital transfers	D.9	1.3	0.9	0.9	0.8	0.8	0.8
2.8. Other		3.1	3.1	3.0	2.9	2.8	2.8

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 11: Amounts to be excluded from the expenditure benchmark

	2015	2015	2016	2017	2018	2019	2020
	in bn €						in % of GDP
1. Expenditure on EU programmes fully matched by EU funds revenue	1.3	0.4	0.4	0.4	0.4	0.4	0.4
2. Cyclical unemployment benefit expenditure at unchanged policies	5.0	1.5	1.6	1.7	1.7	1.7	1.7
3. Effect of discretionary revenue measures	0.0	0.0	-0.4	-0.5	-0.5	-0.5	-0.4
4. Revenue increases mandated by law	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Cyclical expenditure defined as actual expenditure (COFOG 10.5) minus expenditure for NAWRU-unemployed.

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 12: Divergence from April 2015

	ESA Code	2015	2016	2017	2018	2019	2020
						in % of GDP	
General government net lending/net borrowing	B.9						
SP April 2015		-2.2	-1.6	-1.3	-0.9	-0.5	-
SP April 2016		-1.2	-1.6	-1.5	-0.9	-0.7	-0.4
Difference		*1.0*	*0.1*	*-0.2*	*0.1*	*-0.2*	-
Structural balance	B.9						
SP April 2015		-0.5	-0.5	-0.5	-0.5	-0.4	-
SP April 2016		0.0	-0.9	-1.0	-0.5	-0.5	-0.4
Difference		*0.6*	*-0.3*	*-0.5*	*-0.1*	*-0.1*	-
Gross debt							
SP April 2015		86.8	85.7	84.1	82.2	79.7	-
SP April 2016		86.2	84.3	82.6	80.8	78.7	76.6
Difference		*-0.6*	*-1.4*	*-1.4*	*-1.4*	*-1.0*	-

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 13: Economic growth and public finances in three scenarios

	2015	2016	2017	2018	2019	2020
Baseline scenario						
GDP, nominal, in bn €	337.2	349.5	360.6	371.8	383.5	395.3
GDP, real, rate of change in %	0.9	1.6	1.6	1.6	1.5	1.5
Net lending/borrowing of general government in % of GDP	-1.2	-1.6	-1.5	-0.9	-0.7	-0.4
Gross debt in % of GDP	86.2	84.3	82.6	80.8	78.7	76.6
Scenario 1						
GDP, nominal, in bn €	337.2	351.2	364.2	377.4	391.1	405.1
GDP, real, rate of change in %	0.9	2.1	2.1	2.1	2.0	2.0
Net lending/borrowing of general government in % of GDP	-1.2	-1.3	-1.2	-0.6	-0.4	-0.1
Gross debt in % of GDP	86.2	83.6	81.3	78.8	76.1	73.5
Scenario 2						
GDP, nominal, in bn €	337.2	347.8	357.1	366.4	376.0	385.6
GDP, real, rate of change in %	0.9	1.1	1.1	1.1	1.0	1.0
Net lending/borrowing of general government in % of GDP	-1.2	-1.9	-1.8	-1.2	-1.0	-0.7
Gross debt in % of GDP	86.2	85.0	84.0	82.8	81.4	79.8

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

*) Two growth scenarios and their impact on the fiscal balance and the debt ratio are examined as alternatives vis-à-vis a baseline growth scenario. In the first (second) scenario real GDP growth is asumed to be 0.5 pp higher (lower) in 2016 and the years to follow compared to the baseline scenario.

Table 14: Long-term sustainability of public finances (projections by COM/EPC)

	2015	2020	2030	2040	2050	2060
						in % of GDP
Total age-related expenditure [1]	27.8	27.8	29.1	30.1	30.7	30.8
Pension expenditure [2]	13.9	13.9	14.4	14.7	14.6	14.4
Health care (excl. long-term care)	7.0	7.2	7.6	7.9	8.2	8.2
Long-term care	1.4	1.5	1.8	2.1	2.5	2.7
Education	4.7	4.5	4.7	4.8	4.7	4.9
Unemployment	0.8	0.7	0.6	0.6	0.6	0.6
Contributions to social security pensions [3]	8.3	8.2	8.3	8.2	8.2	8.1
Assumptions						
Real GDP growth [4]	1.8	1.9	1.5	1.6	1.3	1.3
Labour productivity (change in %) [4]	0.6	1.1	1.4	1.5	1.5	1.5
Participation rate males (aged 15-64) [4]	77.4	78.1	77.2	77.5	77.0	77.1
Participation rate females (aged 15-64) [4]	68.5	69.6	71.3	73.1	72.7	72.8
Total participation rate (aged 15-64) [4]	73.0	73.9	74.2	75.3	74.9	75.0
Unemployment rate (aged 15-64, EUROSTAT definition) [4]	4.7	4.2	3.8	3.8	3.8	3.8
Persons aged 65+ in % of total population (aged 15-64) [5]	27.7	29.5	37.9	44.4	46.8	50.5

1) Data based on COM/EPC projections, "Ageing Report 2015"

2) Gross amounts incl. "Ausgleichszulagen" and "Rehabilitationsgeld NEU", excl. administrative costs, rehabilitation and health insurance expenditures

3) Excl. revenues from federal fund

4) Data based on COM/EPC macro-assumptions (2014)

5) Data based on EUROSTAT demographic projections (EUROPOP 2013)

Positions may not sum up due to rounding errors.

Sources: BMASK, BMF, COM, EUROSTAT, STAT, EPC

*) The 2015 Ageing Report can be accessed at the web page of the COM (http://europa.eu/epc/working_groups/ageing_en.htm).

Table 15: General Government expenditure by function

	COFOG Code	2012	2013	2014	2015
					in % of GDP
1. General public services	1	7.3	7.2	6.9	6.8
2. Defence	2	0.6	0.6	0.6	0.6
3. Public order and safety	3	1.3	1.3	1.3	1.4
4. Economic affairs	4	6.3	5.7	7.4	6.4
5. Environmental protection	5	0.5	0.5	0.5	0.4
6. Housing and community amenities	6	0.4	0.4	0.4	0.4
7. Health	7	7.8	7.8	7.9	8.0
8. Recreation, culture and religion	8	0.9	0.9	0.9	0.9
9. Education	9	5.0	5.0	5.0	5.0
10. Social protection	10	21.0	21.3	21.7	21.8
11. Total expenditure	TE	51.1	50.8	52.6	51.7

Positions may not sum up due to rounding errors.

Source: STAT

Table 16: Refugees - Impact on the headline balance - breakdown by functional categories

	2014	2015	2016
			in m €
1. Initial reception costs	265.0	514.6	997.0
2. Transport (incl. rescue operations)	0.0	71.8	316.6
3. Health-care [1)]	0.0	0.0	0.0
4. Administrative costs (incl. processing applications for asylum)	69.0	82.0	120.7
5. Contributions to Turkey Facility (excl. through EU Budget)	6.0	9.9	62.2
6. Other costs and measures	102.3	79.6	489.8
7. Total impact on headline balance	442.4	757.9	1,986.2

1) included in 1.

Positions may not sum up due to rounding errors.

Source: BMF

Table 17: Refugees - Impact on the headline balance - breakdown by ESA categories

	2014	2015	2016
			in m €
1. Compensation of employees	24.8	42.4	111.2
2. Intermediate consumption	26.5	45.5	119.2
3. Social payments	346.8	594.2	1,557.2
4. Subsidies	2.2	3.8	9.9
5. Gross fixed capital formation	2.2	3.8	9.9
6. Capital transfers	2.2	3.8	9.9
7. Other	37.6	64.4	168.8
8. Total impact on headline balance	442.4	757.9	1,986.2
9. Compensation from EU	0.5	1.0	2.0
10. Total impact on headline balance (net of EU contributions)	441.9	756.9	1,984.2
11. Total impact on headline balance (net of EU contributions) in % of GDP	0.1	0.2	0.6

Positions may not sum up due to rounding errors.

Sources: BMF, STAT, WIFO

Table 18: Refugees - Country-specific information on costs categories

	2014	2015	2016
1. Arrivals (incl. transiting refugees, in persons)	-	-	-
2. Arrivals who are transiting refugees (in persons)	-	-	-
3. First time applicants (in persons)	28,065	88,175	37,500
4. Positive decisions (in persons)	7,096	15,045	-

Positions may not sum up due to rounding errors.

Source: BMF

Table 19: Country specific recommendations (CSR)

See "National Reform Programme – Austria", April 2016

Table 20: Targets set by the Union's strategy for growth and jobs

See "National Reform Programme – Austria", April 2016

Sources/Links

Public Employment Service Austria (AMS)

http://www.ams.at/english

Federal Chancellery (BKA)

http://www.bundeskanzleramt.at/site/3327/Default.aspx

Federal Ministry of Labour, Social Affairs and Consumer Protection (BMASK)

http://www.sozialministerium.at//cms/siteEN/

Federal Ministry of Finance (BMF)

https://english.bmf.gv.at/

Federal Ministry of Science, Research and Economy (BMWFW)

http://www.en.bmwfw.gv.at/

European Commission, Directorate General of Economic and Financial Affairs

http://ec.europa.eu/economy_finance/index_en.htm

EU Economic Governance

http://ec.europa.eu/economy_finance/economic_governance/index_en.htm

Stability and Growth Pact

http://ec.europa.eu/economy_finance/economic_governance/sgp/index_en.htm

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http://ec.europa.eu/eurostat/home

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http://www.fiskalrat.at/en/

Institute for Advanced Studies (IHS)

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Macrobond

http://www.macrobondfinancial.com/

Austrian Treasury (OeBFA)

http://www.oebfa.at/en/Pages/default.aspx

Financial Market Authority (FMA)

https://www.fma.gv.at/en/homepage.html

Austrian National Bank (OeNB)

http://www.oenb.at/en/

Austrian Institute of Economic Research (WIFO)

http://www.wifo.ac.at/jart/prj3/wifo/main.jart?rel=en

Austrian Parliament

http://www.parlament.gv.at/ENGL/

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http://www.rechnungshof.gv.at/en/home.html

Statistics Austria (STAT)

http://www.statistik.at/web_en/